GOLDEN TELECOM INC
Form 10-Q
May 14, 2003

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

(COMMISSION FILE NUMBER: 0-27423)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No | |

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

At May 12, 2003 there were 27,472,435 outstanding shares of common stock of the registrant.

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

PART I. FINANCIAL INFORMATION

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

GOLDEN TELECOM, INC.

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

	DECEMBER 31, 2002 (AUDITED)
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 59,625
Accounts receivable, net	46,224
Prepaid expenses	7,811
Other current assets	13,794
TOTAL CURRENT ASSETS	127,454
Property and equipment, net of accumulated depreciation of $99,541 and $107,247 at December 31, 2002 and March 31, 2003, respectively	166,121
Goodwill and intangible assets:	
Goodwill	71,703
Intangible assets, net of accumulated amortization	

of $14,418 and $17,201 at December 31, 2002 and March 31, 2003, respectively	55,965
Net goodwill and intangible assets	127,668
Restricted cash	1,515
Other non-current assets	13,052
TOTAL ASSETS	$435,810

See notes to condensed consolidated financial statements.

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GOLDEN TELECOM, INC.

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

	DECEMBER 31, 2002 (AUDITED)	MAR 2 (UNA
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 48,268	$
Debt maturing within one year	8,988	
Current capital lease obligation	1,775	
Due to affiliates and related parties	1,999	
Other current liabilities	9,950	
TOTAL CURRENT LIABILITIES	70,980	
Long-term debt, less current portion	24,111	
Long-term capital lease obligation, less current portion	5,621	
Long-term deferred tax liability	12,406	
Other non-current liabilities	13,047	
TOTAL LIABILITIES	126,165	1
Minority interest	2,187	
SHAREHOLDERS' EQUITY		
Preferred stock, $0.01 par value (10,000,000 shares authorized; none issued and outstanding at December 31, 2002 and March 31, 2003)	--	
Common stock, $0.01 par value (100,000,000 shares authorized; 27,021,415 and 27,156,720 shares issued and outstanding at December 31, 2002 and March 31, 2003, respectively)	270	
Additional paid-in capital	446,215	4
Accumulated deficit	(139,027)	(1

TOTAL SHAREHOLDERS' EQUITY	307,458	3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 435,810	$ 4

See notes to condensed consolidated financial statements.

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GOLDEN TELECOM, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
REVENUE:		
Telecommunication services	$ 34,292	$ 77,976
Revenue from affiliates and related parties	2,058	400
TOTAL REVENUE	36,350	78,376
OPERATING COSTS AND EXPENSES:		
Access and network services (excluding depreciation and amortization)	15,370	37,299
Selling, general and administrative (excluding depreciation and amortization)	9,687	13,438
Depreciation and amortization	6,003	10,405
TOTAL OPERATING COSTS AND EXPENSES	31,060	61,142
INCOME FROM OPERATIONS	5,290	17,234
OTHER INCOME (EXPENSE):		
Equity in earnings of ventures	1,710	119
Interest income	476	288
Interest expense	(537)	(686)
Foreign currency gain (loss)	(325)	190
Minority interest	(66)	(92)
TOTAL OTHER INCOME (EXPENSE)	1,258	(181)
Income before income taxes	6,548	17,053
Income taxes	1,316	4,233
Income before cumulative effect of a change in accounting principle	5,232	12,820

Cumulative effect of a change in accounting principle, net of tax effect of $0	974	--
NET INCOME	$ 6,206	$ 12,820
Basic earnings per share of common stock:		
Income before cumulative effect of a change in accounting principle	$ 0.24	$ 0.47
Cumulative effect of a change in accounting principle	0.04	--
Net income per share - basic	$ 0.28	$ 0.47
Weighted average common shares - basic	22,533	27,060
Diluted earnings per share of common stock:		
Income before cumulative effect of a change in accounting principle	$ 0.23	$ 0.47
Cumulative effect of a change in accounting principle	0.04	--
Net income per share - diluted	$ 0.27	$ 0.47
Weighted average common shares - diluted	22,727	27,380

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
OPERATING ACTIVITIES:		
Net income	$ 6,206	$ 12,820
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	4,982	8,024
Amortization	1,021	2,381
Equity in earnings of ventures	(1,710)	(119)
Foreign currency (gain) loss	325	(190)
Cumulative effect of a change in accounting principle	(974)	--
Other	131	(683)
Changes in assets and liabilities:		
Accounts receivable	(5,102)	(4,701)
Accounts payable and accrued expenses	2,841	254
Other changes in assets and liabilities	42	1,907

