GOLDEN TELECOM INC
Form 10-Q
November 09, 2001

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

(COMMISSION FILE NUMBER: 0-27423)

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

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

REPRESENTATION OFFICE GOLDEN TELESERVICES, INC.
12 TRUBNAYA ULITSA
MOSCOW, RUSSIA 103045
(Address of principal executive office)

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

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

At November 9, 2001 there were 22,349,231 outstanding shares of common stock of the registrant.

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

PART I. FINANCIAL INFORMATION

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

GOLDEN TELECOM, INC.

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

	DECEMBER 31, 2000 (AUDITED)	SEPTEMBER 30, 2001 (UNAUDITED)
ASSETS		

CURRENT ASSETS		
Cash and cash equivalents	$ 57,889	$ 42,983
Investments available for sale	54,344	--
Accounts receivable, net	19,291	20,049
Prepaid expenses	4,413	5,833
Other current assets	5,471	6,569
TOTAL CURRENT ASSETS	141,408	75,434
Property and equipment, net of accumulated depreciation of $42,253 and $56,004 at December 31, 2000 and September 30, 2001, respectively	82,377	106,413
Investments in and advances to ventures	49,629	53,753
Goodwill and intangible assets, net of accumulated amortization of $48,420 and $66,011 at December 31, 2000 and September 30, 2001, respectively	70,045	83,580
Restricted cash	2,519	3,860
Other non-current assets	2,478	3,078
TOTAL ASSETS	$ 348,456	$ 326,118

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 28,256	$ 34,314
Debt maturing within one year	3,339	3,833
Related party debt maturing within one year	--	6,250
Short-term capital lease obligation	--	1,392
Due to affiliates and related parties	7,957	5,827
Other current liabilities	1,886	2,457
TOTAL CURRENT LIABILITIES	41,438	54,073
Long-term debt, less current portion	9,408	4,197
Long-term capital lease obligation, less current portion	--	6,484
Related party long-term debt	6,250	--
Other non-current liabilities	4,830	7,183
TOTAL LIABILITIES	61,926	71,937
Minority interest	3,337	4,456
SHAREHOLDERS' EQUITY		
Preferred stock, $0.01 par value (10,000,000 shares authorized; none issued and outstanding at December 31, 2000 and September 30, 2001)	--	--
Common stock, $0.01 par value (100,000,000 shares authorized; 24,479,997 issued and outstanding at December 31, 2000 and 24,621,958 shares issued and 22,349,231 shares outstanding at September 30, 2001)	245	246
Treasury stock, at cost	--	(25,000)
Additional paid-in capital	412,754	413,602
Accumulated deficit	(129,806)	(139,123)
TOTAL SHAREHOLDERS' EQUITY	283,193	249,725
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 348,456	$ 326,118

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END SEPTEMBER 30	
	2000	2001	2000	2
REVENUE:				
Telecommunication services	$ 26,792	$ 34,037	$ 73,460	$
Revenue from related parties	2,589	3,030	7,102	
TOTAL REVENUE	29,381	37,067	80,562	1
OPERATING COSTS AND EXPENSES:				
Access and network services	13,276	16,923	35,417	
Selling, general and administrative	12,017	12,787	32,978	
Depreciation and amortization	8,162	10,513	23,096	
TOTAL OPERATING COSTS AND EXPENSES	33,455	40,223	91,491	1
LOSS FROM OPERATIONS	(4,074)	(3,156)	(10,929)	(
OTHER INCOME (EXPENSE):				
Equity in earnings/(losses) of ventures ..	99	2,441	(984)	
Interest income	2,524	432	7,448	
Interest expense	(1,002)	(455)	(2,453)	
Foreign currency gains/(losses)	392	(53)	(31)	
Minority interest	(243)	(43)	(397)	
Other non-operating expense	--	--	(148)	
TOTAL OTHER INCOME (EXPENSE)	1,770	2,322	3,435	
Net loss before income taxes	(2,304)	(834)	(7,494)	
Income taxes	573	1,039	628	
NET LOSS	$ (2,877)	$ (1,873)	$ (8,122)	$
Net loss per share	$ (0.12)	$ (0.08)	$ (0.34)	$
Weighted average common shares outstanding .	24,080	22,942	24,073	

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER	
	2000	2001
OPERATING ACTIVITIES		
Net loss	$ (8,122)	$ (9,
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation	10,922	13,
Amortization	12,174	17,
Equity in (earnings)/losses of ventures, net of dividends received	984	(5,
Minority interest	397	
Foreign currency losses	31	
Other	1,174	1,
Changes in assets and liabilities:		
Accounts receivable	(5,551)	
Accounts payable and accrued expenses	6,740	4,
Due from affiliates and related parties	(171)	(2,
Due to affiliates and related parties	389	(2,
Other changes in assets and liabilities	(2,854)	
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,113	19,
INVESTING ACTIVITIES		
Purchases of property and equipment and intangible assets	(31,926)	(23,
Acquisitions, net of cash acquired	(4,174)	(34,
Restricted cash	(5,895)	(1,
Proceeds from investments available for sale	--	54,
Convertible loan to MCT Corp.	(9,000)	
Other investing	2,399	2,
NET CASH USED IN INVESTING ACTIVITIES	(48,596)	(2,
FINANCING ACTIVITIES		
Proceeds from debt	22,250	1,
Repayments of debt	(20,342)	(7,
Purchase of treasury stock	--	(25,
Other financing	32	(
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,940	(30,
Effect of exchange rate changes on cash and cash equivalents	(50)	(
Net increase (decrease) in cash and cash equivalents	(30,593)	(14,
Cash and cash equivalents at beginning of period	162,722	57,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 132,129	$ 42,

See notes to condensed consolidated financial statements.

GOLDEN TELECOM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. FINANCIAL PRESENTATION AND DISCLOSURES

Golden Telecom, Inc. ("GTI", "Golden Telecom" or the "Company") is a provider of a broad range of telecommunications services to businesses, other telecommunications service providers and consumers. The Company provides these services through its operation of voice, Internet and data networks, international gateways, local access and various value-added services in the Commonwealth of Independent States ("CIS"), primarily in Russia, and through its fixed line and mobile operation in Ukraine. Golden Telecom was incorporated in Delaware on June 10, 1999 for the purpose of acting as a holding company for Global TeleSystems, Inc.'s ("GTS") operating entities within the CIS and supporting non-CIS holding companies (the "CIS Entities"). On September 29, 1999, GTS transferred its ownership rights in the CIS Entities to the Company in anticipation of the Company's initial pubic offering ("IPO") which closed on October 5, 1999. After the IPO, GTS retained an approximately 62% interest in the Company.

On May 11, 2001, GTS completed the sale of approximately 12.2 million shares of GTI's common stock to a group of investors led by Alfa Group, a leading Russia-based financial and industrial concern ("Alfa"), and two of the Company's previously existing major shareholders, Capital International Global Emerging Markets Private Equity Fund L.P. ("Capital") and investment funds managed by Barings Vostok Capital Partners ("Baring Vostok").

