GOLDEN TELECOM INC
Form ARS
April 16, 2003

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GOLDEN TELECOM, INC. ANNUAL REPORT 2002

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GOLDEN TELECOM, INC.
ANNUAL REPORT 2002

(GOLDEN TELECOM LOGO)

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LETTER TO SHAREHOLDERS

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LETTER TO SHAREHOLDERS

Dear Shareholders,

2002 WAS TRULY
A REMARKABLE YEAR
IN GOLDEN TELECOM'S HISTORY

IT WAS the year in which we completed our biggest and most significant acquisition to date: the purchase of the remaining 50% stake in Sovintel to bring our ownership in Sovintel to 100%.

COMBINING our wholly-owned operations in Russia and the Commonwealth of Independent States ("CIS") with those of Sovintel DOUBLES OUR SIZE in terms of revenue and creates a more powerful company with unrivaled geographical reach, integrated service offerings and a significant presence in the region's most attractive markets.

ALTHOUGH we have dedicated the editorial section of this Annual Report to explaining the various benefits this transaction brings to the company, allow us to outline them briefly here.

WE LIKE to think of the Sovintel acquisition as something like putting together a winning team of star athletes. The individual players do not duplicate each other's abilities, but rather complement and enhance each others' talents, so that together, they make an UNBEATABLE TEAM that can outperform all its competitors.

SOVINTEL and Golden Telecom complement each other's resources and capabilities in many aspects: Sovintel has the strongest market position in Moscow among alternative providers, while Golden Telecom has a significant regional and CIS presence; Sovintel works primarily in voice telephony, while Golden Telecom is a prime provider of data networking and Internet access.

Over the past 10 years, Sovintel has built robust access networks in the Moscow and St. Petersburg metropolitan areas, while Golden Telecom has assembled a robust network in Kiev and vast intercity networks straddling the Eurasian continent from Ukraine's border with Poland all the way to the Pacific Ocean in Russia's Far East.

PUTTING Golden Telecom and Sovintel together creates THE LARGEST INDEPENDENT PROVIDER in the region, with vast geographical coverage, a DOMINANT POSITION IN ALL CORE MARKETS, and a wide range of services and considerable financial strength that allows it to pursue even more ambitious goals.

THE ALTERNATIVE fixed-line telecommunications market is probably the most promising in the industry after cellular. The leader in this market today is Golden Telecom.

VEDOMOSTI, "The 'Telecom System' Bids for Leadership" by Yuri Granovsky, May 14, 2002

GOLDEN TELECOM stands out as one of Russia's most ambitious and potent telecoms players. ECONOMIST INTELLIGENCE, (EIU ViewsWire), August 20, 2002

WE HAVE RETHOUGHT
OUR BUSINESS TO CREATE A MORE FOCUSED
AND CUSTOMER DRIVEN COMPANY.

WE HAVE rethought the fundamentals of our business and are restructuring our internal operations to create a more focused and customer driven company. Now that we have completed the Sovintel acquisition, we want to concentrate our efforts on what we know best-FIXED LINE TELECOMMUNICATIONS.

WE HAVE restructured the Internet content part of our business to make it operating cash flow neutral and to serve a support function for our primary Internet product - consumer Internet access. We have also significantly reduced investment in our mobile subsidiary, an established niche player in Ukraine, and are now actively exploring various options to extract maximum value from this asset.

WE HAVE now focused our efforts on what we like to refer to as the "THREE PILLARS" of our business.

THE FIRST, and main, pillar is our SERVICES TO BUSINESS CUSTOMERS. This is the core of our entire operation, a stable, profitable and growing business. It is primarily for our business customers that we build and develop our networks. The nature of this business requires us to make up front investments in the purchase of large blocks of local numbering capacity and the installation of central office switches. In addition, we usually elect to buy more long-distance or interconnect capacity than our current traffic volumes require in order to obtain deeper discounts from providers and to ensure the availability of adequate infrastructure as we grow. Since we are constantly striving to maximize our capacity utilization, we have developed new products to fill the capacity not currently utilized by our services to business customers.

GOLDEN TELECOM is the only company whose primary business is in Russia (and the CIS) while its shares (not depositary receipts) are traded on American stock markets. This year's second quarter results...show an increase in the company's net profits to $9 million -- nearly one and a half times more than in the previous quarter, when the company earned $6.2 million. IZVESTIA, August 8, 2002

CONSOLIDATION of the assets of Golden Telecom and Sovintel could lead to a doubling of Golden Telecom's receipts.

PRIMETASS, August 2, 2002

THIS IS where the other two pillars of our business come into play.

OUR SECOND pillar is the sale of various SERVICES TO OTHER TELECOM OPERATORS. While this is decidedly a "wholesale" business, it is really quite different from the high volume, low margin, volatile type of business one might expect it to be.

OUR MAIN customers in this area are cellular operators. We have been selling large blocks of our local numbering in Moscow to cellular operators since 1993. For almost ten years, we have provided cellular customers with local as well as domestic long-distance and international connectivity. This is a stable and growing business with good margins. And we are constantly expanding our services to cellular operators. At first, we provided only local numbering and local and long-distance access, but now, we are building call center network across Russia and base station networks in Moscow and St. Petersburg for some of these companies.

WE ALSO resell excess international and domestic long-distance bandwidth that we have leased for our business network to second-tier ISPs, in order to provide them with IP-backbone access. We leverage our extensive "last mile" by providing data networking services in Russia and the CIS to the multinational customers of such international carriers as Sprint and Cable & Wireless. In this case, we act as a distribution channel for their advanced Frame Relay services in Russia. This business, too, has good margins and satisfactory rates of growth.

AND FINALLY, we provide various long-distance voices and VoIP carrier services to other operators. This is the traditional, price-sensitive, low-margin, high volume part of the business. Here, we typically use the substantial outgoing traffic generated by our business customers to attract and retain incoming traffic streams.

THE THIRD pillar of our business is CONSUMER INTERNET ACCESS.

BEING PRINCIPALLY a business services network, we experience significantly reduced traffic loads during off-peak non-business hours. Since the late '90s, we experimented with a modest dial-up Internet offering, and discovered that providing Internet access allows us to utilize capacity more efficiently, by offsetting the reduced demand placed on our network by business customers during off-peak hours with the higher traffic volumes from home users of dial-up Internet service during the evening and nighttime hours. Our wide presence across Russia and the CIS provided us with the opportunity to develop the country's first truly nationwide Internet access system. Our subscriber base grew from approximately 86,000 in 2000 to approximately 242,000 at the end of 2002 and we are now firmly established as a major player with our 24% nationwide market share.

ACCORDING TO S&P (the Standard & Poor's agency) [Russian] companies are very unenthusiastic about disclosing information on the remuneration of top managers. The most open companies [in Russia] in this regard are MTS and Golden Telecom...
VEDOMOSTI, September 16, 2002

CONSIDERING fixed-line communications, a shining example is Golden Telecom, which provides services in Kazakhstan (since 2000) and in Ukraine (since 1996).
KOMMERSANT, August 10, 2002

WE ARE POISED
FOR GROWTH IN UKRAINE.

EARLIER in the year, we were faced with an ongoing dispute between the former management of our Ukrainian subsidiary (who were also our partners in the venture) and the management of the state owned monopoly operator. As long as these issues remained unresolved, we were unable to obtain additional infrastructure in Ukraine, which in turn reduced our capacity roll-out plans and adversely affected sales. We acted decisively and responsibly in this difficult situation by replacing the management of the subsidiary and buying out our local partners. After reestablishing a new working relationship with the monopoly operator, we have been able to begin deploying additional infrastructure on acceptable terms, and are now positioned to deliver growth in our Ukrainian operations next year.

FROM THE POINT of view of a portfolio investor, Golden Telecom is a very interesting company: it has diverse business operations, and is one of the two market leaders in all of its lines of business. INFORMKURIERSVYAZ, October 2002

GOLDEN TELECOM has announced the merger of four subsidiaries. The combined company, with annual sales of $6 million, will have up to 50% of the Nizhny Novgorod Internet services market and will become the largest regional telecommunications services provider after OAO Volga Telekom. VEDOMOSTI, October 4, 2002

WE HAVE CONSOLIDATED
OUR BUSINESS IN NIZHNY NOVGOROD.