NET CASH PROVIDED BY OPERATING ACTIVITIES	7,762	19,693
INVESTING ACTIVITIES:		
Purchases of property and equipment and intangible assets	(4,634)	(11,789)
Cash received from escrow account	3,000	--
Restricted cash	1,400	165
Proceeds from investments available for sale	5,951	--
Purchases of investments available for sale	(2,000)	--
Other investing	(667)	659
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,050	(10,965)
FINANCING ACTIVITIES:		
Repayments of debt	(1,661)	(148)
Net proceeds from exercise of employee stock options	786	1,447
Other financing	--	(429)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(875)	870
Effect of exchange rate changes on cash and cash equivalents	(122)	71
Net increase in cash and cash equivalents	9,815	9,669
Cash and cash equivalents at beginning of period	37,404	59,625
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 47,219	$ 69,294

See notes to condensed consolidated financial statements.

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GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. FINANCIAL PRESENTATION AND DISCLOSURES

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

The financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") for interim financial reporting and United States Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with US GAAP and SEC rules and regulations have been condensed or omitted pursuant to such US GAAP and SEC rules and regulations. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the

Company's financial position, results of operations and cash flows for the interim periods. These financial statements should be read in conjunction with the Company's 2002 audited consolidated financial statements and the notes related thereto. The results of operations for the three months ended March 31, 2003 may not be indicative of the operating results for the full year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PROCEDURES

Goodwill and Intangible Assets

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

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

	AS OF DECEMBER 31, 2002 (IN THOUSA	
	COST	ACCUMULATED AMORTIZATION
Amortized intangible assets:		
Telecommunications service contracts	$48,022	$ (6,775)
Contract-based customer relationships	8,322	(811)
Licenses	3,167	(1,249)
Other intangible assets	10,872	(5,583)
Total	$70,383	$(14,418)

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

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from non-owner sources. For the three months ended March 31, 2002 and 2003, comprehensive income for the Company is equal to net income.

Stock-Based Compensation

The Company follows the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," for its Equity Participation Plan. SFAS No. 123

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

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

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

	THREE MONTHS EN	
	MARCH 31,	
	2002	2
	(IN THOUSANDS, EXCEPT PER	
Net income, as reported	$ 6,206	$
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	2,237	
Pro forma net income	$ 3,969	$
Net income per share:		
Basic - as reported	$ 0.28	$
Basic - pro forma	0.18	
Diluted - as reported	0.27	
Diluted - pro forma	0.17	

Asset Retirement Obligations

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS No. 143 is effective for years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have an impact on the Company's consolidated financial position or results of operations.

Exit or Disposal Activities

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

Financial Guarantees

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

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 defines the concept of "variable interest" and requires existing unconsolidated variable interest entities to be consolidated into the financial statement of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquires before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN No. 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after

January 31, 2003. There were no such entities created after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. The adoption of the remaining provisions of FIN No. 46 are not expected to have a material impact on the Company's results of operations or financial positions.

Use of Estimates in Preparation of Financial Statements

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

Comparative Figures

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

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GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

3. NET EARNINGS PER SHARE

Basic earnings per share at March 31, 2002 and 2003 is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share at March 31, 2002 and 2003 is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding employee stock options using the "treasury stock" method. The number of stock options excluded from the diluted earnings per share computation, because their effect was antidilutive at March 31, 2002 and 2003 was 485,330 and 433,617 stock options, respectively.

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

	THREE MONTHS ENDED MARCH 31, 2002	TH MAR
	(IN THOUSANDS, EXCE PER SHARE	
Income before cumulative effect of a change in accounting principle	$ 5,232	
Weighted average outstanding of:		
Common stock shares	22,533	
Dilutive effect of:		
Employee stock options	194	

Common stock and common stock equivalents	22,727
	=======
Earnings per share before cumulative effect of a change in accounting principle:	
Basic	$ 0.24
	=======
Diluted	$ 0.23
	=======

4. CONTINGENCIES

Tax Matters

The Company's policy is to accrue for contingencies in the accounting period in which a liability is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Commonwealth of Independent States taxes ("CIS Taxes"), the Company's final CIS Taxes may be in excess of the estimated amount expensed to date and accrued at March 31, 2003. It is the opinion of management that the ultimate resolution of the Company's liability for CIS Taxes, to the extent not previously provided for, will not have a material effect on the financial condition of the Company. However, depending on the amount and timing of an unfavorable resolution of any contingencies associated with CIS Taxes, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

Russian Environment and Current Economic Situation

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

Financial Guarantees

As of March 31, 2003, the Company has guaranteed $0.8 million of long-term debt for certain Russian registered ventures. Management estimates the fair value of these guarantees to be immaterial.