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 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 2000 audited consolidated financial statements and the notes related thereto. The results of operations for the three and nine months ended September 30, 2001 may not be indicative of the operating results for the full year.

2. POLICIES AND PROCEDURES

For the three and nine months ended September 30, 2000 and 2001, comprehensive income for the Company is equal to net loss.

The Company's net loss per share calculation (basic and diluted) is based upon the Company's weighted average common shares outstanding. There are no reconciling items in the numerator or denominator of the Company's net loss per share calculation. Warrants and stock options have been excluded from the net loss per share calculation because their effect would be antidilutive.

In June 1998, the Financial Accounting Standards Board ("FASB") issued

Statement on Financial and Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended in June 1999. The Company adopted the new statement effective January 1, 2001. The statement requires the Company to recognize all derivatives on the balance sheet at fair value. The adoption of the new statement did not have a significant effect on the Company's results of operations or financial position.

In July 2001, the FASB issued SFAS's 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 will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company has adopted SFAS No. 141, "Business Combinations", with respect to the acquisition of 51% of competitive local exchange carrier ("CLEC") Agentstvo Delovoi Svyazi ("ADS") in September 2001.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement is expected to result in an improvement in the Company's results of operation by reducing amortization expense by approximately $13.0 million in 2002. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

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 Company is currently evaluating the impact the pronouncement will have on future consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Loved Assets." This statement addresses financial accounting and reporting for the impairment of disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Loved 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. 41, "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 will be effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company is currently evaluating the impact the pronouncement will have on future consolidated financial statements.

3. SHAREHOLDERS' EQUITY

Common Stock

In March 2001, 141,961 restricted shares of the Company's common stock, par value $0.01, were issued to senior management and employees to be held in escrow by the Company. The restricted shares were issued in accordance with restricted stock agreements dated October 1, 1999 concluded as part of the Company's IPO and were held in escrow by the Company until such restriction lapsed on October 1, 2001.

When the 1999 GTI Equity Participation Plan (the "Equity Plan") was adopted, the number of shares available for issuance under the Equity Plan was calculated as 15% of the issued and outstanding shares on a fully diluted basis. Since the adoption of the Equity Plan, the Company has issued an additional 1,679,872 shares of common stock in connection with fund raising activities and acquisitions. In March 2001, the Compensation Committee of the Board of Directors approved an increase in shares available for issuance under the Equity Plan from 4,023,551 to 4,320,000 in order to preserve the 15% ratio referenced above. The decision of the Compensation Committee of the Board of Directors was ratified by GTI shareholders on June 26, 2001.

In March 2001, in connection with the finalization of the MCT Corp. ("MCT") transaction, the Compensation Committee of the Board of Directors adopted a resolution providing that the Stock Option Award Agreements executed by the Company and certain terminated employees shall be amended to provide that the term of the options held by the employees that transferred from GTI to MCT shall be extended from ninety days after the employees termination date to one year after the termination date of the employees or until their termination date with MCT, whichever occurs earlier.

In April 2001, in accordance with the Equity Plan, the Compensation Committee of the Board of Directors adopted a resolution whereby the Stock Option Award Agreements issued by the Company to employees were amended to provide that the term of the options held by the employees shall be extended from ninety days after the employees termination date to eighteen months after the termination date.

In May 2001, GTS completed the transaction contemplated by the Share Purchase Agreement (the "Share Purchase Agreement"), entered into in April 2001 with Alfa, Capital, and Baring Vostok, (collectively, the "Purchasers") with respect to the sale to the Purchasers by GTS of approximately 12.2 million shares of common stock, par value $0.01 per share of GTI. The aggregate purchase price paid by the Purchasers for the common stock was $125.0 million. In addition, as specified in the Share Purchase Agreement, at the time of the consummation of the sale and purchase, the Purchasers entered into separate stock option agreements with GTS which gave the Purchasers an option to purchase up to approximately 2.3 million of the remaining approximately 2.9 million shares of common stock beneficially owned by GTS at the purchase price of $11.00 per share during the 60-day period after the closing of the transaction. In addition, if certain other conditions are met, during the twelve-month period after the closing, the Purchasers have an option to purchase the remaining shares of common stock beneficially owned by GTS at a purchase price equal to the greater of $11.00 per share or 120% of the average closing share price for the 60-day period preceding the purchase date. As part of the transaction, the Purchasers and the Company entered into a Standstill Agreement and a Shareholders Agreement. Generally, the Standstill Agreement provides that for a period of two years from the date of closing the transaction, neither Alfa nor GTS may acquire over 49% of GTI's outstanding stock. The Shareholder Agreement includes a voting arrangement between the Purchasers for the election of certain nominees to the Company's Board of Directors, among other provisions.

In July 2001, the Company completed a buy-back of $25.0 million, or approximately 2.3 million shares, of the Company's common stock at $11.00 per share, from a subsidiary of GTS. After this sale, GTS continues to own approximately 0.6 million shares, or approximately 2.6 percent, of GTI's outstanding common stock. To effect the buy-back, GTI acted as designated purchaser and exercised the options held by Alfa, Capital, and Baring Vostok to acquire GTI 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 GTI shares from GTS in May 2001.

4. INVESTMENT TRANSACTIONS

In June 2001, the Company acquired Internet Service Provider ("ISP") ZAO Cityline ("Cityline"), 51% of ISP OOO Uralrelcom ("Uralrelcom") and infrastructure company ZAO First Telecommunications Company ("PTK") for cash consideration of approximately $29.0 million, including $6.0 million held in escrow. The Company's financial statements reflect the preliminary allocation of the purchase price, and as such, the Company initially recorded goodwill in the amount of approximately $24.1 million. In September 2001, the Company reviewed the allocation of the purchase price and reduced the initial goodwill recorded by approximately $22.1 million, assigning such costs to intangible assets. In addition, the Company incurred approximately $0.9 million in consulting fees related to these investment transactions from an affiliate of Alfa, a shareholder of the Company. Together, it is expected, these acquisitions will allow the Company to increase regional dial-up Internet presence and should increase the Company's access to dial-up capacity in Moscow. The dial-up capacity in Moscow is not yet fully functional and the Company is not certain that the capacity will materialize in accordance with the terms and conditions of the interconnect agreements as expected. The Company is in negotiations with the capacity providers in an attempt to work out a mutually acceptable solution for the provisioning of the numbering capacity. If these negotiations do not lead to an acceptable solution, the Company will pursue all available remedies under the various agreements that constitute these transactions, including adjustments to the purchase price and retention of funds held in escrow. If the dial-up capacity does not materialize, the Company will explore additional options for local capacity.

The following unaudited pro forma combined results of operations for the Company gives effect to the Cityline, Uralrelcom and PTK business combinations as if they had occurred at the beginning of 2000. For the nine months ended September 30, 2000 and 2001, pro forma revenue would have been approximately

$84.0 million and $106.1 million, respectively. The pro forma net loss would have been approximately $9.3 million, or $0.39 per common share for the nine months ended September 30, 2000 and approximately $11.4 million, or $0.48 per common share, for the nine months ended September 30, 2001. These pro forma amounts are provided for informational purposes only and do not purport to present the results of operations of the Company had the transactions assumed therein occurred on or as of the date indicated, nor is it necessarily indicative of the results of operations which may be achieved in the future.

