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

Form 10-Q

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

For the quarterly period ended September 30, 2005

(Commission file number: 0-27423)

Golden Telecom, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

51-0391303
(I.R.S. Employer Identification No.)

Representative Office Golden TeleServices, Inc.
1 Kozhevni Chesky 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

At November 8, 2005, there were 36,425,990 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)

	<u>December 31, 2004</u>	<u>September 30, 2005</u>
	(audited)	(unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 53,699	\$ 85,950
Accounts receivable, net of allowance for doubtful accounts of \$23,205 and \$28,290 at December 31, 2004 and September 30, 2005, respectively	89,177	98,718
VAT receivable	19,022	19,384
Prepaid expenses and advances to suppliers	13,793	11,171
Deferred tax asset	7,863	8,827
Other current assets	<u>16,738</u>	<u>14,607</u>
TOTAL CURRENT ASSETS	200,292	238,657
Property and equipment, net of accumulated depreciation of \$185,781 and \$229,866 at December 31, 2004 and September 30, 2005, respectively	347,891	374,212
Goodwill and intangible assets:		
Goodwill	146,254	148,507
Intangible assets, net of accumulated amortization of \$41,999 and \$55,422 at December 31, 2004 and September 30, 2005, respectively	<u>101,316</u>	<u>93,743</u>
Net goodwill and intangible assets	247,570	242,250
Restricted cash	1,012	563
Other non-current assets	<u>9,003</u>	<u>9,197</u>
TOTAL ASSETS	\$ 805,768	\$ 864,879

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
 (In Thousands of US\$, Except Share Data)

	<u>December 31, 2004</u>	<u>September 30, 2005</u>
	<u>(audited)</u>	<u>(unaudited)</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 81,474	\$ 89,778
VAT payable	14,235	18,557
Current capital lease obligations	2,301	2,429
Deferred revenue	11,761	15,103
Due to affiliates and related parties	3,199	1,981
Other current liabilities	<u>3,572</u>	<u>3,174</u>
TOTAL CURRENT LIABILITIES	116,542	131,022
Long-term debt, less current portion	200	253
Long-term deferred tax liability	24,244	23,551
Long-term deferred revenue	23,124	28,928
Long-term capital lease obligations	1,538	2,812
Other non-current liabilities	<u>2,001</u>	<u>—</u>
TOTAL LIABILITIES	167,649	186,566
Minority interest	11,738	14,329
SHAREHOLDERS' EQUITY		
Preferred stock, \$0.01 par value (10,000,000 shares authorized; none issued and outstanding at December 31, 2004 and September 30, 2005)	—	—
Common stock, \$0.01 par value (100,000,000 shares authorized; 36,322,490 and 36,425,990 shares issued and outstanding at December 31, 2004 and September 30, 2005, respectively)	363	364
Additional paid-in capital	669,777	671,018
Accumulated deficit	<u>(43,759)</u>	<u>(7,398)</u>
TOTAL SHAREHOLDERS' EQUITY	626,381	663,984
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 805,768</u>	<u>\$ 864,879</u>

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands of US\$, Except Per Share Data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
REVENUE:				
Telecommunication services	\$ 152,213	\$ 168,716	\$ 423,129	\$ 488,706
Revenue from affiliates and related parties	500	1,214	1,631	3,198
TOTAL REVENUE	152,713	169,930	424,760	491,904
OPERATING COSTS AND EXPENSES:				
Access and network services (excluding depreciation and amortization)	77,953	88,345	216,447	254,533
Selling, general and administrative (excluding depreciation and amortization)	29,518	30,967	81,029	87,381
Depreciation and amortization	19,504	20,594	55,184	60,465
TOTAL OPERATING COSTS AND EXPENSES	126,975	139,906	352,660	402,379
INCOME FROM OPERATIONS	25,738	30,024	72,100	89,525
OTHER INCOME (EXPENSE):				
Equity in earnings of ventures	7	669	250	501
Interest income	241	772	781	1,672
Interest expense	(123)	(94)	(473)	(531)
Foreign currency losses	(443)	(125)	(667)	(364)
TOTAL OTHER INCOME (EXPENSE)	(318)	1,222	(109)	1,278
Income before minority interest and income taxes	25,420	31,246	71,991	90,803
Minority interest	245	837	784	2,102
Income taxes	9,064	12,014	23,536	30,512
NET INCOME	\$ 16,111	\$ 18,395	\$ 47,671	\$ 58,189
Basic earnings per share of common stock:				
Net income per share — basic	\$ 0.44	\$ 0.51	\$ 1.32	\$ 1.60
Weighted average common shares — basic	36,278	36,411	36,200	36,356
Diluted earnings per share of common stock:				
Net income per share — diluted	\$ 0.44	\$ 0.50	\$ 1.30	\$ 1.59
Weighted average common shares — diluted	36,551	36,637	36,544	36,595
Cash dividends per common share	\$ —	\$ 0.20	\$ 0.40	\$ 0.60

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of US\$)
(unaudited)

	Nine Months Ended September 30,	
	2004	2005
OPERATING ACTIVITIES		
Net income	\$ 47,671	\$ 58,189
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	41,606	47,021
Amortization	13,578	13,444
Equity in earnings of ventures	(250)	(501)
Foreign currency losses	667	364
Other	(67)	232
Changes in assets and liabilities:		
Accounts receivable	(15,535)	(8,602)
Accounts payable and accrued expenses	22,079	10,071
VAT, net	2,984	3,849
Other changes in assets and liabilities	(2,895)	4,235
NET CASH PROVIDED BY OPERATING ACTIVITIES	109,838	128,302
INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(86,062)	(70,330)
Acquisitions, net of cash acquired	(15,022)	(4,791)
Restricted cash	(5)	449
Other investing	932	2,243
NET CASH USED IN INVESTING ACTIVITIES	(100,157)	(72,429)
FINANCING ACTIVITIES		
Repayments of debt	(525)	—
Proceeds from exercise of employee stock options	4,220	1,003
Cash dividends paid	(14,478)	(21,828)
Other financing	(2,540)	(2,660)
NET CASH USED IN FINANCING ACTIVITIES	(13,323)	(23,485)
Effect of exchange rate changes on cash and cash equivalents	(249)	(137)
Net increase (decrease) in cash and cash equivalents	(3,891)	32,251
Cash and cash equivalents at beginning of period	65,180	53,699
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 61,289	\$ 85,950

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

Golden Telecom, Inc. (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 operations in Ukraine.

The financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") for interim financial reporting and United States Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with US GAAP and SEC rules and regulations have been condensed or omitted pursuant to such US GAAP and SEC rules and regulations. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods. These financial statements should be read in conjunction with the Company's 2004 audited consolidated financial statements and the notes related thereto. The results of operations for the three and nine months ended September 30, 2005, may not be indicative of the operating results for the full year.

Note 2: Summary of Significant Accounting Policies and New Accounting Pronouncements

Summary of Significant Accounting Policies

Goodwill and Intangible Assets

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

	As of December 31, 2004		As of September 30, 2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
(in thousands)				
Amortized intangible assets:				
Telecommunications service contracts	\$ 92,250	\$ (21,917)	\$ 96,164	\$ (28,949)
Contract-based customer relationships	36,849	(10,883)	36,849	(16,478)
Licenses	4,358	(2,515)	5,348	(2,997)
Other intangible assets	9,858	(6,684)	10,804	(6,998)
Total	<u>\$ 143,315</u>	<u>\$ (41,999)</u>	<u>\$ 149,165</u>	<u>\$ (55,422)</u>

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

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from non-owner sources. For the three and nine months ended September 30, 2004, and 2005, respectively, comprehensive income for the Company is equal to net income.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock-Based Compensation

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
	(in thousands, except per share data)			
Net income, as reported	\$ 16,111	\$ 18,395	\$ 47,671	\$58,189
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	454	145	1,357	475
Pro forma net income	<u>\$ 15,657</u>	<u>\$ 18,250</u>	<u>\$ 46,314</u>	<u>\$57,714</u>
Net income per share:				
Basic — as reported	\$ 0.44	\$ 0.51	\$ 1.32	\$ 1.60
Basic — pro forma	0.43	0.50	1.28	1.59
Diluted — as reported	0.44	0.50	1.30	1.59
Diluted — pro forma	0.43	0.50	1.27	1.58

Income Taxes

The Company accounts for income taxes using the liability method required by SFAS No. 109, “Accounting for Income Taxes.” For interim reporting purposes, the Company also follows the provisions of APB No. 28, “Interim Financial Reporting,” which requires the Company to account for income taxes based on the Company’s best estimate of the effective tax rate expected to be applicable for the full fiscal year on a current year-to-date basis. The rate so determined is based on the tax rates currently applicable to the Company in the United States and to the Company’s subsidiaries in Russia and other CIS countries and includes the Company’s best estimate of the annual tax effect of non-deductible expenses, primarily related to amortization of intangible assets, foreign exchange and other permanent differences as well as estimates as to the realization of certain deferred tax assets. Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis as reported in the consolidated financial statements. The Company does not provide for deferred taxes on the undistributed earnings of its foreign subsidiaries, as such earnings are generally intended to be reinvested in those operations permanently. In the case of non-consolidated entities, where our partner requests that a dividend be paid, the amounts are not expected to have a material impact on the Company’s income tax liability. It is not practical to determine the amount of unrecognized deferred tax liability for such reinvested earnings.

Use of Estimates in Preparation of Financial Statements

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

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Comparative Figures

Certain 2004 amounts have been reclassified to conform to the presentation adopted in the current year.

