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GOLDEN TELECOM INC
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April 28, 2005

(GOLDEN TELECOM LOGO)

The NEXT LEVEL

GOLDEN TELECOM INC. Annual Report 2004

THE NEXT LEVEL - signifies the vision of Golden Telecom's leadership after wrapping-up five phenomenal years of performance as a publicly traded company with financial and operational results increasing across the board.

OUR VISION IS STRAIGHTFORWARD - TO BE THE LEADING TELECOMMUNICATIONS PROVIDER OF CHOICE FOR BOTH BUSINESS CUSTOMERS AND INTERNET CONSUMERS IN RUSSIA AND THE CIS.

01	VISION AND VALUES
02	CHAIRMAN'S LETTER TO SHAREHOLDERS
03	FINANCIAL PERFORMANCE
04	REPORT FROM THE PRESIDENT
06	OPERATIONAL AND FINANCIAL HIGHLIGHTS 2000-2004
10	BUSINESS AND CORPORATE SERVICES
12	CARRIER AND OPERATOR SERVICES
14	CONSUMER INTERNET AND MOBILE SERVICES
16	BOARD OF DIRECTOR'S
18	KEY MANAGEMENT
20	FINANCIAL REVIEW
21	Selected Financial Data
23	Management's Discussion and Analysis of Financial Condition and Results of Operations
45	Report of Independent Registered Public Accounting Firm
46	Consolidated Balance Sheets
48	Consolidated Statements of Operations
49	Consolidated Statements of Cash Flows
50	Consolidated Statements of Shareholders' Equity
51	Notes to Consolidated Financial Statements
84	Management's Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm

01 GOLDEN TELECOM INC. Annual Report 2004

THE GOLDEN RULES

AT GOLDEN TELECOM, WE STRIVE TO CREATE AND MAINTAIN A CULTURE THAT REPRESENTS THE SHARED VALUES OF OUR CUSTOMERS, SHAREHOLDERS, AND EMPLOYEES. THE FOLLOWING "GOLDEN RULES" REFLECT THE VALUES THAT GOVERN OUR DAILY OPERATIONS COMPANY WIDE:

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- o We operate our business honestly and professionally.
- o We encourage open communications with our customers and partners based on trustworthiness and respect. We believe that prudent investment in long term mutually profitable relationships with our customers and our partners is a key component to the success of our company.
- o Our constant goal is to establish and maintain a stable and dynamic business environment as a foundation for long term development and growth. To achieve this goal, we focus on the current and future needs of our customers, maintain financial discipline to create value for our shareholders and commit to the highest level of professional development in our workforce.
- o We provide a work environment in which entrepreneurial and innovative behaviour, teamwork, and excellence are rewarded.
- o We are respectful of the communities and the environment in which we operate.
- o We acknowledge that we are dependent upon the successful development of the communities where we operate for our own current and future success.
- o We are passionately committed to our customers, shareholders, employees and partners.

02 GOLDEN TELECOM INC. Annual Report 2004

CHAIRMAN'S LETTER TO SHAREHOLDERS

Phenomenal Five

(PHOTO OF PETR AVEN)

Dear Shareholders,

THE THEME OF THIS REPORT - THE NEXT LEVEL - SIGNIFIES THE VISION OF GOLDEN TELECOM'S LEADERSHIP AFTER WRAPPING-UP FIVE PHENOMENAL YEARS OF PERFORMANCE AS A PUBLICLY TRADED COMPANY WITH FINANCIAL AND OPERATIONAL RESULTS INCREASING ACROSS THE BOARD.

A determined management team with a clear and united mission propelled our company to a top position as the leading independent telecommunications provider in Russia, with 22 percent of the country's market share and a noteworthy presence in the Ukraine and the Commonwealth of Independent States (CIS).

The past five years were not without challenges and presented an uphill climb for company management navigating an ever changing, emerging market in Russia and the CIS. We reached the summit of a historic Golden Telecom milestone this past fall, when key management opened the morning trading on the NASDAQ National Market in New York. This served as a testament to the company's performance and also elevated Golden Telecom's standing as a corporate leader in Russia and the Russian telecommunications sector. This type of recognition speaks volumes about our past successes and sets the stage for The Next Level of the company's development.

While continued growth and creating shareholder value remain top priorities for Golden Telecom's management, board members, and employees, instilling confidence in investors that company leaders act with integrity takes precedence. Through strong corporate governance and a commitment to financial transparency, Golden

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Telecom produces operational and financial results you can trust.

Along with you, our shareholders, we look forward to ascending new summits, overcoming future challenges and celebrating significant milestones as Golden Telecom reaches The Next Level.

Sincerely,

/s/ PETR AVEN

PETR AVEN
Chairman, Board of Directors
GOLDEN TELECOM, INC.

03 GOLDEN TELECOM INC. Annual Report 2004

FINANCIAL PERFORMANCE

US\$ millions (except per share data)	For the year ended De	
	2004	2003
FINANCIAL RESULTS		
Revenues*	584.0	360.5
Income from operations	95.5	69.7
Net income	64.8	55.4
Net income per share - diluted	1.77	1.90
Weighted average shares - diluted	36.6	29.1
Purchases of property, plant and equipment and intangible assets	114.6	63.7
Cash spent on acquisitions, net of cash acquired	15.5	12.3

	As of December	
FINANCIAL POSITION		
Total assets	805.8	729.2
Total debt and capital leases, including current portion	4.0	8.0
Shareholders' equity	626.4	584.3

US\$	2004		2003	
	HIGH	LOW	High	Low
CLOSING PRICES PER SHARE				
First quarter	36.63	28.24	15.19	12.27
Second quarter	35.93	22.77	24.50	14.58
Third quarter	30.97	23.61	32.76	22.50

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Fourth quarter 31.45 25.94 30.11 25.18

TOTAL REVENUE* US\$m
2001-2004

(BAR CHART)

2001	2002	2003	2004
140.0	198.7	360.5	584.0

REVENUE PER DIVISION* US\$m
2004

(PIE CHART)

Mobile Services	15.8
Consumer Internet Services	45.5
Business and Corporate Services	197.9
Carrier and Operator Services	324.8

* Amounts above are net of eliminations, equity ventures and affiliate adjustments. On pages 3 through 15, "Revenues" and "Income (loss) from operations" exclude equity method ventures that are included in the business segment information presented in Note 14 to the Consolidated Financial Statements.

04 GOLDEN TELECOM INC. Annual Report 2004

REPORT FROM THE PRESIDENT
The Next Level

(PHOTO OF PRESIDENT)

Dear Valued Shareholder,

FEW COMPANIES ACHIEVE THE LEVEL OF SUCCESS GOLDEN TELECOM REACHED IN 2004. IN OUR MOST IMPRESSIVE YEAR TO DATE, THE COMPANY REPORTED \$584 MILLION IN ANNUAL REVENUES, UP 62 PERCENT OVER 2003; \$95.5 MILLION IN OPERATING INCOME, UP 37 PERCENT OVER 2003; AND \$64.8 MILLION IN NET INCOME, UP 17 PERCENT OVER 2003.

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Report from the President

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Golden Telecom's financial performance in 2004 rounded out five years of solid performance as a publicly traded company on the NASDAQ National Market, marking a milestone event for the company and setting the stage for The Next Level of success.

Not only did Golden Telecom achieve outstanding operational and financial results, we also revised the company's vision to reflect the values of our customers, employees, and you - our shareholders. Highlighted at the beginning of this report, the "Golden Rules" deserve significant attention as they define our corporate culture and help shape the company's future. With these principles in mind, the Golden Telecom team continually strives to take our business to The Next Level in terms of geographic and operational scope, innovative technology, financial transparency, service, strategic partnerships, and our workforce.

As the No. 1 independent telecommunications operator in Moscow, Kiev, and Nizhny Novgorod, Golden Telecom currently serves more than 250 of the top 500 companies operating in Russia in terms of revenue size, and maintains the widest geographic reach among independent operators in Russia. Poised for The Next Level of growth and technology, the Russian telecommunications market looks much different today than when Golden Telecom first entered the public domain five years ago. However, this ever-changing telecommunications landscape offers many opportunities for Golden Telecom as we explore ways to increase penetration levels across the fixed line telecommunications and Internet spectrum.

From an operational standpoint, Golden Telecom is reaching higher by strengthening our core business of serving corporate customers through fixed line voice and data networks, as well as taking our wholesale business to a new level with further development of carrier and operator services. In addition, our Internet business offers exponential growth opportunities as the fledgling market gains momentum in Russia. The right combination of these lines of businesses and an active mergers and acquisitions program throughout 2004 helped Golden Telecom diversify revenue streams, improve profitability, and continue gaining critical mass in regional markets.

As we carry forward our operational strategy of steady, regional growth in each line of business, Golden Telecom has a responsibility to maintain the highest standards of financial transparency and reporting. Continuing to build upon the solid foundation laid by senior management over the past five years, the company appointed two new executive officers in 2004, Michal Cupa as Chief Operating Officer and Brian Rich as Chief Financial Officer. In the beginning of 2005, we also brought in a new General Counsel and Corporate Secretary, Derek Bloom. The combined leadership of our new and veteran executives is helping drive Golden Telecom to The Next Level in 2005 and beyond.

Although Golden Telecom's accomplishments throughout 2004 were impressive, the highlight of the year came not as a result of the previous 12 months' performance, but from Golden Telecom's collective progress over the past five years. In late September, the company celebrated its fifth year as a publicly traded company on the NASDAQ National Market in New York. The opening buzzer marked the start of that day's trading for NASDAQ brokers, but for Golden Telecom's executives it symbolized the beginning of a new era for our company, its employees, and its shareholders as we reach for the next plateau.

Our past achievements combine to create a solid foundation, which allows us to set higher goals, meet higher standards, and potentially reap higher rewards. As your CEO, I look forward to leading the company to achieve The Next Level of success in the years ahead with the support of an outstanding executive team, board of directors, and employees. We appreciate your support and hope you will continue investing in Golden Telecom's future.

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Sincerely,

/s/ ALEXANDER VINOGRADOV

ALEXANDER VINOGRADOV
Chief Executive Officer
GOLDEN TELECOM, INC.

06 GOLDEN TELECOM INC. Annual Report 2004

OPERATIONAL AND
FINANCIAL HIGHLIGHTS 2000-2004
Five-year Climb to the Top

THE FOUNDATION SUPPORTING GOLDEN TELECOM FOR THE NEXT LEVEL WAS CAREFULLY BUILT BY STRONG LEADERS AND DEDICATED EMPLOYEES.