In September 2001, the Company acquired 51% of ADS, a CLEC operating primarily in Nizhny Novgorod, for cash consideration of approximately $2.9 million. The Company's financial statements reflect the preliminary allocation of the purchase price, and as such, the Company has recorded goodwill in the amount of approximately $1.5 million. In accordance with the new rules of SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets", the Company will not amortize the goodwill recorded in association with the acquisition of ADS.

5. 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, 2001. It is the opinion of management that the ultimate resolution of the Company's liability for CIS Taxes, to the extent not previously provided for, will not have a material effect on the financial condition of the Company. However, depending on the amount and timing of an unfavorable resolution of any contingencies associated with CIS Taxes, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

6. SEGMENT INFORMATION

LINE OF BUSINESS DATA

The Company operates in four segments within the telecommunications industry. The four segments are: (1) Competitive Local Exchange Carrier (CLEC) Services using our local access overlay networks in Moscow, Kiev, St. Petersburg and Nizhny Novgorod; (2) Long Distance Services using our fiber optic and satellite-based network throughout the CIS; (3) Data and Internet Services using our fiber optic and satellite-based network; and (4) Mobile Services consisting of mobile networks in Kiev and Odessa, Ukraine. The following tables present financial information for both consolidated subsidiaries and equity investee ventures, segmented by the Company's lines of businesses for the periods ended September 30, 2000 and 2001. Transfers between lines of businesses are included in the adjustments to reconcile segment to consolidated results. The Company evaluates performance based on the operating income (loss) of each strategic business unit.

	CLEC	DATA & INTERNET SERVICES	LONG DISTANCE	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CO
					(IN THOUSANDS)		
THREE MONTHS ENDED SEPTEMBER 30, 2000							
Revenue	$ 30,112	$ 10,205	$ 4,320	$ 9,427	$ (1,755)	$ 52,309	$
Operating income (loss)................	9,349	(139)	(1,404)	(745)	(7,192)	(131)	
Identifiable assets ..	123,710	41,450	25,553	54,536	237,508	482,757	
Capital expenditures .	4,340	7,573	607	3,842	373	16,735	

	CLEC	DATA & INTERNET SERVICES	LONG DISTANCE	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CO
THREE MONTHS ENDED SEPTEMBER 30, 2001							
Revenue	$ 39,536	$ 15,788	$ 4,939	$ 3,681	$ (548)	$ 63,396	$
Operating income (loss)................	13,759	(1,482)	(709)	(48)	(5,584)	5,936	
Identifiable assets ..	150,775	110,569	28,030	22,721	117,243	429,338	
Capital expenditures .	7,415	11,114	1,670	117	5	20,321	

	CLEC	DATA & INTERNET SERVICES	LONG DISTANCE	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CO
NINE MONTHS ENDED SEPTEMBER 30, 2000							
Revenue	$ 90,667	$ 27,912	$ 10,846	$ 26,003	$ (4,632)	$ 150,796	$
Operating income (loss)................	26,855	(182)	(3,981)	(2,743)	(20,114)	(165)	
Identifiable assets ..	123,710	41,450	25,553	54,536	237,508	482,757	
Capital expenditures .	13,363	15,463	2,459	8,838	558	40,681	

	CLEC	DATA & INTERNET SERVICES	LONG DISTANCE	MOBILE SERVICES	CORPORATE & ELIMINATIONS	BUSINESS SEGMENT TOTAL	CO
NINE MONTHS ENDED SEPTEMBER 30, 2001							
Revenue	$ 109,911	$ 44,633	$ 14,553	$ 10,871	$ (4,196)	$ 175,772	$
Operating income (loss)................	34,309	(4,813)	(2,655)	(819)	(17,655)	8,367	
Identifiable assets ..	150,775	110,569	28,030	22,721	117,243	429,338	
Capital expenditures .	17,946	21,595	3,135	1,019	124	43,819	

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GOLDEN TELECOM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

GEOGRAPHIC DATA

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

The following tables present financial information segmented by the Company's geographic regions for the three and nine month periods ended September 30, 2000 and 2001.

	RUSSIA	UKRAINE	CORPORATE & ELIMINATIONS	CONSOLIDATED RESULTS
THREE MONTHS ENDED SEPTEMBER 30, 2000				
Revenue	$ 19,294	$ 9,903	$ 184	$ 29,381
Long-lived assets	129,908	40,249	1,253	171,410

	RUSSIA	UKRAINE	CORPORATE & ELIMINATIONS	CONSOLIDATED RESULTS
THREE MONTHS ENDED SEPTEMBER 30, 2001				
Revenue	$ 27,185	$ 10,287	$ (405)	$ 37,067

Long-lived assets	206,670	38,550	1,606	246,826

	RUSSIA	UKRAINE	CORPORATE & ELIMINATIONS	CONSOLIDATED RESULTS
NINE MONTHS ENDED SEPTEMBER 30, 2000				
Revenue	$ 49,986	$ 22,571	$ (91)	$ 72,466
Long-lived assets	129,908	40,249	1,253	171,410

	RUSSIA	UKRAINE	CORPORATE & ELIMINATIONS	CONSOLIDATED RESULTS
NINE MONTHS ENDED SEPTEMBER 30, 2001				
Revenue	$ 74,988	$ 29,398	$ (1,108)	$ 103,278
Long-lived assets	206,670	38,550	1,606	246,826

7. SIGNIFICANT EQUITY METHOD SUBSIDIARY INFORMATION

The following table presents summarized income statement information from the Company's significant equity investee, EDN Sovintel LLC ("Sovintel"), for the three and nine months ended September 30, 2000 and 2001.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	2001	2000	2001
	(IN THOUSANDS)			
Revenues	$ 22,929	$ 30,206	$ 68,215	$ 83,961
Gross Margin	11,457	14,042	32,727	37,506
Income from operations	5,249	8,826	14,219	20,684
Net income	2,761	6,489	7,201	14,897

8. DEBT AND CAPITAL LEASE

Some of the Company's operating companies have received debt financing through direct loans from affiliated companies. In addition, certain operating companies have borrowed funds under a $2.5 million back-to-back, seven-year credit facility from a Western-owned bank licensed to operate in Russia. Under this facility, the Company provides full cash collateral, held in London and recorded on our balance sheet as restricted cash, for onshore loans made by the bank to the Company's Russian registered joint ventures. Previously, this was a $22.7 million facility, which in part related to the Company's former Russian mobile properties involved in the MCT transaction. In a second, similar facility, the Company provides full cash collateral for a $10.0 million short term back-to-back, revolving, credit facility from the same bank for two of the Company's larger Russian operating companies. These two facilities replaced the previous $30.0 million back to back facility that expired on September 30, 2000.

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

In September 2001, the Company entered into a five capital year lease for the right to use up to VC-3 fiber optic capacity on major routes within Russia to support the increase in the Company's interregional traffic and regional expansion strategy.