Recent Accounting Pronouncements

In December 2004, Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R, “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 the 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 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) a “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. The Company plans to adopt SFAS No. 123R using the modified prospective method. As the Company currently accounts for share based payments to employees in accordance with the intrinsic value method permitted under APB No. 25, no compensation expense is recognized. On March 30, 2005, the SEC released Staff Accounting Bulletin No. 107, “Share Based Payments,” (“SAB 107”), which expresses the views of the SEC staff regarding the application of SFAS No. 123R. The impact of adopting SFAS No. 123R and SAB 107 cannot be accurately estimated at this time, as it will depend on the amount of share based awards granted in future periods. However, had the Company adopted SFAS No. 123R and SAB 107 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 March 2005, the FASB issued FASB Interpretation No. 47 (“FIN No. 47”), “Accounting for Conditional Assets Retirement Obligations”. FIN No. 47 clarifies that an entity must record a liability for a “conditional” asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN No. 47 is effective no later than the end of the fiscal year ending after December 15, 2005. The Company does not expect that the adoption of FIN No. 47 will have a material effect on the financial position, results of operations, or cash flow.

In May 2005, the FASB issued SFAS No. 154, “Accounting Changes and Error Corrections”, which is a replacement of APB Opinion No. 20, “Accounting Changes” and SFAS No. 3, “Reporting Changes in Interim Financial Statements”. SFAS No. 154 applies to all voluntary changes in accounting principle and changes the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, SFAS No. 154 requires that a change in method of depreciation, amortization, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect that the adoption of SFAS No. 154 will have a material effect on the financial position, results of operations, or cash flow.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 3: Net Earnings Per Share

Basic earnings per share at September 30, 2004, and 2005 are computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share at September 30, 2004, and 2005 are computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding employee stock options using the “treasury stock” method. The number of stock options excluded from the diluted earnings per share computation, because their effect was antidilutive for the three and nine months ended September 30, 2004, and 2005, was 10,000 stock options.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
	(in thousands, except per share data)			
Net income	\$ 16,111	\$ 18,395	\$ 47,671	\$ 58,189
Weighted average outstanding of:				
Common stock shares	36,278	36,411	36,200	36,356
Dilutive effect of:				
Employee stock options	273	226	344	239
Common stock and common stock equivalents	<u>36,551</u>	<u>36,637</u>	<u>36,544</u>	<u>36,595</u>
Earnings per share:				
Basic	<u>\$ 0.44</u>	<u>\$ 0.51</u>	<u>\$ 1.32</u>	<u>\$ 1.60</u>
Diluted	<u>\$ 0.44</u>	<u>\$ 0.50</u>	<u>\$ 1.30</u>	<u>\$ 1.59</u>

Note 4: Business Combinations

In March 2005, the Company completed the acquisition of 75% ownership interest in OOO Dicom (“Dicom”), an early stage wireless broadband enterprise, for approximately \$0.5 million in cash. In conjunction with the acquisition, the Company entered into a participants’ agreement which provided the seller with a put option that, if exercised, would require the Company to purchase the seller’s remaining 25% interest at fair market value. In addition, the participants’ agreement provided the Company with a call option that, if exercised, would require the seller to sell after February 1, 2008 the seller’s 25% interest in Dicom at any time beginning after February 1, 2008, if Dicom’s valuation exceeds targeted levels by February 1, 2008. The results of Dicom have been included in the Company’s consolidated operations since March 31, 2005.

In September 2005, the Company completed the acquisition of 60% of OOO Joint Venture Sakhalin Telecom Limited (“Sakhalin Telecom”), a fixed line alternative operator in the Far East region of Russia for \$5.0 million in cash from Open Joint Stock Company Vimpel Communications. As a result of this acquisition and combined with the Company’s previous ownership in Sakhalin Telecom, the Company now owns 83% of Sakhalin Telecom. The results of Sakhalin Telecom have been included in the Company’s consolidated operations since September 30, 2005.

In March 2005, the Company expensed approximately \$1.0 million in external legal, financial and consulting fees related to an acquisition opportunity the Company decided not to pursue, including advisory fees of approximately \$0.1 million paid to an affiliate of Alfa Telecom Limited, a significant shareholder of the Company. In September 2005, the Company expensed approximately \$0.8 million in external legal, financial and consulting fees related to the acquisition of Hudson Telecom, Inc., which the Company decided not to pursue.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 5: Shareholders' Equity

Common Stock

The Company's outstanding shares of common stock increased by 331,835 shares and 76,500 shares in the nine months ended September 30, 2004, and 2005, respectively, which were issued in connection with the exercise of employee stock options.

In August 2005, the Company awarded 27,000 restricted shares of the Company's common stock, par value \$0.01, to senior management. These restricted shares gradually vest over three years.

Dividends

In February 2005, the Board of Directors of the Company declared a cash dividend of \$0.20 per common share to shareholders of record as of March 17, 2005. The Company paid the total amount payable of approximately \$7.3 million to shareholders on March 31, 2005.

In May 2005, the Board of Directors of the Company declared a cash dividend of \$0.20 per common share to shareholders of record as of June 16, 2005. The Company paid the total amount payable of approximately \$7.3 million to shareholders on June 30, 2005.

In September 2005, the Board of Directors of the Company declared a cash dividend of \$0.20 per common share to shareholders of record as of September 16, 2005. The Company paid the total amount payable of approximately \$7.3 million to shareholders on September 30, 2005.

Note 6: Commitments, Contingencies and Other Matters

Tax Matters

The Company's wholly-owned subsidiary, EDN Sovintel, is engaged in litigation with the Russian tax inspectorate in regard to a claim against OAO Comincom ("Comincom"), which merged into Sovintel on December 1, 2004, issued by the tax inspectorate on July 8, 2004. The Russian tax inspectorate claimed that Sovintel owes taxes, fines and penalties in connection with Comincom in the amounts of \$0.8 million for the years ended December 31, 2001 and 2002. Comincom filed a lawsuit against the tax inspectorate disputing the claims, and the court ruled in favor of the Company by dismissing the tax inspectorate's claim on January 21, 2005. On July 11, 2005, the third instance court decided that the case against Comincom shall be reverted to the first instance court for new consideration. The first instance court ruled in favor of the Company by dismissing the tax inspectorate's claim on October 24, 2005. The Company expects that the tax inspectorate will appeal this decision. The term for last appeal expires in December 2005. The Company does not consider an unfavorable outcome probable for this claim. Since the tax claim relates to the period before the Company acquired 100% of shares of Comincom, they are covered by the indemnification provisions of the Share Exchange Agreement between the Company and Nye Telenor East Invest ("Telenor"). Therefore, in case of an unfavorable outcome of this litigation, the Company intends to seek indemnification from Telenor.

In March 2005, the Company reversed a \$2.0 million accrued liability related to estimated taxes, including \$0.6 million related to income taxes. This accrued liability was recorded upon the acquisition of one of the Company's Russian subsidiaries. Management has concluded that the probability of this accrued liability arising in the future is remote due to the expiry of Russian regulatory statutes of limitations for any potential tax claims from the Russian tax inspectorate. The net effect of the reversal of this accrued liability was \$1.4 million reduction in selling, general and administrative expenses in the nine months ended September 30, 2005, and \$0.6 million reduction in intangible assets for the portion associated with income tax.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In the third quarter of 2005, the Company recorded a deferred tax asset valuation allowance for net operating loss carry-forwards for United States federal income tax purposes of \$1.7 million due to the reassessment of sources of future taxable income in the United States.

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 uncertainties associated with Commonwealth of Independent States taxes ("CIS Taxes"), the Company's final CIS Taxes may be in excess of the estimated amount expensed to date and accrued at September 30, 2005. It is the opinion of management that the ultimate resolution of the Company's CIS Tax liability, to the extent not previously provided for, will not have a material effect on the financial condition of the Company. However, depending on the amount and timing of an unfavorable resolution of any contingencies associated with CIS Taxes, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

Russian Environment and Current Economic Situation

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

On January 1, 2004, the new law "On Telecommunications" (the "New Law") came into effect in Russia. While some of the supporting regulations to implement the New Law have not been enacted, the Russian government approved in March 2005 new rules for interconnection ("Interconnection Rules") that will take effect on January 1, 2006. The Company believes that the Interconnection Rules will impact the Company's operations in the areas of numbering capacity, licenses for international long distance traffic, voice over Internet Protocol traffic, and interconnect pricing. In addition, the New Law creates a universal service charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators' traffic routing revenue. The Company has incurred \$1.5 million in universal service fund expense for the period of May through September 2005.

The comprehensive interpretation and implementation of the Interconnection Rules are subject to and dependent upon pending regulations yet to be released by the Russian government. These include Rules of Non-Discriminatory Access to Infrastructure and Calling Party Pays Regulations. Until these regulations are finalized, the Company cannot predict with any certainty how the New Law will affect the Company.

On May 31, 2005, the Company received a national intercity and international telephone license in Russia valid until May 31, 2012. The Company must begin providing services and fulfill certain network requirements specified in the Interconnection Rules not later than May 31, 2007. The Company is currently on schedule to rollout its federal transit network and provide long distance services in compliance with the Russian long distance license at the beginning of 2006. The effective utilization and implementation of the Russian long distance license is subject to and dependant upon the pending regulations yet to be released by the Russian government.

On September 20, 2005, the National Commission of Communication's Regulation in Ukraine issued an international license ("Ukrainian international license") to Golden Telecom Ukraine ("GTU"). The Ukrainian international license will allow GTU to provide international telecommunications services throughout all of Ukraine, allow the leasing of channels to third parties, and increase GTU's potential as an international telecommunications carrier.