WE HAVE consolidated our business in Nizhny Novgorod into a single company, creating a leading alternative provider in Russia's third-largest city. We made two acquisitions in Nizhny Novgorod in 2000 and 2001. Last year, we merged the acquired entities with our local subsidiary, thereby consolidating our market position in this important market and creating a full-service operator and a market leader in the corporate segment. Our projects in Nizhny Novgorod are worth highlighting here for two reasons:

FIRST, our experience in Nizhny Novgorod is an excellent example of our REGIONAL STRATEGY IN ACTION. Essentially, our regional strategy attempts to take the successful Moscow CLEC model, as exemplified by Sovintel, and replicate it in the most economically developed cities across Russia.

SOVINTEL'S success is based to a considerable extent on its high degree of independence from local incumbents due to its direct ownership of both local numbering (which allows interconnection to the PSTN) and customer access infrastructure. To achieve the same level of independence from incumbents in regional cities, we will need to ensure sufficient interconnection with the local PSTN and an adequate access network.

WE CAN achieve this in one of three ways: through a "greenfield" operation, by organically developing the necessary infrastructure through our existing local subsidiaries or through the acquisition of other existing local providers-whichever approach works best in a particular location. In Nizhny Novgorod, for example, the circumstances were such that, rather than trying to obtain local numbering for our existing subsidiary there, we found it more efficient to buy a competing alternative provider that already had secured numbering and PSTN interconnect and then merge it with our other subsidiaries. In addition the acquired entity already had a substantial copper access network of its own.

SECOND, THE REGIONAL SEGMENT IS A VERY HIGH-GROWTH SEGMENT OF OUR BUSINESS. Our Nizhny Novgorod operations grew by more than 30% in 2002. We believe that our long-term growth potential lays in the regions.

GOLDEN TELECOM provides telecommunications services to US delegation and White House press corps during Russian-American summit.

HEADLINE FROM AGENCY OF BUSINESS NEWS (ABN), MAY 24, 2002

ROL will serve as the presenting sponsor of a concert by the legendary group SCORPIONS in Nizhny Novgorod [and 14 other Russian cities]. REGION-INFORM, OCTOBER 2, 2002

LETTER TO SHAREHOLDERS

THE COMPANY'S
FINANCIAL PERFORMANCE
IN 2002 WAS EXCELLENT.

HERE are just a few highlights. We began consolidating Sovintel at the end of the 3rd quarter, and this has boosted our consolidated revenue results. CONSOLIDATED REVENUES INCREASED BY 42% COMPARED TO 2001.

THE RATIONALIZATION of our corporate structure has led to significant cost savings. Together with Sovintel consolidation it has contributed to the reduction in our selling. GENERAL AND ADMINISTRATIVE EXPENSES from 35% of revenues in 2001 to 23% in 2002.

WE INCREASED our number POPs from 140 to 149, and have organically grown our Internet subscriber base by 30%, from approximately 186,000 to 242,000 customers.

MOST IMPORTANTLY, 2002 was the first year that Golden Telecom has shown a profit. In fact, WE WERE PROFITABLE IN EACH OF THE FOUR QUARTERS THIS YEAR. We view these significant levels of profitability as a clear signal that the strategic direction we have chosen for the company is the correct one. WE LOOK INTO THE FUTURE WITH OUR CONFIDENCE AND OPTIMISM STRONGER THAN EVER BEFORE.

/s/ P. AVEN
P. AVEN
Chairman, Board of Directors, Golden Telecom, Inc.

/s/ A. VINOGRADOV
A. VINOGRADOV
President and CEO, Golden Telecom, Inc.

IN THE OPINION of telecommunications analysts, the Moscow-based operators with the most highly developed regional networks are Golden Telecom (the TeleRoss network) and Equant. In September, the President and CEO of Golden Telecom, Alexander Vinogradov, declared his intention to expand the holding company's presence in regional markets. VEDOMOSTI, October 24, 2002

GOLDEN TELECOM ADOPTED SOVINTEL

A TRANSACTION was concluded within the Russian telecommunications market which will change the line-up of alternative operators forces. GAZETA, March 18, 2002

DIAL-UP INTERNET SUBSCRIBERS

(BAR CHART)

1998	4 261
1999	18 599
2000	85 833
2001	185 628
2002	242 155

CONSOLIDATED REVENUE (in millions)

(BAR CHART)

1998	$ 86.1
1999	$ 97.9
2000	$113.1
2001	$140.0
2002	$198.7

OPERATING CASH FLOW (in millions)

(BAR CHART)

1998	$ 1.3
1999	$16.4
2000	$18.1
2001	$24.5
2002	$50.7

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(TEAM GRAPHIC)

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THE TEAM

"WE LIKE TO THINK OF THE SOVINTEL ACQUISITION AS SOMETHING LIKE PUTTING TOGETHER A WINNING TEAM OF STAR ATHLETES. THE INDIVIDUAL PLAYERS DO NOT DUPLICATE EACH OTHER'S ABILITIES, BUT RATHER COMPLEMENT AND ENHANCE EACH OTHERS' TALENTS...FROM LETTER TO SHAREHOLDERS

THE FOLLOWING section explores the exceptional strategic fit between Golden Telecom and Sovintel and shows how the various unique "talents" of these individual players are being combined to create a team that is clearly greater than the sum of its parts, capable of achieving much more than either company could on its own.

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(PHOTO)

THE TEAM

WHAT EXACTLY DIFFERENTIATES AN INCUMBENT OPERATOR?

WHAT EXACTLY differentiates an incumbent operator from an alternative one - besides the obvious fact that the incumbent, by definition, was already present in the market at the time the alternative entered? A typical incumbent providing end-user services should also exhibit some or all of the following features: it should enjoy a significant market share, own a broad array of telecommunications licenses, have its own access lines to practically all of its customers, own a segment of the national numbering plan, and have interconnectivity with the public switched telephone network at various levels. Taken individually, neither Golden Telecom nor Sovintel possessed all of these resources, but when they are considered as a single entity, they do. Bringing together Sovintel's operations with those Golden Telecom has created more than just a bigger alternative operator. The size of the merged company, its market position, the infrastructure it has developed over the past ten years, the number and the scope of the licenses it holds, and its status as a part of the PSTN make it evident that Golden Telecom should be described as an incumbent operator with a focus on the corporate market, i.e. A CORPORATE INCUMBENT.

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(PHOTO)

THE TEAM

GEOGRAPHIC FOOTPRINT

GOLDEN TELECOM has a regional presence in 149 metropolitan areas throughout Russsia and the CIS and a leading market position in Kiev, Ukraine. Sovintel dominates in Moscow and has a strong foothold in St. Petersburg. The combination of the two companies results in an entity with operations that span from Ukraine's western border with Poland all the way to Vladivostok on the Pacific Ocean in Russia's Far East, with a significant presence and leading market position in each of the largest and economically most important metropolitan areas in between - Kiev, Moscow, St. Petersburg, Nizhny Novgorod.

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(PHOTO)

THE TEAM

SERVICE RANGE
AND MARKET POSITION

GOLDEN TELECOM is an established leader in corporate data networking in Russia and Ukraine, while Sovintel is the largest alternative voice services provider in the region. Together, they are the biggest independent provider of telecommunication services to corporations and carriers in Russia and the CIS, with an exceptionally wide range of service offerings. In addition, precisely because Golden Telecom and Sovintel are so different in their service offerings, there are enormous cross-selling opportunities.

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(PHOTO)

THE TEAM

NUMBERING CAPACITY
AND LICENSES

GOLDEN TELECOM owns local numbering capacity in Moscow. Historically, some of these numbers were resold to Sovintel, which, in its turn, marketed them to end-users. Joining forces makes sound business sense, as a single entity now owns the local numbers it sells. ON THE OTHER hand, while Sovintel does not have local numbering capacity of its own, it does have close to 8 million numbers in non-geographic area codes of the national public switched telephone network. With Sovintel becoming part of Golden Telecom, its 8 million non-geographic numbers can now be made available to Golden Telecom's regional customers. THE COMBINED company thus has one of the most essential features of a true incumbent - its own local numbering plan in its major centers of operation, as well as the opportunity to further develop a nationwide presence using its 8 million numbers in the non-geographic area codes of the public switched telephone network. GOLDEN TELECOM and Sovintel are also an exceptional fit in regard to operating licenses, as Sovintel brings it extensive international long-distance license to the broad portfolio of licenses already owned by Golden Telecom.

