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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

☐ TRANSITION REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-27423

GOLDEN TELECOM, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	51-0391303
(State of incorporation)	(I.R.S. Employer Identification Nos.)

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

(011-7-501) 797-9300
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $ 0.01 per share

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained in this Form 10-K, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

The aggregate market value Golden Telecom, Inc. voting and non-voting common equity held by non-affiliates as of June 30, 2004 (the last business day of the registrant's most recently completed second fiscal quarter) was $183,227,679 based upon the closing price on the Nasdaq National Market as of such date.

On March 8, 2005, there were outstanding approximately 36,324,490 shares of Common Stock of Golden Telecom, Inc.

ITEM OF FORM 10-K	DOCUMENTS INCORPORATED BY REFERENCE
Part III, Items 10-14	Portions of the Registrant's proxy statement for the 2005 annual meeting of shareholders to be held in May 2005.

GOLDEN TELECOM, INC.
FORM 10-K
YEAR ENDED DECEMBER 31, 2004

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PART I

ITEM 1. BUSINESS

INTRODUCTION

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, Krasnoyarsk, Samara, Kaliningrad, Almaty, and Tashkent, and via intercity fiber optic and satellite-based networks, including approximately 220 combined access points in Russia and other countries of the CIS. In addition, we offer mobile services in Kiev and Odessa.

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

- BUSINESS AND CORPORATE SERVICES. Using our fiber optic and satellite-based networks in and between major metropolitan areas of Russia, Ukraine and other countries of the CIS, we provide business and corporate services including voice and data services to corporate clients across all geographical markets and all industry segments, other than telecommunications operators;
- CARRIER AND OPERATOR SERVICES. Using our fiber optic and satellite-based networks in and between major metropolitan areas of Russia, Ukraine and other countries of the CIS, we provide a range of carrier and operator services including voice and data services to foreign and Russian telecommunications and mobile operators;
- CONSUMER INTERNET SERVICES. Using our fiber optic and satellite-based networks, we provide dial-up Internet access to the consumer market and web content offered through a family of Internet portals throughout Russia, Ukraine, 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, although, some services still carry local brands because of recent acquisitions. Our dial-up Internet services are distributed under the ROL brand in Russia, Kazakhstan and Uzbekistan and under the Svit-On-Line brand in Ukraine.

Additionally, we hold a minority interest in MCT Corp. ("MCT"), which in turn has ownership interests in 13 mobile operations located throughout Russia and in Uzbekistan, Tajikistan and Afghanistan. We treat our ownership interest in MCT as an equity method investment and are not actively involved in the day-to-day management of the operations.

BUSINESS SECTION OVERVIEW

The following subsections within the Business section describe our business strategy, our current position in the markets in which we operate, our corporate history and development, our customer base, and a detailed review of our service groups by operating segments. Additionally, we describe our licenses and our network facilities. Finally, we provide a summary of the principal environments in which we operate, the telecommunications markets, the political and economic environments, and the legal, tax and regulatory regimes in Russia and Ukraine.

BUSINESS STRATEGY

Our objective is to be the leading facilities-based alternative voice, data and Internet services company in Russia and key markets in the CIS. To achieve this objective, we intend to:

- Increase Market Share by Offering Bundled Data and Voice Services Over an Integrated Network

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Corporate customers increasingly demand integrated telecommunications solutions from “one-stop” providers that are able to deliver a full service offering in the geographical areas in which these corporate customers operate. As a result, we plan to continue to develop and combine our businesses to create a unified service platform for local access, local exchange, domestic and international long distance, data, Internet access and services via turn-key solutions.

- Extend Our Leading Position in High Growth Data and Internet Markets

We plan to build on our position as a leading provider of data and Internet communication services in Russia and other countries of the CIS by increasing the number of network access points in our network to facilitate the growing volume demand for data and Internet communications.

- Reduce Operating Costs and Satisfy Capacity Needs through Network Planning and Optimization

Our network strategy includes building and owning our local exchange and customer access networks. We have entered into long-term lease agreements for long-distance and international fiber optic cable systems to provide our regional and global connectivity, supplementing these leased land-based channels with satellite circuits for redundancy and remote connectivity. We intend to selectively invest in and to incrementally expand the fiber optic capacity along our heavy traffic and high cost intercity routes to reduce our unit transmission costs and ensure sufficient capacity to meet the growing volume demand for data and Internet services. Wherever possible, we target customers and sell products which enable us to fully utilize existing fixed cost network infrastructure.

- Focus Operating Activities and Capital Investments in Major Metropolitan Areas

We plan to make capital investments primarily in Moscow, Kiev, St. Petersburg, Nizhny Novgorod, Krasnoyarsk, Samara, and Kaliningrad and other major population centers in the CIS, where demand for our services is most heavily concentrated. We also intend to expand our operations in regional cities with sufficiently strong local economies that we believe the potential exists to grow businesses that complement our current operations.

- Pursue Consolidation Opportunities

We intend to pursue consolidation opportunities through selective acquisitions that will allow us to expand our geographical reach, add to our service offerings and improve our market share while maintaining operational control. We will target complementary opportunities that will enable us to achieve synergies and economies of scale and seek regional opportunities in major cities where we do not have our own local network infrastructure.

OUR POSITION IN THE RUSSIAN AND CIS MARKETS

We believe that we are well positioned to maintain and consolidate our strong presence in the Russian and CIS telecommunications markets for the following reasons:

- our early market entry and local market experience;
- our focus on service, quality and reliability;
- our strong infrastructure position in Moscow, Kiev, St. Petersburg, Nizhny Novgorod, Krasnoyarsk, Samara, Kaliningrad, Almaty, and Tashkent;
- our extensive customer base;
- our extensive range of integrated voice, data and Internet data telecommunications services;
- our diverse and influential shareholder base; and
- our strong balance sheet position.

CORPORATE HISTORY AND DEVELOPMENT

Golden Telecom, Inc, initially a majority owned subsidiary of Global TeleSystems, Inc. (“GTS”), was incorporated in Delaware in June 1999 in preparation for our initial public offering (“IPO”) which took place in September 1999. GTS was founded in 1983 as a not-for-profit company under the name San Francisco/Moscow Teleport, Inc. and was among the first foreign telecommunications operators in the former Soviet Union, where it began offering data links to the United States (“US”) in 1986, international long distance services in 1992, local access to its networks in 1994 and cellular services in 1995. At the time of our IPO, GTS contributed substantially all of the assets that constituted Golden Telecom, Inc.

In September 2002, we purchased 50% of EDN Sovintel (“Sovintel”) that we did not own from OAO Rostelecom (“Rostelecom”), the Russian national long distance carrier. As a result of this purchase, we now own 100% of Sovintel. In April 2003, we merged the operations of TeleRoss, our wholly-owned subsidiary, into Sovintel.

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In August 2003, we acquired 100% of OOO Sibchallenge Telecom ("Sibchallenge"), the leading alternative wireline operator in Krasnoyarsk, Russia. Sibchallenge owns 100% of ZAO Tel ("Tel"), an Internet service provider, also based in Krasnoyarsk.

In December 2003, we acquired 100% of OAO Comincom ("Comincom"), and its wholly-owned subsidiary, OAO Combellga ("Combellga"), from Nye Telenor East Invest AS ("Telenor"). As part of this transaction, we issued shares to Telenor representing 19.5% of our shares outstanding after the acquisition. As of December 1, 2004, all assets, liabilities, rights and obligations of Comincom, and including Combellga, were transferred to Sovintel as pursuant to a merger of these three wholly-owned subsidiaries.

In February 2004, we completed the acquisition of 100% of ST-HOLDING s.r.o., a Czech company that owns 50% plus one share in ZAO Samara Telecom ("Samara Telecom"), a telecommunications service provider in Samara, Russia, from ZAO SMARTS and individual owners.

In April 2004, we completed the acquisition of 100% of the common shares in OAO Balticom Mobile ("Balticom") that owns 62% of ZAO WestBalt Telecom ("WestBalt"), an alternative telecommunications operator in Kaliningrad, Russia.

In April 2004, we completed the acquisition of the remaining 49% ownership interest that we did not own in OOO Uralrelcom ("Uralrelcom").

In May 2004, we completed the acquisition of 54% ownership interest in SP Buzton ("Buzton"), an alternative telecommunications operator in Uzbekistan.

The following table summarizes the four segments through which we currently conduct our operations:

SEGMENTS	SUBSIDIARIES
BUSINESS AND CORPORATE SERVICES:	
BCS division in Russia	Sovintel, Agency for Business Communications ("ADS"), Sibchallenge, Samara Telecom, WestBalt
BCS division in Ukraine	Golden Telecom (Ukraine)
CARRIER AND OPERATOR SERVICES:	
Carrier and Operator Services division in Russia	Sovintel, ADS, Sibchallenge, Samara Telecom, WestBalt
Carrier and Operator Services division in Ukraine	Golden Telecom (Ukraine)
CONSUMER INTERNET SERVICES:	
Consumer Internet Services division	Sovintel, ADS, Tel
MOBILE SERVICES:	
Golden Telecom GSM in Kiev and Odessa, Ukraine	Golden Telecom (Ukraine)

CUSTOMER BASE

We compete primarily for high-volume business customers and carriers who require access to highly reliable and advanced telecommunications facilities to operate their business. Together, our top five customers accounted for approximately 11% of our consolidated revenues for the year ended December 31, 2004. Our largest customer, Vimpelcom, together with its affiliate KB Impulse, accounted for approximately 5% of our consolidated revenues for the year ended December 31, 2004. No other customer accounted for over 5% of our consolidated revenues for the year ended December 31, 2004.

Our principal customer segments are:

Corporate Network Customers. Corporate network customers are typically large multinational, Russian or Ukrainian companies which require the full range of voice, data and Internet services in several cities across Russia, Ukraine and other countries of the CIS. While pricing is always a factor, this segment places more value on network coverage, reliability as defined by service level agreements, and the ability to design, install and maintain local area networks ("LAN") and wide area networks ("WAN"). These customers are willing to make longer-term commitments to integrated "one-stop" providers in exchange for higher levels of service.

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Corporate End-Users. Corporate end-users are foreign and Russian enterprises with centralized operations, either in Moscow, Kiev or in the regions. These corporate end-users also require a full range of voice, data and Internet services, but are more likely to purchase distinct services from separate suppliers based on price. We attempt to acquire business from corporate customers by providing superior technology and service levels at competitive pricing.

Small and Medium Enterprises (“SME”). We define small and medium enterprises as those business customers that require a full range of voice, data and Internet services and generally have monthly billings of less than $2,000.

Fixed-Line Operators. Fixed-line operators are other telecommunications providers, including other overlay operators operating in Moscow, alternative regional fixed-line operators and local operators, which we refer to as the local telcos. Price is the primary factor in their purchase decision, and although long-term contracts are rare, traffic volumes can be large. Voice telephony is a commodity for customers in this segment.

Cellular Operators. Russian cellular operators purchase large quantities of local numbering capacity in Moscow that they use in selling cellular services to their customers. Ukrainian cellular operators distribute large volumes of international and intercity traffic through our network in Ukraine. Price, availability and quality of service are primary factors in the purchase decision of these customers.

Mass Market. We define the mass market as those customers who utilize calling cards or dial-up Internet access. This market segment is price-sensitive, but quality of service is also important, particularly in the Internet access market. These customers predominately prepay for such services. In Kiev and Odessa, Ukraine, we also offer mobile services to the mass market, targeting individuals with above average disposable income, where price and quality are also primary decision factors.

PRICING

Generally, our customers make payments to us in the appropriate local currency, however the majority of our tariffs are denominated in United States dollars (“USD”) and are indexed to the USD for settlement purposes. Also, the majority of our operating costs are denominated in USD, but settled in the appropriate local currency.

OUR SERVICE GROUPS

This section provides a detailed review of our business on a segment basis and by operating division. We provide additional information on the services and customers, marketing and pricing, and competition within each division.

BUSINESS AND CORPORATE SERVICES (“BCS”):

BCS DIVISION IN RUSSIA

We operate a number of competitive local exchange carriers (“CLECs”) that own and operate a fully-digital overlay network in a number of major Russian cities. The majority of our services are provided through our wholly-owned Moscow-based subsidiary: Sovintel. As of December 1, 2004, all assets, liabilities, rights and obligations of Comincom and Combellga, were transferred to Sovintel pursuant to a merger of these three wholly-owned subsidiaries. As a result of this merger, Sovintel services over 256,000 telephone numbers for business customers. Through Sovintel, we are an integrated provider of the largest range of telecommunication services available on the Russian market, including network access and hardware and software solutions including installation, configuration and maintenance. Our geographical coverage includes all major population centers in Russia including Moscow, St. Petersburg, Nizhny Novgorod, Krasnoyarsk, Samara, and Kaliningrad.

The BCS division of ADS has constructed network infrastructure to support 27,600 city telephone numbers in Nizhny Novgorod. The BCS division of Sibchallenge has constructed network infrastructure to support 42,500 city telephone numbers in Krasnoyarsk. The BCS division of WestBalt has constructed network infrastructure to support 29,100 city telephone numbers in Kaliningrad.

Services and Customers

Local Access Services. Local access services are provided to business customers through the connection of the customers’ premises to our fiber network, which interconnects to the local public switched telephone network (“PSTN”) in Moscow, St. Petersburg, Nizhny Novgorod, Khabarovsk, Ufa, Vladivostok, Novosibirsk, Irkutsk, Kaliningrad, Ekaterinburg, Voronezh, Krasnodar, and Krasnoyarsk.

International and Domestic Long Distance Services. Outgoing international voice services to business customers are provided through our international gateways, which transmits international traffic through dedicated channels leased from Rostelecom, the

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incumbent long distance operator. When an international call is placed to our customer which has been assigned a number acquired from and serviced by an independent local exchange provider, the calling party currently has the option of dialing through either the public city code (095) in Moscow or via our exclusive non-geographical area codes (501, 502 and 478). We have developed and maintained a telecommunication network which utilizes non-geographical numbering and allows transmission of long distance traffic. We expect due to regulatory considerations, however, that non-geographical area codes will be discontinued and customers will be migrated to public city codes in the coming years.

In December 2003, we met with the Ministry of Communications to discuss the use of non-geographical numbering on fixed telecommunication networks. As a result of this meeting, we and the Ministry agreed to continue researching the possibility of developing an experimental zone, with Sovintel as a participant, in which we would route our customers' long distance traffic through our own network and route long distance traffic of interconnected operators to Rostelecom's network. We have agreed to utilize Rostelecom's technical facilities for our international traffic with the right to have our own direct interconnection agreements and settlements with foreign operators for such traffic.

Domestic long distance services are primarily provided through our intercity transmission network, leased capacity between major Russian cities, and through interconnection with Rostelecom's network. We provide switched voice services to regional customers through local city switches connected to earth stations and intercity fiber optic lines. When a customer in one of these regions makes a domestic long distance or an international call, it is typically transmitted first to our Moscow hub by fiber or satellite transmission facilities. The call is then connected to the customer's destination through a terrestrial line, through the Rostelecom network, or, for international calls, through our international gateway. We offer very small aperture terminal ("VSAT") satellite services to customers located in remote areas that cannot be physically connected through terrestrial cables to our regional long distance switches, as well as to large infrastructure projects in need of sophisticated and reliable communications systems. Our satellite transmission facilities connect these customers directly to our Moscow-based hub through a VSAT antenna installed at the customer's location.

Dedicated Internet and Data Services. We provide our business customers with dedicated access to the Internet through our access and backbone networks. We also offer traditional and high-speed data communications services, using frame relay, X.25, asynchronous transfer mode and Internet Protocol ("IP") technologies, to business customers who require WAN to link computer networks in geographically dispersed offices. We also provide private line channels to customers who require high-capacity and high-quality domestic and international point-to-point connections. Private lines can be used for both voice and data applications.

Integrated Voice and Data Services. The markets where we operate are experiencing a continuing significant trend toward routing voice traffic over the Internet using IP technology, known as "Voice over IP" or "VoIP". We are a leading provider of this service. In addition to using data networking services for typical LAN to LAN interconnections, many customers will also route their voice traffic over our frame relay data network to reduce overall telecommunications expenses. Voice over frame relay involves "packetizing" voice calls using frame relay, a data transmission protocol, and transporting the voice call over our data network to be "de-packetized" at the terminating end. The call is finally terminated through normal circuit switching. Packet switching offers greater cost efficiencies over circuit switching, and offers this division an opportunity to leverage its data network investment across a greater number of services and geographic areas. This type of integrated communication solution is also offered by Integrated Services Digital Network ("ISDN") products where basic services include telephony, fax, data transmission, Internet access and video conferencing.

Value-Added Services. We offer an increasing range of value-added services such as dedicated hosting, co-location and IP, or IP-based Virtual Private Networks ("VPNs") and we intend to increase the number of value-added services we offer to include other Internet-related products and services. Our Managed Data Center, which consists of a total area of 600 square meters, continues to be the leading hosting center in Russia and provides services to news agencies, and financial and entertainment services providers. We enjoy strong sales synergies between our Managed Data Center products and our IP transit sales efforts. We offer a variety of information services addressing the needs of financial markets including access to S.W.I.F.T., Reuters, Bloomberg and to the Moscow Inter-bank Currency Exchange, or MICEX. We also have a Moscow-based Call Center that has a leading position in providing telemarketing, actualization and Hot Line services for business clients. We offer fixed mobile convergence services in conjunction with Vimpelcom to corporate clients that wish to use their mobile phone as an extension of their private branch exchange ("PBX").

Equipment Sales. As part of our integrated service offering, we sell equipment manufactured by Nortel Networks, Cisco Systems, Alcatel, Siemens, Avaya, Motorola and Ericsson. As part of our turnkey solutions, we also offer the installation, configuration and maintenance of Nortel Meridian One products, Norstar key systems, Mercator PBXs and the Passport lines of data equipment. This close customer contact assists us in the marketing of additional services and enhances customer retention.

Major customers range from large multinational and Russian corporate groups to small and medium-sized Russian enterprises. Our customers cover all industry segments including business centers, hotels, financial institutions, professional services firms, fast moving consumer goods companies, manufacturers and companies involved in extractive industries. Our customers are located in all major cities throughout Russia.

Marketing and Pricing

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In Sovintel, sales to customers are made through a direct sales force consisting of approximately 125 account managers in Moscow. Each of these account managers targets specific customer groups and industry segments, and is supported by specialists in technical sales support, marketing, customer service and end-user training. Each account manager is allocated to one of four geographical areas within Moscow for sales to all potential customers within this area.

In addition, a team of 89 regional sales managers is responsible for supporting the regional sales force and maintaining relations with our regional partners. We have a dedicated sales force in each of our regional branch offices and for other regional cities we have sales incentive plans with our regional partners.

We train our employees to provide customer service at a level which is comparable to that provided by Western telecommunications companies. As a result, we believe we have earned a reputation for providing high-quality telecommunications services through an experienced and professional customer service staff.

We price our services at a premium to those offered by the incumbent local operator and competitively with other alternative service providers within the market. We offer volume discounts to customers for exceeding certain defined revenue thresholds. Although we publish standard tariffs, generally we are not required to obtain regulatory approval to change tariffs. While pricing competition remains a factor, especially for voice services, many corporate data networking customers place more value on network coverage, reliability and our ability to design, install and maintain LANs and WANs. These customers often require integrated solutions, including connections to offices located in different cities. Depending on the cities involved, there may be few operators that can provide these services, and accordingly, there may be less pricing pressure.

Competition

We compete principally on the basis of price, time to installation, network quality, geographical network reach, customer service and range of services offered. While we have a leading position in this market, we face significant competition from other service providers, including:

- the AFK Sistema Telecom group of companies, including alternative operators such as Comstar, MTU-Inform, Telmos and Golden Line, for all services provided to corporate customers within Moscow;
- Moscow City Telephone Network, the incumbent operator, currently majority owned by Sistema Telecom, for services provided to the SME market in Moscow;
- Equant, currently owned by Equant France, for corporate data networking services across Russia;
- TransTelecom, currently owned by the Government of the Russian Federation, for corporate data networking services across Russia;
- Peterstar, an affiliate of Telecominvest, a subsidiary of Metromedia International Group, Inc., for services provided in St. Petersburg;
- Petersburg Telephone Network, the incumbent local operator in St. Petersburg, for services provided in St. Petersburg; and
- Regional subsidiaries of Electrosvyaz, a holding group with majority government ownership, for services within Russian regional cities. For ADS the main competitor is the Electrosvyaz subsidiary, Volga Telecom, while for Sibchallenge the main competitor is the Electrosvyaz subsidiary, Ural Svyaz-Inform.

BCS DIVISION IN UKRAINE

The BCS division of Golden Telecom (Ukraine) (“GTU”), our largely Kiev-based CLEC, has constructed and owns a 575 kilometer fiber optic network, including 285 kilometers in Kiev, that is interconnected to the local public telephone network in Kiev, to other major metropolitan areas in Ukraine, and to our international gateway. Data and Internet access services are provided in 89 regional access points in 33 metropolitan cities in Ukraine using leased terrestrial capacity from Ukrtelecom, an incumbent operator, and from some alternative providers.

Since the opening of our mobile service operation in Odessa in 2001, we have expanded our local access service offerings into Odessa, targeting business clients. In the third quarter of 2002, GTU started to offer local access and pre-paid voice over IP services in Dnepropetrovsk. Further following our regional development strategy, in the second quarter of 2003 we started to offer local access, voice over IP and dial-up Internet services in Lviv, and in the second quarter of 2004 we launched the same service offering in Zaporizhya. During 2005 and 2006, we plan to launch our operations in additional major metropolitan areas in Ukraine.

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In the second quarter of 2003, GTU constructed a Metropolitan Area Network ("MAN") in Kiev providing a new range of services, including broadband access to Internet and VPN service. In the fourth quarter of 2004, GTU deployed a MAN in Odessa. In the first quarter of 2004, GTU launched a Soft Switch class 4/5 in Kiev providing interconnect with international operators via public Internet and the possibility to offer new services such as VoIP VPN and IP Phone.

During 2004, in order to expand market penetration in areas of presence in Ukraine and to increase utilization of technical infrastructure, GTU began to provide telecommunications services to residential customers. Due to the lack of modern, high quality, and customer oriented telecommunications services available in Ukraine, we are able to competitively price our services and at the same time offer high quality telecommunications services through an experienced and professional customer service staff. As of December 31, 2004, more than 1,000 residential customers have purchased GTU's BCS services. We plan to increase the number of residential customers significantly during 2005.

As of December 31, 2004, the BCS division of GTU serviced 26,700 telephone lines for business and residential customers and connected more than 4,800 dedicated Internet ports.

Services and Customers

Local Access Services. Local access services are provided to business customers through the connection of the customers' premises to GTU's fiber network, which interconnects to the local PSTN in Kiev, Odessa, Dnepropetrovsk, Lviv and Zaporizhya.

International and Domestic Long Distance Services. GTU provides outgoing international voice services to business customers through its international gateway, transmitting traffic to international operators using least-cost routing. Domestic long distance services are primarily provided through our own intercity transmission network, leased capacity between major Ukrainian cities, and through interconnection with Utel and Ukrtelecom's network.

Dedicated Internet and Data Services. GTU provides a private line service, VPN services, an integrated voice and data ISDN connection, frame relay, X.25, broadband digital subscriber line ("xDSL"), and dedicated Internet services. GTU's main focus in 2004 was the development of broadband access to MAN and xDSL services, required by customers with high-volume data traffic needs.

Voice over Data Services. GTU is a leading provider of voice over data services in Ukraine. Our pre-paid cards and our VoIP products introduced under the brand "Allo!" kept a market leading position with more than a 50% market share in Kiev, providing an alternative international calling solution for corporate and mass market customers. Although this service has proved to be popular in the Ukrainian market and continues to offer growth opportunities in other metropolitan cities in Ukraine, the growth of VoIP-service market has been hampered due to the introduction of State regulated prices in 2002.

Information Services. GTU provides financial and banking services to companies such as S.W.I.F.T. and Western Union, access to processing centers, news services to companies such as Reuters, as well as conduits to airline reservation systems in Ukraine. We have been chosen as one of two exclusive last mile providers for Reuter's services in Ukraine. Our data center provides server co-location and hosting services for news agencies, and financial and entertainment services providers.

Call Center Services. With the launching of Call Center services at the end of 2002, GTU captured the leading position in providing telemarketing, actualization and Hot Line services for business clients in Kiev.

Residential Telecommunications Services. In 2004, GTU developed unified telephone and Internet broadband access services for residential customers. GTU is planning for further development of residential telecommunications services and is in process of implementing required structural changes that will allow us to serve this market segment in the most effective way.

The customers for this division primarily consist of corporate network customers, corporate end-users, SME's and high-end residential customers. Pre-paid VoIP and dial-up Internet services are also provided as a mass market offering.

Marketing and Pricing

While emphasizing the quality and reliability of its services, GTU positions itself as a price competitive service provider to businesses. Sales to our customers are made through our direct sales force and through various alternative distribution channels. Our sales organization is divided into Corporate, SME and Indirect sectors and consists of 25 account managers in Kiev and 14 in the regions of Ukraine, 6 indirect sales managers in Kiev and 7 in the regions. Alternative distribution channels are primarily built through agent networks comprising information technology system integrators, telecom and computer equipment distributors, IP and mobile services retail dealers, as well as through cooperation contracts with business centers. Mass-market service offerings are mainly conducted indirectly through alternative distribution channels.

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GTU is a fast growing local access and Internet service provider for businesses in Ukraine both in terms of market share and sales revenues due to highly competitive offers for bundles of voice and Internet services. In order to stimulate higher growth we follow an aggressive pricing policy for corporate end-users, particularly in the regions outside Kiev. Additionally, an increase in market share in data services is expected through the continued sale of international private line connections, international frame relay connections, and national corporate networks based on IP technologies.

Competition

In Kiev, in the market of voice services to business end-users we compete with Ukrtelecom, the incumbent operator, Utel, and a number of other CLECs including, Optima, Citius and Farlep. We believe that because of our early market entry and our ability to provide integrated voice, data and Internet services, we have a leading position in the high-end segments of the corporate market.

In other major metropolitan cities in Ukraine, we compete with several other CLECs, the most significant being Optima, Velton, Farlep, and CSS (Odessa). We are entering regional markets based on our advantage of integrated voice, data and Internet offerings and providing high quality services to business clients.

Provision of Internet and data services is not licensed in Ukraine. As a result there is a high level of competition on the market with more than 400 Internet Servie Providers (“ISPs”) in Ukraine, although some consolidation through acquisitions has been observed on the market over the last year. The main competitors in the corporate market for corporate data are Infocom, a majority state-owned operator, Datacom, a data and integration services provider, and Ukrtelecom. We seek to be competitive in the corporate networks market by providing excellent geographical coverage, high quality circuits and professional service. We defend our competitiveness in the Internet market by focusing on a strategy to provide the best value and quality Internet services for business.

CARRIER AND OPERATOR SERVICES:

CARRIER AND OPERATOR SERVICES IN RUSSIA

The Carrier and Operator Services division of Golden Telecom provides voice and data transmission services to other telecommunications operators, both wireline and wireless.

For international telecommunications voice operators, we are an alternative to the incumbent for the completion of calls terminating in Russia and the CIS. For domestic telecommunications voice operators, in addition to providing termination for Russian and CIS destinations, we also offer international call termination as well as providing telephone numbers (subscriber ports). In addition, we offer VoIP and data services, including numbering capacity and IP-centric solutions. Due to the geographic reach of our network and our high volume of traffic, we have a lower cost basis than many of our competitors and can therefore resell any excess termination capacity. During 2004, Russia experienced a rapid expansion of the mobile networks into the lesser developed parts of northern Russia and Siberia. To capitalize on this expansion brought on by the mobile operators, we completed several projects with Vimpelcom, MTS and Megafon in which we provide satellite based network extension into several locations in Siberia, Sakhalin and the northern areas of Russia. We expect this expansion to continue throughout 2005 during which time it is expected that cellular operators will further implement their expansion plans throughout the remaining areas of Russia. Additionally, for the wireless operators and smaller voice providers, we provide telephone numbers that they use in selling their services to their end-users.

Our voice network infrastructure is integrated into the Moscow city incumbent telephone network at 78 transit and local exchanges, allowing us to deliver traffic within the local public network. In addition, our network infrastructure is now integrated into the main public city networks operated by the incumbent in St. Petersburg, Nizhny Novgorod, Samara and Krasnoyarsk. Our network also interconnects directly with other fixed-line and cellular operators in Moscow and with Rostelecom. We have constructed the infrastructure necessary to support 150,000 ports, each corresponding to a unique telephone number. In 2004, we signed new agreements with MGTS which provide us with a further 2,000 Moscow numbers and approximately 4,000 access lines. This numbering capacity and access lines will become fully operational in the first quarter of 2005 and will carry additional voice and dial-up IP traffic generated by new corporate customers and smaller carriers. In addition, in 2004 we entered into an interconnect agreement with DalSvyaz, the incumbent operator in the Russian far east and completed a network upgrade in Khabarovsk to provide 10,000 numbers, which will become operational in the first quarter of 2005. In Krasnoyarsk, we commissioned another 100,000 local numbers in 2004, of which 10,000 were already sold to local cellular providers.

For international data networking operators, we provide data connectivity across Russia and the CIS. We have constructed a data network covering more than 200 cities across Russia and the CIS, primarily to serve our Russia-based corporate customers, representing growth of 25% over 2003, when we operated in only 160 cities. Through network interconnect agreements with global data network operators, we also sell data networking services to customers outside Russia and the CIS. We interconnect with these global providers at access points in Stockholm, or London or Frankfurt.

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Our data network infrastructure consists of terrestrial and satellite transmission capacity that we either lease or have purchased via indefeasible rights of use (“IRU”). We currently have IRUs for a STM-16 between Moscow and Stockholm, a STM-4 between Stockholm and London, and 45 Mb/s between Moscow and 9 cities in Russia. Our remaining terrestrial capacity is leased. For satellite transmission, we entered into long-term agreements with Intelsat and Intersputnik for capacity covering Russia and the CIS. For IP capacity, we have nine STM-1 ports, four of which are from UUNET and five of which are from Cable & Wireless.

The Carrier and Operator Services division also provides domestic and international IP transit services to ISPs in Russia and the CIS. Smaller ISPs can connect to our IP backbone and then use our network to access the global Internet or Russia-based Internet.

Services and Customers

Voice Services: The Carrier and Operator Services division offers two types of voice services to its customers; call completion or termination services and the provision of telephone numbers. For international operators, which include traditional incumbents such as British Telecom as well as VoIP operators, we provide call completion to the PSTNs located in Russia and the CIS. We typically interconnect with these operators in London, Stockholm, or Frankfurt or through the public Internet and they send us their traffic which is destined for Russia and the CIS. International outbound switched voice traffic is routed by destination based on either anticipated return traffic from the foreign operator through non-geographical area codes, or through least-cost routing. We attempt to direct international traffic through particular foreign operators so as to balance our settlements paid to and received from foreign operators. Thereafter, we direct all international outbound, switched voice traffic in excess of that required to achieve the balance of the bilateral relationships to the lowest cost route.

Domestic operators in Russia and the CIS, including Russian wireless companies such as Vimpelcom, also use us for call completion to the PSTNs located in Russia and the CIS. They also send us international traffic that we then pass onto the PSTN of international operators. Additionally, we provide telephone-numbering capacity to Russian wireless operators who may purchase large blocks of telephone numbers that they then provide to their end-users.

During 2003, we started to provide equipment sales, installation and maintenance services to cellular operators. This hardware is usually a PBX with call center capabilities but it has also included LAN and WAN equipment. It is our strategic intent to move beyond simply providing call completion into higher value-added solutions such LAN and WAN solutions to cellular operators. During 2004, we started to provide satellite communication links to Russian cellular operators. This solution is for hard-to-reach regions in Russia, such as Siberia and the Russian far east, and allows cellular operators to grow in these markets which still have a low cellular penetration rate.

The customers for our voice services include international operators such as MCI, AT&T, British Telecom, Cable & Wireless, TeleDenmark, TeliaSonera, T-Systems, Telenor, Telecom Italia Sparkle, iBasis, and Teleglobe; domestic cellular operators such as Vimpelcom, MTS, and Megafon; and domestic wireline operators such as Comstar United Telesystems, Macomnet, and PeterStar.

Data Services: The Carrier and Operator Services division also offers two types of data services to its customers: data networking services such as frame relay, synchronous digital hierarchy capacity and IP virtual private network (“IP VPN”), and IP transit ports. In addition to providing the underlying circuit capacity, the provisioning of both types of service also includes the installation and maintenance of customer premises equipment (“CPE”) such as routers, multiplexers and frame relay access devices.

During 2004, we began offering the following new solutions to Carrier and Operator customers and Corporate clients through our wholesale partnerships which include:

- Access to our Metropolitan Ethernet Network which offers high-capacity data services, including access to our IP backbone at speeds ranging from 2Mbit/s to STM-1 and Gigabit Ethernet circuits;
- Through our partnership with AT&T, we began offering our banking customers access to a new IP VPN based SWIFT platform. This application not only enriches our portfolio and strengthens our partnership with AT&T, a leading global player, but also gives us better access to the banking community in Russia and CIS;
- In addition, we started offering domestic and international IP VPN services. These are based on our own MultiProtocol Label Switching (“MPLS”) platform and take advantage of our international MPLS interconnects with partners in the United States (“US”) and Western Europe.

Global data network operators sell worldwide data network services to their multinational clients. Typically, these data network operators have constructed extensive networks in the US, Western Europe and Asia Pacific but have little, if any, infrastructure in Russia and the CIS. In order to sell a turnkey solution to their customers, they need partners to reach the areas where they do not have

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their own infrastructure. Through a network interconnect agreement with us, these global operators are able to provide their clients connectivity to over 220 cities in Russia and the CIS where we have infrastructure. These global operators market and re-sell our network as if it were their own network. Such cooperation includes a joint project with British Telecom for the construction of Visa International's access network in Russia and CIS. This now allows Visa International member banks, over 45 banks in Russia and 25 banks in the CIS, to access Visa International bank processing centers.

Due to our large consumer and corporate customer base for Internet access services, we require very high IP transit capacity from global providers such as MCI, UUNET, and Cable & Wireless. This capacity requirement allows us to obtain very favorable pricing from the global providers and, in turn, we can offer Russian and CIS based ISPs an attractive pricing and quality combination for the resale of IP services.

Marketing and Pricing

For each telephone number or subscriber port, customers generally pay a one-time port fee, a flat monthly fee and per minute charges based on usage. However, recent pricing trends for wireless operators have reflected an increased emphasis on per minute charges based on usage, rather than on monthly port fees. Smaller wireline operators continue to pay flat monthly fees plus traffic charges.

Voice call completion or termination services are priced per minute according to destination. There is an increasing trend towards a single price for all destinations in Russia although the typical pricing has separate rates for Moscow and St. Petersburg and then a single rate for all other cities in Russia. Prices for CIS countries will usually follow a similar pattern; the major cities have separate rates and then the rest of the country is priced at the same rate. The CIS countries have much smaller traffic volumes but the prices and margins are much higher for these destinations than they are for Russian destinations. We are actively expanding the geographic reach of our network in order to capture these high revenue, high margin destinations.

Pricing for data networking services is comprised of a number of elements: a monthly fee for the international bandwidth capacity provided, a monthly fee for the access port, a monthly fee for the last mile connection between our network and the customer location and a monthly maintenance fee for any CPE that we manage for the end-user. Additionally, there are one-time installation fees for all of the elements listed above. Customers have the option to purchase the CPE and provide their own maintenance, however, customers usually prefer a turnkey solution where we manage all elements and are therefore responsible for all service quality issues.

Pricing for IP transit services sold to ISPs is either in the form of a flat monthly fee for an IP port or based on the amount of traffic consumed by the ISP. Typically, the larger ISPs will opt for a flat monthly fee for a large port connection to Golden Telecom while the smaller ISPs prefer to pay per megabyte of IP traffic that is sent to their network from our network.

Competition

For voice services, our main competitors are Rostelecom and Comstar United Telesystems, part of the AFK Sistema group of companies.

For data networking services, our main competitors are Equant and TransTelecom. Equant's data network in Russia is similar to our network but their CIS coverage is not as extensive. Therefore, for networks that include Russia and the CIS, we have a competitive advantage. Equant's global presence does, however, give it access to a wider corporate customer base than ours but this advantage is offset, we believe, by the reluctance of Equant's global competitors such as MCI, British Telecom, Cable & Wireless, Infonet and AT&T to use Equant locally to serve their customers. In effect, we have access to the corporate clients of MCI, British Telecom, Cable & Wireless, Infonet and AT&T that require connectivity to Russia and the CIS.

For IP services, our main domestic competitor is TransTelecom. A number of international IP transit providers such as Cable & Wireless and TeliaSonera are also actively selling global IP transit services in Russia. In 2002, we entered into a peering agreement with two other Tier 1 Russian ISPs. According to the terms of this agreement, all Russian ISPs requiring access to these networks will have to pay traffic charges whereas previously all peering was free. As a result, we have been able to earn additional revenue from our infrastructure investments in Russia while improving our competitive position via other IP access providers.

CARRIER AND OPERATOR SERVICES IN UKRAINE

Services and Customers

The Carrier and Operator Services division in Ukraine operates leased international and domestic long distance networks and is a provider of local access, international and intercity long distance services in major Ukrainian cities where our switching equipment is located. The network is comprised of our gateway international switching center ("EWSD") in Kiev, leased international and intercity fiber optic channels, and regional voice and data switches. For local carriers we provide access to highly reliable and advanced telecommunication services, WAN and broadband Internet in 27 access points. We provide Internet

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access services to more than 20 ISPs in Ukraine. National frame relay service is provided to major telecommunication operators and data carriers such as Velton, Teleport SV and Relcom. The telecommunications company SITA is the major consumer for our private line services. International connectivity outside the country is provided through reciprocal cooperation agreements with international operators such as Cable & Wireless, Telecom Austria and Elisa (former Finnet International) as well as through Utel international networks.

International and Domestic Long Distance Services. Through our gateway switch in Kiev, we terminate incoming traffic for foreign operators destined for our customers in Kiev, Odessa, Lviv, Dnepropetrovsk, Zaporizhya and most other major metropolitan areas in Ukraine. Our incoming international traffic is also terminated into other operator networks, with whom we have entered into settlement agreements. These other operators are national cellular operator networks like Ukrainian Mobile Communications (“UMC”) and Kyivstar, private local exchange operators directly interconnected to our network and networks belonging to Ukrtelecom, the incumbent operator in Ukraine. In 2003, we signed amendments to the settlement agreement with Ukrtelecom allowing incoming international traffic termination to Ukrainian PSTNs via Ukrtelecom’s network. In 2004, we also signed a new agreement with Utel for incoming international traffic termination to Ukrainian PSTNs. Outgoing international traffic is routed through our international gateway to international operators using least-cost routing.

We also offer domestic long distance services throughout Ukraine through interconnection with Utel, Ukrtelecom, and through our own leased channels between major Ukrainian cities. We hold an intercity operator’s license allowing us to offer domestic long distance services directly and are interconnected in major Ukrainian metropolitan areas to facilitate this offering. In September 2003, we signed amendments to settlement agreements with Ukrainian fixed-line and mobile operators introducing the calling party pays (“CPP”) settlement principle imposed by the changes in the Ukrainian telecommunication law. These agreements remained in force in 2004 as well as the CPP settlement principle.

The customers for this division primarily consist of international operators, national fixed-line and cellular operators. Our main international partners are Cable & Wireless, Elisa, and Telecom Austria. Cable & Wireless route a major part of our outgoing and incoming international voice and data traffic.

The fixed-line operators include overlay and wireless local loop operators in Kiev and other major cities of Ukraine, alternative regional fixed-line operators and local operators. Among them Velton Teleport SV and Telesystems are the major fixed-line operators in Ukraine purchasing our international telecommunication, long distance, and voice services.

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

Marketing and Pricing

As a carrier for other telecommunication operators, we offer a more attractive pricing structure for international calls than incumbent operators like Ukrtelecom and Utel. Although price is still the primary factor in the routing decision of the Ukrainian cellular and alternative carriers, more and more of them demand high quality of international voice and data wholesale services, making our offering even more attractive. As a result, our traffic volume continues to increase, especially traffic to international destinations and mobile networks in Ukraine. Our carrier operations are supported by a sales force consisting of three sales managers responsible for sales to domestic carriers and one for sales to international carriers.

Despite high termination costs to the PSTN imposed by Ukrtelecom in 2003, we successively worked with international carriers to increase volumes of incoming international traffic terminated in Ukraine through our network. We plan to expand our international network through new international interconnection with major telecommunication carriers in Europe, the US and the Middle East. Also, we utilize VoIP technology to route more international traffic through our network.

In February 2003, the Ukrainian Parliament overrode the President’s veto and adopted an amendment to the Ukrainian communication law prohibiting all telecommunications operators from charging their customers for incoming calls, thus introducing the CPP principle, which entered into effect on September 19, 2003. Simultaneously, state regulated tariffs for calls from the PSTN to mobile networks were introduced allowing operators to receive and share revenue from calls to mobile networks. To implement CPP settlements, we amended our agreements with Ukrtelecom, Utel, other fixed-line carriers and Ukrainian cellular operators establishing agreed access rates for the calls between fixed-line and mobile networks. These changes became effective in October 2003 and enable us to receive a settlement when a fixed line party calls a mobile telephone as well as to receive a portion of revenue when we route calls from mobile to fixed-line networks.

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As a carrier for other ISPs, we offer an attractive pricing structure and, therefore, we expect to retain our significant market share in this segment. We expect to strengthen our positions in the regions of Ukraine due to close cooperation with Ukrtelecom and Ucomline in these areas. In data services, an increase in market share is expected through the continued sale of international private line connections, international frame relay connections, and provisioning of last mile services in major cities of Ukraine.

Competition

In Ukraine, the carrier market is dominated by Utel, with Kyivstar, Ucomline, Velton and Optima becoming more competitive. Moreover, in 2004 several Ukrainian cellular operators received international and intercity communications licenses providing them the possibility to route their traffic themselves and to compete with fixed line operators on this market. In response to these conditions we are seeking to increase our share of this market by further development of relationships with existing carrier clients by providing them with Internet, data and value added services, and by interconnecting emerging CLECs. Also, we plan to expand our network and interconnections within Ukraine to reduce the termination cost of international incoming traffic coming to Ukraine from international carriers.

CONSUMER INTERNET SERVICES

Services and Customers

Dial-up Internet Services. We offer dial-up Internet services to consumer markets in Russia, Ukraine, Kazakhstan, and Uzbekistan. As of December 31, 2004, we had a subscriber base in excess of 413,000 active subscribers. We provide these services under multiple brands, the most notable being ROL which is the flagship of our dial-up services. As early as 1995, ROL, which at that time was known as Russia Online, was the first Russian-English language, online service for accessing the Internet through either dedicated private lines or dial-up servers. Since that time, it has evolved as the only nationwide dial-up ISP in Russia. With over 60 locations, including the major markets of Moscow, St. Petersburg, Kiev, Almaty, and Tashkent we are also the largest ISP in the CIS.

In addition, we provide Russian language content based Internet portals covering many topics including entertainment, education, computer-gaming and communications specifically for the Russian mass-market. We market the portals under the ROL brand and utilize the portal as a marketing channel for both our existing and future customers. Furthermore, we offer advertising space on our portals along with integrated web services to a variety of customers who require online marketing.

The consumer dial-up Internet access service has seen decreased utilization rates over the last year as subscribers have decreased the average number of hours spent online from approximately 25 hours to approximately 23 hours per month. This is due to the further penetration of the market by competitors. However, as entry level customers continue to become exposed to the Internet, we expect their usage levels to increase. Growth in our consumer dial-up access business during 2004 was driven by organic growth throughout the covered area. We continued our expansion in the regional areas of Russia as well as in other CIS countries and pursued our strategy of consolidating our brands into our flagship brand, ROL. We plan on continuing these strategies throughout the coming year.

Asymmetric digital subscriber line (“ADSL”) Services. Customers receive local access to our dial-up services throughout the covered areas through capacity acquired through long term local interconnection agreements. Internet backbone and long haul traffic is then provided over our domestic and international long distance infrastructure. Currently, ROL has access to multiple gigabit Ethernet fiber optic connections to the domestic networks as well as the equivalent of an STM-4 international connection. ADSL services are offered to customers in Moscow, St. Petersburg and Nizhny Novgorod.