The sale by GTS of approximately 12.2 million, or approximately 50%, of the Company's common stock triggered an acceleration of $6.0 million, including accrued interest, of our long-term debt under change of control provisions in promissory notes. In July 2001, this long-term debt was paid to the lender. As part of the GTS transaction, an additional $6.3 million of pre-existing long-term debt due from GTI to GTS is now payable on May 11, 2002. For other third party debt agreements, held at the subsidiary level, the lenders have agreed that this transaction will not affect the terms of those agreements.

9. SUPPLEMENTAL CASH FLOW INFORMATION

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

	NINE MONTHS ENDED SEPTEMBER,	
	2000	2001
	(IN THOUSANDS)	
Issuance of common stock to affiliate of ING Barings	$ 360	$ --
Business acquisitions	319	1,448
Capitalized lease obligations	--	7,876
Consulting fee to Alfa	--	180

10. SUBSEQUENT EVENTS

On November 2, 2001, the Company agreed to extend the due date on the $ 9.0 million note owed by MCT, an equity investee that was payable to the Company on October 29, 2001. MCT paid in full, the $ 9.0 million note plus accrued interest and costs of approximately $1.4 million on November 6, 2001. This loan and accrued interest is classified in investments in and advances to ventures in the Company's consolidated balance sheet as of September 30, 2001 and December 31, 2000.

On November 6, 2001, the Company announced the execution of a Memorandum of Understanding ("MOU") with Rostelecom regarding the potential acquisition of Sovintel. In accordance with the terms of the MOU, Rostelecom will receive 15%, or approximately 3.9 million shares of the Company's common stock and $52.0 million in cash for Rostelecom's 50% ownership interest Sovintel, as well as representation on the Company's Board of Directors. The transaction is subject to applicable corporate and governmental approval and is expected to close in the first quarter of 2002.

ITEM 1(b). CONDENSED FINANCIAL STATEMENTS OF EDN SOVINTEL LLC.

EDN SOVINTEL LLC

CONDENSED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31, 2000 (AUDITED)	SEPTEMBER 30, 2001 (UNAUDITED)
ASSETS		
CURRENT ASSETS		
Cash	$ 4,013	$ 12,368
Accounts receivable, net of allowance for doubtful accounts of $4,981 and $4,925, respectively	13,138	15,189
Due from affiliated companies	524	1,371
Due from employees	578	680
Inventories	3,592	7,309
VAT receivable, net	2,325	888
Prepaid expenses and other current assets	1,763	2,213
TOTAL CURRENT ASSETS	25,933	40,018
Property and equipment, net	51,340	57,382
Deferred expenses	540	--
Other noncurrent assets	1,615	2,119
TOTAL ASSETS	$ 79,428	$ 99,519
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES		
Trade payables	$ 6,922	$ 10,547
Accrued expenses	2,192	5,481
Due to affiliated companies	2,117	2,862

Amount due to partner in commercial arrangement	659	--
Deferred income taxes	686	2,376
TOTAL CURRENT LIABILITIES	12,576	21,266
Other noncurrent liabilities	1,615	2,119
TOTAL LIABILITIES	14,191	23,385
MEMBERS' EQUITY	65,237	76,134
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 79,428	$ 99,519

See notes to condensed financial statements.

EDN SOVINTEL LLC

CONDENSED STATEMENTS OF INCOME AND MEMBERS' EQUITY
(IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS EN SEPTEMBER 30
	2000	2001	2000
REVENUE:			
Telecommunication services	$ 21,536	$ 27,941	$ 64,048
Revenue from affiliates	1,393	2,265	4,167
TOTAL REVENUE	22,929	30,206	68,215
OPERATING COSTS AND EXPENSES:			
Service costs	11,472	16,164	35,488
Selling, general and administrative	4,120	3,146	12,362
Depreciation	2,088	2,070	6,146
TOTAL OPERATING COSTS AND EXPENSES	17,680	21,380	53,996
INCOME FROM OPERATIONS	5,249	8,826	14,219
OTHER INCOME (EXPENSE):			
Interest income	23	78	82
Interest expense	(2)	(1)	(154)
Foreign currency losses	(306)	(242)	(582)
TOTAL OTHER INCOME (EXPENSE)	(285)	(165)	(654)
Income before income taxes	4,964	8,661	13,565
Income taxes	2,203	2,172	6,364
NET INCOME	$ 2,761	$ 6,489	$ 7,201
Dividends	$ --	$ --	$ (2,001)
Members' equity, opening balance	59,504	69,645	57,065

Members' equity, closing balance	$ 62,265	$ 76,134	$ 62,265	$

See notes to condensed financial statements.

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EDN SOVINTEL LLC

CONDENSED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	2001
OPERATING ACTIVITIES		
Net income	$ 7,201	$ 14,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,146	6,864
Provision for doubtful accounts	408	678
Deferred income taxes	--	1,690
Foreign exchange loss	582	359
Changes in operating assets and liabilities:		
Accounts receivable	(680)	(2,731)
Inventories	(36)	(3,384)
VAT receivable, net	616	1,498
Prepaid expenses and other assets	(2,008)	(485)
Trade payables	(2,347)	2,463
Accrued liabilities and other payables	4,086	3,322
Increase (Decrease) in amounts due to affiliated companies, net	1,640	(261)
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,608	24,910
INVESTING ACTIVITIES Purchases of property and Equipment	(6,817)	(12,405)
FINANCING ACTIVITIES		
Repayments of debt	(3,255)	--
Payments to partner in commercial agreement	--	(22)
Payments of dividends	(1,000)	(4,000)
NET CASH USED IN FINANCING ACTIVITIES	(4,255)	(4,022)
Effect of exchange rate changes on cash	(110)	(128)
Net increase in cash	4,426	8,355
Cash at beginning of period	2,644	4,013
CASH AT END OF PERIOD	$ 7,070	$ 12,368

See notes to condensed financial statements.

EDN SOVINTEL LLC

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. FINANCIAL PRESENTATION AND DISCLOSURES

EDN Sovintel LLC (the "Company") is a joint venture between Sovinet, which is a wholly owned subsidiary of Golden Telecom, Inc. ("GTI") and Open Joint Stock Company Rostelecom ("Rostelecom"). Sovintel was created in 1990 to design, construct, and operate a telecommunications network in Moscow and later expanded its operations to other regions of Russia, including St. Petersburg, Pskov and Kaliningrad. This network provides worldwide communications services, principally to major hotels, business offices and mobile communication companies.

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 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 2000 audited financial statements and the notes related thereto. The results of operations for the three and nine months ended September 30, 2001 may not be indicative of the operating results for the full year.

2. POLICIES AND PROCEDURES

For the three and nine months ended September 30, 2000 and 2001, comprehensive income for the Company is equal to net income.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," which was amended in June 1999. The Company adopted the new statement effective January 1, 2001. The statement requires the Company to recognize all derivatives on the balance sheet at fair value. The adoption of this new statement did not have a significant effect on the Company's results of operations or financial position.