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(PHOTO)

THE TEAM

INFRASTRUCTURE

GOLDEN TELECOM has assembled a formidable inter-city long-distance network across eight CIS countries through various lease agreements, and has also built up its own substantial transport capacity in Moscow, while Sovintel has concentrated on developing access infrastructure within Moscow and St. Petersburg.

(PHOTO)

MANAGEMENT TEAM

BY BRINGING executives from Sovintel and Teleross together to run the new Golden Telecom, we have not only ensured the smooth integration of the operations of the two companies, but have also created a truly international management team that combines a Western style of management with a knowledge of the intricacies of the local market environment.

(PHOTO)

FINANCIAL STRENGTH

BOTH Golden Telecom and Sovintel are very strong financially, and putting them together does not simply combine their respective financial strengths, but amplifies and leverages it even further. The group now anticipates access to larger sources of capital - a distinctive advantage in a market that is currently undergoing a dynamic process of consolidation.

FOR NOTES

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(FINANCIAL REVIEW GRAPHIC)

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FINANCIAL REVIEW

SELECTED FINANCIAL DATA

The following selected historical consolidated financial data at December 31, 1998, 1999, 2000, 2001 and 2002, 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		
	1998	1999	2
STATEMENT OF OPERATIONS DATA:		(IN THOUSANDS, EX	
Revenues	$ 86,086	$ 97,931	$113
Cost of revenues (excluding depreciation and amortization)	43,574	40,516	50
Gross margin	42,512	57,415	62
Selling, general and administrative (excluding depreciation and amortization)	45,327	41,011	45
Depreciation and amortization	16,709	28,143	31
Abandonment and restructuring charge	--	19,813	
Impairment charge	--	--	
Income (loss) from operations	(19,524)	(31,552)	(15
Equity in earnings (losses) of ventures	2,559	(6,677)	
Interest income (expense), net	(3,003)	2,814	7
Foreign currency loss	(7,452)	(2,739)	
Minority interest	(1,040)	(1,477)	
Other non-operating expense	--	--	
Provision for income taxes	5,184	6,823	
Net income (loss) before cumulative effect of change in accounting principle	(33,644)	(46,454)	(10
Cumulative effect of change in accounting principle	--	--	
Net income (loss)	(33,644)	(46,454)	(10
Net income (loss) per share before Cumulative effect of change in accounting principle - basic (1)	(3.17)	(3.38)	(
Cumulative effect of change in accounting principle	--	--	
Net income (loss) per share - basic (1)	(3.17)	(3.38)	(
Weighted average shares - basic (1)	10,600	13,736	24
Net income (loss) per share before cumulative effect of change in accounting principle - diluted (1)	(3.17)	(3.38)	(
Cumulative effect of change in accounting principle	--	--	
Net income (loss) per share - diluted (1)	(3.17)	(3.38)	(
Weighted average shares - diluted (1)	10,600	13,736	24

	AT DECEMBER 31		
	1998	1999	2000
BALANCED SHEET DATA:			(IN THOUSANDS)
Cash and cash equivalents	$ 14,164	$162,722	$ 57,889
Investments available for sale	--	--	54,344
Property and equipment, net	52,186	62,176	82,377
Investments in and advances to ventures	46,519	45,196	49,629
Goodwill and intangible assets, net	71,924	53,467	70,045
Total assets	235,849	366,624	348,456
Total debt, including current portion	24,459	28,029	18,997
Minority interest	7,993	2,816	3,337
Shareholders' equity	168,783	288,552	283,193

(1) Per share amounts in this table were calculated based upon the assumption that the 10,600,000 common shares issued in connection with the formation of the Company are outstanding for all periods prior to September 30, 1999.

Refer to Note 3 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 1998, the Company acquired the remaining interest in Sovam Teleport for cash consideration of $5.0 million. In July 1998, the Company acquired the remaining interest in GTS Vox Ltd., the holding company for TCM, for cash consideration of $37.0 million. In June 1998, the Company increased its beneficial interest in Golden Telecom (Ukraine) to 56.75% for cash consideration of approximately $9.8 million. The Company began consolidating Sovam in February 1998 and TCM and Golden Telecom (Ukraine) in July 1998. In August 1999, the Company increased its beneficial ownership in TCM from 95% to 100% Goodwill in the amount of $3.2 million was recorded by the Company.

An affiliate of ING Barings which indirectly owned 12.25% of Golden Telecom (Ukraine), contributed its indirect interest in Golden Telecom (Ukraine) to a wholly owned subsidiary of Golden Telecom, Inc., upon the consummation of the offering on September 30, 1999 in exchange for 420,000 newly issued shares of common stock of the Company. In accordance with the subscription agreement filed with the SEC at the time of the Initial Public Offering, an additional 30,000 shares of common stock in the Company were issued in full and final settlement to the affiliate of ING Barings. Our beneficial interest in Golden Telecom (Ukraine) increased from 56.75% to 69% as the result of this transaction.

In June 1999, the Company acquired the assets of Glasnet, a Moscow based Internet Services Provider ("ISP"). In July 1999, the Company acquired a 75% interest in SA Telcom LLP, a telecommunications and data services provider in Kazakhstan. In December 1999, the company acquired the assets of Nevalink, an ISP, and of full-equity ownership of NevaTelecom. Both Nevalink and Neva-Telecom provide telecom and Internet services to the St. Petersburg market. These acquisitions were purchased for approximately $2.5 million in cash.

Refer to Note 2 to the Consolidated Financial Statements for a description of the change in method of accounting for goodwill in 2002.

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FINANCIAL REVIEW

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis relates to our financial condition and results of operations of the Company for each of the years ended December 31, 2002, 2001 and 2000. This discussion should be read in conjunction with the "Selected Historical Consolidated 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 telecommunications and Internet services to businesses and other high-usage customers and telecommunications operators in Moscow, Kiev, St. Petersburg, Nizhny Novgorod and other major population centers throughout Russia and other countries of the Commonwealth of Independent States ("CIS"). We organize our operations into the four business groups, as follows:

- Competitive Local Exchange Carrier ("CLEC") Services. Using our local access overlay networks in Moscow, Kiev, St. Petersburg and Nizhny Novgorod, we provide a range of services including local exchange and access services, international and domestic long distance services, data communications, Internet access and the design of corporate networks;

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

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

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

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

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

In July 2002, we merged the existing operations of Agentstvo Delovoi Svyazi ("ADS"), Commercial Information Network ("KIS") and TeleRoss Nizhny Novgorod to create the leading corporate telecommunications provider in Russia's third largest city, Nizhny Novgorod. This market is significantly less developed than the Moscow market and we anticipate significant growth next year from this entity. We previously owned 51% of ADS, 56% of KIS and 95% of TeleRoss Nizhny Novgorod. As a result of the merger, we currently own 58% of the merged operations.

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

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

Since early 2000, we have witnessed a recovery in the Russian market, but with downward pricing pressures persisting. The downward pricing pressures result from increased competition in Russia and the global trend toward lower telecommunications tariffs. In 2001 and 2002 our traffic volume increases exceeded the reduction in tariffs on certain types of voice traffic. This is a contributory factor to the increases in our revenue in 2001 and 2002. We expect that this trend of year over year increases in traffic volume will continue as long as the Russian economy continues to develop at its current pace.

Although we expect competition to continue to force the general level of tariffs downward, we expect to mitigate partially the effects of this pressure by seeking, where possible, further reductions in the settlement and interconnection rates that we pay to other telecommunications operators. In general, over time we expect settlement and interconnection rates to continue to decline broadly in line with tariffs.

In order to handle additional traffic volumes, we have expanded and will continue to expand our fiber optic capacity along our heavy traffic and high cost routes to mitigate declines in traffic margins, reduce our unit transmission costs and ensure sufficient capacity to meet the growing demand for data and Internet services. As part of this strategy, we have acquired the rights to use STM-16 fiber optic capacity on a Moscow to Stockholm route, significantly reducing our unit cost per E-1 fiber optic link on this route. In September 2001, we acquired rights to use up to VC-3 fiber optic capacity on major routes within Russia to support the increase in our interregional traffic and our regional expansion strategy. We expect to continue to add additional transmission capacity, which due to its fixed cost nature can initially depress margins, but will ultimately allow us to improve or maintain our margins.