IN THIS REVIEW, GOLDEN TELECOM REMEMBERS THE MILESTONES AND ACCOMPLISHMENTS OF FIVE PHENOMENAL YEARS.

2000

- o Establishes direct connection to broadband Internet and data networks in Europe and the United States
- o Acquires outstanding interests in Sovam Teleport Kiev
- o Acquires 51 percent of Commercial Information Networks, the largest ISP in Nizhny Novgorod
- o Trades its Russian mobile assets for 24 percent stake in MCT Corp.
- o Signs supply agreement with Cisco Systems, acquiring equipment for Internet Protocol network
- o Collaborates with Russia's Alfa Bank on Internet payment systems and banking services
- o Opens Internet data center in Moscow, providing Internet hosting services to local businesses
- o Launches Web-enabled call center for online customer care and technical support
- o Acquires leading horizontal Russian and English language portal, IT INFOART STARS
- o Acquires Agama family of Russian Web properties, including top-ranked search engine Aport

2001

- o Majority of Golden Telecom (GLDN) shares sold to consortium led by Alfa Group
- o Acquires Moscow-based ISP Cityline, with operations in St. Petersburg, Nizhny Novgorod, Tyumen, and Kaliningrad

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- o Acquires 51 percent stake in Ekaterinburg-based ISP Uralrelcom
- o Acquires 51 percent stake in Nizhny Novgorod-based Agentstvo Delovoi Svyazi (ADS)

2002

- o Acquires remaining 50 percent stake in Sovintel
- o Becomes Russia's third largest alternative Internet and data provider, by consolidating businesses in Nizhny Novgorod

2003

- o Begins operating Sovintel under Golden Telecom brand
- o Tapped as primary communications provider for President Vladimir Putin's consumer hotline, the company's call center operators delivered a record, 1.6 million questions to the Russian president
- o Acquires 100 percent of SibChallenge Telecom in Krasnoyarsk
- o Acquires 100 percent of Comincom & Combella
- o Partners with VimpelCom to build a fiber optic cable spanning from Moscow to Ufa
- o Builds backbone network in St. Petersburg

07 GOLDEN TELECOM INC. Annual Report 2004

Operational and Financial
Highlights 2000-2004

MAKING CONNECTIONS

Golden Telecom's 2004 Network Coverage

(MAP OF NETWORK COVERAGE)

2004

- o ACQUIRES 62 PERCENT OF WESTBALT TELECOM IN KALININGRAD
- o ACQUIRES 54 PERCENT OF BUZTON IN UZBEKISTAN
- o ACQUIRES 50 PERCENT PLUS 1 SHARE OF SAMARA TELECOM IN SAMARA
- o PAYS FIRST DIVIDEND IN FIRST QUARTER AND THREE MORE THROUGHOUT THE YEAR
- o COMPLETES OPERATIONAL MERGER OF COMINCOM AND COMBELLGA INTO SOVINTEL
- o CELEBRATES FIVE YEARS OF SUCCESS ON NASDAQ
- o HONORED AS "THE COMPANY MAKING THE MOST SIGNIFICANT CONTRIBUTION TO THE DEVELOPMENT OF THE RUSSIAN INTERNET"

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08 GOLDEN TELECOM INC. Annual Report 2004

Operational and Financial
Highlights 2000-2004

1999-2004

(PHOTO OF BUILDINGS)

09 GOLDEN TELECOM INC. Annual Report 2004

Operational and Financial
Highlights 2000-2004

US\$ millions (except per share data)	2000	For the year ended	
		2001	2002
<hr/>			
FINANCIAL RESULTS			
Revenues	113.1	140.0	198.7
Income (loss) from operations	(15.1)	(45.3)	31.4
Net income (loss)	(10.3)	(39.0)	29.8
Net income (loss) per share - diluted	(0.43)	(1.65)	1.21
Weighted average shares - diluted	24.1	23.6	24.5
Purchases of property, plant and equipment and intangible assets	37.1	27.9	29.4
Cash paid for acquisitions, net of cash acquired	24.3	33.4	51.2
<hr/>			

		As of December	
FINANCIAL POSITION			
Total assets	348.5	300.4	435.8
Total debt and capital leases, including current portion	12.7	22.2	40.5
Shareholders' equity	287.2	224.9	311.5
<hr/>			

SHARE PRICE 1999-2004

(LINE CHART)

As of March 8, 2005, there were approximately 17 holders of record of our common stock.

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10 GOLDEN TELECOM INC. Annual Report 2004

BUSINESS AND
CORPORATE SERVICES
Reaching Higher

(BACKGROUND PHOTO)

BUSINESS AND CORPORATE SERVICES
REVENUE 2003-2004

UP 72%

11 GOLDEN TELECOM INC. Annual Report 2004 Business and Corporate Services

REVENUE US\$m
BUSINESS AND CORPORATE SERVICES

2001	2002	2003	2004
54.1	91.7	188.9	324.8

GOLDEN TELECOM'S BUSINESS AND CORPORATE SERVICES DIVISION REACHES HIGHER BY OPENING LINES OF COMMUNICATION BETWEEN THE RUSSIAN GOVERNMENT AND ITS CITIZENS.

(PHOTO OF WORKERS IN OFFICE)

ON DECEMBER 1, 2004, GOLDEN TELECOM'S CALL CENTER BEGAN OPERATING A GOVERNMENT-SPONSORED HOTLINE, ANSWERING RUSSIAN CITIZEN'S QUESTIONS REGARDING NEW SOCIAL ASSISTANCE PROGRAMS, GRANTED UNDER PUBLIC FEDERAL LAW NO. 122. THROUGHOUT THE MONTH, NEARLY 60 GOLDEN TELECOM OPERATORS AND THE RUSSIAN FEDERATION MINISTRY OF HEALTH AND PENSION FUND EXPERTS FIELDING QUESTIONS WITH GOLDEN TELECOM OPERATORS PROCESSING NEARLY 11,000 CALLS DURING THE FIRST TWO DAYS. IN 2005, GOLDEN TELECOM CONTINUED REACHING OUT TO RUSSIAN COMMUNITIES, AS THE PROJECT LASTED THROUGH MARCH.

GOLDEN TELECOM PLACES A PREMIUM ON GIVING BACK, NOT ONLY TO THE COMMUNITIES WHERE IT OPERATES, BUT PRIMARILY, TO ITS SHAREHOLDERS. AS THE COMPANY'S MOST PROFITABLE AND ESTABLISHED DIVISION, BUSINESS AND CORPORATE SERVICES CONTRIBUTED \$324.8 MILLION TO 2004 REVENUE, UP 72 PERCENT OVER 2003 AND \$72.3 MILLION TO 2004 OPERATING INCOME, UP 52 PERCENT OVER 2003.

IN 2004, BUSINESS AND CORPORATE SERVICES SIGNED AGREEMENTS WITH 99 NEW MULTI-TENANT BUSINESS CENTERS AND 10 TRADE CENTERS, OCCUPYING A COMBINED 1 MILLION SQUARE METERS OF OFFICE SPACE IN THE COMPANY'S NO.1 MARKET, MOSCOW. IN ADDITION TO ACQUIRING MORE THAN 9,000 NEW CORPORATE CLIENTS IN MOSCOW, BUSINESS AND CORPORATE SERVICES EXPERIENCED SIGNIFICANT GROWTH AMONG EXISTING CUSTOMERS, WITH MORE THAN 60 PERCENT OF NEW INSTALLATIONS GENERATING FROM EXISTING BUSINESS CUSTOMERS.

GOLDEN TELECOM'S BUSINESS AND CORPORATE SERVICES DIVISION OPERATES A NUMBER OF COMPETITIVE LOCAL EXCHANGE CARRIERS (CLECS) THAT OWN AND OPERATE A FULLY-DIGITAL

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OVERLAY NETWORK SERVING MOST OF RUSSIA'S MAJOR POPULATION CENTERS INCLUDING ST. PETERSBURG, ARKHANGELSK, KHABAROVSK, IRKUTSK, VORONEZH, EKATERINBURG, VLADIVOSTOK, AND UFA. THE BUSINESS AND CORPORATE SERVICES DIVISION OFFERS A LARGE RANGE OF TELECOMMUNICATION SERVICES INCLUDING NETWORK ACCESS, HARDWARE AND SOFTWARE SOLUTIONS, WITH INSTALLATION, CONFIGURATION, AND MAINTENANCE SUPPORT.

12 GOLDEN TELECOM INC. Annual Report 2004

CARRIER AND
OPERATOR SERVICES
Whole New Level in Wholesale

GOLDEN TELECOM'S CARRIER AND OPERATOR SERVICES DIVISION, A WHOLESALE PROVIDER OF VOICE, DATA, AND INTERNET SERVICES TO TELECOMMUNICATIONS OPERATORS, REACHED A WHOLE NEW LEVEL OF SUCCESS IN 2004, REPORTING ANNUAL REVENUE OF \$198.9 MILLION, A 55 PERCENT INCREASE OVER 2003 AND OPERATING INCOME OF \$28.2 MILLION, AN 8 PERCENT INCREASE OVER 2003.

(PHOTO OF WORKPLACE)

INVESTMENTS IN SAMARA TELECOM, WESTBALT TELECOM AND BUZTON, AS WELL AS THE COMPLETION OF THE COMPANY'S INTEGRATION WITH COMINCOM AND COMBELLGA LARGELY CONTRIBUTED TO THE DIVISION'S SUCCESS, EXPANDING ITS NETWORK AND PROVIDING KEY REGIONAL CAPACITY.

GOLDEN TELECOM'S INTEGRATION OF ITS SOVINTEL SUBSIDIARY WITH COMINCOM AND COMBELLGA ESTABLISHED A STRONG WHOLESALE AND RETAIL PRESENCE IN THE CENTRAL, NORTHERN, SOUTHERN-EUROPEAN, AND URAL REGIONS OF RUSSIA. IN 2004, GOLDEN TELECOM SUCCESSFULLY EXPANDED ITS REGIONAL PRESENCE AND PLANS TO CONTINUE INCREASING ITS MARKET SHARE IN SMALLER AREAS THROUGHOUT 2005.

