GOLDEN TELECOM INC
Form 10-Q
November 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from __________ to __________

Commission file number: 0-27423

Golden Telecom, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**51-0391303**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Representative Office Golden TeleServices, Inc. **1 Kozhevnichesky Proezd** **Moscow, Russia 115114**	**115114**
(Address of principal executive office)	(Zip Code)

(011-7-501) 797-9300

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer o Accelerated Filer þ Non-accelerated Filer o

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

At November 6, 2006, there were 36,648,913 outstanding shares of common stock of the registrant.

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* Please refer to the special note regarding forward-looking

statements in
this section.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

GOLDEN TELECOM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)
(Unaudited)

	December 31, 2005	September 30, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 67,176	$ 37,179
Accounts receivable, net of allowance for doubtful accounts of $27,327 and $31,087 at December 31, 2005 and September 30, 2006, respectively	91,709	138,269
VAT receivable	21,986	20,954
Prepaid expenses	8,083	8,970
Taxes receivable, excluding VAT	181	1,772
Notes receivable	1,494	405
Deferred tax asset	8,994	10,346
Other current assets	11,334	14,187
TOTAL CURRENT ASSETS	210,957	232,082
Property and equipment, net of accumulated depreciation of $247,096 and $327,414 at December 31, 2005 and September 30, 2006, respectively	407,907	506,050
Goodwill and intangible assets:		
Goodwill	149,249	177,901
Intangible assets, net of accumulated amortization of $60,648 and $81,581 at December 31, 2005 and September 30, 2006, respectively	93,880	99,877
Net goodwill and intangible assets	243,129	277,778
Investments in and advances to ventures	10,889	11,313
Notes receivable		2,500
Restricted cash	566	231
Advances for acquisitions		7,722
Other non-current assets	8,763	11,098
TOTAL ASSETS	$ 882,211	$ 1,048,774

See notes to unaudited condensed consolidated financial statements.

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GOLDEN TELECOM, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)
(Unaudited)

	December 31, 2005	September 30, 2006
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 89,404	$ 127,028
VAT payable	17,190	10,423
Debt maturing within one year		1,340
Current capital lease obligation	1,941	770
Deferred revenue	16,799	20,092
Due to affiliates and related parties	2,470	3,917
Other current liabilities	4,079	5,188
TOTAL CURRENT LIABILITIES	131,883	168,758
Long-term debt, less current portion	27	117
Long-term deferred tax liability	22,287	29,010
Long-term deferred revenue	30,878	34,628
Long-term capital lease obligations	2,340	1,763
Other non-current liabilities		2,600
TOTAL LIABILITIES	187,415	236,876
Minority interest	19,693	27,497
SHAREHOLDERS EQUITY		
Preferred stock, $0.01 par value (10,000,000 shares authorized; none issued and outstanding at December 31, 2005 and September 30, 2006)		
Common stock, $0.01 par value (100,000,000 shares authorized; 36,458,490 and 36,638,413 shares issued and outstanding at December 31, 2005 and September 30, 2006, respectively)	365	366
Additional paid-in capital	671,998	674,194
Deferred equity compensation	(455)	
Retained earnings	3,195	54,232
Accumulated other comprehensive income		55,609
TOTAL SHAREHOLDERS EQUITY	675,103	784,401
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 882,211	$ 1,048,774

See notes to unaudited condensed consolidated financial statements.

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GOLDEN TELECOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2006**	**2005**	**2006**
REVENUE:				
Telecommunication services	$ 168,716	$ 227,144	$ 488,706	$ 599,033
Revenue from affiliates and related parties	1,214	1,573	3,198	4,792
TOTAL REVENUE	169,930	228,717	491,904	603,825
OPERATING COSTS AND EXPENSES:				
Access and network services (excluding depreciation and amortization)	88,345	128,153	254,533	327,154
Selling, general and administrative (excluding depreciation and amortization)	30,967	37,505	87,381	104,955
Depreciation and amortization	20,594	26,389	60,465	72,961
TOTAL OPERATING COSTS AND EXPENSES	139,906	192,047	402,379	505,070
INCOME FROM OPERATIONS	30,024	36,670	89,525	98,755
OTHER INCOME (EXPENSE):				
Equity in earnings of ventures	669	350	501	1,021
Interest income	772	185	1,672	988
Interest expense	(94)	(91)	(531)	(241)
Foreign currency gains (losses)	(125)	73	(364)	1,648
TOTAL OTHER INCOME	1,222	517	1,278	3,416
Income before income taxes and minority interest	31,246	37,187	90,803	102,171
Income taxes	12,014	11,110	30,512	31,880
Minority interest	837	1,848	2,102	3,951
Income before cumulative effect of a change in accounting principle	18,395	24,229	58,189	66,340
Cumulative effect of a change in accounting principle, net of tax of $52				681

NET INCOME	$ 18,395	$ 24,229	$ 58,189	$ 65,659
Basic earnings per share of common stock:				
Income before cumulative effect of a change in accounting principle	$ 0.51	$ 0.66	$ 1.60	$ 1.82
Cumulative effect of a change in accounting principle				0.02
Net income per share basic	$ 0.51	$ 0.66	$ 1.60	$ 1.80
Weighted average common shares basic	36,411	36,633	36,356	36,570
Diluted earnings per share of common stock:				
Income before cumulative effect of a change in accounting principle	$ 0.50	$ 0.66	$ 1.59	$ 1.81
Cumulative effect of a change in accounting principle				0.02
Net income per share diluted	$ 0.50	$ 0.66	$ 1.59	$ 1.79
Weighted average common shares diluted	36,637	36,723	36,595	36,699
Cash dividends per common share	$ 0.20	$	$ 0.60	$ 0.40

See notes to unaudited condensed consolidated financial statements.

