GOLDEN TELECOM INC
Form 10-Q
May 07, 2004

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 MARCH 31, 2004

(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 May 3, 2004 there were 36,276,579 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, 2003 (AUDITED)	MARCH 31, 2004 (UNAUDITED)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 65,180	$ 58,659
Accounts receivable, net of allowance for doubtful accounts of $13,896 and $16,177 at December 31, 2003 and March 31, 2004, respectively	74,016	86,061
VAT receivable	14,819	17,179
Prepaid expenses and advances to suppliers	12,232	12,257
Deferred tax asset	5,995	7,863
Other current assets	15,909	21,252
TOTAL CURRENT ASSETS	188,151	203,271
Property and equipment, net of accumulated depreciation of $132,126 and $144,509 at December 31, 2003 and March 31,		

2004, respectively	283,110	302,671
Goodwill and intangible assets:		
Goodwill	144,008	144,161
Intangible assets, net of accumulated amortization of $23,824 as of December 31, 2003 and $28,231 as of March 31, 2004	104,835	105,140
Net goodwill and intangible assets	248,843	249,301
Restricted cash	1,005	1,007
Other non-current assets	8,117	8,504
TOTAL ASSETS	$ 729,226	$ 764,754

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

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

	DECEMBER 31, 2003 (AUDITED)	MARCH 31, 2004 (UNAUDITED)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 67,827	$ 81,548
VAT payable	10,167	13,070
Debt maturing within one year	950	950
Current capital lease obligation	3,067	2,539
Deferred revenue	9,192	9,948
Due to affiliates and related parties	3,495	4,806
Other current liabilities	5,249	5,343
TOTAL CURRENT LIABILITIES	99,947	118,204
Long-term debt, less current portion	200	200
Long-term deferred tax liability	24,461	25,802
Long-term deferred revenue	13,725	16,122
Long-term capital lease obligations	3,763	3,170
Other non-current liabilities	4,177	4,178
TOTAL LIABILITIES	146,273	167,676
Minority interest	2,722	6,114
SHAREHOLDERS' EQUITY		
Preferred stock, $0.01 par value (10,000,000 shares		

authorized; none issued and outstanding at December 31, 2003 and March 31, 2004)	--	--
Common stock, $0.01 par value (100,000,000 shares authorized; 35,948,094 shares issued and outstanding at December 31, 2003 and 36,207,256 shares issued and outstanding at March 31, 2004)	359	362
Additional paid-in capital	663,464	666,766
Accumulated deficit	(83,592)	(76,164)
TOTAL SHAREHOLDERS' EQUITY	580,231	590,964
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 729,226	$ 764,754

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
REVENUE:		
Telecommunication services	$ 77,976	$ 132,580
Revenue from affiliates and related parties	400	594
TOTAL REVENUE	78,376	133,174
OPERATING COSTS AND EXPENSES:		
Access and network services (excluding depreciation and amortization)	37,299	68,279
Selling, general and administrative (excluding depreciation and amortization)	13,438	26,393
Depreciation and amortization	10,405	17,368
TOTAL OPERATING COSTS AND EXPENSES	61,142	112,040
INCOME FROM OPERATIONS	17,234	21,134
OTHER INCOME (EXPENSE):		
Equity in earnings of ventures	119	--
Interest income	288	269
Interest expense	(686)	(195)

Foreign currency gain	190	827
Minority interest	(92)	(315)
TOTAL OTHER INCOME (EXPENSE)	(181)	586
Income before income taxes	17,053	21,720
Income taxes	4,233	7,069
NET INCOME	$ 12,820	$ 14,651
Basic earnings per share of common stock:		
Net income per share - basic	$ 0.47	$ 0.41
Weighted average common shares - basic	27,060	36,045
Diluted earnings per share of common stock:		
Net income per share - diluted	$ 0.47	$ 0.40
Weighted average common shares - diluted	27,380	36,507
Cash dividends per common share	$ --	$ 0.20

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	2003	2004
OPERATING ACTIVITIES		
Net income	$ 12,820	$ 14,651
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	8,024	12,964
Amortization	2,381	4,404
Equity in earnings of ventures, net of dividends received .	(119)	--
Foreign currency gain	(190)	(827)
Other	(683)	(827)
Changes in assets and liabilities:		
Accounts receivable	(26)	(10,495)
Accounts payable and accrued expenses	(2,742)	12,561
VAT, net	(1,679)	846

Other changes in assets and liabilities	1,907	(3,754)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,693	29,523
INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(11,789)	(25,887)
Acquisitions, net of cash acquired	--	(4,215)
Restricted cash	165	(2)
Other investing	659	26
NET CASH USED IN INVESTING ACTIVITIES	(10,965)	(30,078)
FINANCING ACTIVITIES:		
Repayments of debt	(148)	--
Net proceeds from exercise of employee stock options	1,447	2,079
Cash dividends paid	--	(7,223)
Other financing	(429)	(1,121)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	870	(6,265)
Effect of exchange rate changes on cash and cash equivalents	71	299
Net increase (decrease) in cash and cash equivalents	9,669	(6,521)
Cash and cash equivalents at beginning of period	59,625	65,180
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 69,294	$ 58,659

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF BUSINESS OPERATIONS

Golden Telecom, Inc. ("GTI", "Golden Telecom" or the "Company") is a provider of a broad range of telecommunication 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 operations 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 2003 audited consolidated financial statements and the notes related thereto. The results of operations for the three months ended March 31, 2004 may not be indicative of the operating results for the full year.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NEW ACCOUNTING PRONOUNCEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Goodwill and Intangible Assets

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, 2003		AS OF MARCH 3	
	(IN THOUSANDS)			
	COST	ACCUMULATED AMORTIZATION	COST	ACCU AMOR
Amortized intangible assets:				
Telecommunications service contracts..............	$ 78,235	$ (13,619)	$ 84,946	$
Contract-based customer relationships.............	35,169	(2,859)	35,169	
Licenses..	3,957	(1,854)	3,962	
Other intangible assets...........................	11,298	(5,492)	9,294	
Total...	$ 128,659	$ (23,824)	$133,371	$

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 months ended March 31, 2003 and 2004, respectively, comprehensive income for the Company is equal to net income.