CONNECTING BUSINESSES AND PEOPLE ACROSS DIVERSE REGIONS AND MULTIPLE TIME ZONES DEMANDS EXTENSIVE INFRASTRUCTURE, AND GOLDEN TELECOM'S NEXT LEVEL OF SERVICE TO ITS CUSTOMERS IS THE CONSTRUCTION OF A FIBER OPTIC CABLE EXTENDING FROM MOSCOW, THE COMPANY'S NO.1 MARKET, TO UFA, THROUGH NIZHNY NOVGOROD AND KAZAN. WITH THE FIRST PHASE OF THE PROJECT COMPLETED IN 2004, THE CABLE CURRENTLY REACHES AS FAR AS KAZAN. ONCE FINISHED IN 2005, THIS CABLE WILL STRETCH MORE THAN 500 MILES ALONG THE COMPANY'S BUSIEST TRAFFIC ROUTE.

GOLDEN TELECOM'S CARRIER AND OPERATOR SERVICES DIVISION NOT ONLY LINKS RUSSIA'S TELECOMMUNICATIONS PROVIDERS WITH THEIR CLIENTS, BUT IT ALSO PROVIDES INTERNATIONAL BUSINESSES WITH A PASSPORT TO RUSSIA AND THE CIS THROUGH RELATIONSHIPS WITH GLOBAL CARRIERS. THESE RE-MARKETER AGREEMENTS SUPPLY GLOBAL TELECOMMUNICATIONS COMPANIES WITH ACCESS TO GOLDEN TELECOM'S NETWORK FOR DATA AND VOICE SERVICES AND CONNECT THE WORLD TO MORE THAN 200 CITIES IN RUSSIA AND THE CIS.

13 GOLDEN TELECOM INC. Annual Report 2004

Carrier and Operator Services

REVENUE US\$m

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CARRIER AND OPERATOR SERVICES

2001	2002	2003	2004
58.5	73.9	128.5	198.9

(BACKGROUND PHOTO)

SECURING RUSSIA'S FINANCIAL COMMUNITY IN 2004, GOLDEN TELECOM HELPED IMPROVE SECURITY OVER ELECTRONIC INFORMATION FOR NEARLY 140 FINANCIAL INSTITUTIONS IN RUSSIA AND THE CIS, BY CONNECTING THEM TO THE SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION'S (SWIFT) SECURED INTERNET PRIVATE NETWORK (SIPN) THROUGH ITS RELATIONSHIP WITH A GLOBAL TELECOMMUNICATIONS CARRIER.

SWIFT, AN INDUSTRY-OWNED COOPERATIVE SUPPLYING SECURE, STANDARDIZED MESSAGING SERVICES AND INTERFACE SOFTWARE TO 7,500 FINANCIAL INSTITUTIONS IN 200 COUNTRIES, PROVIDES A STANDARDIZED PLATFORM FOR EXCHANGING SECURE, RELIABLE MESSAGES BETWEEN FINANCIAL INSTITUTIONS. THE SWIFT COMMUNITY INCLUDES BANKS, BROKER/DEALERS, INVESTMENT MANAGERS, AND OTHER INFRASTRUCTURES INCLUDING PAYMENTS, SECURITIES, TREASURY AND TRADE.

CARRIER AND OPERATOR SERVICES
REVENUE 2003-2004

UP 55%

14 GOLDEN TELECOM INC. Annual Report 2004

CONSUMER INTERNET
AND MOBILE SERVICES
Pioneering Russia's eFrontier

CONSUMER INTERNET SERVICES
REVENUE 2003-2004

UP 48%

(PHOTO OF CUSTOMER SERVICE)

IN NOVEMBER 2004, THE RUSSIAN FEDERATION CELEBRATED THE 10TH ANNIVERSARY OF THE RUSSIAN INTERNET (RUNET). AS PART OF THIS MILESTONE EVENT, GOLDEN TELECOM WAS RECOGNIZED AS "THE COMPANY MAKING THE MOST SIGNIFICANT CONTRIBUTION TO THE DEVELOPMENT OF THE RUSSIAN INTERNET." DRAMATIC IMPROVEMENTS IN INTERNET INFRASTRUCTURE AND INCREASES IN ACTIVITY OVER THE PAST DECADE HAVE MADE RUSSIA'S DOMAIN ZONE "RU" ONE OF THE WORLD'S MOST ACTIVELY DEVELOPING TWO-LETTER DOMAIN ZONES.

15 GOLDEN TELECOM INC. Annual Report 2004

Consumer Internet and

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Mobile Services

REVENUE US\$m CONSUMER INTERNET SERVICES

2001	2002	2003	2004
13.8	21.8	30.8	45.5

REVENUE US\$m MOBILE SERVICES

2001	2002	2003	2004
14.4	13.0	13.9	15.8

(BACKGROUND PHOTO)

MOBILE SERVICES REVENUE 2003-2004

UP 14%

AS A PIONEER OF THE RUSSIAN EFRONTIER, GOLDEN TELECOM'S CONSUMER INTERNET DIVISION CONTRIBUTED \$45.5 MILLION TO 2004 ANNUAL REVENUE, UP 48 PERCENT OVER 2003 AND \$2.2 MILLION IN OPERATING INCOME, A \$4.5 MILLION CHANGE FROM A \$2.3 MILLION LOSS IN 2003.

GOLDEN TELECOM OFFERS CONSUMER INTERNET SERVICES ACROSS RUSSIA, KAZAKHSTAN, AND UZBEKISTAN THROUGH ITS BRAND ROL, AND IN THE UKRAINE THROUGH SVIT-ON-LINE. SERVICES ARE PRIMARILY PROVIDED THROUGH DIAL-UP INTERNET, IN ECONOMICALLY VIABLE URBAN AREAS THROUGH SALES OF PRE-PAID USAGE CARDS. AS OF DECEMBER 2004, ROL AND SVIT-ON-LINE WERE AVAILABLE AT MORE THAN 13,000 POINTS-OF-SALE THROUGHOUT THE COMPANY'S COVERAGE AREA. GOLDEN TELECOM ALSO PROVIDES ATTRACTIVE ALTERNATIVE SERVICES TO DIAL-UP INTERNET INCLUDING ASYMMETRIC DIGITAL SUBSCRIBER LINE (ADSL) SERVICES IN AREAS SUCH AS ST. PETERSBURG, NIZHNY NOVGOROD, AND ROSTOV-ON-DON.

AS A FOUNDING FORCE IN RUSSIA'S DEVELOPING CONSUMER INTERNET MARKETPLACE, GOLDEN TELECOM TAKES ITS COMMITMENT TO LEADING RUSSIA AND THE COUNTRIES OF THE CIS TO THE NEXT LEVEL OF INNOVATION IN TELECOMMUNICATIONS SERIOUSLY. THE COMPANY CONTINUES TO IMPLEMENT NEW CONSUMER INTERNET TECHNOLOGIES AND IS CURRENTLY TESTING AND PUTTING INTO SERVICE A RANGE OF PRODUCTS FOR CONSUMERS FROM BROADBAND PRODUCTS TO WIRELESS INTERNET.

IN ADDITION, GOLDEN TELECOM'S CONSUMER MOBILE SERVICES DIVISION COVERS A POPULATION AREA OF OVER 4.6 MILLION PEOPLE THROUGH ITS CELLULAR NETWORK IN THE UKRAINE. GOLDEN TELECOM'S MOBILE SERVICES DIVISION CONTRIBUTED \$15.8 MILLION TO 2004 ANNUAL REVENUE, UP 14 PERCENT OVER 2003. GOLDEN TELECOM INCREASED ITS MOBILE SUBSCRIBER BASE AT YEAR-END 2004 TO 57,490, UP 44 PERCENT OVER YEAR-END SUBSCRIBERS IN 2003.

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16 GOLDEN TELECOM INC. Annual Report 2004

BOARD OF DIRECTORS
Take it from the Top

PETR AVEN
Alfa Bank, President

GOLDEN TELECOM, INC.
Board of Directors, Chairman
Nominating and Corporate Governance Committee, Chairman

ALEXANDER VINOGRADOV
Golden Telecom, Inc., President and
Chief Executive Officer

GOLDEN TELECOM, INC.
Executive Committee Member

MICHAEL CALVEY
Baring Vostok Capital Partners, Co-Managing Partner
Baring Private Equity Partners Limited, Senior Partner

GOLDEN TELECOM, INC.
Audit Committee Member
Executive Committee Member
Nominating and Corporate Governance
Committee Member

JAN THYGESEN
Telenor Networks, Executive Vice President
Telenor Nordic Mobile, Chief Executive Officer

MICHAEL NORTH
Eurokapital Verwaltungs GmbH, Managing Director

GOLDEN TELECOM, INC.
Compensation Committee Member

ASHLEY DUNSTER
Capital Research International, Inc., Vice President

GOLDEN TELECOM, INC.
Audit Committee Member
Nominating and Corporate Governance
Committee Member

ANDREY KOSOGOV
Alfa Bank, First Deputy Chairman of the Executive Board

GOLDEN TELECOM, INC.
Compensation Committee, Chairman

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Executive Committee Member

KJELL JOHNSEN
Telenor Networks, Vice President

GOLDEN TELECOM, INC.
Executive Committee, Chairman
Compensation Committee Member
Nominating and Corporate Governance
Committee Member

DAVID HERMAN
General Motors, Russia and the Commonwealth of
Independent States, Former Vice President (Retired)

GOLDEN TELECOM, INC.
Audit Committee, Chairman
Compensation Committee Member

VLADIMIR ANDROSIK
Svyazinvest, Advisor to General Director

17 GOLDEN TELECOM INC. Annual Report 2004

Board of Directors

Left column: (PHOTO OF DIRECTORS)

PETR AVEN
ALEXANDER VINOGRADOV
MICHAEL CALVEY
JAN THYGESEN
MICHAEL NORTH

Right column:
ASHLEY DUNSTER
ANDREY KOSOGOV
KJELL JOHNSEN
DAVID HERMAN
VLADIMIR ANDROSIK

18 GOLDEN TELECOM INC. Annual Report 2004

KEY MANAGEMENT
Leading the Way

ALEXANDER VINOGRADOV
PRESIDENT, CHIEF EXECUTIVE OFFICER

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With more than 20 years of telecommunications industry experience, Alexander Vinogradov is President and Chief Executive Officer of Golden Telecom, Inc. and has served as a member of its Board of Directors since November 2001. Under his leadership, the company became the No.1 independent telecommunications operator in Moscow, Kiev, and Nizhny Novgorod. Prior to his role as Chief Executive Officer, Mr. Vinogradov held a number of management positions with Golden Telecom's subsidiary Sovintel. Prior to working with Sovintel and during the first half of his career, Mr. Vinogradov worked for the Main Center for Management of Long-Distance Communications of the USSR, where he lead numerous commercial and technical development programs. Mr. Vinogradov holds a degree from the Moscow Telecommunications Institute. In 2003, Mr. Vinogradov was honored with the distinction of "Master of Communications of the Russian Federation" by the Russian Ministry of Communications for his long-standing telecommunications service, leadership, and expertise.