Customers of our ADSL services are provisioned through long-term agreements with last mile providers. Although we saw dramatic growth and interest from new customers for this service, the market is still in its infancy in Russia. In general, we are following a strategy of providing ADSL services to our existing customers who need “on-demand-all-the-time” connections.

Marketing and Pricing

Our dial-up services are offered mostly through prepaid tariff plans. Almost all sales of ROL prepaid tariff plans are made possible through the sale of scratch cards which are distributed through an extensive network of retail outlets in our coverage area. As of December 31, 2004, the ROL distribution network consisted of over 13,000 points of sale (“POS”) throughout our covered area. The multi-tiered distribution channels and the number of POSs have grown substantially during 2004. This growth is in part related to the establishment of the ROL brand during 2002 and our marketing efforts to further establish brand awareness in our primary markets. Furthermore, in regional areas a great deal of emphasis was placed on expansion of our distribution channel to increase availability of our services.

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Tariff plans are offered as Internet access packages with either hourly based pricing policies or as bulk hour purchases. For prepaid services, customers can purchase scratch cards from a POS or may pay directly through the banking system. For postpaid schemes, which account for less than three percent of sales, customers are invoiced on a monthly basis for hourly usage. Prepaid tariff schemes provide the customer with lower hourly charges than with postpaid tariffs.

During 2004, the distribution network and POS were extensively used in our marketing plans. We are continuing these efforts as they provide a “closest point” of connection to our customers. Programs to improve our distribution network will continue as our distribution network provides us with our closest point of connection to our customers. These marketing efforts will be further enhanced by our existing customer support network which provides continuous support for end-users and business hour support for distribution customers. Local access support numbers are provided to customers that connect them directly to our coverage area support center located in Moscow. These calls are carried over our voice network.

Web advertising and integrated web services are marketed and sold either directly or through an agency contract. Although the advertising market is still in its infancy, online marketing schemes for our own services which are connected to our content based portals will enable us to take advantage of sales growth in the advertising market when it occurs. The ROL portals are the fourth most visited web portals in Russia and the most visited content based portals.

Competition

Our dial-up services have localized competition mainly from small businesses with limited regional coverage. In major markets, such as Moscow and St. Petersburg, we compete with MTU-Intel and Web Plus, both of which are affiliated with the incumbent city telephone companies.

MOBILE SERVICES:

GOLDEN TELECOM GSM

We operate a cellular network using GSM-1800 cellular technology in Kiev and Odessa, Ukraine, where our network covers an area with a population of approximately 3.9 million people. Golden Telecom GSM began cellular operations with a license allowing it to offer services in Kiev and the Kiev region and later obtained a national operating license and commenced operations in Odessa. However, during 2001 our mobile operations in Ukraine were under strong competitive pressure leading to the overall decline in our mobile revenues. In 2002, we reassessed alternative strategies for our mobile operations, and refocused our mobile operations as an additional service offered to high-end mass market and business customers. In 2004, we became more active in the prepaid market.

Amendments to the Ukrainian Communications Law that entered into effect on September 19, 2003, prohibited all telecommunications operators from charging their end-user customers for incoming calls — the so called CPP principle. State regulated tariffs for calls from the PSTN to mobile networks were also introduced at this time, thus allowing mobile operators to receive a share of revenue from calls to mobile networks. To effect CPP settlements on our network, we entered into an interim agreement with Ukrtelecom that assigns a national destination code numbering plan to our mobile customers and reallocates our interconnect numbering capacity in Kiev and Odessa from our mobile to our fixed network. This agreement became effective in November 2003 and enabled us to receive a settlement from revenue generated when a fixed line party calls our mobile customer as well as releases direct city numbering capacity for future sale to CLEC customers. Introduction of the national destination code cancelled former numbering plan limitations and made possible further development of our prepaid subscriber base.

Services and Customers

Mobile Services. We provide two types of mobile services to our clients: a basic service for clients who utilize prepaid calling cards and an expanded service for subscription clients, including international roaming with 100 operators in 56 countries, and value-added services such as voicemail, call forwarding, conferencing, MMS and a broad range of short message service, or SMS and voice information services.

Our customers consist of a broad spectrum of private and corporate users. Our customer base changed in 2004 due to the rapid growth of prepaid service users. As of December 2004, prepaid subscribers constituted more than half of our subscriber base. The remaining subscriber base is represented primarily by the high-end mass market and business customer segments.

Marketing and Pricing

Our network has the widest frequency bandwidth allocated to any cellular operator in Kiev, allowing us to deploy a high quality network throughout the city and thus market ourself as a quality service provider. Due to the highly competitive nature of the cellular market in Kiev, we focus on providing a flexible and competitive tariff structure in two target markets.

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We position our subscription service as a high-quality service to private and business users, providing clients with flexible tariff plans and a variety of value-added services. During 2004, we continued two pricing schemes from the previous year, one offering an unlimited number of local calls for a relatively high monthly subscription fee, the other offering a price per minute for local calls depending upon the total volume of calls. We have also introduced two new pricing schemes: one with the common tariff for all outgoing calls, and one with unlimited traffic free-of-charge within a closed corporate group. This strategy allowed us to maintain our contract subscriber base and to utilize existing network resources more efficiently.

Our marketing strategy for pre-paid services is based on providing competitive tariffs for mass-market users with low traffic volumes, which has resulted in a significant increase of the number of prepaid subscribers during 2004. In March 2004, we introduced new international tariffs for prepaid subscribers which has contributed in further increasing our subscriber base growth.

Our sales force in Kiev is represented only by direct sales representatives, while in Odessa we utilize both direct sales and an alternative retail dealers' network. Our strategy is focused on maintaining our existing high-end customer base with a gradual increase in the number of customers for more efficient utilization of our network and frequency capacity.

Competition

The Ukrainian cellular market is highly competitive. UMC, wholly owned by MTS, Kyivstar, owned by Telenor and an affiliated company of Alfa Group, and Ukraine Radio Systems ("URS") all operate GSM-900 networks. UMC and Kyivstar offer nationwide coverage within Ukraine and have deployed GSM-1800 services in major metropolitan cities. UMC also operates a NMT-450 network throughout Ukraine. URS has already launched its services in the 23 largest Ukrainian cities. DCC, owned by Turkcell, also announced an aggressive plan to become the third largest national GSM operator. By the end of 2004, the Ukrainian mobile market reached 13.7 million subscribers with UMC and Kyivstar together holding around 99% of the market.

In 2004, we achieved an annual 43% growth in subscriber base to more than 57,000 customers with average revenue per user of more than $27 per month. During the same period, our minutes of use per active subscriber decreased by 16% due to significant growth of prepaid subscriber base.

This completes our discussion of our operating divisions. Please refer to note 14 — "Segment Information" of the Audited Financial Statements contained within this document, for the quantitative disclosures for revenues by line of business.

ACCESS TO PUBLIC FILINGS

Golden Telecom, Inc. provides public access to its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934. These documents may be accessed free of charge on Golden Telecom, Inc.'s website at the following address: http://www.goldentelecom.com. These documents may also be found at the SEC's website at http://www.sec.gov.

EMPLOYEES

On December 31, 2004, we and our consolidated subsidiaries employed a total of 3,395 full-time employees and our ventures, excluding MCT, employed 31 full-time employees. On December 31, 2003, we and our consolidated subsidiaries employed a total of 3,004 full-time employees and our ventures, excluding MCT, employed 134 full-time employees. Included in the number of full-time employees were 12 and 11 expatriates as of December 31, 2004 and 2003, respectively.

We do not have any collective bargaining agreements with our employees, and we believe that our relations with our employees are good. We believe our future success will depend on our continued ability to attract and retain highly skilled and qualified employees.

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OUR LICENSES AND NETWORK FACILITIES

SIGNIFICANT LICENSES

Our subsidiaries and ventures hold the following licenses in Russia and Ukraine, which are important to their operations. Renewal applications will be applied for all licenses expiring in 2005.

Switched Voice Services. In Russia, we hold several licenses for switched services. Sovintel holds five such licenses. One license was issued to Sovintel by the Ministry of Communications and authorizes Sovintel to provide local, intra-zonal, intercity and international telephone services in a number of cities, including Moscow and St. Petersburg. This license expires on March 17, 2008. Another license authorizes the provision of the same services in different regions and expires on July 20, 2005. On October 4, 2002, a five-year license was issued to Sovintel for provision of local and intercity services in 34 regions. This license allows our networks in these regions to interconnect with the local public network. Two other licenses authorize the provision of the same services in other Russian regions and expire on February 15, 2006 and October 4, 2006. On August 2, 1996, ADS was issued a ten-year license to provide local and intra-zonal telephone services in Nizhny Novgorod and 16 other cities in the Nizhegorod Region. WestBalt holds a license to provide local, intercity and international telephone services in the Kaliningrad Region, which expires on March 25, 2005. Also, Sibchallenge holds a five-year license to provide local, intra-zonal and intercity telephone services in the Krasnoyarsk Region, Moscow, St. Petersburg and some other cities. This license expires on April 27, 2005.

In addition to the foregoing licenses that are important to our operations in Russia, on March 5, 2005, Sovintel submitted applications to the Ministry of Communications for new licenses to provide domestic long distance telecommunications service and international long distance telecommunications services. These licenses were submitted in compliance with new Rules for International and Domestic Long Distance issued by the Ministry of Communications. The prerequisites for obtaining the required new licenses are numerous and will require us to make significant capital investments in the Russian regions during 2005 and 2006 that are, however, consistent with our long-term objective to maintain our position as a leading provider of telecommunications and Internet services across Russia and the CIS.

In Kiev, Ukraine, we hold four licenses for provision of overlay network services, including local, domestic long distance and international long distance services, in the name of GTU. One license authorizes the provision of intercity telephone services to all regions of Ukraine and international telephone services in several regions of Ukraine, including Kiev and Odessa. It expires on December 31, 2013. Another license authorizes the provision of local telephone services in several cities, including Kiev and Odessa. This license expires on December 31, 2007. Two more licenses authorize the provision of intercity and local telephone services in several Ukrainian cities. These licenses expire on January 28, 2014 and January 28, 2009, respectively. Another license for Wi-Fi technology within Kiev region expires on December 3, 2009.

Leased Circuits. Sovintel holds seven licenses to lease local, intercity and international circuits in a number of regions of Russia, including Moscow and St. Petersburg which expire on April 15, 2005, July 20, 2005, February 15, 2006, three on July 5, 2006, and October 4, 2006, respectively. ADS holds a five-year license to lease circuits in the Nizhegorod Region. This license expires on September 8, 2005. Sibchallenge-Telecom was issued a license to lease circuits in the Krasnoyarsk Region. This license expires on May 22, 2008. Tel holds a license to lease circuits in a few regions including the Republic of Khakasia, which expires October 24, 2007. On September 8, 2000, ADS was issued a five-year license to lease circuits in the Nizhegorod Region. On May 29, 1999, Samara Telecom was granted a five-year license to lease circuits on the territory of the Samara Region. It was extended until April 29, 2005.

Data Services. Seven licenses to provide data transmission services were issued to Sovintel for a large number of regions including Moscow and St. Petersburg. The licenses are valid through April 15, 2005, July 20, 2005, February 15, 2006, October 4, 2006, August 18, 2008, and two through October 4, 2007, respectively. PTK was granted a five-year data transmission license for Moscow and the Moscow region. This license expires on May 18, 2006. ADS holds a license to provide data transmission services in the Nizhegorod Region. This license expires on November 8, 2006. Sibchallenge a five-year license to provide data transmission services in the Krasnoyarsk Region. This license expires on June 20, 2008. Samara Telecom was issued a license to provide data transmission services in the Samara Region, which was extended until April 29, 2005. On October 18, 2001, WestBalt was issued a five-year license to provide data transmission services in the Kaliningrad Region.

Local Access Services. PTK was issued a license to provide local telephone services to 10,000 subscriber local access lines in Moscow. This license expires on November 10, 2010. Sibchallenge was issued a ten-year license to provide local telephone services using radio-access facilities in the Krasnoyarsk Region. This license expires on December 19, 2007. On July 19, 1996, Samara Telecom was granted a ten-year license to provide local telephone services in the Samara Region.

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Telematics Services. Seven licenses to provide telematic services were issued to Sovintel for a large number of regions including Moscow and St. Petersburg. The licenses are valid through April 15, 2005, July 20, 2005, October 4, 2007, February 15, 2006, October 4, 2006, October 4, 2007 and August 18, 2008, respectively. Cityline holds a five-year license to provide telematics services in Moscow and St. Petersburg. This license expires September 19, 2008. PTK was granted a five-year license to provide telematics services for subscribers in Moscow and the Moscow region. This license expires on March 15, 2006. On July 10, 2003 Sibchallenge was granted a five-year license to provide telematic services in the Krasnoyarsk Region. ADS was issued a five-year license to provide telematics services in the Nizhegorod Region. This license expires on November 8, 2006. This license expires on April, 26, 2006. WestBalt holds a five-year license to provide telematic services in the Kaliningrad Region. This license expires on August 1, 2007. Samara Telecom holds a license to provide telematic services in the Samara Region, which was extended until April 29, 2005. Uralrelcom holds a license to provide telematic services in the Sverdlovsk Region, which was extended until June 27, 2005.

Mobile Services. GTU holds an operating license for mobile services in Kiev and the Kiev region, which expires on December 31, 2007. The associated frequency licenses expire on July 31, 2013 and July 7, 2014. In addition, GTU received a national operating license for provision of GSM-1800 mobile services within the remaining territory of Ukraine valid until January 28, 2009, as well as a frequency license for Odessa and the Odessa region valid until January 19, 2010. GTU also holds a relay license for Kiev and the Kiev region, which expired on January 25, 2005 and for the Odessa region, which expires on August 2, 2015. We have submitted a renewal application for the relay license in Kiev and the Kiev regions, however, license renewals appear to be delayed due to governmental reorganization following the election of President Yuschenko.

As a result of merger of Combellga and Comincom to Sovintel, all of Combellga’s and Comincom’s telecommunication licenses must be re-issued to Sovintel. Sovintel has filed the required applications to the appropriate state authority and continues providing services under the said licenses. Rossvyaznadzor has confirmed that Sovintel, pending receipt of the new licenses, may continue to provide the services previously covered under the licenses issued to Combellga and Comincom.

NETWORK FACILITIES

Our telecommunication networks reflect the licensing regime adopted by the industry regulators in relevant countries and consist of technologically advanced systems designed for businesses and consumers.

We own the essential network elements of the network, including switching technology and transmission technology, and either own or lease the network transport elements as well as access to our customers. We also own the necessary support systems to operate our network, serve our customers and charge for our services.

Metropolitan Area Networks

In Moscow, Kiev, Odessa, St. Petersburg, Nizhny Novgorod, Krasnoyarsk, Vladivostok, Khabarovsk, Voronezh and Samara we operate MANs. In each of these locations, we own or lease local access lines and PBXs, local exchange switches, local numbering capacity, fiber optic transmission rings and a fiber optic backbone. Our facilities in Moscow are fully integrated with our domestic and international networks, as well as with the networks of Rostelecom and the Moscow City Public Telephone Network (“MGTS”). The Moscow MAN includes the following facilities:

Voice Services. We have access lines supporting more than 200,000 local access numbers in the “095” area code which is a terrestrial code for the Moscow region. Our network connects approximately 3,000 buildings to more than 1,100 PBXs. Our PBXs are typically located on customer premises to distribute advanced telephony services in those premises to the end-users. Our PBXs function as switches that permit users to receive incoming calls, to dial any other telephones on the premises that are connected to the PBX, to access a line leading to another PBX or to access an outside line to the public switched telephone network. Sovintel has constructed approximately 4,200 kilometers of fiber in Moscow.

Sovintel’s network consists of 20 hub PBXs connected to the fiber optic network, complemented by the EWSD local and tandem switches, Nokia DX-200, and three Nortel DMS switches. These hub PBXs act as traffic aggregators for Sovintel’s 900 PBXs located in customer premises. Sovintel’s network is connected to major office buildings, hotels, business centers, and factories and is co-located with 82 central offices of MGTS. In 45 MGTS central offices Sovintel has access to copper wire facilities. The copper wire facilities are used when a customer’s requirements do not justify the immediate investment in fiber optic facilities.

To service the needs of SME and small office/home office customers, Sovintel operates two solutions in Moscow: (1) a synchronous digital subscriber line (“SDSL”) solution over the copper wire of the MGTS network and (2) a Wireless Local Loop (“WLL”) solution based on AirLoop equipment of Lucent Technologies and WalkAir equipment of Siemens. The SDSL technology provides a customer with up to 4 telephone lines and a dedicated link to the Internet with 2Mbps downstream speed. We have

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approximately 3,500 SDSL contracts in Moscow and over 500 contracts in St. Petersburg. We also have more than 4,000 ADSL customers in Moscow. Sovintel's WLL access network covers over 80% of corporate customers' locations in Moscow. Sovintel has begun installation of SDSL and ADSL solutions in other cities of Russia, including Vladivostok, Voronezh and Volgograd.

Data and IP services. Sovintel provides local access for its data service offering in Moscow generally using the same intracity transport and customer access network as described above. This network is complemented by access lines leased from other Moscow-based operators that possess their own local access networks where our data customers are not otherwise on our network. The steady growth of our MAN has reduced the need for such outsourcing to less than 20%. We operate 10 STM-1s in Stockholm to provide international IP connectivity.

St. Petersburg's Networks. Sovintel's St. Petersburg networks consist of a EWSD switch, an Alcatel S12 switch and hub PBXs interconnected to the St. Petersburg PSTN through the St. Petersburg City Telephone Network, with capacity for 12,000 local numbers and approximately 280 PBXs that are installed on customer premises and within business centers. We have constructed approximately 1,000 kilometers of fiber optic cable in and around St. Petersburg, which is used to connect office buildings and business centers to our network. This is complemented by our data, telephony and IP network with STM-16 capacity on our international cable system. We also use 8 STM-1s as leased capacity.

Kiev Local Network. In Ukraine, GTU provides local exchange carrier services through our MAN in Kiev. GTU provides last mile connections, both copper and fiber optic, from four large switches acting as hubs in Kiev and more than 30 PBXs that are installed at POPs and within business centers. In Kiev, we have constructed a 300-kilometer fiber optic ring based on Synchronous Digital Hierarchy, consisting of a main loop and five sub-rings. We plan to extend the total fiber optic network to serve additional customers. We have also constructed a data network consisting of seven data switches.

Regional Local Networks. We offer combined voice and data services with access to the local PSTN in 15 different major metropolitan areas in Russia. Depending on the region, we have 400-3,000 local lines in service, for a total combined capacity of more than 15,000 lines. Last mile access to the customers is usually provided through leased copper or fiber optic lines. Additionally, our 2001 acquisition of ADS in Nizhny Novgorod provided us with approximately 30,000 access lines in service making us the second largest operator in this region. Our acquisition of Sibchallenge in 2003 provided us with 200,000 telephone numbers allocation in the city of Krasnoyarsk. With the acquisition of Samara Telecom in February 2004, we have added another 100,000 telephone numbers in service. WestBalt added 100,000 allocated telephone numbers in Kaliningrad.

Dial-up Internet Local Access Network. Sovintel also employs dial-up Internet access servers using more than 17,000 dial-up modem lines in 60 cities in Russia and the CIS, allowing our customers Internet access through a local call. This dial-up roaming service is also available in over 80 countries through the international data-roaming entity, GRIC Dial. Through these dial-up access servers, we offer local roaming for Internet access, whereby an Internet customer normally residing in Moscow may travel to other regions in Russia and outside Russia, call a local access number and access the Internet. This service may further expand with the development of our network.

We are continuing to review alternative access technologies with technology providers, our partners, and other providers in the Russian Internet market. We are establishing and building a premium Internet network for our subscribers, and to this end we were the first to order Gigabit Switch Routers from Cisco for the Russian market. Currently, we have three of these routers in major traffic points in our network and we will be expanding, as necessary, with similar or other large-scale technologies in the future. We are continuing to expand our modem pools as necessary to meet market demands, subject to the limitations of the infrastructures that are currently in place. In all cases, our major backbone links are 100% redundant and provide immediate backup and recovery facilities.

The hub of our IP network is our Internet Data Center in Moscow. This location has redundant power supplies as well as high-level security and fire systems. The center was built taking world-class standards into consideration.

International Networks

Sovintel provides international switched voice, data and IP services in Russia using leased transmission capacity that they obtain from Rostelecom and Transtelecom within Russia, and international carriers beyond the Russian borders. Similarly, in Ukraine, GTU leases capacity from Ukrtelecom for domestic segments and from international operators for international segments. We operate three international gateway switches. Two switches, Sovintel's Nortel DMS 300 and Alcatel S12, are located in Moscow, and the other international gateway switch, GTU's Siemens EWSD, is located in Kiev.

Sovintel uses Nortel asynchronous transfer mode Passport technology for its core data network to provide certain international private line circuits and international data transmission services, such as X.25, asynchronous transfer mode and frame relay and Cisco routers for Internet access. We lease domestic fiber optic capacity necessary to implement these service offerings from Rostelecom, Transtelecom, Ukrtelecom, Rascom and TeliaSonera. International segments of these offerings are provided in cooperation with

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international operators such as TeliaSonera, UUNet, Cable & Wireless, AT&T and Infonet. In Ukraine, international outgoing and incoming traffic is similarly routed by GTU via fiber optic cable to Cable & Wireless, Sovintel in Moscow and several other international operators. In addition to their terrestrial network, Sovintel also uses satellite transmission to offer the same services between Moscow and other major CIS cities such as Almaty, Tashkent, Tbilisi and Baku.

Additionally, we lease STM-16 capacity (2.4 Gbps) from Moscow to Stockholm from TeliaSonera and its subsidiary companies. The capacity on the TeliaSonera fiber optic network was acquired on February 7, 2000, through a 10-year lease agreement with an option to renew for 5 years. Initially the equivalent of an STM-1 (155 Mbps) was activated in March 2000 and the capacity was incrementally upgraded to STM-4 (622 Mbps) in August 2000 and to STM-16 (2.4 Gbps) in the first quarter of 2001. We also leased 4 STM-1s in 2004 and 4 STM-1s to date in 2005 to cope with growing traffic requirements.

Domestic Long Distance Networks

Sovintel has developed a land and satellite-based regional network to provide domestic long distance and data services in Russia. Our land-based domestic long distance network consists primarily of fiber optic capacity leased from Rostelecom and Transtelecom. We use this land-based network primarily to serve our regional voice, data and Internet businesses. This network together with our satellite-based network currently accesses more than 160 different access points across Russia and in certain other large cities in the CIS.

We have also started construction of our own intercity fiber optic link in cooperation with a mobile operator to decrease our reliance on leased capacity. We expect that this intercity fiber optic link will be operational in the second half of 2005. To date, this intercity fiber optic link has been completed from Moscow to Noginsk, with other segments under construction.

Sovintel also has capacity on satellite transponders (90 MHz in C-band and 72 MHz in Ku-band) from Intelsat. The coverage area of these satellites, or “footprint,” includes the full territory of Russia and other countries of the CIS. Using these leased satellite transponders, Sovintel serves 14 Regional Earth Stations (“RESs”) and more than 90 VSAT stations across Russia and the CIS. A VSAT is a relatively small satellite antenna, typically 2.4 to 4 meters in diameter, used primarily for satellite-based point-to-point applications. These RESs and VSATs interconnect with our central hub in Moscow and with local facilities in the areas where the RESs and VSATs are located. Starting in 2004, we began to use capacity of Intersputnik, starting from 36MHz and gradually increasing up to 72MHz in line with growing demand. Sovintel’s central hub in Moscow interconnects with the Moscow-based international, domestic long distance and local facilities of Sovintel. We also operate the network based on Eutelsat and Express space segments both in Ku-band operating DAMA network. We also operate Express capacity in C-band. Within these networks, we serve approximately 100 VSAT stations in Russia.

Sovintel developed land-based technology in parallel with a satellite network for a number of reasons, including the following:

- Fiber transmission is more suitable for data applications than satellite transmission because of fewer transmission delays;
- VSAT technology is expensive for customers with limited capacity requirements; and
- There is no “public data network,” so we need to establish land-based points of presence in each location where customers require data services.

We are implementing a strategy to integrate our land-based and satellite networks and to integrate the different technologies integral to each, thereby developing a single, multi-purpose network. The technologies required to carry voice over packet networks, such as voice over frame relay, voice over IP and voice over asynchronous transfer mode, have become available and allow for such network integration. This integration may benefit us in different ways. The integration:

- Creates the possibility to carry voice “on net” between multiple locations. This application was not possible with a satellite-only network because the time delays in consecutive satellite “hops” are impractical for efficient communications at multiple locations;
- Creates the possibility to terminate traffic in significantly more access points. Access points established originally for data services may be extended to carry voice over an interface to a local voice operator, allowing us to extend our service offering to other operators;
- Improves network resilience both for voice and data networks through the optimal combination of land-based fiber and satellite transport capacity; and
- Enables us to operate an integrated network over which we could offer voice, data and Internet services.

We have already upgraded more than 30 points of presence to carry packet switched voice, and we also intend to upgrade other points of presence to provide this capability.

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THE ENVIRONMENT IN WHICH WE OPERATE

To facilitate a more complete understanding of our business and our operations, this section provides an overview of some of the key features of the markets where we operate and derive substantially all of our revenue. These overviews focus on our two largest markets, Russia and Ukraine and include:

- An overview of the telecommunications markets;
- An overview of the political and economic environment; and
- An overview of the legal, tax and regulatory regimes.

OVERVIEW OF TELECOMMUNICATIONS' MARKETS IN RUSSIA AND UKRAINE

The Telecommunications' Market in Russia. Prior to the early 1990s, the public telecommunications network in the former Soviet Union was inefficient, unreliable and underdeveloped relative to the networks in more-developed countries. In the early 1990s, the Ministry of Communications, which had formerly controlled the Soviet telecommunications infrastructure, ceded operational control to a single long distance and international carrier, Rostelecom, and 80 incumbent regional operators, including four independent city networks in Moscow, St. Petersburg and two other cities. The local telcos provide local exchange services for customers within their regions, but since February 2003 they are obligated to provide access to the international and domestic long distance services. In the incumbent network domestic long distance calls to and from areas outside the local telcos' service area, as well as international calls, are switched through Rostelecom, which interconnects with the local telcos to complete domestic long distance calls and with foreign carriers to complete international calls.

The dissolution of the Soviet Union and the collapse of the centrally planned economy reduced the funding available to the local telcos at a time when demand for telecommunications was increasing. The growth in the Russian telecommunications industry since the early 1990s has been principally driven by businesses in Moscow requiring international and domestic long distance voice and data services and by mobile telephony users. The growth in Moscow accelerated as multinational corporations established a presence in the capital and Russian businesses expanded. The formerly state-owned local telcos, however, which generally employed an outdated, dilapidated analog infrastructure, could not support the requirements of high-volume consumers of sophisticated telecommunications services. As a result, the inadequacies of the existing legacy networks constructed during the Soviet era became more apparent. Further, the proceeds received by the Russian government from the privatization of state telecommunications assets were not used for the infrastructure improvements required to meet increased demand. As a result, the Ministry of Communications issued licenses to domestic and foreign funded companies to encourage investment in the telecommunications infrastructure. The licensing structure adopted by the Ministry of Communications directly reflected the areas of the legacy networks in most urgent need of investment. Generally, voice and telephony licenses were issued to provide local access, local exchange, and international and domestic long distance services.

Although it remains subject to certain restrictions, significant progress in privatization of the telecommunications industry in Russia has occurred. At present, virtually all the former state telecommunications enterprises have been privatized and, subject to restrictions, shares of the newly formed joint stock companies have been sold to the public. Also, a significant number of private operators provide a wide variety of telecommunications services pursuant to licenses issued by the Ministry of Communications.

In September 1995, the Russian government established Svyazinvest as a holding company for the state's telecommunications assets. Svyazinvest now holds the Russian government's equity interests in all the incumbent local telcos, as well as Rostelecom. In July 1997, a 25% plus one share interest in Svyazinvest was sold to a private consortium, Mustcom Limited, for approximately $1.9 billion. In 2000, the government announced a plan to restructure and consolidate Svyazinvest's holdings and in 2002 the reorganization was completed by merging all regional incumbent operators into 7 large interregional companies. On February 2, 2005, the Russian Minister of Communications announced that the remaining 75% minus one share of Svyazinvest, including Rostelecom, will be privatized in 2005 or 2006. Svyazinvest currently owns controlling voting interests in all 7 interregional companies and Rostelecom and owns substantial equity interests in four other local telcos, including MGTS.

On June 7, 2003, President Putin signed a new Law on Telecommunications (the "New Law") which came into effect on January 1, 2004. The New Law clarifies areas in the telecommunications law which were poorly defined, such as interconnect and licensing arrangements, however, most of the supporting regulations for the New Law have not been passed and many key regulations exist in draft form only.

The New Law introduces the concept of the Universal Service Fund (the "USF"). All telecommunications companies are expected to contribute to the USF which is designed to support the development of telecommunications infrastructure which is deemed to be economically unviable but socially necessary. It is expected that the amount of the universal service charge paid to the USF will not exceed 3% of certain revenues of a

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telecommunications company. It is expected that the first payments to the USF will be made in 2005, however, the Ministry of Communications has not indicated the exact date for such implementation, due to the lack of supporting regulations to be issued by the Russian government.

Under the New Law, interconnect regulation becomes, in theory, more transparent. The New Law states that any telecommunications operator which has a significant presence in a given market must provide interconnect arrangements to all operators. This section of the New Law is designed to eliminate the discrimination which is experienced by telecommunications operators when attempting to interconnect with regional incumbents.

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

The New Law, as drafted, should make the licensing process more transparent. Under the New Law, licenses will be issued with frequencies attached to them and frequencies are to be sold through specially organized tenders and auctions. If the frequencies are available, licenses must be issued within thirty days of the application.

The Telecommunications Market in Ukraine. The evolution of the telecommunications sector in Ukraine is similar to that in Russia. Over the last number of years, both incumbent and alternative CLEC operators in Ukraine completed modernization of their networks in Kiev and in some other large Ukrainian cities and became more active in service development. Outside Kiev and other large cities, the infrastructure is still outdated and the industry is generally inefficient and provides low-quality services. Many tariffs are still set by the state as a result of political considerations although the levels of such tariffs are now approximating those expected by the telecommunications market.

In contrast to Russia, there has been no privatization of the state-owned telecommunications sector in Ukraine. Whereas privatization of Ukrtelecom, the state monopoly, was considered crucial for raising funds for the state in 2004, several changes in priorities and political positioning have resulted in further delay. The Ukrainian government, appointed in 2005, has indicated that it does not plan to sell any part of Ukrtelecom in 2005. To date, only about 7% of the monopoly carrier has been privatized to employees and managers.

Since August 2004, the Ministry of Transport and Communications was the regulatory body that oversaw the Ukrainian telecommunications industry. The Ministry was responsible for licensing, and setting tariff regulations. As of January 2005, National Commission of Communications Regulation received the above mentioned functions. Tariffs for local calls and calls between and within regions are set at levels below those which would prevail in a deregulated market. Inter-operator tariffs, however, are often set at levels which challenge the ability of competing operators to effectively position themselves against the monopoly operator.

Ukrtelecom, the Ukrainian incumbent public operator, is the main provider of telecommunications services in the country. Utel, a branch of Ukrtelecom since 2004, is the dominant national and long distance operator. Ukrtelecom is a joint stock company owned 93% by the State Property Fund with 31 branches, 27 of which represent the company in each region of Ukraine. Ukrtelecom holds national transmission networks, along with broadcasting, research and satellite assets. Ukrtelecom also owns shares in five other Ukrainian telecommunication companies.

Public switched voice telephony in Kiev is delivered through a layered hierarchy similar to that used in Moscow. We connect our customers using our local access network with fiber optic and copper-based facilities, which provide direct interconnection with the Kiev city telephone network.

The Ukrainian mobile telecoms market is currently served by five operating companies. GTU commenced operations in accordance with its GSM-1800 license in late 1996.

OVERVIEW OF THE POLITICAL AND ECONOMIC ENVIRONMENTS IN RUSSIA AND UKRAINE

Russia’s Political Environment. Since the dissolution of the Soviet Union in December 1991, Russia has been in the process of a substantial political transformation. The Russian Constitution, ratified in 1993, establishes a three-branch governing system that replaced the Communist dominated Soviet system. The three-branch system consists of a powerful executive branch led by the President, a bicameral legislative branch with an upper assembly, the Federation Council, and a lower assembly, the State Duma, and a judicial branch, which is still underdeveloped. Boris Yeltsin was elected to a second term as President in July 1996 but shortly thereafter lost popular support on account of political and economic dislocations, disaffection with economic reform, institutionalized corruption and his erratic stewardship of the country. On December 31, 1999 Yeltsin resigned the presidency, thereby enabling the Prime Minister, Vladimir Putin, to be elevated to the role of acting president and to emerge as the winning candidate in the presidential election which was held on an accelerated basis on March 26, 2000. On March 14, 2004, Vladimir Putin was elected to a second presidential term.

As a result of the frequent changes of government in Russia and the other countries of the CIS, government policies are subject to rapid and potentially radical change. High levels of corruption exist among government officials and among commercial enterprises in which the state has an ownership interest. In an attempt to increase the influence of federal authorities in the regions, President

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Putin organized the Russian regions into seven administrative regions and appointed special presidential representatives to coordinate and enforce federal policies in each of these regions. Effective January 1, 2005, gubernatorial elections were abolished in favor of a system under which regional governors will be nominated by the President and then approved by local legislatures. The regional governors' authority has also been increased. These policies appear to be leading to a reassertion of federal power in the regions but corruption on the local and federal levels remains problematic.

Russia's Economic Environment. In the immediate aftermath of the 1998 financial crisis, the ruble's value declined substantially below the 9.50 rubles per USD floor set on that date, but in the last year has settled in the range of 27 to 28 rubles per USD, with the rate being 27.87 rubles per USD on January 1, 2005. The value of the ruble against the USD increased 6.1% in 2004. World oil prices have contributed to the recent strength of the ruble as the Russian Central Bank reported hard currency reserves of over $124.5 billion, as of January 1, 2005. According to government figures, inflation has come under relative control since the crises with annual inflation numbers of 84% for 1998, 36% for 1999, 20% for 2000, 19% for 2001, 16% for 2002, 14% for 2003 and 12% for the year 2004. Inflation is expected to be approximately 11% in 2005. It is estimated that there will be a $67.0 billion trade surplus in 2005 and a gross domestic product increase of 5.8% in 2005 as compared to 2004. These positive economic indicators must be considered in the context of Russia's status as a major exporter of oil and other natural resources. Any decline in world oil prices could negatively impact the value of the ruble and the continued development of Russia's economy.

Ukraine's Political Environment. Ukraine declared independence from the Soviet Union in 1991. Since that time, Ukraine has established a three-branch system of government similar to that in Russia. Following a period of significant political debate, the new Ukrainian Constitution was ratified in June 1996. Independent Ukraine's first President Leonid Kravchuk led the country through a period of significant economic and social decline. Following the 1995 presidential elections, Leonid Kuchma succeeded him. Ukraine is one of the few former Soviet republics to smoothly and peaceably transfer executive power. President Kuchma was re-elected for another five-year term in November 1999. On January 10, 2005 Victor Yuschenko was declared the President of Ukraine after a divisive presidential election against Victor Yanukovich.

Until recently, political power was fairly evenly divided between the president and parliament and consequently major policy decisions were frequently blocked by parties exercising influence or control over the presidential administration or the parliament. Political reform efforts progressed somewhat during Mr. Kuchma's presidential period, but the judicial system lacked independence and its decisions were often influenced by political considerations.

Preceding the third round of the presidential election on December 8, 2004, the Ukrainian Parliament (Verkhovna Rada) adopted a draft law on amendments to the Constitution that, to some extent, reduce presidential powers. These amendments to the Constitution will take effect by January 1, 2006. Under the amendments, the Parliament will form a new Cabinet of Ministers following the Verkhovna Rada elections in March 2006. Additionally, the Verkhovna Rada increased the term of the Parliament authority from four to five years.

Considering the constitutional changes and the fact that significant portions of the population in eastern Ukraine voted for President Yuschenko's rival, Victor Yanukovich, in the presidential election, it is not clear whether President Yuschenko will be able to maintain the same amount of control over policy as his predecessor. Some Yanukovich supporters have vowed not to support President Yuschenko's administration and have threatened to launch a secession bid for eastern Ukraine.

Ukraine's Economic Environment. In September 1996, a new currency, the hryvna, was introduced, replacing the temporary karbovanets (coupons) that were in circulation following the country's independence from the Soviet Union. The National Bank of Ukraine, the nation's central bank, has steadfastly refused to permit wholesale printing of the currency despite much pressure from the Parliament. The hryvna is now subject to a floating exchange rate whereas it was previously kept within a fixed range. In 2004, the hryvna was stable, moving from 5.33 per USD at December 31, 2003 to 5.31 at December 31, 2004. The hryvna's stability was due in large part to increase in exports in both 2003 and 2004. While in 2003 increases of imports by 36% over 2002 led to a decrease in Ukraine's trade surplus from 980.3 million hryvna to 59.4 million hryvna, the situation changed dramatically in the first half of 2004 — export of goods and services increased by 43% over the same period last year with 30% increase in imports. Ukrainian current account surplus accumulated over 2004 allowed the National Bank of Ukraine to increase the amount of its net gold and hard currency reserves from $7.0 billion available at the end of 2003 to $9.5 billion at end of December 2004. Social payments which were increased by the Government during the presidential election campaign resulted in higher than a forecasted rate of inflation of 12% in 2004. Nevertheless, Ukraine experienced 12% real GDP growth in 2004 compared to 9% growth in 2003.

OVERVIEW OF THE LEGAL, TAX AND REGULATORY REGIMES IN RUSSIA AND UKRAINE

Russia's Legal, Tax and Regulatory Regime. After the dissolution of the Soviet Union in December 1991, former President Yeltsin and the Duma enacted piecemeal legislation in an attempt to develop a legal framework to guide the transition from a centralized command economy to a more market-oriented economy. While the rudimentary legal framework continues to develop, legislation is

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often inconsistent, contradictory, poorly drafted and unclear. This general characterization is particularly applicable to corporate governance regulations and tax legislation. During 2000, at the urging of President Putin's government, the State Duma approved the first two parts of the revised and reportedly simplified Russian Tax Code. The second part entered into effect as of January 1, 2001 and additional provisions came into effect as of January 1, 2002. Similarly, under pressure from the executive branch, the Duma finally enacted a new Labor Code, which entered into effect in February 2002 and replaced the antiquated Labor Code left over from the Soviet era. Still, ambiguities in the law are exploited by bureaucrats struggling to increase state budgetary resources. Administrative regulations and decrees are frequently not published and are not available for review. The judiciary in Russia is regarded as not sufficiently independent from political influence and judges are frequently underpaid, inexperienced and commercially unsophisticated. In addition, judges are subject to intimidation, and corruption in the judiciary is not unusual. Hence, in such an environment, contracts are frequently unenforceable in courts of law.

The State Duma has enacted legislation to protect foreign investment and other property against expropriation and nationalization. In the event that such property is expropriated or nationalized, legislation provides for reimbursement of the value of the property and damages. However, due to the lack of state budgetary resources, experience and political will to enforce these provisions, and due to potential political changes, it is uncertain whether such protections could be enforced.

In addition to telecommunications legislation, the Russian telecommunications industry has also been shaped by privatization legislation and the privatization of state-owned telecommunications enterprises.

Historically, taxes payable by Russian companies have been numerous and substantial. These include taxes on profits, assets and payroll, and value-added tax ("VAT"). The recently enacted Tax Code represents an attempt to rationalize the federal tax system. We expect an overall reduction in our Russian tax burden and have experienced such reductions over the past two years. For example, from January 1, 2003, under the new Tax Code, taxes calculated on the basis of gross revenue have been abolished. The maximum unified payroll tax rate has decreased from 38.5% to 35.6% in 2001, remains at 35.6%. From January 1, 2002, the rate of corporate profit tax decreased from 35% to 24%. The VAT rate decreased from 20% to 18% as of January 1, 2004.

Russian companies within the same ownership group cannot be consolidated, and therefore, each company must pay its own Russian taxes. Because there is no consolidation provision, dividends are subject to Russian taxes at each level that they are paid. Currently, dividends are taxed at 15% and the payor is required to withhold such tax when paying dividends, except with respect to dividends paid to foreign entities that qualify for an exemption under treaties on the avoidance of double taxation.

In various jurisdictions, we are obligated to pay VAT on the purchase or importation of assets, and for certain other transactions. In many instances, VAT paid on purchases can be offset against VAT which we collect and otherwise would remit to the tax authorities, or may be refundable. Because the law in some jurisdictions is unclear, the local tax authorities could assert that we are obligated to pay additional amounts of VAT. In our opinion, any additional VAT which we may be obligated to pay would be immaterial.

In addition, the new Tax Code authorizes Russia's regional legislative authorities to impose a local tax on the sale of goods and services on their territories. A number of such subdivisions have exercised this authority, including Moscow and St. Petersburg which have each established a local sales tax rate of 5 percent. This local tax on the sale of goods was abolished as of January 1, 2004.

Pursuant to the New Law and governmental decrees, the Ministry of Communications is assigned the authority to regulate and control the development of the communications industry in Russia. Additional legislation defines the roles of other communications regulatory organs, with the Ministry exercising responsibility over the issuance of each operator's licenses and supervising the other communications regulatory organs. The Federal Service for the Supervision of Communications ("Rossvyaznadzor"), which is now a department of the Ministry of Communications, is empowered to issue certain permits required for network operation and for the importation and use of telecommunications equipment. Rossvyaznadzor conducts periodic inspections to determine an operator's compliance with the terms and conditions of its licenses and is authorized to issue orders and instructions requiring operators to bring their network into compliance with their licenses or to face fines and/or to suspend a license, or in the case of continued non-compliance, to initiate court proceedings for the revocation of a license. In addition, entities such as Svyazinvest at the federal level, as well as other entities in Moscow and St. Petersburg and other administrative regions within Russia exercise significant control over their respective local telephone networks and may therefore affect the licensing process.

The State Commission for Radio Frequencies (GKRCh) is responsible for administering the utilization of the radio spectrum. This government agency assigns and oversees the operation of radio frequencies.

Legislation and normative acts specific to the telecommunications industry provide the regulatory framework that guides our operations. On January 1, 2004, the New Law came into effect. The New Law outlines the regulatory framework for the telecommunications industry and clarifies certain poorly defined areas of telecommunications such as interconnection and licensing. It sets forth general principles for the right to carry on telecommunications activities, describes government involvement in telecommunications regulation and operation, establishes the institutional framework involved in regulation and administration of

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telecommunications, and deals with various operational matters, such as ownership of networks, protection of fair competition, interconnection, privacy and liability. Separate legislation and administrative regulations implement this institutional framework.

The New Law introduces a USF which will result in higher costs for all operators, including CLECs such as our company. Under the New Law, all telecom operators must contribute to the USF. The USF is designed to fund socially important but economically unviable projects. The New Law, however, does not provide clarity as to how the USF will be collected and administered, and these matters will be specified under regulations to be issued by the Ministry of Communications supporting the New Law. It is expected that the amount of the universal service charge will be not exceed 3% of certain of a telecommunications company's revenues. It is expected that the USF will commence operating in 2005.

The New Law also introduces the "significant operator" concept. Significant operators are defined as those companies which generate either more than 25% of traffic or possess more than 25% of the local numbering capacity. Significant operators may not refuse to provide interconnect services, and interconnect rates should be public and equal for all operators. This change will make it more difficult for regional operators to discriminate against competitors in order to protect their own operations.

The New Law is also intended to make the telecommunications licensing process more transparent. Licenses must be issued with frequencies attached to them. Frequencies are to be sold through tenders or auctions and licenses must be issued within thirty days if the frequencies are available.