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

In Kiev, Ukraine we continue to experience issues relating to obtaining sufficient numbering capacity for our business services operations. In this regard, we are continuing negotiations with Ukrtelecom, the state-owned operator, for performance of obligations related to the provision of numbering capacity and entered into an agreement for additional numbering capacity in the third quarter of 2002.

Our ability to grow our business services operations in Kiev will be limited if we do not have access to numbering capacity.

During the past year, Golden Telecom (Ukraine) ("GTU") was involved in a number of commercial disputes with Ukrtelecom and Ukrainian regulatory authorities. The most significant disputes include routing of traffic and GTU's lease rights of Ukrtelecom's technical premises. At the end of the fourth quarter of 2002, most of these issues with Ukrtelecom were resolved. We continue to work with Ukrtelecom to resolve the remaining outstanding issues.

We reassessed and suspended our incoming international traffic off-network termination activities, pending the resolution of certain regulatory issues and as a result we estimate a reduction of approximately $1.6 million in revenue in the fourth quarter of 2001 and approximately $6.4 million in revenue for the year ended December 31, 2002. On March 1, 2002 we became aware that the Kiev City Prosecutor's Office had initiated an investigation into the activities of our partners in GTU. The investigation appeared to concern alleged improprieties in the manner in which GTU routed certain traffic through the state owned monopoly carrier, Ukrtelecom. GTU received a letter dated July 17, 2002 from the General Prosecutor of Ukraine stating that effective July 9, 2002 the Prosecutor's Office withdrew all charges against GTU due to the absence of grounds on which to prosecute. On October 7, 2002, the Kiev City Prosecutor's Office notified GTU that the previous decision to close the investigation had been revoked. In subsequent discussions with the Kiev City Prosecutor's Office, the investigators advised the management of GTU that the Prosecutor's Office is reviewing internal procedural requirements with the intent to close the investigation again.

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

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

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

We have continued to integrate our acquisitions and improve operational efficiency while at the same time controlling costs. We expect to incur further costs in connection with overall restructuring of our operations in 2003.

Our equity investee, MCT, is in default on a loan note that originally became due on September 29, 2001. In December 2001, MCT signed a forbearance agreement whereby the holder of the note agreed to forbear from selling the note or exercising its rights under the original debt agreements and to extend the terms of repayment until January 31, 2002. MCT did not make payment on the note prior to January 31, 2002 and during April 2002 the holder of the loan note foreclosed on the collateral related to the note and subsequently sold it to a third-party, resulting in a substantial loss to MCT. We recorded a write-off of an amount corresponding to our equity in MCT's losses during the second quarter of 2002. The write-off did not exceed the carrying value of our investment in MCT. Total equity in losses recognized by us related to our MCT investment were $3.9 million and $5.1 million for the years ended December 31, 2001 and 2002, respectively. We have no further commitments to provide financial support to MCT.

RECENT ACQUISITIONS

In August 2002, we completed the purchase of the remaining approximately 31% of GTU and now own 100% of GTU and have full operational and management control over the Ukrainian operations.

In September 2002, we completed the purchase of the remaining 50% of EDN Sovintel LLC ("Sovintel") previously held by Open Joint Stock Company Rostelecom, bringing our ownership in Sovintel to 100%. The acquisition of the remaining 50% of Sovintel will further strengthen our position in the key Moscow and St. Petersburg communications markets, position us to realize future operating and cost synergies, and allow us to offer a full suite of telecommunication services across broad geographical markets in Russia and the CIS. Sovintel provides worldwide communications services, principally to major hotels, business offices and mobile communication companies through its telecommunications network in Russia.

CRITICAL ACCOUNTING POLICIES

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

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

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

Changes in the underlying assumptions may have a significant impact on the results of our operations. In particular, we have certain amounts due to and from subsidiaries of KPNQwest who are currently subject to bankruptcy proceedings. The ultimate resolution of this matter will be affected by a number of factors including the determination of legal obligations of each party, the course of the bankruptcy proceedings, and the enforceability of any determinations.

We have recognized provisions based on our preliminary estimate of net exposure in the resolution of these receivables and payables. If our assessment proves to be incorrect we may have to recognize an additional provision of up to $1.6 million, net of tax, although management believes that the possibility of such an adverse outcome is remote.

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

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 141, "Business Combinations", and No. 142, "Goodwill and Other Intangible Assets", effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests in accordance with SFAS No. 142. Other intangible assets continue to be amortized over their useful lives. Impairment losses that arise due to the initial application of this standard are reported as a cumulative effect of a change in accounting principle. We adopted SFAS No. 141, "Business Combinations" which was effective for business combinations consummated after June 30, 2001. We adopted SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002 and discontinued amortization of goodwill as of such date.

We completed the transitional impairment test for existing goodwill as of January 1, 2002 during the second quarter of 2002. Based on comparison of the carrying amounts of our reporting units with their fair values, it was determined that no goodwill was impaired as of that date. Fair values of the reporting units were established using the discounted cash flow method.

Upon the adoption of SFAS No. 142, we recorded a cumulative effect of a change in accounting principle for negative goodwill (deferred credit) arising on our equity method investments in the amount of $1.0 million. The impact of non-amortization of goodwill on our net income for the twelve months ended December 31, 2002 was an approximate $15.0 million increase, or $0.62 per share of common stock - basic. We also reclassified to other intangible assets approximately $1.3 million previously classified as goodwill. Amortization expense for goodwill for the twelve months ended December 31, 2001 was $13.8 million.

Amortization expense for intangible assets for the twelve months ended December 31, 2002 was $6.4 million. Amortization expense for the succeeding five years is expected to be as follows: 2003 - $10.2 million, 2004 - $9.2 million, 2005 - $8.2 million, 2006 - $7.3 million, and 2007 - $6.4 million. The pro forma impact on net loss and net loss per share for the twelve months ended December 31, 2001 compared to actual results for the twelve months ended December 31, 2002 is as follows:

	TWELVE MONTHS E
	2001
	(IN THOUSANDS, EX
Reported net income (loss)	$ (39,005)
Goodwill amortization	13,846
Negative goodwill amortization on equity investee	(243)
Adjusted net income (loss)	$ (25,402)
Basic net income (loss) per share:	
Reported net income (loss)	$ (1.65)
Goodwill amortization	0.58
Negative goodwill amortization on equity investee	(0.01)
Adjusted net income per share	$ (1.08)
Diluted net income (loss) per share:	
Reported net income (loss)	$ (1.65)
Goodwill amortization	0.58
Negative goodwill amortization on equity investee	(0.01)
Adjusted net income per share	$ (1.08)

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

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion).

This statement also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of the statement became effective for financial statements issued for fiscal years beginning after December 15, 2001. We adopted this new standard from January 1, 2002. The adoption of the pronouncement did not have an effect on our results of operations or financial position.

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

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

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002.

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

We apply the provisions of APB No. 25 in accounting for our stock options incentive plans. The effect of applying SFAS No. 123 on the net income (loss) as reported is not representative of the effects on reported net income (loss) in future years due to the vesting period of the stock options and the fair value of additional stock options in future years.

	TWELVE MONTH	
	2000	
	(IN THOUSANDS,	
Net income (loss), as reported	$ (10,254)	$
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects ..	8,432	
Pro forma net income (loss)	$ (18,686)	$
Net income (loss) per share:		
Basic - as reported	$ (0.43)	$
Basic - pro forma	$ (0.78)	$
Diluted - as reported	$ (0.43)	$
Diluted - pro forma	$ (0.78)	$

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

RESULTS OF OPERATIONS

GTI is a leading facilities-based provider of integrated telecommunications and Internet services to businesses and other high-usage customers and telecommunications operators in Moscow, Kiev, St. Petersburg, Nizhny Novgorod and other major population centers throughout Russia and other countries of the Commonwealth of Independent States. The results of our four business groups from the operations of both our consolidated entities combined with the non-consolidated entities where we are actively involved in the day-to-day management, are shown in footnote 13 "Segment Information - Line of Business Data" to our consolidated financial statements.