Stock-Based Compensation

The Company follows the provisions of Statement of Financial Accounting Standard ("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 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.

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

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net income, as reported	$ 12,820	$ 14,651
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	869	440
Pro forma net income	$ 11,951	$ 14,211
Net income per share:		
Basic - as reported	$ 0.47	$ 0.41
Basic - pro forma	0.44	0.39
Diluted - as reported	0.47	0.40
Diluted - pro forma	0.44	0.39

Income Taxes

The Company accounts for income taxes using the liability method required by SFAS No. 109, "Accounting for Income Taxes." For interim reporting purposes, the Company also follows the provisions of Accounting Principles Board No. 28, "Interim Financial Reporting," which requires the Company to account for income taxes based on the Company's best estimate of the effective tax rate expected to be applicable for the full fiscal year on a current year-to-date basis. The rate so determined is based on the currently enacted tax rates of the Company in the US and the Company's subsidiaries in Russia and other CIS countries and includes the Company's best estimate of the annual tax effect of non-deductible expenses, primarily related to amortization of intangible assets, non-taxable income, foreign exchange and other permanent differences as well as the estimates as to the realization of certain deferred tax assets.

Use of Estimates in Preparation of Financial Statements

The preparation of these consolidated financial statements, in conformity with US GAAP, 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 2003 amounts have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not affect the consolidated statements of operations.

NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 amended Accounting Research Bulletin No. 51, "Consolidated Financial Statements", and established standards for determining under what circumstances a variable interest ("VIE") should be consolidated with its primary beneficiary. FIN No. 46 also requires disclosure about VIEs that are not required to be consolidated but in which the reporting entity has a significant variable interest. In December 2003, the FASB revised certain implementation provisions of FIN No. 46. The revised interpretation ("FIN No. 46R") substantially retained the requirements of immediate application of FIN No. 46 to VIEs created after January 31, 2003. There were no such entities created after January 31, 2003. With respect to older VIEs, the consolidation requirements under FIN No. 46R apply not later than for the first financial year or interim period ending after December 15, 2003, if such a VIE is a special-purpose entity ("SPE"), and no later than for the first financial year or interim period ending after March 15, 2004, if such a VIE is not a SPE. The Company did not identify any previously formed SPEs that are VIEs. Therefore the adoption of FIN No. 46R did not have a significant impact on the financial position or results of operations.

NOTE 3: NET EARNINGS PER SHARE

Basic earnings per share at March 31, 2003 and 2004 is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share at March 31, 2003 and 2004 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 March 31, 2003 and 2004 was 433,617 and 10,000 stock options, respectively.

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

	THREE MONTHS ENDED MARCH 31, 2003	THREE MONTHS ENDED MARCH 31, 2004
	(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)	
Net income	$12,820	$14,651
Weighted average outstanding of:		
Common stock shares	27,060	36,045
Dilutive effect of:		
Employee stock options	320	462

Common stock and common stock equivalents	27,380	36,507
Earnings per share:		
Basic	$ 0.47	$ 0.41
Diluted	$ 0.47	$ 0.40

NOTE 4: BUSINESS COMBINATIONS

In February 2004, the Company completed the acquisition of 100% of ST-HOLDING s.r.o. ("ST-HOLDING"), a Czech company that owns 50% plus one share in ZAO Samara Telecom, a telecommunications service provider in Samara, Russia from ZAO SMARTS and individual owners. The total purchase price of approximately $4.8 million consisted of cash consideration of approximately $4.4 million and approximately $0.4 million recorded as a liability.

The acquisition of 100% of ST-HOLDING was accounted for as a purchase business combination in accordance with SFAS No. 141, "Business Combinations". The Company's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed and, as such, the Company has assigned approximately $2.4 million to telecommunications service contracts intangible assets and $0.2 million to goodwill. These identified intangible assets will be amortized over a period of 10 years. The results of operations of ST-HOLDING have been included in the Company's consolidated operations since February 1, 2004.

NOTE 5: SHAREHOLDERS' EQUITY

Common Stock

The Company's outstanding shares of common stock increased by 135,305 shares and 259,162 shares in the three months ended March 31, 2003 and 2004, respectively, which were issued in connection with the exercise of employee stock options.

In March 2004, the Company filed a Registration Statement on Form S-3 with the SEC to register 3,839,823 shares of common stock held by the European Bank for Reconstruction and Development, Capital International Global Emerging Markets Private Equity Fund L.P., Cavendish Nominees Limited, and First NIS Regional Fund SICAV in connection with an anticipated secondary offering of these shares. The Company is not selling any shares of common stock in this offering.

Dividends

In February 2004, the Board of Directors of the Company declared a cash dividend of $0.20 per common share to shareholder's of record as of March 18, 2004. The Company paid the total amount payable of approximately $7.2 million to shareholders on March 29, 2004.