We cannot predict with any certainty how the New Law will affect us. Until such time as appropriate implementing regulations are published by the Ministry of Communications, there will be a period of confusion and ambiguity as regulators interpret the legislation. We cannot predict with any certainty whether we will face additional costs associated with the implementation of the New Law.

It can be difficult and expensive to comply with applicable Russian telecommunications regulations. Telecommunications in Russia are confidential and may only be intercepted pursuant to court order. Nevertheless, we are subject to SORM, the Russian acronym for the surveillance system operated partly by the Federal Security Service, a government agency that is responsible for electronic surveillance. SORM requires telecommunications networks to facilitate monitoring of electronic traffic. Many operators and commentators consider that SORM, as applied, is inconsistent with the privacy provisions of the Russian constitution. Full compliance with SORM may be expensive, burdensome and unconstitutional, yet noncompliance with SORM may lead to the administration of fines, penalties or the revocation of our operating licenses.

Ukraine's Legal, Tax, and Regulatory Regime. A primary contributor to the relatively slow pace of reform in Ukraine has been the absence of a coherent and enforceable legal framework to facilitate widespread privatization of government assets. As an example, the privatization of Ukrtelecom, the State telecommunications monopoly, has been repeatedly delayed because of the absence of key laws required to enable such privatization.

As with other former Soviet Republics, Ukraine is still plagued with widespread corruption, however, organized criminal groups that were very active throughout Ukraine during the 1990s have been almost completely disbanded. Because of high levels of corruption among government officials and among commercial enterprises in which the state has an ownership interest, the newly elected President and the Government announced tackling corruption as one their primary tasks. Although we do not believe we have been adversely affected by these activities to date, organized or other crime could in the future have a material adverse effect on our operations and the market price of our common stock.

After significant legislative changes over the last few years in Ukraine and Russia, the Ukrainian tax regime differs significantly from the Russian tax regime. The Ukrainian tax regime includes taxes on profits, on payroll, VAT, and special fees and taxes levied against telecommunications operators. In order to stimulate economic growth and broaden the tax base, in 1999 the Government introduced a significant reduction in payroll taxes followed by a subsequent abolition of revenue-based taxes in 2001. At the beginning of 2003, the Ukrainian Parliament adopted amendments to the Profit Tax Law that, among other changes, reduce the profits tax rate from 30% to 25%. The major components of these amendments came into effect in 2004.

The regulatory framework governing the telecommunications industry in Ukraine has improved significantly after the new law "On Telecommunications" came into force on December 23, 2003. The new law sets forth the general principles for telecommunications activities, networks and services, including the relationships between operators and customers. The new law provides for the creation of two new executive bodies — the Central Executive Authority in the Communication Sector ("CEACS") and the National Commission for Communication Regulation (NCCR) to replace the former State Committee for Communications.

CEACS retains mostly administrative functions in the telecommunications industry in Ukraine. CEACS develops draft telecommunications laws and other legal documents, defines and monitors quality standards in telecommunications services. NCCR retains regulatory functions in telecommunications and radio-frequency utilization. It is also the central executive body with special status subordinated to the President of Ukraine. NCCR supervises the observance of telecommunications law and quality control of

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telecommunication services. NCCR assigns numbering capacity, grant licenses, registers services in the telecommunication sector, provide tariff regulation, and applies sanctions to those that violate telecommunication laws.

In February 2003, the Ukrainian Parliament adopted an amendment to the law "On Communications" prohibiting all telecommunications operators from charging their end-user customers for incoming calls, thus introducing the CPP principle, which entered into effect on September 19, 2003. Additionally, on 14 May 2004 a special Order regulating settlements between fixed, fixed wireless and mobile operators was adopted by the State Committee for Communications of Ukraine. We expect that both CPP principle and the Order will be in force at least until July 2005.

In addition to the CPP principle, state regulated tariffs for calls from the public switched telephone network to mobile networks were introduced, thus allowing mobile operators to receive a share of revenue from calls made to mobile networks. To effect CPP settlements on our network we entered into an agreement with Ukrtelecom that assigned a national destination code numbering plan to our mobile customers and allowed to reallocate our interconnect numbering capacity in Kiev and Odessa from our mobile to our fixed network. This agreement became effective in November 2003 and enabled us to receive a settlement from revenue generated when a fixed line party calls our mobile customer as well as released direct city numbering capacity for future sale to CLEC customers.

On June 24, 2004 the Verkhovna Rada adopted amendments to the law "On Radio Frequency Resource" determining the procedure of granting frequency licenses and permits for the use of radio-electronic and emissive facilities, and for frequency distribution.

Pursuant to the law "On Telecommunications", new Licensing Conditions for conducting of activity in fixed line telecommunication area were adopted by the State Committee for Communications on June 17, 2004 and came into force on August 16, 2004. Licensing Conditions regulating provision of mobile services and communication channels will be developed and adopted in 2005.

The Cabinet of Ministers of Ukraine also adopted rules, effective January 1, 2005, establishing the necessary payments for obtaining numbering capacity. It is also expected that in 2005 rules for the provision of telecommunication services will be adopted by the Cabinet of Ministers and rules for interconnection of operators' networks will be adopted by NCCR.

A new law "On Individual Income Taxation" came into force on January 1, 2004. The law sets the unified tax rate for personal income at 13% until December 31, 2006 and 15% from January 1, 2007.

FACTORS THAT MAY ADVERSELY AFFECT FUTURE RESULTS

RISKS ASSOCIATED WITH DOING BUSINESS IN RUSSIA, UKRAINE AND OTHER COUNTRIES OF THE CIS

We generate substantially all our revenues from operations in Russia, Ukraine and other countries of the CIS. All companies operating in the CIS, including us, face significant political, economic, regulatory, legal and tax risks, some of which are described below.

POLITICAL INSTABILITY IN THE COUNTRIES IN WHICH WE OPERATE COULD DEPRESS FOREIGN AND LOCAL INVESTMENT AND SPENDING, WHICH COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS

Since the dissolution of the Soviet Union in December 1991, Russia, Ukraine and other countries in which we operate have, to varying degrees, been undergoing significant political and economic transformation. A generally stable political climate has emerged but economic development remains hampered by the absence of a consistent and comprehensive legislative framework necessary to implement and enforce market oriented reforms and by incidents of corruption among government officials. A re-occurrence of the political instability that characterized the first several years of the transformation could disrupt the direction and the pace of economic development. In addition, there has been terrorist activity in Russia from time to time. Political instability or terrorist activity could discourage foreign and local investment and spending, in which case demand for our services could decrease and results of operations could deteriorate. If this were to occur, then the market price of our stock could decrease.

THERE IS A VOLATILE POLITICAL SITUATION IN UKRAINE WHICH MAY NEGATIVELY IMPACT OUR BUSINESS

Historically, political and governmental instability has been a feature in Ukraine. The relationship between various state authorities, Ukrainian government policies and the political leaders who formulate and implement such policies are subject to rapid change. In January 2005 Victor Yuschenko became president of Ukraine in a very divisive election. It is unclear whether and in what way current domestic and external policy will change under President Yuschenko's administration. Major changes in the political climate in Ukraine, in particular any changes affecting the stability of the Ukrainian government, reforms, privatization, industrial restructuring or administrative reform, could materially effect our operations.

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ECONOMIC INSTABILITY IN RUSSIA AND UKRAINE COULD ADVERSELY AFFECT THE DEMAND FOR OUR SERVICES AND OUR ABILITY TO COLLECT ON OUR INVOICES

Although the Russian and Ukrainian economies have experienced periods of economic downturn and heavy inflation, the political and economic situation in Russia and Ukraine appears to have stabilized. Russia ceased to be highly inflationary in 2003. However, any future instability or lack of economic growth in the countries in which we operate could mean that demand for our services could become depressed.

During the first decade of its independence Ukraine had been dependant on the receipt of financial assistance from several foreign governments and international organizations, including the International Monetary Fund (“IMF”) and the World Bank. In 2000, faced with a liquidity crisis on its external debt payments, the Ukrainian government undertook a comprehensive debt restructuring exercise that enabled Ukraine to meet its external debt obligations. Due to such debt restructurings and other factors, Ukraine may be unable to continue to receive funding from foreign governments and international organizations, as well as to raise funds on the international capital markets, which may materially adversely affect the financing of the budget deficit, the level of inflation and/or the value of the hryvna.

Ukraine continues to pursue a closer relationship with the North Atlantic Treaty Organization, joining the World Trade Organization (“WTO”) and becoming an associate member of the European Union. However, recently Russia, Ukraine and a number of other CIS countries have signed an agreement on creation of the Common Economic Area (“CEA”). Formation of the CEA was negatively regarded by the IMF and international society and might be a drawback to Ukraine’s joining the WTO. Any major changes in Ukraine’s relations with Western governments and institutions may adversely affect the Ukrainian economy and our operations.

THE CURRENCY CONTROL SYSTEM OF RUSSIA AND UKRAINE COULD ADVERSELY AFFECT OUR ABILITY TO CONVERT RUBLES AND HRYVNA’S TO HARD CURRENCY AND MANAGE CASH FLOWS

The ruble and hryvna are generally non-convertible outside Russia and Ukraine, respectively, so our ability to protect ourselves against devaluation by converting to other currencies is significantly limited. Within Russia and Ukraine, our ability to convert rubles and hryvna, respectively, into other currencies is subject to rules that restrict the purposes for which conversion and payment in foreign currencies are allowed. In Ukraine the companies are allowed to keep balances in foreign currencies earned from export activities. Therefore, the liquidity can be supported through synchronization of in- and outflows nominated in the same currency. On the other hand, we manage intercompany liquidity through intercompany loans to our subsidiaries. Under Russian restated currency law, loans to residents may be subject to reserve requirements. Likewise, such reserve requirements may be introduced for the purchases of currency of Russian residents. Such reserve requirements, if they become applicable to us, may adversely affect our operations. If there are changes to the currency control systems in Russia and Ukraine, our ability to manage our liquidity position and our currency risk may be adversely affected.

RUSSIAN AND UKRAINIAN TELECOMMUNICATIONS POLICIES COULD AFFECT OUR COMPETITIVE POSITION

Russian and Ukrainian telecommunications regulations govern the procurement and continuing validity of our licenses and the terms and conditions under which we provide services. Adverse changes to these regulations may make it prohibitively expensive for us to provide services or otherwise frustrate the implementation of our business plans causing a material adverse effect on our results of operations.

As a result of changes in existing regulations, changes in interpretations of existing regulations or arbitrary regulatory decisions affecting various aspects of our business, we could experience:

- Restrictions on how and where we can provide our services;
- Restrictions or delays in receiving approvals on our applications and communications for necessary regulatory approvals for rolling out our network in the regions for which we have licenses;
- Significant additional costs;
- Delays in implementing our operating or business plans; or
- Increased competition.

The New Law came into effect in Russia on January 1, 2004, however, most of the supporting regulations have not been enacted. Until such time as supporting regulations for the New Law are enacted, we cannot predict with any certainty how the New Law will affect us. The New Law may increase the regulation of our operations and, until

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such time as appropriate regulations consistent with the New Law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation. Such confusion and ambiguity may materially adversely affect the functioning of our business. Any strengthening of incumbent operators such as Rostelecom, which is one of our principal shareholders, MGTS or Svyazinvest under the New Law or the large interregional companies could adversely affect our business.

Recently, the Russian government has issued several implementing acts under the New Law, such as Resolution No. 87, dated February 18, 2005, approving the list of the types of licensed telecommunication activities, and Resolution No. 68, dated February 11, 2005, regarding the rules applicable to the state registration of telecommunication infrastructure such as real property. However, it is presently not yet clear how these regulations would be implemented. Thus, the uncertainty related to the New Law continues.

ANY CHANGES IN REGULATIONS, COSTS OR CONFUSION FROM THE NEW LAW MAY AFFECT OUR BUSINESS

It has been reported recently that in connection with Russia's possible membership in the WTO, which would bring greater competition to the Russian market, some Russian regulatory officials are seeking to limit foreign ownership in Russian fixed line and wireless telecommunications companies and to provide exclusivity to Rostelecom for Russian and international long distance voice traffic for a period of time. We cannot predict whether this or other legislation limiting foreign ownership or competition will be implemented and if so, whether we would have to restructure or reduce our ownership interests in our operating subsidiaries. We are uncertain how any required reduction or restructuring could or would be implemented and what effect it would have on our business. A restructuring or reduction of this nature could cause our business to suffer.

THERE IS UNCERTAINTY IN THE RUSSIAN TELECOMMUNICATIONS LICENSING REGIME

The Russian agency responsible for issuing telecommunications licenses has refused our applications for certain new telecommunications licenses on the basis that the Russian government has not yet approved the list of licensed telecommunications services. On February 18, 2005, the Russian government approved such list of services, however, we cannot be certain when we will receive the licenses for which we have applied.

Draft regulations under the New Law have been published on the Ministry of Communications' website although the draft regulations have not been passed into law. If passed, the draft regulations would provide that only carriers that hold licenses for Russia long distance and international long distance traffic will be able to provide such services. We have been mentioned by the Ministry of Communications as one of the companies that may receive international and Russian long distance licenses under the draft regulations. On March 5, 2005, we submitted applications to the Ministry of Communications for new licenses to provide domestic long distance telecommunications service, and international long distance telecommunications services. These licenses were submitted in compliance with new Rules for International and Domestic Long Distance issued by the Ministry of Communications. The prerequisites for obtaining the required new licenses are numbers and will require us to make significant capital investments in the Russian regions during 2005 and 2006 that are, however, consistent with our long-term objective to maintain our position as a leading provider of telecommunications and Internet services across Russia and the CIS. If we do not receive such licenses, our revenues may suffer.

THE NEW LAW AND DRAFT REGULATIONS PROVIDE SCOPE FOR THE INCUMBENT OPERATORS TO RAISE INTERCONNECTION COSTS

The New Law and draft regulations under the New Law provide an advantage to Svyazinvest entities over alternative carriers in setting their own terms and conditions for connection to their networks. The New Law and draft regulations do not contain provisions for state regulation of access to communication facilities and the lease of long distance channels. Some of our suppliers of telecommunications services have raised their charges with us and we may experience more such cost increases in the future. In the event that we decide to challenge such draft regulations through the appropriate Russian government ministries or courts, we cannot predict whether we will be successful in such challenge.

POLICIES OF THE UKRAINIAN GOVERNMENT CONCERNING TARIFF REGULATIONS MAY NEGATIVELY INFLUENCE OUR TARIFF POLICY

In 2001, the Ukrainian government attempted to regulate the provision of VoIP through the introduction of VoIP licenses. Nevertheless, until now this license process has not been formalized. Moreover, in 2003 the State Committee of Communications of Ukraine consistent with the recommendation of the Antimonopoly Committee of Ukraine (AICU) allowed the non-licensed provision of VoIP services until licensing conditions are formalized. Such VoIP licensing conditions were developed in 2004 but not yet implemented. In addition, in 2001 Ukrtelecom enforced obligatory VoIP traffic settlement payments for VoIP traffic routed through its network, and in 2002 state regulated tariffs were extended on VoIP traffic services. As a result, we cannot be sure that any resulting licensing and related fees will not adversely affect our business should they be implemented.

OUR OPERATING LICENSES MAY NOT CLEARLY AUTHORIZE US TO PROVIDE ALL OF THE SERVICES THAT WE OFFER

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The licensing and regulatory regime in Russia, Ukraine, and the markets in which we operate frequently do not keep pace with the technological advances in the telecommunications industry. Further, a great deal of ambiguity exists in regard to the interpretation of licenses and the application of rules and regulations in regard to our new services, especially those new services enabled by technological developments in telecommunications infrastructure and software. Although our operating companies possess a wide range of licenses issued by the Russian and Ukrainian regulatory agencies, it is possible that the technical means by which we provide some of our services, or the service themselves, may be subject to licensing requirements or restrictions and that our existing licenses do not satisfy these requirements. In such events, we could be subject to fines, penalties or suspension, limitation or revocation of licenses. The suspension, limitation in scope or revocation of a significant license or the levying of substantial fines could have a material adverse effect on our operations and our financial results.

RUSSIAN ANTI-TRUST POLICIES MAY LIMIT OUR ABILITY TO EXPAND OUR BUSINESSES AND TO ESTABLISH MARKET RATES FOR OUR SERVICE OFFERINGS

The Federal Anti-Monopoly Service (“FAS”), the state agency responsible for establishing and enforcing the state’s anti-trust policies, adopted a policy decision whereby each licensed telecommunications operator, including our operating companies, may be classified as a “monopolist”. The policy was declared to be without effect by the Russian courts. However, if the policy were to be successfully enforced, our operating companies could be subject to increased state regulation. Since our products are frequently priced at a premium in comparison with the products of state-owned incumbent operators, it is possible that we may be required to reduce our tariffs. Further, as we continue to expand our operations, we may be subject to increasing anti-trust restrictions imposed by the FAS. For example, ADS has been classified as a monopolist in Nizhny Novgorod. Any such regulation of our pricing or restriction in operations could be detrimental to our financial results.

The proposed revisions to the Russian antitrust law which were approved by the Russian government generally are intended to strengthen the position of the FAS and widen its authority as well as expand the types of activities that may be classified as subject to antitrust regulations. In particular, under the proposed law, if several independent companies control more than 50% of a particular market, each of them may be declared as having a dominant position in the market. The adoption of this law may affect our operations.

SPECIAL FEES AND TAXES LEVIED AGAINST TELECOMMUNICATIONS OPERATORS COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS

From time to time, Ukrainian and Russian government officials seek to offset budgetary shortfalls by increasing levies extracted from the telecommunications industry. The provisions of the New Law require that all Russian operators, including fixed-line operators, pay a portion of their revenues to the USF, which will be established to fund socially important but economically unviable projects. The USF is expected to be operating in 2005. The New Law, however, does not provide clarity as to how the USF will be collected and administered. It is expected that the amount of the Universal Service Charge will not exceed 3% of a certain telecommunication company’s revenues. These or other similar industry-specific pieces of legislation may have a material adverse effect on demand for our services and on our results of operations. Similarly, the results of our operations could deteriorate if the government introduces any new frequency or licensing fees substantially in excess of the amounts previously budgeted for such fees.

Under new regulations, the Ukrainian regulatory agency may require licensees to pay similar annual amounts into local network development. If the additional amounts required will be substantial, we cannot predict whether the financial burden associated with compliance may be so burdensome as to cause a deterioration of our financial results. Moreover, in 2004 the State Committee on Communications of Ukraine established new license conditions, which came into force on August 16, 2004. Under these conditions, any reissue of existing fixed-voice licenses, even related to the change of a licensee’s legal address, may require payment of the full license fee. At present we cannot estimate how significantly these changes may impact our operations in Ukraine.

RUSSIAN AND UKRAINIAN LEGISLATION MAY NOT ADEQUATELY PROTECT AGAINST EXPROPRIATION AND NATIONALIZATION

The governments of Russia and Ukraine have enacted legislation to protect foreign investment and other property against expropriation and nationalization. In the event that our property is expropriated or nationalized, legislation provides for fair compensation. However, we cannot assure you that these protections would be enforced. This uncertainty is due to several factors, including:

- The lack of state budgetary resources;
- The lack of an independent judiciary and sufficient mechanisms to enforce judgments; and
- Corruption among government officials.

In particular, in Ukraine, there has been no established history of investor rights protection or responsibility to investors and in certain cases the courts may not enforce these rights. In the event courts enforced rights of investors granted under applicable

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Ukrainian legislation, the government and/or the legislature of Ukraine could attempt to overrule any such court decisions legislatively through retroactive legislative changes. Moreover, recently announced intentions of the newly appointed Ukrainian government to re-privatize certain enterprises, that may be considered as illegally privatized by the former government, may have an adverse effect on the Ukrainian investment climate.

In addition, social instability in Russia, Ukraine and other CIS countries, coupled with difficult economic conditions, could lead to increased support for centralized authority and a rise in nationalism. These sentiments could lead to restrictions on foreign ownership of companies in the telecommunications industry or large-scale nationalization or expropriation of foreign-owned assets or businesses. Although we do not anticipate the nationalization or expropriation of our assets because we were not created as a result of privatization of any state enterprise, the concept of property rights is not well developed in the laws of these countries and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalization and expropriation. As a result, we may not be able to obtain proper redress in the courts, and we may not receive adequate compensation if in the future any local government decides to nationalize or expropriate some or all of our assets. If this occurs, our business would be harmed.

WE MAY BE UNABLE TO ENFORCE OUR RIGHTS DUE TO AMBIGUITY IN THE LAWS AND LEGAL STRUCTURES OF THE COUNTRIES WHERE WE OPERATE

Current ambiguity in Russian, Ukrainian and other CIS laws makes it difficult to determine if we would be able to enforce our rights in disputes with our venture partners or other parties. Furthermore, the dispersion of regulatory power among a number of government agencies in Russia, Ukraine and the other countries of the CIS has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Russian, Ukrainian and other CIS governments have rapidly introduced laws and regulations and have changed their legal structures in an effort to make their economies more market-oriented, resulting in considerable legal confusion, especially in areas of the law that directly affect our operations. We cannot assure you that local laws and regulations will become stable in the future. Our ability to provide services in Russia, Ukraine and other countries of the CIS could be adversely affected by difficulties in protecting and enforcing our rights and by future changes to local laws and regulations. Further, our ability to protect and enforce our rights is dependent on the Russian, Ukrainian and CIS courts which are underdeveloped, inefficient and, in places, corrupt. Enforcement of court orders can in practice be very difficult in Russia and Ukraine. Additionally, court orders are not always enforced or followed by law enforcement agencies.

ANY UNFORESEEN CHANGES IN THE TAX LAWS IN RUSSIA OR UKRAINE COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS

Russia

Our Russian tax burden may become greater than the estimated amount that we have expensed to date and paid or accrued on our balance sheets. Because of the need for additional sources of budgetary finance, Russian tax authorities are often arbitrary and aggressive in their interpretation of tax laws and their many ambiguities, as well as in their enforcement and collection activities. Many companies are often forced to negotiate their tax bills with tax inspectors who demand higher taxes than applicable law appears to provide. Any additional tax liability, as well as any unforeseen changes in the tax law, could have a material adverse effect on our future results of operations or cash flows in a particular period. Under Russian accounting and tax principles, financial statements of Russian companies are not consolidated for tax purposes. As a result, each Russian-registered entity in our group pays its own Russian taxes and we cannot offset the profits or losses in any single entity against the profits and losses in any other entity. As a result, our overall effective tax rate may increase as we expand our operations, unless we are able to implement an effective corporate structure that minimizes the effect of these Russian accounting and tax norms.

The tax regime in Russia following the recent cases involving Yukos and Vimpelcom has become less predictable. In addition, following ruling 169-0 of the Constitutional Court regarding VAT, the tax authorities may be able to re-qualify the tax treatment of certain transactions using subjective criteria such as the intent or purpose of a transaction which creates further ambiguity in application of the tax laws.

Ukraine

Similarly, Ukrainian tax law is unpredictable and tax authorities are often arbitrary and aggressive in their interpretation of tax laws and their many ambiguities, as well as in their enforcement and collection activities. The constitution prohibits retroactive legislation, and the Taxation System Law requires new tax laws to be adopted no later than six months prior to the beginning of the next fiscal year in which the new tax laws are to become effective. Nevertheless, sudden shifts in tax law and policy and retroactive legislation are common. For example, in January 2003, the Ukrainian Parliament adopted amendments to the Profits Tax Law which, in part, became effective as of January 1, 2003. The law substantially changes the tax treatment of exchange rate differences, dividends, transfer pricing, goodwill and other transactions. Other amendments to the Profits Tax Law of Ukraine came into effect from January 1, 2004. Although the profit tax rate was decreased from 30% to 25%, some adverse changes were introduced to the calculation of a taxable profit, such as new bad debts deductibility treatment. The impact of the law on our operations was positive so far, however, the future impact of the mentioned amendments is still uncertain because of ambiguities and inconsistencies in the law

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that allow different interpretations by the tax authorities. If our interpretation of the amendments differs from those of the local tax authorities, we might be subject to higher tax liability and/or additional fees and penalties.

RUSSIAN AND UKRAINIAN LAWS MAY EXPOSE US TO LIABILITY FOR ACTIONS TAKEN BY OUR SUBSIDIARIES OR VENTURE ENTITIES

Under Russian laws, we may be jointly and severally liable for any obligations of a subsidiary or venture entity under a transaction if:

- We have the ability to issue mandatory instructions to the subsidiary or venture entity and that ability is provided for by the charter of the subsidiary or venture entity or in a contract between us and them; and
- The subsidiary or venture entity concluded the transaction pursuant to our mandatory instructions.

In addition, we may have secondary liability for any obligations of a subsidiary or venture entity if:

- The subsidiary or venture entity becomes insolvent or bankrupt due to our actions or our failure to act; and
- We have the ability to make decisions for the subsidiary or venture entity as a result of our ownership interest, the terms of a contract between us and them, or in any other way.

In either of these circumstances, the shareholders of the subsidiary or venture entity may seek compensation from us for the losses sustained by the subsidiary or a venture entity if we knew that the action taken pursuant to our instructions or the failure to act would result in loss. This type of liability could result in significant obligations and adversely affect our business.

Under Ukrainian laws, we may be held jointly and severally liable for any obligations of our Ukrainian subsidiaries if we fail to initiate bankruptcy proceedings with respect to such Ukrainian subsidiaries when required to do so by law.

THE IMPLEMENTATION OF UKRAINE’S NEW CIVIL AND COMMERCIAL CODES MAY CAUSE INSTABILITY OF UKRAINIAN BUSINESS LEGAL ENVIRONMENT

In January 2003, a new Civil Code was enacted by the Ukrainian Parliament which sets forth new regulations in the areas of property law, copyright, industrial ownership and trademarks and replaces the existing Civil Code adopted in 1963. Also in January 2003, the Parliament enacted a new Commercial Code which is intended to provide legal guidelines for economic activities and relationships in the market, by regulating the use of natural resources, the rights of industrial ownership and the use of securities and by defining the insurance, banking and auditing procedures. However, the documents contain controversial and often overlapping provisions. Until such time as a regulatory practice for interpretation of the new legislation is established and appropriate sub-legislation consistent with the new codes is promulgated, there may be a period of confusion and ambiguity. Such confusion and ambiguity may materially adversely affect the Ukrainian market and negatively impact functioning of our business.

RISKS ASSOCIATED WITH OUR BUSINESS

WE MAY ENCOUNTER DIFFICULTIES EXPANDING AND OPERATING OUR BUSINESS, INCLUDING THE INTEGRATION OF ACQUIRED COMPANIES

We have experienced significant growth as a result of acquisitions and expect such growth to continue. As we grow, it will become increasingly difficult and more costly to manage our business.

Acquisition transactions are accompanied by a number of risks, including risks related to:

- The consolidation of the operations and personnel of the acquired companies;
- The potential disruption of our ongoing business and distraction of management;
- The introduction of acquired technology content or rights into our products and unanticipated expenses related to such integration;
- The potential negative impact on reported earnings;
- The possibility that revenues from acquired businesses and other synergies may not materialize as anticipated;
- The deterioration of relationships with employees and customers as a result of any integration of new management personnel; and

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- Contingent liabilities associated with acquired businesses, especially in the markets where we operate.

We may not be successful in addressing these risks or any other problems encountered in connection with our completed and future acquisitions and our operating results may suffer as a result of any failure to integrate these businesses with our existing operations.

In addition, we may encounter difficulties in building our networks with respect to:

- Delivering services that are technically and economically feasible;
- Financing increases in the regional network construction and development area;
- Obtaining in a timely manner and maintaining licenses, permissions to operate telecommunication equipment, frequency allocations and other governmental permissions sufficient to provide services to our customers;
- Marketing our services in a large geographic area to new potential customers;
- Obtaining sufficient interconnect arrangements;
- Meeting demands of local special interest groups;
- Obtaining compliance certificates for our telecommunications equipment in a timely and cost-efficient manner; and
- Obtaining adequate supplies of network equipment.

REORGANIZATION OF THE RUSSIAN TELECOMMUNICATIONS INDUSTRY MAY AFFECT OUR COMPETITIVE POSITION

Prior to 2002, Svyazinvest, a government-controlled holding entity, controlled Rostelecom and most of other principal wire-line venture partners. In 2002, the telecommunications industry was restructured by merging all regional incumbent operators into seven inter-regional operating companies. With this consolidation, we may face stronger competition from these new entities. Further, with the consummation of the Sovintel transaction in 2002, we are not sure that we may rely on continued strong commercial relations with Rostelecom, given that they are no longer our partner in Sovintel.

Further, the consolidation of all regional incumbent operators into seven inter-regional companies could affect our ability to expand into the various regions of Russia. In order to effectively compete, we may need to expend significant internal resources or acquire other technologies and companies to provide or enhance our capabilities. Any of these efforts could have a material adverse effect on our business, operating results and financial condition.

REORGANIZATIONS IN THE UKRAINIAN TELECOMMUNICATIONS SECTOR MAY HAVE STRENGTHENED THE POSITION OF THE MONOPOLY INCUMBENT AND ENCOURAGED UNFAIR COMPETITION

In preparation for a large-scale privatization of the telecommunications industry, the Ukrainian government reorganized the state telecommunications sector so that Ukrtelecom, the state telecommunications operator, holds all the government's interests in the telecommunications industry. Until recently the Ukrainian government intended to sell up to 49% of Ukrtelecom's shares in the near future. In anticipation of the privatization of Ukrtelecom, Ukrtelecom has been transferred back from the Ukrainian Communications Committee to the State Property Fund.

The new Ukrainian government recently announced that they do not intend to privatize Ukrtelecom in 2005. It is expected that the Ukrainian government will continue to control at least 51% of Ukrtelecom's shares. This will allow the Ukrainian government to control Ukrtelecom and will afford the Ukrainian government the opportunity to further control the telecommunications industry through Ukrtelecom. The emergence of a single self-regulating Ukrainian telecommunications monopoly may have adverse financial consequences for us because:

- We have no effective recourse against the state monopoly carrier since the state regulator controls and manages the monopoly carrier and the judiciary system is severely underdeveloped and cannot be relied upon to protect and enforce unfair competition;
- A single Ukrainian self-regulating monopoly is able to create favorable market conditions for itself and cause unfavorable conditions for us;
- Our ability to negotiate reasonable interconnection agreements and rates may suffer; and

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- Any subsequent privatization of Ukrtelecom may bring in strong management and resources from a major telecommunications operator, increasing its competitive strengths.

OUR SALE OF PART OF GTU MAY NOT BRING THE EXPECTED BENEFITS TO US

Recognizing that many of the markets in which we operate are complex, we continue to seek strong local partners to assist us in those markets. In the third quarter of 2004, we transferred 20% of our ownership interest in GTU to a Ukrainian partner in exchange for services provided by the partner. Our partner has been assisting us in resolving disputes with Ukrtelecom and the Ministry of Communications. We continue to believe that Ukraine offers promising investment opportunities but that there are still political and commercial risks associated with operating in Ukraine.

FAILURE TO OBTAIN SUFFICIENT AND RELIABLE TRANSMISSION CAPACITY AT REASONABLE COSTS COULD CAUSE US TO INCUR LOSSES

Historically, we have leased a substantial portion of our network transmission capacity under agreements that generally have one to three-year fixed terms. In addition, in 2001, we leased significant additional domestic and international capacity that we utilize for data transmission under long-term lease agreements that may be extended up to fifteen years. We rely on third parties' ability to provide data transmission capacity to us. These third parties themselves, in turn, may be receiving capacity from others. If our lease arrangements deteriorate or terminate and we are unable to enter into new arrangements or if the entities from which we lease such capacity are unable to perform their obligations under these arrangements, our cost structure, service quality and network coverage could be adversely affected.

We currently provide international switched voice, data and IP services in Russia by relying on Rostelecom and Transtelecom to provide leased transmission capacity within Russia. We rely on local operators for last-mile access to end-users. These companies may be subject to political and economic pressures not to lease capacity to foreign operators or competitors. Further, in light of the acquisition of the remaining 50% ownership interest of Sovintel from Rostelecom in 2002, Rostelecom may have less incentive to continue to provide telecommunication services to us despite their significant shareholding in us. Any changes in regulation or policies that restrict us from leasing adequate capacity could have an adverse effect on our business. Local telecommunications operators may, for business reasons or otherwise, resist giving us access to the last mile.

The failure of Rostelecom, Transtelecom, local operators or any other provider to comply with lease arrangements or our inability to obtain other long-term leases on a timely basis or maintain existing leases for fiber optic cable or transmission capacity would prevent us from deploying and operating our network as planned. This could have a material adverse effect on our ability to operate.

In Ukraine, we mainly lease transmission capacity from Ukrtelecom, the Ukrainian incumbent fixed phone line network operator. In 2004, we started leasing transmission capacity from alternative sources and we expect that the risk of capacity lease from a single operator will be partly mitigated by the end of 2005. Nevertheless, if Ukrtelecom does not make investments to significantly increase the capacity of its transmission network or if we are not able to lease capacity from another source in the future, we may not have sufficient transmission capacity to expand our subscriber base.

OUR ABILITY TO PROVIDE OUR SERVICES IS DEPENDENT ON SECURING AND MAINTAINING INTERCONNECTION AGREEMENTS WITH ROSTELECOM, UKRTELECOM AND OTHER FACILITIES PROVIDERS

Our ability to provide telecommunications services depends on our ability to secure and maintain interconnection agreements with Rostelecom, Ukrtelecom and other incumbent owners of networks. Since we do not currently anticipate owning all the facilities we need to operate our networks, we will always rely on the telecommunications networks of other providers to some degree. Interconnection is required to complete calls that originate on our networks but terminate outside our networks, or that originate from outside our networks and terminate on our networks. Our current interconnection agreements with incumbent operators expires in various years between 2005 and 2014. We have experienced substantial increases in interconnection costs with incumbent operators. It is possible that in the future our interconnection agreements may not be renewed or not renewed on a timely basis or on commercially reasonable terms.

In Russia, we are dependent on Rostelecom for the provision of leased lines and/or interconnect circuits used to connect our points of interconnection to our network backbones. A failure by Rostelecom to provide such leased lines and/or interconnect circuits in accordance with our plans, or to satisfy our customers' demands on certain routes, has in the past given rise to capacity constraints in our network on certain routes. While we believe that these capacity constraints have been eliminated, we may continue to experience capacity constraints until we increase the number of points of interconnection to our network, allowing us to route a greater proportion of traffic over our network.

In Ukraine, we are, to a great extent, dependent on Ukrtelecom for the provision of leased lines and/or interconnect circuits used to connect our indirect access customers throughout Ukraine as well as to provide access to our network backbone in Russia. A failure

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by Ukrtelecom to provide such leased lines and/or interconnect circuits in accordance with our plans, or to satisfy our customer demand on certain routes, could give rise to capacity constraints in our network on certain routes in Ukraine if are not able to find an alternative circuits provider.

OUR NETWORK MAY NOT BE ABLE TO SUPPORT THE GROWING DEMANDS OF OUR CUSTOMERS

The uninterrupted operation of our networks is vital to our success. The stability of our systems depends on our ability to provide sufficient capacity to meet the needs of our customers, and that, in turn, depends on the integration of suitable technology into our networks. As we continue to increase both the capacity and the reach of our networks, and as traffic volume continues to increase, we will face increasing demands and challenges in managing our circuit capacity and traffic management systems. Any prolonged failure of our communications network or other systems or hardware that causes significant interruptions to our operations could seriously damage our reputation and result in customer attrition and financial losses.

It is possible that the current economic difficulties and historical circumstances in Russia and Ukraine may create difficulties in maintaining our network. We rely to a significant degree on the Russian and Ukrainian networks being able to deliver our services, and the underdevelopment of such networks may hinder our ability to obtain sufficient capacity for our traffic volumes, especially as we expand our Internet access business. Moreover, it is increasingly difficult to expand within Moscow because the existing city network does not have sufficient capacity, and we may be unable to procure enough telephone numbers and connection lines for our customers utilizing our services. These factors may have a material adverse effect on our expansion plans and our ability to provide services to new customers.

RUSSIAN COMPANIES MAY BE REQUIRED TO ADOPT A PLAN OF LIQUIDATION WHEN THEIR NET ASSETS ARE NEGATIVE

Under Russian law, in the event the value of a company's net assets is less than the minimum charter capital allowed by law, such company may be required to adopt a decision to liquidate. Even if the company declines to approve its liquidation, governmental agencies responsible for the State registration of companies, as well as other designated State bodies, for example, the Federal Commission for the Securities Market, are authorized to bring a lawsuit seeking liquidation of the company until the expiration of the relevant statute of limitation. Some of our subsidiaries have in the past and continue to have negative net asset values which could make them subject to the legal requirement to adopt a plan of liquidation. Any voluntary or forced liquidation could have material a adverse effect on our business.

WE MAY HAVE DIFFICULTY SCALING AND ADAPTING OUR EXISTING ARCHITECTURE TO ACCOMMODATE INCREASED TRAFFIC AND TECHNOLOGY ADVANCES

Most of the telecommunication network architecture that we employ and the architecture of local public networks were not originally designed to accommodate levels or types of services we provide and it is unclear whether current or future anticipated levels of traffic will result in delays or interruptions in our services. In the future, we may be required to make significant changes to our architecture, including moving to a completely new architecture, or we may be required to invest to upgrade local public networks. If we are required to switch architectures, we may incur substantial costs and experience delays or interruptions in our operations. If we experience delays or interruptions in our operations due to inadequacies in our current architecture or as a result of a change in architectures, users may become dissatisfied with our services and move to competing providers. Any loss of traffic, increased costs, inefficiencies or failures to adapt to new technologies and the associated adjustments to our architecture would have a material adverse effect on our business.

WE ARE IN A COMPETITIVE INDUSTRY AND OUR COMPETITORS MAY BE MORE SUCCESSFUL IN ATTRACTING AND RETAINING CUSTOMERS

The market for our products and services is competitive and we expect that competition, especially in underdeveloped markets, will continue to intensify. As we expand the scope of our offerings, we will compete directly with a greater number of competitors providing business services in the same markets. Negative competitive developments could have a material adverse effect on our business.

Our competitors include incumbent Russian and Ukrainian operators and other large international telecommunications providers doing business in the CIS. Our competitors may have substantially greater resources, closer ties to governmental authorities and longer operating histories. These advantages may give them a competitive edge over alternative providers like us. This competition may result in a loss of customers, falling prices and a decline in revenues.

We are operating in recently liberalized markets in an evolving and highly competitive industry. We expect our competitors to continually improve their products and services while also reducing their prices. Our success will depend on our ability to compete effectively in this environment.

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The telecommunications market in Russia has historically been dominated by Svyazinvest, including its subsidiary, Rostelecom, and in Ukraine by Ukrtelecom, both being former state monopoly telecommunications services providers. These companies and other established competitors have significant competitive advantages over us which include:

- Greater resources, market presence and network coverage;
- Greater brand name recognition, customer loyalty and goodwill;
- Control over domestic transmission lines and over access to these lines by other participants; and
- Close ties to national and local regulatory authorities which may be reluctant to adopt policies that would give rise to increased competition for Rostelecom or Ukrtelecom.

OUR PARTNERS ARE OFTEN ALSO OUR COMPETITORS

Notwithstanding the provisions of the agreements with our venture partners, such partners sometimes compete directly with our ventures. Competition with our venture partners in the same markets may create conflicts of interest and may result in deadlock in management and loss of customers.

In 2002, we acquired the remaining 50% ownership interest of Sovintel from Rostelecom, the dominant international and domestic long distance carrier in Russia. As a result of this transaction, we are now directly competing with Rostelecom, a formerly state-owned enterprise that previously was our partner in Sovintel. Similarly, most of our regional partners across Russia offer local and long distance services in competition with our local ventures and Sovintel.

OUR EXISTING BILLING AND MANAGEMENT INFORMATION SYSTEMS MAY NOT BE ABLE TO MEET OUR FUTURE NEEDS

We may encounter difficulties in enhancing our billing and management information systems and in integrating new technology into such systems. We have historically operated through distinct companies, but we are in the process of integrating our billing and management information systems so that we will be able to bill our customers and to manage other administrative tasks through a single system. If we are unable to integrate and upgrade our billing and management information systems to support our integrated operations, our billing may suffer which could have a material adverse effect on our revenues.

Additionally, any damage to our network management center or our major switching centers could harm our ability to monitor and manage network operations and generate accurate call detail reports from which we derive our billing information.

In our operations outside Moscow, Kiev, and St. Petersburg, we rely on our ventures' switches to provide information necessary to generate invoices. We cannot ensure that their systems will meet our needs or the needs of our customers.

WE MAY ENCOUNTER DIFFICULTIES IN FULLY COMPLYING WITH APPLICABLE LAWS DUE TO CONFUSION IN THE LAWS AND LEGAL STRUCTURES OF THE COUNTRIES WHERE WE OPERATE

The application of the laws of any particular country is not always clear or consistent. This is particularly so in Russia, Ukraine and other CIS countries where the pace of legislative drafting has not always kept pace with the demands of the marketplace. These countries often have commercial practices and legal and regulatory frameworks that differ significantly from those in the US and other Western countries. As a result, it is often difficult to ensure that we are in compliance with changing legal requirements. If we, any of our ventures or any of our acquired companies are found to be involved in practices that do not comply with local laws or regulations, then we may be exposed, among other things, to significant fines, the risk of prosecution or the suspension or loss of our licenses, frequency allocations, authorizations or various permissions, any of which could have a material adverse effect on us.

The Ministry of Transport and Communications of Ukraine, and formerly the Ukrainian Communications Committee, regularly check our compliance with the requirements of the applicable legislation and our telecommunications licenses. We use our best efforts to comply with all such requirements. However, we cannot assure you that in the course of future inspections we will not be found to be in violation of the applicable legislation. Any such finding could have a material adverse effect on our operations.

It may be difficult and prohibitively expensive for us to comply with applicable Russian telecommunications regulations related to state surveillance of communications traffic. Currently, Ukrainian authorities are also trying to implement state surveillance of

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communications traffic. Full compliance with these regulations that allow the state to monitor voice and data traffic may be overly burdensome and expensive. Noncompliance may lead to the imposition of fines or penalties on us, or the revocation of our operating licenses. Further, some customers may decline to utilize the services of a telecommunications provider whose networks facilitate state surveillance of communications traffic.

OUR TELECOMMUNICATIONS LICENSES MAY NOT BE EXTENDED OR MAY BE SUSPENDED OR REVOKED

Our telecommunications licenses expire in various years from 2005 to 2014. If renewed, our licenses may contain additional obligations, including payment obligations, or may cover reduced service areas. If our telecommunications license for provision of local, intercity, interzonal and international telephone services in the Moscow and St. Petersburg license area, which expires on March 17, 2008, is not renewed, our business could be adversely affected. Depending on the growth of our business in the other license areas, the failure to have any other particular license renewed could also materially adversely affect our business. As discussed above, we may not be able to comply with licensing conditions for the intercity and international telephone services as required by regulation No. 87 of the Russian government.

If we fail to completely fulfill specific terms of any of our telecommunications licenses related to line and operational capacity, territorial or other technical requirements, payment or reporting obligations, local registrations of our telecommunications licenses, frequency permissions or other governmental permissions or if we provide our services in a manner that violates applicable law, Rossvyaznadzor may suspend our licenses, frequency permissions or other governmental permissions, or in the case of continued non-compliance, initiate court proceedings for the revocation of our licenses. If any of our telecommunications licenses are suspended or terminated or if extensions requested are not granted and action is taken against our company or our subsidiaries, our business could be adversely affected.

In addition, many of our telecommunications licenses have not been registered with local offices of the Ministry of Communications in the regions where we do not operate our own equipment. Although, the Ministry of Communications has informed us, in many cases only verbally, that we do not need a local registration until we start to operate our equipment in the area, failure to register contradicts the terms of our licenses. We cannot guarantee that the Ministry of Communications will maintain this position and will not take action against us for not registering our telecommunication licenses, which could have a negative impact on our business.