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

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

- Consolidated Results. Consolidated Results of Operations for the Year Ended December 31, 2002 compared to the Consolidated Results of Operations for the Year Ended December 31, 2001.
- Consolidated Financial Position. Consolidated Financial Position at December 31, 2002 compared to Consolidated Significant Financial Position accounts at December 31, 2001
- Consolidated Results. Consolidated Results of Operations for the Year Ended December 31, 2001 compared to the Consolidated Results of Operations for the Year Ended December 31, 2000

CONSOLIDATED RESULTS. CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2001

REVENUE

Our revenue increased by 42% to $198.7 million for the year ended December 31, 2002 from $140.0 million for the year ended December 31, 2001. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2001	CONSO
REVENUE		
CLEC Services	$ 45.1	
Data and Internet Services	63.2	
Long Distance Services	18.4	
Mobile Services	14.4	
Eliminations	(1.1)	
TOTAL REVENUE	$ 140.0	

CLEC Services. Revenue from CLEC Services increased by 103% to $91.5 million for the year ended December 31, 2002 from $45.1 million for the year ended December 31, 2001.

The CLEC Services division of TeleRoss revenue increased by 10% to $30.7 million for the year ended December 31, 2002 from $27.8 million for the year ended December 31, 2001. This is mainly due to increases in monthly recurring charges and traffic revenue due to an increase in numbering capacity in active service, partly offset by pricing concessions made to its largest customer and a decrease in equipment sales.

The CLEC Services division of Golden Telecom BTS revenue decreased by 18% to $13.3 million for the year ended December 31, 2002 from $16.2 million for the year ended December 31, 2001. The decrease in revenue was due to the suspension of the termination of certain incoming traffic from the beginning of the fourth quarter of 2001 that continued throughout 2002, partly offset by an increase in other recurring revenues.

For ADS, acquired in September 2001, revenue from CLEC Services was $3.9 million and $1.1 million for the years ended December 31, 2002 and 2001, respectively.

The acquisition of the remaining 50% ownership interest in Sovintel was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. As a result of consolidating Sovintel, revenue from CLEC Services increased by $42.1 million for the year ended December 31, 2002.

Sovintel's revenue increased by 29% to $149.2 million for the year ended December 31, 2002 from $115.7 million for the year ended December 31, 2001. Increases in traffic volumes, particularly incoming international traffic, more than offset reductions in tariffs. Also, increases in recurring fees, equipment sales and other service offerings contributed to the increase.

Data and Internet Services Revenue from Data and Internet Services increased by 25% to $78.9 million for the year ended December 31, 2002 from $63.2 million for the year ended December 31, 2001. The increase is largely the result of increases in Internet revenue from both dial-up and dedicated Internet subscribers, increases in Internet traffic and other Internet related revenues. Our dial-up Internet subscribers grew 30% from 185,628 at December 31, 2001 to 242,155 at December 31, 2002. Internet revenues have increased by the acquisition of Cityline and Uralrelcom on June 1, 2001, however, Cityline's subscribers were absorbed into TeleRoss operations during 2002 so we are not able to identify the incremental impact of this acquisition on the year ended December 31, 2002. Uralrelcom's revenue was $2.5 million for the year ended December 31, 2002 as compared to $1.0 million for the year ended December 31, 2001.

Long Distance Services Revenue from Long Distance Services increased by 2% to $18.7 million for the year ended December 31, 2002 from $18.4 million for the year ended December 31, 2001. The increase is largely the result of increases in recurring fees and traffic revenues due to an increasing end-user customer base in Moscow and in many Russian regions, which more that offset tariff reductions. The increase is partly offset by a decline in equipment sales in the year ended December 31, 2002, as compared to the year ended December 31, 2001, due to a large contract that was installed in the first half of 2001.

Mobile Services Revenue from Mobile Services decreased by 10% to $13.0 million for the year ended December 31, 2002 from $14.4 million for the year ended December 31, 2001. Active subscribers declined approximately 13% and the average revenue per subscriber has declined by 8% to approximately $28.54 per month.

EXPENSES

The following table shows our principal expenses for the year ended December 31, 2002 and December 31, 2001:

	CONSOLIDATED EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2001	CONSOLIDATED E END
	(IN MILLIONS)	
COST OF REVENUE		
CLEC Services	$ 17.4	
Data and Internet Services	30.2	
Long Distance Services	13.5	
Mobile Services	3.7	
Eliminations	(1.1)	
TOTAL COST OF REVENUE	63.7	
Selling, general and administrative	48.9	
Depreciation and amortization	41.4	
Impairment charge	31.3	
Equity in (earnings)/losses of ventures ...	(8.2)	
Interest income	(3.1)	
Interest expense	2.4	
Foreign currency loss	0.6	
Provision for income taxes	$ 1.9	

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COST OF REVENUE

Our cost of revenue increased by 43% to $91.2 million for the year ended December 31, 2002 from $63.7 million for the year ended December 31, 2001.

CLEC Services. Cost of revenue from CLEC Services increased to $41.3 million, or 45% of revenue, for the year ended December 31, 2002 from $17.4 million, or 39% of revenue, for the year ended December 31, 2001.

The CLEC Services division of TeleRoss' cost of revenue increased by 25% to $10.6 million, or 35% of revenue, for the year ended December 31, 2002 from $8.5 million, or 31% of revenue, for the year ended December 31, 2001. The increase as a percentage of revenue resulted from settlements to other operators not decreasing in line with the pricing concessions to customers.

The CLEC Services division of Golden Telecom BTS cost of revenue decreased by 28% to $6.1 million, or 46% of revenue, for the year ended December 31, 2002 and was $8.5 million, or 52% of revenue, for the year ended December 31, 2001. Cost of revenue decreased as a percentage of revenue due to the suspension of certain lower margin incoming traffic.

For ADS, acquired in September 2001, cost of revenue from CLEC Services was $2.6 million and $0.4 million for the year ended December 31, 2002 and 2001, respectively.

The acquisition of the remaining 50% ownership interest in Sovintel was completed in the third quarter of 2002. We began consolidating Sovintel into our results of operations from September 17, 2002. As a result of consolidating Sovintel, cost of revenue from CLEC Services increased by $20.2 million for the year ended December 31, 2002.

Sovintel's cost of revenue increased by 28% to $81.9 million, or 55% of revenue, for the year ended December 31, 2002 from $63.9 million, or 55% of revenue, for the year ended December 31, 2001. The increase in cost of revenue of 28% is primarily a result of increases in operator settlements as a result of increases in traffic related revenue.

Data and Internet Services. Cost of revenue from Data and Internet Services increased by 22% to $36.8 million, or 47% of revenue, for the year ended December 31, 2002 from $30.2 million, or 48% of revenue, for the year ended December 31, 2001. The decrease as a percentage of revenue was mainly due to the operational improvements in terms of efficient use of available network resources.

Long Distance Services. Cost of revenue from Long Distance Services remained unchanged at $13.5 million, or 72% of revenue, for the year ended December 31, 2002 and was 73% of revenue, for the year ended December 31, 2001. The improvement in cost of revenue as a percentage of revenue is partly due to an increase in end-users in the long distance traffic mix and the decrease in lower margin equipment sales partly offset by additional satellite transponder costs and higher settlement costs to other operators.

Mobile Services. Cost of revenue from Mobile Services decreased by 19% to $3.0 million, or 23% of revenue, for the year ended December 31, 2002 from $3.7 million, or 26% of revenue, for the year ended December 31, 2001. The cost of revenue decreased as a percentage of revenue, mainly as a result of cost controls and a change in the revenue mix from handset sales to traffic revenue.

SELLING, GENERAL AND ADMINISTRATIVE

Our selling, general and administrative expenses decreased by 6% to $46.1 million, or 23% of revenue, for the year ended December 31, 2002 from $48.9 million, or 35% of revenue, for the year ended December 31, 2001. This decrease in selling, general and administrative expenses was mainly due to reductions in employee related costs, advertising, and other selling, general and administrative expenses partially offset by increase in revenue related taxes. The acquisition of the remaining 50% of Sovintel and subsequent consolidation contributed $5.1 million for the year ended December 31, 2002 to selling, general and administrative expenses.

Sovintel's selling, general and administrative expenses increased by 31% to $17.0 million, or 11% of revenue for the year ended December 31, 2002 from $13.0 million, or 11% of revenue for the year ended December 31, 2001. The increase was largely due to a increases in employee related costs, increases in revenue related taxes, and increases in sales and marketing expenses.