Other Matters

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

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

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

5. SEGMENT INFORMATION

LINE OF BUSINESS DATA

The Company operates in four segments within the telecommunications industry. The four segments are: (1) Competitive Local Exchange Carrier ("CLEC") Services using our local access overlay networks in Moscow, Kiev, St. Petersburg and Nizhny Novgorod; (2) Long Distance Services using our fiber optic and satellite-based network throughout the CIS; (3) Data and Internet Services using our fiber optic and satellite-based network; and (4) Mobile Services consisting of mobile networks in Kiev and Odessa, Ukraine. The following tables present financial information for both consolidated subsidiaries and equity investee ventures, segmented by the Company's lines of businesses for the periods ended March 31, 2002 and 2003. Transfers between lines of businesses are included in the adjustments to reconcile segment to consolidated results. The Company evaluates performance based on the operating income (loss) of each strategic business unit.

	CLEC	DATA & INTERNET SERVICES	LONG DISTANCE	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CO
					(IN THOUSANDS)		
THREE MONTHS ENDED MARCH 31, 2002							
Revenue	$ 40,574	$18,243	$ 4,498	$3,259	$ (1,010)	$ 65,564	

Operating income (loss) ..	12,344	3,806	(911)	579	(1,989)	13,829
Identifiable assets	192,441	99,238	28,181	9,695	96,936	426,491
Capital expenditures	6,625	2,210	1,007	49	7	9,898

	CLEC	DATA & INTERNET SERVICES	LONG DISTANCE	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CO
					(IN THOUSANDS)		
THREE MONTHS ENDED MARCH 31, 2003							
Revenue	$ 51,226	$21,020	$ 5,027	$3,158	$ (1,949)	$ 78,482	
Operating income (loss) ..	15,022	3,646	(1,096)	1,045	(1,183)	17,434	
Identifiable assets	290,769	96,232	31,846	8,710	27,983	455,540	
Capital expenditures	8,825	2,020	917	82	19	11,863	

GEOGRAPHIC DATA

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

The following table's present financial information segmented by the Company's geographic regions for the three months ended March 31, 2002 and 2003.

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES AND ELIMINATIONS
		(IN THOUSANDS)	
THREE MONTHS ENDED MARCH 31, 2002			
Revenue	$ 27,930	$ 8,230	$ 190
Long-lived assets	178,877	25,063	1,821

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES AND ELIMINATIONS
		(IN THOUSANDS)	
THREE MONTHS ENDED MARCH 31, 2003			

Revenue	$ 69,079	$ 9,220	$ 77
Long-lived assets	275,491	23,742	1,805

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

6. SIGNIFICANT EQUITY METHOD SUBSIDIARY INFORMATION

The following table presents summarized income statement information from the Company's significant equity investee, Sovintel, for the three months ended March 31, 2002. Effective September 17, 2002, the Company began consolidating the results of operations of Sovintel as a result of the acquisition of the 50% interest not controlled previously.

	THREE MONTHS ENDED MARCH 31, 2002 (IN THOUSANDS)
Revenues	$32,355
Gross Margin	14,521
Income from operations	8,232
Net income	6,001

7. SHAREHOLDERS' EQUITY

The Company's outstanding shares of common stock increased by 65,499 and 135,305 shares issued in connection with the exercise of stock options in the three months ended March 31, 2002 and 2003, respectively.

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

The following discussion and analysis relates to our financial condition and results of operations of the Company for the three months ended March 31, 2003 and March 31, 2002. This discussion should be read in conjunction with the Company's Condensed, Consolidated Financial Statements and the notes related thereto appearing elsewhere in this Report.