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GOLDEN TELECOM, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2006
OPERATING ACTIVITIES:		
Net income	$ 58,189	$ 65,659
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	47,021	57,493
Amortization	13,444	15,468
Equity in earnings of ventures	(501)	(1,021)
Foreign currency (gain) losses	364	(1,648)
Bad debt expense	6,501	6,964
Stock appreciation rights compensation expense		4,626
Cumulative effect of a change in accounting principle, net of tax of $52		681
Other	232	1,177
Changes in assets and liabilities:		
Accounts receivable	(15,103)	(49,948)
Accounts payable and accrued expenses	10,071	32,345
VAT, net	3,849	(5,609)
Other changes in assets and liabilities	4,235	3,669
NET CASH PROVIDED BY OPERATING ACTIVITIES	128,302	129,856
INVESTING ACTIVITIES:		
Purchases of property and equipment and intangible assets	(70,330)	(122,687)
Acquisitions, net of cash acquired	(4,791)	(17,674)
Restricted cash	449	335
Other investing	2,243	(7,201)
NET CASH USED IN INVESTING ACTIVITIES	(72,429)	(147,227)
FINANCING ACTIVITIES:		
Net proceeds from exercise of employee stock options	1,003	2,429
Cash dividends paid	(21,828)	(14,622)
Other financing	(2,660)	(1,465)
NET CASH USED IN FINANCING ACTIVITIES	(23,485)	(13,658)
Effect of exchange rate changes on cash and cash equivalents	(137)	1,032

Net increase (decrease) in cash and cash equivalents	32,251	(29,997)
Cash and cash equivalents at beginning of period	53,699	67,176
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 85,950	$ 37,179

See notes to unaudited condensed consolidated financial statements.

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GOLDEN TELECOM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Basis of Presentation

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

The financial statements included herein are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP) for interim financial reporting and United States Securities and Exchange Commission (SEC) regulations. Certain information and footnote disclosures normally included in complete financial statements prepared in accordance with US GAAP and SEC rules and regulations have been condensed or omitted pursuant to such US GAAP and SEC rules and regulations. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company s financial position, results of operations and cash flows for the interim periods. These financial statements should be read in conjunction with the Company s 2005 audited consolidated financial statements and the notes related thereto. The results of operations for the three and nine months ended September 30, 2006, may not be indicative of the operating results for the full year.

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

Summary of Significant Accounting Policies

Functional Currency

Prior to the third quarter of 2006, the functional currency for all of the Company s foreign subsidiaries was the United States dollar (USD). In the second and the third quarters of 2006, EDN Sovintel LLC (Sovintel), the Company s wholly-owned Russian subsidiary, introduced a semi-fixed USD Russian ruble (RUR) exchange rate for settlements with the majority of its customers. This rate is applicable if the official USD exchange rate set by the Central Bank of Russia (CBR) is below the fixed level. If the RUR depreciates against the USD so that the CBR exchange rate exceeds the fixed level, Sovintel will resume applying the CBR exchange rate, or floating rate, for settlements with its customers. As a result of these changes, the Company reevaluated the functional currency criteria under SFAS No. 52, *Foreign Currency Translation* , and determined that, beginning July 1, 2006, the functional currency of the Company s subsidiaries domiciled in Russia is the RUR. The change was adopted prospectively beginning July 1, 2006 in accordance with SFAS No. 52. No restatement of comparative amounts was made for the change in functional currency. Therefore, the financial statements of the Company s subsidiaries domiciled in Russia on September 30, 2006, were translated into USD using the current rate method. Assets and liabilities were translated at the rate of exchange prevailing at the balance sheet date. Stockholders equity was translated at the applicable historical rate. Revenue and expenses were translated at the monthly average rates of exchange. Translation gains and losses were included as part of accumulated other comprehensive income.

The change in functional currency resulted in a translated value for the opening (i) property and equipment, net, (ii) goodwill and (iii) intangible assets, net, that is approximately $32.2 million, $19.4 million, and $6.7 million higher, respectively, than the amounts reported on June 30, 2006, when the USD was the subsidiaries functional currency. This change in the carrying amount of property and equipment, goodwill and intangible assets has been reflected directly in shareholders equity as part of other comprehensive income. In addition, the Company recorded an opening deferred tax liability of $5.9 million and an opening minority interest of $1.1 million in association with the change in functional currency. The impact of the change in functional currency resulted in a $1.6 million increase in depreciation and amortization, a $0.7 million decrease in foreign currency gain, and a $0.8 million decrease in income taxes for the three months ended September 30, 2006.

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income* , requires the reporting of comprehensive income in addition to net income. Accumulated other comprehensive income includes foreign currency translation adjustments. For the three and nine months ended September 30, 2006, as a result of the change in functional currency described previously in this Note, total comprehensive income included, in addition to net income, the effect of translating RUR denominated financial statements of the Company s subsidiaries domiciled in Russia into the Company s reporting currency, in accordance with SFAS No. 52.