MICHAL CUPA
SENIOR VICE PRESIDENT, CHIEF OPERATING OFFICER

Michal Cupa joined Golden Telecom, Inc. as Chief Operating Officer in February 2004, bringing nearly 15 years of telecommunications experience to the company. From 1999 to 2004, Mr. Cupa served as Chief Executive Officer of Contactel, an alternative telecommunications operator in the Czech Republic. Prior to his role at Contactel, Mr. Cupa held a number of leadership positions with Prague-based telecommunications provider Cesky Telecom including Head of Strategy and Policy, Director of Network Development, Chief Operating Officer, and Executive Vice President for Networks and Value Added Services. Mr. Cupa holds a Master's in Business Administration from the University of Chicago in Barcelona, Spain, a Master's in Business Telecommunications from the Delft University of Technology in the Netherlands, and a Master's in Telecommunications Technology from the Czech Technical University in Prague.

BRIAN RICH
SENIOR VICE PRESIDENT, CHIEF FINANCIAL OFFICER

With more than 10 years of experience in emerging markets including the Middle East, East Asia, South and Central America, and India, Brian Rich is the Chief Financial Officer of Golden Telecom, Inc. Before joining Golden Telecom in August 2004, Mr. Rich worked for an Atlanta-based independent power provider, Mirant Corp., serving as the CFO of its profitable international business unit headquartered in Hong Kong. Prior to his role as CFO of the international group, Mr. Rich lead a number of mergers and acquisitions in North and South America for Mirant Corp., which was formerly known as Southern Energy, Inc. before spinning-off from its parent, Southern Company, in an initial public offering. From 1996 to 1998, upon appointment by the Governor of the State of Alabama, Mr. Rich served as Assistant Director of Finance and Deputy Attorney General for the State. Mr. Rich holds a Bachelor's degree and a Juris Doctor degree from, respectively, Tulane University and Tulane University Law School.

DEREK BLOOM
SENIOR VICE PRESIDENT, GENERAL COUNSEL AND CORPORATE SECRETARY

With an extensive background of advising businesses in Russia on legal matters, Derek Bloom is the General Counsel and Corporate Secretary of Golden Telecom, Inc. Before joining Golden Telecom in February 2005, Mr. Bloom was a partner with Coudert Brothers, practicing law in both Moscow and St. Petersburg for nearly 10 years. While with Coudert Brothers, Mr. Bloom specialized in a variety of in-bound investments in Russia including secured lending, joint ventures, and financial leasing transactions. Mr. Bloom's leadership experience includes coordinating a consortium of advisers to the Russian Federal Commission for the Securities Market, which wrote Russia's Corporate Governance Code. Before coming to Moscow in 1995, Mr. Bloom practiced United States securities law as a partner with Elias, Mate, Tiernan & Herrick, a Washington, DC based law firm. Mr. Bloom

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holds a Bachelor's degree and a Juris Doctor degree from Brown University and Boston University School of Law, respectively. Additionally, Mr. Bloom holds a LLM in taxation from the Georgetown University Law Center.

OLEG MALIS

SENIOR VICE PRESIDENT, DIRECTOR OF MERGERS AND ACQUISITIONS

Oleg Malis is the Director of Mergers and Acquisitions for Golden Telecom, Inc. In this role, Mr. Malis led Golden Telecom's recent mergers and acquisitions, including the purchases of Comincom and Combella, SibChallenge Telecom, 62 percent of WestBalt Telecom, 54 percent of Buzton, and 50 percent plus 1 of share of Samara Telecom. Prior to joining Golden Telecom in 2001, Mr. Malis founded ZAO Investelectrosvyaz and ZAO Corbina which provided mobile telecommunications related services in Russia. Mr. Malis holds a degree from Moscow State Aviation Technological University in Systems Engineering.

19 GOLDEN TELECOM INC. Annual Report 2004

Key Management

From left to right:

MICHAL CUPA

Senior Vice President,
Chief Operating Officer

DEREK BLOOM

Senior Vice President,
General Counsel and
Corporate Secretary

(PHOTO OF MANAGEMENT)

ALEXANDER VINOGRADOV

President,
Chief Executive Officer

BRIAN RICH

Senior Vice President,
Chief Financial Officer

OLEG MALIS

Senior Vice President,
Director of Mergers and Acquisitions

20 GOLDEN TELECOM INC. Annual Report 2004

FINANCIAL REVIEW

21 SELECTED FINANCIAL DATA

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23	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
45	REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
46	CONSOLIDATED BALANCE SHEETS as of December 31, 2003 and 2004
48	CONSOLIDATED STATEMENTS OF OPERATIONS for the years ended December 31, 2002, 2003 and 2004
49	CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended December 31, 2002, 2003 and 2004
50	CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY for the years ended December 31, 2002, 2003 and 2004
51	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
76	MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

21 GOLDEN TELECOM INC. Annual Report 2004 Financial Review

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial data at December 31, 2000, 2001, 2002, 2003 and 2004, and for all of the years presented are derived from consolidated financial statements of Golden Telecom, Inc. which have been audited by Ernst & Young (CIS) Limited, independent auditors.

The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included in this document.

	FOR THE YEARS ENDED		
	2000	2001	2002
	(IN THOUSANDS, EXCEPT AS NOTED)		
STATEMENT OF OPERATIONS DATA:			
Revenues	\$ 113,089	\$ 140,038	\$ 198,000
Cost of revenues (excluding depreciation and amortization)	50,954	63,685	91,000
Gross margin	62,135	76,353	107,000
Selling, general and administrative (excluding depreciation and amortization)	45,420	48,935	46,000
Depreciation and amortization	31,851	41,398	29,000
Impairment charge	--	31,291	--
Income (loss) from continuing operations	(15,136)	(45,271)	31,000
Equity in earnings (losses) of ventures	(285)	8,155	4,000
Interest income (expense), net	7,126	777	(1,000)
Foreign currency gain (loss)	(390)	(647)	(1,000)
Other non-operating expense	(148)	--	--
Minority interest	(431)	(117)	(1,000)
Provision for income taxes	990	1,902	4,000
Net income (loss) before cumulative effect of change in			

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accounting principle	(10,254)	(39,005)	28,
Cumulative effect of change in accounting principle	--	--	
Net income (loss)	(10,254)	(39,005)	29,
Income (loss) from continuing operations per share - basic	(0.63)	(1.92)	1
Net income (loss) per share before cumulative effect of change in accounting principle - basic	(0.43)	(1.65)	1
Cumulative effect of change in accounting principle	--	--	0
Net income (loss) per share - basic	(0.43)	(1.65)	1
Weighted average shares - basic	24,096	23,605	24,
Income (loss) from continuing operations per share - diluted	(0.63)	(1.92)	1
Net income (loss) per share before cumulative effect of change in accounting principle - diluted	(0.43)	(1.65)	1
Cumulative effect of change in accounting principle	--	--	0
Net income (loss) per share - diluted	(0.43)	(1.65)	1
Weighted average shares - diluted	24,096	23,605	24,
Cash dividends per common share	--	--	

22 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

	AT DECEMBER 31		
	2000	2001	2002
	-----	-----	-----
	(IN THOUSANDS)		
BALANCE SHEET DATA:			
Cash and cash equivalents	\$ 57,889	\$ 37,404	\$ 59,625
Investments available for sale	54,344	8,976	--
Property and equipment, net	82,377	98,590	166,121
Investments in and advances to ventures	49,629	45,981	721
Goodwill and intangible assets, net	70,045	57,146	127,669
Total assets	348,456	300,384	435,810
Long-term debt, including long-term capital lease obligations	15,658	10,733	29,732
Minority interest	3,337	5,967	2,187
Shareholders' equity	287,241	224,892	311,506

Refer to note 5 to the Consolidated Financial Statements for descriptions of recent acquisitions that impact the comparability of financial information. Other business combinations not disclosed in the footnotes were as follows:

In February 2000, Golden Telecom (Ukraine), acquired 99% of Sovam Teleport Ukraine, including a 51% interest previously held by third parties. Sovam Teleport Ukraine is a provider of data and Internet services to Ukraine-based business. In March 2000, the Company acquired the assets of Referat.ru and Absolute Games, two leading vertical Internet portals in the education and computer gaming categories of the Russian Internet. In April 2000, the Company acquired the assets of Fintek, a prominent Moscow-based Web design studio and 51% of Commercial Information Networks, the largest Internet service provider in Nizhny Novgorod. In September 2000, SFMT-Rusnet, Inc., a wholly-owned subsidiary, acquired 25% of SA Telcom LLP, a telecommunications and data services provider in Kazakhstan, bringing its ownership interest in this company up to 100%. The combined purchase price was less than \$3.0 million in cash.

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In October 2000, the Company acquired the assets of IT INFOART STARS, a leading horizontal Russian and English language Internet portal, for approximately \$8.3 million in cash. In December 2000, the Company acquired Agama Limited ("Agama") that owns the Agama family of web properties for approximately \$13.1 million in cash and the issuance of 399,872 shares of the Company's common stock valued at \$3.8 million.

In December 2000, the Company acquired an approximately 24% ownership interest in MCT Corp. in exchange for the Company's 100% ownership of Vostok Mobile B.V., a Netherlands registered private limited holding company that owned the Company's Russian mobile operations.

Refer to note 4 to the Consolidated Financial Statements for a description of the change in method of accounting for goodwill in 2002.

In the third quarter of 2004, management determined that the Company has been inadvertently carrying accruals for estimated taxes, other than income taxes. Management concluded these accruals for estimated taxes should have been considered unnecessary and reversed prior to January 1, 2000. The net effect of the correction of this non-cash error was to reduce current liabilities and non-current liabilities by \$2.0 million each with an offsetting decrease to accumulated deficit of \$4.0 million in all periods presented. This adjustment had no effect on the reported results of operations in any of the periods presented.