WE MAY FAIL TO OBTAIN RENEWALS OR EXTENSIONS OF OUR FREQUENCY ALLOCATIONS FOR OUR EARTH STATIONS AND OTHER RADIO FREQUENCY EQUIPMENT THAT WE USE IN OUR OPERATIONS

Our frequency allocations for most of our license areas expire on the expiration date of our corresponding licenses. We cannot predict whether we will be able to obtain extensions of our frequency allocations and whether extensions will be granted in a timely manner and without any significant additional costs. It is possible that there could be a reallocation of frequencies upon the expiration of existing allocations or the granting of frequency allocations for the same channels as our frequency allocations, requiring that we coordinate the use of our frequencies with the other license holder and/or experience a loss of quality in our network.

If we fail to obtain renewals or extensions of our frequency allocations for parts of our network based on radio frequencies, which expire on various dates between 2005 and 2008, or if other license holders are granted overlapping frequencies, our business could be adversely affected.

RISKS ASSOCIATED WITH OUR SHAREHOLDING STRUCTURE

OUR SIGNIFICANT SHAREHOLDERS HAVE ENTERED INTO A SHAREHOLDERS AGREEMENT WHEREBY THESE SHAREHOLDERS EXERCISE EFFECTIVE CONTROL OVER OUR BOARD OF DIRECTORS

In August 2003, our major shareholders entered into a Shareholders Agreement which became effective upon closure of the transaction in December 2003. In accordance with the terms of the Shareholders Agreement, Alfa Telecom Limited (“Alfa”), Telenor, Rostelecom, Capital International Global Emerging Markets Private Equity Fund, L.P., Cavendish Nominees Limited and First NIS Regional Fund SICAV are able to exercise substantial control over our Board of Directors. These relationships create the potential for conflicts of interest between us and our shareholders. Although the Shareholders Agreement and other agreements among the shareholders reduce the chance for conflicts of interest, we cannot assure that any conflicts of interest will be resolved in our favor. We cannot assure you that any group of directors will not take any actions that may adversely affect the interests of minority shareholders. Further, if we consummate any future acquisitions, such agreements may be amended or we and our shareholders may enter into new agreements.

OUR SIGNIFICANT SHAREHOLDERS HAVE OTHER INTERESTS WHICH MAY CONFLICT WITH OUR INTERESTS

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One of our significant shareholders, Rostelecom, is one of our direct competitors. Two of our shareholders, Alfa and Telenor, have ownership interests in Vimpelcom, with whom we have significant commercial relationships. Although we structure transactions so that they are at "arm's length", we cannot assure you that these shareholders will not apply pressure on the Company to enter into transactions which may not be the most commercially favorable to us.

THE CURRENT GOVERNMENT'S WELL-PUBLICIZED CAMPAIGN AGAINST RUSSIA'S SO-CALLED "OLIGARCHS" COULD HAVE ADVERSE EFFECTS ON US

It has been widely reported in Russian and foreign media that the Russian government is exerting pressure on the so-called "oligarchs" to cause them to divest their commercial interests in certain economic areas of activity. The media has reported also that the government has exerted significant influence on companies owned or controlled by the oligarchs through tax inspections, management changes, threats of and actual prosecution of management and key officials, and other means. Real and perceived pressure on the "oligarchs" and their businesses has seriously affected the economic activities of these enterprises and their management.

If the current or future governments in Russia were to apply significant pressure on Alfa and its affiliated companies, it could have serious adverse effects on our operations and financial results. Such effects could include, but would not be limited to, the inability of the Board of Directors to act independently from external pressure and the distraction of our management from our day-to-day operations.

ALFA'S DISPUTE WITH THE MINISTRY OF COMMUNICATIONS MAY ADVERSELY AFFECT OUR BUSINESS

It has been widely reported that Alfa is involved in a dispute with the Ministry of Communications regarding Alfa's ownership interest in the mobile operator Megafon. Should that dispute continue or escalate then the Ministry of Communications may put pressure on Alfa and its holdings. One of Alfa's other holdings is Vimpelcom, our largest customer. Should the Ministry of Communications apply pressure on us or Vimpelcom, it could have serious adverse effects on our operations and financial results.

RISKS ASSOCIATED WITH OUR SHARES OF COMMON STOCK

OUR ABILITY TO PAY DIVIDENDS ON OUR COMMON STOCK MAY BE LIMITED

During 2004, our Board of Directors declared four dividends of $0.20 per common share each to shareholders. In February 2005, the Board of Directors declared a dividend of $0.20 per common share each to shareholders of record on March 17, 2005. The Board of Directors reviews our policy on dividends annually. Even if we continue to generate significant cash flows in the future, our Board of Directors may elect to retain earnings for our future development or for other reasons and, consequently, not declare a dividend. Further, if we raise any capital in the future, we may be restricted from paying dividends under the terms of such financings. In addition, the governments in the countries where we operate may further devalue their currencies and take other actions that may restrict the ability of our subsidiaries to declare and pay dividends to us which in turn may limit our ability to pay dividends to our shareholders.

OUR SHARE PRICE HAS BEEN AND MAY CONTINUE TO BE HIGHLY VOLATILE

The price of our shares has been subject to significant volatility since our IPO in 1999. In addition, a number of particular factors may adversely affect the market price of our shares or cause the market price to fluctuate and decline materially. These factors include:

- Issues concerning the perceived risks of investing in Russia and the CIS, including significant ownership of our shares by a company that is part of a large Russia-based financial and industrial concern;
- The limited number of our shares available for trading in public markets;
- The potential sale of any large blocks of our shares by our management or large shareholders;
- Mergers and strategic alliances in the telecommunications industry; and
- Inconsistent or restrictive government regulation in the Russian and Ukrainian telecommunications industries.

In recent years, the market for stock in technology, telecommunications and computer companies has been highly volatile. This is particularly true for companies with relatively small capitalization, such as ours.

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ITEM 2. PROPERTIES

Major Facilities

We possess the right to occupy and utilize five floors, 6,694 square meters, of a building in central Moscow, which houses our call center, customer care center, Information technology and accounting offices for Sovintel. The right to occupy and utilize this space is through leases, which expire between April 2007 and November 2009.

We possess the right to occupy and utilize four floors, 4,125 square meters, of a building in central Moscow which serves as the principal sales and marketing office for Sovintel and which houses our Representative Office. The right to occupy and utilize this space is through a ten-year lease. This lease expires in August 2012.

We possess the right to occupy and utilize three floors, 4,025 square meters, of a building in central Moscow, which serves as the principal technical department for Sovintel. The right to occupy and utilize this space is through a one-year lease, which expires in December 2005. In addition, we occupy and utilize four floors, 2,377 square meters, of another building in central Moscow, which also serves the technical department of Sovintel. The right to occupy and utilize this space is through a one-year lease, which expires December 2005.

We possess the right to occupy and utilize six floors of a building in eastern Moscow, which serve principally as an office for the Consumer Internet Services division of Sovintel and the technical department for Sovintel. The right to occupy and utilize the space is through a fifty-five year lease, which expires in 2050.

We possess the right to occupy and utilize 1,041 square meters, of a building in St. Petersburg. The right to occupy and utilize this space is through a lease, which expires in January 2007. In addition, we possess the right to occupy and utilize 1,110 square meters, of a building in Samara. The right to occupy and utilize this space is through a lease which expires in 2008.

We own a 5 floor, 2,600 square meters, building in Nizhny Novgorod which serves as the principal office for ADS and we own a 5 floor, 4,432 square meters, building in Krasnoyarsk which serves as the principal office for Sibchallenge and Tel.

Golden Telecom (Ukraine) occupies office and technical premises located in Kiev under long-term leases which expire in 2006. Additionally they lease a dealer-center and shop premises. Golden Telecom (Ukraine) also occupies an office and technical premises in Odessa under a lease which expires in 2005.

In Kazakhstan, we possess the right to occupy and utilize two floors, 747 square meters, of building in central Almaty which houses SA Telcom under a long-term lease which expires in 2009. In Uzbekistan, we posses the right to occupy and utilize two floors, 650 square meters, of a building in central Tashkent which houses Buzton under a long-term lease which expires in 2013.

We lease various buildings and space in buildings throughout the Commonwealth of Independent States that we use for our offices. Beside these office spaces, our principal facilities consist of telecommunications installations, including switches of various sizes, cables and VSAT and other transmission devices located throughout the Commonwealth of Independent States. We believe that our facilities are adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

a) MARKET INFORMATION

Our common stock has traded on the Nasdaq National Market since September 30, 1999 under the symbol "GLDN". The following table sets forth, for the periods indicated, the high and low closing prices per share for our common stock, as reported on the Nasdaq National Market.

	HIGH	LOW
2003:		
First quarter	15.19	12.27
Second quarter	24.50	14.58
Third quarter	32.76	22.50
Fourth quarter	30.11	25.18
2004:		
First quarter	36.63	28.24
Second quarter	35.93	22.77
Third quarter	30.97	23.61
Fourth quarter	31.45	25.94

b) HOLDERS

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

c) DIVIDENDS

During 2004, we paid four quarterly dividends of $0.20 per common share, for a total of $0.80 per common share for the year. The Board of Directors reviews the Company's policy on dividends annually. In February 2005, the Board of Directors of the Company declared a cash dividend of $0.20 per common share payable on March 31, 2005 to shareholders of record as of March 17, 2005. We believe that we have reached a level of operating profitability that allows for expansion and maintenance capital expenditures to be financed entirely from operational cash flows, and therefore we expect, subject to unexpected changes in our business, that a dividend will continue to be paid in the future.

d) RECENT SALES OF UNREGISTERED SECURITIES

None

For information regarding securities issued under our equity participation plan, see "Item 12. Security Ownership of Certain Beneficial Owners and Management — Equity Compensation Plan Information"

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ITEM 6. SELECTED FINANCIAL DATA

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

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

	FOR THE YEARS ENDED DECEMBER 31,				
	2000	2001	2002	2003	2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
STATEMENT OF OPERATIONS DATA:					
Revenues	$113,089	$140,038	$198,727	$360,534	$583,978
Cost of revenues (excluding depreciation and amortization)	50,954	63,685	91,189	181,085	300,588
Gross margin	62,135	76,353	107,538	179,449	283,390
Selling, general and administrative (excluding depreciation and amortization)	45,420	48,935	46,147	64,384	112,855
Depreciation and amortization	31,851	41,398	29,961	45,334	74,999
Impairment charge	—	31,291	—	—	—
Income (loss) from continuing operations	(15,136)	(45,271)	31,430	69,731	95,536
Equity in earnings (losses) of ventures	(285)	8,155	4,375	4,687	278
Interest income (expense), net	7,126	777	(667)	(872)	559
Foreign currency gain (loss)	(390)	(647)	(1,174)	(232)	660
Other non-operating expense	(148)	—	—	—	—
Minority interest	(431)	(117)	(527)	(480)	(1,506)
Provision for income taxes	990	1,902	4,627	17,399	30,744
Net income (loss) before cumulative effect of change in accounting principle	(10,254)	(39,005)	28,810	55,435	64,783
Cumulative effect of change in accounting principle	—	—	974	—	—
Net income (loss)	(10,254)	(39,005)	29,784	55,435	64,783
Income (loss) from continuing operations per share — basic	(0.63)	(1.92)	1.30	2.45	2.64
Net income (loss) per share before cumulative effect of change in accounting principle — basic	(0.43)	(1.65)	1.20	1.20	1.79
Cumulative effect of change in accounting principle	—	—	0.04	0.04	—
Net income (loss) per share — basic	(0.43)	(1.65)	1.24	1.95	1.79
Weighted average shares — basic	24,096	23,605	24,102	28,468	36,226
Income (loss) from continuing operations per share — diluted	(0.63)	(1.92)	1.28	2.40	2.61
Net income (loss) per share before cumulative effect of change in accounting principle — diluted	(0.43)	(1.65)	1.17	1.90	1.77
Cumulative effect of change in accounting principle	—	—	0.04	—	—
Net income (loss) per share — diluted	(0.43)	(1.65)	1.21	1.90	1.77
Weighted average shares — diluted	24,096	23,605	24,517	29,107	36,553
Cash dividends per common share	—	—	—	—	0.80

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	AT DECEMBER 31,				
	2000	2001	2002	2003	2004
	(IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 57,889	$ 37,404	$ 59,625	$ 65,180	$ 53,699
Investments available for sale	54,344	8,976	—	—	—
Property and equipment, net	82,377	98,590	166,121	283,110	347,891
Investments in and advances to ventures	49,629	45,981	721	251	742
Goodwill and intangible assets, net	70,045	57,146	127,669	248,843	247,570
Total assets	348,456	300,384	435,810	729,226	805,768
Long-term debt, including long-term capital lease obligations	15,658	10,733	29,732	3,963	1,738
Minority interest	3,337	5,967	2,187	2,722	11,738
Shareholders' equity	287,241	224,892	311,506	584,279	626,381

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

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

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

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

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

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

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis relates to our financial condition and results of operations for each of the years ended December 31, 2004, 2003, and 2002. This discussion should be read in conjunction with the "Selected Financial Data" and the Company's Consolidated Financial Statements and the notes related thereto appearing elsewhere in this Report.

OVERVIEW

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

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

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

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

- CONSUMER INTERNET SERVICES. Using our fiber optic and satellite-based networks, we provide dial-up Internet access to the consumer market and web content offered through a family of Internet portals throughout Russia, Ukraine, 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, although, some services still carry local brands because of recent acquisitions. Our dial-up Internet services are distributed under the ROL brand in Russia, Kazakhstan and Uzbekistan and under the Svit-On-Line brand in Ukraine.

Additionally, we hold a minority interest in MCT Corp. ("MCT"), which in turn has ownership interests in 13 mobile operations located throughout Russia and in Uzbekistan, Tajikistan and Afghanistan. We treat our ownership interest in MCT as an equity method investment and are not actively involved in the day-to-day management of the operations.

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

Traditionally, we have competed for customers on the basis of network quality, customer service and range of services offered. In the past several years, other telecommunications operators have also introduced high-quality services to the segments of the business market in which we operate. Competition with these operators is intense, and frequently results in declining prices for some of our services, which adversely affect our revenues. In addition, some of our competitors do not link their prices to the United States dollar ("USD") - ruble exchange rate, so when the ruble devalues, their prices effectively become lower in relation to our prices. The ruble exchange rate with the USD has become relatively stable since early 2000 and appreciated in 2003 and 2004 so price pressures associated with devaluation have eased considerably. We cannot be certain that the exchange rate will remain stable in the future and therefore we may experience additional price pressures.

RECENT ACQUISITIONS

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

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

In December 2003, we completed the acquisition of 100% of the shares in OAO Comincom ("Comincom"), and its wholly-owned subsidiary, OAO Combellga ("Combellga") from Nye Telenor East Invest for a total purchase price of approximately $195.3 million, consisting of approximately $193.5 million in our common stock and direct transaction costs of approximately $1.8 million. The acquisition further strengthens our position in the key Moscow and St. Petersburg communications markets, and positions us to realize operating and capital expenditure synergies. Comincom provided telecommunications services, principally to major hotels, business offices, embassies and mobile communication companies through its telecommunications network in Russia. As of December 1, 2004, all assets, liabilities, rights and obligations of Comincom and Combellga were transferred to Sovintel as part of the legal merger of these three wholly-owned subsidiaries.

In February 2004, we completed the acquisition of 100% ownership interest in ST-HOLDING s.r.o. ("ST-HOLDING"), a Czech company that owns 50% plus one share in ZAO Samara Telecom, a telecommunications service provider in Samara, Russia from ZAO SMARTS and individual owners. In April 2004, we completed the acquisition of 100% of the common stock in OAO Balticom Mobile ("Balticom") that owns 62% of ZAO WestBalt Telecom, an alternative telecommunications operator in Kaliningrad, Russia. In April 2004, we completed the acquisition of the remaining 49% ownership interest in OOO Uralrelcom that we did not already own. In May 2004, we completed the acquisition of a 54% ownership interest in SP Buzton ("Buzton"), an alternative telecommunications operator in Uzbekistan. These companies were acquired for approximately $16.0 million in cash, with $1.1 million held in escrow for a period of one year related to Balticom and $0.5 million payable for Buzton upon satisfactory achievement of certain conditions.

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

OTHER DEVELOPMENTS

On January 1, 2004, a new law "On Telecommunications" (the "New Law") came into effect in Russia. The New Law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. The New Law was designed to create a new interconnect pricing regime in 2004 that should be more transparent and unified, if fairly implemented. However, as of December 31, 2004, this pricing regime has not been implemented. The New Law also creates a universal service charge calculated as a percentage of revenue which is not expected to exceed 3% of certain revenues of a telecommunications company. It is expected that the first payments of the universal service charge will be made in 2005. The New Law may increase the regulation of our operations, as it is intended to regulate licenses for long distance, international long distance and Voice over Internet Protocol ("VoIP"). Until such time as appropriate regulations consistent with the New Law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation.

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

Recognizing that many of the markets in which we operate are complex, in particular as it relates to business, regulatory, political and cultural matters, we occasionally seek experienced local partners to assist in markets where we are likely to encounter operational difficulties. We have been cooperating with local partners in Ukraine to resolve commercial and regulatory disputes with monopoly

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

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

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

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

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

HIGHLIGHTS AND OUTLOOK

Since early 2000 we have witnessed a recovery in the Russian market, but downward pricing pressures persist from increased competition and the global trend toward lower telecommunications tariffs. In 2003 and 2004, our traffic volume increases exceeded the reduction in tariffs on certain types of voice traffic. This is a contributing factor to the increases in our revenue in 2003 and 2004, although the major factor of revenue increases in 2004 was the acquisition of Comincom. We expect that this trend of year over year increases in traffic volume will continue as long as the Russian economy continues to develop at its current pace. Although our revenue growth is strong, our overall margins continue to be impacted by price increases for services received from monopolistic incumbent operations.

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

We continue to follow our strategy of regional expansion. The project for the construction of the inter-city fiber optic link which we launched in the middle of 2004 will be continued into the second half of 2005. At present, we are constructing an inter-city fiber optic link from Moscow to Ufa through Nizhny Novgorod and Kazan. Subject to weather conditions, we expect that this inter-city fiber optic link will be operational in the second half of 2005. To date, this inter-city fiber optic link has been completed from Moscow to Noginsk. We intend to connect our operations in the European part of Russia to this backbone network and plan to invest a total of approximately $40.0 million to $50.0 million in this and related backbone projects through 2007.

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

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

We have seen a significant year-over-year increase in our dial-up Internet subscriber numbers and we expect the increase to continue, as our base of regional subscribers expands. As additional dial-up capacity becomes available in Moscow, we expect to increase our market share in the capital as well.

We have continued to integrate our acquisitions and improve operational efficiency while at the same time controlling costs. We expect to incur further costs in connection with overall streamlining of our operations during 2005. During the twelve months ended December 31, 2004, we incurred consulting and employee termination costs associated with the operational integration of Comincom into our operations which has been recorded in selling, general and administrative expense. In addition, we have incurred costs associated with, among other things, Sarbanes-Oxley compliance and other consulting and recruiting expenses.

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Revenue recognition policies; we recognize operating revenues as services are rendered or as products are delivered to customers and installed. Under multiple-delivery contracts, involving a combination of product delivery, installation and maintenance, connection and service fees, revenues are recognized based on the relative fair value of the respective amounts. Elements are grouped if they are inseparable or objective evidence of fair value does not exist. Certain revenues, such as connection and installation fees, are deferred. We also defer direct incremental costs related to connection fees, not exceeding the revenue deferred. Deferred revenues are subsequently recognized over the estimated average customer lives, which are periodically reassessed by us, and such reassessment may impact our future operating results. In determining the recording of revenue, estimates and assumptions are required in assessing the expected conversion of the revenue streams to cash collected.

Allowance for doubtful accounts policies; the allowance estimation process requires management to make assumptions based on historical results, future expectations, the economic and competitive environment, changes in the creditworthiness of our customers,

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and other relevant factors. Changes in the underlying assumptions may have a significant impact on the results of our operations. In particular, we have certain amounts due to and from subsidiaries of a European telecommunications operator who is currently subject to bankruptcy proceedings. The ultimate resolution of this matter will be affected by a number of factors including the determination of legal obligations of each party, the course of the bankruptcy proceedings, and the enforceability of any determinations. We have recognized provisions based on our preliminary estimate of net exposure on the resolution of these receivables and payables. If our assessment proves to be incorrect we may have to recognize an additional provision of up to $2.2 million, net of tax, although management believes that the possibility of such an adverse outcome is remote.

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

Goodwill and assessment of impairment; commencing from the adoption of Statement on Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets", on January 1, 2002, we perform goodwill impairment testing annually as of October 1 or whenever impairment indicators exist. This test requires a significant degree of judgment about the future events and it includes determination of the reporting units, allocation of goodwill to the reporting units and comparison of the fair value with the carrying amount of each reporting unit. Based on the discounted cash flow valuations performed in 2004, we concluded that for all reporting units the fair value is in excess of the respective carrying amounts.

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

Business segment information; we changed our reporting for business segments in the second quarter of 2003. Prior to the completion of the acquisition of the remaining 50% ownership interest in Sovintel and the subsequent merger of TeleRoss into Sovintel in April 2003, we managed our business segments based on telecommunications products that we provided. In the first quarter of 2003, we re-designed our business segments around customer characteristics. Currently, we report four segments within the telecommunications industry: Business and Corporate Services, Carrier and Operator Services, Consumer Internet Services and Mobile Services. A significant portion of our cost structure, including our investment in infrastructure, benefits multiple segments. As a result, we perform allocations of certain costs in order to report business segment information for management and financial reporting purposes. Applying different allocation techniques and parameters could impact the reported results of individual business segments.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets”. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, “Accounting for Nonmonetary Transactions” (“APB No. 29”), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial

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

RESULTS OF OPERATIONS

The results of our four business segments from the operations of our consolidated entities combined with the non-consolidated entities where we are actively involved in the day-to-day management, are shown in note 14 “Segment Information — Line of Business Data” to our consolidated financial statements. In addition, revenue and costs from related parties are shown in note 13 “Related Party Transactions”.

In accordance with SFAS No. 52, we have determined that the functional currency of each foreign subsidiary is the USD, as the majority of our cash flows are indexed to, or denominated in USD. Through December 31, 2002, Russia had been considered to be a highly inflationary environment. From January 1, 2003, Russia ceased to be considered as a highly inflationary economy. As we believe that the functional currency of each foreign subsidiary is the USD, this change did not have a material impact on our results of operations or financial position.

According to Russian government estimates, inflation in Russia was 16% in 2002, 14% in 2003 and 12% in 2004. The Russian government expects inflation to be approximately 11% in 2005. Although the rate of inflation has been declining, any return to heavy and sustained inflation could lead to market instability, new financial crises, reduction in consumer buying power and erosion of consumer confidence.

As of April 15, 2003, all assets, liabilities, rights and obligations of TeleRoss were transferred to Sovintel as part of the legal merger of these two wholly-owned subsidiaries. This resulted in the reorganization of our operations along the lines of customer characteristics as opposed to the types of telecommunications products we provide. Therefore, in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, we have aligned our operating segments in the manner that the chief operating decision maker manages the operations for purposes of making operating decisions and allocating resources.

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

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

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

REVENUE

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

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	CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2003	CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2004
	(IN MILLIONS)	
REVENUE		
Business and Corporate Services	$ 188.9	$ 324.8
Carrier and Operator Services	128.5	198.9
Consumer Internet Services	30.8	45.5
Mobile Services	13.9	15.8
Eliminations	(1.6)	(1.0)
TOTAL REVENUE	$ 360.5	$ 584.0

Business and Corporate Services. Revenue from BCS increased by 72% to $324.8 million for the year ended December 31, 2004 from $188.9 million for the year ended December 31, 2003. The primary reason for the increase is due to the acquisition of 100% ownership interest in Comincom in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. Comincom's revenue from BCS was $90.7 million for the year ended December 31, 2004. BCS revenue increased by approximately $8.3 million due to the 2004 acquisitions of ST-HOLDING, Balticom, and Buzton. We began consolidating these three companies into our results at various points during the first half of 2004. Additionally, $3.5 million of the total increase is due to 2004 being the first full year that we consolidated the results of Sibchallenge, an August 2003 acquisition. The remainder of the increase was the result of expanding our pre-existing business. In addition to the above factors, in our largest market, Moscow, we had increases in our domestic traffic revenues due to adding approximately 9,100 new corporate customers and signing up 99 new multi-tenant business centers and 10 new trade centers in the year ended December 31, 2004 along with actively promoting new services among our client base. BCS Moscow recognized approximately $23.7 million in revenue from new contracts in 2004 and grew the number of its Direct Inward Dialing lines from 102,037 as of December 31, 2003 to approximately 116,668 as of December 31, 2004.

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

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

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

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

Mobile Services. Revenue from Mobile Services increased by 14% to $15.8 million for the year ended December 31, 2004 from $13.9 million for the year ended December 31, 2003. Active subscribers increased from 40,026 at December 31, 2003 to 57,490 at December 31, 2004 due to an increase in the number of prepaid subscribers driven by the overall Ukrainian mobile market growth. The average revenue per active subscriber has decreased by 11% to approximately $27.23 per month due to the decrease in the subscription fee for the tariff plan which allows for unlimited local calls for a fixed payment as well as decrease in the number of the subscribers using the said tariff plan and due to an increase in the share of prepaid subscribers with lower activity and no fixed charge.

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EXPENSES

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

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

Cost of Revenue

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

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

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

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

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

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Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 33% to $26.9 million, or 59% of revenue, for the year ended December 31, 2004 from $20.2 million, or 66% of revenue, for the year ended December 31, 2003. The decrease as a percentage of revenue was mainly due to leveraging the fixed cost portion of our operations over increased volumes.

Mobile Services. Cost of revenue from Mobile Services increased by 114% to $6.0 million, or 38% of revenue, for the year ended December 31, 2004 from $2.8 million, or 20% of revenue, for the year ended December 31, 2003. The cost of revenue as a percentage of revenue increased due to the introduction of the CPP principle by the Ukrainian Parliament in the third quarter of 2003 as settlement costs for traffic to other mobile networks increased.

Selling, General and Administrative

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

Depreciation and Amortization

Our depreciation and amortization expenses increased by 66% to $75.0 million for the year ended December 31, 2004 from $45.3 million for the year ended December 31, 2003. The increase was due in part to depreciation on continuing capital expenditures of the consolidated entities, but primarily relates to our acquisition of the 100% ownership interest in Comincom and subsequent consolidation of Comincom as of December 1, 2003 into our results of operations. As a result of consolidating Comincom, depreciation and amortization increased by $18.9 million for the year ended December 31, 2004.

Equity in Earnings of Ventures

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

Interest Income

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

Interest Expense

Our interest expense was $0.6 million for the year ended December 31, 2004 down from $2.0 million for the year ended December 31, 2003. Debt, excluding capital lease obligations, at December 31, 2004 was $0.2 million compared to $1.2 million at December 31, 2003. On June 30, 2003, we settled $30.0 million of outstanding debt plus accrued interest under a credit facility with ZAO Citibank.

Foreign Currency Gain (Loss)

Our foreign currency gain was $0.7 million for the year ended December 31, 2004, compared to a foreign currency loss of $0.2 million for the year ended December 31, 2003. The improvement in foreign currency loss is due to the combination of movements in exchange rates and changes in the amount of net monetary assets that we have denominated in foreign currencies.

Minority Interest

Our minority interest was $1.5 million for the year ended December 31, 2004, compared to a $0.5 million for the year ended December 31, 2003. The increase was the result of minority interests in the earnings of GTU, ZAO Samara Telecom, ZAO WestBalt Telecom and Buzton. Except for GTU, each of these consolidated subsidiaries was acquired during the first half of 2004. Minority interests in the earnings of GTU arose in 2004 due to the sale of a non-controlling interest to our local partners in Ukraine.

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Provision for Income Taxes

Our charge for income taxes was $30.7 million for the year ended December 31, 2004 compared to $17.4 million for the year ended December 31, 2003. Our effective tax rate was 32% for the year ended December 31, 2004 compared to 24% for the year ended December 31, 2003 partly as a result of increases in non-deductible expenses in 2004, versus recording a deferred tax benefit related to the reduction of a deferred tax asset valuation allowance in 2003. The overall increase in income tax expense is primarily due to the acquisition of 100% ownership interest in Comincom and subsequent consolidation of Comincom from December 1, 2003 into our results of operations. In addition, there were increased levels of taxable profits being incurred in our Russian and Ukrainian subsidiaries in the year ended December 31, 2004 as compared to the year ended December 31, 2003.

Net Income and Net Income per Share

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

Our net income per share of common stock decreased to $1.79 for the year ended December 31, 2004, compared to a net income per share of $1.95 for the year ended December 31, 2003. The decrease in net income per share of common stock was due to the increase in net income partly offset by an increase in the number of weighted average shares to 36,225,531 in the year ended December 31, 2004, compared to 28,467,677 in the year ended December 31, 2003. The increase in outstanding shares was a direct result of the Comincom acquisition and employee stock option exercises.

Our net income per share of common stock on a fully diluted basis decreased to $1.77 for the year ended December 31, 2004, compared to a net income per common share of $1.90 for the year ended December 31, 2003. The decrease in net income per share of common stock on a fully diluted basis was due to the increase in net income partly offset by an increase in the number of weighted average shares assuming dilution to 36,552,547 the year ended December 31, 2004, compared to 29,106,540 for the year ended December 31, 2003.

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

Accounts Receivable

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

Property and Equipment

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

Intangible Assets

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

Minority Interest

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

Stockholders' Equity

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

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

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

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

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

REVENUE

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

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

Business and Corporate Services. Revenue from BCS increased by 106% to $188.9 million for the year ended December 31, 2003 from $91.7 million for the year ended December 31, 2002. The primary reason for the increase is due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. In addition, we had increases in our domestic traffic revenues due to adding approximately 1,600 new corporate customers and signing up 74 new multi-tenant business centers in the year ended December 31, 2003 along with actively promoting new services among our client base. In addition, in the fourth quarter of 2003, we had approximately $5.0 million in customer premises equipment sales, higher than we have experienced in previous quarters.

The acquisition of 100% ownership interest in Comincom was completed in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. As a result of consolidating Comincom, revenue from BCS increased by $6.7 million for the year ended December 31, 2003.

Revenue from the BCS division of GTU increased by 15% to $19.0 million for the year ended December 31, 2003 from $16.5 million for the year ended December 31, 2002. The increase in revenue was due to an increase in the total intercity minutes of use by business and corporate clients and an increase in monthly recurring charges offset by lower equipment sales.

Carrier and Operator Services. Revenue from Carrier and Operator Services increased by 74% to $128.5 million for the year ended December 31, 2003 from $73.9 million for the year ended December 31, 2002. The primary reason for the increase is due to the acquisition of the remaining 50% ownership interest in Sovintel, which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. In addition, we have added a number of new carriers with increased volumes of traffic, especially VoIP, and increased the number of services that we offer to cellular providers, which has more than offset general tariff declines, although pricing pressures still exist.

The acquisition of 100% ownership interest in Comincom was completed in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. As a result of consolidating Comincom, revenue from Carrier and Operator Services increased by $2.0 million for the year ended December 31, 2003.

Revenue for the Carrier and Operator Services division of GTU increased by 93% to $11.6 million for the year ended December 31, 2003 from $6.0 million for the year ended December 31, 2002. The increase in revenue was due to increasing volumes of incoming international traffic which we are able to terminate in a number of cities in Ukraine as well as increasing volumes of outgoing international traffic.

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

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Mobile Services. Revenue from Mobile Services increased by 7% to $13.9 million for the year ended December 31, 2003 from $13.0 million for the year ended December 31, 2002. Active subscribers increased from 35,386 at December 31, 2002 to 40,026 at December 31, 2003 and the average revenue per active subscriber has increased by 8% to approximately $30.74 per month due to an increasing number of subscribers on a tariff plan which allows for unlimited local calls for a fixed payment of $99 per month. As a result of the adoption of the CPP principle by the Ukrainian Parliament on September 17, 2003, we were unable to charge our mobile customers for incoming calls and our revenues were reduced accordingly.

EXPENSES

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

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

Cost of Revenue

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

Business and Corporate Services. Cost of revenue from BCS increased by 77% to $84.8 million, or 45% of revenue, for the year ended December 31, 2003 from $47.9 million, or 52% of revenue, for the year ended December 31, 2002. The increase in cost of revenue and the decrease in cost of revenue as a percentage of revenue are mainly due to the acquisition of the remaining 50% ownership interest in Sovintel which was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. In addition, in the fourth quarter of 2003, we had approximately $5.0 million in customer premises equipment sales with significantly lower margins as part of a strategy to provide a wider range of communication and Internet technology products to our existing customers.

The acquisition of 100% ownership interest in Comincom was completed in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. As a result of consolidating Comincom, cost of revenue from Business and Corporate Services increased by $2.9 million for the year ended December 31, 2003.

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

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

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

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The acquisition of 100% ownership interest in Comincom was completed in the fourth quarter of 2003. We began consolidating Comincom into our results of operations from December 1, 2003. As a result of consolidating Comincom, cost of revenue from Carrier and Operator Services increased by $1.4 million for the year ended December 31, 2003.

Consumer Internet Services. Cost of revenue from Consumer Internet Services increased by 38% to $20.2 million, or 66% of revenue, for the year ended December 31, 2003 from $14.6 million, or 67% of revenue, for the year ended December 31, 2002. The decrease as a percentage of revenue was mainly due to additional low cost interconnect capacity becoming available in the third quarter of 2002.

Mobile Services. Cost of revenue from Mobile Services decreased by 7% to $2.8 million, or 20% of revenue, for the year ended December 31, 2003 from $3.0 million, or 23% of revenue, for the year ended December 31, 2002. The cost of revenue as a percentage of revenue decreased due to the increased number of subscribers using the unlimited local call tariff plan which does not lead to additional settlement costs with other operators.

Selling, General and Administrative

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

Depreciation and Amortization

Our depreciation and amortization expenses increased by 51% to $45.3 million for the year ended December 31, 2003 from $30.0 million for the year ended December 31, 2002. The increase was due in part to depreciation on continuing capital expenditures of the consolidated entities, but primarily relates to our acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel as of September 17, 2002 into our results of operations. In addition, depreciation and amortization increased by $1.7 million due to the consolidation of Comincom into our results of operations from December 1, 2003.

Equity in Earnings of Ventures

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

Interest Income

Our interest income was $1.1 million for the year ended December 31, 2003 down from $1.6 million for the year ended December 31, 2002. The decrease in interest income mainly reflects lower interest rates earned on deposits in short-term US money market funds.

Interest Expense

Our interest expense was $2.0 million for the year ended December 31, 2003 down from $2.2 million for the year ended December 31, 2002. Debt, excluding capital lease obligations, at December 31, 2003 was $1.2 million compared to $33.1 million at December 31, 2002. On June 30, 2003, we settled $30.0 million of outstanding debt plus accrued interest under a credit facility with ZAO Citibank. There was no penalty for the early settlement of this debt however an additional $0.2 million of previously capitalized financing costs was recognized during the second quarter of 2003 which was previously being recognized over the life of the facility.

Foreign Currency Loss

Our foreign currency loss was $0.2 million for the year ended December 31, 2003, compared to a foreign currency loss of $1.2 million for the year ended December 31, 2002. The improvement in foreign currency loss is due to the combination of movements in exchange rates and changes in the amount of net monetary assets that we have denominated in foreign currencies.

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Provision for Income Taxes

Our charge for income taxes was $17.4 million for the year ended December 31, 2003 compared to $4.6 million for the year ended December 31, 2002. Our effective tax rate was 24% for the year ended December 31, 2003 compared to 14% for the year ended December 31, 2002. The increase is primarily due to the acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel from September 17, 2002 into our results of operations. In addition, there were increased levels of taxable profits being incurred in our Russian and Ukrainian subsidiaries in the year ended December 31, 2003 as compared to the year ended December 31, 2002. In the fourth quarter of 2002, we recognized the full benefit of carry-forward tax losses of $2.8 million at our wholly-owned Russian subsidiary, Teleross, which previously had been recognized on a quarterly basis and we recognized $0.8 million of current deferred tax assets at GTU. In the fourth quarter of 2003, we recognized the full benefit of US carry-forward tax losses resulting in a deferred tax benefit of approximately $1.9 million.

Cumulative Effect of a Change in Accounting Principle

We adopted SFAS No. 142 "Accounting for Goodwill," effective from January 1, 2002. As a result, we recorded a cumulative effect of a change in accounting principle for negative goodwill (deferred credit) arising on our equity method investments in the amount of $1.0 million for the year ended December 31, 2002.

Net Income and Net Income per Share

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

Our net income per share of common stock increased to $1.95 for the year ended December 31, 2003, compared to a net income per share of $1.24 for the year ended December 31, 2002. The increase in net income per share of common stock was due to the increase in net income partly offset by an increase in the number of weighted average shares to 28,467,677 in the year ended December 31, 2003, compared to 24,101,943 in the year ended December 31, 2002. The increase in outstanding shares was a direct result of the Comincom acquisition and employee stock option exercises.

Our net income per share of common stock on a fully diluted basis increased to $1.90 for the year ended December 31, 2003, compared to a net income per common share of $1.21 for the year ended December 31, 2002. The increase in net income per share of common stock on a fully diluted basis was due to the increase in net income partly offset by an increase in the number of weighted average shares assuming dilution to 29,106,540 the year ended December 31, 2003, compared to 24,516,803 for the year ended December 31, 2002.

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

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

Accounts Receivable

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

Intangible Assets

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

Debt Obligations

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

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Stockholders' Equity

Shareholders' equity increased from December 31, 2002 to December 31, 2003 as a result of our net income of $55.4 million and proceeds of approximately $23.7 million received from the exercise of employee stock options.

INCOME TAXES

Our effective rate of income tax differs from the US statutory rate due to the impact of the following factors: (1) different income tax rates and regulations apply in the countries where we operate; (2) amortization of certain acquired intangible assets is not deductible for income tax purposes; and (3) write-offs of certain assets are not deductible for tax purposes. In 2002, as a result of our Russian and Ukrainian subsidiaries profitability and reasonable certainty of future profits, we reduced the valuation allowance for deferred tax assets in the appropriate Russian and Ukrainian subsidiaries. As of December 31, 2004, we had a deferred tax asset of approximately $2.2 million related to net operating loss carry-forward for US federal income tax purposes. We have concluded that these 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 of $0.6 million 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 generate tax losses since 2003. We also had approximately $10.8 million of other 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 other deferred tax assets will be realized through the generation of future taxable income. More information about income taxes and a reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in note 11 to our consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents was $53.7 million and $65.2 million as of December 31, 2004 and December 31, 2003, respectively. Our total restricted cash as of December 31, 2004 remained unchanged from the $1.0 million as of December 31, 2003. The restricted cash is maintained in connection with certain of our debt obligations as described below.

During the twelve months ended December 31, 2004, we had net cash inflows of $145.1 million from our operating activities. During the twelve months ended December 31, 2003, we had net cash inflows of $87.0 million from our operating activities. This increase in net cash inflows from operating activities at December 31, 2004 is mainly due to the increase of net income as a result of increased revenues, and the consolidation of Comincom into our results of operations and financial position from December 1, 2003.

During the twelve months ended December 31, 2004, we received approximately $566.8 million in cash from our customers for services and we paid approximately $386.1 million to suppliers and employees. During the twelve months ended December 31, 2003, we received approximately $342.8 million in cash from our customers for services and we paid approximately $237.7 million to suppliers and employees.

We used cash of $128.4 million and $68.0 million for investing activities for the twelve months ended December 31, 2004 and 2003, respectively, which were principally attributable to building our telecommunications networks and acquisitions. Network investing activities totaled $114.6 million for the twelve months ended December 31, 2004 and included capital expenditures principally attributable to building out our telecommunications network. The majority of network investing activities related to construction of last mile access, the intercity fiber project and network upgrades as a result of increased customer connections. Network investing activities totaled $63.7 million for the twelve months ended December 31, 2003. During 2005, we expect our capital expenditures program will continue at a level sufficient to support our strategic and operating needs and will remain consistent, as a percentage of revenue, with 2003 and 2004 capital expenditures as a percentage of revenue.

We used cash of $15.5 million for the year ended December 31, 2004 for acquisitions which include ST-HOLDING, Buzton, Uralrelcom, and Balticom Mobile. We used cash of $12.3 million of the year ended December 31, 2003 for acquisitions principally attributable to acquiring Sibchallenge.

In October 2003, MCT declared a cash dividend of $1.90 per common share to holders of record as of October 27, 2003. Our portion of this cash dividend was approximately $4.7 million and was received in November 2003.

For the year ended December 31, 2004, we received $4.9 million net proceeds from the exercise of employee stock options and for the year ended December 31, 2003, we received $23.7 million net proceeds from the exercise of employee stock options.

In 2004, we paid quarterly dividends of $0.20 per common share to shareholders totaling $29.0 million. 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. The total amount of payable of approximately $7.3 million will be paid to shareholders on March 31, 2005.

We had working capital of $83.8 million as of December 31, 2004 and $90.3 million as of December 31, 2003. At December 31, 2004, we had total debt, excluding capital lease obligations, of approximately $0.2 million, none of them were current maturities. At

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December 31, 2003, we had total debt, excluding capital lease obligations, of approximately $1.2 million, of which $1.0 million were current maturities. Total debt included amounts that were fully collateralized by restricted cash.

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

In September 2001, we entered into a five year lease for the right to use up to VC-3 fiber optic capacity on major routes within Russia to support the increase in our interregional traffic and regional expansion strategy. In December 2001, we issued a $9.1 million loan to the company that provided the capital lease. The loan has payment terms of 56 months, which started in January 2002, and carries interest at the rate of 7 percent per annum.

In the ordinary course of business, we have entered into long-term agreements for satellite transponder capacity. In the twelve months ended December 31, 2004, we entered into approximately $57.8 million of satellite transponder capacity agreements generally with terms of 10 years.

Some of our operating companies have received debt financing through direct loans from affiliated companies. In addition, certain operating companies have borrowed funds under a back-to-back, seven-year credit facility for up to $22.7 million from a Russian subsidiary of Citibank. Under this facility, we provide full cash collateral, held in London, and recorded on our balance sheet as restricted cash, for onshore loans made by the bank to our Russian registered joint ventures. In a second, similar facility, we provide full cash collateral for a short term back-to-back, revolving, credit facility for up to $10.0 million from the same bank for two of our larger Russian operating companies. The funding level as of December 31, 2004 for all these facilities totaled $1.0 million, of which $0.2 million was funded to our consolidated subsidiaries and $0.8 million was funded to our non-consolidated entities.

In the future, we may execute especially large or numerous acquisitions, which may require us to raise additional funds through a dilutive equity issuance, additional borrowings with or without collateralization, through the divestment of non-core assets, to suspend or cease dividend payments, or a combination of the foregoing. In case especially large or numerous acquisitions do not materialize, we expect our cash flow from operations to be sufficient to fund our expected requirements, including our capital expenditure requirements. However, the actual amount and timing of our future cash requirements may differ materially from our current estimates because of changes or fluctuations in our anticipated investments, revenue, operating costs and network expansion plans, timing of acquisitions, and access to alternative sources of financing on favorable terms. Further, in order for us to compete successfully, we may require substantial additional cash to continue to develop our networks and meet the funding requirements of our operations and ventures. To the extent our current sources are not sufficient to meet these requirements, we may raise additional funds through a dilutive equity issuance, additional borrowings with or without collateralization, the divestment of non-core assets, the suspension or cessation of dividend payments or a combination of the foregoing.

We may not be able to obtain additional financing on favorable terms. As a result, we may be subject to additional or more restrictive financial covenants, our interest obligations may increase significantly and our shareholders may be adversely diluted. Our failure to generate sufficient funds in the future, whether from operations or by raising additional debt or equity capital, may require us to delay or abandon some or all of our anticipated expenditures, to sell assets, or both, which could have a material adverse effect on our operations. We are negotiating with a financial institution to secure an unsecured credit facility of $45.0 million to fund, in principle part, our acquisition of Hudson Telecom, Inc. Such facility is expected to contain restrictive covenants that will limit the flexibility of our operations.

As part of our drive to increase our network capacity, reduce costs and improve the quality of our service, we have leased additional fiber optic capacity and entered into agreements for satellite-based network capacity; the terms 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.