NOTE 6: COMMITMENTS AND 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 March 31, 2004. It is the opinion of management that the ultimate resolution of the Company's CIS Tax liability, 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.

On January 1, 2004, a new law on telecommunications came 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. The Company cannot predict with any certainty how the new law will affect the Company. The new law creates a new interconnect pricing regime in 2004 that should be more transparent and unified and it creates a universal service charge calculated as a percentage of revenue which will be introduced from 2005. The new law may increase the regulation of the Company's 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.

Other Commitments and Contingencies

In the ordinary course of business, the Company has issued financial guarantees of debt for the benefit of certain of its non-consolidated ventures, which is all collateralized by cash. The Company expects that all the collateralized debt will be repaid by the ventures. In addition, the Company has issued guarantees for the benefit of certain of its consolidated subsidiaries. The total amount guaranteed at March 31, 2004 was approximately $2.0 million.

In the ordinary course of business, the Company has entered into long-term agreements for satellite transponder capacity. In the first quarter of 2004, the Company entered into approximately $33.3 million of satellite transponder capacity agreements with terms of generally 10 years.

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.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

NOTE 7: SEGMENT INFORMATION

LINE OF BUSINESS DATA

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 months ended March 31, 2003 and 2004, 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 redesigned 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.

(IN THOUSANDS)

	BUSINESS AND CORPORATE	CARRIER AND OPERATOR	CONSUMER INTERNET	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CONS R
THREE MONTHS ENDED MARCH 31, 2003							
Revenue from external customers..........	$ 38,667	$ 29,590	$ 7,067	$3,158	$ --	$ 78,482	$
Intersegment revenue.	295	307	--	--	(602)	--	
Operating income (loss)............	10,565	7,502	(495)	1,045	(1,183)	17,434	
Identifiable assets..	164,135	211,856	42,856	8,710	27,983	455,540	4
Capital expenditures.	7,540	3,727	495	82	19	11,863	

	BUSINESS AND CORPORATE	CARRIER AND OPERATOR	CONSUMER INTERNET	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CONS R
					(IN THOUSANDS)		
THREE MONTHS ENDED MARCH 31, 2004							
Revenue from external customers..........	$ 72,943	$ 45,522	$11,138	$3,614	$ --	$133,217	$1
Intersegment revenue.	--	144	--	--	(144)	--	
Operating income (loss)............	16,433	6,149	953	824	(3,175)	21,184	
Identifiable assets..	412,988	255,840	56,691	5,860	37,177	768,556	7
Capital expenditures.	20,741	8,860	900	313	16	30,830	

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

GEOGRAPHIC DATA

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

The Company operated within two main geographic regions of the CIS: Russia and Ukraine. Geographic information as of March 31, 2003 and 2004 is as follows:

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES & ELIMINATIONS	CONSOLIDATED RESULTS
			(IN THOUSANDS)	
THREE MONTHS ENDED MARCH 31, 2003				
Revenue.....................	$ 69,079	$ 9,220	$ 77	$ 78,376
Long-lived assets...........	275,491	23,742	1,805	301,038
THREE MONTHS ENDED MARCH 31, 2004				
Revenue.....................	$ 120,582	$ 13,421	$ (829)	$133,174
Long-lived assets...........	526,710	25,035	5,635	557,380

NOTE 8: SUBSEQUENT EVENTS

In April 2004, the Company completed the acquisition of the 49% of OOO Uralrelcom that the Company did not own for cash consideration of approximately $1.0 million.

In April 2004, the Company completed the acquisition of 100% of OAO

Balticom Mobile that owns 62% of ZAO WestBalt Telecom, an alternative telecommunications operator in Kaliningrad, Russia for cash consideration of approximately $7.0 million.

Recognizing that the markets in which the Company operates are complex, in particular as it relates to business, regulatory, political and cultural matters, the Company occasionally seeks experienced local partners to assist in markets where the Company is likely to encounter operational difficulties. Through Alfa Telecom Limited ("Alfa"), a shareholder of the Company, GTI has been cooperating with potential partners in Ukraine to resolve disputes with Ukrtelecom and the Ministry of Communications in Ukraine but had not previously negotiated compensation arrangements for the services. In addition to or in lieu of cash compensation, the Board of Directors have also considered the possible sale of a non-controlling interest in Golden Telecom Ukraine ("GTU") to such parties.

Upon approval of the disinterested directors on the Company's Board of Directors and internal approval at Alfa, it is expected that the Company will enter into a compensation arrangement for services Alfa provided to assist the Company in addressing disputes with Ukrtelecom and the Ministry of Communications in Ukraine. It is expected that Alfa will finalize its sub-contracting agreements with the Company's potential partners which have provided services on a success fee basis. The Company's Board of Directors approved an arrangement that effectively transfers 20% of the shares in GTU owned by the Company to the local partners as compensation for services already provided and certain additional services to be provided. Under this arrangement, the Company will pay Alfa approximately $4.0 million that will be further paid to the potential partner who will acquire 20% of the shares in GTU for approximately $4.0 million in cash. This transaction is expected to close in the second quarter of 2004 and may result in a charge to operating income of up to approximately $4.0 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 months ended March 31, 2003 and March 31, 2004. 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 approximately 200 combined access points in Moscow, Kiev, St. Petersburg, Nizhny Novgorod, Samara, Kaliningrad, Krasnoyarsk and other major population centers throughout Russia and other countries of the Commonwealth of Independent States ("CIS"). We organize our operations into four business groups, as follows:

- BUSINESS AND CORPORATE 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 business and corporate services including voice and data services to corporate clients across all geographical markets and all industry segments, other than 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 to foreign and Russian telecommunications and mobile operators;

- CONSUMER INTERNET SERVICES. Using our fiber optic and satellite-based networks, we provide dial-up Internet access to the consumer market and web content offered through a family of Internet portals throughout Russia, Ukraine, and Kazakhstan; 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 intend to offer all of our integrated telecommunication services under the Golden Telecom brand, although, due to the acquisition of OAO Comincom ("Comincom") in December 2003, some services still carry the Combellga brand. Our dial-up Internet services are distributed under the ROL brand in Russia and Kazakhstan and under the Svit-On-Line brand in Ukraine.