OVERVIEW

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

- Competitive Local Exchange Carrier ("CLEC") Services. Using our local access overlay networks in Moscow, Kiev, St. Petersburg and

Nizhny Novgorod, we provide a range of services including local exchange and access services, international and domestic long distance services, data communications, Internet access and the design of corporate networks;

- Data and Internet Services. Using our fiber optic and satellite-based networks, including 149 combined points of presence in Russia, Ukraine and other countries of the Commonwealth of Independent States, we provide data and Internet services including: (a) Business to Business services, such as data communications, dedicated Internet access, web design, web hosting, co-location and data-warehousing: and (b) Business to Consumer services, such as dial-up Internet access and web content offered through a family of Internet portals;

- Long Distance Services. Using our fiber optic and satellite-based network, we provide long distance voice services in Russia; and

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

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

Additionally, we hold a minority interest in MCT Corp. ("MCT"), which in turn has ownership interests in 18 mobile operations located throughout Russia and in Uzbekistan and Tajikistan. We treat our ownership interest in MCT as an equity method investment and are not actively involved in the day-to-day management of the operations.

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

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

Since early 2000, we have witnessed a recovery in the Russian market, but with downward pricing pressures persisting. The downward pricing pressures result from increased competition in Russia and the global trend toward lower telecommunications tariffs. In 2001 and 2002 our traffic volume increases exceeded the reduction in tariffs on certain types of voice traffic. This is a contributory factor to the increases in our revenue in 2001 and 2002. 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 we expect competition to continue to force the general level of tariffs downward, we expect to mitigate partially the effects of this pressure by seeking, where possible, further reductions in the settlement and interconnection rates that we pay to other telecommunications operators. In general, over time we expect settlement and interconnection rates to continue to decline broadly in line with tariffs.

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. As part of this strategy, we have acquired the rights to use STM-16 fiber optic capacity on a Moscow to Stockholm route, significantly reducing our unit cost per E-1 fiber optic link on this route. In September 2001, we acquired rights to use up to VC-3 fiber optic capacity on major routes within Russia to support the increase in our interregional traffic and our regional expansion strategy. We expect to continue to add additional transmission capacity, which due to its fixed cost nature can initially depress margins, but will ultimately allow us to improve or maintain our margins.

During 2001, our mobile operations in Ukraine were under strong competitive pressure and average revenue per subscriber declined. In the fourth quarter of 2001 we reassessed our plans for this business and as a result we recorded an impairment charge of $10.4 million. In line with our expectations revenues have generally continued to decline, although, at the same time, we have commenced the implementation of a cost reduction program. We currently are working towards refocusing our mobile operations as an additional service offered by business services operations to corporate clients. Further significant declines are not expected through the end of 2003.

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 ad other infrastructure requirements are unable or unwilling to perform their contracts with us.

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

On March 1, 2002 we became aware that the Kiev City Prosecutor's Office had initiated an investigation into the activities of our partners in GTU. The investigation appeared to concern alleged improprieties in the manner in which GTU routed certain traffic through the state owned monopoly carrier, Ukrtelecom. GTU received a letter dated July 17, 2002 from the General Prosecutor of Ukraine stating that effective July 9, 2002 the Prosecutor's Office withdrew all charges against GTU due to the absence of grounds on which to prosecute. On October 7, 2002, the Kiev City Prosecutor's Office notified GTU that the previous decision to close the investigation had been revoked. In subsequent discussions with the Kiev City Prosecutor's Office, the investigators advised the management of GTU that the Prosecutor's Office is reviewing internal procedural requirements with the intent to close the investigation again.

In February 2003, the Ukrainian Parliament overrode the President's veto and adopted changes to existing regulations relating to telecommunication services in Ukraine. The new regulations stipulate the cancellation of end-customer charges for incoming calls. These changes will come into force in six-months time, unless superseded by a new Law on Communications or over-ruled by a Constitutional Court decision. We expect that interconnect tariffs for calls from the PSTN to mobile networks to be lower than current tariffs that mobile operators charge customers for incoming calls. It is expected that mobile operators may be able to increase tariffs for outgoing calls and/or set higher monthly fees to compensate for the expected decrease in revenue.

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

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

We have continued to integrate our acquisitions and improve operational efficiency while at the same time controlling costs. We expect to incur further costs in connection with overall streamlining of our operations in 2003. As of April 15, 2003, all assets, liabilities, rights and obligations of TeleRoss were transferred to Sovintel as part of the legal merger of these two wholly-owned subsidiaries.