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As of December 31, 2004, we had the following contractual obligations, including short- and long-term debt arrangements commitments for future payments under non-cancelable lease arrangements and purchase obligations:

	PAYMENTS DUE BY PERIOD (IN THOUSANDS)				
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	3 - 5 YEARS	THEREAFTER
Long-term debt	$ 200	$ —	$ 200	$ —	$ —
Capital lease obligations	4,145	2,553	1,592	—	—
Non-cancelable lease obligations	12,053	4,485	5,790	1,527	251
Purchase obligations — (1)	84,488	21,431	29,317	15,873	17,867
Total contractual cash obligations	$100,886	$28,469	$36,899	$17,400	$ 18,118

(1) Purchase obligations mainly include our contractual legal obligations for the future purchase of equipment, interconnect, and satellite transponder capacity.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our treasury function has managed our funding, liquidity and exposure to interest rate and foreign currency exchange rate risks. Our investment treasury operations are conducted within guidelines that have been established and authorized by our audit committee. In accordance with our policy, we do not enter into any treasury management transactions of a speculative nature.

The ruble and the hryvna are generally non-convertible outside Russia and Ukraine, respectively, so our ability to hedge against further devaluation by converting to other currencies is significantly limited. Further, our ability to convert rubles and hryvna into other currencies in Russia and Ukraine, respectively, is subject to rules that restrict the purposes for which conversion and the payment of foreign currencies are allowed.

Given that much of our operating costs are indexed to or denominated in USD, including employee compensation expense, capital expenditure and interest expense, we have taken specific steps to minimize our exposure to fluctuations in the appropriate foreign currency. Although local currency control regulations require us to collect virtually all of our revenue in local currency, certain ventures generally either price or invoice in USD or index their invoices and collections to the applicable USD exchange rate. Customer contracts may include clauses allowing additional invoicing if the applicable exchange rate changes significantly between the invoice date and the date of payment, favorable terms for early or pre-payments and heavy penalty clauses for overdue payments. Maintaining the USD value of our revenue subjects us to additional tax on exchange gains.

Although we are attempting to match revenue, costs, borrowing and repayments in terms of their respective currencies, we may experience economic loss and a negative impact on earnings as a result of foreign currency exchange rate fluctuations.

Our cash and cash equivalents are held largely in interest bearing accounts, in USD, however we do have bank accounts denominated in Russian rubles and Ukrainian hryvna. The book values of such accounts at December 31, 2004 and 2003 approximate their fair value. Cash in excess of our immediate operating needs is invested in US money market instruments. In accordance with our investment policy, we maintain a diversified portfolio of low risk, fully liquid securities.

We are exposed to market risk from changes in interest rates on our obligations and we also face exposure to adverse movements in foreign currency exchange rates. We have developed risk management policies that establish guidelines for managing foreign currency exchange rate risk and we also periodically evaluate the materiality of foreign currency exchange exposures and the financial instruments available to mitigate this exposure.

The following table provides information (in thousands) about our cash equivalents, investments available for sale, convertible loan, and debt obligations that are sensitive to changes in interest rates.

	2005	2006	2007	2008	2008	THEREAFTER	2004 TOTAL	2003 TOTAL
Cash equivalents	$53,699	$ —	$ —	$ —	$ —	$ —	$53,699	$65,180
Note receivable	$ 2,338	$1,494	$ —	$ —	$ —	$ —	$ 3,832	$ 5,582
Fixed rate	7.00%	7.00%	—	—	—	—	7.00%	7.00%
Long-term debt, including current portion								
Variable rate	$ —	$ 200	$ —	$ —	$ —	$ —	$ 200	$ 1,150
Average interest rate	—	2.70%	—	—	—	—	—	—

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The following table provides information about our financial instruments by local currency and where applicable, presents such information in USD equivalents (in thousands). The table summarizes information on instruments that are sensitive to foreign currency exchange rates, including foreign currency denominated debt obligations.

	2005	2006	2007	2008	2009	THEREAFTER	2004 TOTAL	2003 TOTAL
ASSETS								
Current assets								
Russian rubles	$57,969	$ —	$ —	$ —	$ —	$ —	$57,969	$49,961
Average foreign currency exchange rate	27.75	—	—	—	—	—	—	—
Ukrainian hryvna	$ 6,692	$ —	$ —	$ —	$ —	$ —	$ 6,692	$ 4,719
Average foreign currency exchange rate	5.31	—	—	—	—	—	—	—
Kazakhstan Tenge	$ 875	$ —	$ —	$ —	$ —	$ —	$ 875	$ 824
Average foreign currency exchange rate	130	—	—	—	—	—	—	—
Uzbekistan Soom	$ 546	$ —	$ —	$ —	$ —	$ —	$ 546	$ —
Average foreign currency exchange rate	1,058	—	—	—	—	—	—	—
LIABILITIES								
Current liabilities								
Russian rubles	$25,268	$ —	$ —	$ —	$ —	$ —	$25,268	$16,283
Average foreign currency exchange rate	27.75	—	—	—	—	—	—	—
Ukrainian hryvna	$ 4,906	$ —	$ —	$ —	$ —	$ —	$ 4,906	3,053
Average foreign currency exchange rate	5.31	—	—	—	—	—	—	—
Kazakhstan Tenge	$ 49	$ —	$ —	$ —	$ —	$ —	$ 49	$ 356
Average foreign currency exchange rate	130	—	—	—	—	—	—	—
Uzbekistan Soom	$ 359	$ —	$ —	$ —	$ —	$ —	$ 359	$ —
Average foreign currency exchange rate	1,058	—	—	—	—	—	—	—

Our interest income and expense are most sensitive to changes in the general level of U.S. interest rates. In this regard, changes in U.S. interest rates affect the interest earned on our cash equivalents and short-term investments as well as interest paid on debt.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other parts of this document, including, without limitation, those concerning (i) future acquisitions and capital expenditures; (ii) projected traffic volumes and other growth indicators; (iii) anticipated revenues and expenses; (iv) the Company's competitive environment; (v) the future performance of consolidated and equity method investments; (vi) our intention to offer our services under the Golden Telecom brand; (vii) our business and growth strategy, (viii) our intentions to expand our fiber optic capacity and add transmission capacity; (ix) our intention to continue to use the assets of recently acquired companies in the manner such assets were previously used; (x) our plans to repurchase from time to time in the open market a number of shares equal to the number of shares that are subject to awards under the LTIBP, (xi) the impact of critical accounting policies, and (xii) the political, regulatory and financial situation in the markets in which we operate, including the effect of the new law "On Telecommunications" and its supporting regulations, are forward-looking and concern the Company's projected operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. It is important to note that such statements involve risks and uncertainties and that actual results may differ materially from those expressed or implied by such forward-looking statements. Among the key factors that have a direct bearing on the Company's results of operations, economic performance and financial condition are the commercial and execution risks associated with implementing the Company's business plan, our ability to integrate recently acquired companies into our operations, the political, economic and legal environment in the markets in which the Company operates, including the impact of the new law "On Telecommunications" and its supporting regulations, 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 this Form 10-K.

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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

GOLDEN TELECOM, INC.

EDN SOVINTEL LLC

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AUDITED FINANCIAL STATEMENTS

GOLDEN TELECOM, INC.
YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004
WITH REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM

The Board of Directors and Shareholders
Golden Telecom, Inc.

We have audited the accompanying consolidated balance sheets of Golden Telecom, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Golden Telecom, Inc. at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the financial statements, in 2002 the Company changed its method of accounting for goodwill.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Golden Telecom, Inc.'s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG (CIS) LIMITED

Moscow, Russia
March 11, 2005

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GOLDEN TELECOM, INC.

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

	DECEMBER 31, 2003 (SEE NOTE 16)	DECEMBER 31, 2004
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 65,180	$ 53,699
Accounts receivable, net of allowance for doubtful accounts of $13,896 and $23,205 at December 31, 2003 and 2004, respectively	74,016	89,177
VAT receivable	14,819	19,022
Prepaid expenses	12,232	13,793
Deferred tax asset	5,995	7,863
Other current assets	15,909	16,738
TOTAL CURRENT ASSETS	188,151	200,292
Property and equipment:		
Telecommunications equipment	311,965	396,060
Telecommunications network held under capital leases	28,712	28,958
Furniture, fixtures and equipment	27,245	34,721
Other property	13,080	12,797
Construction in progress	34,234	61,136
	415,236	533,672
Accumulated depreciation	(132,126)	(185,781)
Net property and equipment	283,110	347,891
Goodwill and intangible assets:		
Goodwill	144,008	146,254
Telecommunications service contracts, net of accumulated amortization of $13,619 as of December 31, 2003 and $21,917 as of December 31, 2004	66,622	70,333
Contract-based customer relationships, net of accumulated amortization of $2,859 as of December 31, 2003 and $10,883 as of December 31, 2004	32,310	25,966
Licenses, net of accumulated amortization of $1,854 as of December 31, 2003 and $2,515 as of December 31, 2004	2,103	1,843
Other intangible assets, net of accumulated amortization of $5,492 as of December 31, 2003 and $6,684 as of December 31, 2004	3,800	3,174
Net goodwill and intangible assets	248,843	247,570
Restricted cash	1,005	1,012
Other non-current assets	8,117	9,003
TOTAL ASSETS	$ 729,226	$ 805,768

The accompanying notes are an integral part of these financial statements.

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GOLDEN TELECOM, INC.

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

	DECEMBER 31, 2003 (SEE NOTE 16)	DECEMBER 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 65,779	$ 81,474
VAT Payable	10,167	14,235
Debt maturing within one year	950	—
Current capital lease obligations	3,067	2,301
Deferred revenue	9,192	11,761
Due to affiliates and related parties	3,495	3,199
Other current liabilities	5,249	3,572
TOTAL CURRENT LIABILITIES	97,899	116,542
Long-term debt, less current portion	200	200
Long-term deferred tax liability	24,461	24,244
Long-term deferred revenue	13,725	23,124
Long-term capital lease obligations	3,763	1,538
Other non-current liabilities	2,177	2,001
TOTAL LIABILITIES	142,225	167,649
Minority interest	2,722	11,738
SHAREHOLDERS' EQUITY		
Preferred stock, $0.01 par value (10,000,000 shares authorized; none issued and outstanding at December 31, 2003 and 2004)	—	—
Common stock, $0.01 par value (100,000,000 shares authorized; 35,948,094 shares issued and outstanding at December 31, 2003 and 36,322,490 shares issued and outstanding at December 31, 2004)	359	363
Additional paid-in capital	663,464	669,777
Accumulated deficit	(79,544)	(43,759)
TOTAL SHAREHOLDERS' EQUITY	584,279	626,381
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 729,226	$805,768

The accompanying notes are an integral part of these financial statements.

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GOLDEN TELECOM, INC.

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

	YEAR ENDED DECEMBER 31,		
	2002	2003	2004
REVENUE:			
Telecommunication services	$189,680	$358,724	$581,521
Revenue from affiliates and related parties	9,047	1,810	2,457
TOTAL REVENUE	198,727	360,534	583,978
OPERATING COSTS AND EXPENSES:			
Access and network services (excluding depreciation and amortization)	91,189	181,085	300,588
Selling, general and administrative (excluding depreciation and amortization)	46,147	64,384	112,855
Depreciation and amortization	29,961	45,334	74,999
TOTAL OPERATING EXPENSES	167,297	290,803	488,442
INCOME FROM OPERATIONS	31,430	69,731	95,536
OTHER INCOME (EXPENSE):			
Equity in earnings of ventures	4,375	4,687	278
Interest income	1,569	1,084	1,131
Interest expense	(2,236)	(1,956)	(572)
Foreign currency gain (loss)	(1,174)	(232)	660
TOTAL OTHER INCOME (EXPENSE)	2,534	3,583	1,497
Income before minority interest and income taxes	33,964	73,314	97,033
Minority interest	(527)	(480)	(1,506)
Income taxes	4,627	17,399	30,744
Income before cumulative effect of change in accounting principle	28,810	55,435	64,783
Cumulative effect of change in accounting principle	974	—	—
NET INCOME	$ 29,784	$ 55,435	$ 64,783
Basic earnings per share of common stock:			
Income before cumulative effect of a change in accounting principle	1.20	1.95	1.79
Cumulative effect of a change in accounting principle	0.04	—	—
Net income per share — basic	$ 1.24	$ 1.95	$ 1.79
Weighted average common shares outstanding — basic	24,102	28,468	36,226
Diluted earnings per share of common stock:			
Income before cumulative effect of a change in accounting principle	1.17	1.90	1.77
Cumulative effect of a change in accounting principle	0.04	—	—
Net income per share — diluted	$ 1.21	$ 1.90	$ 1.77
Weighted average common shares outstanding — diluted	24,517	29,107	36,553
Cash dividends per share	$ —	$ —	$ 0.80

The accompanying notes are an integral part of these financial statements.

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GOLDEN TELECOM, INC.

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

	YEAR ENDED DECEMBER 31, 2002	2003	2004
OPERATING ACTIVITIES			
Net income	$ 29,784	$ 55,435	$ 64,783
Adjustments to Reconcile net income to Net Cash Provided by Operating Activities:			
Depreciation	23,560	34,837	56,818
Amortization	6,401	10,497	18,181
Equity in earnings of ventures	(4,375)	(4,687)	(278)
Minority interest	527	480	1,506
Foreign currency (gain) loss	1,174	232	(660)
Deferred tax benefit	(4,213)	(3,117)	(4,606)
Bad debt expense	2,061	3,592	10,065
Other	(196)	(96)	(136)
Changes in assets and liabilities:			
Accounts receivable	(5,419)	(15,302)	(22,964)
Accounts payable and accrued expenses	(240)	(3,928)	26,288
Other assets and liabilities	1,582	9,031	(3,908)
NET CASH PROVIDED BY OPERATING ACTIVITIES	50,646	86,974	145,089
INVESTING ACTIVITIES			
Purchases of property and equipment and intangible assets	(29,431)	(63,737)	(114,649)
Acquisitions, net of cash acquired	(51,214)	(12,282)	(15,522)
Loan received from equity investee	9,973	—	—
Cash received from escrow account	3,000	—	—
Restricted cash	1,884	510	(7)
Purchase of investments available for sale	(2,000)	—	—
Proceeds from investments available for sale	10,976	—	—
Dividend received from affiliated companies	1,955	4,775	95
Other investing	2,688	2,704	1,705
NET CASH USED IN INVESTING ACTIVITIES	(52,169)	(68,030)	(128,378)
FINANCING ACTIVITIES			
Proceeds from debt	30,000	—	—
Repayments of debt	(10,107)	(35,132)	(950)
Net proceeds from exercise of employee stock options	5,904	23,737	4,895
Cash dividends paid	—	—	(28,998)
Other financing	(1,618)	(1,910)	(3,385)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	24,179	(13,305)	(28,438)
Effect of exchange rate changes on cash and cash equivalents	(435)	(84)	246
Net increase (decrease) in cash and cash equivalents	22,221	5,555	(11,481)
Cash and cash equivalents at beginning of period	37,404	59,625	65,180
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 59,625	$ 65,180	$ 53,699

The accompanying notes are an integral part of these financial statements.

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GOLDEN TELECOM, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2002, 2003, AND 2004
(IN THOUSANDS OF US$, EXCEPT SHARE DATA)

	COMMON STOCK		TREASURY STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT (SEE NOTE 16)	TOTAL DEFICIT EQUITY
	SHARES	AMOUNT	SHARES	AMOUNT			
Balance at December 31, 2001, as reported	24,790	$ 248	(2,273)	$(25,000)	$ 414,407	$ (168,811)	$220,844
Prior period adjustment, see note 16	—	—	—	—	—	4,048	4,048
Balance at December 31, 2001, as restated	24,790	$ 248	(2,273)	$(25,000)	$ 414,407	$ (164,763)	$224,892
Compensatory common stock grants	—	—	—	—	340	—	340
Exercise of employee stock options	480	5	—	—	5,822	—	5,827
Retirement of treasury shares	(2,273)	(23)	2,273	25,000	(24,977)	—	—
Acquisition of EDN Sovintel LLC	4,024	40	—	—	50,623	—	50,663
Net income	—	—	—	—	—	29,784	29,784
Balance at December 31, 2002	27,021	$ 270	—	$ —	$ 446,215	$ (134,979)	$311,506
Exercise of employee stock options	1,919	19	—	—	23,834	—	23,853
Acquisition of OAO Comincom	7,008	70	—	—	193,415	—	193,485
Net income	—	—	—	—	—	55,435	55,435
Balance at December 31, 2003	35,948	$ 359	—	$ —	$ 663,464	$ (79,544)	$584,279
Exercise of employee stock options	374	4	—	—	4,775	—	4,779
Sale of 20% of Golden Telecom (Ukraine) (see note 18)	—	—	—	—	1,538	—	1,538
Cash dividends paid	—	—	—	—	—	(28,998)	(28,998)
Net income	—	—	—	—	—	64,783	64,783
Balance at December 31, 2004	36,322	$ 363	—	$ —	$ 669,777	$ (43,759)	$626,381

The accompanying notes are an integral part of these financial statements.

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: NATURE OF BUSINESS OPERATIONS

Golden Telecom, Inc. ("GTI" or the "Company") is 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"). The Company offers voice, data and Internet services to corporations, operators and consumers using its metropolitan overlay network in major cities including Moscow, Kiev, St. Petersburg, Nizhny Novgorod, Samara, Kaliningrad, Krasnoyarsk, Almaty, and Tashkent, and via intercity fiber optic and satellite-based networks, including approximately 220 combined access points in Russia and other countries of the CIS. The Company offers mobile services in Kiev and Odessa in Ukraine. Golden Telecom was incorporated in Delaware on June 10, 1999 for the purpose of acting as a holding company for Global TeleSystems, Inc.'s ("GTS") operating entities within the CIS and supporting non-CIS holding companies (the "CIS Entities"). On September 29, 1999, GTS transferred its ownership rights in the CIS Entities to the Company in anticipation of the Company's initial public offering ("IPO") which closed on October 5, 1999.

The CIS Entities were subsidiaries of GTS prior to the transfer of ownership rights of the CIS Entities to the Company, and after the IPO, GTS retained an approximately 67% interest in the Company. On May 11, 2001, GTS completed the sale of approximately 12.2 million shares, or approximately 50%, of GTI's common stock to a group of investors led by Alfa Group ("Alfa"), a leading Russia-based financial and industrial concern, and two of the Company's previously existing major shareholders, Capital International Global Emerging Markets Private Equity Fund, L.P. and investment funds managed by Barings Vostok Capital Partners, including Cavendish Nominees Limited and First NIS Regional Fund SICAV. In July 2001, the Company completed a buy-back of $25.0 million, or approximately 2.3 million shares, of the Company's common stock from a subsidiary of GTS and in October 2001, GTS sold the remaining approximately 0.6 million shares of GTI's common stock and ceased being a shareholder of the Company.

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

Principles of Consolidation

Wholly owned subsidiaries and majority owned ventures where the Company has operating and financial control are consolidated. Those ventures where the Company exercises significant influence, but does not exercise operating and financial control are accounted for by the equity method. All significant inter-company accounts and transactions are eliminated upon consolidation.

Results of subsidiaries acquired and accounted for by the purchase method have been included in operations from the relevant date of acquisition.

Foreign Currency Translation

The functional currency of all the Company's foreign subsidiaries is the United States dollar ("USD") because the majority of their revenues, costs, property and equipment purchased, and debt and trade liabilities is either priced, incurred, payable or otherwise measured in USD. Each of the legal entities domiciled in the CIS maintains its records and prepares its financial statements in the local currency, principally either Russian rubles or Ukrainian hryvna, in accordance with the requirements of domestic accounting and tax legislation. The accompanying financial statements differ from the financial statements used for statutory purposes in the CIS and other non-US jurisdictions in that they reflect certain adjustments, recorded on the entities' books, which are appropriate to present the financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The principal adjustments are related to revenue recognition, foreign currency translation, deferred taxation, consolidation, and depreciation and valuation of property and equipment and intangible assets.

The Company follows a translation policy in accordance with Statement of Financial Accounting Standard ("SFAS") No. 52, "Foreign Currency Translation," as amended by SFAS No. 130, "Reporting Comprehensive Income". The temporal method is used for translating assets and liabilities of the Company's legal entities domiciled in the CIS and other non-United States jurisdictions. Accordingly, monetary assets and liabilities are translated at current exchange rates while non-monetary assets and liabilities are translated at their historical rates. Income and expense accounts are translated at average monthly rates of exchange. The resultant translation adjustments are included in the operations of the subsidiaries and ventures. Generally, the ruble is not convertible outside of Russia. The official exchange rate which is established by the Central Bank of Russia is a reasonable approximation of market rate. The official exchange rates which are used for translation in the accompanying financial statements at the balance sheet date were 29.45 and 27.75 rubles per USD as of December 31, 2003 and 2004, respectively. Through December 31, 2002, Russia has been considered to be a highly inflationary environment. From January 1, 2003, Russia ceased to be considered as a highly inflationary economy. The change had no impact on the consolidated financial statements.

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

The translation of local currency denominated assets and liabilities into USD for the purpose of these financial statements does not indicate that the Company could realize or settle in USD the reported values of the assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported USD value of capital to its shareholders.

Cash and Cash Equivalents and Restricted Cash

The Company classifies cash on hand and deposits in banks, including commercial paper, money market accounts, and any other investments with an original maturity of three months or less from the date of purchase, that the Company may hold from time to time, as cash and cash equivalents. Restricted cash is primarily related to cash held in escrow at a financial institution for the collateralization of debt obligations that certain of the Company's consolidated subsidiaries and equity ventures have borrowed from such financial institution.

Accounts Receivable

Accounts receivable are shown at their net realizable value which approximates their fair value. The allowance for doubtful accounts is estimated by a combination of applying estimated loss percentages against the aging of accounts receivable and specific identification. Bad debt expense for the years ended December 31, 2002, 2003 and 2004 was $2.1 million, $3.6 million and $10.1 million, respectively.

Inventories

Inventories, which are classified as other current assets, are stated at the lower of cost or market. Cost is computed on either a specific identification basis or a weighted average basis.

Property and Equipment

Property and equipment is stated at cost. Depreciation is calculated on a straight-line basis over the lesser of the estimated lives, ranging from five to ten years for telecommunications equipment and three to five years for furniture, fixtures and equipment and other property, or their contractual term. Construction in process reflects amounts incurred for the configuration and build-out of telecommunications equipment not yet placed into service. Maintenance and repairs are charged to expense as incurred. The Company has included in property and equipment, capitalized leases in the amount of $28.7 million and $29.0 million at December 31, 2003 and 2004, respectively, with associated accumulated depreciation of $9.2 million and $13.4 million as of December 31, 2003 and 2004, respectively. Amortization of assets recorded under capital leases is included with depreciation expense for the years ended December 31, 2002, 2003, and 2004.

Goodwill and Intangible Assets

Goodwill represents the excess of acquisition costs over the fair value of the net assets of acquired businesses, and was amortized on a straight-line basis over its estimated useful life, five years, until December 31, 2001. Beginning January 1, 2002, goodwill has been identified as an indefinite lived asset in accordance with SFAS No. 142, "Goodwill and Other Intangible Assts", and accordingly amortization of goodwill ceased as of that date. Intangible assets, which are stated at cost, consist principally of telecommunications service contracts, contract based customer relationships, licenses, software and content and are amortized on a straight-line basis over the lesser of their estimated useful lives, generally five to ten years, or their contractual term. In accordance with Accounting Principles Board ("APB") Opinion No. 17, "Intangible Assets" and SFAS No. 142 "Goodwill and Other Intangible Assets", the Company continues to evaluate the amortization period to determine whether events or circumstances warrant revised amortization periods. Additionally, the Company considers whether the carrying value of such assets should be reduced based on the future benefits.

Goodwill Impairment Assessment

Goodwill is reviewed annually, as of the beginning of the fourth quarter, for impairment or whenever it is determined that impairment indicators exit. The Company determines whether an impairment has occurred by assigning goodwill to the reporting units identified in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", and comparing the carrying amount of the reporting unit to the fair value of the reporting unit. If a goodwill impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the implied fair value of goodwill. No such losses were recognized in the three years ended December 31, 2002, 2003 and 2004.

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Long-Lived Assets

Long-lived assets to be held and used by the Company are reviewed to determine whether an event or change in circumstances indicates that the carrying amount of the asset may not be recoverable. For long-lived assets to be held and used, the Company bases its evaluation on such impairment indicators as the nature of the assets, the future economic benefit of the assets, any historical or future profitability measurements, as well as other external market conditions or factors that may be present. If such impairment indicators are present or other factors exist that indicate that the carrying amount of the asset may not be recoverable, the Company determines whether an impairment has occurred through the use of an undiscounted cash flows analysis of assets at the lowest level for which identifiable cash flows exist. If impairment has occurred, the Company recognizes a loss for the difference between the carrying amount and the fair value of the asset. The fair value of the asset is measured using discounted cash flow analysis or other valuation techniques. No such losses were recognized in the three years ended December 31, 2002, 2003 and 2004.

Income Taxes

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

Revenue Recognition

The Company records as revenue the amount of telecommunications and Internet services rendered, as measured primarily by the minutes of traffic processed and the time spent online using Internet services. Revenue from service contracts is accounted for when the services are provided. Billings received in advance of service being performed are deferred and recognized as revenue as the service is performed. The Company also defers up front connection fees which is recognized over the estimated life of the customer. The Company recognizes revenue from equipment sales when title to the equipment passes to the customer. The Company defers the revenue on installed equipment until installation and testing are completed and accepted by the customer. Revenues are stated net of any value-added taxes charged to customers. Certain other taxes that are based on revenues earned were incurred at a rate of 1% in 2002, and have been included in operating expenses since these taxes are incidental to the revenue cycle.

The Company has deferred connection fees and capitalized direct incremental costs related to connection fees, not exceeding the revenue deferred. The deferral of revenue and capitalization of cost of revenue related to connection fees will be recognized over the estimated life of the customer. The total amount of deferred connection fees revenue was $20.0 million and $33.8 million as of December 31, 2003 and 2004, respectively. The total amount of capitalized direct incremental costs related to connection fees was $5.2 million and $8.0 million as of December 31, 2003 and 2004, respectively.

In the fourth quarter of 2002, the Company re-assessed the average life of the customer and concluded that the average life of the customer increased from three to five years except for Golden Telecom (Ukraine) (“GTU”) which remained at two years for customers in the Business and Corporate Services Division and Operator and Carrier Services Division and eighteen months for customers in the Mobile Services division. The impact of increasing the average life of the customer from three to five years was approximately $0.7 million reduction in revenue and $0.4 million decrease in cost of revenue in the fourth quarter of 2002. The impact of this change in customer life was $0.3 million reduction on net income and $0.01 per common share — basic for the year ended December 31, 2002.

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In November 2002, the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force issued its consensus concerning Revenue Arrangements with Multiple Deliverables ("EITF 00-21"). EITF 00-21 addresses how to determine whether a revenue arrangement involving multiple deliverables should be divided into separate units of accounting, and, if separation is appropriate, how the arrangement consideration should be measured and allocated to the identified accounting units. The guidance in EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of EITF 00-21 did not have a material impact on the Company's consolidated financial position or results of operations.

Advertising

The Company expenses the cost of advertising as incurred. Advertising expense for the years ended December 31, 2002, 2003 and 2004 was $3.7 million, $5.2 million and $4.7 million, respectively.

Government Pension Funds

The Company contributes to the local state pension funds and social funds, on behalf of all its CIS employees. In Russia, starting from January 1, 2001 all social contributions, including contributions to the pension fund, were substituted with a unified social tax ("UST") calculated by the application of a regressive rate from 35.6% to 5% to the annual gross remuneration of each employee. The Company allocates UST to three social funds, including the pension fund, where the rate of contributions to the pension fund vary from 28% to 5%, respectively, depending on the annual gross salary of each employee. The contributions are expensed as incurred.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from non-owner sources. For the years ended December 31, 2002, 2003 and 2004, comprehensive income for the Company is equal to net income.

Off Balance Sheet Risk and Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash, cash equivalents, and accounts and notes receivable. Of the $53.7 million of cash and cash equivalents held at December 31, 2004, $31.0 million was held in United States ("US") money market instruments in US financial institutions. The remaining balance is being maintained in US-owned banks and local financial institutions within the CIS. The Company extends credit to various customers, principally in Russia and Ukraine, and establishes an allowance for doubtful accounts for specific customers that it determines to have significant credit risk. The Company generally does not require collateral to extend credit to its customers. In 2001, the Company granted an unsecured loan to a party in a lease agreement, as disclosed in note 8.

Stock-Based Compensation

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

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earrings per share in annual and interim financial statements. The Company has adopted the amendments to SFAS No. 123 disclosure provisions required under SFAS No. 148 but will continue to use the intrinsic value method under APB No. 25 to account for stock-based compensation. As such, the adoption of SFAS No. 148 did not have a significant impact of the Company's consolidated financial position or results of operations.

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

	TWELVE MONTHS ENDED DECEMBER 31,		
	2002	2003	2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net income, as reported	$ 29,784	$ 55,435	$ 64,783
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	7,937	3,183	1,922
Pro forma net income	$ 21,847	$ 52,252	$ 62,861
Net income per share:			
Basic — as reported	$ 1.24	$ 1.95	$ 1.79
Basic — pro forma	0.91	1.84	1.74
Diluted — as reported	1.21	1.90	1.77
Diluted — pro forma	0.89	1.80	1.72

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

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

Consolidation of Variable Interest Entities

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

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Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of the provisions of SFAS No. 149 did not have an impact on the Company's results of operations or financial position.

Financial Instruments

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

Fair Value of Financial Instruments

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and short- and long-term debt approximate their fair value. The fair value of notes receivable, including the long-term portion that are included in other current and non-current assets, respectively was $5.6 million and $3.7 million at December 31, 2003 and 2004, respectively as determined by discounting future payments by 5.5% at December 31, 2003 and by 5.0% at December 31, 2004. At December 31, 2003 and 2004, the Company held no debt at fixed rates.

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets". SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB No. 29"), is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This provisions of SFAS No. 153 are effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date SFAS No. 153 was issued. The adoption of the provisions of SFAS No. 153 is not expected to have a material impact on the Company's results of operations or financial position.

Use of Estimates in Preparation of Financial Statements

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

Comparative Figures

Certain prior year amounts have been reclassified to conform to the presentation adopted in the current year. Such reclassifications did not affect the consolidated statements of operations.

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NOTE 3: NET INCOME PER SHARE

Basic earnings per share at December 31, 2003 and 2004 is computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share at December 31, 2003 and 2004 is computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding employee stock options using the "treasury stock" method. The number of stock options excluded from the diluted earnings per share computation, because their effect was antidilutive for the twelve months ended December 31, 2003 and 2004 was 10,000 stock options.

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

	TWELVE MONTHS ENDED DECEMBER 31,		
	2002	2003	2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Income before cumulative effect of a change in accounting principle	$ 28,810	$ 55,435	$ 64,783
Weighted average shares outstanding of:			
Common stock	24,102	28,468	36,226
Dilutive effect of:			
Employee stock options	415	639	327
Common stock and common stock equivalents	24,517	29,107	36,553
Earnings per share before cumulative effect of a change in accounting principle:			
Basic	$ 1.20	$ 1.95	$ 1.79
Diluted	$ 1.17	$ 1.90	$ 1.77

NOTE 4: GOODWILL AND INTANGIBLE ASSETS

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001.

Upon the adoption of SFAS No. 142, the Company recorded a cumulative effect of a change in accounting principle for negative goodwill (deferred credit) arising on the Company's equity method investments in the amount of $1.0 million. The impact of non-amortization of goodwill on the Company's net income for the twelve months ended December 31, 2002 was approximately $15.0 million increase, or $0.62 per share of common stock — basic.

Amortization expense for intangible assets for the twelve months ended December 31, 2002, 2003 and 2004 was $6.4 million, $10.5 million and $18.2 million, respectively. Amortization expense for the succeeding five years is expected to be as follows: 2005 — $17.8 million, 2006 — $16.5 million, 2007 - $15.6 million, 2008 — $13.8 million and 2009 — $8.2 million. The total gross carrying value and accumulated amortization of the Company's intangible assets by major intangible asset class is as follows:

	AS OF DECEMBER 31, 2003		AS OF DECEMBER 31, 2004	
	(IN THOUSANDS)			
	COST	ACCUMULATED AMORTIZATION	COST	ACCUMULATED AMORTIZATION
Amortized intangible assets:				
Telecommunications service contracts	$ 80,241	$ (13,619)	$ 92,250	$ (21,917)
Contract-based customer relationships	35,169	(2,859)	36,849	(10,883)
Licenses	3,957	(1,854)	4,358	(2,515)
Other intangible assets	9,292	(5,492)	9,858	(6,684)
Total	$128,659	$ (23,824)	$143,315	$ (41,999)

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

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The changes on the carrying amount of goodwill for the years ended December 31, 2003 and 2004, respectively, are as follows:

	BUSINESS & CORPORATE SEGMENT	CARRIER & OPERATOR SEGMENT	TOTAL
		(IN THOUSANDS)	
Balance as of December 31, 2002	$ 28,096	$ 43,607	$ 71,703
Goodwill related to acquisitions	56,796	15,509	72,305
Balance as of December 31, 2003	$ 84,892	$ 59,116	$144,008
Goodwill related to acquisitions	1,932	314	2,246
Balance as of December 31, 2004	$ 86,824	$ 59,430	$146,254

NOTE 5: BUSINESS COMBINATIONS AND VENTURE TRANSACTIONS

ACQUISITIONS IN 2002

In August 2002, the Company acquired approximately 31% of GTU, a majority owned subsidiary, for cash consideration of approximately $5.2 million, including $3.7 million recorded as a liability, net of $0.3 million discount, determined at the rate of 6.11%. The acquisition was accounted for as a purchase business combination under US GAAP. The Company has recorded approximately $1.8 million of contract-based customer relationship intangible assets that are amortized over a period of approximately 5 years. There was no goodwill recorded as a result of this transaction.

In September 2002, subsidiaries of the Company completed the acquisition of 50% of EDN Sovintel LLC (“Sovintel”) that the Company did not own from Open Joint Stock Company Rostelecom (“Rostelecom”), pursuant to an Ownership Interest Purchase Agreement, dated March 13, 2002, by and among subsidiaries of the Company and Rostelecom, bringing the Company’s ownership in Sovintel to 100%. The total purchase price of approximately $113.1 million consisted of approximately $50.7 million in GTI’s common stock, representing 4,024,067 shares, $10.0 million in cash consideration, $46.0 million in promissory note consideration (see discussion below), and direct transaction costs of approximately $7.1 million, including an investment banking fee of approximately $3.3 million paid to an affiliate of Alfa, a shareholder of the Company. Sovintel provides worldwide communications services, principally to major hotels, business offices and mobile communication companies through its telecommunications network in Russia. The Company began consolidating the results of operations of Sovintel on September 17, 2002.

In September 2002, TeleRoss LLC (“TeleRoss”), a wholly-owned Russian subsidiary of the Company, issued a three month $46.0 million non-interest bearing note payable to Rostelecom in partial settlement of the acquisition of the remaining 50% ownership interest in Sovintel previously held by Rostelecom. TeleRoss was required to and settled the note, in full, in December 2002. This non-interest bearing note payable was recorded net of $0.7 million discount representing imputed interest.

The acquisition of the remaining 50% of Sovintel was accounted for as a purchase business combination in accordance with SFAS No. 141, “Business Combinations”. As the transaction reflected acquisition of the remaining 50% interest in Sovintel which was not previously owned by the Company, the Company has recorded the net assets acquired at 50% of estimated fair value and 50% of historical US GAAP carrying values. The following is a condensed balance sheet of Sovintel as of September 17, 2002, reflecting purchase price allocation to the net assets acquired:

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

	SEPTEMBER 17, 2002 (IN THOUSANDS)
ASSETS:	
Current assets	$ 43,223
Property and equipment, net	64,124
Telecommunications service contracts intangible assets, net	14,742
Contract based customer relationship intangible assets, net	6,350
Licenses, net	562
Other intangible assets, net	300
Goodwill	54,262
Other assets	11,114
Total assets	$ 194,677
LIABILITIES:	
Current liabilities	$ 23,774
Non-current liabilities	8,514
Net assets	$ 162,389
Less: previous carrying value of the Company's equity method investment in Sovintel	(49,283)
Total purchase consideration and acquisition costs	$ 113,106
Consideration and acquisition costs:	
Cash consideration	$ 10,000
Promissory note consideration, net of discount	45,307
GTI shares consideration	50,663
Direct transaction costs	7,136
Total purchase consideration and acquisition costs	$ 113,106

The Company's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately $14.7 million to telecommunications service contracts intangible assets which are amortized over a weighted average period of approximately 9 years, approximately $6.4 million to contract based customer relationship intangible assets which are amortized over a weighted average period of approximately 5 years, approximately $0.6 million to licenses which are amortized over a weighted average period of 5 years, and approximately $0.3 million to other identified intangible assets which are amortized over 5 years. Property and equipment was adjusted to fair value using a net current replacement cost valuation method. The excess purchase price over the fair value of the net tangible and intangible assets acquired of approximately $54.3 million has been assigned to goodwill and is not deductible for tax purposes. Approximately $26.1 million of this goodwill has been assigned to the Business and Corporate Services reportable segment and approximately $28.2 million of this goodwill has been assigned to the Carrier and Operator Services reportable segment. In accordance with SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets", the Company will not amortize the goodwill recorded in connection with the acquisition of the remaining 50% of Sovintel. The goodwill will be tested for impairment at least annually.

The following unaudited pro forma combined results of operations for the Company give effect to the Sovintel business combination as if it had occurred at the beginning of 2002. These pro forma amounts are provided for informational purposes only and do not purport to present the results of operations of the Company had the transactions assumed therein occurred on or as of the date indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future.

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

	TWELVE MONTHS ENDED DECEMBER 31, 2002 (IN THOUSANDS, EXCEPT PER SHARE DATA)
Revenue	$ 286,998
Income (loss) before cumulative effect of a change in accounting principle	36,587
Cumulative effect of a change in accounting principle	974
Net income (loss)	$ 37,561
Basic earnings (loss) per share of common stock:	
Income (loss) before cumulative effect of a change in accounting principle	$ 1.36
Cumulative effect of a change in accounting principle	0.04
Net income (loss) per share — basic	$ 1.40
Weighted average common shares — basic	26,748
Diluted earnings (loss) per share of common stock:	
Income (loss) before cumulative effect of a change in accounting principle	$ 1.34
Cumulative effect of a change in accounting principle	0.04
Net income (loss) per share — diluted	$ 1.38
Weighted average common shares — diluted	27,163

ACQUISITIONS IN 2003

In August 2003, the Company completed the acquisition of 100% of OOO Sibchallenge ("Sibchallenge"), a telecommunications service provider in Krasnoyarsk, Russia. The total purchase price of approximately $15.4 million consisted of cash consideration of approximately $15.0 million and approximately $0.4 million in direct transaction costs, including an investment banking fee of $0.3 million paid to Belongers Limited, an affiliate of Alfa, a shareholder of the Company. The acquisition of Sibchallenge establishes GTI's presence in the Krasnoyarsk region. In addition, Sibchallenge has numbering capacity and interconnect agreements.

The acquisition of 100% of Sibchallenge was accounted for as a purchase business combination in accordance with SFAS No. 141, "Business Combinations". The following is the condensed balance sheet of Sibchallenge as of August 31, 2003 reflecting purchase price allocation to the net assets acquired:

	AUGUST 31, 2003 (IN THOUSANDS)
ASSETS:	
Current assets	$ 1,792
Property and equipment	7,057
Telecommunications service contracts intangible assets, net	11,175
Total assets	$ 20,024
LIABILITIES:	
Current liabilities	$ 1,519
Non-current liabilities	3,121
Net assets	$ 15,384
Consideration and acquisition costs:	
Cash consideration	15,000
Direct transaction costs	384
Total purchase consideration and transaction costs	$ 15,384

The Company's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed and, as such, the Company has assigned approximately $11.2 million to telecommunications service contracts intangible assets. These identified intangible assets are amortized over a period of 10 years. There was no goodwill recorded as a result of this transaction. The results of operations of Sibchallenge have been included in the Company's consolidated operations since August 31, 2003.

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In December 2003, the Company completed the acquisition of 100% of the shares in OAO Comincom ("Comincom") from Nye Telenor East Invest as ("Telenor"), pursuant to a Share Exchange Agreement. The total purchase price of approximately $195.3 million consisted of approximately $193.5 million in GTI's common stock, representing 7,007,794 shares and direct transaction costs of approximately $1.8 million. The purchase consideration has been determined using the closing date of the transaction as December 1, 2003. Accordingly, the GTI shares issued in consideration are valued based on the average closing price of the Company's common stock for the five consecutive trading days between November 26, 2003 and December 2, 2003, which was $27.61 per share. Comincom provides telecommunications services, principally to major hotels, business offices and mobile communication companies through its telecommunications network in Russia, including Moscow, St. Petersburg, Voronezh, Samara and several other major population centers. The Company began consolidating the results of operations of Comincom on December 1, 2003.

The acquisition of 100% of the shares in Comincom was accounted for as a purchase business combination in accordance with SFAS No. 141, "Business Combinations. The following is the condensed balance sheet of Comincom as of December 1, 2003 reflecting the purchase price allocation to the net assets acquired:

	DECEMBER 1, 2003 (IN THOUSANDS)
ASSETS:	
Current assets	$ 38,191
Property and equipment	84,749
Telecommunications service contracts intangible assets, net	17,344
Contract-based customer relationship intangible assets, net	26,847
Licenses, net	546
Goodwill	72,305
Other assets	1,575
Total assets	$ 241,557
LIABILITIES:	
Current liabilities	$ 28,678
Non-current liabilities	17,535
Net assets	$ 195,344
Consideration and acquisition costs:	
GTI shares consideration	193,485
Direct transaction costs	1,859
Total purchase consideration and acquisition costs	$ 195,344

The Company's financial statements reflect the allocation of the purchase price based on a fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately $17.3 million to telecommunications service contracts intangible assets which will be amortized over a weighted average period of approximately 10 years, approximately $26.8 million to contract-based customer relationship intangible assets which will be amortized over a weighted average period of approximately 5 years, and approximately $0.5 million to licenses which will be amortized over a weighted average period of 4 years. Property and equipment was adjusted to fair value using a net current replacement cost valuation method. The excess purchase price over the fair value of the net tangible and intangible assets acquired of approximately $72.3 million has been assigned to goodwill and is not deductible for tax purposes. Approximately $15.5 million of this goodwill has been assigned to the Carrier and Operator Services reportable segment and approximately $56.8 million of this goodwill has been assigned to the Business and Corporate Services reportable segment. In accordance with SFAS No. 141, "Business Combinations", and SFAS No. 142 "Goodwill and Other Intangible Assets", the Company will not amortize the goodwill recorded in connection with the acquisition of 100% of the shares in Comincom. The goodwill will be tested for impairment at least annually.

The following unaudited pro forma combined results of operations for the Company give effect to the Sovintel, Sibchallenge and Comincom business combinations as if they had occurred at the beginning of 2002 and to give effect to the Sibchallenge and Comincom business combinations as if they had occurred at the beginning of 2003. These pro forma amounts are provided for informational purposes only and do not purport to present the results of operations of the Company had the transactions assumed therein occurred on or as of the date indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future.

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

	TWELVE MONTHS ENDED DECEMBER 31, 2002	2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenue	$371,226	$458,276
Income before cumulative effect of a change in accounting principle	43,368	61,802
Cumulative effect of a change in accounting principle	974	—
Net income	$ 44,342	$ 61,802
Basic earnings per share of common stock:		
Income before cumulative effect of a change in accounting principle	$ 1.30	$ 1.77
Cumulative effect of a change in accounting principle	0.03	—
Net income (loss) per share — basic	$ 1.33	$ 1.77
Weighted average common shares — basic	33,454	34,990
Diluted earnings (loss) per share of common stock:		
Income (loss) before cumulative effect of a change in accounting principle	$ 1.28	$ 1.74
Cumulative effect of a change in accounting principle	0.03	—
Net income (loss) per share — diluted	$ 1.31	$ 1.74
Weighted average common shares — diluted	33,869	35,539

ACQUISITIONS IN 2004

In February 2004, the Company completed the acquisition of 100% ownership interest in ST-HOLDING s.r.o. ("ST-HOLDINGS"), a Czech company that owns 50% plus one share in ZAO Samara Telecom, a telecommunications service provider in Samara, Russia from ZAO SMARTS and individual owners. In April 2004, the Company completed the acquisition of 100% of the common stock in OAO Balticom Mobile ("Balticom") that owns 62% of ZAO WestBalt Telecom, an alternative telecommunications operator in Kaliningrad, Russia. In April 2004, the Company completed the acquisition of the remaining 49% ownership interest in OOO Uralrelcom that the Company did not already own. In May 2004, the Company completed the acquisition of a 54% ownership interest in SP Buzton ("Buzton"), an alternative telecommunications operator in Uzbekistan. These companies were acquired for approximately $16.0 million in cash, with $1.1 million held in escrow for a period of one year related to Balticom and $0.5 million payable for Buzton upon satisfactory achievement of certain conditions. The results of ST-HOLDINGS have been included in the Company's consolidated operations since February 1, 2004. The results of Balticom have been included in the Company's consolidated operations since April 30, 2004. The results of Buzton have been included in the Company's consolidated operations since May 31, 2004.