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GOLDEN TELECOM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Comprehensive income comprises the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
	(in thousands)			
Net income	$ 18,395	$ 24,229	$ 58,189	$ 65,659
Foreign currency translation adjustment		55,609		55,609
Comprehensive income	$ 18,395	$ 79,838	$ 58,189	$ 121,268

Intangible Assets

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

		As of December 31, 2005		As of September 30, 2006	
		(in thousands)			
	Weighted Average Amortization Lives	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Amortized intangible assets:					
Telecommunications service contracts	10 years	$ 99,366	$ (32,009)	$ 112,793	$ (43,906)
Contract-based customer relationships	5 years	36,849	(18,241)	41,468	(26,238)
Licenses	11 years	7,176	(3,182)	13,095	(4,044)
Other intangible assets	5 years	11,137	(7,216)	14,102	(7,393)
Total		$ 154,528	$ (60,648)	$ 181,458	$ (81,581)

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

Stock-Based Compensation

Until January 1, 2006, the Company followed the provisions of Statement on Financial Accounting Standard (SFAS) No. 123, *Accounting for Stock-Based Compensation,* for its Equity Participation Plan and Stock Appreciation Rights (SARs) Plans. SFAS No. 123 generally allowed companies to either account for stock-based compensation under the fair value method of SFAS No. 123 or under the intrinsic value method of Accounting Principles Board (APB) No. 25, *Accounting for Stock Issued to Employees.* The fair value method required compensation cost to be measured at the grant date based on the value of the award and to be recognized over the service period. The Company had elected to account for its stock-based compensation in accordance with the provisions of APB No. 25 and present pro forma disclosures of results of operations as if the fair value method had been adopted.

The effect of applying SFAS No. 123 on the reported net income and net income per share for the three and nine months ended September 30, 2005 is as follows:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(in thousands, except per share data)	
Net income, as reported	$ 18,395	$ 58,189
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	145	475
Pro forma net income	$ 18,250	$ 57,714
Net income per share:		
Basic as reported	$ 0.51	$ 1.60
Basic pro forma	0.50	1.59
Diluted as reported	0.50	1.59
Diluted pro forma	0.50	1.58

GOLDEN TELECOM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R (revised 2004), *Share Based Payment* , which is a revision of SFAS No. 123. SFAS No. 123R supersedes APB No. 25, and amends SFAS No. 95, *Statement of Cash Flows* . Under SFAS No. 123R, companies must calculate and record the cost of equity instruments, such as stock options or restricted stock, awarded to employees for services received in the income statement; pro forma disclosure is no longer permitted. The cost of the equity instruments is to be measured based on the fair value of the instruments on the date they are granted or, if the number of shares to be issued or the exercise price is unknown, remeasured at each reporting date and is required to be recognized over the period during which the employees are required to provide services in exchange for the equity instruments. In April 2005, the SEC delayed the effective date of SFAS No. 123R until January 1, 2006 for calendar year companies.

The Company adopted SFAS No. 123R as of January 1, 2006 using the modified prospective method which requires the application of SFAS No. 123R in its accounting for SARs and stock options. Prior to the adoption of SFAS No. 123R, the Company accounted for SARs by remeasuring the intrinsic value of the SARs at each reporting period and adjusted compensation expense and the related liability for the change in the intrinsic value. From January 1, 2006, the Company accounts for SARs at fair value. In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R.

The impact of the adoption of SFAS No. 123R was an increase in cost of revenue of approximately $0.4 million, an increase in selling, general and administrative expense of approximately $4.2 million, including the associated payroll taxes, and a deferred tax benefit of approximately $0.6 million for the nine months ended September 30, 2006. In addition, the Company recorded a cumulative effect of a change in accounting principle of $0.7 million, net of tax, representing the difference between the fair value and the intrinsic value of SARs at January 1, 2006. The total impact of the adoption of SFAS No. 123R was a reduction in net income of approximately $4.7 million, net of tax, for the nine months ended September 30, 2006, equivalent to $0.13 per common share basic and $0.13 per common share diluted, representing compensation expense in connection with SARs (see note 6). Compensation expense recorded in connection with outstanding stock options was negligible for the nine months ended September 30, 2006.

The impact of the adoption of SFAS No. 123R was an increase in cost of revenue of approximately $0.2 million, an increase in selling, general and administrative expense of approximately $2.1 million, including the associated payroll taxes, and a deferred tax benefit of approximately $0.2 million for the three months ended September 30, 2006. The total impact of the adoption of SFAS No. 123R was a reduction in net income of approximately $2.1 million, net of tax, for the three months ended September 30, 2006, equivalent to $0.06 per common share basic and $0.06 per common share diluted, representing compensation expense in connection with SARs (see note 6). There was no compensation expense recorded in connection with outstanding stock options for the three months ended September 30, 2006.

Income Taxes

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

Use of Estimates in Preparation of Financial Statements

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

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GOLDEN TELECOM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Comparative Figures

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

Recent Accounting Pronouncements

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets*. SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets. SFAS No. 153 amends APB No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of the provisions of SFAS No. 153 did not have a material impact on the Company s results of operations, financial position or cash flow.

Accounting Changes and Error Corrections

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

Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes an interpretation of SFAS Statement 109*, which clarifies the accounting for uncertainty in tax positions. FIN No. 48 creates a single model to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN No. 48 scopes out income taxes from FASB No. 5, *Accounting for Contingencies*. The provisions of FIN No. 48 are effective for financial statements for fiscal years beginning after December 15, 2006. The Company is currently examining FIN No. 48 to determine whether it will have a material impact on the Company s financial position, results of operations, or cash flow.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which establishes a framework for measuring fair value in US GAAP, and expands disclosures about fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has not yet assessed the impact of adopting SFAS No. 157.