Other Commitments and Contingencies

In the ordinary course of business, the Company has issued financial guarantees of debt for the benefit of certain of the Company's equity investees, which are all collateralized by cash. The Company expects that all the collateralized debt will be repaid by the equity investees.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In September 2005, the Company issued stock appreciation rights (“SARs”) to the Company’s Chief Executive Officer (“CEO”) with respect to 200,000 shares of the Company’s common stock, at a share price which was the closing price of the Company’s common stock on the NASDAQ National Market on July 19, 2005 (“Granting Share Price”), which was \$29.83, one-third of which shall be and become vested and nonforfeitable on each of the first three anniversary dates from September 1, 2005, provided the CEO remains continuously employed by the Company or one of its subsidiaries or business units until each such relevant date. If, prior to August 31, 2008 and during the CEO’s period of employment with the Company or one of its subsidiaries or business units, the average closing stock price of one share of the Company’s common stock on the NASDAQ National Market, or any such other exchange on which the Company’s common stock may then be traded, exceeds \$50.00 during any thirty day consecutive period, the CEO will be granted SARs for an additional 200,000 shares of the Company’s common stock at the Granting Share Price, which SARs shall be fully vested upon issuance. The SARs provide for a cash only settlement and the related obligation is recorded as a liability in the consolidated financial statements.

The Company has future purchase commitments of \$81.4 million as of September 30, 2005. These purchase commitments primarily include the Company’s contractual legal obligations for the future purchase of equipment, interconnect, and satellite transponder capacity.

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.

Change in Accounting Estimate

Prior to the second quarter of 2005, the Company recorded estimates for unused vacation based on the average salary levels for the Company’s employees and total days of unused vacation of employees. During the second quarter of 2005, the Company revised estimates for unused vacation based on the actual daily salary and unused vacation of each employee. Management determined that this methodology results in a more accurate estimate of the amount of the Company’s obligation for unused vacation. The change in accounting estimate decreased net income for the nine months ended September 30, 2005 by approximately \$1.3 million net of tax, including the associated payroll taxes, (equivalent to \$0.04 per common share — basic and \$0.04 per common share — diluted) for the nine months ended September 30, 2005.

Capital Lease Obligation

In August 2005, the Company entered into a lease for fiber optic capacity, including facilities and maintenance, on major routes within Ukraine. The lease has a term of five years and total payments of \$4.1 million. The lease is classified as a capital lease in the balance sheet.

Other Matters

The Company confirmed in March 2005, that its 22.8% investment in MCT Corp. (“MCT”) no longer qualifies for accounting under the equity method because the majority ownership of MCT is concentrated among a small group of shareholders who operate MCT without regard to the views of the Company and because the Company has attempted to obtain more financial information than is currently available to MCT’s other shareholders and is unable to obtain such information.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 7: Segment Information

Line Of Business Data

The Company operates in four segments within the telecommunications industry. The four segments are: (1) Business and Corporate Services; (2) Carrier and Operator Services; (3) Consumer Internet Services; and (4) Mobile Services. The following tables present financial information for both consolidated subsidiaries and equity investee ventures, segmented by the Company's lines of businesses for the three and nine months ended September 30, 2004, and 2005, respectively. Transfers between lines of businesses are included in the adjustments to reconcile segment to consolidated results. The Company evaluates performance based on the operating income (loss) of each strategic business unit, among other performance measures. In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Company has presented the following four segments consistent with the information used by the chief operating decision maker to manage the operations for purposes of making operating decisions and allocating resources.

	Business and Corporate	Carrier and Operator	Consumer Internet	Mobile Services	Corporate & Eliminations	Business Segment Total	Consolidated Results	Adjustments to Reconcile Business Segment to Consolidated Results	
								Equity Method Ventures	Affiliate Adjustments

Three Months Ended September 30, 2004

Revenue from external customers	\$ 84,491	\$ 53,152	\$ 10,878	\$ 4,173	\$ —	\$ 152,694	\$ 152,713	\$(1,175)	\$ 1,194
Intersegment revenue	—	277	—	—	(277)	—	—	—	—
Operating income (loss)	19,554	7,061	497	1,324	(2,635)	25,801	25,738	(63)	—
Identifiable assets	449,752	267,709	59,796	5,351	26,322	808,930	805,001	(3,929)	—
Capital expenditures	18,579	6,883	1,250	186	38	26,936	26,579	(357)	—

	Business and Corporate	Carrier and Operator	Consumer Internet	Mobile Services	Corporate & Eliminations	Business Segment Total	Consolidated Results	Adjustments to Reconcile Business Segment to Consolidated Results	
								Equity Method Ventures	Affiliate Adjustments

Three Months Ended September 30, 2005

Revenue from external customers	\$ 99,544	\$ 56,736	\$ 10,093	\$ 3,558	\$ —	\$ 169,931	\$ 169,930	\$ (603)	\$ 602
Intersegment revenue	—	12	—	—	(12)	—	—	—	—
Operating income (loss)	27,811	8,000	(1,240)	857	(5,314)	30,114	30,024	(90)	—
Identifiable assets	473,149	295,295	61,762	3,724	33,909	867,839	864,879	(2,960)	—
Capital expenditures	21,406	7,933	3,690	79	17	33,125	32,995	(130)	—

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Business and Corporate	Carrier and Operator	Consumer Internet	Mobile Services	Corporate & Eliminations	Business Segment Total	Consolidated Results	Adjustments to Reconcile Business Segment to Consolidated Results	
								Equity Method Ventures	Affiliate Adjustmen
(in thousands)									
Nine Months Ended September 30, 2004									
Revenue from external customers	\$236,375	\$143,249	\$33,448	\$11,780	\$ —	\$424,852	\$424,760	\$(3,905)	\$3,813
Intersegment revenue	—	640	—	—	(640)	—	—	—	—
Operating income (loss)	54,731	21,193	2,077	3,366	(8,759)	72,608	72,100	(508)	—
Identifiable assets	449,752	267,709	59,796	5,351	26,322	808,930	805,001	(3,929)	—
Capital expenditures	60,276	24,295	3,640	720	59	88,990	88,013	(977)	—

	Business and Corporate	Carrier and Operator	Consumer Internet	Mobile Services	Corporate & Eliminations	Business Segment Total	Consolidated Results	Adjustments to Reconcile Business Segment to Consolidated Results	
								Equity Method Ventures	Affiliate Adjustments
(in thousands)									
Nine Months Ended September 30, 2005									
Revenue from external customers	\$284,063	\$164,170	\$32,605	\$11,086	\$ —	\$491,924	\$491,904	\$(1,769)	\$1,749
Intersegment revenue	—	34	—	—	(34)	—	—	—	—
Operating income (loss)	77,153	22,861	(77)	2,967	(13,286)	89,618	89,525	(93)	—
Identifiable assets	473,149	295,295	61,762	3,724	33,909	867,839	864,879	(2,960)	—
Capital expenditures	50,509	19,303	5,991	259	124	76,186	75,958	(228)	—

Included in Consumer Internet operating income is the impact of the reversal of an accrued liability related to estimated taxes, as discussed in note 6.

Geographic Data

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

The Company operated within two main geographic regions of the CIS: Russia and Ukraine. Geographic information as of September 30, 2004, and 2005 is as follows:

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	<u>Russia</u>	<u>Ukraine</u>	<u>Corporate, Other Countries And Eliminations</u>	<u>Consolidated Results</u>
	(in thousands)			
Three Months Ended September 30, 2004				
Revenue	\$135,506	\$17,367	\$ (160)	\$152,713
Long-lived assets	555,292	27,422	10,340	593,054

	<u>Russia</u>	<u>Ukraine</u>	<u>Corporate, Other Countries And Eliminations</u>	<u>Consolidated Results</u>
	(in thousands)			
Three Months Ended September 30, 2005				
Revenue	\$151,334	\$18,324	\$ 272	\$169,930
Long-lived assets	578,583	34,800	11,847	625,230

	<u>Russia</u>	<u>Ukraine</u>	<u>Corporate, Other Countries And Eliminations</u>	<u>Consolidated Results</u>
	(in thousands)			
Nine Months Ended September 30, 2004				
Revenue	\$380,236	\$46,252	\$ (1,728)	\$424,760
Long-lived assets	555,292	27,422	10,340	593,054

	<u>Russia</u>	<u>Ukraine</u>	<u>Corporate, Other Countries And Eliminations</u>	<u>Consolidated Results</u>
	(in thousands)			
Nine Months Ended September 30, 2005				
Revenue	\$437,748	\$54,910	\$ (754)	\$491,904
Long-lived assets	578,583	34,800	11,847	625,230

Note 8: Subsequent Events

In October 2005, the Company acquired 100% of ZAO Sochitelecom, a fixed line alternative operator in the Krasnodar region of Russia, for approximately \$3.0 million consisting of cash consideration of \$2.1 million and \$0.9 million to be settled in cash upon the satisfactory achievement of certain conditions.

In October 2005, the Company acquired 100% of Antel Rascom, Ltd., a British Virgin Islands company that owns 49% of ZAO Rascom, an infrastructure and facilities company in northwest region of Russia, for approximately \$10.0 million in cash.

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 for each of the three and nine months ended September 30, 2005, and 2004. This discussion should be read in conjunction with our Condensed 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 leased channels and intercity fiber optic and satellite-based networks, including approximately 252 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:

- **Business and Corporate Services ("BCS").** Using leased channels and our fiber optic and satellite-based networks in and between major metropolitan areas of Russia, Ukraine and other countries of the CIS, we provide business and corporate services including voice and data services to corporate clients across all geographical markets and all industry segments, other than telecommunications operators;
- **Carrier and Operator Services.** Using leased channels and our fiber optic and satellite-based networks in and between major metropolitan areas of Russia, Ukraine and other countries of the CIS, we provide a range of carrier and operator services including voice and data services to foreign and Russian telecommunications and mobile operators;
- **Consumer Internet Services.** 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
- **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 name, although, some services still carry local brand names because of recent acquisitions. Our dial-up Internet services are distributed under the ROL brand name in Russia, Kazakhstan and Uzbekistan and under the Svit-On-Line brand name in Ukraine.