23 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

ITEM 7. 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 for each of the years ended December 31, 2004, 2003, and 2002. This discussion should be read in conjunction with the "Selected Financial Data" and the Company's Consolidated Financial Statements and the notes related thereto appearing elsewhere in this Report.

OVERVIEW

We are a leading facilities-based provider of integrated telecommunication and Internet services in major population centers throughout Russia and other countries of the Commonwealth of Independent States ("CIS"). We offer voice, data and Internet services to corporations, operators and consumers using our metropolitan overlay network in major cities including Moscow, Kiev, St. Petersburg, Nizhny Novgorod, Samara, Kaliningrad, Krasnoyarsk, Almaty, and Tashkent, and via intercity fiber optic and satellite-based networks, including approximately 220 combined access points in Russia and other countries of the CIS. In addition, we offer mobile services in Kiev and Odessa.

We organize our operations into four business segments, as follows:

- o BUSINESS AND CORPORATE SERVICES ("BCS"). 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

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than telecommunications operators;

- o 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;
- o 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, Kazakhstan, and Uzbekistan; and
- o 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, wherever possible, to offer all of our integrated telecommunication services under the Golden Telecom brand, although, some services still carry local brands because of recent acquisitions. Our dial-up Internet services are distributed under the ROL brand in Russia, Kazakhstan and Uzbekistan 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 13 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.

Traditionally, we have 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 dollar ("USD") - ruble exchange rate, so when the ruble devalues, their prices effectively become lower in relation to our prices. The ruble exchange rate with the USD has become relatively stable since early 2000 and appreciated in 2003 and 2004 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.

RECENT ACQUISITIONS

In August 2003, we completed the acquisition of 100% ownership interest in OOO Sibchallenge ("Sibchallenge"), a telecommunications service provider in Krasnoyarsk, Russia, for cash consideration of approximately \$15.4 million. The acquisition

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24 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

of Sibchallenge establishes our presence in the Krasnoyarsk region. In addition, Sibchallenge has numbering capacity and interconnect agreements.

In December 2003, we completed the acquisition of 100% of the shares in OAO Comincom ("Comincom"), and its wholly-owned subsidiary, OAO Combella ("Combella") 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 provided telecommunications services, principally to major hotels, business offices, embassies and mobile communication companies through its telecommunications network in Russia. As of December 1, 2004, all assets, liabilities, rights and obligations of Comincom and Combella were transferred to Sovintel as part of the legal merger of these three wholly-owned subsidiaries.

In February 2004, we completed the acquisition of 100% ownership interest in 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. In April 2004, we completed the acquisition of 100% of the common stock in OAO Balticom Mobile ("Balticom") that owns 62% of ZAO WestBalt Telecom, an alternative telecommunications operator in Kaliningrad, Russia. In April 2004, we completed the acquisition of the remaining 49% ownership interest in OOO Uralrelcom that we did not already own. In May 2004, we completed the acquisition of a 54% ownership interest in SP Buzton ("Buzton"), an alternative telecommunications operator in Uzbekistan. These companies were acquired for approximately \$16.0 million in cash, with \$1.1 million held in escrow for a period of one year related to Balticom and \$0.5 million payable for Buzton upon satisfactory achievement of certain conditions.

In August 2004, we entered into a share purchase agreement with Nodama Holdings, Ltd. ("Nodama"), to acquire 100% of the common stock in Hudson Telecom, Inc., a Delaware corporation, which owns 100% ownership interest in OOO Digital Telephone Networks and OOO Digital Telephone Switches, which together comprise one of the largest regional alternative operators in Russia. Their operations are in Rostov-on-Don and the surrounding region. Upon closure, Nodama will receive \$45.0 million in cash of which \$5.0 million will be placed in escrow for a period of one year subject to the achievement of certain financial conditions. Amounts in the escrow may be used to compensate us in the event of the realization of certain contingent liabilities in the acquired entities. While we expected to consummate this transaction in 2004, it has taken the seller additional time to conclude this transaction. The consummation of the transaction is conditioned upon, among other things, the completion of satisfactory due diligence and the seller's fulfillment of certain conditions precedent. The transaction is expected to close in the first half of 2005.

OTHER DEVELOPMENTS

On January 1, 2004, a new law "On Telecommunications" (the "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. The New Law was designed to create a new interconnect pricing regime in 2004 that should be more transparent and unified, if fairly implemented. However, as of December 31, 2004, this pricing regime has not been implemented. The New Law also creates a universal service charge calculated as a percentage of revenue which is not expected to exceed 3% of certain revenues of a telecommunications company. It is expected that the first

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payments of the universal service charge will be made in 2005. The New Law may increase the regulation of our operations, as it is intended to regulate licenses for long distance, international long distance and Voice over Internet Protocol ("VoIP"). 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.

In March of 2005, we submitted an application for an intercity and international license in Russia. This license would allow us to handle long-distance voice traffic for our customers and other licensed operators, including mobile operators. This license is an integral component to our strategy of becoming the number one nationwide operator in Russia. This intercity and international license regime is an important component to Russia's liberalization plans for telecommunications. In anticipation of approval in 2005, we are planning the implementation of essential infrastructure including a number of long-distance switches.

Recognizing that many of the markets in which we operate 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. We have been cooperating with local partners in Ukraine to resolve commercial and regulatory disputes with monopoly

25 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

operators and regulatory authorities in Ukraine but had not previously finalized the compensation arrangement for the services. In addition to or in lieu of cash compensation, the Board of Directors approved the sale of a non-controlling interest in Golden Telecom (Ukraine) ("GTU") to such parties.

Upon approval of our Board of Directors, in August 2004 we entered into a compensation arrangement for services provided to assist us in resolving commercial and regulatory disputes with monopoly operators and regulatory authorities in Ukraine. Our local partners have provided services on a success fee basis. Our Board of Directors approved an arrangement that effectively transferred 20% of the shares in GTU owned by us to the local partners as compensation for the services already provided and certain additional services to be provided. Under this arrangement, we paid the local partners \$0.5 million in cash and granted the local partner an option to purchase 20% of GTU for \$0.5 million in cash, in a transaction where the cash and the value of the services were approximately \$3.6 million. This transaction closed in the third quarter of 2004, when the performance was completed and the option was exercised and resulted in a charge to operating income of approximately \$3.6 million. The excess of the fair value of consideration exchanged for services over the book value of 20% of net assets of GTU was recorded as a credit to the consolidated equity, rather than income since we did not believe that the method of determining fair value met the objectively determinable criteria as required by Staff Accounting Bulletin Topic 5H. Fair value of the option approximated the fair value of shares transferred to the local partner due to the short exercise period of the option and was determined using the discounted cash flow valuation method. We continue to believe that Ukraine offers promising investment opportunities but that there are still political and commercial risks associated with operating in Ukraine.

In July 2004, our Board of Directors adopted a Long-Term Incentive Bonus

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Plan ("LTIBP") for our senior management, effective as of January 1, 2004. The LTIBP is designed to reward senior management with annual bonus awards consisting of 100% restricted shares for our officers and 50% restricted shares and 50% cash payments for other qualified employees participating in LTIBP if we meet certain targets for net income growth established by the Board of Directors. In addition, the program provides for a one-time grant of a limited amount of shares to senior management in an aggregate amount not exceeding 50,000 shares. The LTIBP is intended to act as a retention mechanism for senior management as the cash payments and the restricted stock vest over a three year period. It is expected that the LTIBP will act as a substitute for our Equity Participation Plan under which significant amounts of stock options were, in the past, granted to senior management. During the twelve months ended December 31, 2004 we did not record any expenses associated with the LTIBP as we did not achieve the operational and financial targets for 2004. We currently anticipate repurchasing from time to time in the open market, a number of our shares equal to the number of our shares that are subject to awards under the LTIBP. We have not granted any shares under the LTIBP.

In the third quarter of 2004, management determined that we had been inadvertently carrying accruals for estimated taxes, other than income taxes. Management concluded these accruals for estimated taxes should have been considered unnecessary and reversed prior to January 1, 2000. The net effect of the correction of this non-cash error was to reduce current liabilities and non-current liabilities by \$2.0 million each with an offsetting decrease to accumulated deficit of \$4.0 million in all periods presented. This adjustment had no effect on the reported results of operations in any of the periods presented.

In February 2005, we received notice from Vimpelcom, our largest customer, that it is diverting a volume of traffic away from us pursuant to the telephone traffic routing provisions of the New Law and the General Scheme for operation of the Russian GSM Network promulgated by the Russian Ministry of Communications. At this point, we are in discussions with Vimpelcom and regulatory agencies and cannot accurately predict what will be the impact of this new issue on our operations going forward. Since January 1, 2005, we have lost approximately \$0.2 million in revenue due to Vimpelcom's action.

HIGHLIGHTS AND OUTLOOK

Since early 2000 we have witnessed a recovery in the Russian market, but downward pricing pressures persist from increased competition and the global trend toward lower telecommunications tariffs. In 2003 and 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 2004, although the major factor of revenue increases in 2004 was the acquisition of Comincom. 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. Although our revenue growth is strong, our overall margins continue to be impacted by price increases for services received from monopolistic incumbent operations.

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 continue 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.

We continue to follow our strategy of regional expansion. The project for the construction of the inter-city fiber optic link which we launched in the middle of 2004 will be continued into the second half of 2005. At present, we

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are constructing an inter-city fiber optic link from Moscow to Ufa through Nizhny Novgorod and Kazan. Subject to weather conditions, we expect that this inter-city fiber optic link will be operational in the second half of 2005. To date, this inter-city fiber optic link has been completed from Moscow to Noginsk. We intend to connect our operations in the European part of Russia to this backbone network and plan to invest a total of approximately \$40.0 million to \$50.0 million in this and related backbone projects through 2007.

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.

26 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

A significant portion of our carrier revenue is generated from the Ukrainian cellular operators' large volumes of international and long distance traffic. Price and quality of services are the primary factors in their purchase decision. In 2004, several Ukrainian cellular operators, including UMC and Kyivstar, received international communications license. Nevertheless, Ukrainian Mobile Communications ("UMC"), one of our largest customers, continued sending a large volume of outgoing international traffic through our network. Also, cellular operators have an increasing demand for some value added services like our "800" 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.

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 2005. During the twelve months ended December 31, 2004, we incurred consulting and employee termination costs associated with the operational integration of Comincom into our operations which has been recorded in selling, general and administrative expense. In addition, we have incurred costs associated with, among other things, Sarbanes-Oxley compliance and other consulting and recruiting expenses.