CRITICAL ACCOUNTING POLICIES

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

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

Allowance for doubtful accounts policies; the allowance estimation process requires management to make assumptions based on historical results, future expectations, the economic and competitive environment, changes in the creditworthiness of our customers, and other relevant factors. Changes in the underlying assumptions may have a significant impact on the results of our operations. In particular, we have certain amounts due to and from subsidiaries of KPNQwest who are 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 theses receivables and payables. If our assessment proves to be incorrect we may have to recognize an additional provision of up to $1.6 million, net of tax, although management believes that the possibility of such an adverse outcome is remote.

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS No. 143 is effective for years beginning after June 15, 2002. The adoption of SFAS No. 143 did not have an impact on our consolidated financial position or results of operations.

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

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

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

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

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

	THREE MONTHS ENDED MARCH 31,	
	2002	20
	(IN THOUSANDS, EXCEPT PER S	
Net income, as reported	$ 6,206	$ 1
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	2,237	
Pro forma net income	$ 3,969	$ 1
Net income per share:		
Basic - as reported	$ 0.28	$
Basic - pro forma	0.18	
Diluted - as reported	0.27	
Diluted - pro forma	0.17	

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

RESULTS OF OPERATIONS

GTI is a leading facilities-based provider of integrated telecommunications and Internet services to businesses and other high-usage customers and telecommunications operators in Moscow, Kiev, St. Petersburg, Nizhny Novgorod and other major population centers throughout Russia and other countries of the Commonwealth of Independent States. The results of our four business groups from the operations of both our consolidated entities combined with the non-consolidated entities where we are actively involved in the day-to-day management, are shown in footnote 5 "Segment Information - Line of Business Data" to our condensed, consolidated financial statements.

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

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

- Consolidated Results of Operations. Consolidated Results of Operations for the Three Months Ended March 31, 2003 compared to the Consolidated Results of Operations for the Three Months Ended March 31, 2002.

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

REVENUE

Our revenue increased by 115% to $78.4 million for the three months ended March 31, 2003 from $36.4 million for the three months ended March 31, 2002. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE FOR THE THREE MONTHS ENDED MARCH 31, 2002	CONSOLIDATED REVE FOR THE THREE MON ENDED MARCH 31, 2
	(IN MILLIONS)	
REVENUE		
CLEC Services	$10.7	$51.2
Data and Internet Services	18.2	21.0
Long Distance Services	4.3	5.0
Mobile Services	3.3	3.2
Eliminations	(0.1)	(2.0)
TOTAL REVENUE	$36.4	$78.4

CLEC Services. Revenue from CLEC Services increased by 379% to $51.2

million for the three months ended March 31, 2003 from $10.7 million for the three months ended March 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.

Revenue for the CLEC Services division of Golden Telecom BTS increased by 32% to $3.7 million for the three months ended March 31, 2003 from $2.8 million for the three months ended March 31, 2002. The increase in revenue was due to an increase in monthly recurring charges and the termination of certain incoming international traffic due to an increase in the number of cities in Ukraine licensed to perform these activities partly offset by a reduction in equipment sales.

Data and Internet Services. Revenue from Data and Internet Services increased by 15% to $21.0 million for the three months ended March 31, 2003 from $18.2 million for the three months ended March 31, 2002. The increase is largely the result of increases in Internet revenue from both dial-up subscribers and corporate dedicated Internet customers, increases in Internet traffic and other Internet related revenues partly offset by a decline in wholesale customers. Our dial-up Internet subscribers grew 45% from 191,688 at March 31, 2002 to 278,823 at March 31, 2003.

Long Distance Services. Revenue from Long Distance Services increased by 16% to $5.0 million for the three months ended March 31, 2003 from $4.3 million for the three months ended March 31, 2002. The increase is largely the result of increases in recurring fees and traffic revenues due to an increasing end-user customer base in Moscow and in many Russian regions, which more than offset tariff reductions. Also contributing to the revenue increase was an increase in equipment sales in the three months ended March 31, 2003, as compared to the three months ended March 31, 2002.

Mobile Services. Revenue from Mobile Services decreased by 3% to $3.2 million for the three months ended March 31, 2003 from $3.3 million for the three months ended March 31, 2002. Active subscribers declined approximately 7% from 38,097 at March 31, 2002 to 35,308 at March 31, 2003 and the average revenue per subscriber has increased by approximately 8% to approximately $29.79 per month.