In July 2001, the FASB issued SFAS's 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 will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. The Company does not anticipate that the adoption of the new statements will have an effect on the Company's results of operations or financial position.

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 Company is currently evaluating the impact the pronouncement will have on future financial statements.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Loved Assets and for Long-Lived Assets to Be Disposed Of" and is effective for fiscal years beginning after December 15, 2001. The Company is currently evaluating the impact the pronouncement will have on future financial statements.

EDN SOVINTEL LLC

NOTES TO CONDENSED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

3. INCOME TAXES

In the third quarter of 2001, the Company revised its estimated annual effective tax rate to reflect a change in the Russian Statutory rate from 35% to 24% effective January 1, 2002. The effect of the change in the estimated annual effective rate was to decrease income tax expense for the third quarter by $0.8 million as a result of applying the newly enacted tax rate to the deferred tax balances as of September 30, 2001.

4. CONTINGENCIES

Tax Matters

The Company's policy is to accrue for contingencies in the accounting period in which a liability is deemed probable and the amount is reasonably determinable. In this regard, because of the uncertainties associated with Russian taxation, including income tax and value added tax, the Company's final Russian taxes may be in excess of the estimated amount expensed to date and accrued at September 30, 2001. It is the opinion of management that the ultimate resolution of the Company's Russian 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 Russian taxes, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

5. SUBSEQUENT EVENT

On November 6, 2001, GTI announced the execution of a Memorandum of Understanding ("MOU") with Rostelecom regarding the potential acquisition of Rostelecom's 50% ownership in the Company. In accordance with the terms of the MOU, Rostelecom will receive 15%, or approximately 3.9 million shares of GTI's common stock and $52.0 million in cash for Rostelecom's 50% ownership interest the Company, as well as representation on GTI's Board of Directors. The transaction is subject to applicable corporate and governmental approval and is expected to close in the first quarter of 2002.

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

The following discussion and analysis relates to our financial condition and results of operations of the Company for the three and nine month periods ended September 30, 2001 and September 30, 2000. This information should be read in conjunction with the Company's Condensed, Consolidated Financial Statements and the notes related thereto appearing elsewhere in the document.

OVERVIEW

We are a leading facilities-based provider of integrated telecommunications and Internet services in major population centers throughout Russia, Ukraine and other countries of the Commonwealth of Independent States ("CIS"). We organize our operations into four business groups, as follows:

- Competitive Local Exchange Carrier ("CLEC") Services, using local access overlay networks in Moscow, Kiev, St. Petersburg and Nizhny Novgorod;

- Data and Internet Services, using a fiber optic and satellite-based networks with more than 135 points of presence in Russia and the CIS. Our data and Internet services product portfolio is currently comprised of: (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, web content and a family of Internet portals;

- Long Distance Services using a fiber optic and satellite-based network; and

- Mobile Services using mobile networks in Kiev and Odessa, Ukraine.

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

Most of our revenue is derived from high-volume business customers and carriers. Our business customers include large multinational 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, resulting in declining prices, 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. In order to compete with these carriers in the regions outside Moscow and St. Petersburg, we were forced to lower our tariffs in late 1998 and during 1999, which resulted in reduced revenues and reduced margins. As the ruble exchange rate with the dollar has become relatively stable since early 2000 and thus far in 2001, despite increasing inflation, 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 appear to 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 early 2000, the increases in traffic volume did not keep pace with the reduction in tariff, however by the fourth quarter of 2000 volumes were increasing faster than tariffs were declining. This year our volume increases have exceeded the reduction in tariffs on certain types of voice traffic. This is a contributory factor to the increases in our quarterly revenue during 2001. We expect that this trend of year over year increases will continue as long as there are improvements in the Russian economy.

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, we expect settlement and interconnection rates to continue to decline in line with tariffs.

We have expanded and will continue to expand our fiber optic capacity along our heavy traffic and high cost routes to reduce our unit transmission costs and ensure sufficient capacity to meet the growing demand for Internet and data services. As part of this strategy, during 2000, we acquired the rights to use up to STM-16 fiber optic capacity on the 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.

Our mobile operations in Ukraine continue to be under strong competitive pressure and we foresee that average revenue per subscriber will continue to decline. In Kiev, Ukraine we are also experiencing issues relating to obtaining further numbering capacity for our business services operations. In this regard, we are currently negotiating with Ukrtelecom, the state-owned operator for further numbering capacity. Our ability to grow our business services operations in Kiev will be limited if we do not have access to numbering capacity.

In addition to the traditional voice and data service provision, we have been 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. To this end, we acquired InfoArt Stars and the Agama family of Web properties to add to our Russia-On-Line Internet portal, which also incorporates some of our other acquisitions in the year ended December 31, 2000, referat.ru, Absolute Games and Fintek. In line with experience outside of Russia, we have not seen the rapid development of Internet based services that was expected. Internet based advertising and e-commerce revenues have not developed to significant levels and we are currently reviewing our long term strategy for Internet based products.

We have seen a significant increase in our dial-up Internet subscriber numbers and we expect the increase to continue, albeit with an increasing emphasis on regional subscribers, as additional dial-up capacity in Moscow has not been readily available. On June 1, 2001 we completed the purchase of a leading Russian Internet Service Provider ("ISP"), ZAO Cityline ("Cityline"), together with ISP OOO Uralrelcom ("Uralrelcom") and infrastructure company ZAO The First Telecommunications Company ("PTK") It is expected that these entities allow us to increase our regional dial-up Internet presence and increase our access to dial-up capacity in Moscow.

We have continued our process of integrating our acquisitions, improving operational efficiency and cost containment, which is intended to improve our operating performance. We expect to have further one-time costs associated with overall restructuring and review of our operations during the next three to six months.

RECENT ACQUISITIONS

In June 2001, we completed the purchase of 100% of leading ISP, Cityline, together with 51% of Ekaterinburg-based, ISP Uralrelcom, and 100% of infrastructure company PTK. Cityline operates primarily in Moscow, but also operates in other major Russian cities, including Saint Petersburg, Nizhny Novgorod, Tyumen and Kaliningrad. Together, it is expected, these acquisitions will allow us to increase our regional dial-up Internet presence and should increase our access to dial-up capacity in Moscow. The dial-up capacity in Moscow is not yet fully functional and we are not certain that the capacity will materialize in accordance with the terms and conditions of the interconnect agreements as expected. We are in negotiations with the capacity providers in an attempt to work out a mutually acceptable solution for the provisioning of the numbering capacity. If these negotiations do not lead to an acceptable solution, we will pursue all available remedies under the various agreements that constitute these transactions, including adjustments to the purchase price and retention of funds held in escrow. If the dial-up capacity does not materialize, we will explore additional options for local capacity.

In September 2001, we completed the purchase of 51% of leading CLEC, Agentstvo Delovoi Svyazi ("ADS"), which owns network infrastructure in Russia's third largest city, Nizhny Novgorod. This acquisition, together with our other Nizhny Novgorod based companies, TeleRoss Nizhny Novgorod, Firm Commercial Information Networks ("KIS"), and ZAO Inforis give us a significant presence in this important regional market.