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

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

NOTE 6: INVESTMENTS IN AND ADVANCES TO VENTURES

The Company has various investments in ventures that are accounted for by the equity method. The Company's ownership percentages in its equity method investments, in the periods shown, range from approximately 22% to 50%.

The Company has financed the operating and investing cash flow requirements of several of the Company's ventures in the form of cash advances. The Company aggregates all of the receivable and payable balances with the ventures in the Company's investments in and cash advances to the ventures.

For all periods presented through December 31, 2004, the significant investments accounted for under the equity method and the percentage interest owned consist of the following:

	EQUITY METHOD ENTITIES	
	PERIOD	OWNERSHIP
Sovintel	Through September 16, 2002	50%
Other Regional Ventures	All	50%
TeleRoss Samara	Through June 2002	50%
MCT	From December 2000	22%-24%

TeleRoss Samara and Sovintel are accounted for using the consolidation method subsequent to the dates indicated above.

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

	PERIOD FROM JANUARY 1 TO SEPTEMBER 16, 2002
	(IN THOUSANDS)
Revenue	$ 101,261
Gross margin	45,248
Operating income	25,875
Net income	19,115

The Company recognized equity in losses related to its investment in MCT of $5.1 million for the year ended December 31, 2002, reducing the carrying value of the Company's investment in MCT to zero. In August 2003, MCT concluded a binding agreement with OJSC Mobile TeleSystems ("MTS") on the sale of five of its cellular operators. MTS paid MCT approximately $70.0 million and assumed certain guarantees as part of the transaction. In October 2003, MCT declared a cash dividend of $1.90 per common share to shareholders of record as of October 27, 2003. The Company's portion of this cash dividend was approximately $4.7 million. This cash dividend was received in November 2003 and is classified as part of equity in earnings in the consolidated statement of operations. In November 2004, MCT concluded the sale of its 88% interest in Sibintertelecom to MTS for approximately $41.0 million. Consideration has been given to the resumption of equity accounting; however management does not believe that the Company's share of income resulting from the sale of assets that MCT has made would exceed losses that had previously not been recognized once the investment in MCT had been reduced to zero.

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

NOTE 7: SUPPLEMENTAL BALANCE SHEET INFORMATION

	DECEMBER 31, 2003	DECEMBER 31, 2004
	(IN THOUSANDS)	
Other current assets consist of:		
Inventory	$ 7,932	$ 8,911
Notes receivable	1,972	2,338
Other current assets	6,005	5,489
Total other current assets	$ 15,909	$ 16,738
Other non-current assets consist of:		
Notes receivable	$ 3,610	$ 1,494
Investments in and advances to ventures	251	742
Other non-current assets	4,256	6,767
Total other non- current assets	$ 8,117	$ 9,003
Accounts payable and accrued expenses consists of:		
Accounts payable	$ 45,389	$ 57,566
Interest payable	11	2
Accrued compensation	2,241	3,046
Accrued other taxes	1,092	480
Accrued access and network services	9,471	11,262
Other accrued expenses	7,575	9,118
Total accounts payable and accrued expenses	$ 65,779	$ 81,474
Other current liabilities consists of:		
Non-trade liabilities to GTS	$ 2,904	$ 2,904
Other current liabilities	2,345	668
Total other current liabilities	$ 5,249	$ 3,572

NOTE 8: DEBT OBLIGATIONS AND CAPITAL LEASES

The Company paid interest of $4.8 million, $2.0 million and $0.6 million in 2002, 2003 and 2004, respectively.

Some of the Company’s operating companies have received debt financing through direct loans from affiliated companies. In addition, certain operating companies have borrowed funds under a $22.7 million back-to-back, seven-year credit facility from a Russian subsidiary of Citibank. Under this facility, the Company provides full cash collateral, held in London and recorded on our balance sheet as restricted cash, for onshore loans made by the bank to the Company’s Russian registered ventures. In a second, similar facility, the Company provides full cash collateral for a $10.0 million short term back-to-back, revolving, credit facility from the same bank for the Company’s larger Russian operating companies. The funding level as of December 31, 2004 for all these facilities totaled $1.0 million, of which $0.2 million was funded to the Company’s consolidated subsidiaries and $0.8 million was funded to the Company’s affiliates. The loan facilities carry interest at a rate equal to the three-month London Inter-Bank Offering Rate (“LIBOR”) plus 1.0 percent per annum (equivalent to approximately 2.7%, on average for loans outstanding, at December 31, 2004) and mature between December 2006 and January 2007.

In the first quarter of 2000, the Company entered into a lease for fiber capacity, including facilities and maintenance, from Moscow to Stockholm. The lease has a term of ten years with an option to renew for an additional five years. Prepayments were made to the lessor in April 2000, August 2000 and February 2001. These prepayments have been offset in the balance sheet against the capital lease obligation.

In September 2001, the Company entered into a five year lease for the right to use up to VC-3 fiber optic capacity on major routes within Russia to support the increase in the Company’s interregional traffic and regional expansion strategy. The lease is classified as a capital lease in the balance sheet. In December 2001, GTI issued a $9.1 million loan to the same company that has provided the lease. The loan has payment terms of 56 months, which started in January 2002, and carries interest at the rate of 7 percent per annum.

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The following table presents minimum lease payments under capital leases:

	LEASE PAYMENTS (IN THOUSANDS)
2005	$ 2,553
2006	1,592
	4,145
Less: interest	306
Total principal payments	$ 3,839

In September 2002, ROL Holdings Limited (“ROLH”), a wholly-owned Cypriot subsidiary of the Company, entered into a secured $30.0 million credit facility with ZAO Citibank (“Citibank Credit Facility”). ROLH drew upon the Citibank Credit Facility in the fourth quarter of 2002 to fund the repayment of $30.0 million of the $46.0 million non-interest bearing promissory note issued to Rostelecom by TeleRoss in connection with the acquisition of the remaining 50% ownership interest in Sovintel previously held by Rostelecom. In June 2003, the Company settled early the $30.0 million of outstanding debt plus accrued interest. There was no penalty for the early settlement of this debt however an additional $0.2 million of previously capitalized financing costs was recognized as interest expense which was previously being recognized over the life of the facility.

NOTE 9: SHAREHOLDERS’ EQUITY

Common Stock

In July 2001, the Company completed a buy-back of $25.0 million, or approximately 2.3 million shares, of the Company’s common stock at $11.00 per share, from a subsidiary of GTS. In the fourth quarter of 2002, the Company retired approximately 2.3 million of the Company’s common stock held in treasury.

In August 2002, the Company issued 4,024,067 shares of common stock to Rostelecom in partial settlement of the purchase price for the acquisition of the remaining 50% ownership interest in Sovintel, previously held by Rostelecom.

In December 2003, the Company issued 7,007,794 shares of common stock to Telenor in settlement of the purchase price for the acquisition of 100% ownership interest in Comincom, previously held by Telenor.

The Company’s outstanding shares of common stock increased by 1,918,882 shares and 374,396 shares in the twelve months ended December 31, 2003 and 2004, respectively issued in connection with the exercise of employee stock options. The Company has reserved 1,361,681 shares of common stock for issuance to certain employees and directors in connection with the 1999 Equity Participation Plan.

Preferred Stock

On May 17, 2000, the Company’s shareholders authorized 10 million shares of preferred stock, none of which have been issued.

Additional Paid-In Capital

As further described in note 18, in August 2004, the Company transferred 20% of the ownership interest in GTU to a Ukrainian partner in exchange for services provided by the partner. The excess of the fair value of consideration exchanged for services over the book value of 20% of net assets of GTU in the amount of $1.5 million was recorded as a credit to the consolidated equity.

Dividends

During 2004, the Company paid four quarterly dividends of $0.20 per common share, for a total of $0.80 per common share for the year. The total amount paid by the Company was $29.0 million.

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

NOTE 10: STOCK OPTION PLANS

The Company has established the 1999 Equity Participation Plan of Golden Telecom, Inc., (the "Option Plan"). The Company has granted and intends to offer stock options to key employees and members of the Board of Directors of the Company. The Company recognized $0.5 million in compensation expense in the year ended December 31, 2002, in connection with options granted to employees of the Company's equity investees. Under the Option Plan not more than 4,320,000 shares of common stock (subject to anti-dilution and other adjustment provisions) are authorized for issuance upon exercise of options or upon vesting of restricted or deferred stock awards. Options granted under the Option Plan vest over a three-year term from the date of grant with one-third vesting after one year and one thirty-sixth vesting each month thereafter and expire ten years from the date of grant.

The fair value of options granted under the GTI Option Plan in 2002 are estimated to be $8.77 per common share, in 2003 are estimated to be between $9.39 and $15.05 per common share and in 2004 are estimated to be $14.59 per common share, on the date of grant using the Black Scholes option pricing model with the following assumptions:

	TWELVE MONTHS ENDED DECEMBER 31, 2002	2003	2004
Risk free interest rate	4.71%	2.89 - 3.55%	4.39%
Dividend yield	0.0%	0.0%	3.0%
Expected life (years)	3.0	3.0	3.0
Volatility	123%	104 - 108%	95%

Additional information with respect to stock options activity is summarized as follows:

	YEAR ENDED DECEMBER 31, 2003		2004	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	2,657,073	$ 12.75	904,272	$ 13.48
Options granted	195,000	14.56	5,000	26.61
Options exercised	(1,918,882)	12.43	(374,396)	12.76
Options expired	(20,054)	27.06	—	—
Options forfeited	(8,865)	15.63	(17,863)	12.00
Outstanding at end of year	904,272	13.48	517,013	14.18
Options exercisable at end of year	566,324	$ 13.49	448,818	$ 14.07

The following table summarizes information about stock options outstanding:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICES AT DECEMBER 31, 2004:	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$12.00	212,156	5.7	$ 12.00	212,156	$ 12.00
14.00	174,900	8.1	14.00	111,705	14.00
15.63	94,957	5.3	15.63	94,957	15.63
19.45	20,000	3.4	19.45	20,000	19.45
26.61	5,000	4.4	26.61	—	—
33.25	10,000	5.4	33.25	10,000	33.25

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

NOTE 11: INCOME TAXES

The Company accounts for income taxes using the liability method required by FASB Statement No. 109 "Accounting for Income Taxes".

The components of income before income taxes and minority interest were as follows:

	YEAR ENDED DECEMBER 31,		
	2002	2003	2004
		(IN THOUSANDS)	
Pretax income:			
Domestic	$ 5,823	$ 5,754	$ (4,853)
Foreign	28,141	67,560	101,886
	$ 33,964	$ 73,314	$ 97,033

The following is the Company's significant components of the provision for income taxes attributable to continuing operations:

	YEAR ENDED DECEMBER 31,		
	2002	2003	2004
		(IN THOUSANDS)	
Domestic — current	$ 16	$ —	$ —
Domestic — deferred	—	(1,861)	(373)
Foreign — current	8,824	20,516	35,350
Foreign — deferred	(4,213)	(1,256)	(4,233)
	$ 4,627	$ 17,399	$ 30,744

The Company paid income taxes of $8.5 million, $17.5 million and $36.1 million in 2002, 2003 and 2004, respectively.

US taxable income or losses recorded are reported on the Company's consolidated US income tax return. The Company was allocated its proportionate share, $23.6 million, of GTS' US net operating loss carry-forwards in 1999. As of December 31, 2004, the Company had net operating loss carry-forwards for US federal income tax purposes of approximately $6.5 million expiring in fiscal years 2010 through 2019. The Company also has net operating loss carry-forwards for Cyprus tax purposes of approximately $13.2 million which do not expire.

The reconciliation of the US statutory federal tax rate of 35.0% to the Company's effective tax rate is as follows:

	YEAR ENDED DECEMBER 31,		
	2002	2003	2004
Tax expense at US statutory rates	(35.0)%	(35.0)%	(35.0)%
Non-deductible expenses/non-taxable income:			
Amortization	(0.7)	(0.4)	(0.6)
Equity in earnings	5.8	—	0.1
Other non-deductible expenses	(5.3)	(4.9)	(7.3)
Foreign exchange differences	(1.2)	(0.1)	0.2
Different foreign tax rates	7.7	9.3	11.4
Change in valuation allowance	15.1	3.1	—
Other permanent differences	—	4.3	(0.5)
Tax expense	(13.6)%	(23.7)%	(31.7)%

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Deferred tax assets and liabilities are recorded based on temporary differences between book bases of assets and liabilities and their bases for income tax purposes. The following table summarizes major components of the Company's deferred tax assets and liabilities:

	DECEMBER 31, 2003	DECEMBER 31, 2004
	(IN THOUSANDS)	
Deferred Tax Assets:		
Net operating loss carry-forwards	$ 2,514	$ 2,793
Accrued expenses	2,525	2,027
Deferred revenue	4,800	7,639
Other deferred tax assets	1,117	1,180
Valuation allowance	(559)	(559)
Total deferred tax asset	$ 10,397	$ 13,080
Deferred Tax Liabilities:		
Accrued revenue	$ —	$ 16
Deferred expenses	1,306	1,958
Intangible assets	21,489	23,472
Fixed assets	5,468	3,720
Other deferred tax liabilities	600	295
Total deferred tax liability	$ 28,863	$ 29,461
Net deferred tax liability	$(18,466)	$(16,381)

The following table presents the Company's deferred tax assets and liabilities as of December 31, 2003 and 2004 attributable to different tax paying components in different tax jurisdictions:

	DECEMBER 31, 2003	DECEMBER 31, 2004
	(IN THOUSANDS)	
Deferred Tax Assets:		
US tax component	$ 1,861	$ 2,234
Foreign tax component	8,536	10,846
Total deferred tax asset	$ 10,397	$ 13,080
Deferred Tax Liability:		
US tax component	$ —	$ —
Foreign tax component	28,863	29,461
Total deferred tax liability	$ 28,863	$ 29,461
Net deferred tax liability	$(18,466)	$(16,381)

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. Also in December 2004, the FASB issued FASB Staff Position No. FAS 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004. The Company does not expect the adoption of these new tax provisions to have a material impact on the Company's consolidated financial position, results of operations, or cash flows, since the Company does not have any substantive operations in the United States.

NOTE 12: COMMITMENTS AND CONTINGENCIES

Leases

The Company has various cancelable and non-cancelable operating lease agreements for equipment and office space with terms ranging from one to five years. Rental expense for operating leases aggregated $4.9 million, $4.9 million, and $6.5 million for the years ended December 31, 2002, 2003 and 2004, respectively.

Future minimum lease payments under non-cancelable operating leases with terms of one year or more, as of December 31, 2004, are as follows: 2005 — $4.5 million, 2006 — $2.4 million, 2007 — $1.7 million, 2008 — $1.7 million, 2009 — $1.4 million, and thereafter — $0.4 million.

Other Commitments and Contingencies

The Company has future purchase commitments of $24.6 million and $84.5 million as of December 31, 2003 and 2004, respectively.

In the ordinary course of business, the Company has issued financial guarantees on debt for the benefit of certain of its non-consolidated ventures, which is all collateralized by cash as described in note 8. The Company expects that all the collateralized debt will be repaid by the ventures.

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Major Customers

The Company had one major customer in the Carrier and Operator reporting segment, representing $23.1 million, or 12%, of total revenues in 2002, $27.6 million, or 8%, of total revenues in 2003 and $31.0 million, or 5%, of total revenue in 2004.

Tax Matters

The Company's policy is to accrue for contingencies in the accounting period in which a liability is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Commonwealth of Independent States Taxes ("CIS Taxes"), the Company's final CIS Taxes may be in excess of the estimated amount expensed to date and accrued at December 31, 2003 and 2004. It is the opinion of management that the ultimate resolution of the Company's CIS Tax liability, to the extent not previously provided for, will not have a material effect on the financial condition of the Company. However, depending on the amount and timing of an unfavorable resolution of any contingencies associated with CIS Taxes, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

The Company's wholly-owned subsidiary, Sovintel, is engaged in litigation with the Russian tax inspectorate in regard to claims against Comincom and OAO Combellga ("Combellga"), both of which merged into Sovintel on December 1, 2004, issued by the tax inspectorate on respectively. In accordance with the tax inspectorate decision, Comincom and Combellga are required to pay additional taxes, fines and penalties in the amount equal to approximately $5.5 million for years ended December 31, 2001 and 2002. Comincom and Combellga filed lawsuits against the tax inspectorate disputing the claims, and the court ruled in favor of the Company in both cases by dismissing the tax inspectorate's claims on January 21, 2005 and December 20, 2004, respectively. The Company expects that the tax inspectorate will appeal this decision. The term for last appeal expires in May 2005. The Company does not consider an unfavorable outcome of this matter probable at this time. While the Company intends to defend its position vigorously, it is difficult to predict with any degree of certainty the ultimate outcome of this litigation due to the state of the Russian judicial system. Since the tax claims relate to periods before the Company acquired 100% of the shares of Comincom, they are covered by the indemnification provisions of the Share Exchange Agreement between the Company and Telenor. Therefore, in case of unfavorable outcome of this litigation the Company intends to seek indemnification from Telenor.

Russian Environment and Current Economic Situation

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

On January 1, 2004, a new law "On Telecommunications" (the "New Law") came into effect in Russia. The New Law sets the legal basis for the telecommunications business in Russia and defines the status that state bodies have in the telecommunications sector. The New Law was designed to create a new interconnect pricing regime in 2004 that should be more transparent and unified, if fairly implemented, and it creates a universal service charge calculated as a percentage of revenue, which is not expected to exceed 3% of certain revenue. It is expected that the first payments of the universal service charge will be made in 2005. The New Law may increase the regulation of the Company's operations, as it is intended to regulate licenses for long distance, international long distance and Voice over Internet Protocol. Until such time as appropriate regulations consistent with the New Law are promulgated, there will be a period of confusion and ambiguity as regulators interpret the legislation.

In 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.

NOTE 13: RELATED PARTY TRANSACTIONS

Transactions with the Company's equity investees, Alfa affiliates, Rostelecom, and Telenor were as follows, for the years ended December 31:

	2002	2003	2004
		(IN THOUSANDS)	
Revenue from equity investees	$ 7,499	$ 98	$ 116
Revenue from Rostelecom	446	575	404
Revenue from Telenor	—	3	139
Revenue from Alfa affiliates	1,102	1,134	1,798
	$ 9,047	$ 1,810	$ 2,457

	2002	2003	2004
		(IN THOUSANDS)	
Cost of revenue from equity investees	8,527	4,790	4,798
Cost of revenue from Rostelecom	5,154	16,860	25,809

Cost of revenue from Telenor	—	27	332
Cost of revenue from Alfa affiliates	—	—	56
	$ 13,681	$ 21,677	$ 30,995

The related party revenue and cost of revenue from Rostelecom included in the income statement represents revenue and cost of revenue from September 2002, the date Rostelecom became a shareholder.

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The revenue and cost of revenue from Telenor included in the income statement represents revenue and cost of revenue from December 2003, the date Telenor became a shareholder.

Included in other current assets at December 31, 2003 is approximately $0.3 million of accounts receivable from Alfa affiliates, approximately $0.2 million of accounts receivable from Rostelecom, and approximately $0.1 million of accounts receivable from Telenor. Included in other current assets at December 31, 2004 is approximately $0.3 million of accounts receivable from Alfa affiliates, approximately $0.1 million of accounts receivable from Rostelecom, and approximately $0.1 million of accounts receivable from Telenor.

The Company maintains bank accounts with Alfa Bank, which act as one of the clearing agents for the payroll of the Russian staff of the Company. The balances at these bank accounts were minimal at December 31, 2003 and 2004. In addition, certain of the Company's Russian subsidiaries maintain current accounts with Alfa Bank. The amounts on deposit were minimal at December 31, 2003 and $0.1 million at December 31, 2004.

The Company maintains bank accounts with International Moscow Bank. The Company's Chief Executive Officer's spouse is a member of the Executive Board of International Moscow Bank. The amounts on deposit were approximately $5.1 million at December 31, 2003 and $1.7 million at December 31, 2004.

The Company incurred approximately $3.3 million in consulting costs from an affiliate of Alfa in relation to the acquisition of the remaining 50% of Sovintel previously held by Rostelecom in 2002 and approximately $0.3 million in consulting costs from an affiliate of Alfa in relation to the acquisition of Sibchallenge in 2003. In addition, in 2003 the Company incurred approximately $0.1 million in consulting costs from an affiliate of Alfa related to a potential acquisition that was subsequently withdrawn from the market. In 2004, the Company incurred approximately $0.1 million in consulting costs from an affiliate of Alfa in relation to a potential acquisition.

The Company has entered into a consulting services agreement with Alfa Telecom under which the price was subject to adjustments. This consulting services agreement became effective on April 1, 2003 and terminated on December 31, 2004. The Company has reached an agreement with Alfa Telecom, in which compensation for the services provided under the consulting services agreement were in the aggregate $0.5 million for the period of April 1, 2003 through December 31, 2004.

In September 2002, several Russian subsidiaries of the Company entered into a one year agreement with OOO Alfa Insurance, an affiliate of Alfa, to provide the Company's Russian employees with medical and dental insurance services. The amount payable under this agreement was approximately $0.3 million.

In December 2002, the Company entered into a one year agreement with OOO Alfa Insurance, an affiliate of Alfa, to provide the Company with property and equipment liability insurance. The amount payable under this agreement was approximately $0.2 million. In December 2003, the Company entered into a one year agreement with OOO Alfa Insurance, an affiliate of Alfa, to provide the Company with property and equipment liability insurance. The amount payable under this agreement was approximately $0.2 million. The Company extended this agreement until February 2005 and in February 2005, the Company entered into a one year agreement with OOO Alfa Insurance, an affiliate of Alfa, to provide the Company with property and equipment liability insurance. The amount payable under this agreement is approximately $0.2 million.

A member of the Company's executive management is a relative of the general director of two Russian based telecommunications services providers. The Company received revenue from these two telecommunications services providers in the amount of approximately $2.9 million and $5.3 million for the years ended December 31, 2003 and December 31, 2004, respectively and incurred costs to these two telecommunications services providers in the amount of approximately $1.8 million and $1.9 million in the years ended December 31, 2003 and December 31, 2004, respectively. At December 31, 2003, the Company had accounts receivable of approximately $0.5 million and accounts payable of approximately $0.4 million with these two telecommunications services providers. At December 31, 2004, the Company had accounts receivable of approximately $0.7 million and accounts payable of approximately $0.3 million with these two telecommunications services providers.

The Company provides telecommunications services to a marketing firm where the former Chief Financial Officer's spouse is the Chief Executive Officer. The Company received revenue of approximately $0.1 million for the year ended December 31, 2003 from the marketing firm.

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The Company issued loans to Russian employees principally to finance the purchase of apartments in Russia. The amount of loans outstanding was approximately $0.6 million at December 31, 2003 and approximately $0.3 million at December 31, 2004. These loans typically have a 4% to 10% interest rate per annum and are typically payable over 3 years. In November 2002, the Company issued an approximately $0.1 million loan to the Finance Director of Sovintel, a wholly-owned subsidiary of the Company which was partially forgiven by the Company in 2004.

NOTE 14: 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 business for the twelve months ended December 31, 2002, 2003 and 2004, respectively. Transfers between lines of businesses are included in the adjustments to reconcile segment to consolidated results. The Company evaluates performance based on the operating income (loss) of each strategic business unit, among other performance measures. Prior to the completion of the acquisition of the remaining 50% ownership interest in Sovintel and the subsequent merger of TeleRoss into Sovintel in April 2003, the Company managed business segments based on telecommunications products the Company provided. In April 2003, the Company re-designed the business segments around customer characteristics, and in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Company has presented the following four segments consistent with the information used by the chief operating decision maker to manage the operations for purposes of making operating decisions and allocating resources. The Company has restated segment information for prior periods to conform to the presentation adopted in the current period.

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	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)								
TWELVE MONTHS ENDED DECEMBER 31, 2002									
Revenue from external customers	$ 149,170	$ 104,609	$ 21,800	$ 13,001	$ —	$ 288,580	$ 198,727	$ (105,861)	$ 16,008
Intersegment revenue	502	717	—	—	(1,219)	—	—	—	—
Operating income (loss)	36,975	28,620	(4,356)	3,553	(6,511)	58,281	31,430	(26,851)	—
Identifiable assets	161,635	202,134	41,896	9,383	24,315	439,363	435,810	(3,553)	—
Capital expenditures	29,375	15,417	2,908	449	222	48,371	29,430	(18,941)	—

	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)								
TWELVE MONTHS ENDED DECEMBER 31, 2003									
Revenue from external customers	$ 188,087	$ 128,048	$ 30,775	$ 13,895	$ —	$ 360,805	$ 360,534	$ (4,861)	$ 4,590
Intersegment revenue	649	793	—	—	(1,442)	—	—	—	—
Operating income (loss)	47,603	26,503	(2,457)	5,278	(6,976)	69,951	69,731	(220)	—
Identifiable assets	385,087	236,635	52,584	6,566	52,042	732,914	729,226	(3,688)	—
Capital expenditures	40,231	20,317	2,851	569	90	64,058	63,737	(321)	—

	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)								
TWELVE MONTHS ENDED DECEMBER 31, 2004									
Revenue from external customers	$ 324,814	$ 198,027	$ 45,515	$ 15,808	$ —	$ 584,164	$ 583,978	$ (4,710)	$ 4,524
Intersegment revenue	—	1,016	—	—	(1,016)	—	—	—	—
Operating income (loss)	72,345	28,637	2,159	4,729	(11,756)	96,114	95,536	(578)	—
Identifiable assets	435,276	261,424	57,732	5,693	49,562	809,687	805,768	(3,919)	—
Capital expenditures	80,107	33,223	4,920	1,025	178	119,453	118,101	(1,352)	—

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

GEOGRAPHIC DATA

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

The Company operated within two main geographic regions of the CIS: Russia and Ukraine. Geographic information as of December 31, 2002, 2003, and 2004 is as follows:

	RUSSIA	UKRAINE	CORPORATE, OTHER COUNTRIES & ELIMINATIONS	CONSOLIDATED RESULTS
			(IN THOUSANDS)	
YEAR ENDED DECEMBER 31, 2002				
Revenue	$166,319	$ 35,488	$ (3,080)	$ 198,727
Long-lived assets	275,209	24,541	1,512	301,262
YEAR ENDED DECEMBER 31, 2003				
Revenue	$318,426	$ 44,524	$ (2,416)	$ 360,534
Long-lived assets	509,339	24,236	2,886	536,461
YEAR ENDED DECEMBER 31, 2004				
Revenue	$522,018	$ 64,455	$ (2,495)	$ 583,978
Long-lived assets	563,856	27,995	11,116	602,967

NOTE 15: SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes significant non-cash investing and financing activities for the Company.

	TWELVE MONTHS ENDED DECEMBER 31,		
	2002	2003	2004
		(IN THOUSANDS)	
Issuance of common stock in connection with acquisitions	$ 50,663	$193,485	$ —
Amounts payable in connection with business acquisitions	3,500	—	400
Capitalized leased assets	—	420	—

NOTE 16: PRIOR PERIOD ADJUSTMENT

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

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NOTE 17: LONG TERM INCENTIVE BONUS PROGRAM

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

NOTE 18: SALE OF MINORITY INTEREST IN SUBSIDIARY

Recognizing that many of the markets in which the Company operates are complex, in particular as it relates to business, regulatory, political and cultural matters, the Company occasionally seeks experienced local partners to assist in markets where the Company is likely to encounter operational difficulties. GTI has been cooperating with local partners in Ukraine to resolve commercial and regulatory disputes with monopoly operators and regulatory authorities in Ukraine but had not previously finalized the compensation arrangement for the services. In addition to or in lieu of cash compensation, the Board of Directors approved the sale of a non-controlling interest in GTU to such parties.

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

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

NOTE 19: QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data is as follows:

	ACTUAL FOR THE THREE MONTHS ENDED			
	MARCH 31, 2003	JUNE 30, 2003	SEPTEMBER 30, 2003	DECEMBER 31, 2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Revenues	$ 78,376	$80,762	$ 90,095	$ 111,301
Cost of Revenues	37,299	39,436	44,883	59,467
Gross Margin	41,077	41,326	45,212	51,834
Selling, general and administrative	13,438	13,385	15,764	21,797
Net income	12,820	11,835	12,506	18,274
Net income per share(1)- basic	0.47	0.43	0.44	0.59
Net income per share(1)- diluted	$ 0.47	$ 0.42	$ 0.43	$ 0.58

	ACTUAL FOR THE THREE MONTHS ENDED			
	MARCH 31, 2004	JUNE 30, 2004	SEPTEMBER 30, 2004	DECEMBER 31, 2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Revenues	$ 133,174	$138,873	$ 152,713	$ 159,218
Cost of Revenues	68,279	70,215	77,953	84,141
Gross Margin	64,895	68,658	74,760	75,077
Selling, general and administrative	26,393	25,118	29,518	31,826
Net income	14,651	16,909	16,111	17,112
Net income per share(1)- basic	0.41	0.47	0.44	0.47
Net income per share(1)- diluted	$ 0.40	$ 0.46	$ 0.44	$ 0.47

(1) The sum of the earnings per share for the four quarters will generally not equal earnings per share for the total year due to changes in the average number of common shares outstanding.

NOTE 20: SUBSEQUENT EVENTS

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 will pay the total amount of approximately $7.3 million to shareholders on March 31, 2005.

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AUDITED FINANCIAL STATEMENTS

EDN SOVINTEL LLC
THE PERIOD FROM JANUARY 1 TO SEPTEMBER 16, 2002
WITH REPORT OF INDEPENDENT AUDITORS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
EDN Sovintel LLC

We have audited the accompanying statements of income and cash flows of EDN Sovintel LLC for the period from January 1 to September 16, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of EDN Sovintel LLC and its cash flows for the period from January 1 to September 16, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ ERNST & YOUNG (CIS) LIMITED

Moscow, Russia
March 6, 2003

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EDN SOVINTEL LLC

STATEMENTS OF INCOME

	PERIOD FROM JANUARY 1 TO SEPTEMBER 16, 2002 (IN THOUSANDS OF US$)
REVENUES:	
Telecommunication services	$ 96,610
Revenue from affiliates	4,651
	101,261
OPERATING COSTS AND EXPENSES:	
Service costs (excluding depreciation)	56,013
Selling, general and administrative (excluding depreciation)	11,856
Depreciation	7,517
TOTAL OPERATING COSTS AND EXPENSES	75,386
INCOME FROM OPERATIONS	25,875
OTHER INCOME (EXPENSE):	
Interest income	508
Interest expense	(3)
Foreign currency losses	(618)
TOTAL OTHER INCOME (EXPENSE)	(113)
Net income before taxes	25,762
Income taxes	6,647
NET INCOME	$ 19,115

The accompanying notes are an integral part of these financial statements.

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EDN SOVINTEL LLC

STATEMENTS OF CASH FLOWS

	PERIOD FROM JANUARY 1 TO SEPTEMBER 16, 2002
	(IN THOUSANDS OF US$)
OPERATING ACTIVITIES	
Net income	$ 19,115
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	7,517
Deferred income taxes	(2,193)
Provision for doubtful accounts	—
Provision for obsolete inventory	650
Foreign exchange loss	618
Changes in operating assets and liabilities:	
Accounts receivable	(6,407)
Inventories	2,459
Inventory consigned to others	1,063
Prepaid expenses and other assets	119
VAT receivable, net	(26)
Trade payables	5,377
Accrued liabilities and other payables	1,093
Decrease amounts due to affiliated companies, net	(1,239)
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,146
INVESTING ACTIVITIES	
Purchases of property and equipment	(18,126)
Loan to affiliated company	(9,983)
NET CASH USED IN INVESTING ACTIVITIES	(28,109)
FINANCING ACTIVITIES	
Payment of debt	—
Payment of dividends	(4,000)
NET CASH USED IN FINANCING ACTIVITIES	(4,000)
Effect of exchange rate changes on cash	(204)
Net (decrease) increase in cash	(4,167)
Cash at beginning of period	16,793
CASH AT END OF PERIOD	$ 12,626

The accompanying notes are an integral part of these financial statements.

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EDN SOVINTEL LLC

NOTES TO FINANCIAL STATEMENTS
(US$ AMOUNTS EXPRESSED IN THOUSANDS)

NOTE 1. DESCRIPTION OF BUSINESS

EDN Sovintel LLC (the “Company”, “Sovintel”), which became a wholly owned subsidiary of Golden Telecom, Inc. (“GTI”) on September 17, 2002, was created in 1990 to design, construct, and operate a telecommunications network in Moscow and later expanded its operations to other regions of Russia, including St. Petersburg, Pskov and Kaliningrad. This network provides worldwide communications services, principally to major hotels, business offices and mobile communication companies.

Effective September 17, 2002, subsidiaries of GTI completed the acquisition of the remaining 50% of the Company previously held by Open Joint Stock Company Rostelecom (“Rostelecom”), pursuant to an Ownership Interest Purchase Agreement, dated March 13, 2002, by and among subsidiaries of GTI and Rostelecom, bringing GTI’s ownership interest in the Company to 100%.

The accompanying financial statements are presented for purposes of complying with the requirements of the U.S. Securities and Exchange Commission for separate financial statements under Rule 3-09 of Regulation S-X. In that regard, the statements of operations and cash flows for 2002 have been presented for the period from January 1 to September 16, 2002.

NOTE 2. BASIS OF PRESENTATION

The Company maintains its records and prepares its financial statements in Russian rubles in accordance with the requirements of Russian accounting and tax legislation. The accompanying financial statements differ from the financial statements used for statutory purposes in Russia in that they reflect certain adjustments, not recorded on the Company’s books, which are appropriate to present the financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the United States of America (“US GAAP”). The principal adjustments are related to revenue recognition, certain accrued expenses, foreign currency translation, deferred taxation, and depreciation and valuation of property and equipment.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Foreign Currency Translation

The Company’s functional currency is the US dollar because the majority of its revenues, costs, property and equipment purchased, and debt and trade liabilities are either priced, incurred, payable or otherwise measured in US dollars. Accordingly, transactions and balances not already measured in US dollars (primarily Russian rubles) have been re-measured into US dollars in accordance with the relevant provisions of Statement of Financial Accounting Standards (“SFAS”) No. 52, “Foreign Currency Translation”.

Under SFAS No. 52, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange gains and losses arising from re-measurement of monetary assets and liabilities that are not denominated in US dollars are credited or charged to operations.

The ruble is not a convertible currency outside the territory of Russia. Official exchange rates are determined daily by the Central Bank of Russia (“CBR”) and were considered to be a reasonable approximation of market rates until mid-August 1998. Since that date, liquidity in the CBR currency trading and inter-bank trading has varied as have bid and offer exchange rates. As a result, the market rates have fluctuated significantly and have diverged from the CBR rate. Nonetheless, the various market-related rates are based on the CBR rate. Accordingly, CBR rates have been used for translation purposes in these financial statements. The translation of ruble denominated assets and liabilities into US dollars for the purpose of these financial statements does not indicate that the Company could realize or settle in US dollars the reported values of the assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar values of capital and retained earnings to its shareholders.

The official exchange rate as September 16, 2002 was 31.64 rubles per US dollar, respectively.

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EDN SOVINTEL LLC

NOTES TO FINANCIAL STATEMENTS — (CONTINUED)

Property and Equipment

Property and equipment are recorded at their historical cost. Depreciation is provided on the straight-line method over the following estimated useful lives:

Network equipment	10 years
Other property and equipment	3-5 years

There is no depreciation charge for construction-in-progress. Depreciation commences upon completion of the related project.

Revenue Recognition

The Company records as revenue the amount of telecommunications services rendered, as measured primarily by the minutes of traffic processed, after deducting an estimate of the traffic that are partial minutes and test traffic which will be neither billed nor collected. Revenue from service contracts is accounted for when the services are provided. Billings received in advance of service being performed are deferred and recognized as revenue as the service is performed. Revenues are stated net of any value-added-taxes (“VAT”) charged to customers. Certain other taxes that are based on revenues for the period from January 1 to September 16, 2002, amounted $1,016, respectively, and are charged to selling, general and administrative expenses since these are incidental to the revenue cycle.

The Company has deferred telecommunication connection fees and capitalized direct incremental costs related to connection fees, not exceeding the revenue deferred. The deferral of revenue and capitalization of cost of revenue is recognized over the estimated life of the customer, three years.

The Company recognizes revenue from equipment sales when title to the equipment passes to the customer. The Company defers the revenue on installed equipment until installation and testing are completed and accepted by the customer.

Advertising

The Company expenses the cost of advertising as incurred. Advertising expenses for the period from January 1 to September 16, 2002 were $1,286 and are included in selling, general and administrative expenses.

Income Taxes

The Company computes and records income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes.”

Government Pension Funds

The Company contributes to the Russian Federation state pension fund, social fund, medical insurance fund, unemployment fund and transport fund on behalf of all its Russian employees. The contributions are expensed as incurred.

Comprehensive Income

Comprehensive income is defined as the change in equity of a business enterprise during a period from non-owner sources. For the period from January 1 to September 16, 2002, comprehensive income for the Company is equal to net income.

NOTE 4. INCOME TAXES

The Russian Federation was the only tax jurisdiction in which the Company’s income was taxed. The income tax expense reported in the accompanying statements of income, for the period January 1 to September 16, 2002, represents the provision for current and deferred taxes.

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EDN SOVINTEL LLC

NOTES TO FINANCIAL STATEMENTS — (CONTINUED)

Significant components of the provision for income taxes for the period ended January 1 to September 16, 2002 is as follows:

	2002
Current tax expense	$ 8,840
Deferred tax expense (benefit)	(2,193)
Provision for income taxes	$ 6,647

A reconciliation between the statutory rate and the effective income tax rate is as follows for the period January 1 to September 16, 2002:

	2002
Income tax expense at statutory tax rate of 24% from January 1 through September 16, 2002	$ 6,183
Tax effect of permanent differences:	
Depreciation differences due to revaluation of fixed assets	708
Taxes on local currency exchange gains	358
Other permanent differences	576
Increase (decrease) in the valuation allowance for deferred tax assets	(1,178)
Income tax expense reported in the financial statements	$ 6,647

The Company paid Russian profits tax of $9,657 in for the period from January 1 to September 16, 2002, respectively.

NOTE 5. RELATED PARTY TRANSACTIONS

Transactions and balances with Rostelecom (one of the Company's members prior to September 17, 2002) and its affiliates for the period from January 1 to September 16, 2002 were as follows:

	2002
Sales	$ 155
Telecommunication lease and traffic costs	7,056

Transactions and balances with GTI and its affiliates, for the period from January 1 to September 16, 2002 were as follows:

	2002
Sales	$ 4,496
Telecommunication services	7,387
Management service fees and reimbursements of expenses of expatriate staff	452

In July 2002, the Company entered into a short-term loan agreement with TeleRoss LLC ("TeleRoss"), a wholly owned subsidiary of GTI. Under this agreement the Company provided TeleRoss with a working capital loan in the amount of 315.5 million rubles (equal to approximately $9,970, at applicable exchange rate at September 16, 2002) to be repaid by March 31, 2003. The Company and TeleRoss have the right to prolong the term of the loan for one month and the number of such prolongations is not limited. The loan bears an interest rate of 21% per annum calculated based on the ruble denominated loan principle. The interest is payable monthly starting October 2002. The Company included the respective accrued interest income of $70 in the accompanying statement of income for the period from January 1 to September 16, 2002.

NOTE 6. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of temporary cash deposits and trade accounts receivable. The Company deposits the majority of its available cash with two foreign-owned financial institutions in Russia and maintains certain balances with several Russian financial institutions. The Company's sales and accounts receivable are made to and due from a variety of international and Russian business customers within Russia. As of September 16, 2002, one customer accounted for 8% of revenue and 9% of accounts receivable. The Company has no other significant concentrations of credit risk except for transactions with related parties as discussed in Note 5.

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EDN SOVINTEL LLC

NOTES TO FINANCIAL STATEMENTS — (CONTINUED)

NOTE 7. COMMITMENTS

The Company has several cancelable operating leases for office and warehouse space and telecommunications lines with terms ranging from one to five years.

Total rent expense for the period from January 1 to September 16, 2002 was $2,549.

NOTE 8. CONTINGENCIES

The tax, legal and banking regulatory system continues to evolve in the Russian Federation as the Russian government manages the transformation from a command to a market-oriented economy. There were many new tax and foreign currency laws and related regulations introduced during 2002 and previous years which were not always clearly written and were, at times, conflicting. In addition, their interpretation is subject to the opinions of a variety of local, regional and federal tax inspectors, the Central Bank of Russia officials and the Ministry of Finance. Instances of inconsistent opinions among and between these authorities are not unusual.

The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Russian tax and legal systems, the ultimate taxes as well as penalties and interest, if any, assessed may be in excess of the amounts paid to date and accrued as of September 16, 2002. Management believes, based upon its best estimates, that the Company has paid or accrued all taxes that are applicable for the current and prior years, and complied with all essential provisions of laws and regulations of the Russian Federation. In management's opinion, the ultimate determination of the Company's overall tax liability and potential loss contingencies, to the extent not previously provided for, will not have a material effect on the financial position of the Company.

The Company's operations and financial position will continue to be affected by Russian political developments including the application of existing and future legislation and tax regulations, which significantly impact the Russian economy. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's current activity and its overall ability to continue operations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Russia.

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 the management, the Company's liability, if any, in all pending litigation, other legal proceeding or other matter other than what is discussed above, will not have a material effect upon the financial condition, results of operations or liquidity of the Company.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2004, the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2004 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young (CIS) Limited, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the fourth quarter of 2004 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM

The Board of Directors and Shareholders
Golden Telecom, Inc.

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting, that Golden Telecom, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Golden Telecom, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of the internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

In our opinion, management's assessment that Golden Telecom, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Golden Telecom, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2004 consolidated financial statements of Golden Telecom, Inc.'s and our report dated March 11, 2005 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG (CIS) LIMITED

Moscow, Russia
March 11, 2005

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ITEM 9B. OTHER INFORMATION

None

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 (other than the information required by Item 406 of Regulation S-K) is incorporated herein by reference to the section entitled “Election of Directors”, “Executive Officers” and “Section 16(a) Beneficial Ownership Reporting Compliance” of our proxy statement for our 2005 Annual Meeting of Shareholders that we will file by April 30, 2005.

The Company has adopted its “Conduct Guidelines”, a code of ethics that applies to all employees, including its executive officers. A copy of the Conduct Guidelines is posted on the Company’s Internet site at http://www.goldentelecom.com. In the event that the Company makes any amendment to, or grants any waivers of, a provision of the Conduct Guidelines that applies to the principal executive officer, principal financial officer, or principal accounting officer that requires disclosure under applicable SEC rules, the Company intends to disclose such amendment or waiver and the reasons therefore on its Internet site.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the section entitled “Executive Compensation” of our proxy statement for our 2005 Annual Meeting of Shareholders that we will file by April 30, 2005.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 (other than the information required by Item 201(d) of Regulation S-K) is incorporated herein by reference to the section entitled “Common Stock Ownership of Certain Beneficial Owners and Management” of our proxy statement for our 2005 Annual Meeting of Shareholders that we will file by April 30, 2005.