GOLDEN TELECOM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Prior Year Misstatements

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 (SAB 108), *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements.* SAB 108 eliminates the diversity of practice surrounding how public companies quantify financial statement misstatements. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company s financial statements and the related financial statement disclosures. SAB 108 must be applied to annual financial statements for their first fiscal year ending after November 15, 2006. The Company does not expect SAB 108 to have a material impact on the Company s financial position, results of operations or cash flows.

Note 3: Net Income Per Share

Basic earnings per share at September 30, 2005 and 2006 are computed on the basis of the weighted average number of common shares outstanding. Diluted earnings per share at September 30, 2005 and 2006 are computed on the basis of the weighted average number of common shares outstanding plus the effect of outstanding employee stock options using the treasury stock method. The number of stock options excluded from the diluted earnings per share computation, because their effect was antidilutive for the three and nine months ended September 30, 2005 and 2006 was 10,000 stock options.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2006	2005	2006
	(in thousands, except per share data)			
Income before cumulative effect of a change in accounting principle	$ 18,395	$ 24,229	$ 58,189	$ 66,340
Weighted average outstanding of:				
Common stock shares	36,411	36,633	36,356	36,570
Dilutive effect of:				
Employee stock options	226	90	239	129
Common stock and common stock equivalents	36,637	36,723	36,595	36,699
Net income per share before cumulative effect of a change in accounting principle:				
Basic	$ 0.51	$ 0.66	$ 1.60	$ 1.82
Diluted	$ 0.50	$ 0.66	$ 1.59	$ 1.81

Note 4: Business Combinations

In March 2006, the Company completed the acquisition of 70% ownership interest in ZAO Tatar Intellectual Communications (Tatintelcom), an Internet service provider (ISP) in the Russian Republic of Tatarstan, for approximately $4.0 million of cash consideration. The Company has consolidated the financial position of Tatintelcom as of March 31, 2006 and the results of operations of Tatintelcom from April 1, 2006.

The Company s consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately $1.8 million to telecommunications services contracts intangible assets which will be amortized over a weighted average period of approximately 10 years and $1.9 million to other intangible assets which will be amortized over a weighted average period of approximately 10 years. The excess of the purchase price over the fair value of the net assets acquired of approximately $0.9 million has been assigned to goodwill and is not deductible for tax purposes. The purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets. Approximately $0.3 million of this goodwill has been assigned to Business and Corporate Services reportable segment and approximately $0.6 million has been assigned to Carrier and Operator reportable segment. In accordance with SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company will not amortize the goodwill recorded in connection with the above acquisitions. The goodwill will be tested for impairment at least annually.

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GOLDEN TELECOM, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

In April 2006, the Company completed the acquisition of 100% ownership interest in TTK LLC (TTK), a fixed line alternative operator in the Ivano-Frankovsk region of Ukraine, for approximately $3.8 million consisting of cash consideration of $3.4 million and $0.4 recorded as a liability. The Company has consolidated the financial position of TTK from April 30, 2006 and the results of operations of TTK from May 1, 2006.

The Company s consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately $0.4 million to telecommunications services contracts intangible assets which will be amortized over a weighted average period of approximately 10 years. The excess of the purchase price over the fair value of the net assets acquired of approximately $2.0 million has been assigned to goodwill and is not deductible for tax purposes. The purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets. This goodwill has been assigned to Business and Corporate Services reportable segment. In accordance with SFAS No. 141, *Business Combinations* , and SFAS No. 142, *Goodwill and Other Intangible Assets* , the Company will not amortize the goodwill recorded in connection with the above acquisitions. The goodwill will be tested for impairment at least annually.

In June 2006, the Company completed the acquisition of 74% ownership interest in Kubtelecom LLC (Kubtelecom), a fixed line alternative operator in the Krasnodar region of Russia, for approximately $10.1 million of cash consideration, plus the assumption of $1.0 million of debt. The Company has consolidated the financial position of Kubtelecom from June 30, 2006. However, given the proximity of the acquisition to the Company s quarter end, consolidation of Kubtelecom s results of operations commenced from July 1, 2006. See note 7 concerning litigation in association with the acquisition of Kubtelecom.

The Company s consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately $0.5 million to contract based customer relationship intangible assets which will be amortized over a weighted average period of approximately 10 years and $0.6 million to other intangible assets which will be amortized over a weighted average period of approximately 10 years. The excess of the purchase price over the fair value of the net assets acquired of approximately $3.7 million has been assigned to goodwill and is not deductible for tax purposes. The purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets. Approximately $3.0 million of this goodwill has been assigned to Business and Corporate Services reportable segment, approximately $0.4 million has been assigned to Carrier and Operator reportable segment, and approximately $0.3 million has been assigned to Consumer Internet reportable segment. In accordance with SFAS No. 141, *Business Combinations* , and SFAS No. 142, *Goodwill and Other Intangible Assets* , the Company will not amortize the goodwill recorded in connection with the above acquisitions. The goodwill will be tested for impairment at least annually.

In August 2006, the Company completed the acquisition of 100% ownership interest in Telcom LLC (Telcom), a fixed line alternative operator in Nizhny Novgorod, Russia, for approximately $1.7 million cash consideration. The Company has consolidated the results of operations and financial position of Telcom from August 1, 2006.