SHARES AND OWNERSHIP

In March 2001, 141,961 restricted shares of common stock, par value $0.01, were issued to senior management and employees to be held in escrow by us. The restricted shares were issued in accordance with restricted stock agreements dated October 1, 1999 concluded as part of our Initial Public Offering ("IPO") and were held in escrow by us until such restriction lapsed on October 1, 2001.

When the 1999 Golden Telecom, Inc. ("GTI") Equity Participation Plan (the "Equity Plan") was adopted, the number of shares available for issuance under the Equity Plan was calculated as 15% of the issued and outstanding shares on a fully diluted basis. Since the adoption of the Equity Plan, the Company has issued an additional 1,679,872 shares of common stock in connection with fund raising activities and acquisitions. In March 2001, the Compensation Committee of the Board of Directors approved an increase in shares available for issuance under the Equity Plan from 4,023,551 to 4,320,000 in order to preserve the 15% ratio referenced above. The decision of the Compensation Committee of the Board of Directors was ratified by GTI shareholders on June 26, 2001.

In March 2001, in connection with the finalization of the MCT transaction, the Compensation Committee of the Board of Directors adopted a resolution whereby the Stock Option Award Agreements executed by us and certain terminated employees were amended to provide that the term of the options held by the employees that transferred from GTI to MCT are extended from ninety days after the employees termination date to one year after the termination date of the employees or until their termination date with MCT, whichever occurs earlier.

In April 2001, in accordance with the Equity Plan, the Compensation Committee of the Board of Directors adopted a resolution whereby the Stock Option Award Agreements executed by us and certain employees were amended to provide that the term of the options held by the employees are extended from ninety days after the employees termination date to eighteen months after the termination date.

In May 2001, Global TeleSystems, Inc. ("GTS") our former majority owner completed the sale of approximately 12.2 million shares of our common stock to a group of investors led by Alfa Group, a leading Russia-based financial and industrial concern ("Alfa"), and two of our then existing shareholders, Capital International Global Emerging Markets Private Equity Fund L.P. ("Capital") and investment funds managed by Barings Vostok Capital Partners ("Baring Vostok"). Upon closure, affiliates of Alfa acquired approximately 10.7 million, or about 43.6%, shares of our common stock, Baring Vostok increased its ownership position in the company to approximately 1.9 million, or about 7.6% shares of our common stock, and Capital increased its ownership position in the company to 2.2 million, or about 8.8%, of our common stock. Upon closure, these purchasers also acquired options from GTS under which they could, under certain circumstances and subject to the terms and conditions of a Standstill Agreement executed by the purchasers, GTS and us on April 2, 2001, acquire GTS' remaining shareholding in the Company, consisting of approximately 2.9 million, or 11.6%, shares of GTI's common stock. In July 2001, under the Standstill Agreement, the Company completed the buy-back of $25.0 million, or approximately 2.3 million shares of GTI common stock. To effect the buy-back, we acted as designated purchaser and exercised the options held by Alfa, Capital, and 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 million in our common shares from GTS in May 2001

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued Statements on Financial Accounting Standards 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 will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives.

We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of the Statement is expected to result in an improvement in net loss of approximately $13.0 in 2002. During 2002, we will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and we have not yet determined what the effect of these tests will be on our earnings and financial position.

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. We are currently evaluating the impact the pronouncement will have on future consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Loved Assets." This statement addresses financial accounting and reporting for the impairment of disposal of long-lived assets and supersedes SFAS No.

121, "Accounting for the Impairment of Long-Loved 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 an Transactions," for the disposal of a segment of a business (as previously defined in that opinion). This statement also amends Accounting Research Bulletin No. 41, "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 will be effective for financial statements issued for fiscal years beginning after December 15, 2001. We are currently evaluating the impact the pronouncement will have on future consolidated financial statements.

RESULTS OF OPERATIONS

GTI was formed in June 1999 to be the holding company for all of GTS's businesses in the Commonwealth of Independent States and supporting operations. 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 6 "Segment Information - Line of Business Data" to our consolidated financial statements.

In addition, we have included a discussion of EDN Sovintel LLC, our primary non-consolidated operation, which entity is material to our business. We believe that this discussion is helpful to develop an understanding of the factors contributing to our overall financial condition and results of operations.

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

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2000

- o Consolidated Results. Results of Operations for the Three Months Ended September 30, 2001 compared to the Results of Operations for the Three Months Ended September 30, 2000

- o Non-Consolidated Results. Results of Non-Consolidated Operations of EDN Sovintel LLC for the Three Months Ended September 30, 2001 compared to the Results of Non-Consolidated Operations of EDN Sovintel LLC for the Three Months Ended September 30, 2000

NINE MONTHS SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

- o Consolidated Results. Results of Operations for the Nine Months Ended September 30, 2001 compared to the Results of Operations for the Nine

Months Ended September 30, 2000

- Non-Consolidated Results. Results of Non-Consolidated Operations of EDN Sovintel LLC for the Nine Months Ended September 30, 2001 compared to the Results of Non-Consolidated Operations of EDN Sovintel LLC for the Nine Months Ended September 30, 2000

CONSOLIDATED RESULTS -- CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000

REVENUE

Our revenue increased by 26% to $37.1 million for the three months ended September 30, 2001 from $29.4 million for the three months ended September 30, 2000. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000	CONSOLIDATED REVENUE FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001
	(IN MILLIONS)	
REVENUE		
CLEC services..............	$ 10.7	$ 12.2
Data and Internet services.	10.4	17.3
Long distance services.....	4.1	5.4
Mobile services............	4.6	3.7
Eliminations...............	(0.4)	(1.5)
TOTAL REVENUE................	$ 29.4	$ 37.1

CLEC Services. Revenue from CLEC Services increased by 14% to $12.2 million for the three months ended September 30, 2001 from $10.7 million for the three months ended September 30, 2000.

The CLEC Services division of TeleRoss revenue increased by 22% to $7.3 million for the three months ended September 30, 2001 from $6.0 million for the three months ended September 30, 2000. This increase is mainly due to increases in monthly recurring and traffic revenues resulting from an increase in numbering capacity in active service.

The CLEC Services division of Golden Telecom BTS revenue was $4.7 million, both for the three months ended September 30, 2001 and for the three months ended September 30, 2000. Increases in both end-user and carrier traffic volumes were offset by reductions in tariffs.

Additionally, CLEC Services division revenue increased $0.2 million due to the acquisition of ADS at the beginning of September 2001.

Data and Internet Services. Revenue from Data and Internet Services increased by 66% to $17.3 million for the three months ended September 30, 2001 from $10.4 million for the three months ended September 30, 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 $1.6 million as a result of our recent acquisitions of Cityline and Uralrelcom.

Long Distance Services. Revenue from Long Distance Services increased by 32% to $5.4 million for the three months ended September 30, 2001 from $4.1 million for the three months ended September 30, 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. These increases offset a decline in equipment sales.