The information with respect to Item 201(d) of Regulation S-K as of December 31, 2004 is as follows:

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information on securities that were authorized for issuance under The 1999 GTI Equity Participation Plan as of December 31, 2004:

PLAN CATEGORY	(a) NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(b) WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	(c) NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a)).
Equity compensation plan approved by security holders	517,013	$ 14.18	844,668

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated herein by reference to the section entitled “Certain Relationships and Related Transactions” of our proxy statement for our 2005 Annual Meeting of Shareholders that we will file by April 30, 2005.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the section entitled “Ratification of Appointment of Auditors” of our proxy statement for our 2005 Annual Meeting of Shareholders that we will file by April 30, 2005.

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PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES

a) The following documents are filed as part of this report:

1. Financial Statements

The following consolidated financial statements of the Company are included as part of this document:

- Report of Independent Auditors
- Consolidated Balance Sheets as of December 31, 2003 and 2004
- Consolidated Statements of Operations for the years ended December 31, 2002, 2003 and 2004
- Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2003 and 2004
- Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2002, 2003 and 2004
- Notes to Consolidated Financial Statements

The following financial statements of our significant equity method investee until September 16, 2002, EDN Sovintel LLC, are included as part of this document:

- Report of Independent Auditors
- Statements of Income for the period from January 1 to September 16, 2002
- Statements of Cash Flows for the period from January 1 to September 16, 2002
- Notes to Financial Statements

2. Consolidated Financial Statement Schedules

We have furnished Schedule II — Valuation and Qualifying Accounts on Page 111.

All other schedules are omitted because they are not applicable or not required, or because the required information is either incorporated herein by reference or included in the financial statements or notes thereto included in this report.

b) Exhibits

Exhibit Number	Description of Exhibit
3.1**	Amended and Restated Certificate of Incorporation of Golden Telecom, Inc.
3.2**	Amended and Restated By-laws of Golden Telecom, Inc.
4.1**	Specimen certificate representing shares of Common Stock
10.1***	Shareholders Agreement among Golden Telecom, Inc., Alfa Telecom Limited, Nye Telenor East Invest AS, OAO Rostelecom, Capital International Global Emerging Markets Private Equity Fund, L.P., Cavendish Nominees Limited and First NIS Regional Fund SICAV.
10.2***	Registration Rights Agreement among Golden Telecom, Inc., Alfa Telecom Limited, Nye Telenor East Invest AS, OAO Rostelecom, Capital International Global Emerging Markets Private Equity Fund, L.P., Cavendish Nominees Limited and First NIS Regional Fund SICAV.
10.3***	Standstill Agreement among Golden Telecom, Inc., Alfa Telecom Limited, Nye Telenor East Invest AS, OAO Rostelecom, Capital International Global Emerging Markets Private Equity Fund, L.P., Cavendish Nominees Limited and First NIS Regional Fund SICAV.
10.4(a)****	Golden Telecom, Inc. 1999 Equity Participation Plan.
10.4(b)*****	Amendment to the Golden Telecom, Inc. 1999 Equity Participation Plan.
10.5*	Employment agreement for the President and Chief Executive Officer.
10.6*	Employment agreement for Chief Operating Officer.

10.7*	Summary of employment agreements for Chief Financial Officer, General Counsel, and Director of Mergers and Acquisitions.
10.8*	Form of Stock Option Award Agreement.
10.9*	Schedule of Compensation Arrangements with Directors.
21.1*	List of subsidiaries of Golden Telecom, Inc.
23.1*	Consent of Ernst & Young (CIS) Limited, Independent Auditors (Golden Telecom, Inc.).
23.2*	Consent of Ernst & Young (CIS) Limited, Independent Auditors (EDN Sovintel LLC).
24*	Powers of Attorney (included on signature page).
31.1*	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

** Incorporated by reference to the correspondingly numbered Exhibit to the Company's registration statement on Form S-1 dated July 14, 1999 and amendments (Commission File No. 333-82791).

*** Incorporated by reference to the Company's current report on Form 8-K dated August 19, 2003 (Commission File 0-27423).

**** Incorporated by reference to the Company's definitive proxy statement on Form DEF-14A dated April 25, 2000 (Commission File No. 0-27423).

***** Incorporated by reference to the Company's definitive proxy statement on Form DEF-14A dated May 23, 2001 (Commission File No. 0-27423).

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SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Moscow, Russian Federation, on this 11th day of March, 2005.

GOLDEN TELECOM, INC.
(Registrant)

By: /s/ BRIAN RICH
Name: Brian 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)

We, the undersigned officers and directors of Golden Telecom, Inc. hereby severally constitute and appoint, Derek Bloom, and Brian Rich and each of them singly, as his true and lawful attorney-in-fact and agents with full power of substitution and resubstitution, for him, and in his name, place and stead, in any and all capacities to sign any and all amendments and supplements to this annual report on Form 10-K and all amendments thereto, and to file the same, with all exhibits thereto, and all other documents in connection therewith, in each case, with our names and on our behalf in our capacities as officers and directors to enable Golden Telecom, Inc. to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to said annual report on Form 10-K and any and all amendments thereto.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated

SIGNATURE	TITLE	DATE
/s/ ALEXANDER VINOGRADOV Alexander Vinogradov	President, Chief Executive Officer and Director (Principal Executive Officer)	March 11, 2005
/s/ PETER AVEN Peter Aven	Chairman of the Board of Directors	March 11, 2005
/s/ VLADIMIR ANDROSIK Vladimir Androsik	Director	March 11, 2005
/s/ MICHAEL CALVEY Michael Calvey	Director	March 11, 2005
/s/ ASHLEY DUNSTER Ashley Dunster	Director	March 11, 2005
/s/ DAVID HERMAN David Herman	Director	March 11, 2005
/s/ KJELL MORTEN JOHNSEN Kjell Morten Johnsen	Director	March 11, 2005
/s/ ANDREI KOSOGOV Andrei Kosogov	Director	March 11, 2005
/s/ MICHAEL NORTH Michael North	Director	March 11, 2005
/s/ JAN EDVARD THYGESEN Jan Edvard Thygesen	Director	March 11, 2005

/s/ BRIAN RICH Brian Rich	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 11, 2005
/s/ MICHAEL D. WILSON Michael D. Wilson	Vice President and Corporate Controller (Principal Accounting Officer)	March 11, 2005

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SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

GOLDEN TELECOM, INC.

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	RESERVES FROM ACQUISITIONS	DEDUCTIONS	BALANCE AT END OF PERIOD
Allowance for doubtful accounts at 12/31/04	13,896	10,065	117	(873)	23,205
Allowance for doubtful accounts at 12/31/03	8,686	3,592	2,966	(1,348)	13,896
Allowance for doubtful accounts at 12/31/02	3,800	2,061	4,539	(1,714)	8,686

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EXHIBIT INDEX

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4.1**	Specimen certificate representing shares of Common Stock
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10.2***	Registration Rights Agreement among Golden Telecom, Inc., Alfa Telecom Limited, Nye Telenor East Invest AS, OAO Rostelecom, Capital International Global Emerging Markets Private Equity Fund, L.P., Cavendish Nominees Limited and First NIS Regional Fund SICAV.
10.3***	Standstill Agreement among Golden Telecom, Inc., Alfa Telecom Limited, Nye Telenor East Invest AS, OAO Rostelecom, Capital International Global Emerging Markets Private Equity Fund, L.P., Cavendish Nominees Limited and First NIS Regional Fund SICAV.
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EXHIBIT 10.5

EMPLOYMENT AGREEMENT # GT11/02

Moscow October 21, 2004

This Employment Agreement (hereinafter the "AGREEMENT") is made and entered by and between GOLDEN TELESERVICES, INC., (hereinafter the "EMPLOYER" or "CORPORATION"), a Delaware corporation, located at 2831 29th St., N. W., Washington, DC 20008, USA, having its accredited representative office in Russia (hereinafter the "REPRESENTATIVE OFFICE"), located at 1 Kozhevnichesky Proezd, 2nd Floor, Moscow, Russia, 115114, in the person of Petr Aven, acting on the basis of the Power of Attorney dated October 21, 2004,

and

VINOGRADOV ALEXANDER YAKOVLEVICH, a citizen of the Russian Federation, born in 1953, residing at: Moscow, 6 2nd Kazachi Pereulok , Apt. 11, the passport # 45 03 253010, issued by Donskoy OVD, in Moscow on June 26, 2002, (hereinafter the "EMPLOYEE")

WHEREAS, (i) by resolution of the Board of Directors of the Corporation dated December 15, 2001, the Employee was appointed to the position of President and Chief Executive Officer of the Corporation, and (ii) by resolution of the Board of Directors of the corporation Golden Telecom, Inc. dated November 6, 2001, located at 2831 29th Street, N.W., Washington, D.C., 20008, the Employee was appointed to the position of President and Chief Executive Officer of the corporation Golden Telecom, Inc.;

WHEREAS, the Employee is employed by the Corporation by agreement dated February 1, 2002, such agreement which will expire on November 5, 2004;

WHEREAS, the Corporation desires to continue to employ the Employee as President and Chief Executive Officer under the terms of this Agreement;

WHEREAS, the Corporation is a member of a group (a holding company) of companies owned by Golden Telecom, Inc. and is a wholly-owned subsidiary of Golden Telecom, Inc. ("GTI");

WHEREAS, the Employee has substantial experience in telecommunications operations;

NOW THEREFORE, the Employer and Employee agreed as follows:

1. SUBJECT OF THE AGREEMENT

1.1 The Corporation hereby employs the Employee, as PRESIDENT AND CHIEF EXECUTIVE OFFICER. The job responsibilities of the Employee are stated herein. The principal place of work of the Employee is the Representative Office.

1.2 This Agreement is the agreement on the principal place of employment.

1.3 The Employer and the Employee have agreed that the Board of Directors of the Corporation or the Board of Directors of GTI have the right to take decisions to appoint the Employee to positions in executive bodies of the enterprises that are part of the GTI group. The parties have also agreed that the performance of duties and exercise of authorities in such executive bodies by the Employee are his employment responsibilities in accordance with this

Agreement. The Employee shall undertake to accept such appointments and perform such responsibilities.

2. TERM

2.1 This Agreement has been concluded for a term of three (3) years from November 6, 2004, such that the term of the Agreement shall expire on November 6, 2007. This Agreement has been concluded for the limited term in accordance with Para. 18 of Article 59 of the Labor Code as with the head of an enterprise.

2.2 The Employee will commence his work under this Agreement on November 6, 2004.

2.3 The last day of the Employee's work (i.e. the termination day) shall be the day of expiration of the Agreement indicated in section 2.1 herein. The Employer shall notify the Employee of the expiration of the term of the Agreement in writing with returned receipt not later than 90 days before termination of this Agreement.

2.4 The provisions of this Agreement are applicable to the employment relationship between the parties from NOVEMBER 6, 2004 and continue to be in effect until the term of the Agreement is completed or the Agreement is terminated.

2.5 Where the Employer decides to enter into the Agreement for a new term, it will notify the Employee in writing ninety (90) days before the term of the Agreement is terminated.

2.6 Where the Agreement terminates because of the expiration of its term, the Employer shall pay the Employee compensation in accordance with the provisions of this Agreement stated in Article 17.7.

2.7 Where the Employee is dismissed from his position in accordance with applicable legislation, the Employer reserves the right within any period of the notice period or dismissal period, to require the Employee not to attend the Employer's premises or the premises of the Employer's business unit and also to provide the Employee with an alternative job of a similar nature to the job the Employee normally performs. The Employer has a right to pay to the Employee the salary and other benefits, which the Employee is entitled under this Agreement to, provided that the period of such restrictions by the Employer does not exceed six months.

3. EMPLOYEE RESPONSIBILITIES

3.1 The Employee undertakes to perform the work in person and consciously perform his employment responsibilities provided for in this Agreement and stated in the EXHIBIT A hereto.

3.2 The main employment responsibility of the Employee is to manage the business activity of the Corporation, the Representative Office and other legal entities and business units of the GTI group. The Employer and Employee have agreed that Employee's salary according to this Agreement includes full and sufficient compensation for performance by the Employee of the above employment responsibilities.

3.3 While managing the activity of the Representative Office, the Employee is entitled to the right of the first signature on bank documents, the right to employ and dismiss other employees of the Corporation and the Representative Office, to award incentives and impose discipline penalties on the employees of the Corporation and the Representative Office, subject to the applicable internal policies of the Corporation.

3.4 The Employee shall provide the employees of the Corporation and the Representative Office with job conditions which meet the requirements of the applicable law of Russia, including the requirements of labor safety rules and others.

3.5 While performing his employment responsibilities under this Agreement, the Employee shall be guided by the foundation documents of the Corporation and the Representative Office, resolutions, orders and instructions of the management bodies (the Shareholders' Meeting, Board of Directors) of the Corporation and GTI.

3.6 The Employee shall devote all necessary business time and attention, and apply the Employee's best efforts, towards the fulfillment and execution of all assigned duties, and also the accomplishment of defined annual, quarterly and/or longer-term goals.

3.7 The Employee shall comply with GTI's Code of Conduct, and other local normative acts of the Employer, provisions of applicable law, which directly or indirectly relate to his job with the Employer, and shall also meet all the requirements of applicable legislation and perform all the Employer's instructions not contradicting the norms of the applicable legislation.

3.8 The Employee shall observe labor discipline, perform the defined labor norms, and meet the requirements of labor protection and labor safety provision.

3.9 The Employee shall protect the property of the Employer and other employees, take all reasonable measures for the protection of the property and property interests of the Employer from thefts, damage and ruin and immediately inform representatives of the Employer on any situation threatening the life and health of people and safety of the property of the Employer.

3.10 The Employee shall undertake not to take any actions which may cause material or other damage to the Employer and GTI or which may on any way injure the reputation of the Employer and GTI.

3.11 The Employee shall undertake during the term of the Agreement to observe the interests of the Employer so that all of the Employee's actions related to performance of his employment responsibilities under this Agreement will be accomplished solely in the interests of the Employer and not in his personal interests or in the interests of third persons.

3.12 The Employee is obliged to use his business time only for the purposes of performing his employment responsibilities under this Agreement and to fulfill his employment responsibilities consciously, responsibly and in accordance with the provisions of this Agreement.

3.13 The Employee is subject to all other responsibilities imposed on him by the Labor Code of the Russian Federation including those provided by Article 21 of the Labor Code.

4. EMPLOYER RESPONSIBILITIES

4.1 The Employer undertakes to provide the Employee with work in accordance with the stipulated position conditioned by this Agreement.

4.2 The Employer shall provide the Employee with the equipment, technical documentation and other means necessary for the Employee's performance of his employment responsibilities under this Agreement.

4.3 The Employer shall pay to the Employee on a timely basis and in full the Employee's salary indicated in this Agreement and other payments.

4.4 The Employer is subject to all other responsibilities imposed on him by the Labor Code of the Russian Federation including those provided by Article 22 of the Labor Code.

5. BUSINESS TIME AND REST-TIME

5.1 The working day with non-fixed working hours shall be established for the Employee.

5.2 In addition to days-off, the Employee is entitled to holidays established under Russian law.

6. VACATION

6.1 The Employee is entitled to annual principal paid vacation with reserved place of work and average salary for the period of twenty-eight (28) calendar days for each year of employment by the Employer. The right to use vacation for the first year of employment arises after six (6) months of continuous employment by the Employer.

6.2 The Employee is entitled to additional annual paid vacation of three (3) calendar days per year in consideration of his non-fixed working hours.

6.3 At termination of employment the Employee shall be paid monetary compensation for all the unused vacation days. Upon written application of the Employee, the unused vacations may be provided together with subsequent dismissal (except for dismissals for cause). The last day of vacation is deemed to be the day of dismissal.

7. PAYMENT

7.1 The Employee’s salary shall be paid in accordance with the Employer’s customary payroll practices and applicable currency control legislation of the Russian Federation.

7.2 The Employee shall be paid the base monthly the salary in the amount and structure as set forth in EXHIBIT B hereto.

7.3 The Employee’s salary shall be paid semi-monthly in accordance with a payroll schedule set by the Rules of the Internal Labor Schedule.

7.4 The salary shall be paid to the Employee via bank transfer to a Russian bank account indicated in advance by the Employee in writing.

7.5 The Employer shall withhold income tax and other deductions from the salary and other payments to the Employee in respect with this Agreement in accordance with applicable Russian legislation and transfer the indicated amount of money as appropriate.

7.6 The provision stated above in section 7.5 shall not exempt the Employee from obligations established under applicable legislation of the Russian Federation to pay taxes on income earned from sources other than the Employer.

7.7 The Employer in the person of the Board of Directors of the Corporation shall review the salary of the Employee on an annual basis and shall consider (based upon the Employee’s performance and the Corporation’s financial condition) potential increases to the Employee’s base salary as the Employer shall, in its sole and absolute discretion, deem appropriate.

7.8 Vacation shall be paid not later than three days before it starts.

8. BENEFITS

8.1 During the term of this Agreement, the Employee shall be entitled to receive such benefits and also to participate in employee group benefit plans as are generally provided by the Employer and GTI to their employees of comparable level and responsibility in accordance with the plans, practices and programs of the Employer and GTI.

8.2 In addition, the Employee's benefits shall include life and disability insurance policies. The Corporation shall maintain a life insurance policy for the Employee which shall have a value of US$ 1 million. In the event that the Employee elects to arrange his own life insurance policy, then the Corporation shall pay the Employee an annual amount of US$ 15,000 (fifteen thousand dollars) for each year that the Employee maintains his own life insurance policy during the Term of this Agreement. The Corporation shall maintain the Employee's disability insurance policy at a level equal to 60 percent of the Employee's salary.

8.3 For the purposes of this Agreement, the term "Benefits" shall not include the Employee's base salary, bonuses, incentive bonuses, or other specific remunerations, which the Employee may receive or for which the Employee may be eligible during the term hereof.

8.4 In addition to the Benefits indicated in section 8.1, the Employer shall conclude a Travel Accident Insurance contract to provide accident insurance for the Employee during such time as the Employee performs his duties on business trips as well as during his vacations. In the event of the Employee's death, the insurance company shall pay the insurance amounts to the Employee's immediate relative provided that the insurance company obtains documents confirming the death of the Employee and the relationship of the Employee's relative to the Employee.

8.5 The Employee will be provided with an automobile for Employee's business in line with the policy of the Employer.

8.6 The Employee is entitled to receive Benefits information from the Director of Human Resources of the Employer, and the Employer is obliged to provide such information to the Employee with receipt of written acknowledgement.

9. EXPENSE REIMBURSEMENT

9.1 During the term of employment, the Employer shall reimburse the Employee for all reasonable and necessary expenses incurred by the Employee in connection with the performance of the Employee's duties by the Agreement. Such reimbursements are subject to the submission to the Employer by the Employee of appropriate documentation and/or vouchers in accordance with the procedures of the Employer for business expense reimbursement and applicable legislation. Such procedures of the Employer may be changed from time to time. The Employer in person of the Director of Human Resources shall inform the Employee on the procedures for business expenses reimbursement.

10. OBLIGATORY SOCIAL INSURANCE

10.1 The Employee is subject to the obligatory social insurance (the obligatory medical, social and pension insurance) by governmental non-budget funds at the expense of the Employer in the manner provided by Russian legislation.

11. TEMPORARY DISABILITY

11.1 In case of temporary disability (illness, accident etc.) the Employee shall, to the extent possible, immediately inform the Director of Human Resources or another Employer's authorized representative.

11.2 The Employee shall provide the sick leave paper confirming his temporary disability (illness, accident etc.) not later than three (3) days after he restarts work.

11.3 The Employer shall pay to the Employee the temporary disability relief in accordance with the applicable law.

12. CONFIDENTIAL INFORMATION

12.1 The list of confidential information, including the information consisting of commercial secrets of the Employer, is indicated in the EXHIBIT C hereto.

12.2 The Employee shall observe the procedure of confidentiality (secrecy) in relation to the information stated in the EXHIBIT C hereto, not to disclose such information, including Employer's commercial secrets, which became known to the Employee in connection with his performance of his employment responsibilities under this Agreement, to the third persons and take measures to prevent non-authorized disclosure of such information to third persons.

12.3 Where the Employee discloses Employer's commercial secrets, the Employer is entitled to dismiss the Employee in accordance with sub-section "B" of section 6 of Article 81 of the Labor Code of the Russian Federation.

12.4 Information constituting the Employer's commercial secrets is the property of the Employer and remains its property in case of termination of employment relationship between the parties.

12.5 The Employee shall not bring out or carry from the premises of the Employer's enterprise any goods, documents, files, records etc. if this is not related to his employment responsibility performance, and shall immediately return them when the business necessity no longer exists.

12.6 The parties shall not spread in relation to each other any untrue and false information both during the term of employment relationship between the Employee and Employer and after it terminates. The Employee shall not use or publish any data or information being received by the Employee during the term of his employment under this Agreement.

12.7 The obligations stipulated for sections 12.2 and 12.6 above continue to be in effect after termination of this Agreement.

13. INTELLECTUAL PROPERTY

13.1 All property rights to any intellectual property being the result of the Employee's job activity under this Agreement or in relation hereto, as well as all the results of the Employee's intellectual activity which he receives by using the premises, information or other property of the Employer, including know-how or any other official or commercial secret of the Employer, become the property of the Employer from the moment of creation of such objects.

13.2 The Employee shall immediately inform the Employer in writing about all the objects of intellectual property under protection created by the Employee in course of his job activity under this Agreement or related hereto, and also transfer to the Employer all the documents, copies and other documentation related to such objects.

13.3 The property rights to intellectual property objects indicated above are owned by the Employer in all the countries of the world. The Employee shall take all legal measures and observe all official procedures, which may be required under the legislation of any country of the world to secure (register) rights to such objects by the Employer.

13.4 The Employee hereby authorizes the Employer to act in its name in relation to all issues connected with security or registration by the Employer of intellectual property rights to the objects indicated above.

13.5 The Employee and Employer hereby agree that the Employee's salary includes full and sufficient remuneration for all intellectual property objects created by the Employee, which are indicated above in section 13.1, except for remuneration fixed by imperative norms of the applicable law of the Russian Federation.

14. PERSONAL DATA

14.1 The Employee shall provide appropriate processing (including storage and usage) and protection of personal data of the employees of the Corporation and Representative Office and of other enterprises under his control in accordance with the Russian law.

15. AMENDMENTS

15.1 All amendments and supplements to the Agreement shall be made in writing and signed by the parties.

15.2 At any time, the parties to this Agreement may amend this Agreement, in accordance with Russian legislation.

16. TERMINATION

16.1 The Agreement may be terminated at any time by the parties' voluntary agreement in accordance with section 1 of Article 77 of the Labor Code of the Russian Federation.

16.2 The Agreement is terminated on the term expiry date indicated in section 2.1 hereof. This Agreement may be terminated early in accordance with the Labor Code of the Russian Federation and this Agreement.

16.3 Termination at the Employer's Initiative for Cause.

In addition to those grounds provided for in the Labor Code of the Russian Federation, the Employer may terminate the Agreement with the Employee upon Employee's:

(i) breach of or failure to perform the Corporation's or GTI Board of Directors' instructions which do not contradict applicable legislation, except for where such failure results from the Employee's disability and the Employee notifies the Employer as appropriate, and the Employer provides the Employee with a reasonable period for elimination of such failure; in this case the Employer is entitled to terminate the Agreement after such period expires if the failure has not been eliminated.

(ii) fraud, embezzlement, or any other similar illegal act in connection with the Employee's duties as an Executive of the Employer or any business unit or affiliate or parent, direct or indirect, of the Employer,

(iii) conviction of any felony or crime involving moral turpitude which causes or may reasonably be expected to cause substantial losses or substantial injury to the reputation of the Corporation, GTI or their subsidiaries and affiliates;

(iv) wilful or grossly negligent commission of any other act which causes or may reasonably be expected (as of the time of such occurrence) to cause substantial damage to or substantial injury to the reputation of the Employer, subsidiaries, affiliates or parent, direct or indirect, including GTI, of the Employer, including, without limitation, any violation of the Foreign Corrupt Practices Act, as provided for herein;

16.4 Termination for Reason of Total Disability.

Notwithstanding anything to the contrary in the provisions of this Agreement, the Employer is entitled at all times to terminate this Agreement immediately by delivering written notice to the Employee if the Employee experiences a Total Disability. For the purpose of this Agreement, the term "Total Disability" means any mental or physical illness, condition, disability or incapacity that:

(i) prevents the Employee from discharging substantial functions and employment duties;

(ii) shall be attested to in writing by a physician or a group of physicians acceptable to the Employer; and

(iii) continues for a period of 90 days in any 12 (twelve) month period.

A Total Disability shall be deemed to have occurred on the last day of such applicable 90-day period, and shall be determined in accordance with applicable medical law relating to disability.

16.5 Voluntary Resignation.

The Employee may terminate this Agreement at any time by giving a written notice to the Employer one month prior to the assumed resignation date (the "Employee's Notice Period"). The Employee shall notify the Employer no later than ninety (90) days prior to the date of resignation. Upon receipt of such notice, the Employer, in its sole discretion, may either continue to employ the Employee during all or part of the Employee's Notice Period, or may continue to pay the Employee's salary and continue grant Benefits during the Employee's Notice Period in lieu of continued employment.

16.6 Termination by the Corporation's Management Body's Resolution.

The Employer is entitled to terminate this Agreement and end the employment relationship with the Employee at any time by resolution of the Shareholders' Meeting or Board of Directors of the Corporation.

17. PAYMENTS UPON TERMINATION

17.1 Payment.

Except as specifically set forth herein, all payments to be made under the terms of this section may be made by the Employer in its sole and absolute discretion, either in one lump-sum payment at the beginning of the termination period or in installments over the term of the period covered by the payment in accordance with the Employer's customary payroll practices.

17.2 Termination on the Employer's Initiative by Additional Reasons

In the event that this Agreement is terminated by the Employer for Cause (section 16.3 herein), the Employer shall have no obligation to pay the salary to the Employee or provide any other remuneration or Benefits under this Agreement for any period after the date of such termination (dismissal), or to pay an Employee Bonus for the fiscal year in which such termination occurs.

However, the Employer shall as appropriate (i) pay to the Employee all salary earned by Employee prior to the date of termination, (ii) grant any Benefits under any program of the Employer, in which the Employee is a participant to the full extent of the Employee's rights under such plans prior to termination, and (iii) reimburse any appropriate business expenses incurred by the Employee prior to termination and properly confirmed by the Employee.

17.3 Termination by Reason of Total Disability (section 16.4 hereof).

In the event that the Employee's employment under this Agreement is terminated by reason of

Total Disability, the Employee shall have no obligation to pay the salary or to grant the Benefit provided under this Agreement for any period after the date of such termination.

In such case the Employer shall properly (i) pay to the Employee all salary earned by the Employee prior to the date of such termination, (ii) pay to the Employee the pro rata share of the Employee Bonus for the fiscal year in which the Total Disability occurred, (iii) grant any Benefits under any plans of the Employer in which the Employee is a participant to the full extent of the Employee's rights under such plans prior to the date of such termination, (iv) reimburse respective expenses incurred by the Employee prior to such termination and properly confirmation by the Employee, (v) pay to the Employee the severance payment in the amount of average month salary for the period of two weeks. Each such payment is to be made on the date of the termination with the exception of total disability relief, which shall continue to be paid in accordance with the total disability insurance plan.

In the event there is a period of time during which the Employee is not being paid salary for any reason and not receiving total disability payments by insurance plan, and conditioned upon the Employee or Employee's representative immediately notifying the Employer in writing, the Compensation Committee of the Board of Directors of GTI ("Compensation Committee") shall require all necessary information and shall discuss whether the Employer shall make interim payments to the Employee until the commencement of insurance payments under the total disability plan.

17.4 Termination by Reason of Death.

If the Employee dies during the term of this Agreement, the Employer shall properly pay to the members of the Employee's family or to the persons being his dependants on the day of his death, to the degree earned but not paid prior to the date of the Employee's death: (i) all salary; (ii) the pro rata share of the Employee's Bonus for the fiscal year in which the death occurred; (iii) any Benefits under any plans of the Employer in which the Employee is a participant to the full extent under such plans and (iv) reimburse properly confirmed business expenses incurred by the Employee which were not paid on the date of his death.

17.5 Voluntary Resignation (section 16.5 hereof).

In the event that the Employee resigns voluntarily from Employee's employment with the Employer (declares the agreement terminated), the Employer shall have no obligation to pay the salary provided under this Agreement to the Employee for any period after the end of the expiration of Employee's Notice Period.

Prior to the expiration of Employee's Notice Period the Employer shall promptly: (i) pay the salary earned by the Employee prior to the expiration of the Employee's Notice Period; (ii) grant the Benefits under any plans of the Employer in which the Employee is a participant to the full extent of the Employee's rights under such plans prior to the expiration of the Employee's Notice Period, provided, however, that such Benefits shall cease upon Employee's receipt of comparable benefits or coverage under any plans provided by a new employer and (iii) reimburse any appropriate business expenses incurred by the Employee before the expiration of said Employee's Notice Period and properly confirmed by the Employee.

17.6 Termination by Resolution of the Management Body (section 16.6 hereof).

In the event that the Employer terminates this Agreement by resolution of the Shareholders' Meeting or the Board of Directors of the Corporation:

(i) the Employer shall properly pay to the Employee: (A) all salary to the extent earned prior to the separation date; (B) the pro rata share of the Employee Bonuses for the fiscal year in which the termination occurred; (C) Benefits under any insurance plans of the Employer in which the Employee is a participant to the full extent of the Employee's rights under such plans prior to termination (D) reimburse appropriate expenses incurred by the Employee prior to the date of such termination and properly submitted to the Employer;

(ii) subject to the Employer's receipt from the Employee of a notarized declaration stating that the Employee does not have any claim to the Employer, the Employer shall also pay to the Employee in accordance with its payroll schedule an amount equal to the Employee's salary on the separation date for the period of nine (9) months;

(iii) the Employer shall extend for nine (9) months the period of validity of the benefits under the medical insurance plan in which the Employee is a participant, provided that such benefits shall cease upon the Employee's receipt of comparable benefits under, any plans provided by a new employer.

17.7 Termination by Expiration (section 16.2 hereof).

In case of termination due to expiration of the agreement the Employer shall:

(i) pay to the Employee in accordance with its payroll schedule an amount equal to the Employee's salary on the separation date for the period of nine (9) months;

(ii) the Employer shall extend for nine (9) months the period of validity of the benefits under the medical insurance plan in which the Employee is a participant, provided that such benefits shall cease upon the Employee's receipt of comparable benefits under, any plans provided by a new employer.

18 CHANGE OF CONTROL

In the event that there is a Change of Control, then the Corporation shall pay the Employee a lump sum amount equal to two times the Employee's annual base salary. For the purposes of this Agreement, "Change of Control" shall mean:

(i) a sale of all or substantially all of the assets of GTI to another corporation (other than a parent, subsidiary or affiliated company of GTI), or

(ii) any transaction (including, without limitation, a merger or reorganization in which GTI is the surviving corporation) which results in any person or entity (other than a parent, subsidiary or affiliated company of GTI) owning more than 50% of the combined voting power of all classes of stock of GTI, provided, however, any such transaction under this section 18 by any of Alfa Telecom Limited, Nye Telenor East Invest AS, OAO Rostelecom or their respective affiliated companies shall not be considered a Change of Control for the purposes of this section 18.

19. REPRESENTATION

Employee hereby represents that: (i) the Employee is not restricted in any material way from performing Employee's duties hereunder as the result of any contract, agreement or law and (ii) Employee's due performance of Employee's duties hereunder does not and will not violate the terms of any agreement to which the Employee is bound.

20. FOREIGN CORRUPT PRACTICES ACT

20.1 As the President of the Corporation registered and having business activity in the U.S., the Employee agrees to comply in all material respects with the applicable provisions of the U.S. Foreign Corrupt Practices Act of 1977 ("FCPA"), as amended, which provides that under no circumstances will foreign officials, representatives of political parties or holders of public offices be offered, promised or paid any money, remuneration, things of value, or provided any other benefits, direct or indirect, in connection with obtaining or maintaining contracts or orders hereunder. When any representative, executive, agent, or other individual or organization associated with the Employee is required to perform any obligation related to or in connection with this Agreement, the substance of this Article shall be imposed upon such person and included in any agreement between the Employee and any such person. Failure by the Employee to comply in all respects with the provisions of the FCPA shall constitute a material breach of this Agreement and shall entitle the Employer to terminate this Agreement immediately upon such failure to comply. Additionally, the Employee hereby acknowledges that the Employee has read "An Explanation of the Foreign Corrupt Practices Act" and "Golden Telecom, Inc. Policy on Foreign Transactions," copies of which have been provided to the Employee. The Employee also acknowledges that a condition precedent to the effectiveness of this Agreement shall be the execution by the Employee of the "Addendum to the Golden Telecom, Inc. Policy on Foreign Transaction," a copy of which has been provided to the Employee. Additionally, and as a condition for the Employer to continue this Agreement, the Employee may be required from time to time at the request of the Employer to execute a certificate of Executive's compliance with the aforementioned laws and regulations.

21. RESTRICTIONS ON OPERATIONS WITH GTI SECURITIES

21.1 As an Employee of the Corporation registered and acting in the U.S., the Employee agrees to comply with restrictions on operations with GTI securities fixed for the officers of the Corporation and some other its employees and stated in the "Policy and Procedures for Directors, Officers and Employees of GTI and its Affiliates on Insider Trading and Tipping". The Employee hereby acknowledges that he has read the "Policy and Procedures for Directors, Officers and Employees of GTI and its Affiliates on Insider Trading and Tipping" the copy of which has been provided to the Employee.

22. NON-COMPETITION

22.1 As the Employee of the Corporation, registered and acting in the U.S., during the term of this Agreement, and for a period equal to nine (9) months thereafter, the Employee agrees (i) directly or indirectly through any other person or entity not to acquire in any manner any shares/ownership interest in entities that compete with the Corporation or other entities and business units of the GTI group (except purely passive investments amounting to no more than five percent (5%) of the voting equity), and (ii) not to be employed with entities which compete with the Corporation or other entities and business units of the GTI group as well as not to provide such entities with consultancy services.

22.2 As a Employee of the Corporation registered and acting in the U.S., the Employee agrees during the term of the Agreement and for nine (9) months upon the termination to refrain from inducing (direct or indirect) officers of the Corporation and of other entities and business units of GTI with the purpose (i) to terminate or refrain from renewing or extending such persons's employment with the Corporation or another entity of the GTI group or (ii) to induce such persons to become employed or become consultant to any person not being a member of the GTI group.

22.3 As an Employee of the Corporation registered and acting in the U.S., the Employee agrees during the term of the Agreement and for nine (9) months upon the termination to refrain from inducing (direct or indirect) any contractors of the Corporation or other entities and business units of the GTI group with the purpose to terminate or refrain from extending such persons' s contractual or other relations with the Corporation or another entity of the GTI group.

23. INDEMNIFICATION

23.1 As an Employee of the Corporation registered and acting in the U.S., the Employee shall be entitled to indemnification set forth in the Employer's Certificate of Incorporation to the maximum extent allowed under the laws of the Commonwealth of Virginia and the State of Delaware Corporations Act.

24. DIRECTORS' AND OFFICERS' INSURANCE

24.1 The Employer shall identify, acquire and maintain in force at all times during the term of this Agreement Directors, Officers and Corporate Liability Insurance policies in relation to the Employee as President of the Corporation registered and acting in the U.S..

25. NOTICES

25.1 Any written notice required by this Agreement will be deemed delivered to the intended recipient when (i) delivered in person by hand; or (ii) three days after being sent via certified mail, return receipt requested; or (iii) the day after being sent via by overnight courier, in each case when such notice is properly addressed to the following address and with all fees having been paid properly:

If to the Employer:	Moscow Representative Office of the Corporation Golden TeleServices, Inc. Russia, 115114, Moscow 1 Kozhevnichesky Proezd, 2nd Floor Attn: Jeffrey A. Riddell Senior Vice-President General Counsel
If to the Employee:	Mr. Alexander Vinogradov Moscow, 6 2nd Kazachi Pereulok , Apt. 11

Either party may change the address to which notices, requests, demands and other communications to such party shall be delivered by giving notice to the other party in the manner described above.

26. ENTIRE AGREEMENT

26.1 This Agreement constitutes the entire agreement between the parties with respect to the subject matter described in this Agreement and supersedes all prior agreements, both oral and written, between the parties. This Agreement may not be modified, amended, or rescinded in any manner, except by written instrument signed by both of the parties hereto.

27. SEVERABILITY

27.1 In case any one or more of the provisions of this Agreement shall be held by any court of competent jurisdiction or another body to be illegal, invalid or unenforceable, such provision shall have no force and effect, but such holding shall not affect the legality, validity or enforceability of any other provision of this Agreement.

28. DISPUTE RESOLUTION

28.1 In the event that any dispute arises between the Employer and the Employee regarding or relating to this Agreement and/or any aspect of the Employee's employment, such disputes are subject to be resolved by negotiations. Where such disputes cannot be resolved through negotiations, they shall be submitted to the court.

29. FORCE MAJEURE

29.1 Neither Employer nor Employee shall be liable for any delay or failure in performance of any part of this Agreement to the extent that such delay or failure is caused by an event beyond its reasonable control including, but not be limited to, fire, flood, explosion, war, strike, embargo, government requirement, acts of civil or military authority, and acts of God not resulting from the negligence of the claiming party.

30. MISCELLANEOUS

30.1 All the exhibits to this Agreement are its integral parts and to be signed by the Employer and the Employee.

30.2 This Agreement shall be governed by the legislation of the Russian Federation. The content of Articles 19, 20 and 21 hereof are subject to interpretation, and the obligations determined by the above articles shall be regulated in accordance with the law/legislation applicable to the Corporation's activity and relationship between the Corporation and the Employee.

This Agreement has been signed in four (4) counterparts, two (2) of which are in Russian and two (2) in English. Each party shall receive one (1) counterpart in Russian and one (1) counterpart in English. If there is any discrepancy between the English and Russian texts, then the Russian text shall prevail.

EMPLOYER:	EMPLOYEE:
Petr Aven By Power of Attorney [Employer's Stamp]	Alexander Yakovlevich Vinogradov

EXHIBIT A

TO THE EMPLOYMENT AGREEMENT # GT 11/02 DATED OCTOBER 21, 2004

JOB RESPONSIBILITIES OF THE EMPLOYEE

Job Responsibilities of the Employee:

The Employee shall:

- conduct general and active management and control of the business and affairs of the Corporation and Representative Office and, in case of his appointment to positions in the executive bodies of other entities being members of the GTI group, of the business and affairs of such entities;

- make sure that all orders and resolutions of the management bodies (the Shareholders' Meeting, Board of Directors) of the Corporation and GTI are carried into effect;

- perform all duties incident to the office of President and fixed by the foundation documents of the Corporation and Representative Office and/or orders and resolutions of the management bodies of the Corporation and GTI, and all such other duties as may from time to time be assigned by the Board of Directors

EMPLOYER:	EMPLOYEE:
Petr Aven By Power of Attorney [Employer's Stamp]	Alexander Yakovlevich Vinogradov

EXHIBIT B

TO THE EMPLOYMENT AGREEMENT # GT 11/02 DATED OCTOBER 21, 2004

COMPENSATION

Compensation of the Employee includes the base salary, bonuses and other incentive payments indicated below.

1. EMPLOYEE BASE SALARY

1.1 The Employee shall be paid the base salary per month in an amount equivalent to US$ 33,333.33 (thirty three thousand three hundred thirty three dollars and thirty three cents) before taxes in accordance with the applicable law of the Russian Federation, and the base salary shall be paid in Ruble equivalent by the rate of the Central Bank of the Russian Federation on the day of payroll accrual. The above base salary shall be paid to the Employee beginning from the date when this Agreement entered into effect and continuing thereafter unless revised in accordance with the provisions hereof.

2. EMPLOYEE BONUS

In addition to the Employee' base salary in accordance with the resolution of the Board of Directors of the Corporation and GTI the Employer may pay to the Employee the Employee's performance-based incentive bonus (the "EMPLOYEE BONUS") in an amount equivalent to US$ 140,000 (one hundred and forty thousand dollars). The bonus shall be paid annually. The actual amount of the annual payment will depend on the results of overall performance of GTI, the performance of the Employee's business unit and on the achievement of personal objectives.

3. OTHER INCENTIVE PAYMENTS

3.1 GTI has adopted the Long Term Incentive Bonus Program (the "PROGRAM") for its employees and the employees of its business units, including the Corporation. Subject to the provisions of the Program the Corporation will allocate long term incentive amounts to the Employee in accordance with the terms of the Program.

3.2 In the event that the Agreement is terminated under sections 16.2 (expiry of term), 16.4 (Disability for Reasons of Total Disability), 16.6 (Termination by the Corporation's Management Body's Resolution) or 16.7 (Termination Due to Change of Control), then any incentive under the Program which has been allocated to the Employee but which has not vested shall fully vest as of the termination date of the Agreement.

(_____)____________ 2004

EMPLOYER:	EMPLOYEE:
____________________	____________________
Petr Aven By Power of Attorney [Employer's Stamp]	Alexander Yakovlevich Vinogradov

EXHIBIT C

TO THE EMPLOYMENT AGREEMENT # GT 11/02 DATED OCTOBER 21, 2004

LIST OF CONFIDENTIAL INFORMATION

1. Information related to the Employer's business activity, its employees, partners or affiliates or related to their business activity conditions, information on their contractors, any financial information, including forecasted financial results, information on employees, amount of their salaries and other remunerations to be paid, and also any information known, disclosed or available to the Employee in respect with the Employer, its employees, partners, contractors or affiliates.

2. All the correspondence, letters, facsimile messages, lists of employees and contractors, any documentation, translations, any information on electronic and magnetic medias, and also other documents and materials (including, but not limited with those created by the Employee in course of his employment activity with the Employer), related to the business activity of the Employer, its employees, partners, contractors and affiliates.

(_____)____________ 2004

EMPLOYER:	EMPLOYEE:
______________________________	______________________________
Petr Aven By Power of Attorney [Employer's Stamp]	Alexander Yakovlevich Vinogradov

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EXHIBIT 10.6

GOLDEN TELECOM GROUP INC.
EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and entered into as of the first day of March, 2004, by and between Golden Telecom Group, Inc., a Delaware corporation (the "Corporation"), and Mr. Michal Cupa, an adult citizen of the Czech Republic (the "Employee").

WHEREAS, the Corporation is a wholly-owned subsidiary of Golden Telecom, Inc. ("GTI");

WHEREAS, the Employee is has substantial experience in telecommunications operations;

WHEREAS, the Corporation desires to employ the Employee and the Employee desires to be employed by the Corporation, subject to the terms and provisions of this employment agreement (the "Agreement");

NOW THEREFORE, the Corporation and Employee mutually agree as follows:

1. EMPLOYMENT.

(a) The Corporation hereby employs the Employee, and the Employee hereby accepts employment, on the terms and conditions set forth herein.

(c) The Employee shall initially be given the position of Chief Operating Officer and seconded to one or more of the Corporation's affiliates, based in Moscow, but may from time to time be given such title or be requested to perform such duties and exercise such power and authority commensurate with the Employee's position as may be delegated to the Employee by the Employee's supervisors, the Chief Executive Officer or the Board of Directors of the Corporation.

(d) The Employee shall devote all necessary business time and attention, and employ Employee's best efforts, toward the fulfillment and execution of all assigned duties, and the satisfaction of defined annual and/or longer-term performance criteria.

2. TERM.

(a) The terms of this Agreement are effective as of the first day of March, 2004, and shall continue unless terminated in accordance with section 9 herein.

(b) The Corporation reserves the right to pay the Employee in lieu of any period of notice.

(c) Further, the Corporation reserves the right to require the Employee not to attend the Corporation's premises or the premises of the Employee's business unit or to provide the Employee with alternative work of a broadly similar nature to the work the Employee normally performs, during any period of suspension or whilst the Employee is under notice of termination (served either by the Corporation or the Employee) provided that the Employee continues to be paid the salary and benefits to which the Employee is entitled under this Agreement and further provided that the period of any such requirement does not exceed six months.

3. COMPENSATION.

(a) For the purposes of this Agreement, “Salary” shall mean all payments by the Corporation to the Employee pursuant to this section 3.