Additionally, we hold a minority interest in MCT Corp. ("MCT"), which in turn has ownership interests in 15 mobile operations located throughout Russia and in Uzbekistan, Tajikistan and Afghanistan. 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.

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 United States ("US") dollar - ruble exchange rate, so when the ruble devalues, their prices effectively become lower in relation to our prices. The ruble exchange rate with the US dollar has become relatively stable since early 2000 and appreciated in 2003 so 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 downward pricing pressures persists from increased competition and the global trend toward lower telecommunications tariffs. In 2003 and during 2004, our traffic volume increases exceeded the reduction in tariffs on certain types of voice traffic. This is a contributing factor to the increases in our revenue in 2003 and during 2004. 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 over time allow us to improve or maintain our margins.

On January 1, 2004, a new law on telecommunications ("New Law") came into effect in Russia. The New 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 implementing regulations consistent with the New Law are promulgated by the Ministry of Transportation and Communications, there will be a period of confusion and ambiguity as regulators interpret the legislation.

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 under their contracts with us.

In 2003, we signed new amendments to the settlement agreement with Ukrtelecom allowing incoming international traffic termination to Ukrainian public switched telephone network ("PSTN") via Ukrtelecom's network. Also, we signed a new agreement with Utel for incoming international traffic termination to Ukrainian PSTN's.

State regulated tariffs for calls from the PSTN to mobile networks were also introduced at this time, thus allowing mobile operators to receive a share of revenue from calls made to mobile networks. To effect calling party pays ("CPP") settlements on our network we entered into an interim agreement with Ukrtelecom that assigns a national destination code numbering plan to our mobile customers and reallocates our interconnect numbering capacity in Kiev and Odessa from our mobile to our fixed network. This agreement became effective in November 2003 and enabled us to receive a settlement from revenue generated when a fixed line party calls our mobile customer.

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.

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 during 2004. During the first quarter of 2004, we incurred approximately $1.8 million in consulting and employee termination costs associated with the operational integration of Comincom into our operations.

RECENT ACQUISITIONS AND DEVELOPMENTS

In December 2003, we completed the acquisition of 100% of the shares in Comincom from Nye Telenor East Invest for a total purchase price of approximately $195.3 million, consisting of approximately $193.5 million in our common stock and direct transaction costs of approximately $1.8 million. The acquisition further strengthens our position in the key Moscow and St. Petersburg communications markets, and positions us to realize operating and capital expenditure synergies. Comincom provides telecommunications services, principally to major hotels, business offices and mobile communication companies through its telecommunications network in Russia.

In February 2004, we completed the acquisition of 100% of ST-HOLDING s.r.o. ("ST-HOLDING"), a Czech company that owns 50% plus one share in ZAO Samara Telecom, a telecommunications service provider in Samara, Russia from ZAO SMARTS and individual owners. The total purchase price of approximately $4.8 million consisted of cash consideration of approximately $4.4 million and approximately $0.4 million recorded as a liability.

In April 2004, we completed the acquisition of the 49% of OOO Uralrelcom that we did not own for cash consideration of approximately $1.0 million.

In April 2004, we completed the acquisition of 100% of OAO Balticom Mobile that owns 62% of ZAO WestBalt Telecom, an alternative telecommunications operator in Kaliningrad, Russia for cash consideration of approximately $7.0 million.

We are also negotiating to acquire an alternative telecommunications operator in Rostov-on-Don, Russia.

Recognizing that the markets in which we operate in are complex, in particular as it relates to business, regulatory, political and cultural matters, we occasionally seek experienced local partners to assist in markets where we are likely to encounter operational difficulties. Through Alfa Telecom Limited ("Alfa"), one of our shareholders, we have been cooperating with potential partners in Ukraine to resolve disputes with Ukrtelecom and the Ministry of Communications in Ukraine but had not previously negotiated compensation arrangements for the services. In addition to or in lieu of cash compensation, the Board of Directors have also considered the possible sale of a non-controlling interest in Golden Telecom Ukraine ("GTU") to such parties.

Upon approval of the disinterested directors on our Board of Directors and internal approvals at Alfa, it is expected that we will enter into a compensation arrangement for services Alfa provided to assist us in addressing disputes with Ukrtelecom and the Ministry of Communications in Ukraine. It is expected that Alfa will finalize its sub-contracting agreements with our potential partners which have provided services on a success fee basis. Our Board of Directors approved an arrangement that effectively transfers 20% of the shares in GTU owned by us to the local partners as compensation for services already provided and certain additional services to be provided. Under this arrangement, we will pay Alfa approximately $4.0 million that will be further paid to the potential partner who will acquire 20% of the shares in GTU for approximately $4.0 million in cash. This transaction is expected to close in the second quarter of 2004 and may result in a charge to operating income of up to approximately $4.0 million.

Should the sale of the interest in GTU be consummated, we cannot be certain that our relationship with our new partners will develop in a manner which is beneficial to us or that the benefits of such partnership will not be outweighed by any loss of control over GTU that we may experience with our potential new partners.