DEPRECIATION AND AMORTIZATION

Our depreciation and amortization expenses decreased by 28% to $30.0 million for the year ended December 31, 2002 from $41.4 million for the year ended December 31, 2001. The decrease is in part due to the adoption of SFAS No 142 which requires that goodwill no longer be amortized effective from January 1, 2002 and which reduced our amortization expense by approximately $11.8 million for the year ended December 31, 2002 and also as a result of the impairment charges recorded in the fourth quarter of 2001, which in turn reduced the level of depreciation and amortization recorded for the year ended December 31, 2002 by $7.2 million. These reductions were, in part, offset by depreciation on continuing capital expenditures of the consolidated entities. The acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel as of September 17, 2002 into our results of operations contributed $3.9 million for the year ended December 31, 2002 to depreciation and amortization.

IMPAIRMENT CHARGE

In the fourth quarter of 2001 we recorded impairment charges totaling $31.3 million covering two aspects of our business. Severely reduced expectations in demand for Internet advertising in Russia, as throughout western markets, had impacted the value of our Internet portal assets and as a result we recorded an impairment charge of $20.9 million. Operating difficulties had impacted our mobile business in Ukraine and as a result we recorded an impairment charge of $10.4 million. For further details of these charges, refer to Note 15 of the Notes to the Consolidated Financial Statements. No impairment charge was recorded for the year ended December 31, 2002.

EQUITY IN EARNINGS OF VENTURES

The earnings after interest and tax charges from our investments in non-consolidated ventures were $4.4 million for the year ended December 31, 2002 down from earnings of $8.2 million for the year ended December 31, 2001. We recognized earnings at Sovintel of $9.6 million for the period from January 1 to September 16, 2002, which more than offset our recognized losses in MCT of $5.1 million. For the year ended December 31, 2001, our recognized earnings at Sovintel were $10.7 million, which more than offset our recognized losses in MCT.

INTEREST INCOME

Our interest income was $1.6 million for the year ended December 31, 2002 down from $3.1 million for the year ended December 31, 2001. The decrease in interest income mainly reflects lower interest rates earned on our cash and cash equivalents.

INTEREST EXPENSE

Our interest expense was $2.2 million for the year ended December 31, 2002 down from $2.4 million for the year ended December 31, 2001. Interest expense mainly reflects the effect of higher average balances of debt, including capital leases offset by lower interest rates. Debt, excluding capital lease obligations, at December 31, 2002 was $33.1 million, of this $30.0 million was added in December 2002, compared to $13.2 million at December 31, 2001.

FOREIGN CURRENCY LOSS

Our foreign currency loss was $1.2 million for the year ended December 31, 2002, compared to a $0.6 million loss for the year ended December 31, 2001. The increase in foreign currency loss is due to a combination of movements in exchange rates and changes in the amount of net monetary assets that we have denominated in foreign currencies. The acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel

from September 17, 2002 into our results of operations contributed $0.3 million for the year ended December 31, 2002 to foreign currency losses.

PROVISION FOR INCOME TAXES

Our charge for income taxes was $4.6 million for the year ended December 31, 2002 compared to $1.9 million for the year ended December 31, 2001. The acquisition of the remaining 50% of Sovintel and subsequent consolidation of Sovintel from September 17, 2002 into our results of operations contributed $3.6 million for the year ended December 31, 2002 to income taxes. There were increased levels of taxable profits being incurred in our Russian and Ukrainian subsidiaries and a reduction in the income tax rates for the year ended December 31, 2002 as compared to the year ended December 31, 2001. There was a reduction of deferred tax asset valuation reserves of $2.8 million relating to tax loss carryforwards at TeleRoss and we recognized $0.8 million of current deferred tax assets at GTU.

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 (LOSS) AND NET INCOME (LOSS) PER SHARE

Our net income for the year ended December 31, 2002 was $29.8 million, compared to a net loss of $39.0 million for the year ended December 31, 2001.

Our net income per share of common stock increased to $1.24 for the year ended December 31, 2002, compared to a net loss per share of $1.65 for the year ended December 31, 2001. The increase in net income per share of common stock was due to the increase in net income and offset by an increase in the number of weighted average shares to 24,101,943 at December 31, 2002, compared to 23,604,914 at December 31, 2001.

Our net income per share of common stock on a fully diluted basis increased to $1.21 for the year ended December 31, 2002, compared to a net loss per common share of $1.65 in the year ended December 31, 2001. The increase in net income per share of common stock on a fully diluted basis was due to the increase in net income and offset by an increase in the number of weighted average shares assuming dilution to 24,516,803 in the year ended December 31, 2002, compared to 23,604,914 in the year ended December 31, 2001.

CONSOLIDATED FINANCIAL POSITION

CONSOLIDATED FINANCIAL POSITION AT DECEMBER 31, 2002 COMPARED TO CONSOLIDATED FINANCIAL POSITION AT DECEMBER 31, 2001

On September 17, 2002, we completed the acquisition of the remaining 50% of Sovintel previously held by Rostelecom and began consolidating the results of operations and financial position of Sovintel. Significant fluctuations in certain balance sheet items as of December 31, 2002 as compared to December 31, 2001, were mainly due to the consolidation of Sovintel into our financial position. The most significant fluctuations of certain balance sheet items include accounts receivable, property and equipment, goodwill and intangible assets, investments in and advances to ventures, accounts payable and accrued expenses, deferred tax liabilities and shareholders' equity. Other significant changes in balance sheet items, excluding the effect of consolidating Sovintel are discussed below.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

In addition to the effect of the consolidation of Sovintel, our allowance for doubtful accounts increased from December 31, 2001 as compared to December 31, 2002 mainly due to provisions we made with respect to our preliminary estimate of exposure relating to the bankruptcy of KPNQwest.

DEBT OBLIGATIONS

Our debt position increased from December 31, 2001 as compared to December 31, 2002 mainly due to ROL Holdings drawing upon the Citibank Credit Facility in the fourth quarter of 2002 to retire $30.0 million of the $46.0 million non-interest bearing promissory note issued to Rostelecom in connection with the acquisition of the remaining 50% ownership interest in Sovintel previously held by Rostelecom offset by a repayment of the $6.3 million of debt to GTS and partial repayment of vendor financing to Motorola and Siemens.

MINORITY INTEREST

The decrease in minority interest from December 31, 2001 as compared to December 31, 2002 primarily reflects our acquisition of the remaining 31% minority interest of Golden Telecom (Ukraine) in August 2002.

STOCKHOLDERS' EQUITY

In addition to the increase in shareholders' equity resulting from shares issued to acquire Sovintel, shareholders' equity also increased from December 31, 2001 to 2002 as a result of our net income of $29.8 million and proceeds of approximately $5.9 million received from the exercise of stock options.

CONSOLIDATED RESULTS. CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2001 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2000

REVENUE

Our revenue increased by 24% to $140.0 million for the year ended December 31, 2001 from $113.1 million for the year ended December 31, 2000. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE FOR THE YEAR ENDED DECEMBER 31, 2000	CONSOLIDATED END
REVENUE		
CLEC Services	$ 42.0	
Data and Internet Services	41.5	

Long Distance Services	14.8
Mobile Services	17.5
Eliminations	(2.7)
TOTAL REVENUE	$ 113.1

CLEC Services. Revenue from CLEC Services increased by 7% to $45.1 million for the year ended December 31, 2001 from $42.0 million for the year ended December 31, 2000.

The CLEC Services division of TeleRoss revenue increased by 9% to $27.8 million for the year ended December 31, 2001 from $25.5 million for the year ended December 31, 2000. This is mainly due to increases in monthly recurring and traffic revenue due to an increase in numbering capacity in active service. The CLEC Services division of Golden Telecom BTS revenue decreased by 2% to $16.2 million for the year ended December 31, 2001 from $16.5 million for the year ended December 31, 2000. The decrease in revenue was mainly due to a $1.6 million decrease in revenue in the fourth quarter of 2001, from the termination of incoming international traffic from other carriers, partially offset by increases in recurring revenues from an increased end user customer base.

As a result of the acquisition of ADS in the third quarter of 2001, revenue from CLEC Services increased in 2001 by $1.1 million.

Sovintel's revenue increased by 23% to $115.7 million for the year ended December 31, 2001 from $93.9 million, for the year ended December 31, 2000. Increases in traffic volumes, particularly incoming traffic, more than offset reductions in tariffs. Also, increases in recurring fees, equipment sales and other service offerings contributed to the increase in revenue.