The rapid growth of the telecommunications market in Russia, Ukraine, and the CIS is fueled by macroeconomic growth and the inflow of direct foreign investment. We anticipate that the economic growth in these markets will create additional demand for telecommunications services. Additionally, in line with worldwide trends, we are starting to observe new customer demands for more sophisticated telecommunications and Internet services as well as other new technologies. We are responding to these customer demands by testing and implementing new technologies such as VoIP, wireless local loop and high-speed consumer Internet. Such new technologies will remove some of the barriers to access that some of our customers currently face. For example, with wireless local loop, we can connect remote customers to our network by by-passing the incumbents' wire network in order to provide higher quality access. Our customers are willing to pay a premium for this type of technology and customer service.

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With respect to 2005, we continue to see growth opportunities organically, through select acquisitions, and through the development of new lines. While our research indicates the telecommunications sector growth in business segments in the Moscow and St. Petersburg markets of fixed telecommunications services will continue to grow, we believe that the bulk of our growth will come from the key regions of Rostov-On-Don, Nizhny Novgorod, Samara, Ufa, Krasnoyarsk, Vladivostok, Khabarovsk, and Ekaterinburg.

We will continue to align the strategy of each of our business segments with market forces in the countries where we operate. In BCS, our strategy is to focus on and grow our market-share through attractive service offerings supported by excellent customer care. We are focused on expanding into the regions as well as the fast growing small and medium-sized enterprise or ("SME") and the small office / home office or ("SOHO") markets. In these cases where the potential SME and SOHO customer is not on our network, our ability to fully benefit from growth in these market segments largely depends on the regulatory situation and our ability to get access to the copper and other infrastructure of the incumbent operators under reasonable terms and conditions. In Carrier and Operator Services our strategy for future years will focus on partnering with more mobile operators in the regions. We aim to provide mobile operators with the right solutions for their needs and thereby benefit from the mobile operator expansion and growth. Our 2004 growth in Consumer and Internet Services indicates that our dial-up business continues to be very strong. However, we also recognize that new technologies are making their way into Russia, Ukraine, and CIS. Thus, we continue to "beta" test new technologies that will benefit consumers and allow us to strengthen our market position as well as to up-sell to our existing dial-up customer base. A recent example of this is our implementation of WiMax and Wi-Fi in selected areas of Russia. Also, with low penetration of dial-up services throughout the regions, we continue to see potential in this market.

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 \$2.2 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 2004, 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

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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 foreign subsidiary. We have determined in accordance with the functional currency criteria of SFAS No. 52, "Foreign Currency Translation", that the USD should be considered the functional currency of all foreign 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.

28 GOLDEN TELECOM INC. Annual Report 2004 Financial Review

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

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liabilities assumed based on their fair values. Our estimates of the fair value of the identified intangible assets of businesses acquired are based on our expectations of future results of operations of such businesses.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN No. 46"). 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 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. We did not identify any previously formed SPEs that are VIEs. Therefore the adoption of FIN No. 46R did not have an impact on the financial position or results of operations.

In December 2004, the FASB issued Statement on Financial Accounting Standard ("SFAS") No. 123R (revised 2004), "Share Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" SFAS No. 123R supersedes APB No. 25, "Accounting for Stock Issued to Employees and amends SFAS No. 95, "Statement of Cash Flows". Under SFAS No. 123R, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the income statement; pro forma disclosure is no longer permitted. The cost of the equity instruments is to be measured based on fair value of the instruments on the date they are granted (with certain exceptions) and is required to be recognized over the period during which the employees are required to provide services in exchange for the equity instruments. SFAS No. 123R is effective in the first interim or annual reporting period beginning after June 15, 2005.

SFAS No. 123R provides two alternatives for adoption: (1) a "modified prospective" method in which compensation cost is recognized for all awards granted subsequent to the effective date of this statement as well as for the unvested portion of awards outstanding as of the effective date and (2) an "modified retrospective" method which follows the approach in the "modified prospective" method, but also permits entities to restate prior periods to reflect compensation cost calculated under SFAS No. 123 for pro forma amounts disclosure. We plan to adopt SFAS No. 123R using the modified prospective method. As we currently account for share based payments to employees in accordance with the intrinsic value method permitted under ABP No. 25, no compensation expense is recognized. The impact of adopting SFAS No. 123R cannot be accurately estimated at this time, as it will depend on the amount of share based awards granted in future periods. However, had we adopted SFAS No. 123R in a prior period, the impact would approximate the impact of SFAS No. 123 as described in the disclosure of pro forma net income and earnings per share. SFAS No. 123R also requires that tax benefits received in excess of compensation cost be reclassified from an operating cash flow to a financing cash flow in the Consolidated Statement of Cash Flows. This change in classification will reduce net operating cash flows and increase net financing cash flows in the periods after adoption.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary

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Assets". SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB No. 29"), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial

29 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This provisions of SFAS No. 153 are effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date SFAS No. 153 was issued. The adoption of the provisions of SFAS No. 153 is not expected to have a material impact on our results of operations or financial position.

RESULTS OF OPERATIONS

The results of our four business segments 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 note 14 "Segment Information - Line of Business Data" to our consolidated financial statements. In addition, revenue and costs from related parties are shown in note 13 "Related Party Transactions".

In accordance with SFAS No. 52, we have determined that the functional currency of each foreign subsidiary is the USD, as the majority of our cash flows are indexed to, or denominated in USD. Through December 31, 2002, Russia had been considered to be a highly inflationary environment. From January 1, 2003, Russia ceased to be considered as a highly inflationary economy. As we believe that the functional currency of each foreign subsidiary is the USD, 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 16% in 2002, 14% in 2003 and 12% in 2004. The Russian government expects inflation to be approximately 11% in 2005. 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.

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THE DISCUSSION OF OUR RESULTS OF OPERATIONS IS ORGANIZED AS FOLLOWS:

- o Consolidated Results. Consolidated Results of Operations for the Year Ended December 31, 2004 compared to the Consolidated Results of Operations for the Year Ended December 31, 2003
- o Consolidated Financial Position. Consolidated Financial Position at December 31, 2004 compared to Consolidated Financial Position at December 31, 2003
- o Consolidated Results. Consolidated Results of Operations for the Year Ended December 31, 2003 compared to the Consolidated Results of Operations for the Year Ended December 31, 2002
- o Consolidated Financial Position. Consolidated Financial Position at December 31, 2003 compared to Consolidated Financial Position at December 31, 2002

CONSOLIDATED RESULTS - CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2004 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2003

REVENUE

Our revenue increased by 62% to \$584.0 million for the year ended December 31, 2004 from \$360.5 million for the year ended December 31, 2003. The overall increase in revenue was due primarily to the consolidation of 100% of Comincom's results of operations for a full year and, with respect to our existing business, an increase in customer base and services provided to existing customers, partially offset by lower prices for certain services. The breakdown of revenue by business group was as follows:

30 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

	CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2003		CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2004

(IN MILLIONS)			
REVENUE			
Business and Corporate Services	\$ 188.9	\$	324.8
Carrier and Operator Services	128.5		198.9
Consumer Internet Services	30.8		45.5
Mobile Services	13.9		15.8
Eliminations	(1.6)		(1.0)
	-----		-----
TOTAL REVENUE	\$ 360.5	\$	584.0

Business and Corporate Services. Revenue from BCS increased by 72% to \$324.8 million for the year ended December 31, 2004 from \$188.9 million for the year ended December 31, 2003. The primary reason for the increase is due to the acquisition of 100% ownership interest in Comincom in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. Comincom's revenue from BCS was \$90.7 million for the year

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ended December 31, 2004. BCS revenue increased by approximately \$8.3 million due to the 2004 acquisitions of ST-HOLDING, Balticom, and Buzton. We began consolidating these three companies into our results at various points during the first half of 2004. Additionally, \$3.5 million of the total increase is due to 2004 being the first full year that we consolidated the results of Sibchallenge, an August 2003 acquisition. The remainder of the increase was the result of expanding our pre-existing business. In addition to the above factors, in our largest market, Moscow, we had increases in our domestic traffic revenues due to adding approximately 9,100 new corporate customers and signing up 99 new multi-tenant business centers and 10 new trade centers in the year ended December 31, 2004 along with actively promoting new services among our client base. BCS Moscow recognized approximately \$23.7 million in revenue from new contracts in 2004 and grew the number of its Direct Inward Dialing lines from 102,037 as of December 31, 2003 to approximately 116,668 as of December 31, 2004.

Revenue from the BCS division of GTU increased by 52% to \$28.8 million for the year ended December 31, 2004 from \$19.0 million for the year ended December 31, 2003. The increase in revenue was due to a 63% increase in the number of serviced voice lines and a 28% increase in average rate per minute of use. The latter was caused by the calling party pays ("CPP") principle of settlement rates introduced by the Ukrainian Parliament in late 2003, which has increased revenue and settlement rates to Ukrainian mobile networks.

Carrier and Operator Services. Revenue from Carrier and Operator Services increased by 55% to \$198.9 million for the year ended December 31, 2004 from \$128.5 million for the year ended December 31, 2003. The primary reason for the increase is due to the acquisition of 100% ownership interest in Comincom in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. Comincom's revenue from Carrier and Operator Services was \$21.6 million for the year ended December 31, 2004. Also, revenue increased by approximately \$2.5 million due to the 2004 acquisitions of ST-HOLDING, Balticom, and Buzton. We began consolidating these three companies into our results at various points during the first half of 2004. Additionally, \$4.7 million of the total increase is due to 2004 being the first full year that we consolidated the results of Sibchallenge, an August 2003 acquisition. We have expanded our operations with existing partners and added a number of new carriers specifically in the regions with increased volumes of traffic, including VoIP. In addition, we continue to expand our business with major cellular providers both in the capital and in the regions, which helped offset general tariff declines, although pricing pressures still exist.

Revenue for the Carrier and Operator Services division of GTU increased by 71% to \$19.8 million for the year ended December 31, 2004 from \$11.6 million for the year ended December 31, 2003. The increase in revenue was due to a 91% increase in incoming international traffic which we are able to terminate in a number of cities in Ukraine, offset by a 34% decrease in outgoing international traffic.

Consumer Internet Services. Revenue from Consumer Internet Services increased by 48% to \$45.5 million for the year ended December 31, 2004 from \$30.8 million for the year ended December 31, 2003. The increase is largely the result of increases in the number of dial-up Internet subscribers from 363,545 at December 31, 2003 to 413,351 at December 31, 2004 and the average revenue per Internet subscriber increasing from approximately \$8.39 per month to approximately \$9.03 per month over the same period.