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 affects our revenues. In addition, some of our competitors do not link their prices to the United States dollar ("USD") to 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, appreciated in 2004 and slightly depreciated during the nine months ended September 30, 2005, 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 March 2005, we completed the acquisition of 75% ownership interest in OOO Dicom (“Dicom”), an early-stage wireless broadband enterprise, for approximately \$0.5 million in cash. In conjunction with this acquisition, we entered into a participants’ agreement which provided the seller with a put option that, if exercised, would require us to purchase the seller’s 25% remaining interest at fair market value. The participants’ agreement provided us with a call option that, if exercised, would require the seller to sell after February 1, 2008 its 25% interest in Dicom at any time beginning after February 1, 2008, if Dicom’s valuation exceeds targeted levels by February 1, 2008.

In September 2005, we completed the acquisition of 60% of OOO Joint Venture Sakhalin Telecom Limited (“Sakhalin Telecom”), a fixed line alternative operator in the Far East region of Russia for approximately \$5.0 million in cash from Open Joint Stock Company Vimpel-Communications (“Vimpelcom”). As a result of this acquisition and combined with our previous ownership interest, we now own 83% of Sakhalin Telecom.

In October 2005, we completed the acquisition of 100% of ZAO Sochitelecom, a fixed line alternative operator in the Krasnodar region of Russia for approximately \$3.0 million consisting of cash consideration of \$2.1 million and \$0.9 million to be settled in cash upon the satisfactory achievement of certain conditions.

In October 2005, we completed the acquisition of 100% of Antel Rascom Ltd., a British Virgin Islands company that owns a 49% interest in ZAO Rascom (“Rascom”), for \$10 million in cash. Rascom is an infrastructure and facilities company in the Moscow and St. Petersburg regions.

We continue to take advantage of consolidation opportunities through selective acquisitions and expect to pursue selective acquisitions in the future which we expect to contribute to our revenue growth. In March 2005, we expensed approximately \$1.0 million in external legal, financial and consulting fees related to an acquisition opportunity that we decided not to pursue, including advisory fees of approximately \$0.1 million paid to an affiliate of Alfa Telecom Limited, one of our significant shareholders. In September 2005, we expensed approximately \$0.8 million in external legal, financial and consulting fees related to the previously announced acquisition of Hudson Telecom, Inc. and its subsidiaries, which we decided not to pursue.

Other Developments

On January 1, 2004, the new law “On Telecommunications” (the “New Law”) came into effect in Russia. While some of the supporting regulations to implement the New Law have not been enacted, the Russian government approved in March 2005 new rules for interconnection (“Interconnection Rules”) that will take effect on January 1, 2006. We believe that the Interconnection Rules will impact our operations in the areas of numbering capacity, licenses for international long distance traffic, voice over Internet Protocol (“VoIP”) traffic, and interconnect pricing. In addition, the New Law created a universal service charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators’ traffic routing revenue. We have incurred approximately \$1.5 million in universal service fund expense for May through September 2005.

The comprehensive interpretation and implementation of the Interconnection Rules are subject to and dependent upon pending regulations yet to be released by the Russian government. These include Rules of Non-Discriminatory Access to Infrastructure and Calling Party Pays Regulations. Until these regulations are finalized, it is difficult to predict how the New Law will affect us. We continue to have regular dialogue about these current regulatory issues with the Russian Ministry of Telecommunications.

On May 31, 2005, we received a national intercity and international telephone license in Russia valid until May 31, 2012. We must begin providing services and fulfil certain network requirements specified in the Interconnection Rules not later than May 31, 2007. We are currently on schedule to rollout our federal transit network and provide long distance services in compliance with the Russian long distance license at the beginning of 2006. The effective utilization and implementation of the Russian long distance license is subject to and dependant upon the pending regulations yet to be released by the Russian government.

On September 20, 2005, the National Commission of Communication’s Regulation in Ukraine issued an international license (“Ukrainian international license”) to Golden Telecom Ukraine (“GTU”). The Ukrainian international license will allow GTU to provide international telecommunications services throughout all of Ukraine, allow the leasing of channels to third parties, and increase

GTU's potential as an international telecommunications carrier.

In February 2005, we received notice from Vimpelcom, our largest customer, that it was diverting a volume of traffic away from our network due to their preliminary interpretation of traffic routing regulations recently issued by the Russian Ministry of Telecommunications. However, in the third quarter of 2005, Vimpelcom traffic volumes were restored to their previous 2004 levels as a result of our discussions with Vimpelcom and clarification from the regulatory agencies.

In June 2005, another carrier expressed its intentions to divert a portion of its traffic from our network. This diversion of traffic resulted in a decrease of average monthly revenues of approximately \$0.9 million when comparing the third quarter of 2005 with the second quarter of 2005. We don't expect this carrier to reduce their traffic volumes further in the foreseeable future. However, revenues from carriers and operators are by nature volatile and can fluctuate significantly between periods.

Prior to the second quarter of 2005, we recorded estimates for unused vacation based on the average salary levels of our employees and total days of unused vacation of employees. During the second quarter of 2005, we revised estimates for unused vacation based on the actual daily salary and unused vacation of each employee. Management determined that this methodology results in a more accurate estimate of the amount of our obligation for unused vacation. The change in accounting estimate decreased net income for the nine months ended September 30, 2005, by approximately \$1.3 million, net of tax, including the associated payroll taxes (equivalent to \$0.04 per common share-basic and \$0.04 per common shares-diluted) for the nine months ended September 30, 2005.

During the third quarter of 2005, we incurred approximately \$1.0 million in employee termination costs in connection with the overall streamlining of our operations. We expect to continue to incur such costs in the remainder of 2005 and in 2006.

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 2004 and during 2005, 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 2004 and during 2005. 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 operators.

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 continues in 2005. At present, we 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 early 2006. To date, this inter-city fiber optic link has been completed from Moscow to Noginsk and from Ufa to Almet'yevsk. Completion of the next stage of the project, from Noginsk to Nizhny Novgorod, is scheduled for November 15, 2005. At present we have laid approximately 1,255 kilometers of cable for this project; we anticipate that the entire Moscow to Ufa inter-city fiber optic link will require us to lay approximately 1,575 kilometers of cable. 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 addition, we started construction of the Oktyabrsky to Samara inter-city fiber optic link, which we plan to complete by the end of 2006. To date, we have invested approximately \$11.8 million in these projects.

A significant portion of our carrier revenue in Ukraine 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 Ukrainian Mobile Communications ("UMC"), received international telecommunications licenses. Nevertheless, UMC, one of our largest customers, continued sending a large volume of outgoing international traffic through our network in 2004 and during the first quarter of 2005. However, in April 2005, UMC significantly decreased the volume of such traffic it routes through our network and began directly terminating such traffic with international carriers. This change in routing resulted in our quarterly UMC international outgoing traffic revenues decreasing from \$1.5 million in the first quarter of 2005 to approximately \$0.2 million in the third quarter of 2005. We do not anticipate that this UMC traffic will be restored in future periods.

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 bypassing 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.

In 2005, we continue to see growth opportunities organically, through select acquisitions, and through the development of new product lines. While our research indicates the telecommunications services sector 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 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 defend 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 business or ("SMB") and the small office / home office ("SOHO") markets. In those cases where the potential SMB 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 focuses on partnering with more operators in the regions. We have also launched additional value-added products for our carrier partners that strengthen our leading position in the Russian and CIS markets. These new products are designed to offer "best quality" voice and data transport to ensure greater customer loyalty while protecting margins.

In Consumer Internet Services, we recognize that new technologies are making their way into Russia, Ukraine, and CIS. We expect that broadband competition and substitution will increase in the future, and that dial-up margins will continue to decline over time as the average revenue per subscriber continues to decline. In response to a decline in our dial-up subscriber base in Moscow, we are currently exploring opportunities to enter the broadband market in Moscow and elsewhere in Russia. We currently offer consumer broadband in selected cities such as St. Petersburg, Nizhny Novgorod, Ekaterinburg, Krasnoyarsk, and Sochi. However, our expansion in this area is currently limited by restrictions on our access to unbundled local loop. Therefore, we are currently looking at alternatives to deliver quality broadband Internet services at competitive pricing in our major markets. As part of this process, we have evaluated various broadband and related Wi-Fi technologies in order to penetrate the broadband market in Moscow and elsewhere in Russia. To further this strategy, we have also signed a supplier agreement for the provision of certain infrastructure and broadband equipment. Additionally, to enhance our overall consumer Internet strategy, we have combined both the consumer broadband and dial-up Internet businesses into one business unit.

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 \$1.9 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 carry-forwards 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 report four segments within the telecommunications industry designed around customer characteristics: Business and Corporate Services, Carrier and Operator Services, Consumer Internet Services and Mobile Services. A significant portion of our cost structure, including our investment in infrastructure, benefits multiple segments. As a result, we perform allocations of certain costs in order to report business segment information for management and financial reporting purposes. Applying different allocation techniques and parameters could impact the reported results of individual business segments.

Functional currency; 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.

Tax provisions; in the course of preparing financial statements in accordance with United States generally accepted accounting principles, we record potential tax loss provisions under the guidelines of SFAS No. 5, "Accounting for Contingencies". In general SFAS No. 5 requires loss contingencies to be recorded when they are both probable and reasonably estimable. In addition, we record other deferred tax provisions under the guidelines of SFAS No. 109, "Accounting for Income Taxes". Significant judgment is required

to determine when such provisions should be recorded, and when facts and circumstances change, when such provisions should be released.