(b) Commencing on the date hereof and continuing thereafter unless adjusted as set forth herein, the Employee shall be paid an annual Salary of Three Hundred Thousand United States dollars (US$300,000), payable in accordance with the Corporation’s customary payroll practices for Employees.

(c) On an annual basis the Corporation shall review the salary of the Employee and shall consider, based upon the Employee’s performance and the Corporation’s financial position, potential increases to the Employee’s Salary as the Corporation shall, in its sole and absolute discretion, deem appropriate.

(d) The Employee shall receive a one-time signing bonus in the amount of Eight Thousand Seven Hundred and Fifty United States dollars (US$8,750).

4. BONUS. Subject to the terms and conditions of the Golden Telecom Group, Inc. Incentive Bonus Plan for Senior Management (“Bonus Plan”), attached hereto as Annex A and forming an integral part hereof, the Corporation shall pay to the Employee performance-based, incentive compensation (“Bonus”) in the amount of One Hundred and Five Thousand United States dollars (US$105,000) per year.

5. BENEFITS.

(a) During the Term of this Agreement, Employee shall be entitled to receive such benefits and to participate in such employee group benefit plans, including life, property, health and disability insurance, dental and medical coverage policies as are generally provided by the Corporation to its employees of comparable level and responsibility in accordance with the plans, practices and programs of the Corporation (“Benefits”).

(b) During the Term of this Agreement, the Corporation shall pay the reasonable school fees for the Employee’s eligible children in accordance with the policies and practices of the Corporation.

(c) On Termination of the Agreement under Sections 9 hereof the Corporation shall provide the Employee with reimbursement (i) for the lesser of the cost of a one-way business class airline ticket for the Employee and his immediate family from his place of secondment to his place of relocation or his domicile in the Czech Republic and (ii) for the lesser of moving the Employee’s household goods from his place of secondment to his place of relocation or his domicile in the Czech Republic.

(d) During the Term of this Agreement and for the tax reporting year twelve months after the termination of this Agreement, the Corporation shall provide, consistent with its internal policies applied throughout the Company, professional accounting assistance in the preparation of the Employee’s tax declarations in Russia and in the Employee’s country of citizenship, to the extent required and requested by the Employee.

6. EXPENSE REIMBURSEMENT. During the term of employment, the Corporation shall reimburse the Employee for all reasonable and necessary expenses incurred by the Employee in connection with the

performance of Employee's duties as an employee of the Corporation. Such reimbursement is subject to the submission to the Corporation by the Employee of appropriate documentation and/or vouchers in accordance with the customary procedures of the Corporation for expense reimbursement, as such procedures may be revised by the Corporation from time to time hereafter.

7. VACATION. During each of the Corporation's fiscal years during the term of employment, Employee shall be entitled to vacation in accordance with the Corporation's practice, which currently totals four (4) weeks maximum, calculated on the basis of one week for each three months of service. Vacation days will be administered in accordance with company policy and will not carry-over or accumulate from year to year without the prior written consent of the Director, Human Resources.

8. TAXATION POLICY The treatment of the Employee's personal taxation by the Corporation shall be governed by the Golden Telecom Group, Inc. Expatriate Taxation Policy attached hereto as Annex B and forming an integral part hereof.

9. TERMINATION.

(a) The Corporation shall have "Cause" to terminate Employee's employment hereunder upon Employee's:

(i) failure to follow a legal order of the Employee's supervisor, Board or the Chief Executive Officer of the Corporation, other than any such failure resulting from Employee's disability, after notice and reasonable opportunity for cure,

(ii) fraud, embezzlement, or any other similar illegal act committed by the Employee in connection with the Employee's duties as an employee of the Corporation or any subsidiary or affiliate or parent, direct or indirect, of the Corporation,

(iii) conviction of any felony or crime involving moral turpitude which causes or may reasonably be expected to cause substantial economic injury to or substantial injury to the reputation of the Corporation or any subsidiary or affiliate or parent, direct or indirect, of the Corporation,

(iv) willful or grossly negligent commission of any other act which causes or may reasonably be expected (as of the time of such occurrence) to cause substantial economic injury to or substantial injury to the reputation of the Corporation or any subsidiary or affiliate or parent, direct or indirect, of the Corporation, including, without limitation, any material violation of the Foreign Corrupt Practices Act, as described herein below.

(b) Termination by Reason of Total Disability. Notwithstanding anything to the contrary in this Agreement, the Corporation shall at all times have the right to terminate this Agreement and the employment of the Employee immediately by delivering written notice to the Employee if the Employee experiences a Total Disability. For the purpose of this Agreement, the term "Total Disability" means any mental or physical illness, condition, disability or incapacity that:

(i) prevents the Employee from discharging essential job responsibilities and employment duties;

(ii) shall be attested to in writing by a physician or a group of physicians acceptable to the Corporation; and

(iii) continues for period of 90 consecutive days in any twelve (12) month period.

A Total Disability shall be deemed to have occurred on the last day of such applicable 90-day period, and shall be determined in accordance with applicable law relating to disability.

(c) Termination by Reason of Death. This Agreement shall terminate immediately upon the death of the Employee.

(d) Voluntary Resignation. The Employee may terminate the Agreement at any time by giving ninety (90) days' prior written notice to the Corporation (the "Employee's Notice Period"). Upon receipt of such notice to the Corporation, the Corporation, in its sole and absolute discretion, may either continue to employ the Employee during all or part of the Employee's Notice Period, or may continue to pay the Employee's Salary and continue Benefits during the Employee's Notice Period in lieu of continued employment.

(e) Termination Without Cause. The Corporation may terminate the Employee's employment at any time, for any reason, by providing Employee with ninety (90) days prior written notice (the "Corporation's Notice Period") of pending termination. Upon providing such notice to the Employee, the Corporation, in its sole and absolute discretion, may either continue to employ the Employee during all or part of the Corporation's Notice Period, or may continue to pay the Employee's Salary and continue Benefits during the Corporation's Notice Period in lieu of continued employment.

10. PAYMENTS UPON TERMINATION.

(a) Payment. Except as specifically set forth herein, all payments to be made under the terms of this section may be made, in the Corporation's sole and absolute discretion, either in one payment at the beginning of the termination period or in installments over the term of the period covered by the payments, paid in accordance with the Corporation's customary payroll practices.

(b) Termination For Cause. In the event that the Employee's employment under this Agreement is terminated for Cause, the Corporation shall have no obligation to pay the Salary or provide any other compensation or Benefits provided under this Agreement to, or for the benefit of, Employee for any period after the date of such termination, or to pay any Bonus for the fiscal year in which such termination occurs; provided, however, that the Corporation shall promptly pay (i) all Salary earned by the Employee prior to the date of such termination, (ii) any Benefits under any plans of the Corporation in which the Employee is a participant to the full extent of the Employee's rights under such plans prior to termination, and (iii) reimbursement of any appropriate business and/or entertainment expenses incurred by the Employee prior to termination and properly submitted to the Corporation.

(c) Termination by Reason of Total Disability. In the event that the Employee's employment under this Agreement is terminated by reason of Total Disability, the Corporation shall have no obligation to pay the Salary provided under this Agreement to or for the benefit of the Employee for any period after the date of such termination; provided, however, that the Corporation shall promptly pay to the Employee (i) all Salary earned by the Employee prior to the date of such termination, (ii) the pro rata share of any Bonus for the fiscal year in which the total disability occurred, (iii) any Benefits under any plans of the Corporation in which the Employee is a participant to the full extent of the Employee's rights under such plans, and (iv) reimbursement of appropriate business and/or entertainment expenses incurred by the Employee prior to such termination and properly submitted to the Corporation, each such item to be paid to the date of such termination with the exception of disability benefits, which shall continue to be paid from the Corporation's insured or self-insured long-term disability plan, as the case may be, for the period specified in such plan. In the event there is a period of time during which the Employee is not being paid Salary and not receiving long-term disability payments for any reason, and conditioned upon the Employee or Employee's representative immediately notifying the Corporation in writing, the Compensation Committee shall make all necessary inquiries and shall decide in its sole and absolute discretion whether the Corporation shall make interim payments to the Employee until the commencement of payments under the long-term disability plan.

(d) Termination by Reason of Death. If Employee dies during Employee's employment pursuant to this Agreement, the Corporation shall have no obligation to pay the Salary provided under this Agreement to or for the benefit of the Employee for any period after the date of the Employee's death; provided, however, that the Corporation shall promptly pay to the Employee's designated beneficiary, to the degree earned but not paid prior to the date of the Employee's death: (i) all Salary; (ii) the pro rata share of any Bonus for the fiscal year in which the death occurred; (iii) any Benefits under any plans of the Corporation in which the Employee is a participant to the full extent of the Employee's rights under such plans, and (iv) reimbursement of any appropriate business and/or entertainment expenses incurred by the Employee and properly submitted.

(e) Voluntary Resignation. In the event that the Employee resigns voluntarily from Employee's employment with the Corporation, the Corporation shall have no obligation to pay the Salary provided under this Agreement to or for the benefit of the Employee for any period after the end of the expiration of Employee's Notice Period, or after the termination date if the Corporation elects to terminate the employee and actually makes payments in lieu of employment during the Employee's Notice Period; provided, however, that the Corporation shall promptly pay upon termination (i) all Salary earned by the Employee prior to the expiration of the Employee's Notice Period and (ii) the pro rata share of all Bonuses for the fiscal year in which the resignation occurred; and (iii) any Benefits under any plans of the Corporation in which the Employee is a participant to the full extent of the Employee's rights under such plans prior to the expiration of the Employee's Notice Period, provided, however, that such Benefits shall cease upon Employee's receipt of comparable benefits under, or coverage under, any plans provided by a new employer; and (iv) reimbursement of any appropriate business and/or entertainment expenses incurred by the Employee through the end of said notice period and properly submitted.

(f) Termination Without Cause. In the event the Corporation terminates this Agreement and the Employee's employment without Cause:

(i) the Corporation shall promptly pay or provide to the Employee, to the extent earned prior to the date of such termination: (A) all Salary; (B) the pro rata share of all Bonuses for the fiscal year in which the termination occurred; (C) any Benefits under any plans of the Corporation in which the Employee is a participant to the full extent of the Employee's rights under such plans prior to termination, except as noted in section 10(f)(ii)(B) below; and (D) reimbursement of any appropriate business and/or entertainment expenses incurred by the Employee prior to such termination and properly submitted to the Corporation;

(ii) subject to the Corporation's receipt from the employee of a general release in its customary form, the Corporation shall also promptly pay to the Employee:

(A) an amount equal to the Employee's Salary at its then-current rate for a period equal to six (6) months, plus any amount to be paid to Employee as a cash payout of Salary due to Employee for that portion of the Corporation's Notice Period that the Corporation shall elect to pay out pursuant to Section 10(e) hereof;

(B) the cost of continuing all medical, dental, 401(k) plans or retirement Benefits during the period determined in accordance with Section 10(f)(ii)(A) above; provided, however, that such Benefits shall cease upon Employee's receipt of comparable benefits under, or coverage under, any plans provided by a new employer.

11. COVENANTS OF THE EMPLOYEE. In order to induce the Corporation to enter into this Agreement and employ the Employee, the Employee hereby covenants and agrees as follows:

(a) During the term of this Agreement, and for a period equal to three (3) months thereafter, the Employee shall not, without the prior written consent of the Corporation, directly or indirectly through any other person or entity, own, acquire in any manner any ownership interest in (except purely passive investments amounting to no more than five percent (5%) of the voting equity), or serve as a director, officer, employee, counsel or consultant of any person, firm, partnership, corporation, consortium, association or other entity that competes with the Corporation or any of its direct or indirect affiliates, parents, or subsidiaries, in any geographic market in which the Corporation or its direct or indirect affiliates, or subsidiaries, either (A) offers or provides telecommunications services to customers; (B) operates or manages a provider of telecommunications services; (C) has investments in a provider of telecommunications services; or (D), to the Employee's knowledge, has plans to either operate a telecommunications carrier, offer a telecommunications service, or invest in a telecommunications carrier within such three (3) month period;

(b) During the term of this Agreement, and for a period of twelve (12) months thereafter, the Employee shall not, without the prior written consent of the Corporation, directly or indirectly through any other person or entity:

(i) solicit, entice, persuade or induce any individual who is at any time during the term of this Agreement, an officer, director or employee of the Corporation, or any of its subsidiaries or affiliates or parents, direct or indirect, to terminate or refrain from renewing or extending such person's employment with the Corporation or such subsidiary or affiliate or parent, direct or indirect, or to become employed by, enter into contractual relations with, or become consultant to any other individual or entity, and the Employee shall not approach any such employee for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity; or

(ii) except in accordance with the Employee's duties on behalf of the Corporation, solicit, entice, persuade, or induce any individual or entity which currently is, or at any time during the term of this Agreement shall be, a customer, consultant, vendor, supplier, lessor or lessee of the Corporation, or any of its subsidiaries or affiliates or parents, direct or indirect, to terminate or refrain from renewing or extending its contractual or other relationship with the Corporation or such subsidiary or affiliate or parent, direct or indirect, and the Employee shall not approach any such customer, vendor, supplier, consultant, lessor or lessee for such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity.

(c) The Employee shall not at any time during or after the term of this Agreement:

(i) other than when required in the ordinary course of business of the Corporation, disclose, directly or indirectly, to any person, firm, corporation, partnership, association or other entity, any trade secret, or confidential information concerning the financial condition, suppliers, vendors, customers, lessors, or lessees, sources or leads for, and methods of obtaining, new business, or the methods generally of doing and operating the respective businesses of the Corporation or its affiliates and subsidiaries and parents, direct or indirect, to the degree such secret or information incorporates information that is proprietary to, or was developed specifically by or for, the Corporation, except such information that is a matter of public knowledge, was provided to the Employee (without breach of any obligation of confidence owed to the Corporation) by a third party that is not a subsidiary or affiliate or parent, direct or indirect, of the Corporation, or is required to be disclosed by law or judicial or administrative process; or

(ii) make any oral or written statement about the Corporation and/or its financial status, business, compliance with laws, personnel, directors, officers, consultants, services, business methods or otherwise, which are intended or reasonably likely to disparage the Corporation or otherwise degrade its reputation in the business or legal community in which it operates or in the telecommunications industry.

(d) Employee hereby represents that (i) Employee is not restricted in any material way from performing Employee’s duties hereunder as the result of any contract, agreement or law; and (ii) Employee’s due performance of Employee’s duties hereunder does not and will not violate the terms of any Agreement to which Employee is bound.

12. FOREIGN CORRUPT PRACTICES ACT. The Employee agrees to comply in all material respects with the applicable provisions of the U.S. Foreign Corrupt Practices Act of 1977 (“FCPA”), as amended, which provides generally that under no circumstances will foreign officials, representatives, political parties or holders of public offices be offered, promised or paid any money, remuneration, things of value, or provided any other benefit, direct or indirect, in connection with obtaining or maintaining contracts or orders hereunder. When any representative, employee, agent, or other individual or organization associated with Employee is required to perform any obligation related to or in connection with this Agreement, the substance of this section shall be imposed upon such person and included in any agreement between Employee and any such person. Failure by the Employee to comply in all respects with the provisions of the FCPA shall constitute a material breach of this Agreement and shall entitle the Corporation to terminate this Agreement immediately upon such failure to comply. Additionally, Employee hereby acknowledges that Employee has read the GTI Business Practices Training Program,” a copy of which has been provided to Employee. Employee also acknowledges that a condition precedent to the effectiveness of this Agreement shall be the execution by Employee of the “Employee FCPA Certification,” a copy of which has been provided to Employee. Additionally, and as a condition for the Corporation to continue this Agreement, Employee may be required from time to time at the request of the Corporation to execute a certificate of Employee’s compliance with the aforementioned laws and regulations.

13. PURCHASES AND SALES OF THE CORPORATION’S SECURITIES. The Employee has read, and agrees to comply in all respects, with GTI’s Legal Policy No. 1: Policy and Procedures for Directors, Officers and Employees of Golden Telecom, Inc. and its Affiliates on Insider Trading and Tipping and Legal Advisory Memorandum No. 1A, as such policies may be amended from time to time. Specifically, and without limitation, Employee agrees that Employee shall not purchase or sell stock in GTI or any of its subsidiaries, affiliates or parents, direct or indirect, at any time (i) that Employee possesses material non-public information about GTI or any of its businesses; and (ii) during any “Trading Blackout Period” as may be determined by GTI, as set forth in Legal Policy No. 1 and Legal Policy No. 1A from time to time.

14. NO DELEGATION. The Employee shall not delegate Employee's employment obligations under this Agreement to any other person.

15. NOTICES. Any written notice required by this Agreement will be deemed provided and delivered to the intended recipient when (i) delivered in person by hand; or (ii) three days after being sent via U.S. certified mail, return receipt requested; or (iii) the day after being sent via by overnight courier, in each case when such notice is properly addressed to the following address and with all postage and similar fees having been paid in advance:

If to the Corporation:	Golden Telecom Group, Inc. c/o Golden Telecom, Inc. Attn: Director Human Resources
Copy:	General Counsel 4400 MacArthur Boulevard, N.W., Suite 200 Washington, D.C. 20007
If to the Employee:	Michal Cupa c/o Golden TeleServices Inc. 1 Kozhevnichesky proezd 2nd Floor Moscow 115114 Russian Federation

Either party may change the address to which notices, requests, demands and other communications to such party shall be delivered personally or mailed by giving written notice to the other party in the manner described above.

16. BINDING EFFECT. This Agreement shall be for the benefit of and binding upon the parties hereto and their respective heirs, personal representatives, legal representatives, successors and, where applicable, assigns.

17. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the listed parties with respect to the subject matter described in this Agreement and supersedes all prior agreements, understandings and arrangements, both oral and written, between the parties with respect to such subject matter. This Agreement may not be modified, amended, altered or rescinded in any manner, except by written instrument signed by both of the parties hereto; provided, however, that the waiver by either party of a breach or compliance with any provision of this Agreement shall not operate nor be construed as a waiver of any subsequent breach or compliance.

18. SEVERABILITY. In case any one or more of the provisions of this Agreement shall be held by any court of competent jurisdiction or any arbitrator selected in accordance with the terms hereof to be illegal, invalid or unenforceable in any respect, such provision shall have no force and effect, but such holding shall not affect the legality, validity or enforceability of any other provision of this Agreement provided that the provisions held illegal, invalid or unenforceable do not reflect or manifest a fundamental benefit bargained for by a party hereto.

19. DISPUTE RESOLUTION AND ARBITRATION. In the event that any dispute arises between the Corporation and the Employee regarding or relating to this Agreement and/or any aspect of Employee's employment relationship with the Corporation, AND IN LIEU OF LITIGATION AND A TRIAL BY JURY, the parties consent to resolve such dispute through mandatory arbitration under the Commercial Rules of the American Arbitration Association ("AAA"), before a single arbitrator in Arlington, Virginia or other location mutually acceptable to the Executive and the Corporation. The parties hereby consent to the entry of judgment upon award rendered by the arbitrator in any court of competent jurisdiction. Notwithstanding the foregoing, however, should adequate grounds exist for seeking immediate injunctive or immediate equitable relief, any party may seek and obtain such relief; provided that, upon obtaining such relief, such injunctive or equitable action shall be stayed pending the resolution of the arbitration proceedings called for herein. The parties hereby consent to the exclusive jurisdiction in the state and Federal courts of or in the Commonwealth of Virginia for purposes of seeking such injunctive or equitable relief as set forth above.

20. CHOICE OF LAW. The Employee and the Corporation intend and hereby acknowledge that jurisdiction over disputes with regard to this Agreement, and over all aspects of the relationship between the parties hereto, shall be governed by the laws of the Commonwealth of Virginia without giving effect to its rules for resolving conflicts of laws.

21. SECTION HEADINGS. The section headings contained in this Agreement are for reference purposes only and shall not affect in any manner the meaning or interpretation of this Agreement.

22. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

23. FORCE MAJEURE. Neither Corporation nor Employee shall be liable for any delay or failure in performance of any part of this Agreement to the extent that such delay or failure is caused by an event beyond its reasonable control including, but not be limited to, fire, flood, explosion, war, strike, embargo, government requirement, acts of civil or military authority, and acts of God not resulting from the negligence of the claiming party.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties to this Agreement have executed and delivered this Agreement.

GOLDEN TELECOM GROUP, INC.

By: ______________________________

Name: Alexander Vinogradov
Title: Chief Executive Officer

EMPLOYEE

____

Name: Michal Cupa
Date: April 15, 2004

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EXHIBIT 10.7

Derek Bloom

Derek Bloom is employed by the Company as Senior Vice President, General Counsel and Corporate Secretary, however, his employment agreement is currently being negotiated. By offer letter (the "Bloom Offer Letter"), Mr. Bloom was offered an annual base salary of $300,000 and an annual target bonus of $105,000. Mr. Bloom is eligible to participate in the Company's Long Term Incentive Bonus Plan ("LTIBP"), the details of which are currently being developed, however, under the Bloom Offer Letter, Mr. Bloom has been offered 5,500 restricted shares of the Company's stock, with a three-year vesting period.

Under the terms of the Bloom Offer Letter, Mr. Bloom is entitled to life insurance with a value up to $1 million and disability insurance with a value up to 60% of his annual base salary. The Company will match up to 50% of Mr. Bloom's maximum allowed contribution under the US Internal Revenue Code in a Company sponsored 401(k) plan. Upon termination of Mr. Bloom's employment, he is entitled to reasonable relocation costs to his place of residence in the US.

The Bloom Offer Letter also states that Mr. Bloom's employment agreement shall include a change of control clause such that in the event of a change of control in the Company, Mr. Bloom shall receive a payment equal to two times his annual salary.

During his employment with the Company, the Company will reimburse Mr. Bloom for all Russian tax obligations to which he may be subject. Further, Mr. Bloom will retain the actual and economic benefit of the Foreign Earned Income Exclusion (currently $80,000), and the Company will reimburse the difference representing the amount of Russian tax that he will not be able to credit or deduct for US tax purposes.

Brian Rich

Brian Rich is employed by the Company as Senior Vice President and Chief Financial Officer, however, his employment agreement is currently being negotiated. By offer letter (the "Rich Offer Letter"), Mr. Rich was offered an annual base salary of $300,000, which has been increased to $318,000, and an annual target bonus of $105,000. Mr. Rich is eligible to participate in the LTIBP, the details of which are currently being developed, however, under the Rich Offer Letter, Mr. Rich has been offered 5,500 restricted shares of the Company's stock, with a three-year vesting period.

Under the terms of the Rich Offer Letter, Mr. Rich is entitled to life insurance with a value up to $1 million and disability insurance with a value up to 60% of his annual base salary. The Company will match up to 50% of Mr. Rich's maximum allowed contribution under the US Internal Revenue Code in a Company sponsored 401(k) plan. Mr. Rich was also offered reimbursement of certain costs, including brokerage fees and closing documentation associated with the sale of his house in the US, up to a maximum value of $55,000. Upon termination of Mr. Rich's employment, he is entitled to reasonable relocation costs to his place of residence in the US.

The Rich Offer Letter also states that Mr. Rich's employment agreement shall include a change of control clause such that in the event of a change of control in the Company, Mr. Rich shall receive a payment equal to two times his annual salary.

During his employment with the Company, the Company will reimburse Mr. Rich for all Russian tax obligations to which he may be subject. Further, Mr. Rich will retain the actual and economic benefit of the Foreign Earned Income Exclusion (currently $80,000), and the Company will reimburse the difference representing the amount of Russian tax that he will not be able to credit or deduct for US tax purposes.

Oleg Malis

Mr. Malis is employed by the Company as Senior Vice President and Director of Mergers and Acquisitions. Mr. Malis is paid an annual salary of $230,000 and has an annual target bonus of $83,000.

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EXHIBIT 10.8

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, dated {{Date}} is made by and between Golden Telecom, Inc., a Delaware corporation ("Company") and {{Name}} {{Family_Name}}, an employee of the Company or a Subsidiary of the Company ("Optionee"):

WHEREAS, the Company wishes to afford the Optionee the opportunity to purchase shares of its $.01 par value Common Stock; and

WHEREAS, the Company wishes to carry out the Plan (the terms of which are hereby incorporated by reference and made a part of this Agreement); and

WHEREAS, the Committee, appointed to administer the Plan, has determined that it would be to the advantage and best interest of the Company and its shareholders to grant the Non-Qualified Option provided for herein to the Optionee as an inducement to enter into or remain in the service of the Company or its Subsidiaries and as an incentive for increased efforts during such service, and has advised the Company thereof and instructed the undersigned officers to issue said Option;

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, receipt of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I.

DEFINITIONS

Whenever the following terms are used in this Agreement, they shall have the meaning specified below unless the context clearly indicates to the contrary. The masculine pronoun shall include the feminine and neuter, and the singular the plural, where the context so indicates. All capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Plan.

Section 1.1. - Change in Control

"Change in Control" shall mean:

(a) the dissolution or liquidation of the Company and its Subsidiaries,

(b) a merger, consolidation or reorganization of the Company and its Subsidiaries with one or more other corporations (other than a parent, Subsidiary, or Affiliate of the Company) in which the Company is not the surviving corporation,

(c) a sale of all or substantially all of the assets of the Company to another corporation (other than a parent, Subsidiary or Affiliate of the Company), or

(d) any transaction (including, without limitation, a merger or reorganization in which the Company is the surviving corporation) approved by the Board which results in any person or entity (other than a parent, Subsidiary or Affiliate of the Company) owning more than 50% of the combined voting power of all classes of stock of the Company.

Section 1.2 - Option

"Option" shall mean the non-qualified option to purchase Common Stock of the Company granted under this Agreement.

Section 1.3 - Plan

"Plan" shall mean The 1999 Equity Participation Plan of Golden Telecom, Inc.

Section 1.4 - Secretary

"Secretary" shall mean the Secretary of the Company or such person's designee.

Section 1.5 - Termination of Employment

"Termination of Employment" shall mean the time when the employee-employer relationship between the Optionee and the Company or any Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death, disability or retirement; but excluding (i) terminations where there is a simultaneous reemployment or continuing employment of the Optionee by the Company or any Subsidiary, (ii) at the discretion of the Committee, terminations which result in a temporary severance of the employee-employer relationship, and (iii) at the discretion of the Committee, terminations which are followed by the simultaneous establishment of a consulting relationship by the Company or a Subsidiary with the former employee. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for good cause, and all questions of whether particular leaves of absence constitute Terminations of Employment. Notwithstanding any other provision of this Agreement or of the Plan, the Company or any Subsidiary has an absolute and unrestricted right to terminate the Optionee's employment at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in writing.

ARTICLE II.

GRANT OF OPTION

Section 2.1. - Grant of Option

In consideration of the Optionee's agreement to remain in the employ of the Company or its Subsidiaries and for other good and valuable consideration, on the date hereof the Company irrevocably grants to the Optionee the option to purchase any part or all of an aggregate of {{Stock_wording}} thousand ({{number_of_Stock_Options}}) shares of its $.01 par value Common Stock upon the terms and conditions set forth in this Agreement.

Section 2.2. - Purchase Price

The purchase price of the shares of stock covered by the Option shall be {{Stock_price}} per share without commission or other charge.

Section 2.3. - Adjustments in Option

The Committee shall make adjustments with respect to the Option in accordance with the provisions of Section 9.3 of the Plan.

ARTICLE III.

PERIOD OF EXERCISABILITY

Section 3.1. — Commencement of Exercisability

(a) Subject to subsections (b) and (c) and Section 5.6, one-third of each Option shall vest and become exercisable on the first anniversary of the date of the Option grant, and 1/36 of each Option shall vest and become exercisable on each monthly anniversary of the date of grant thereafter, subject to the Optionee's continuous employment.

(b) No portion of the Option, which is unexercisable at Termination of Employment, shall thereafter become exercisable.

(c) Notwithstanding the provisions of Section 3.1(a) and in accordance with Sections 9.3(b)(vii) and 9.3(b)(iii) of the Plan, the Option shall vest in full and become exercisable upon a Change of Control until expiration of the Option in accordance with Section 3.3 hereof.

Section 3.2. - Duration of Exercisability

The installments provided for in Section 3.1 are cumulative. Each such installment which becomes exercisable pursuant to Section 3.1 shall remain exercisable until it becomes unexercisable under Section 3.3.

Section 3.3. - Expiration of Option

The Option may not be exercised to any extent by anyone after the first to occur of the following events:

(a) The expiration of ten years from the date the Option was granted; or

(b) The expiration of eighteen months from the date of the Optionee's Termination of Employment other than by reason of Optionee's disability or death, unless the Optionee dies within such period, or by reason of Optionee's Termination of Employment for cause; or

(c) The expiration of one year from the date of the Optionee's Termination of Employment by reason of Optionee's disability; or

(d) The expiration of one year from the date of the Optionee's death; or

(e) The expiration of three months from the date of the Optionee's Termination of Employment for Cause.

ARTICLE IV.

EXERCISE OF OPTION

Section 4.1. - Person Eligible to Exercise

During the lifetime of the Optionee, only Optionee (or Optionee's transferee pursuant to Section 5.2(b)) may exercise the Option or any portion thereof. After the death of the Optionee, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.3, be exercised by Optionee's personal representative or by any person empowered to do so under the deceased Optionee's will or under the then applicable laws of descent and distribution.

Section 4.2. - Partial Exercise

Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part at any time prior to the time when the Option or portion thereof becomes unexercisable under Section 3.3; provided, however, that each partial exercise shall be for not less than 10 shares (or the minimum installment set forth in Section 3.1, if a smaller number of shares) and shall be for whole shares only.

Section 4.3. - Manner of Exercise

The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Company of all of the following prior to the time when the Option or such portion becomes unexercisable under Section 3.3:

(a) A written notice complying with the applicable rules established by the Committee stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Optionee or other person then entitled to exercise the Option or such portion; and

(b) Full payment for the shares with respect to which the Option, or portion thereof, is exercised:

(i) in cash or cash equivalents;

(ii) through the delivery of shares of Common Stock which have been owned by the Optionee for at least six months, duly endorsed for transfer to the Company with a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof;

(iii) by delivering a written direction to the Company that the Option be exercised pursuant to a "cashless" exercise/sale procedure through a licensed broker acceptable to the Company whereby the stock certificate or certificates for the shares for which the Option is exercised will be delivered to such broker as the agent for the person exercising the Option and the broker will deliver to the Company cash (or cash equivalents acceptable to the Company) equal to the option price for the Shares purchased pursuant to the exercise of the Option, plus the amount (if any) of Federal and other taxes that the Company may, in its judgment, be required to withhold with respect to the exercise of the Option; or

(iv) by a combination of the methods described in (i), (ii) and (iii).

(c) A bona fide written representation and agreement, in a form satisfactory to the Committee, signed by the Optionee or other person then entitled to exercise such Option or portion, stating that the shares of stock are being acquired for such person's own account, for investment and without any present intention of distributing or reselling said shares or any of them except as may be permitted under the Securities Act and then applicable rules and regulations thereunder, and that the Optionee or other person then entitled to exercise such Option or portion will indemnify the Company against and hold it free and harmless from any loss, damage, expense or liability resulting to the Company if any sale or distribution of the shares by such person is contrary to the representation and agreement referred to above. The Committee may, in its absolute discretion, take whatever additional actions it deems appropriate to insure the observance and performance of such representation and agreement and to effect compliance with the Securities Act and any other federal or state securities laws or regulations. Without limiting the generality of the foregoing, the Committee may require an opinion of counsel acceptable to it to the effect that any subsequent transfer of shares acquired on an Option exercise does not violate the Securities Act, and may issue stop-transfer orders covering such shares. Share certificates evidencing stock issued on exercise of this Option shall bear an appropriate legend referring to the provisions of this subsection (c) and the agreements herein. The written representation and agreement referred to in the first sentence of this subsection (c) shall, however, not be required if the shares to be issued pursuant to such exercise have been registered under the Securities Act, and such registration is then effective in respect of such shares; and

(d) In the event the Option or portion shall be exercised pursuant to Section 4.1 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option.

Section 4.4. - Tax Withholding

No later than the date as of which an amount first becomes includable in the gross income of the Optionee for applicable income tax purposes with respect to any Option, the Optionee shall pay to the Company or make arrangements satisfactory to the Committee regarding the payment of any federal, state or local (or applicable foreign) taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, the minimum required withholding obligations may be settled with Common Stock (held with no restrictions), including Common Stock that is part of the Option that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional upon such payment or arrangements and the Company shall to the extent permitted by law have the right to deduct any such taxes from any payment of any kind otherwise due to the Optionee.

Section 4.5. - Conditions to Issuance of Stock Certificates

The shares of stock deliverable upon the exercise of the Option, or any portion thereof, may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of stock purchased upon the exercise of the Option or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; and

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The receipt by the Company of full payment for such shares, including payment of all amounts which, under federal, state or local (or applicable foreign) tax law, the Company (or other employer corporation) is required to withhold upon exercise of the Option; and

(e) The lapse of such reasonable period of time following the exercise of the Option as the Committee may from time to time establish for reasons of administrative convenience.

Section 4.6. - Rights as Shareholder

The holder of the Option shall not be, nor have any of the rights or privileges of, a shareholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates representing such shares shall have been issued by the Company to such holder.

ARTICLE V.

OTHER PROVISIONS

Section 5.1. - Administration

The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Optionee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or the Option. In its absolute discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement except with respect to matters which under Rule 16b-3 or Section 162 (m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee.

Section 5.2. - Option Not Transferable

(a) Neither the Option nor any interest or right therein or part thereof shall be sold, pledged, assigned, or transferred in any manner other than by will or the laws of descent and distribution, unless and until such Option has been exercised, or the shares underlying such Option have been issued, and all restrictions applicable to such shares have lapsed. Neither the Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Optionee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

(b) Notwithstanding the foregoing, the Administrator, in its sole discretion, may permit Optionee upon Optionee's written request to transfer the Option to a member of the Optionee's immediate family, as defined in Rule 16a-1 under the Exchange Act, or to a trust for the exclusive benefit of, or any other entity owned solely by, such members, provided that, such transfer must be in writing, by gift, and without the receipt of any consideration and provided further, that an Option that has been so transferred shall continue to be subject to all of the terms and conditions of this Agreement as applicable to the original Optionee, and the transferee shall execute any and all such documents requested by the Administrator in connection with the transfer, including without limitation such documents needed to evidence the transfer and to satisfy any requirements for an exemption for the transfer under applicable federal and state securities laws.

Section 5.3. - Shares to Be Reserved

The Company shall at all times during the term of the Option reserve and keep available such number of shares of stock as will be sufficient to satisfy the requirements of this Agreement.

Section 5.4. - Notices

Any notice to be given under the terms of this Award Agreement will be deemed provided and delivered to the intended recipient when (i) delivered in person by hand; or (ii) three days after being sent via U.S. certified mail, return receipt requested; or (iii) the day after being sent via overnight courier, in each case provided such notice is properly addressed to the following address and enclosed in a properly sealed envelope or wrapper, and with all postage and similar fees having been paid in advance:

If to the Company: Golden Telecom, Inc.
Attn: Director, Human Resources
2831 29th Street,
Washington, D.C. 20008 USA

And if to the Optionee: To the address given beneath Optionee's signature hereto.

By a notice given pursuant to this Section 5.4, either party may hereafter designate a different address for notices to be given. Any notice which is required to be given to the Optionee shall, if the Optionee is then deceased, be given to the Optionee's personal representative if such representative has previously informed the Company of representative's status and address by written notice under this Section 5.4.

Section 5.5. - Titles

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

Section 5.6. - Shareholder Approval

The Plan will be submitted for approval by the Company's shareholders within twelve (12) months after the date the Plan was initially adopted by the Board. This Option may not be exercised to any extent by anyone prior to the time when the Plan is approved by the shareholders, and if such approval has not been obtained by the end of said twelve-month period, this Option shall thereupon be cancelled and become null and void.

Section 5.7. - Construction

This Agreement shall be administered, interpreted and enforced under the internal laws of the State of Delaware without regard to conflicts of laws thereof.

Section 5.8. - Conformity to Securities Laws

The Optionee acknowledges that the Plan is intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, including, without limitation, the applicable exemptive conditions of Rule 16b-3. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Option is granted and may be exercised, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

Section 5.9. - Amendments

This Agreement and the Plan may be amended without the consent of the Optionee provided that such amendment would not impair any rights of the Optionee under this Agreement. No amendment of this Agreement shall, without the consent of the Optionee, impair any rights of the Optionee under this Agreement.

(signature page follows)

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto.

GOLDEN TELECOM, INC.

By ____________________________
Name:
Title:

By: ____________________________
Name:
Title:

OPTIONEE

____________________________ (signature)
{{Name}}{{Family_Name}}
Address:
{{Permanent_address}}

Office Address:
{{Office_address}},{{Current_Office_Location}}
Office Telephone Number
{{Phone_Code}}{{Office_Phone_}}

Optionee's Taxpayer
Identification Number:

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Exhibit 10.9

Each non-employee member of Golden Telecom's Board of Directors is entitled to receive an annual retainer fee of $15,000. In addition, each non-employee member of the Board of Directors is entitled to receive a fee of $1,000 for each Board meeting attended in person and a fee of $500 for each Board meeting attended by telephone. Non-employee members are entitled to receive a fee of $750 for each Board committee meeting attended in person, a fee of $500 for each Board committee meeting attended by telephone and a fee of $500 for each Unanimous Written Consent in Lieu of Meeting adopted by the Board. However, Board committee fees are not paid if the meeting is held on the same day as a Board meeting. In accordance with the Golden Telecom 1999 Equity Participation Plan, non-employee directors are also entitled to receive 10,000 stock options upon their initial appointment and 2,500 stock options for each subsequent year of service.

The Chair of the Audit Committee is entitled to receive additional annual compensation of $15,000 for serving as Chair of the Audit Committee.

Each of the Directors waived his right to receive stock options in 2004 with the exception of Mr. North and Mr. Herman. Mr. Dunster also waived his rights to all forms of Director compensation in 2004, which is in line with the policy of his employer, Capital International Research, Inc.

All directors who are also Golden Telecom employees have waived their rights to all forms of director compensation for 2004, including rights to stock options, which is in line with Company policy.

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EXHIBIT 21.1

LIST OF SUBSIDIARIES OF GOLDEN TELECOM, INC.
AS OF DECEMBER 31, 2004

COMPANY	JURISDICTION
Golden Telecom Group, Inc.	Delaware
SFMT-CIS, Inc.	Delaware
GTS Finance, Inc.	Delaware
GTS Ukrainian TeleSystems LLC	Delaware
GTS Mobile Services, Inc.	Delaware
Golden TeleServices, Inc.	Delaware
SFMT-Rusnet, Inc.	Delaware
CellUkraine Ltd.	Delaware
Golden Holdings, Inc.	Delaware
MCT Corp.	Delaware
ROL Holdings Ltd.	Cyprus
Agama Ltd.	Cyprus
GTS-Vox Ltd.	England & Wales
Golden Telecom Limited	British Virgin Islands
ST Holdings, s.r.o.	Czech Republic
EDN Sovintel LLC	Russia
Sovintel, St.Petersburg Branch	Russia
Sovintel, Irkutsk Branch	Russia
Sovintel, Khabarovsk Branch	Russia
Sovintel, Arkangelsk Branch	Russia
Sovintel, Ufa Branch	Russia
Sovintel, Krasnodar Branch	Russia
Sovintel, Kaliningrad Branch	Russia
Sovintel, Krasnoyarsk Branch	Russia
Sovintel, Voronezh Branch	Russia
Sovintel, Tyumen Branch	Russia
Sovintel, Ekaterinbourg Branch	Russia
Sovintel, Vladivostok Branch	Russia
Sovintel, Novosibirsk Branch	Russia
Sovintel, Nizhny Novgorod Branch	Russia
Sovintel, Samara Branch	Russia
Sovintel, Volgograd Branch	Russia
Sovintel, Syktyvkar Branch	Russia
Sovintel, Novorossiysk Branch	Russia
Sovintel, Kemerovo Branch	Russia
ZAO TeleRoss-Vladivostok	Russia
ZAO TeleRoss-Novosibirsk	Russia
ZAO TeleRoss-Tiumen	Russia
ZAO TeleRoss-Kubanelectrosvyaz	Russia
ZAO TeleRoss-Ekaterinburg	Russia
ZAO TeleRoss-Komi	Russia
ZAO TeleRoss-Voronezh	Russia
ZAO TeleRoss-Volgograd	Russia
ZAO TeleRoss-Samara	Russia
ZAO Samara Telecom	Russia
OOO SibChallenge-Telecom	Russia
OOO TEL	Russia

COMPANY	JURISDICTION
Agency of Business Communication (“ADS”) LLC	Russia
ZAO Transsvyaz	Russia
First Telecommunications Company (“PTK”) ZAO	Russia
UralRelcom LLC	Russia
Cityline ZAO	Russia
Cityline Kuban ZAO	Russia
Cityline, St. Petersburg Branch	Russia
Cityline, Kaliningrad Branch	Russia
Cityline Tyumen ZAO	Russia
Inforis ZAO	Russia
OAO Balticom Mobile	Russia
ZAO WestBalt Telecom	Russia
OOO Bashinsviaz	Russia
Golden Telecom LLC	Ukraine
Golden Telecom, Lvov Branch	Ukraine
Golden Telecom, Odessa Branch	Ukraine
Golden Telecom, Dnepropetrovsk Branch	Ukraine
Golden Telecom, Donetsk Branch	Ukraine
Golden Telecom, Kharkov Branch	Ukraine
Golden Telecom, Zaporozhie Branch	Ukraine
Invest Holding LLC	Ukraine
SA-Telcom LLP	Kazakhstan
Joint Venture Buzton, LLC	Uzbekistan
Buzton, Samarkand Branch	Uzbekistan
Buzton, Ugrench Branch	Uzbekistan
Buzton, Namangan Branch	Uzbekistan
Buzton, Andizhan Branch	Uzbekistan
Buzton, Bukhara Branch	Uzbekistan
Buzton, Nukus Branch	Uzbekistan
Buzton, Naroi Branch	Uzbekistan
Buzton, Gulistan Branch	Uzbekistan
Buzton, Karshi Branch	Uzbekistan
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Buzton, Jizzakh Branch	Uzbekistan
Buzton, Fergana Branch	Uzbekistan

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EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 333-41542 and No. 333-72036) pertaining to the 1999 Equity Participation Plan of Golden Telecom, Inc. and in the Post Effective Amendment No. 1 (Form S-3 No 333-39260) to Registration Statement on Form S-1 of Golden Telecom, Inc. and the in related Prospectus of our reports dated March 11, 2005, with respect to the consolidated financial statements and schedule of Golden Telecom, Inc., and Golden Telecom, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Golden Telecom, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2004.

/s/ Ernst & Young (CIS) Limited

Moscow, Russia
March 11, 2005

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EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 333-41542 and No. 333-72036) pertaining to the 1999 Equity Participation Plan of Golden Telecom, Inc. and in the Post Effective Amendment No. 1 (Form S-3 No. 333-39260) to Registration Statement on Form S-1 of Golden Telecom, Inc. and in the related Prospectus of our report dated March 6, 2003, with respect to the financial statements of EDN Sovintel LLC, included in this Annual Report (Form 10-K) of Golden Telecom, Inc. for the year ended December 31, 2004.

/s/ Ernst & Young (CIS) Limited

Moscow, Russia
March 11, 2005

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EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Alexander Vinogradov, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 11, 2005

/s/ ALEXANDER VINOGRADOV

Alexander Vinogradov
President, Chief Executive Officer and
Director

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EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian Rich, certify that:

1. I have reviewed this annual report on Form 10-K 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: March 11, 2005

/s/ BRIAN RICH

Brian 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 Annual Report of Golden Telecom, Inc. ("the Company") on Form 10-K for the period ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof ("the Report"), I, Alexander Vinogradov, President, Chief Executive Officer and Director 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 11th day March of 2005.

/s/ ALEXANDER VINOGRADOV

Alexander Vinogradov
President, Chief Executive Officer and
Director

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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 Annual Report of Golden Telecom, Inc. (“the Company”) on Form 10-K for the period ended December 31, 2004, 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 11th day of March 2005.

/s/ BRIAN RICH

Brian Rich
Senior Vice President, Chief
Financial Officer and Treasurer