The Company s consolidated financial statements reflect the preliminary allocation of the purchase price based on a preliminary fair value assessment of the assets acquired and liabilities assumed, and as such, the Company has assigned approximately $0.1 million to telecommunications services contracts intangible assets which will be amortized over a weighted average period of approximately 10 years. The excess of the purchase price over the fair value of the net assets acquired of approximately $0.8 million has been assigned to goodwill and is not deductible for tax purposes. The purchase price allocation will be finalized upon completion of the valuation of the acquired fixed and intangible assets. This goodwill has been assigned to Business and Corporate Services reportable segment. In accordance with SFAS No. 141, *Business Combinations* , and SFAS No. 142, *Goodwill and Other Intangible Assets* , the Company will not amortize the goodwill recorded in connection with the above acquisitions. The goodwill will be tested for impairment at least annually.

In July 2006, the Company paid $7.5 million in cash for the acquisition of 75% ownership interest in S-Line LLC (S-Line), an early-stage wireless broadband enterprise in Kiev, Ukraine, which closed on October 25, 2006. In conjunction with this transaction, the Company also entered into an agreement whereby the Company provided a secured loan of $2.5 million to the seller. The loan is secured by the pledge of the remaining 25% interest in S-Line and matures in November 2010.

The impact of the above acquisitions on the operating results of the Company for the three and nine months ended September 30, 2006, if presented on a pro-forma basis, would not have been material.

GOLDEN TELECOM, INC.
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Note 5: Shareholders Equity

Common Stock

The Company s outstanding shares of common stock increased by 76,500 shares and 177,358 shares in the nine months ended September 30, 2005 and 2006, respectively, which were issued in connection with the exercise of employee stock options. In March 2006, the Company cancelled 5,814 restricted shares of the Company s common stock.

At September 30, 2006, there were 14,060 unvested restricted shares of the Company s common stock outstanding with a value of $0.4 million. Unvested restricted shares of 5,681 relate to restricted shares issued to senior management of the Company in August 2005 and vest gradually over approximately two years. The remaining 8,379 unvested restricted shares relate to restricted shares issued to certain members of the Board of Directors of the Company in May 2006 and vest after one year.

Dividends

In February 2006, the Board of Directors of the Company declared a cash dividend of $0.20 per common share to shareholders of record as of March 17, 2006. The Company paid the total amount of approximately $7.3 million to shareholders on March 31, 2006.

In June 2006, the Board of Directors of the Company declared a cash dividend of $0.20 per common share to shareholders of record as of June 16, 2006. The Company paid the total amount of approximately $7.3 million to shareholders on June 30, 2006.

Note 6: Stock Option and Stock Appreciation Rights Plans

The Company has established the 1999 Equity Participation Plan of Golden Telecom, Inc. (the Option Plan) and granted stock options to key employees and members of the Board of Directors of the Company. Under the Option Plan not more than 4,320,000 shares of common stock (subject to anti-dilution and other adjustment provisions) are authorized for issuance upon exercise of options or upon vesting of restricted or deferred stock awards. Options granted to key employees of the Company under the Option Plan vest over a three-year term from the date of grant with one-third vesting after one year and one thirty-sixth vesting each month thereafter and expire ten years from the date of grant. Options granted to members of the Board of Directors of the Company under the Option Plan vest over a one-year term from the date of grant and expire five years from the date of grant. At September 30, 2006, there were 195,654 stock options outstanding under the Option Plan. No stock options were granted during the nine months ended September 30, 2006.

In September 2005, the Company granted SARs to the Company s Chief Executive Officer (CEO) with respect to 200,000 shares of the Company s common stock, at a share price which was the closing price of the Company s common stock on the NASDAQ National Market on July 19, 2005 (CEO Granting Share Price), which was $29.83, one-third of which shall be and become vested and nonforfeitable on each of the first three anniversary dates from September 1, 2005, provided the CEO remains continuously employed by the Company until each such relevant date. The SARs shall be fully vested if there is a change in control. If, prior to February 28, 2009 and during the CEO s period of employment with the Company, the average closing stock price of one share of the Company s common stock on the NASDAQ National Market, or any such other exchange on which the Company s common stock may then be traded, exceeds $50.00 during any thirty day consecutive period, the CEO will be granted SARs for an additional 200,000 shares of the Company s common stock at the CEO Granting Share Price, which SARs shall be fully vested upon issuance. On September 7, 2006, the Compensation Committee of the Board of Directors extended the performance vesting period for SARs granted to the CEO to February 28, 2009 from August 31, 2008. The SARs granted do not have a contractual term. However, all SARs shall be cancelled, and the Company shall make a payment to the CEO upon the termination of employment for any reason with respect of the SARs vested. The SARs provide for a cash only settlement and the related obligation is recorded as a liability in the consolidated financial statements.