Mobile Services. Revenue from Mobile Services increased by 14% to \$15.8 million for the year ended December 31, 2004 from \$13.9 million for the year ended December 31, 2003. Active subscribers increased from 40,026 at December 31, 2003 to 57,490 at December 31, 2004 due to an increase in the number of prepaid subscribers driven by the overall Ukrainian mobile market growth. The

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average revenue per active subscriber has decreased by 11% to approximately \$27.23 per month due to the decrease in the subscription fee for the tariff plan which allows for unlimited local calls for a fixed payment as well as decrease in the number of the subscribers using the said tariff plan and due to an increase in the share of prepaid subscribers with lower activity and no fixed charge.

31 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

EXPENSES

The following table shows our principal expenses for the years ended December 31, 2003 and December 31, 2004:

	CONSOLIDATED EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2003		CONSOLIDATED EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2004
(IN MILLIONS)			
COST OF REVENUE			
Business and Corporate Services	\$ 84.8	\$	141.2
Carrier and Operator Services	74.9		127.5
Consumer Internet Services	20.2		26.9
Mobile Services	2.8		6.0
Eliminations	(1.6)		(1.0)
	181.1		300.6
TOTAL COST OF REVENUE	181.1		300.6
Selling, general and administrative	64.4		112.9
Depreciation and amortization	45.3		75.0
Equity in earnings of ventures	(4.7)		(0.3)
Interest income	(1.1)		(1.1)
Interest expense	2.0		0.6
Foreign currency (gain)/ loss	0.2		(0.7)
Provision for income taxes	\$ 17.4	\$	30.7

Cost of Revenue

Our cost of revenue increased by 66% to \$300.6 million for the year ended December 31, 2004 from \$181.1 million for the year ended December 31, 2003.

Business and Corporate Services. Cost of revenue from BCS increased by 67% to \$141.2 million, or 43% of revenue, for the year ended December 31, 2004 from \$84.8 million, or 45% of revenue, for the year ended December 31, 2003. The primary reason for the increase in cost of revenue and the decrease in cost of revenue as a percentage of revenue was due to the acquisition of 100% ownership interest in Comincom in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. Comincom's cost of revenue from BCS was \$36.0 million for the year ended December 31, 2004, or 40% of its revenue. BCS cost of revenue increased by approximately \$3.2 million due to the 2004 acquisitions of ST-HOLDING, Balticom, and Buzton. We began consolidating these three companies into our results at various points during the first half of 2004. Additionally, \$1.1 million of the total increase is due

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to 2004 being the first full year that we consolidated the results of Sibchallenge, an August 2003 acquisition. Cost of revenue as a percentage of revenue decreased as we leveraged the fixed cost portion of our operations over increased volumes.

Cost of revenue for the BCS division of GTU increased by 60% to \$14.6 million, or 51% of revenue, for the year ended December 31, 2004 from \$9.1 million, or 48% of revenue, for the year ended December 31, 2003. Cost of revenue increased as a percentage of revenue due to the increased volume of lower margin traffic to mobile networks.

Carrier and Operator Services. Cost of revenue from Carrier and Operator Services increased by 70% to \$127.5 million, or 64% of revenue, for the year ended December 31, 2004 from \$74.9 million, or 58% of revenue, for the year ended December 31, 2003. The primary reason for the increase in cost of revenue was due to the acquisition of 100% ownership interest in Comincom in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. Comincom's cost of revenue from Carrier and Operator Services was \$12.4 million, or 57% of its revenue, for the year ended December 31, 2004. Also, cost of revenue increased by approximately \$0.2 million due to the 2004 acquisition of ST-HOLDING, Balticom, and Buzton. The increase in cost of sales resulting from these acquisitions was minimal since the vast majority of their cost of revenue is incurred with other majority-owned subsidiaries and is, therefore, eliminated in consolidation. We began consolidating these three companies into our results at various points during the first half of 2004. Additionally, \$1.2 million of the total increase is due to 2004 being the first full year that we consolidated the results of Sibchallenge, an August 2003 acquisition. The increase in cost of revenue as a percentage of revenue resulted from settlements to other operators not decreasing in line with the pricing concessions to our customers partially offset by operational improvements in terms of efficient use of available network resources. In addition, the cost of revenue as a percentage of revenue increased due to higher volumes of lower margin VoIP sales.

Cost of revenue for the Carrier and Operator Services division of GTU increased by 98% to \$16.0 million, or 81% of revenue, for the year ended December 31, 2004 from \$8.1 million, or 70% of revenue, for the year ended December 31, 2003. Cost of revenue increased as a percentage of revenue due to a 91% increase in lower margin international incoming traffic and a 34% decrease in higher margin international outgoing traffic.

Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 33% to \$26.9 million, or 59% of revenue, for the year ended December 31, 2004 from \$20.2 million, or 66% of revenue, for the year ended December 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 \$6.0 million, or 38% of revenue, for the year ended December 31, 2004 from \$2.8 million, or 20% of revenue, for the year ended December 31, 2003. The cost of revenue as a percentage of revenue increased 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.

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Selling, General and Administrative

Our selling, general and administrative expenses increased by 75% to \$112.9 million, or 19% of revenue, for the year ended December 31, 2004 from \$64.4 million, or 18% of revenue, for the year ended December 31, 2003. The primary reason for the increase was acquisitions occurring in late 2003 and in 2004. Other factors contributing to the increase were reserves and write-offs of unrecoverable value-added taxes in certain subsidiaries, increased bad debt expense, expenses associated with the December 1, 2004 legal merger and integration of Comincom and Combellga including expense charges related to payroll and assets taxes directly related to the legal merger, increase in cost related to increases in temporary staffing, cost associated with new senior management recruitment and employment, and additional expenses associated with Sarbanes-Oxley compliance. In addition, in the third quarter of 2004, we incurred \$3.6 million in consulting fees in association with the transfer of 20% of our ownership interest in GTU to a Ukrainian partner in exchange for services provided by the partner.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 66% to \$75.0 million for the year ended December 31, 2004 from \$45.3 million for the year ended December 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. As a result of consolidating Comincom, depreciation and amortization increased by \$18.9 million for the year ended December 31, 2004.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures decreased to \$0.3 million for the year ended December 31, 2004 from \$4.7 million for the year ended December 31, 2003. The decrease in equity in earnings was mainly due to receiving a \$4.7 million dividend from MCT in the fourth quarter of 2003.

Interest Income

Our interest income for the year ended December 31, 2004 remained unchanged from the \$1.1 million for the year ended December 31, 2003.

Interest Expense

Our interest expense was \$0.6 million for the year ended December 31, 2004 down from \$2.0 million for the year ended December 31, 2003. Debt, excluding capital lease obligations, at December 31, 2004 was \$0.2 million compared to \$1.2 million at December 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 (Loss)

Our foreign currency gain was \$0.7 million for the year ended December 31, 2004, compared to a foreign currency loss of \$0.2 million for the year ended December 31, 2003. The improvement in foreign currency loss 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.

Minority Interest

Our minority interest was \$1.5 million for the year ended December 31, 2004,

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compared to a \$0.5 million for the year ended December 31, 2003. The increase was the result of minority interests in the earnings of GTU, ZAO Samara Telecom, ZAO WestBalt Telecom and Buzton. Except for GTU, each of these consolidated subsidiaries was acquired during the first half of 2004. Minority interests in the earnings of GTU arose in 2004 due to the sale of a non-controlling interest to our local partners in Ukraine.

33 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

Provision for Income Taxes

Our charge for income taxes was \$30.7 million for the year ended December 31, 2004 compared to \$17.4 million for the year ended December 31, 2003. Our effective tax rate was 32% for the year ended December 31, 2004 compared to 24% for the year ended December 31, 2003 partly as a result of increases in non-deductible expenses in 2004, versus recording a deferred tax benefit related to the reduction of a deferred tax asset valuation allowance in 2003. The overall 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. In addition, there were increased levels of taxable profits being incurred in our Russian and Ukrainian subsidiaries in the year ended December 31, 2004 as compared to the year ended December 31, 2003.

Net Income and Net Income per Share

Our net income for the year ended December 31, 2004 was \$64.8 million, compared to a net income of \$55.4 million for the year ended December 31, 2003.

Our net income per share of common stock decreased to \$1.79 for the year ended December 31, 2004, compared to a net income per share of \$1.95 for the year ended December 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 36,225,531 in the year ended December 31, 2004, compared to 28,467,677 in the year ended December 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 \$1.77 for the year ended December 31, 2004, compared to a net income per common share of \$1.90 for the year ended December 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 36,552,547 the year ended December 31, 2004, compared to 29,106,540 for the year ended December 31, 2003.

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

Accounts Receivable

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

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Property and Equipment

Our property and equipment increased at December 31, 2004 as compared to December 31, 2003 mainly as a result of continuing capital expenditures.

Intangible Assets

Our intangible assets increased at December 31, 2004 as compared to December 31, 2003 as a result of our acquisition of ST-HOLDING in February 2004, our acquisition of Balticom Mobile in April 2004, Buzton in May 2004 and the build out of new numbering capacity.

Minority Interest

Our minority interest increased at December 31, 2004 as compared to December 31, 2003 as a result of minority interests in the equity of GTU, ZAO Samara Telecom, ZAO WestBalt Telecom and Buzton. Except for GTU, each of these consolidated subsidiaries was acquired during the first half of 2004. Minority interests of GTU arose in 2004 due to the sale of a non-controlling interest to our local partners in Ukraine.

Stockholders' Equity

Shareholders' equity increased from December 31, 2003 to December 31, 2004 as a result of our net income of \$64.8 million, cash proceeds of approximately \$4.9 million received from the exercise of employee stock options, partially offset by declaring and paying \$29.0 million dividends for the year ended December 31, 2004.

In addition, we transferred 20% of the ownership interest in GTU to a Ukrainian partner in exchange for services provided by the partner in August 2004. The excess of the fair value of consideration exchanged for services over the book value of 20% of net assets of GTU was recorded as a credit to the consolidated equity.

In the third quarter of 2004, management determined that we have been inadvertently carrying accruals for estimated taxes, other than income taxes. Management concluded these accruals for estimated taxes should have been considered unnecessary and reversed

34 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

prior to January 1, 2000. The net effect of the correction of this non-cash error was to reduce current liabilities and non-current liabilities by \$2.0 million each with an offsetting decrease to accumulated deficit of \$4.0 million in all periods presented.