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 and installed. Under multiple-delivery contracts, involving a combination of product delivery, installation and maintenance, connection and service fees, revenues are recognized based on the relative fair value of the respective amounts. Elements are grouped if they are inseparable or objective evidence of fair value does not exist. Certain revenues, such as connection and installation fees, are deferred. 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. In determining the recording of revenue, estimates and assumptions are required in assessing the expected conversion of the revenue streams to cash collected.

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 $2.1 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 Statement on Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets", on January 1, 2002, we perform 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 2003, 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.

Business segment information; we changed our reporting for business segments in the second quarter of 2003. 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, we managed our business segments based on telecommunications products that we provided. In the first quarter of 2003, we re-designed our business segments around customer characteristics. Currently, we report four segments within the telecommunications industry: Business and Corporate Services, Carrier and Operator Services, Consumer Internet Services and Mobile Services. A significant portion of our cost structure, including our investment in infrastructure, benefits multiple segments. As a result, we perform allocations of certain costs in order to report business segment information for management and financial reporting purposes. Applying different allocation techniques and parameters could impact the reported results of individual business segments.

Functional currency; effective January 1, 2003, Russia is no longer considered a hyperinflationary economy, therefore the determination of functional currency for United States generally accepted accounting principles ("US GAAP") reporting purposes should be based on the analysis of the underlying business transactions for each Russian subsidiary. We have determined in accordance with the functional currency criteria of SFAS No. 52, "Foreign Currency Translation", that the US dollar should be considered the functional currency of all Russian subsidiaries. There are subjective elements in this determination, including a weight given to each specific criteria established by SFAS No. 52. Changes in the underlying business transactions could lead to different functional currency determination for a particular subsidiary, which would have an impact on its reported financial position and results of operations.

CRITICAL ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgment. We believe the following items represent such particularly sensitive accounting estimates:

Allowance for doubtful accounts; any changes in the underlying assumptions of recoverability of accounts receivable by respective aging group or certain specific accounts that are excluded from the specific and general allowances could have a material effect on our current and future results of operations. We believe that the allowance for doubtful accounts is adequate to cover estimated losses in our accounts receivable balances under current conditions.

Tax provisions; in the course of preparing financial statements in accordance with US GAAP, we record potential tax loss provisions under the guidelines of SFAS No. 5, "Accounting for Contingencies". In general SFAS No. 5 requires loss contingencies to be recorded when they are both probable and reasonably estimable. In addition, we record other deferred tax provisions under the guidelines of SFAS No. 109, "Accounting for Income Taxes". Significant judgment is required to determine when such provisions should be recorded, and when facts and circumstances change, when such provisions should be released.

Useful lives of property and equipment and certain intangible assets; our network assets and amortizable intangible assets are depreciated and amortized over periods generally ranging from five to ten years. Any reduction or increase in the estimated useful lives for a particular category of fixed assets or intangible assets could have a material effect on our future results of operations.

Business combinations; SFAS No. 141, "Business Combinations", requires us to recognize the share in the assets of businesses acquired and respective liabilities assumed based on their fair values. Our estimates of the fair value of the identified intangible assets of businesses acquired is based on our expectations of future results of operations of such businesses. In particular, our valuation of Comincom's identified intangible assets might change as the appropriate regulations consistent with the new Russian law on telecommunications, that came into effect on January 1, 2004, are promulgated and its effects on the future results of operations of Comincom become known.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 amended Accounting Research Bulletin No. 51, "Consolidated Financial Statements", and established standards for determining under what circumstances a variable interest ("VIE") should be consolidated with its primary beneficiary. FIN No. 46 also requires disclosure about VIEs that are not required to be consolidated but in which the reporting entity has a significant variable interest. In December 2003, the FASB revised certain implementation provisions of FIN No. 46. The revised interpretation ("FIN No. 46R") substantially retained the requirements of immediate application of FIN No. 46 to VIEs created after January 31, 2003. There were no such entities created after January 31, 2003. With respect to older VIEs, the consolidation requirements under FIN No. 46R apply not later than for the first financial year or interim period ending after December 15, 2003, if such a VIE is a special-purpose entity ("SPE"), and no later than for the first financial year or interim period ending after March 15, 2004, if such a VIE is not an SPE. The adoption of FIN No. 46R did not have an impact on our results of operations or financial position and we do not expect the additional transition provisions will have a significant impact on our 2004 financial position or results of operations.

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, Samara, 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 7 "Segment Information - Line of Business Data" to our 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, this change did not have a material impact on our results of operations or financial position.

According to Russian government estimates, inflation in Russia was 19% in 2001, 16% in 2002, and 14% in 2003. The Russian government expects inflation to be approximately 10% in 2004. Although the rate of inflation has been declining, any return to heavy and sustained inflation could lead to market instability, new financial crises, reduction in consumer buying power and erosion of consumer confidence.