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The Golden Telecom, Inc. 2005 Stock Appreciation Rights Plan (2005 SAR Plan) and the EDN Sovintel 2005 Stock Appreciation Rights Bonus Plan (Sovintel SAR Plan), which are approved by the Company s Board of Directors, permit the grant of SARs to the Company s senior management and employees. SAR awards are granted at a share price which is the lower of: (i) the average between the high and low sales price per share of the Company s common stock on the grant date, or in case no such sale takes place on the grant date, the last date on which a sale occurred or (ii) the average closing sales price per share of the Company common stock for the fourteen trading days immediately preceding such date (Granting Share Price). Seventy-five percent of the SAR grant shall be subject to time vesting, one-third of which shall be and become vested and nonforfeitable on each of the first three anniversary dates from the grant date, provided that the employee remains continuously employed by the Company until each such relevant date. The Granting Share Price shall increase by five percent on each anniversary date after the grant date in association with the SARs that shall be and become vested and nonforfeitable on each such anniversary date. Twenty-five percent of the SARs granted are subject to performance vesting upon the Company s common stock achieving a closing trading price of at least $50.00 per share for thirty consecutive days as determined in the sole discretion of the Company. If the Company s Common Stock does not achieve a closing trading price of at least $50.00 per share for thirty consecutive days within three years of the date of grant, such portion of the SARs shall expire by its terms and shall not be exercisable. On September 7, 2006, the Compensation Committee of the Board of Directors extended the performance vesting period for the SARs granted on December 12, 2005 to February 28, 2009 from December 12, 2008. The SARs have a contractual term of 5 years. The aggregate number of shares of common stock which may be issued pursuant to the 2005 SAR Plan at the discretion of the grantees, shall be 200,000 shares. The SARs issued pursuant to the Sovintel SAR Plan provide for a cash only settlement. The related obligation is recorded as a liability in the consolidated financial statements.

The fair value of each SAR award is estimated at the end of each reporting period using the Monte Carlo simulation-based valuation model that uses the assumptions described in the table below. Estimated volatilities are based on historical volatility of the Company s stock for the period matching the awards expected term. The Company uses historical data to estimate SAR exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered together for valuation purposes. The expected term of SARs granted is derived from the output of the SAR valuation model and represents the period of time that SARs granted are expected to be outstanding. The risk-free rate for periods within the expected term of the SAR is based on the US Treasury yield curve in effect at the end of the reporting period.

	Nine Months Ended September 30, 2006
Weighted-average volatility	45.4%
Expected dividend yield	2.6%
Expected term	1.34 5 years
Risk-free rate	4.6%

A summary of activity under the SAR Plans, including the CEO SARs, as of September 30, 2006, and changes during the nine months then ended is presented below:

	SARs	**Weighted Average Exercise Price**	**Aggregate Intrinsic Value**

			(in thousands)
Outstanding at January 1, 2006	1,251,800	$29.19	
SARs granted	177,000	27.94	
SARs exercised			
SARs expired			
SARs forfeited	(106,400)	28.91	
Outstanding at September 30, 2006	1,322,400	29.04	$ 1,604
Exercisable at September 30, 2006	66,667	$29.83	$ 28

The weighted-average fair value of SARs outstanding as of September 30, 2006 was $10.57 per SAR. As of September 30, 2006, there was $5.8 million of total unrecognized compensation cost related to non-vested SARs awards. That cost is expected to be recognized over a weighted-average requisite service period of 2.3 years.

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Note 7: Commitments and Contingencies

Tax Matters

The Company s policy is to accrue for contingencies in the accounting period in which a liability is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with the Commonwealth of Independent States Taxes (CIS Taxes), the Company s final CIS Taxes may be in excess of the estimated amount expensed to date and accrued at September 30, 2006. It is the opinion of management that the ultimate resolution of the Company s CIS Tax liability, to the extent not previously provided for, will not have a material effect on the financial condition of the Company. However, depending on the amount and timing of an unfavorable resolution of any contingencies associated with CIS Taxes, it is possible that the Company s future results of operations or cash flows could be materially affected in a particular period.

Sovintel is engaged in litigation with the Russian tax inspectorate in regard to claims issued by the tax inspectorate on February 1, 2006. The Russian tax inspectorate claimed that Sovintel owes taxes, fines and penalties in the amount of $1.9 million for the years ended December 31, 2002 and 2003. On February 16, 2006, Sovintel filed a lawsuit against the tax inspectorate disputing the claims. The court ruled in favor of the Company by dismissing the tax inspectorate s claim in three instances. The Company expects that the tax inspectorate will not appeal this decision. The term for appeal will expire on January 10, 2007. The Company considers a favorable outcome probable for this claim.

Sovintel is engaged in litigation with the Russian tax inspectorate in regard to claims issued by the tax inspectorate on September 25, 2006. The Russian tax inspectorate claimed that Sovintel owes taxes, fines and penalties in the amount of $21.9 million for the years ended December 31, 2004 and 2005. On October 4, 2006, Sovintel filed a lawsuit against the tax inspectorate disputing the claims. The preliminary court hearing was held on November 8, 2006. The Company expects that the first instance court decision will take place in December 2006. Currently, the Company does not consider an unfavorable outcome probable for this claim. In October 2006, ZAO International Moscow Bank, a related party, provided a bank guarantee for up to 534,000,000 RUR, equivalent to $20.0 million, for Sovintel s obligation in connection with this claim.

Starting in 2006, the Russian tax inspectorate, in the course of tax audits of Russian long-distance telecom operators, started to challenge the offset of VAT relating to the cost of international telecommunication services. Therefore, there is a risk that the Company may be assessed additional VAT, fines and penalties on similar issues. The amount of such risk relating to the years ended December 31, 2004 and 2005 is included in the $21.9 million tax claim currently disputed, as disclosed above. The amount of similar risk relating to the nine months ended September 30, 2006 is assessed as being up to $8.5 million. Should the Russian tax inspectorate assert such claim, the Company believes it has meritorious defenses to successfully dispute such claim and defend its position in court. However, due to the fact that court cases on such matters are appearing for the first time, the expected outcome of such cases is currently unclear.