Data and Internet Services. Revenue from Data and Internet Services increased by 52% to $63.2 million for the year ended December 31, 2001 from $41.5 million for the year ended December 31, 2000. The increase is largely the result of increases in Internet revenue from both dial-up and dedicated Internet subscribers, increases in private line channel revenue, increases in Internet traffic and other Internet related revenues Dial-up Internet revenues increased by $4.0 million as a result of our acquisitions of Cityline and Uralrelcom in 2001. We acquired KIS in the second quarter of 2000.

Long Distance Services. Revenue from Long Distance Services increased by 24% to $18.4 million for the year ended December 31, 2001 from $14.8 million for the year ended December 31, 2000. Recurring fees and traffic revenues increased due to an expanding end-user customer base in Moscow and our acquisition of controlling interests in some of the TeleRoss regional ventures. Tariffs for end-user long distance traffic were mainly flat during 2001, with traffic increasing. These increases offset a decline in equipment sales.

Mobile Services. Revenue from Mobile Services decreased by 18% to $14.4 million for the year ended December 31, 2001 from $17.5 million for the year ended December 31, 2000. Despite an increase of approximately 9% in the number of active subscribers at Golden Telecom GSM, pricing competition in Ukraine has reduced average revenue per active subscriber by 29% to approximately $31 per month. Additionally, $0.9 million of the decrease was attributable to Vostok

Mobile Novgorod no longer being consolidated in 2001 as a result of the MCT transaction.

EXPENSES

The following table shows our principal expenses for the year ended December 31, 2001 and December 31, 2000:

	CONSOLIDATED EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2000	CONSOLIDATED E END
COST OF REVENUE		
CLEC Services	$ 15.4	
Data and Internet Services	21.9	
Long Distance Services	12.3	
Mobile Services	4.1	
Eliminations	(2.7)	
TOTAL COST OF REVENUE	51.0	
Selling, general and administrative	45.4	
Depreciation and amortization	31.9	
Impairment charge	--	
Equity in (earnings)/losses of ventures...	0.3	
Interest income	(10.4)	
Interest expense	3.3	
Foreign currency loss	0.4	
Provision for income taxes	$ 1.0	

COST OF REVENUE

Our cost of revenue increased by 25% to $63.7 million for the year ended December 31, 2001 from $51.0 million for the year ended December 31, 2000.

CLEC Services. Cost of revenue from CLEC Services increased to $17.4 million, or 39% of revenue, for the year ended December 31, 2001 from $15.4 million, or 37% of revenue, for the year ended December 31, 2000.

The CLEC Services division of TeleRoss' cost of revenue increased by 13% to $8.5 million, or 31% of revenue, for the year ended December 31, 2001 from $7.5 million, or 29% of revenue, for the year ended December 31, 2000. The increase as a percentage of revenue resulted from settlements to other operators not decreasing in line with the pricing concessions to customers.

The CLEC Services division of Golden Telecom BTS cost of revenue increased by 8% to $8.5 million, or 52% of revenue, for the year ended December 31, 2001 and was $7.9 million, or 48% of revenue, for the year ended December 31, 2000. Cost of revenue increased as a percentage of revenue due to settlements to other operators not decreasing in line with pricing concessions to customers and a lower margin on the carrier traffic carried.

Sovintel's cost of revenue increased by 29% to $63.9 million for the year ended December 31, 2001 from $49.7 million for the year ended December 31, 2000. The increase to 55% from 53% of revenue was primarily the result of increases in lower margin traffic in the revenue mix.

Data and Internet Services. Cost of revenue from Data and Internet Services increased by 38% to $30.2 million, or 48% of revenue, for the year ended December 31, 2001 from $21.9 million, or 53% of revenue, for the year ended December 31, 2000. The decrease as a percentage of revenue was mainly due to the operational improvements in terms of reduced cost for fiber capacity and the integration of our Internet acquisitions.

Long Distance Services. Cost of revenue from Long Distance Services increased by 10% to $13.5 million, or 73% of revenue, for the year ended December 31, 2001 from $12.3 million, or 83% of revenue, for the year ended December 31, 2000. The improvement in cost of revenue as a percentage of revenue is partly due to an increase in end-users in the long distance traffic mix and the decrease in low margin equipment sales.

Mobile Services. Cost of revenue from Mobile Services decreased by 10% to $3.7 million, or 26% of revenue, for the year ended December 31, 2001 from $4.1 million, or 23% of revenue, for the year ended December 31, 2000. The cost of revenue increased as a percentage of revenue due to increased competition, which has in turn led to lower traffic and equipment margins.

SELLING, GENERAL AND ADMINISTRATIVE

Our selling, general and administrative expenses increased by 8% to $48.9 million, or 35% of revenue, for the year ended December 31, 2001 from $45.4 million, or 40% of revenue, for the year ended December 31, 2000. There were increases in employee related costs, largely due to acquisitions and bad debt expense also increased, but the increases were partially offset by a reduction in revenue related taxes.

Sovintel's selling, general and administrative expenses decreased by 23% to $13.0 million, or 11% of revenue for the year ended December 31, 2001 from $16.8 million, or 18% of revenue for the year ended December 31, 2000. The decrease was largely due to a reduction in the rate of revenue related taxes incurred, also reductions in employee related costs and bad debt.

DEPRECIATION AND AMORTIZATION

Our depreciation and amortization expenses increased by 30% to $41.4 million for the year ended December 31, 2001 from $31.9 million for the year ended December 31, 2000. This increase is due to the continuing capital expenditures of the consolidated entities and increased intangible assets and goodwill amortization due to acquisitions.

IMPAIRMENT CHARGE

In the fourth quarter of 2001 we recorded impairment charges totaling $31.3 million covering two aspects of our business. Severely reduced expectations in demand for Internet advertising in Russia, as throughout western markets, had impacted the value of our Internet portal assets and as a result we recorded an impairment charge of $20.9 million. Operating difficulties had impacted our mobile business in Ukraine and as a result we recorded an impairment charge of $10.4 million. For further details of these charges, refer to Note 15 of the Notes to the Consolidated Financial Statements.

EQUITY IN EARNINGS/LOSSES OF VENTURES

The earnings after interest and tax charges from our investments in non-consolidated ventures were $8.2 million for the year ended December 31, 2001, and losses after interest and tax charges from our investment in non-consolidated ventures were $0.3 million for the year ended December 31, 2000. We recognized earnings at Sovintel of $10.7 million for the year ended December 31, 2001, which more than offset our recognized losses in MCT. In the year ended December 31, 2000, our recognized earnings at Sovintel were $5.1 million, which were more than offset by our recognized losses of $5.6 million from our Russian mobile ventures.

INTEREST INCOME

Our interest income was $3.1 million for the year ended December 31, 2001 down from $10.4 million for the year ended December 31, 2000. The decrease in interest income mainly reflects the reduced balance of cash, cash equivalents and investments available for sale following the use of a significant part of the proceeds from our IPO for acquisitions and capital expenditure and the reduction in interest rates during 2001.

INTEREST EXPENSE

Our interest expense was $2.4 million for the year ended December 31, 2001 down from $3.3 million for the year ended December 31, 2000. The decrease in interest expense reflects the reduced level of debt in the company.

FOREIGN CURRENCY LOSS

Our foreign currency loss was $0.6 million for the year ended December 31, 2001, compared to a $0.4 million loss for the year ended December 31, 2000. The increased loss, in part reflects the increased devaluation of the ruble, as compared to the dollar, in the year ended December 31, 2001.

PROVISION FOR INCOME TAXES

Our charge for income taxes was $1.9 million for the year ended December 31, 2001 compared to $1.0 million for the year ended December 31, 2000. The overall increase in the provision for income taxes was due to the increase in tax incurred at Golden Telecom Ukraine, as its brought-forward tax losses had been fully utilized, and the increasing profitability at TeleRoss operating company. TeleRoss operating company's provision for income taxes was reduced by a deferred tax benefit relating to loss carry-forwards that are expected to be utilized in 2002. Russia enacted a reduction in the tax rate effective January 1, 2002, from 35% to 24% There were no deferred tax liabilities impacted by this reduction.

NET LOSS AND NET LOSS PER SHARE

Our net loss for the year ended December 31, 2001 was $39.0 million, compared to $10.3 million for the year ended December 31, 2000. The significant increase in our net loss was due to the impairment charge of $31.3 million, together with the other items discussed above.