Mobile Services. Revenue from Mobile Services decreased by 20% to $3.7 million for the three months ended September 30, 2001 from $4.6 million for the three months ended September 30, 2000. Despite an increase of approximately 17% in the number of active subscribers at Golden Telecom GSM, pricing competition has reduced average revenue per active subscriber by 33% to approximately $31 per month. Additionally $0.2 million of the decrease was attributable to Vostok Mobile Novgorod no longer being consolidated as a result of the MCT transaction.

EXPENSES

The following table shows our principal expenses for the three months ended September 30, 2001 and September 30, 2000:

	CONSOLIDATED EXPENSES FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000	CONSOLIDATED EXPENSES FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001
	(IN MILLIONS)	
COST OF REVENUE		
CLEC services	$ 4.1	$ 4.6
Data and Internet services	5.1	9.2
Long distance services	3.5	3.7
Mobile services	1.0	0.9
Eliminations	(0.4)	(1.5)
TOTAL COST OF REVENUE	13.3	16.9
Selling, general and administrative..................	12.0	12.8
Depreciation and amortization	8.2	10.5
Equity in earnings of ventures ...	0.1	2.4
Interest income	(2.5)	(0.4)
Interest expense	1.1	0.5
Foreign currency (gain)/loss	(0.4)	(0.1)
Provision for income taxes	$ 0.5	$ 1.1

Cost of Revenue

Our cost of revenue increased by 27% to $16.9 million for the three months ended September 30, 2001 from $13.3 million for the three months ended September 30, 2000.

CLEC Services. Cost of revenue from CLEC Services increased by 12% to $4.6

million, or 38% of revenue, for the three months ended September 30, 2001 from $4.1 million, or 38% of revenue, for the three months ended September 30, 2000.

The CLEC Services division of TeleRoss' cost of revenue increased by 11% to $2.1 million, or 29% of revenue, for the three months ended September 30, 2001 from $1.9 million, or 32% of revenue, for the three months ended September 30, 2000. The decrease as a percentage of revenue resulted principally from a change in the traffic mix.

The CLEC Services division of Golden Telecom BTS cost of revenue increased by 9% to $2.4 million, or 51% of revenue, for the three months ended September 30, 2001 and was $2.2 million, or 47% of revenue, for the three months ended September 30, 2000. Cost of revenue increased as a percentage of revenue primarily because of an increase in lower margin carriers' carrier traffic.

Data and Internet Services. Cost of revenue from Data and Internet Services increased by 80% to $9.2 million, or 53% of revenue, for the three months ended September 30, 2001 from $5.1 million, or 49% of revenue, for the three months ended September 30, 2000. The increase in cost of revenue as a percentage of revenue was mainly due to the increase in lower margin dial-up Internet revenue as a percentage of the mix of revenue.

Long Distance Services. Cost of revenue from Long Distance Services increased by 6% to $3.7 million, or 69% of revenue, for the three months ended September 30, 2001 from $3.5 million, or 85% of revenue, for the three months ended September 30, 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 a reduction in low margin equipment sales.

Mobile Services. Cost of revenue from Mobile Services decreased by 10% to $0.9 million, or 24% of revenue, for the three months ended September 30, 2001 from $1.0 million, or 22% of revenue, for the three months ended September 30, 2000. The cost of revenue increased as a percentage of revenue due to declines in traffic margins as a result of increased competition.

Selling, General and Administrative

Our selling, general and administrative expenses increased by 7% to $12.8 million, or 35% of revenue, for the three months ended September 30, 2001 from $12.0 million, or 41% of revenue, for the three months ended September 30, 2000. There were increases in employee related costs, largely due to acquisitions and increases in advertising associated with our Internet related strategy. These were partly offset by reductions in revenue related taxes.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 28% to $10.5 million for the three months ended September 30, 2001 from $8.2 million for the three months ended September 30, 2000. This increase is due to the continuing capital expenditures of the consolidated entities and increased goodwill and intangible asset amortization due to acquisitions.

Equity in Earnings/Losses of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures were $2.4 million for the three months ended September 30, 2001 up from of $0.1 million for the three months ended September 30, 2000. We recognized earnings at Sovintel of $3.2 million for the three months ended

September 30, 2001, which more than offset our recognized losses in MCT from the same period. In the three months ended September 30, 2000, our recognized earnings at Sovintel were $1.4 million which were more than offset by our recognized losses of $1.6 million from our Russian mobile ventures.

Interest Income

Our interest income was $0.4 million for the three months ended September 30, 2001 down from $2.5 million for the three months ended September 30, 2000. The decrease in interest income mainly reflects the reduced balance of cash, cash equivalents and investments available for sale following the use of part of the proceeds from our IPO for acquisitions and capital expenditure.

Interest Expense

Our interest expense was $0.5 million for the three months ended September 30, 2001 compared to $1.1 million for the three months ended September 30, 2000. The decrease in interest expense reflects the reduced level of debt in the company.

Foreign Currency Loss

Our foreign currency loss was $0.1 million for the three months ended September 30, 2001, compared to a gain of $0.4 million for the three months ended September 30, 2000. This loss in part reflects the slight devaluation of the ruble for the three months ended September 30, 2001, as compared to the gain, mainly due to the appreciation of the ruble relative to the dollar, in the three months ended September 30, 2000.

Provision for Income Taxes

Our charge for income taxes was $1.1 million for the three months ended September 30, 2001 compared to $0.5 million for three months ended September 30, 2000. The increase was due to increased profitability and combined with maximum utilization of loss carryforwards in our Russian and Ukrainian entities.

Net Loss and Net Loss per Share

Our net loss for the three months ended September 30, 2001 was $1.9 million, compared to $2.9 million for the three months ended September 30, 2000.

Our net loss per share of common stock decreased to $0.08 for the three months ended September 30, 2001, compared to $0.12 for the three months ended September 30, 2000. The decrease in net loss per share of common stock was due to the decrease in net loss, partially offset by a decrease in the number of weighted average shares to 22,942,116 at September 30, 2001, compared to 24,080,125 at September 30, 2000.

NON-CONSOLIDATED RESULTS -- NON-CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THE NON-CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000

This section is comprised of a limited discussion of the results of operations of our principal non-consolidated entity, Sovintel, in which we own a 50% interest.

SOVINTEL

Revenue

Sovintel's revenue increased by 32% to $30.2 million for the three months ended September 30, 2001 from $22.9 million, for the three months ended September 30, 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.

Cost of Revenue

Sovintel's cost of revenue increased by 41% to $16.2 million for the three months ended September 30, 2001 from $11.5 million for the three months ended September 30, 2000. The increase of cost of revenue to 54% of revenue from 50% of revenue was primarily the result of increases in lower margin traffic and equipment sales in the revenue mix.

Selling, General and Administrative

Sovintel's selling, general and administrative expenses decreased by 22% to $3.2 million, or 11% of revenue, for the three months ended September 30, 2001 from $4.1 million, or 17% of revenue for the three months ended September 30, 2000. The decrease was largely due to a reduction in the rate of revenue related taxes incurred, also reductions in advertising, bad debt and other costs, offset by a small increase in employee related costs.