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

Business combinations; SFAS No. 141, "Business Combinations", requires us to recognize the share in the assets of businesses acquired and respective liabilities assumed based on their fair values. Our estimates of the fair value of the identified intangible assets of businesses acquired are based on our expectations of future results of operations of such businesses.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123R supersedes Accounting Principles Board Opinion ("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 the 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 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) a "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 APB No. 25, no compensation expense is recognized. On March 30, 2005, the United States Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 107, "Share Based Payments," ("SAB 107"), which expresses the views of the SEC staff regarding the application of SFAS No. 123R. The impact of adopting SFAS No. 123R and SAB 107 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 and SAB 107 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 March 2005, the FASB issued FASB Interpretation No. 47 ("FIN No. 47"), "Accounting for Conditional Assets Retirement Obligations". FIN No. 47 clarifies that an entity must record a liability for a "conditional" asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN No. 47 is effective no later than the end of the fiscal year ending after December 15, 2005. We do not expect that the adoption of FIN No. 47 will have a material effect on our financial position, results of operations, or cash flow.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections", which is a replacement of APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Changes in Interim Financial Statements". SFAS No. 154 applies to all voluntary changes in accounting principle and changes the accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. In addition, SFAS No. 154 requires that a change in method of depreciation, amortization, or depletion for long-lived, nonfinancial assets be accounted for as a change in accounting estimate that is effected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We do not expect that the adoption of SFAS No. 154 will have a material effect on the financial position, results of operations, or cash flow.

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 7 “Segment Information – Line of Business Data” to our consolidated financial statements. 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.

According to Russian government estimates, inflation in Russia was 14% in 2003, 12% in 2004 and 8% for the nine months ended September 30, 2005. The Russian government expects inflation to be approximately 10% for the year 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.

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

- *Consolidated Results.* Consolidated Results of Operations for the Three Months Ended September 30, 2005 compared to the Consolidated Results of Operations for the Three Months Ended September 30, 2004
- *Consolidated Results.* Consolidated Results of Operations for the Nine Months Ended September 30, 2005 compared to the Consolidated Results of Operations for the Nine Months Ended September 30, 2004
- *Consolidated Financial Position.* Consolidated Financial Position at September 30, 2005 compared to Consolidated Financial Position at December 31, 2004

Consolidated Results — Consolidated Results of Operations for the Three Months Ended September 30, 2005 Compared to the Consolidated Results of Operations for the Three Months Ended September 30, 2004

Revenue

Our revenue increased by 11% to \$169.9 million for the three months ended September 30, 2005, from \$152.8 million for the three months ended September 30, 2004. The overall increase in revenue was due to 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:

	Consolidated Revenue For the Three Months Ended September 30, 2004	Consolidated Revenue For the Three Months Ended September 30, 2005
	(in millions)	
REVENUE		
Business and Corporate Services	\$ 84.6	\$ 99.5
Carrier and Operator Services	53.4	56.7
Consumer Internet Services	10.9	10.1
Mobile Services	4.2	3.6
Eliminations	(0.3)	—
TOTAL REVENUE	\$ 152.8	\$ 169.9

Business and Corporate Services. Revenue from BCS services increased by 18% to \$99.5 million for the three months ended September 30, 2005, from \$84.6 million for the three months ended September 30, 2004. In our largest market, Moscow, we had increases in our revenues due to adding approximately 1,651 new corporate customers, 25 new multi-tenant business centers, and 5 new trade centers in the three months ended September 30, 2005, along with actively promoting new services among our client base. BCS Moscow recognized approximately \$10.6 million in revenue during the three months ended September 30, 2005 from new contracts entered into during the year, and grew the number of its Direct Inward Dialing lines from 113,200 as of September 30, 2004, to approximately 125,000 as of September 30, 2005. During the quarter, we also increased our revenue by continuing to assist our customers in developing their businesses as they expanded regionally. The macro-economic growth in Russia, Ukraine, and the CIS continues to help us to expand our client base.

Revenue from the BCS division of GTU increased by 38% to \$10.6 million for the three months ended September 30, 2005, from \$7.7 million for the three months ended September 30, 2004. This increase in revenues was due to a 60% increase in the number of serviced voice lines and a 13% increase in the average rate per minute of use resulting from a change in traffic mix in favor of higher-rated traffic to mobile networks and an increase in data and Internet revenues. Partly offsetting these increasing factors was a 22% decrease in average minutes of use per line per month due to more residential, SMBs, and regional customers in the client base.

Carrier and Operator Services. Revenue from Carrier and Operator Services increased by 6% to \$56.7 million for the three months ended September 30, 2005, from \$53.4 million for the three months ended September 30, 2004. We have expanded our operations with existing partners and added a number of new carriers specifically in the regions with increased volumes of traffic. We continue to observe competitive pressure on revenues in the major cities and in the regions from established and new local competitors.

Revenue for the Carrier and Operator Services division of GTU decreased by 24% to \$4.2 million for the three months ended September 30, 2005, from \$5.5 million for the three months ended September 30, 2004. \$1.5 million of this decrease in revenue was due to a 49% decrease in incoming international traffic. Incoming international minutes of use decreased during the quarter due to a decision to temporarily increase our tariffs from August 1, 2005, until September 1, 2005. Furthermore, our average revenue per incoming international minute of use decreased by 14% when compared to the third quarter of 2004 due to a decrease in our share of higher rated traffic to mobile networks since several Ukrainian mobile operators received international licenses late in 2004. These decreasing factors were partly offset by a \$0.3 million increase in data revenue supported by GTU adding capacity between Kiev and Frankfurt via two VC3 channels.

Consumer Internet Services. Revenue from Consumer Internet Services decreased by 7% to \$10.1 million for the three months ended September 30, 2005, from \$10.9 million for the three months ended September 30, 2004. The change is primarily due to a decrease in the average revenue per dial-up Internet subscriber from \$7.40 per month for the third quarter of 2004 to approximately \$6.55 per month for the third quarter of 2005. Partly offsetting this decrease in average monthly revenue per subscriber was an increase in the number of dial-up Internet subscribers from 376,392 at September 30, 2004, to 385,374 at September 30, 2005. Our dial-up subscriber base continues to change as we add regional subscribers and lose subscribers in Moscow. The consumer Internet market in Moscow has become more competitive due to the increasing availability of new Internet access technologies such as digital subscriber line ("DSL").

Mobile Services. Revenue from Mobile Services decreased by 14% to \$3.6 million for the three months ended September 30, 2005, from \$4.2 million for the three months ended September 30, 2004. Active subscribers decreased from 55,760 at September 30, 2004, to 50,379 at September 30, 2005, due to increased competition in the Ukrainian mobile market. The average revenue per active subscriber has decreased by 13% to approximately \$22.74 per month mainly 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 a decrease in the number of subscribers using the tariff plan and due to an increase in the share of prepaid subscribers with lower activity and no fixed charge.

Expenses

The following table shows our principal expenses for the three months ended September 30, 2004, and September 30, 2005:

	Consolidated Expenses For the Three Months Ended September 30, 2004		Consolidated Expenses For the Three Months Ended September 30, 2005	
	(in millions)			
COST OF REVENUE				
Business and Corporate Services	\$	35.6	\$	42.5
Carrier and Operator Services		34.7		37.1
Consumer Internet Services		6.5		7.1
Mobile Services		1.5		1.6
Eliminations		(0.3)		—
TOTAL COST OF REVENUE		78.0		88.3
Selling, general and administrative		29.5		31.0
Depreciation and amortization		19.5		20.6
Equity in earnings of ventures		(0.1)		(0.7)
Interest income		(0.2)		(0.8)

	<u>Consolidated Expenses For the Three Months Ended September 30, 2004</u>	<u>Consolidated Expenses For the Three Months Ended September 30, 2005</u>
	(in millions)	
Interest expense	0.2	0.1
Foreign currency loss	0.5	0.2
Minority interest	0.3	0.8
Provision for income taxes	\$ 9.0	\$ 12.0

Cost of Revenue

Our cost of revenue increased by 13% to \$88.3 million for the three months ended September 30, 2005, from \$78.0 million for the three months ended September 30, 2004.

Business and Corporate Services. Cost of revenue from BCS increased by 19% to \$42.5 million for the three months ended September 30, 2005, from \$35.6 million for the three months ended September 30, 2004. Cost of revenue as a percentage of revenue increased to 43% for the three months ended September 30, 2005 from 42% for the three months ended September 30, 2004.

Cost of revenue for the BCS division of GTU increased by 42% to \$5.4 million, or 51% of revenue, for the three months ended September 30, 2005, from \$3.8 million, or 49% of revenue, for the three months ended September 30, 2004. 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 7% to \$37.1 million for the three months ended September 30, 2005, from \$34.7 million, for the three months ended September 30, 2004. Cost of revenue as a percentage of revenue remained consistent at 65% for the three months ended September 30, 2005 and 2004. We continue to experience significant pressure on our margins in this line of business, but we have been able to slow margin decline by focusing our business on higher margin traffic from reputable partners. Also, we continue to balance our pricing strategy to be more in line with the settlement rates we are charged by other operators.

Cost of revenue for the Carrier and Operator Services division of GTU decreased by 36% to \$2.9 million, or 69% of revenue, for the three months ended September 30, 2005, from \$4.5 million, or 82% of revenue, for the three months ended September 30, 2004. Cost of revenue decreased as a percentage of revenue primarily due to a decision to temporarily increase our tariffs from August 1, 2005, until September 1, 2005.

Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 9% to \$7.1 million, or 70% of revenue, for the three months ended September 30, 2005, from \$6.5 million, or 60% of revenue, for the three months ended September 30, 2004. The increase in cost of revenue as a percentage of revenue was mainly the result of network costs not decreasing in line with revenue declines from dial-up Internet. As regional subscribers account for a larger portion of our total subscriber base, margins in this line of business have decreased due to incremental network costs incurred to provide access to regional customers. Furthermore, the impact of a decline in subscribers in Moscow has not resulted in an immediate decline of network costs, which are more fixed in nature.

Mobile Services. Cost of revenue from Mobile Services increased by 7% to \$1.6 million, or 44% of revenue for the three months ended September 30, 2005, from \$1.5 million, or 36% of revenue for the three months ended September 30, 2004. The increase in cost of revenue as a percentage of revenue is mainly due to an increase in hryvna based settlement rates due to a devaluation of the USD in April 2005 and to an increase in traffic to other mobile networks with higher settlement rates.