CONSOLIDATED RESULTS - CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2003 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002

REVENUE

Our revenue increased by 81% to \$360.5 million for the year ended December 31, 2003 from \$198.7 million for the year ended December 31, 2002. The overall increase in revenue was largely due to the consolidation of Sovintel's results of operations for a full year. The breakdown of revenue by business group was as

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follows:

	CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2002		CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2003
	-----		-----
	(IN MILLIONS)		
REVENUE			
Business and Corporate Services	\$ 91.7	\$	188.9
Carrier and Operator Services	73.9		128.5
Consumer Internet Services	21.8		30.8
Mobile Services	13.0		13.9
Eliminations	(1.7)		(1.6)
	-----		-----
TOTAL REVENUE	\$ 198.7	\$	360.5

Business and Corporate Services. Revenue from BCS increased by 106% to \$188.9 million for the year ended December 31, 2003 from \$91.7 million for the year ended December 31, 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 revenues due to adding approximately 1,600 new corporate customers and signing up 74 new multi-tenant business centers in the year ended December 31, 2003 along with actively promoting new services among our client base. In addition, in the fourth quarter of 2003, we had approximately \$5.0 million in customer premises equipment sales, higher than we have experienced in previous quarters.

The acquisition of 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 BCS increased by \$6.7 million for the year ended December 31, 2003.

Revenue from the BCS division of GTU increased by 15% to \$19.0 million for the year ended December 31, 2003 from \$16.5 million for the year ended December 31, 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 74% to \$128.5 million for the year ended December 31, 2003 from \$73.9 million for the year ended December 31, 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, especially 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.

The acquisition of 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 Carrier and Operator Services increased by \$2.0 million for the year ended December 31, 2003.

Revenue for the Carrier and Operator Services division of GTU increased by

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93% to \$11.6 million for the year ended December 31, 2003 from \$6.0 million for the year ended December 31, 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 41% to \$30.8 million for the year ended December 31, 2003 from \$21.8 million for the year ended December 31, 2002. The increase is largely the result of increases in the number of dial-up Internet subscribers from 242,155 at December 31, 2002 to 363,545 at December 31, 2003 and the average revenue per Internet subscriber increasing from approximately \$7.84 per month to approximately \$8.39 per month over the same period.

35 GOLDEN TELECOM INC. Annual Report 2004

Financial Review

Mobile Services. Revenue from Mobile Services increased by 7% to \$13.9 million for the year ended December 31, 2003 from \$13.0 million for the year ended December 31, 2002. Active subscribers increased from 35,386 at December 31, 2002 to 40,026 at December 31, 2003 and the average revenue per active subscriber has increased by 8% to approximately \$30.74 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. As a result of the adoption of the CPP principle by the Ukrainian Parliament on September 17, 2003, we were unable to charge our mobile customers for incoming calls and our revenues were reduced accordingly.

EXPENSES

The following table shows our principal expenses for the years ended December 31, 2002 and December 31, 2003:

	CONSOLIDATED EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2002		CONSOLIDATED EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2003	
(IN MILLIONS)				
COST OF REVENUE				
Business and Corporate Services	\$ 47.9	\$	84.8	
Carrier and Operator Services	27.4		74.9	
Consumer Internet Services	14.6		20.2	
Mobile Services	3.0		2.8	
Eliminations	(1.7)		(1.6)	
	-----		-----	
TOTAL COST OF REVENUE	91.2		181.1	
Selling, general and administrative	46.1		64.4	
Depreciation and amortization	30.0		45.3	
Equity in earnings of ventures	(4.4)		(4.7)	
Interest income	(1.6)		(1.1)	
Interest expense	2.2		2.0	
Foreign currency loss	1.2		0.2	
Provision for income taxes	\$ 4.6	\$	17.4	

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Cost of Revenue

Our cost of revenue increased by 99% to \$181.1 million for the year ended December 31, 2003 from \$91.2 million for the year ended December 31, 2002.

Business and Corporate Services. Cost of revenue from BCS increased by 77% to \$84.8 million, or 45% of revenue, for the year ended December 31, 2003 from \$47.9 million, or 52% of revenue, for the year ended December 31, 2002. The increase in cost of revenue and the decrease in cost of revenue as a percentage of revenue are mainly 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, in the fourth quarter of 2003, we had approximately \$5.0 million in customer premises equipment sales with significantly lower margins as part of a strategy to provide a wider range of communication and Internet technology products to our existing customers.

The acquisition of 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, cost of revenue from Business and Corporate Services increased by \$2.9 million for the year ended December 31, 2003.

Cost of revenue for the Business and Corporate Services division of GTU increased by 20% to \$9.1 million, or 48% of revenue, for the year ended December 31, 2003 from \$7.6 million, or 46% of revenue, for the year ended December 31, 2002.

Carrier and Operator Services. Cost of revenue from Carrier and Operator Services increased by 173% to \$74.9 million, or 58% of revenue, for the year ended December 31, 2003 from \$27.4 million, or 37% of revenue, for the year ended December 31, 2002. The increase in cost of revenue and the increase in cost of revenue as a percentage of revenue was due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. Sovintel's cost of revenue as a percentage of revenue is traditionally lower margin bilateral voice. We began consolidating Sovintel into our results of operations from September 17, 2002.

Cost of revenue for the Carrier and Operator Services division of GTU increased by 113% to \$8.1 million, or 70% of revenue, for the year ended December 31, 2003 from \$3.8 million, or 63% of revenue, for the year ended December 31, 2002. Cost of revenue increased as a percentage of revenue due to the increased volumes of lower margin international incoming and outgoing traffic.

The acquisition of 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, cost of revenue from Carrier and Operator Services increased by \$1.4 million for the year ended December 31, 2003.

Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 38% to \$20.2 million, or 66% of revenue, for the year ended

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December 31, 2003 from \$14.6 million, or 67% of revenue, for the year ended December 31, 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 7% to \$2.8 million, or 20% of revenue, for the year ended December 31, 2003 from \$3.0 million, or 23% of revenue, for the year ended December 31, 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 40% to \$64.4 million, or 18% of revenue, for the year ended December 31, 2003 from \$46.1 million, or 23% of revenue, for the year ended December 31, 2002. This increase in selling, general and administrative expenses was mainly due to increases in employee related costs, advertising, inventory obsolescence, bad debt expense, consulting costs associated with the operational integration of Comincom, and other selling, general and administrative expenses arising from the consolidation of Sovintel from September 17, 2002 and the consolidation of Comincom from December 1, 2003 into our results of operations.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 51% to \$45.3 million for the year ended December 31, 2003 from \$30.0 million for the year ended December 31, 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. In addition, depreciation and amortization increased by \$1.7 million due to the consolidation of Comincom into our results of operations from December 1, 2003.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures increased to \$4.7 million for the year ended December 31, 2003 from \$4.4 million for the year ended December 31, 2002. We recognized earnings at Sovintel of \$9.6 million for the period from January 1, 2002 to September 16, 2002, which more than offset our recognized losses in MCT of \$5.1 million. The increase in equity in earnings was mainly due to receiving a \$4.7 million dividend from MCT in the fourth quarter of 2003, an equity investment in which we have ceased recognition of losses as they exceeded our investment base, partly offset by the effects of the acquisition of the remaining 50% of Sovintel and its subsequent consolidation as of September 17, 2002 into our results of operations.

Interest Income

Our interest income was \$1.1 million for the year ended December 31, 2003 down from \$1.6 million for the year ended December 31, 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 \$2.0 million for the year ended December 31, 2003 down from \$2.2 million for the year ended December 31, 2002. Debt, excluding capital lease obligations, at December 31, 2003 was \$1.2 million compared to \$33.1 million at December 31, 2002. On June 30, 2003, we settled \$30.0 million

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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 Loss

Our foreign currency loss was \$0.2 million for the year ended December 31, 2003, compared to a foreign currency loss of \$1.2 million for the year ended December 31, 2002. The improvement in foreign currency loss 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 \$17.4 million for the year ended December 31, 2003 compared to \$4.6 million for the year ended December 31, 2002. Our effective tax rate was 24% for the year ended December 31, 2003 compared to 14% for the year ended December 31, 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 year ended December 31, 2003 as compared to the year ended December 31, 2002. In the fourth quarter of 2002, we recognized the full benefit of carry-forward tax losses of \$2.8 million at our wholly-owned Russian subsidiary, Teleross, which previously had been recognized on a quarterly basis and we recognized \$0.8 million of current deferred tax assets at GTU. In the fourth quarter of 2003, we recognized the full benefit of US carry-forward tax losses resulting in a deferred tax benefit of approximately \$1.9 million.

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 year ended December 31, 2002.

Net Income and Net Income per Share

Our net income for the year ended December 31, 2003 was \$55.4 million, compared to a net income of \$29.8 million for the year ended December 31, 2002.

Our net income per share of common stock increased to \$1.95 for the year ended December 31, 2003, compared to a net income per share of \$1.24 for the year ended December 31, 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 28,467,677 in the year ended December 31, 2003, compared to 24,101,943 in the year ended December 31, 2002. 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 increased

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to \$1.90 for the year ended December 31, 2003, compared to a net income per common share of \$1.21 for the year ended December 31, 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 29,106,540 the year ended December 31, 2003, compared to 24,516,803 for the year ended December 31, 2002.

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

On December 1, 2003, we completed the acquisition of 100% of the shares of Comincom previously held by Telenor and began consolidating the results of operations and financial position of Comincom. Significant fluctuations in certain balance sheet items as of December 31, 2003 as compared to December 31, 2002, were mainly due to the consolidation of Comincom into our financial position. The most significant fluctuations of certain balance sheet items include accounts receivable, property and equipment, goodwill and intangible assets, accounts payable and accrued expenses, deferred tax liabilities and shareholders' equity. Other significant changes in balance sheet items, excluding the effect of consolidating Comincom are discussed below.

Accounts Receivable

Accounts receivable increased from December 31, 2002 to December 31, 2003 as a result of increased revenue during the period ended December 31, 2003 and slower collections from customers.

Intangible Assets

Our intangible assets increased at December 31, 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 December 31, 2003 as compared to December 31, 2002 as a result of retiring our debt that consisted mainly of the Citibank Credit Facility of \$30.0 million.