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. Consolidated Results of Operations for the Three Months Ended March 31, 2004 compared to the Consolidated Results of Operations for the Three Months Ended March 31, 2003

Consolidated Financial Position. Consolidated Financial Position at March 31, 2004 compared to Consolidated Financial Position at December 31, 2003

CONSOLIDATED RESULTS -- CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2003

REVENUE

Our revenue increased by 70% to $133.2 million for the three months ended March 31, 2004 from $78.4 million for the three months ended March 31, 2003. The overall increase in revenue was partly due to the consolidation of 100% of Comincom's results of operations for the first quarter of 2004. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE FOR THE THREE MONTHS ENDED MARCH 31, 2003	CONSOLIDATED REVENUE FOR THE THREE MONTHS ENDED MARCH 31, 2004
	(IN MILLIONS)	
REVENUE		
Business and Corporate Services..	$ 39.0	$ 72.9
Carrier and Operator Services....	29.8	45.7
Consumer Internet Services.......	7.1	11.1
Mobile Services..................	3.2	3.6
Eliminations.....................	(0.7)	(0.1)
TOTAL REVENUE....................	$ 78.4	$133.2

Business and Corporate Services. Revenue from Business and Corporate Services increased by 87% to $72.9 million for the three months ended March 31, 2004 from $39.0 million for the three months ended March 31, 2003. We had increases in our Russian traffic revenues due to the addition of approximately 2,400 new corporate customers and the signing up 19 new multi-tenant business centers in the three months ended March 31, 2004 along with actively promoting new services among our client base.

The acquisition of the 100% ownership interest in Comincom was completed in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. As a result of consolidating Comincom, revenue from Business and Corporate Services increased by $21.3 million for the three months ended March 31, 2004.

Revenue from the Business and Corporate Services division of GTU increased by 42% to $6.1 million for the three months ended March 31, 2004 from $4.3 million for the three months ended March 31, 2003. The increase in revenue was due to an increase in the total intercity minutes and long distance minutes of use by business and corporate clients and an increase in monthly recurring charges.

Carrier and Operator Services. Revenue from Carrier and Operator Services increased by 53% to $45.7 million for the three months ended March 31, 2004 from $29.8 million for the three months ended March 31, 2003. We have added a number of new carriers with increased volumes of traffic, especially voice over Internet Protocol ("VoIP"), and increased the number of services that we offer to cellular providers, which has more than offset general tariff declines, although pricing pressures still exist.

As a result of consolidating Comincom, revenue from Carrier and Operator Services increased by $6.5 million for the three months ended March 31, 2004.

Revenue for the Carrier and Operator Services division of GTU increased by 118% to $3.7 million for the three months ended March 31, 2004 from $1.7 million for the three months ended March 31, 2003. 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 56% to $11.1 million for the three months ended March 31, 2004 from $7.1 million for the three months ended March 31, 2003. The increase is largely the result of increases in the number of dial-up Internet subscribers from 278,823 at March 31, 2003 to 404,953 at March 31, 2004 and partly offset by the average revenue per Internet subscriber decreasing from approximately $8.43 per month to approximately $8.14 per month over the same period.

Mobile Services. Revenue from Mobile Services increased by 13% to $3.6 million for the three months ended March 31, 2004 from $3.2 million for the three months ended March 31, 2003. Active subscribers increased from 35,308 at March 31, 2003 to 46,669 at March 31, 2004 due to an increasing number of prepaid subscribers on a tariff plan which allows for unlimited local calls for a fixed payment. The average revenue per active subscriber has decreased by 6% to approximately $27.99 per month mainly due the decrease in the subscription fee for the tariff plan which allows for unlimited local calls for a fixed payment and due to the adoption of the CPP principle by the Ukrainian parliament in the third quarter of 2003. We are now unable to charge our mobile customers for incoming calls and our average revenue per subscriber was reduced accordingly.

EXPENSES

The following table shows our principal expenses for the three months ended March 31, 2003 and March 31, 2004:

	CONSOLIDATED EXPENSES FOR THE THREE MONTHS ENDED MARCH 31, 2003	CONSOLIDATED EXPENSES FOR THE THREE MONTHS ENDED MARCH 31, 2004
	(IN MILLIONS)	
COST OF REVENUE		
Business and Corporate Services.....	$ 16.6	$ 30.6
Carrier and Operator Services.......	16.1	29.9
Consumer Internet Services..........	4.6	6.4
Mobile Services.....................	0.7	1.5
Eliminations........................	(0.7)	(0.1)
TOTAL COST OF REVENUE................	37.3	68.3
Selling, general and.administrative..	13.4	26.4
Depreciation and amortization........	10.4	17.4
Equity in earnings of ventures.......	(0.1)	--
Interest income......................	(0.3)	(0.3)
Interest expense.....................	0.7	0.2
Foreign currency gain................	(0.2)	(0.8)
Provision for income taxes...........	$ 4.2	$ 7.1

Cost of Revenue

Our cost of revenue increased by 83% to $68.3 million for the three months ended March 31, 2004 from $37.3 million for the three months ended March 31, 2003.

Business and Corporate Services. Cost of revenue from Business and Corporate Services increased by 84% to $30.6 million, or 42% of revenue, for the three months ended March 31, 2004 from $16.6 million, or 42% of revenue, for the three months ended March 31, 2003.

As a result of consolidating Comincom, cost of revenue from Business and Corporate Services increased by $8.1 million for the three months ended March 31, 2004.

Cost of revenue for the Business and Corporate Services division of GTU increased by 55% to $3.1 million, or 51% of revenue, for the three months ended March 31, 2004 from $2.0 million, or 47% of revenue, for the three months ended March 31, 2003. Cost of revenue increased as a percentage of revenue due to the increase volumes of lower margin long distance traffic and an increase in network operation costs.

Carrier and Operator Services. Cost of revenue from Carrier and Operator Services increased by 86% to $29.9 million, or 65% of revenue, for the three months ended March 31, 2004 from $16.1 million, or 54% of revenue, for the three months ended March 31, 2003. The increase in cost of revenue as a percentage of revenue mainly resulted from settlements to other operators not decreasing in line with the pricing concessions to our customers offset by operational improvements in terms of efficient use of available network resources. In addition, we had increasing volumes of lower margin VoIP sales.