Selling, General and Administrative

Our selling, general and administrative expenses increased by 5% to \$31.0 million, or 18% of revenue, for the three months ended September 30, 2005, from \$29.5 million, or 19% of revenue, for the three months ended September 30, 2004. In the three months ended September 20, 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. Bad debt expense also decreased by approximately \$1.5 million compared to the three months ended September 30, 2004, as a result of the integration of Comincom in 2004. These decreasing factors were partly offset by expensing in the three months ended September 30, 2005, \$1.0 million in employee termination costs and \$0.8 million of capitalized acquisition costs related to an acquisition opportunity that we decided not to pursue. The remaining \$4.8 million net increase was primarily the result of employee related costs, insurance costs, and other office expenses increasing in line with the growth in our business.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 6% to \$20.6 million for the three months ended September 30, 2005, from \$19.5 million for the three months ended September 30, 2004. The increase was due to depreciation on continuing capital expenditures of the consolidated entities.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures increased to \$0.7 million for the three months ended September 30, 2005, from a \$0.1 million of earnings for the three months ended September 30, 2004. We recognized earnings at Sakhalin Telecom of \$0.7 million, partly due to Sakhalin Telecom's gain on the sale of its ownership interest in ZAO Sakhalin Telecom Mobile which occurred in September 2005, prior to our purchase of an additional 60% ownership interest in Sakhalin Telecom.

Interest Income

Our interest income increased to \$0.8 million for the three months ended September 30, 2005, from \$0.2 million for the three months ended September 30, 2004. The increase in interest income is due to our increased cash balances held in interest bearing accounts.

Interest Expense

Our interest expense decreased to \$0.1 million for the three months ended September 30, 2005, from \$0.2 million for the three months ended September 30, 2004.

Foreign Currency Loss

Our foreign currency loss was \$0.2 million for the three months ended September 30, 2005, down from \$0.5 million for the three months ended September 30, 2004. The decrease in our foreign currency loss is mainly due to the combination of movements in exchange rates and changes in the amount of net monetary assets that we have denominated in foreign currencies.

Minority Interest

Our minority interest was \$0.8 million for the three months ended September 30, 2005, compared to a \$0.3 million for the three months ended September 30, 2004. The increase was the result of minority interests in the earnings of GTU, which arose in August 2004 due to the sale of a non-controlling interest to our local partners in Ukraine.

Provision for Income Taxes

Our charge for income taxes was \$12.0 million for the three months ended September 30, 2005, compared to \$9.0 million for the three months ended September 30, 2004. Our effective tax rate was 38% for the three months ended September 30, 2005, compared to 36% for the three months ended September 30, 2004. We recognized approximately \$1.7 million in additional tax expense during the third quarter of 2005 since we changed our valuation allowance for our deferred tax assets due to our reassessment of sources of future taxable income in the United States. Our effective tax rate for the three months ended September 30, 2004, was impacted by \$3.6 million of non-deductible consulting expenses incurred in association with the transfer of 20% of our ownership interest in GTU to a Ukrainian partner in exchange for services provided by that partner. Our effective tax rate for the three months ended September 30, 2005, was impacted by no tax benefit being recognized on certain United States ("US") expenses due to uncertainty about the sufficiency of future US taxable income to recognize such tax benefits.

Net Income and Net Income per Share

Our net income for the three months ended September 30, 2005, was \$18.4 million, compared to a net income of \$16.1 million for the three months ended September 30, 2004.

Our net income per share of common stock increased to \$0.51 for the three months ended September 30, 2005, compared to a net income per share of \$0.44 for the three months ended September 30, 2004. 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 36,410,586 in the three months ended September 30, 2005, compared to 36,277,711 in the three months ended September 30, 2004. The increase in outstanding shares was a direct result of employee stock option exercises and the issuance of restricted stock to certain members of management.

Our net income per share of common stock on a fully diluted basis increased to \$0.50 for the three months ended September 30, 2005, compared to a net income per common share of \$0.44 for the three months ended September 30, 2004. 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 36,637,065 for the three months ended September 30, 2005, compared to 36,551,126 for the three months ended September 30, 2004.

Consolidated Results — Consolidated Results of Operations for the Nine Months Ended September 30, 2005 Compared to the Consolidated Results of Operations for the Nine Months Ended September 30, 2004

Revenue

Our revenue increased by 16% to \$491.9 million for the nine months ended September 30, 2005, from \$424.8 million for the nine months ended September 30, 2004. The overall increase in revenue was due to 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:

	Consolidated Revenue For the Nine Months Ended September 30, 2004	Consolidated Revenue For the Nine Months Ended September 30, 2005
	(in millions)	
REVENUE		
Business and Corporate Services	\$ 236.4	\$ 284.0
Carrier and Operator Services	143.8	164.2
Consumer Internet Services	33.4	32.6
Mobile Services	11.8	11.1
Eliminations	(0.6)	—
TOTAL REVENUE	\$ 424.8	\$ 491.9

Business and Corporate Services. Revenue from BCS increased by 20% to \$284.0 million for the nine months ended September 30, 2005, from \$236.4 million for the nine months ended September 30, 2004. In our largest market, Moscow, we had increases in our revenues due to adding approximately 5,551 new corporate customers, 74 new multi-tenant business centers, 16 new trade centers and 2 hotels in the nine months ended September 30, 2005, along with actively promoting new services among our client base. BCS Moscow recognized approximately \$19.4 million in revenue from new contracts in the nine months ended September 30, 2005, and grew the number of its Direct Inward Dialing lines from 113,200 as of September 30, 2004, to approximately 125,000 as of September 30, 2005. During the nine months ended September 30, 2005, we also increased our revenue by continuing to assist our customers in developing their businesses as they expanded regionally. The macro-economic growth in Russia, Ukraine, and the CIS continues to help us to expand our client base. Additionally, BCS revenue increased by approximately \$4.1 million due to the acquisitions of ST-HOLDING s.r.o. (“ST-HOLDING”), OAO Balticom Mobile (“Balticom”) and SP Buzton (“Buzton”) in 2004. We began consolidating ST-HOLDING in February 2004, Balticom in April 2004, and Buzton in May 2004.

Revenue from the BCS division of GTU increased by 40% to \$28.6 million for the nine months ended September 30, 2005, from \$20.5 million for the nine months ended September 30, 2004. This increase in revenues was due to a 52% increase in the number of serviced voice lines and a 9% increase in the average rate per minute of use resulting from a change in traffic mix in favor of higher-rated traffic to mobile networks and an increase in data and Internet revenues. Partly offsetting these increasing factors was a 22% decrease in average minutes of use per line per month due to more residential, SMBs, and regional customers in the client base.

Carrier and Operator Services. Revenue from Carrier and Operator Services increased by 14% to \$164.2 million for the nine months ended September 30, 2005, from \$143.8 million for the nine months ended September 30, 2004. We have expanded our operations with existing partners and added a number of new carriers specifically in the regions with increased volumes of traffic. We continue to observe competitive pressure on revenues in the major cities and in the regions from established and new local competitors. Additionally, Carrier and Operator Services revenue increased by approximately \$0.8 million due to the acquisitions of ST-HOLDING, Balticom, and Buzton.

Revenue for the Carrier and Operator Services division of GTU increased by 9% to \$15.3 million for the nine months ended September 30, 2005, from \$14.0 million for the nine months ended September 30, 2004. \$0.7 million of this increase in revenue was

due to a 15% increase in carrier's carrier minutes of use due to a rise in low margin transit traffic on mobile networks. \$0.5 million of this increase is due to an increase in data revenue supported by GTU adding capacity between Kiev and Frankfurt via two VC3 channels. Incoming international minutes of use decreased by 5% during the third quarter due to a decision to temporarily increase our tariffs from August 1, 2005, until September 1, 2005, resulting in a \$0.2 million decrease in incoming international revenue.

Consumer Internet Services. Revenue from Consumer Internet Services decreased by 2% to \$32.6 million for the nine months ended September 30, 2005, from \$33.4 million for the nine months ended September 30, 2004. Although the average revenue per dial-up Internet subscriber decreased from \$8.02 per month for the nine months ended September 30, 2004, to approximately \$7.12 per month for the nine months ended September 30, 2005, the number of dial-up Internet subscribers increased from 376,392 at September 30, 2004, to 385,374 at September 30, 2005. Our dial-up subscriber base continues to change as we add regional subscribers and lose subscribers in Moscow. The consumer Internet market in Moscow has become more competitive due to the increasing availability of new Internet access technologies such as DSL.

Mobile Services. Revenue from Mobile Services decreased by 6% to \$11.1 million for the nine months ended September 30, 2005, from \$11.8 million for the nine months ended September 30, 2004. Active subscribers decreased from 55,760 at September 30, 2004, to 50,379 at September 30, 2005, due to increased competition in the Ukrainian mobile market. The average revenue per active subscriber has decreased by 16% to approximately \$23.08 per month mainly 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 a decrease in the number of subscribers using that tariff plan and due to an increase in the share of prepaid subscribers with lower activity and no fixed charge.

Expenses

The following table shows our principal expenses for the nine months ended September 30, 2004, and September 30, 2005:

	Consolidated Expenses For the Nine Months Ended September 30, 2004	Consolidated Expenses For the Nine Months Ended September 30, 2005
	(in millions)	
COST OF REVENUE		
Business and Corporate Services	\$ 100.5	\$ 121.4
Carrier and Operator Services	92.4	106.5
Consumer Internet Services	19.7	21.7
Mobile Services	4.5	4.9
Eliminations	(0.6)	—
TOTAL COST OF REVENUE	216.5	254.5
Selling, general and administrative	81.0	87.4
Depreciation and amortization	55.2	60.5
Equity in earnings of ventures	(0.3)	(0.5)
Interest income	(0.8)	(1.7)
Interest expense	0.5	0.5
Foreign currency loss	0.7	0.4
Minority interest	0.8	2.1
Provision for income taxes	\$ 23.5	\$ 30.5

Cost of Revenue

Our cost of revenue increased by 18% to \$254.5 million for the nine months ended September 30, 2005, from \$216.5 million for the nine months ended September 30, 2004. Included in the increase of cost of revenue is a \$0.7 million charge recorded in the second quarter of 2005 for the revision of our estimate for unused vacation.