EXPENSES

The following table shows our principal expenses for the three months ended March 31, 2003 and March 31, 2002:

	CONSOLIDATED EXPENSES FOR THE THREE MONTHS ENDED MARCH 31, 2002	CON FOR T
	(IN MILLIONS)	
COST OF REVENUE		
CLEC Services	$ 3.7	
Data and Internet Services	7.8	
Long Distance Services	3.2	
Mobile Services	0.8	
Eliminations	(0.1)	

TOTAL COST OF REVENUE	15.4
Selling, general and administrative	9.7
Depreciation and amortization	6.0
Equity in earnings of ventures	(1.7)
Interest income	(0.5)
Interest expense	0.6
Foreign currency (gain) loss	0.3
Provision for income taxes	1.3
Cumulative effect of a change in accounting principle	$(1.0)

Cost of Revenue

Our cost of revenue increased by 142% to $37.3 million for the three months ended March 31, 2003 from $15.4 million for the three months ended March 31, 2002.

CLEC Services. Cost of revenue from CLEC Services increased to $23.7 million, or 46% of revenue, for the three months ended March 31, 2003 from $3.7 million, or 35% of revenue, for the three months ended March 31, 2002. The primary 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, the CLEC Services division cost of revenue increased as a percentage of revenue resulting from increases in rates to other operators.

Cost of revenue for the CLEC Services division of Golden Telecom BTS increased by 50% to $1.8 million, or 51% of revenue, for the three months ended March 31, 2003 and was $1.2 million, or 43% of revenue, for the three months ended March 31, 2002. Cost of revenue increased as a percentage of revenue due to the increase of certain lower margin international incoming traffic.

Data and Internet Services. Cost of revenue from Data and Internet Services increased by 38% to $10.8 million, or 51% of revenue, for the three months ended March 31, 2003 from $7.8 million, or 43% of revenue, for the three months ended March 31, 2002. The increase as a percentage of revenue was mainly due to increases in operator settlements for intercity and international channels due to increases in Internet revenue, Internet traffic, other Internet related revenues and the change in mix between high margin wholesale customers and the lower margin dial-up Internet subscribers.

Long Distance Services. Cost of revenue from Long Distance Services increased by 28% to $4.1 million, or 82% of revenue, for the three months ended March 31, 2003 from $ 3.2 million or 74% of revenue, for the three months ended March 31, 2002. The increase in cost of revenue as a percentage of revenue is partly due to additional satellite transponder costs, and higher settlement costs to other operators partly offset by an increase in end-users in the long distance traffic mix.

Mobile Services. Cost of revenue from Mobile Services decreased by 13% to $0.7 million, or 22% of revenue, for the three months ended March 31, 2003 from $0.8 million, or 24% of revenue, for the three months ended March 31, 2002. The cost of revenue decreased as a percentage of revenue, mainly as a result of cost controls.

Selling, General and Administrative

Our selling, general and administrative expenses increased by 38% to $13.4

million, or 17% of revenue, for the three months ended March 31, 2003 from $9.7 million, or 27% of revenue, for the three months ended March 31, 2002. This increase in selling, general and administrative expenses was mainly due to increases in employee related costs, advertising, and other selling, general and administrative expenses arising from the consolidation of Sovintel from September 17, 2002 into our results of operations.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 73% to $10.4 million for the three months ended March 31, 2003 from $6.0 million for the three months ended March 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.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures were $0.1 million for the three months ended March 31, 2003 down from earnings of $1.7 million for the three months ended March 31, 2002. We recognized earnings at Sovintel of $2.6 million for the three months ended March 31, 2002, which more than offset our recognized losses in MCT. The decrease in equity in earnings was due to the acquisition of the remaining 50% of Sovintel and its subsequent consolidation as of September 17, 2002 into our results of operations partly offset by writing down our investment in MCT to zero in the second quarter of 2002 thereby recognizing no more losses from this equity investee.

Interest Income

Our interest income was $0.3 million for the three months ended March 31, 2003 down from $0.5 million for the three months ended March 31, 2002. The decrease in interest income mainly reflects lower interest rates earned on our cash and cash equivalents.

Interest Expense

Our interest expense was $0.7 million for the three months ended March 31, 2003 up from $0.6 million for the three months ended March 31, 2002. Interest expense mainly reflects the effect of higher average balances of debt, including capital leases offset, by lower interest rates. Debt, excluding capital lease obligations, at March 31, 2003 was $33.0 million compared to $11.5 million at March 31, 2002.