Russian Environment and Current Economic Situation

While there have been improvements in the Russian economy, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reform and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

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On January 1, 2004, a new Law on Communications (the Telecommunications Law) came into effect in Russia. While some of the supporting regulations to implement the Telecommunications Law have not been enacted, the Russian government approved in March 2005 new rules for interconnection (the Interconnection Rules) that became effective on January 1, 2006. These Interconnection Rules contemplate a new three-layer interconnection system consisting of domestic long distance / international long distance (DLD/ILD), zonal, and local operators. Under this new structure, end-users will have the right to choose a long-distance operator and DLD/ILD operators will be required to have interconnection points in each of the 88 constituent territories of the Russian Federation. In addition, the Telecommunications Law created a universal service fund (USF) charge, which became effective May 3, 2005, calculated as 1.2% of revenue from services provided to customers, excluding interconnection and other operators traffic routing revenue. The Company has incurred approximately $3.3 million in USF charges for the nine months ended September 30, 2006, which is recorded as part of cost of revenue. On February 28, 2006, the Constitutional Court of the Russian Federation ruled that the provisions of the Telecommunications Law relating to the USF charge do not comply with the Constitution of the Russian Federation and shall become null and void as of January 1, 2007, unless the Telecommunications Law is amended prior to that date. The Constitutional Court established that essential criteria of the charge, including the maximum rate and basis of calculation, must be established by law and not by the government. In August 2006, the Russian government submitted to the Russian Parliament draft amendments to the Telecommunications Law establishing essential criteria of the USF charge. On October 18, 2006, the Russian Parliament approved these amendments in the first hearing. To become a law, these amendments need to pass through three hearings in the lower house of the Russian Parliament, the State Duma, be approved by the upper house, the Federation Council, and signed by the Russian President.

On May 31, 2005, the Company received a DLD/ILD license in Russia valid until May 31, 2012. The Company is required under the license to begin providing services and fulfill the network requirements specified in the Interconnection Rules not later than May 31, 2007. The Company has constructed a Federal Transit Network (FTN) in compliance with the Telecommunications Law and the DLD/ILD license. The FTN consists of four international communications transit nodes, seven intercity communications transit nodes deployed in each federal district of Russia, and 88 connection points or FTN access nodes located in each constituent territory of Russia. The Company has obtained the required governmental permissions for operation of all the international and intercity communications transit nodes that are part of the FTN. On April 28, 2006, all of the 88 connection points were formally commissioned by Rossvyaznadzor, a governmental body that reports to the Russian Ministry of Telecommunications that is responsible for the control and the supervision of information technology and communications as well as for commissioning the long-distance networks. On March 27, 2006, the Russian Ministry of Telecommunications announced the introduction of the new technical requirements for the formal grant of the access codes. The new rules, effective from March 3, 2006, require the long distance networks to be interconnected with all zonal networks. The Company has concluded interconnection agreements with all Russian zonal incumbent fixed line telecommunications operators. The Company has submitted all documentation necessary for operation of the FTN and for receipt of the access codes. On September 27, 2006, the Company submitted to Rossvyaznadzor all documentation necessary for the operation of our FTN and for receipt of access codes for long distance services including 110 signed protocols of interconnection with zonal operators. On October 31, 2006, the Company received a formal reply from Rossvyaznadzor indicating that in 4 cases the protocols of interconnection were inaccurately filed and that in 3 cases new zonal operators emerged on the list and, as a result, the Company should sign and file the appropriate interconnection agreements with these new operators. The Company has signed agreements with 2 out of 3 new zonal operators.

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On October 19, 2005, the Russian government enacted the Rules on Price Establishment for Interconnection and Traffic Routing. These rules list interconnection services and traffic routing services provided by the incumbent operators that are subject to pricing regulation by the government. The effective utilization and implementation of the Russian long distance license is subject to and dependent upon the establishment of tariffs for interconnection and traffic routing services to be provided by incumbent OAO Svyazinvest (Svyazinvest) state-owned companies and other incumbent operators. The tariffs are paid by long distance operators to the incumbent local and zonal operators for each minute of long distance traffic that is carried such that all long distance operators are cross-subsidizing the local and zonal network of the incumbent operators. Such cross-subsidy will continue until January 1, 2008. By that date, the new pricing setting mechanisms and tariff re-balancing should be fully implemented. During the first half of 2006, in the absence of the regulated tariffs most of the incumbent operators, including all of Svyazinvest companies, imposed their own independently established tariffs on alternative long distance, zonal and local operators. On June 19, 2006, Rossvyaznadzor established the maximum limits for such tariffs. The incumbent operators are permitted to impose tariffs on alternative long distance, zonal and local operators within established limits. As a result, effective July 1, 2006, tariffs for interconnection with the incumbent zonal operators decreased. To minimize the impact of such payments to the incumbent operators, the Company has received licenses to provide zonal services in all the regions of the Russian Federation. During the nine months of 2006, the Company began construction of the zonal networks in 12 regions of the Russian Federation. The Company has completed construction of zonal networks in St. Petersburg and in the Kaliningrad region of Russia. In total, the Company is planning to construct zonal networks in 28 to 30 regions by the end of 2008. However, in those regions where the Company has not completed construction of zonal networks the Company will be required to act as an agent for zonal carriers, billing clients for intra-zonal calls and collecting payments on behalf of the zonal operators. The Company is still analyzing these changes in settlements with zonal operators to determine the impact on its business.

Other Commitments and Contingencies

In September 2006, Sovintel entered into a short term, revolving, credit facility for up to $15.0 million with Citibank. As of September 30, 2006, Sovintel has not borrowed funds under this credit facility. In October 2006, Sovintel entered into short term, revolving, credit facility for up to 534,000,000 RUR, equivalent to $20.0 million, with ZAO International Moscow Bank, a related party.