Business and Corporate Services. Cost of revenue from BCS increased by 21% to \$121.4 million for the nine months ended September 30, 2005, from \$100.5 million for the nine months ended September 30, 2004. Cost of revenue as a percentage of revenue remained consistent at 43% in 2005 and 2004. Additionally, BCS cost of revenue increased by approximately \$1.7 million due to the acquisitions of ST-HOLDING, Balticom, and Buzton.

Cost of revenue for the BCS division of GTU increased by 45% to \$14.9 million, or 52% of revenue, for the nine months ended September 30, 2005, from \$10.3 million, or 50% of revenue, for the nine months ended September 30, 2004. 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 15% to \$106.5 million, or 65% of revenue, for the nine months ended September 30, 2005, from \$92.4 million, or 64% of revenue, for the nine months ended September 30, 2004. The increase in cost of revenue as a percentage of revenue is primarily due to a change in our traffic mix to favor traffic terminated in CIS countries, which have higher settlement rates, and due to an increase in traffic terminated to mobile networks, which typically have higher settlement rates than fixed networks. We continue to experience significant pressure on our margins in this line of business, but we have been able to slow margin decline by focusing our business on higher margin traffic from reputable partners. Also, we continue to balance our pricing strategy to be more in line with the settlement rates we are charged by other operators. Additionally, cost of revenue from Carrier and Operator Services increased by approximately \$0.3 million due to the acquisitions of ST-HOLDING, Balticom, and Buzton.

Cost of revenue for the Carrier and Operator Services division of GTU increased by 5% to \$11.8 million, or 77% of revenue for the nine months ended September 30, 2005, from \$11.2 million, or 80% of revenue for the nine months ended September 30, 2004. Cost of revenue decreased as a percentage of revenue primarily due a decision to temporarily increase our tariffs from August 1, 2005, until September 1, 2005.

Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 10% to \$21.7 million, or 67% of revenue, for the nine months ended September 30, 2005, from \$19.7 million, or 59% of revenue, for the nine months ended September 30, 2004. The increase in cost of revenue as a percentage of revenue was mainly the result of network costs not decreasing in line with revenue declines from dial-up Internet. As regional subscribers account for a larger portion of our total subscriber base, margins in this line of business have decreased due to incremental network costs incurred to provide access to regional customers. Furthermore, the impact of a decline in subscribers in Moscow has not resulted in an immediate decline of network costs, which are more fixed in nature.

Mobile Services. Cost of revenue from Mobile Services increased by 9% to \$4.9 million, or 44% of revenue for the nine months ended September 30, 2005, from \$4.5 million, or 38% of revenue for the nine months ended September 30, 2004. The increase in cost of revenue as a percentage of revenue is mainly due to an increase in hryvna based settlement rates due to a devaluation of the USD in April 2005 and to an increase in traffic to other mobile networks with higher settlement rates.

Selling, General and Administrative

Our selling, general and administrative expenses increased by 8% to \$87.4 million, or 18% of revenue, for the nine months ended September 30, 2005, from \$81.0 million, or 19% of revenue, for the nine months ended September 30, 2004. During the nine months ended September 20, 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. Bad debt expense also decreased by approximately \$1.2 million compared to the nine months ended September 30, 2004 as a result of the integration of Comincom in 2004. The reversal of a \$1.4 million tax contingency accrual decreased payroll and other taxes in the first quarter of 2005. These decreasing factors were partly offset by expensing \$1.8 million of capitalized acquisition costs in the nine months ended September 30, 2005, related to acquisition opportunities that we decided not to pursue and by a \$1.2 million increase in asset obsolescence charges due to an increase in our construction in progress balances. Although we recognized approximately \$1.0 million in employee termination costs in September 2005, total employee termination costs decreased by \$0.2 million when comparing the nine months ended September 30, 2005, with the nine months ended September 30, 2004. The remaining \$9.8 million net increase was primarily the result of employee related costs, and other office expenses increasing in line with the growth in our business. Included in the increase in employee related costs is a \$1.1 million charge recorded in the second quarter of 2005 for the revision of our estimate for unused vacation.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 10% to \$60.5 million for the nine months ended September 30, 2005, from \$55.2 million for the nine months ended September 30, 2004. The increase was due to depreciation on continuing capital expenditures of the consolidated entities.

Equity in Earnings of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures increased to \$0.5 million for the nine months ended September 30, 2005, from \$0.3 million of earnings for the nine months ended September 30, 2004. We recognized earnings at Sakhalin Telecom of \$0.7 million, partly due to Sakhalin Telecom's gain on the sale of its ownership interest in ZAO Sakhalin Telecom Mobile which occurred in September 2005, prior to our purchase of an additional 60% ownership interest in Sakhalin Telecom. In addition, we recognized losses of \$0.2 million from our other Russian ventures.

Interest Income

Our interest income increased to \$1.7 million for the nine months ended September 30, 2005, from \$0.8 million for the nine months ended September 30, 2004. The increase in interest income is due to our increased cash balances held in interest bearing accounts.

Interest Expense

Our interest expense was \$0.5 million for the nine months ended September 30, 2005, unchanged from the nine months ended September 30, 2004.

Foreign Currency Loss

Our foreign currency loss was \$0.4 million for the nine months ended September 30, 2005, compared with losses of \$0.7 million from the nine months ended September 30, 2004.

Minority Interest

Our minority interest was \$2.1 million for the nine months ended September 30, 2005, compared to \$0.8 million for the nine months ended September 30, 2004. 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 August 2004 due to the sale of a non-controlling interest to our local partners in Ukraine.

Provision for Income Taxes

Our charge for income taxes was \$30.5 million for the nine months ended September 30, 2005, compared to \$23.5 million for the nine months ended September 30, 2004. Our effective tax rate was 34% for the nine months ended September 30, 2005, compared to 33% for the nine months ended September 30, 2004. We recognized approximately \$1.7 million in additional tax expense during the third quarter of 2005 since we changed our valuation allowance for our deferred tax assets due to our reassessment of sources of future taxable income in the US. Our effective tax rate for the nine months ended September 30, 2004, was impacted by \$3.6 million of non-deductible consulting expenses incurred in association with the transfer of 20% of our ownership interest in GTU to a Ukrainian partner in exchange for services provided by that partner. Our effective tax rate for the nine months ended September 30, 2005, was impacted by no tax benefit being recognized on certain US expenses due to uncertainty about the sufficiency of future US taxable income to recognize such tax benefits.

Net Income and Net Income per Share

Our net income for the nine months ended September 30, 2005, was \$58.2 million, compared to a net income of \$47.7 million for the nine months ended September 30, 2004.

Our net income per share of common stock increased to \$1.60 for the nine months ended September 30, 2005, compared to a net income per share of \$1.32 for the nine months ended September 30, 2004. 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 36,356,280 in the nine months ended September 30, 2005, compared to 36,200,334 in the nine months ended September 30, 2004. The increase in outstanding shares was a direct result of employee stock option exercises and the issuance of restricted stock to certain members of management.

Our net income per share of common stock on a fully diluted basis increased to \$1.59 for the nine months ended September 30, 2005, compared to a net income per common share of \$1.30 for the nine months ended September 30, 2004. 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 36,594,629 for the nine months ended September 30, 2005, compared to 36,544,037 for the nine months ended September 30, 2004.

Consolidated Financial Position — Significant Changes in Consolidated Financial Position at September 30, 2005, compared to Consolidated Financial Position at December 31, 2004

Accounts Receivable

Accounts receivable increased from December 31, 2004, to September 30, 2005, as a result of increased revenues when comparing the month of September 2005 to the month of December 2004.

Intangible Assets

Our intangible assets decreased at September 30, 2005, as compared to December 31, 2004, mostly as a result of amortization on continuing intangible assets of the consolidated entities exceeding additions. Also contributing to the decrease was the reversal of an income tax contingent liability related to an acquisition as discussed in more detail below. Offsetting these decreasing factors were additional intangible assets recorded upon the acquisitions of Sakhalin Telecom and Dicom.

Other Non-current Liabilities

Our other non-current liabilities decreased at September 30, 2005, as compared to December 31, 2004, as a result of the reversal of a \$2.0 million accrued liability related to a tax contingency. This accrued liability was recorded upon the acquisition of one of our Russian subsidiaries. Management has concluded that the probability of this accrued liability arising in the future is remote due to the expiry of Russian regulatory statutes of limitations for any potential tax claims from the Russian tax inspectorate.

Minority Interest

Our minority interest increased at September 30, 2005, as compared to December 31, 2004, 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 in the earnings of GTU arose in August 2004 due to the sale of a non-controlling interest to our local partners in Ukraine. Additionally, minority interest increased due to the acquisition of an additional 60% ownership interest in Sakhalin Telecom in September 2005 that resulted in consolidation of this entity from September 30, 2005.

Stockholders' Equity

Shareholders' equity increased from December 31, 2004, to September 30, 2005, as a result of our net income of \$58.2 million and offset by declaring and paying \$21.8 million in dividends in the nine months ended September 30, 2005. Also, shareholders' equity increased by \$1.2 million due to stock option exercises and the issuance of restricted shares to certain members of management.