Foreign Currency Gain / Loss

Our foreign currency gain was $0.2 million for the three months ended March 31, 2003, compared to a foreign currency loss of $0.3 million for the three months ended March 31, 2002. The decrease in foreign currency loss to foreign currency gain is due to a combination of movements in exchange rates and changes in the amount of net monetary assets that we have denominated in foreign currencies.

Provision for Income Taxes

Our charge for income taxes was $4.2 million for the three months ended

March 31, 2003 compared to $1.3 million for the three months ended March 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 three months ended March 31, 2003 as compared to the three months ended March 31, 2002.

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 three months ended March 31, 2002.

Net Income and Net Income per Share

Our net income for the three months ended March 31, 2003 was $12.8 million, compared to a net income of $6.2 million for the three months ended March 31, 2002.

Our net income per share of common stock increased to $0.47 for the three months ended March 31, 2003, compared to a net income per share of $0.28 for the three months ended March 31, 2002. The increase in net income per share of common stock was due to the increase in net income and offset by an increase in the number of weighted average shares to 27,060,057 in the three months ended March 31, 2003, compared to 22,532,910 in the three months ended March 31, 2002.

Our net income per share of common stock on a fully diluted basis increased to $0.47 for the three months ended March 31, 2003, compared to a net income per common share of $0.27 for the three months ended March 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 and offset by an increase in the number of weighted average shares assuming dilution to 27,379,685 for the three months ended March 31, 2003, compared to 22,726,902 for the three months ended March 31, 2002.

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

Accounts Receivable

Accounts receivable increased from December 31, 2002 to March 31, 2003 as a result of increased revenue during the period ended March 31, 2003 and delays in timing of certain billings and cash collections as we began the integration of TeleRoss operations into Sovintel.

Debt Obligations

Our debt position remained unchanged at March 31, 2003 as compared to December 31, 2002 and consists mainly of ROL Holdings drawing upon the Citibank Credit Facility in the fourth quarter of 2002 to retire $30.0 million of the $46.0 million non-interest bearing promissory note issued to Rostelecom in connection with the acquisition of the remaining 50% ownership interest in Sovintel previously held by Rostelecom. Short-term debt at March 31, 2003 increased due to the reclassification of $7.5 million of debt under the Citibank Credit Facility from long-term debt that becomes due in March 2004.

Stockholders' Equity

Shareholders' equity increased from December 31, 2002 to March 31, 2003 as a result of our net income of $12.8 million and proceeds of approximately $1.4 million received from the exercise of stock options.

INCOME TAXES

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

LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents and investments available for sale were $69.3 million and $59.6 million as of March 31, 2003 and December 31, 2002, respectively. Our total restricted cash was $1.4 million and $1.5 million as of March 31, 2003, and December 31, 2002, respectively. The restricted cash is maintained in connection with certain of our debt obligations as described below.

During the three months ended March 31, 2003 we had net cash inflows of $19.7 million from our operating activities. During the three months ended March 31, 2002, we had net cash inflows of $7.8 million from our operating activities. This increase in net cash inflows from operating activities at March 31, 2003 is mainly due to the increase in net income, increased revenues, and the consolidation of Sovintel into our results of operations and financial position from September 17, 2002. We used cash of $11.0 million and $3.1 million for investing activities for the three months ended March 31, 2003 and 2002, respectively, which were principally attributable to building our telecommunications networks. Network investing activities totaled $11.8 million for the three months ended March 31, 2003 and included capital expenditures principally attributable to building out our telecommunications network and the purchase of additional numbering capacity. Network investing activities totaled $4.6 million for the three months ended March 31, 2002 and included capital expenditures principally attributable to building our telecommunications network. For the three months ended March 31, 2002, we recovered funds from escrow of $3.0 million in association with our acquisition of PTK in June 2001. For the three months ended March 31, 2002, we received net proceeds from investments available for sale of $4.0 million.

We had working capital of $64.3 million as of March 31, 2003 and $56.5 million as of December 31, 2002. At March 31, 2003, we had total debt, excluding capital lease obligations, of approximately $33.0 million, of which $16.5 million were current maturities. At December 31, 2002, we had total debt, excluding capital lease obligations, of approximately $33.1 million, of which $9.0 million were current maturities. Total debt included amounts that were fully collateralized by restricted cash. At March 31, 2003 and December 31, 2002 none of our short-term debt was at fixed rates.