As a result of consolidating Comincom, cost of revenue from Carrier and Operator Services increased by $5.0 million for the three months ended March 31, 2004.

Cost of revenue for the Carrier and Operator Services division of GTU increased by 155% to $2.8 million, or 76% of revenue, for the three months ended March 31, 2004 from $1.1 million, or 65% of revenue, for the three months ended March 31, 2003. 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 39% to $6.4 million, or 58% of revenue, for the three months ended March 31, 2004 from $4.6 million, or 65% of revenue, for the three months ended March 31, 2003. The decrease as a percentage of revenue was mainly due to leveraging the fixed cost portion of our operations over increased volumes.

Mobile Services. Cost of revenue from Mobile Services increased by 114% to $1.5 million, or 42% of revenue, for the three months ended March 31, 2004 from $0.7 million, or 22% of revenue, for the three months ended March 31, 2003. The increase in cost of revenue as a percentage of revenue is mainly due to the introduction of the CPP principle by the Ukrainian Parliament in the third quarter of 2003 as settlement costs for traffic to other mobile networks increased and is partly offset by 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 97% to $26.4 million, or 20% of revenue, for the three months ended March 31, 2004 from $13.4 million, or 17% of revenue, for the three months ended March 31, 2003. This increase in selling, general and administrative expenses was mainly due to increases in employee related costs, advertising, bad debt expense, and consulting and employee termination costs associated with the operational integration and consolidation of Comincom from December 1, 2003 into our results of operations.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 67% to $17.4 million for the three months ended March 31, 2004 from $10.4 million for the three months ended March 31, 2003. The increase was due in part to depreciation on continuing capital expenditures of the consolidated entities, but primarily relates to our acquisition of the 100% ownership interest in Comincom and subsequent consolidation of Comincom as of December 1, 2003 into our results of operations.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures decreased to a negligible amount for the three months ended March 31, 2004 from $0.1 million for the three months ended March 31, 2003.

Interest Income

Our interest income was $0.3 million for the three months ended March 31, 2004 unchanged from the three months ended March 31, 2003.

Interest Expense

Our interest expense was $0.2 million for the three months ended March 31, 2004 down from $0.7 million for the three months ended March 31, 2003. Debt, excluding capital lease obligations, at March 31, 2004 was $1.2 million compared to $33.0 million at March 31, 2003. On June 30, 2003, we settled $30.0 million of outstanding debt plus accrued interest under a credit facility with ZAO Citibank.

Foreign Currency Gain

Our foreign currency gain was $0.8 million for the three months ended March 31, 2004, compared to a foreign currency gain of $0.2 million for the three months ended March 31, 2003. The improvement in our foreign currency gain is mainly 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 $7.1 million for the three months ended March 31, 2004 compared to $4.2 million for the three months ended March 31, 2003. Our effective tax rate was 32% for the three months ended March 31, 2004 compared to 25% for the three months ended March 31, 2003 as a result of increases in non-deductible expenses. The increase in income tax expense is primarily due to the acquisition of 100% ownership interest in Comincom and subsequent consolidation of Comincom from December 1, 2003 into our results of operations and the recognition of all deferred tax benefits relating to US carry-forward tax losses during 2003. In addition, there were increased levels of taxable profits being incurred in our Russian and Ukrainian subsidiaries in the three months ended March 31, 2004 as compared to three months ended March 31, 2003.

Net Income and Net Income per Share

Our net income for the three months ended March 31, 2004 was $14.7 million, compared to a net income of $12.8 million for the three months ended March 31, 2003.

Our net income per share of common stock decreased to $0.41 for the three months ended March 31, 2004, compared to a net income per share of $0.47 for the three months ended March 31, 2003. The decrease 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 36,045,186 in the three months ended March 31, 2004, compared to 27,060,057 in the three months ended March 31, 2003. The increase in outstanding shares was a direct result of the Comincom acquisition and employee stock option exercises.

Our net income per share of common stock on a fully diluted basis decreased to $0.40 for the three months ended March 31, 2004, compared to a net income per common share of $0.47 for the three months ended March 31, 2003. The decrease 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 36,507,332 the three months ended March 31, 2004, compared to 27,379,685 for the three months ended March 31, 2003.

CONSOLIDATED FINANCIAL POSITION -- SIGNIFICANT CHANGES IN CONSOLIDATED FINANCIAL POSITION AT MARCH 31, 2004 COMPARED TO CONSOLIDATED FINANCIAL POSITION AT DECEMBER 31, 2003

Accounts Receivable

Accounts receivable increased from December 31, 2003 to March 31, 2004 as a result of increased revenue during the period ended March 31, 2004 and slower collections from customers.

Intangible Assets

Our intangible assets increased at March 31, 2004 as compared to December 31, 2003 as a result of our acquisition of ST-HOLDING in February 2004 and the purchase of new numbering capacity.

Stockholders' Equity

Shareholders' equity increased from December 31, 2003 to March 31, 2004 as a result of our net income of $14.6 million, cash proceeds of approximately $2.1 million received from the exercise of employee stock options and offset by declaring and paying a $7.2 million dividend in the first quarter of 2004.