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; (2) amortization of certain acquired intangible assets is not deductible for income tax purposes; (3) write-offs of certain assets are not deductible for tax purposes; and (4) changes in the valuation allowance for deferred tax assets. We currently have deferred tax assets arising from deductible temporary differences in our non-US subsidiaries. Due to the continued profitability of these subsidiaries, we fully anticipate that these deferred tax assets will be realized through the generation of future taxable income. We also have a deferred tax asset related to net operating loss carry-forwards for US federal income tax purposes. In the third quarter of 2005, we increased our valuation allowance for this deferred tax asset due to our reassessment of sources of future taxable income in the United States. We have concluded that the remaining US loss carry-forwards will be realizable as we anticipate generating future taxable income in the US primarily by earning interest income on intercompany loans to our foreign subsidiaries. We have also recorded a deferred tax asset related to net operating loss carry-forwards for Cyprus tax purposes. However, we have recorded a full valuation allowance since we do not anticipate recognizing taxable income in our Cyprus entity in the foreseeable future since it has generated tax losses since 2003.

Liquidity and Capital Resources

Our cash and cash equivalents were \$86.0 million and \$53.7 million as of September 30, 2005, and December 31, 2004, respectively. Our total restricted cash was \$0.6 million as of September 30, 2005, and \$1.0 million as of December 31, 2004. The restricted cash is maintained in connection with certain of our debt obligations as described below.

During the nine months ended September 30, 2005, we had net cash inflows of \$128.3 million from our operating activities. During the nine months ended September 30, 2004, we had net cash inflows of \$109.8 million from our operating activities. This increase in net cash inflows from operating activities at September 30, 2005, is mainly due to the increase of net income as a result of increased revenues.

During the nine months ended September 30, 2005, we received approximately \$482.0 million in cash from our customers for services and we paid approximately \$326.05 million to suppliers and employees. During the nine months ended September 30, 2004, we received approximately \$406.7 million in cash from our customers for services and we paid approximately \$274.3 million to suppliers and employees.

We used cash of \$72.4 million and \$100.2 million for investing activities for the nine months ended September 30, 2005, and September 30, 2004, respectively, which were principally attributable to building our telecommunications networks and acquisitions. Network investing activities totaled \$70.3 million for the nine months ended September 30, 2005. The majority of network investing activities related to construction of last mile access and network upgrades as a result of increased customer connections. Network investing activities totaled \$86.1 million for the nine months ended September 30, 2004. We used cash of \$4.8 million for the nine months ended September 30, 2005, for our acquisition of Dicom, Sakhalin Telecom and a payment of a holdback amount related to the 2004 Buzton acquisition.

For the nine months ended September 30, 2005, we received \$1.0 million proceeds from the exercise of employee stock options and for the nine months ended September 30, 2004, we received \$4.2 million proceeds from the exercise of employee stock options.

In February 2005, our Board of Directors declared a cash dividend of \$0.20 per common share to shareholders of record as of March 17, 2005. We paid the total amount payable of approximately \$7.3 million to shareholders on March 31, 2005. In May 2005, our Board of Directors declared a cash dividend of \$0.20 per common share to shareholders of record as of June 16, 2005. We paid the total amount payable of approximately \$7.3 million to shareholders on June 30, 2005. In September 2005, our Board of Directors declared a cash dividend of \$0.20 per common share to shareholders of record as of September 16, 2005. We paid the total amount payable of approximately \$7.3 million to shareholders on September 30, 2005.

We had working capital of \$107.6 million as of September 30, 2005, and \$83.8 million as of December 31, 2004. At September 30, 2005, and December 31, 2004, we had total debt, excluding capital lease obligations, of approximately \$0.3 million and \$0.2 million, respectively, none of which was current maturity. Total debt included amounts that were fully collateralized by restricted cash.

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

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.

In August 2005, we entered into a lease for fiber optic capacity, including facilities and maintenance, on major routes within Ukraine. The lease has a term of five years and total payments of \$4.1 million. The first year of the lease must be prepaid while payments should be made on a monthly basis in subsequent years.

In order to comply with the known long distance license requirements and to be operational in 2006, we expect incur approximately \$12.0 million in capital expenditures and approximately \$1.0 million in operational expenditures by the end of 2005.

In total, we estimate that we will need to make capital expenditures of approximately \$50.0 million in order to fulfill the network requirements, specified in the Interconnection Rules and to successfully implement our long distance license. However, there are still unknown and yet to be clarified portions of the laws and regulations that will affect both the timing and cost of the long distance license implementation.

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 September 30, 2005, for all of these facilities totaled \$0.5 million, of which \$0.2 million was funded to our consolidated subsidiaries and \$0.3 million was funded to our non-consolidated entities.

We had previously negotiated a \$45 million credit facility with the Russian subsidiary of Citibank in connection with the acquisition of Hudson Telecom, Inc. Although we decided not to proceed with this acquisition, this credit facility remains available to us for other general purpose uses. At this time we have not signed and entered into commitment to utilize this credit facility.

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

We may not be able to obtain additional financing on favorable terms. As a result, we may become 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.

Contractual Obligations

The amounts disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004, include our contractual cash obligations. Contractual cash obligations include short- and long-term debt arrangements, capital lease obligations, commitments for future payments under non-cancelable lease arrangements and purchase obligations. During the nine months ended September 30, 2005, no material changes occurred in our contractual cash obligations.



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 for such acquisitions, including our expectation to fund such requirements through cash on hand, cash from operations, proceeds from additional equity and debt offerings, and debt financing activities; (ii) existing and potential tax claims, (iii) the effects of existing and potential litigation, (iv) projected traffic volumes and other growth indicators; (v) anticipated revenues and expenses; (vi) our competitive environment; (vii) the future performance of consolidated and equity method investments; (viii) our intention to offer our services under the Golden Telecom brand; (ix) our intentions to expand our fiber optic capacity and add transmission capacity; (x) our intention to continue to use the assets of recently acquired companies in the manner such assets were previously used; (xi) the impact of critical accounting policies and estimates; (xii) the growth of our operations in key regions of Russia; (xiii) our growth strategy in our business segments; (xiv) the political, regulatory and economic situation in the markets in which we operate, including the effect of the new law “On Telecommunications” and the interconnection rules; (xv) the effect and costs of utilizing our intercity and international licenses; and (xvi) the development of our broadband and related Wi-Fi technology strategies, are forward-looking and concern our projected operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. It is important to note that such statements involve risks and uncertainties and that actual results may differ materially from those expressed or implied by such forward-looking statements. Among the key factors that have a direct bearing on the Company’s results of operations, economic performance and financial condition are the commercial and execution risks associated with implementing the Company’s business plan, use of debt for possible future acquisitions, the potential effect of the new law “On Telecommunications” and the related interconnection rules, the utilization of our intercity and international licenses, our ability to integrate recently acquired companies into our operations, the development of our broadband and related Wi-Fi technology strategies, the political, economic and legal environment in the markets in which the Company operates, increasing competitiveness in the telecommunications and Internet-related businesses that may limit growth opportunities, and increased and intense downward price pressures on some of the services that we offer. These and other factors are discussed herein under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Report.

Additional information concerning factors that could cause results to differ materially from those in the forward-looking statements are contained in the Company’s filings with the United States Securities and Exchange Commission and especially in the Risks Factor Sections therein, including, but not limited to, the Company’s report on Form 10-K for the year ended December 31, 2004.

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 3. *Quantitative and Qualitative disclosures About Market Risk*

There have been no material changes in the information provided in Item 7A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

ITEM 4. *Controls and Procedures*

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the Company's disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective to provide reasonable assurance that material information relating to Golden Telecom, Inc. and its consolidated subsidiaries is made known to them, particularly during the period in which this report is being prepared. There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 5. *Other Information*

None

PART II. OTHER INFORMATION

ITEM 6. Exhibits

<u>Designation</u>	<u>Description</u>
10.1	Employment Agreement dated as of July 19, 2005 by and between the Company and Jean-Pierre Vandromme is incorporated herein by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K dated July 21, 2005
10.2	Separation Agreement dated as of September 15, 2005 by and between the Company and Michal Cupa is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 21, 2005
10.3	Amendment No. 1 dated as of October 24, 2005 by and between the Company and Alexander Vinogradov is incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 24, 2005
31.1	Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

[E/O]

CRC: 11489
EDGAR 2

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SIGNATURES

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

GOLDEN TELECOM, INC.
(Registrant)

By: /s/ BRIAN A. RICH

Name: Brian A. Rich

Title: Senior Vice-President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

By: /s/ MICHAEL D. WILSON

Name: Michael D. Wilson

Title: Vice-President and Corporate Controller
(Principal Accounting Officer)

Date: November 8, 2005

[E/O]

CRC: 30831
EDGAR 2

BOD H29946 038.00.00.00 0/4


Exhibit Index

<u>Designation</u>	<u>Description</u>
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EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jean-Pierre Vandromme, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Golden Telecom, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2005

/s/ JEAN-PIERRE VANDROMME

Jean-Pierre Vandromme
Chief Executive Officer



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EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian Rich, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Golden Telecom, Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2005

/s/ BRIAN A. RICH

Brian A. Rich
Senior Vice-President,
Chief Financial Officer and Treasurer



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EXHIBIT 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Quarterly Report of Golden Telecom, Inc. ("the Company") on Form 10-Q for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof ("the Report"), I, Jean-Pierre Vandromme, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 8th day of November 2005.

/s/ JEAN-PIERRE VANDROMME

Jean-Pierre Vandromme
Chief Executive Officer



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EXHIBIT 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY
ACT OF 2002**

In connection with the Quarterly Report of Golden Telecom, Inc. (“the Company”) on Form 10-Q for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (“the Report”), I, Brian Rich, Senior Vice-President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned has executed this certification as of the 8th day of November 2005.

/s/ BRIAN A. RICH

Brian A. Rich
Senior Vice-President,
Chief Financial Officer and Treasurer