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

The Company has future purchase commitments of $106.9 million as of September 30, 2006. These purchase commitments primarily include the Company s contractual legal obligations for the future purchase of equipment, interconnection, and satellite transponder capacity.

Other Matters

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

In April 2006, the National Commission for Communication s Regulation in Ukraine issued a license for GSM-1800 radio frequency to Golden Telecom (Ukraine) (GTU), the Company s subsidiary in Ukraine. Currently, GTU provides services in Kiev and Odessa. The new license enables GTU to offer mobile services in 22 out of the remaining 25 regions of Ukraine. Payment of the $5.5 million license fee was made on May 10, 2006. In May 2006, the Company began using the frequencies and submitted registration documents to UkrChastotNadzor, a Ukrainian governmental body that is responsible for the control and the supervision of the radio frequencies. However, to date, the Company has not received official confirmation from UkrChastotNadzor that the Company has complied with the license requirements.

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The Company is currently engaged in litigation with a minority shareholder of Kubtelecom in regard to the shareholder s claim that the shareholders s pre-emptive right to acquire 74% ownership in Kubtelecom was breached. The Company does not consider an unfavorable outcome probable for this claim. However, in case of an unfavorable outcome of this litigation, the Company may be forced to unwind the Kubtelecom acquisition.

Note 8: Investments in and Advances to Ventures

The Company has various investments in ventures that are accounted for by the equity method. The Company s ownership percentages in its equity method investments range from approximately 50% to 54%.

The components of the Company s investments in and advances to ventures are as follows:

	As of December 31, 2005	As of September 30, 2006
	(in thousands)	
Equity in net assets acquired	$ 11,565	$ 12,537
Goodwill as part of investment	1,313	1,313
Difference between fair value and historical value of assets acquired	(1,095)	(1,290)
Cash advances and other	(894)	(1,247)
Total investments in and advances to ventures	$ 10,889	$ 11,313

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

Note 9: Segment Information

Line of Business Data

The Company operates in four segments within the telecommunications industry. The four segments are: (1) Business and Corporate Services; (2) Carrier and Operator Services; (3) Consumer Internet Services; and (4) Mobile Services. The following tables present financial information for both consolidated subsidiaries and equity investee ventures, segmented by the Company s lines of businesses for the three and nine months ended September 30, 2005 and 2006, respectively. Transfers between lines of businesses are included in the adjustments to reconcile segment to consolidated results. The Company evaluates performance based on the operating income (loss) of each strategic business unit, among other performance measures. In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information , the Company has presented the following four segments consistent with the information used by the chief operating decision maker to manage the operations for purposes of making operating decisions and allocating resources.

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	Business and Corporate	Carrier and Operator	Consumer Internet	Mobile Services	Corporate & Eliminations	Business Segment Total	Consolidated Results	Adjustments to Reconcile Business Segment to Consolidated Results: Equity Method Ventures	Adjustments to Reconcile Business Segment to Consolidated Results: Affiliate Adjustments
	(in thousands)								
Three Months Ended September 30, 2005									
Revenue from external customers	$ 99,544	$ 56,736	$10,093	$3,558	$	$169,931	$169,930	$ (603)	$602
Intersegment revenue		12			(12)				
Operating income (loss)	27,811	8,000	(1,240)	857	(5,314)	30,114	30,024	(90)	
Identifiable assets	473,149	295,295	61,762	3,724	33,909	867,839	864,879	(2,960)	
Capital expenditures	21,406	7,933	3,690	79	17	33,125	32,995	(130)	

	Business and Corporate	Carrier and Operator	Consumer Internet	Mobile Services	Corporate & Eliminations	Business Segment Total	Consolidated Results	Adjustments to Reconcile Business Segment to Consolidated Results: Equity Method Ventures	Adjustments to Reconcile Business Segment to Consolidated Results: Affiliate Adjustments
	(in thousands)								
Three Months Ended September 30, 2006									
	$129,723	$ 87,830	$11,340	$2,428	$	$ 231,321	$ 228,717	$ (4,683)	$2,079

Revenue from external customers									
Intersegment revenue		14			(14)				
Operating income (loss)	35,564	9,774	(2,723)	152	(5,030)	37,737	36,670	(1,067)	
Identifiable assets	589,160	407,521	83,270	9,852	(11,328)	1,078,475	1,048,774	(29,701)	
Capital expenditures	25,382	10,880	6,894	2,412	2	45,570	44,450	(1,120)	

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

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

Nine Months Ended September 30, 2006

Revenue from external customers	$346,155	$221,651	$35,842	$7,639	$	$ 611,287	$ 603,825	$(12,772)	$5,310
Intersegment revenue		35			(35)				
Operating income (loss)	92,580	24,205	(2,419)	1,187	(13,952)	101,601	98,755	(2,846)	
Identifiable assets	589,160	407,521	83,270	9,852	(11,328)	1,078,475	1,048,774	(29,701)	
Capital expenditures	68,505	28,280	14,856	8,073	31	119,745	117,910	(1,835)	

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Geographic Data

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

The Company operated within two main geographic regions of the CIS: Russia and Ukraine. Geographic information as of three and nine months ended September 30, 2005 and 2006 is as follows:

	Russia	Ukraine	Corporate, Other Countries & Eliminations	Consolidated Results
			(in thousands)	