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. Prior to 2001 we have not recognized a tax benefit in relation to the deferred tax assets of our Russian and Ukrainian entities due to uncertainty over the application and future development of the tax regimes in the two countries. However, in 2001 and 2002, as a result of our Russian and Ukrainian subsidiaries profitability and reasonable certainty of future

profits, we recorded deferred tax assets in the appropriate Russian and Ukrainian subsidiaries. In 2003, we recorded the full amount of deferred tax asset for US loss carry-forwards for income tax purposes.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents was $58.7 million and $65.2 million as of March 31, 2004 and December 31, 2003, respectively. Our total restricted cash was $1.0 million as of March 31, 2004, and December 31, 2003. The restricted cash is maintained in connection with certain of our debt obligations as described below.

During the three months ended March 31, 2004, we had net cash inflows of $29.5 million from our operating activities. During the three months ended March 31, 2003, we had net cash inflows of $19.7 million from our operating activities. This increase in net cash inflows from operating activities at March 31, 2004 is mainly due to the increase of net income as a result of increased revenues, and the consolidation of Comincom into our results of operations and financial position from December 1, 2003.

During the three months ended March 31, 2004, we received approximately $120.1 million in cash from our customers for services and we paid approximately $81.4 million to suppliers and employees. During the three months ended March 31, 2003, we received approximately $73.6 million in cash from our customers for services and we paid approximately $48.6 million to suppliers and employees.

We used cash of $30.1 million and $11.0 million for investing activities for the three months ended March 31, 2004 and March 31, 2003, respectively, which were principally attributable to building our telecommunications networks and acquisitions. Network investing activities totaled $25.9 million for the three months ended March 31, 2004. The majority of network investing activities related to construction of last mile access and network upgrades as a result of increased customer connections. Network investing activities totaled $11.8 million for the three months ended March 31, 2003. We used cash of $4.2 million for the three months ended March 31, 2004 for our acquisition of ST-HOLDING.

For the three months ended March 31, 2004, we received $2.1 million net proceeds from the exercise of employee stock options and for the three months ended March 31, 2003, we received $1.4 million net proceeds from the exercise of employee stock options.

In February 2004, the Board of Directors of the Company declared a cash dividend of $0.20 per common share to shareholders of record as of March 18, 2004. The Company paid the total amount payable of approximately $7.2 million to shareholders on March 29, 2004.

We had working capital of $85.1 million as of March 31, 2004 and $88.2 million as of December 31, 2003. At March 31, 2004 and December 31, 2003, we had total debt, excluding capital lease obligations, of approximately $1.2 million, of which $1.0 million were current maturities. Total debt included amounts that were fully collateralized by restricted cash.

In the first quarter of 2000, we entered into a lease for the right to use fiber optic capacity, including facilities and maintenance, from Moscow to Stockholm. The lease has an initial term of ten years with an option to renew for an additional five years. The lease required full prepayments as the capacity increased from an STM-1 to an STM-4 to full capacity of STM-16. Full prepayments were made to the lessor in April 2000, August 2000 and February 2001. These prepayments have been offset against the lease obligation in the financial statements of the Company. We will continue to make payments for maintenance for the term of the lease.

In the ordinary course of business, we have entered into long-term agreements for satellite transponder capacity. In the first quarter of 2004, we entered into approximately $33.3 million of satellite transponder capacity agreements with terms of generally 10 years.

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 joint 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 two of our larger Russian operating companies. The funding level as of March 31, 2004 for all of 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 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 case especially large or numerous acquisitions do not materialize, we expect our current sources of funding to finance our capital requirements. 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 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 additional or more 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.

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 March 31, 2004, 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	THEREAFTER
Short- and long-term debt..	$ 1,150	$ 950	$ 100	$ 100	$ --
Capital lease obligations..	6,330	2,935	3,395	--	--
Non-cancelable lease obligations..............	12,909	4,428	5,986	2,495	--
Purchase obligations.......	68,965	23,136	16,250	12,287	17,292
Total contractual cash obligations..............	$89,354	$ 31,449	$ 25,731	$ 14,882	$ 17,292

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; (ii) projected traffic volumes and other growth indicators; (iii) anticipated revenues and expenses; (iv) the Company's competitive environment; (v) the future performance of consolidated and equity method investments; (vi) our intention to offer our services under the Golden Telecom brand; (vii) our intentions to expand our fiber optic capacity and add transmission capacity; (viii) our intention to continue to use the assets of recently acquired companies in the manner such assets were previously used; (ix) the allocation of indirect numbering capacity from Ukrtelecom; (x) the impact of critical accounting policies and estimates; (xi) the completion of our proposed compensation arrangement with Alfa; (xii) our potential partner in Ukraine may not develop in a manner which is beneficial to us or that benefits of such partnership will not outweigh any loss of control over our Ukrainian operations; (xiii) the possibility that we may not be able to come to terms with the owners of our potential acquisition in Rostov-on-Don; and (xiv) the political, regulatory and financial situation in the markets in which we operate, including the effect of the new law "On Telecommunications", 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 that 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, our ability to integrate recently acquired companies into our operations, 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 United States Securities and Exchange Commission (the "SEC") and especially in the Risk Factor section therein, including, but not limited to, the Company's report on Form 10-K for the year ended December 31, 2003.

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

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2004. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2004. There were no material changes in the Company's internal control over financial reporting during the first quarter of 2004.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

DESIGNATION	DESCRIPTION
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal 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
December 15, 2003	Acquisition of OAO Comincom. Amended by 8-K/A filed on January 30, 2004.
February 4, 2004	Golden Telecom, Inc. designated representatives will participate in investor conferences in London, United Kingdom and New York, New York.
March 11, 2004	Furnished Golden Telecom, Inc. announces fourth quarter and annual 2003 results.

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: May 7, 2004

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EXHIBIT INDEX

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