Our net loss per share of common stock was $1.65 in the year ended December 31, 2001, compared to $0.43 in the year ended December 31, 2000. The increase in loss per share of common stock was due to the increase in net loss and a decrease in the number of weighted average shares to 23,604,914 in the year ended December 31, 2001, compared to 24,095,884 in the year ended December 31, 2000. The decrease in weighted average shares largely resulted from a buy-back of 2,272,727 shares of our common stock in July, 2001.

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 goodwill and certain acquired intangible assets is not deductible for income tax purposes; and (3) in the year ended December 31, 2001 we recorded a $31.3 million impairment charge that was not deductible for income tax purposes. We have not recorded a tax benefit in relation to our US net operating loss carry-forward amount as our taxable US income is largely comprised of interest income and dividends which we do not expect to continue over the longer term. Prior to 2001 we have not recognized a tax benefit in relation to the deferred tax assets of our Russian and Ukrainian entities due to uncertainty over the application and future development of the tax regimes in the two countries. However, in 2001 and 2002, as a result of our Russian and Ukrainian subsidiaries profitability for Russian and Ukrainian statutory purposes and reasonable certainty of future profits, we recorded deferred tax asset in the appropriate Russian and Ukrainian subsidiaries. In respect of the impairment charge, this created additional deferred tax assets, against which we recorded valuation allowances as a result of the uncertainties concerning future realization of the tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Our cash, cash equivalents and investments available for sale were $59.6 million and $46.4 million as of December 31, 2002 and December 31, 2001, respectively. Of these amounts, our cash and cash equivalents were $59.6 million and $37.4 million as of December 31, 2002 and December 31, 2001, respectively. We have invested funds in money market instruments with an original maturity greater than three months which are classified as investments available for sale. At December 31, 2002 and 2001 our investments available for sale were none and $9.0 million, respectively.

Our total restricted cash was $1.5 million and $3.4 million as of December 31, 2002, and 2001, respectively. The restricted cash is maintained in connection with certain of our debt obligations as described below.

During the twelve months ended December 31, 2002, we had net cash inflows of $50.6 million from our operating activities. During the twelve months ended December 31, 2001, we had net cash inflows of $24.5 million from our operating activities. This increase in net cash inflows from operating activities at December 31, 2002 is mainly due to the achievement of net income, increased revenues, reduction of our operating expenses, and the consolidation of Sovintel into our results of operations and financial position from September 17, 2002. We used cash of $52.2 million and $12.6 million for investing activities for the twelve months ended December 31, 2002 and 2001, respectively, which were principally attributable to building our telecommunications networks and acquisitions. Network investing activities totaled $29.4 million for the twelve months ended December 31, 2002 and included capital expenditures principally attributable to building out our telecommunications network. Network investing activities totaled $27.9 million for the twelve months ended December 31, 2001 and included additional fiber optic capacity between Moscow and Stockholm, fiber optic capacity on major routes within Russia, and the GSM network build out in Odessa, Ukraine. We used cash of $51.2 million for the year ended December 31, 2002 for acquisitions principally attributable to acquiring the remaining 50% of Sovintel. For the year ended December 31, 2001, we used cash of $33.4 million of acquisitions, principally attributable to the acquisitions of Cityline, PTK and Uralrelcom. For the year ended December 31, 2002, we recovered funds from escrow of $3.0 million in association with our acquisition of PTK in June 2001. For the year ended December 31, 2001, we received net proceeds from investments available for sale of $45.4 million and for the year ended December 31, 2002, we received net proceeds from investments available for sale of $9.0 million.

We had working capital of $56.5 million as of December 31, 2002 and $36.0 million as of December 31, 2001. At December 31, 2002, we had total debt, excluding capital lease obligations, of approximately $33.1 million, of which $9.0 million were current maturities. At December 31, 2001, we had total debt, excluding capital lease obligations, of approximately

$13.2 million, of which $9.9 million were current maturities. Total debt included amounts that were fully collateralized by restricted cash. At December 31, 2001 $6.3 million of our short-term debt was at fixed rates. At December 31, 2002 none of our debt was at fixed rates.

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 July 2001, we completed a buy-back of $25.0 million, or approximately 2.3 million shares, of our common stock at $11.00 per share, from a subsidiary of Global TeleSystems Inc. ("GTS"). After this sale, GTS continued to own approximately 0.6 million shares, or approximately 2.6 percent, of our outstanding common stock. To effect the buy-back, we acted as designated purchaser and exercised the options held by Alfa Group ("Alfa"), Capital International Global Emerging Markets Private Equity Fund L.P ("Capital"), and investment funds managed by Barings Vostok Capital Partners ("Baring Vostok") to acquire our common stock for $11.00 per share from GTS. Alfa, Capital, and Baring Vostok acquired these options in conjunction with their acquisition of $125.0 million in our common shares from GTS in May 2001. In October 2001, GTS sold the remaining approximately 0.6 million shares of our common stock and is no longer a stockholder in GTI. In the fourth quarter of 2002, we retired the approximately 2.3 million shares of common stock held as treasury shares.

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, starting in January 2002, and carries interest at the rate of 7 percent per annum.

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, 2002 for all these facilities totaled $1.4 million, of which $0.6 million was funded to our consolidated subsidiaries and $0.8 million was funded to our non-consolidated entities.

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

In September 2002, TeleRoss LLC ("TeleRoss"), a wholly-owned Russian subsidiary, issued a three month $46.0 million non-interest bearing note payable to Rostelecom in partial settlement for the acquisition of the remaining 50% ownership interest in Sovintel previously held by Rostelecom. The note issued by TeleRoss was settled in full in December 2002.

In September 2002, ROL Holdings Limited ("ROLH"), a wholly-owned Cypriot subsidiary, entered into a secured $30.0 million credit facility with ZAO Citibank.

ROLH drew upon the Citibank credit facility in the fourth quarter of 2002 and loaned the funds to TeleRoss to enable TeleRoss to retire $30.0 million of the $46.0 million non-interest bearing promissory note issued to Rostelecom in connection with the acquisition of the remaining 50% ownership interest in Sovintel previously held by Rostelecom. ROLH is required to make four quarterly payments of $7.5 million each plus accrued interest beginning in December 2003. The Citibank credit facility carries interest at a rate equal to the three month USD LIBOR plus 4.35%. At the drawdown of the Citibank Credit Facility, GTI and certain affiliates executed a number of agreements to secure repayment of the Citibank Credit Facility, including a payment guarantee from GTI and Sovintel, pledge of the 50% ownership interest in Sovintel the Company owned prior to the purchase of the remaining 50% ownership interest in Sovintel, pledge of a 58% ownership interest in TeleRoss, commitments of TeleRoss to route at least 90% of TeleRoss' cash flows via accounts at ZAO Citibank, commitments of Sovintel to route at least 60% of Sovintel's cash flows via accounts at ZAO Citibank, and assignment of accounts receivable by TeleRoss and Sovintel.

In the ordinary course of business, we may enter into arrangements with operators and vendors principally for access to telecommunication network and equipment. In September 2002, we entered into a purchase commitment for satellite transmission capacity. The agreement requires 60 monthly payments of $0.1 million each.

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

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

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

As of December 31, 2002, 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				
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	
Short- and long-term debt	$ 33,099	$ 8,988	$ 23,761	$ 350	
Capital lease obligations	8,756	2,388	6,368	--	
Non-cancelable lease obligations	3,654	1,790	1,699	165	
Purchase obligations	8,392	3,082	4,256	844	
Total contractual cash obligations	$ 53,901	$ 16,248	$ 36,084	$ 1,359	$

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK AND TREASURY AND CURRENCY EXPOSURE MANAGEMENT

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 US dollars, 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 US dollars or index their invoices and collections to the applicable dollar 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 dollar 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 US Dollars, however we do have bank accounts denominated in Russian rubles and Ukrainian hryvna. Book value as at December 31, 2002 and 2001 approximates 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. Our investments available for sale were none and $9.0 million as of December 31, 2002 and 2001, respectively, stated at fair value.

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.

	2003	2004	2005	2006	20
Cash equivalents	$ 59,625	$ --	$ --	$ --	$
Investments available for sale					
Variable rate	$ --	$ --	$ --	$ --	$
Average interest rate	--	--	--	--	
Note receivable	$ 1,840	$ 1,972	$ 2,116	$ 1,494	$
Fixed rate	7.00%	7.00%	7.00%	7.00%	
Long-term debt, including current portion					
Fixed rate	$ --	$ --	$ --	$ --	$
Average interest rate	--	--	--	--	