Some of our operating companies have received debt financing through direct loans from affiliated companies. In addition, certain operating companies have borrowed funds under a back-to-back, seven-year credit facility for up to $22.7 million from a Russian subsidiary of Citibank. Under this facility, we provide full cash collateral, held in London, and recorded on our balance sheet as restricted cash, for onshore loans made by the bank to our Russian registered joint ventures. In a second, similar facility, we provide full cash collateral for a short term back-to-back, revolving, credit facility for up to $10.0 million from the same bank for two of our larger Russian operating companies. The funding level as of March 31, 2003 for all these facilities totaled $1.3 million, of which $0.5 million was funded to our consolidated subsidiaries and $0.8 million was funded to our non-consolidated entities.

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

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

other acquisition and business development initiatives. We expect to fund these requirements through our cash on hand, cash flow from operations, proceeds from additional equity and debt offerings that we may conduct, and debt financing facilities.

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

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

As of March 31, 2003, we had the following contractual obligations, including short- and long-term debt arrangements commitments for future payments under non-cancelable lease arrangements and purchase obligations:

	PAYMENTS DUE BY PERIOD (IN THOUSANDS)			
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS
Short- and long-term debt	$32,951	$16,488	$16,113	$350
Capital lease obligations	6,967	1,816	5,151	--
Non-cancelable lease obligations	3,107	1,190	1,917	--
Purchase obligations	9,363	4,433	4,443	487
Total contractual cash obligations	$52,388	$23,927	$27,624	$837

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other parts of this document, including, without limitation, those concerning (i) future acquisitions and capital expenditures (ii) projected traffic volumes, tariff levels and other growth indicators; (iii) anticipated revenues and expenses, including taxes; (iv) the Company's competitive environment; (v) the Company's potential liability for litigation; (vi) the future performance of consolidated and equity method investments; (vii) the anticipated effect of recent accounting pronouncements; and (viii) the political, regulatory and financial situation in the markets in which we operate, are forward-looking and concern the Company's projected operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. It is important to note that such statements involve risks and uncertainties and actual results may differ materially from those expressed or implied by such forward-looking statements. Among the key factors that have a direct bearing on the Company's results of operations, economic performance and financial condition are the commercial and execution risks associated with implementing the Company's business plan, the political, economic and legal environment in the markets in which the Company operates, increasing competitiveness in the telecommunications and Internet-related businesses that may limit growth opportunities, and increased and intense downward price pressures on some of the services that we offer. These and other factors are discussed herein under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report.

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

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

accompanied by, the factors discussed throughout this Report and investors, therefore, should not place undue reliance on any such forward-looking statements.

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

The Company maintains disclosure controls and procedures, which have been designed to ensure that material information related to Golden Telecom, Inc. including its consolidated and non-consolidated subsidiaries, is made known to a disclosure committee on a regular basis. In response to recent legislation and proposed regulations, the Company has reviewed the internal control structure and disclosure controls and procedures pursuant to Rule 13a-14 and 15(d)-14(c) under the Securities and Exchange Act of 1934, as amended. Although the Company believes that the pre-existing disclosure controls and procedures were adequate to enable the Company to comply with the Company's disclosure obligations, as a result of such review, the Company implemented minor changes, primarily to formalize and document certain procedures already in place. The Company also established a disclosure committee comprised of certain members of the Company's senior management.

Within 90 days prior to the filing of this report, the disclosure committee carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in causing material information to be recorded, processed, summarized, and reported by management of the Company on a timely basis and to ensure that the quality and timeliness of the Company's public disclosures complies with the SEC disclosure requirements.

Changes in Controls and Procedures

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

DESIGNATION	DESCRIPTION
99.1	Certifications Pursuant to 18 U.S.C Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K

DATE OF REPORT	SUBJECT OF REPORT
March 6, 2003	Golden Telecom, Inc. announces its fourth quarter and annual 2002 earnings.

SIGNATURES

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

GOLDEN TELECOM, INC.
(Registrant)

By: /s/ DAVID STEWART

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

By: /s/ MICHAEL D WILSON

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

Date: May 14, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Alexander Vinogradov, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Golden Telecom, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ ALEXANDER VINOGRADOV

Alexander Vinogradov
President, Chief Executive Officer and
Director

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David Stewart, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Golden Telecom, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ DAVID STEWART

David Stewart

Senior Vice President, Chief
Financial Officer and Treasurer

Exhibit Index

DESIGNATION	DESCRIPTION
99.1	Certifications Pursuant to 18 U.S.C Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002