CONSOLIDATED RESULTS -- CONSOLIDATED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

REVENUE

Our revenue increased by 28% to $103.3 million for the nine months ended September 30, 2001 from $80.6 million for the nine months ended September 30, 2000. The breakdown of revenue by business group was as follows:

	CONSOLIDATED REVENUE FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000	CONSOLIDATED REVEN FOR THE NINE MONT ENDED SEPTEMBER 30,
	(IN MILLIONS)	
REVENUE		
CLEC services	$ 30.1	$ 34.3
Data and Internet services	28.1	47.2
Long distance services	10.4	15.4
Mobile services	13.2	10.9
Eliminations	(1.2)	(4.5)
TOTAL REVENUE	$ 80.6	$ 103.3

CLEC Services. Revenue from CLEC Services increased by 14% to $34.3 million for the nine months ended September 30, 2001 from $30.1 million for the nine months ended September 30, 2000.

The CLEC Services division of TeleRoss revenue increased by 15% to $20.9

million for the nine months ended September 30, 2001 from $18.1 million for the nine months ended September 30, 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 increased by 10% to $13.2 million for the nine months ended September 30, 2001 from $12.0 million for the nine months ended September 30, 2000. The increase in revenue was mainly due to an increase in termination of incoming traffic from other carriers.

Data and Internet Services. Revenue from Data and Internet Services increased by 68% to $47.2 million for the nine months ended September 30, 2001 from $28.1 million for the nine months ended September 30, 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 $2.1 million as a result of our recent acquisitions of Cityline and Uralrelcom.

Long Distance Services. Revenue from Long Distance Services increased by 48% to $15.4 million for the nine months ended September 30, 2001 from $10.4 million for the nine months ended September 30, 2000. Recurring fees, traffic and equipment 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. These increases offset a decline in equipment sales.

Mobile Services. Revenue from Mobile Services decreased by 17% to $10.9 million for the nine months ended September 30, 2001 from $13.2 million for the nine months ended September 30, 2000. Despite an increase of approximately 17% in the number of active subscribers at Golden Telecom GSM, pricing competition has reduced average revenue per active subscriber by 33% to approximately $31 per month. Additionally, $0.6 million of the decrease was attributable to Vostok Mobile Novgorod no longer being consolidated as a result of the MCT transaction.

EXPENSES

The following table shows our principal expenses for the nine months ended September 30, 2001 and September 30, 2000:

	CONSOLIDATED EXPENSES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000	CONSOLIDATED EXPENSES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001
	(IN MILLIONS)	
COST OF REVENUE		
CLEC services	$ 10.7	$ 13.3
Data and Internet services	14.2	24.8
Long distance services	8.6	11.2
Mobile services	3.1	2.8
Eliminations	(1.2)	(4.5)
TOTAL COST OF REVENUE	35.4	47.6

Selling, general and administrative....	33.0	38.3
Depreciation and amortization	23.1	30.6
Equity in losses (earnings) of ventures	1.0	(5.2)
Interest income	(7.4)	(2.9)
Interest expense	2.5	1.7
Foreign currency loss	--	0.4
Other non-operating expense	0.1	--
Provision for income taxes	$ 0.6	$ 2.1

Cost of Revenue

Our cost of revenue increased by 34% to $47.6 million for the nine months ended September 30, 2001 from $35.4 million for the nine months ended September 30, 2000.

CLEC Services. Cost of revenue from CLEC Services increased by 24% to $13.3 million, or 39% of revenue, for the nine months ended September 30, 2001 from $10.7 million, or 36% of revenue, for the nine months ended September 30, 2000.

The CLEC Services division of TeleRoss' cost of revenue increased by 21% to $6.3 million, or 30% of revenue, for the nine months ended September 30, 2001 from $5.2 million, or 29% of revenue, for the nine months ended September 30, 2000. The slight 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 25% to $6.9 million, or 52% of revenue, for the nine months ended September 30, 2001 and was $5.5 million, or 46% of revenue, for the nine months ended September 30, 2000. Cost of revenue increased as a percentage of revenue due to the increase in lower margin carriers' carrier traffic.

Data and Internet Services. Cost of revenue from Data and Internet Services increased by 75% to $24.8 million, or 53% of revenue, for the nine months ended September 30, 2001 from $14.2 million, or 51% of revenue, for the nine months ended September 30, 2000. The slight increase as a percentage of revenue was mainly due to the increase of lower margin dial-up Internet revenue as a percentage of the mix of revenue.

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Long Distance Services. Cost of revenue from Long Distance Services increased by 30% to $11.2 million, or 73% of revenue, for the nine months ended September 30, 2001 from $8.6 million, or 83% of revenue, for the nine months ended September 30, 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.

Mobile Services. Cost of revenue from Mobile Services decreased by 10% to $2.8 million, or 26% of revenue, for the nine months ended September 30, 2001 from $3.1 million, or 24% of revenue, for the nine months ended September 30, 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 16% to $38.3

million, or 37% of revenue, for the nine months ended September 30, 2001 from $33.0 million, or 41% of revenue, for the nine months ended September 30, 2000. There were increases in employee related costs, largely due to acquisitions and increases in advertising costs associated with our Internet related strategy. Bad debt expense also increased but the increases were partially offset by a reduction in revenue related taxes.

Depreciation and Amortization

Our depreciation and amortization expenses increased by 32% to $30.6 million for the nine months ended September 30, 2001 from $23.1 million for the nine months ended September 30, 2000. This increase is due to the continuing capital expenditures of the consolidated entities and increased goodwill and intangible asset amortization due to acquisitions.

Equity in Earnings/Losses of Ventures

The earnings after interest and tax charges from our investments in non-consolidated ventures were $5.2 million for the nine months ended September 30, 2001 up from losses of $1.0 million for the nine months ended September 30, 2000. We recognized earnings at Sovintel of $7.4 million for the nine months ended September 30, 2001, which were partially offset by our recognized losses in MCT. In the nine months ended September 30, 2000, our recognized earnings at Sovintel were $3.6 million which were more than offset by our recognized losses of $3.7 million from our Russian mobile ventures.

Interest Income

Our interest income was $2.9 million for the nine months ended September 30, 2001 down from $7.4 million for the nine months ended September 30, 2000. The decrease in interest income mainly reflects the reduced balance of cash, cash equivalents and investments available for sale following the use of part of the proceeds from our IPO for acquisitions and capital expenditure.

Interest Expense

Our interest expense was $1.7 million for the nine months ended September 30, 2001 down from $2.5 million for the nine months ended September 30, 2000. The decrease in interest expense reflects the reduced level of debt in the company.

Foreign Currency Loss

Our foreign currency loss was $0.4 million for the nine months ended September 30, 2001, compared to a negligible amount for the nine months ended September 30, 2000. The increase in loss in part reflects the devaluation of the ruble for the nine months ended September 30, 2001, as compared to the nine months ended September 30, 2000.

Other Non-operating Expense

No other non-operating expense was recorded in the nine months ended September 30, 2001. Our other non-operating expense was $0.1 million for the nine months ended September 30, 2000 due to losses on certain fixed assets disposals by our operating companies.

Provision for Income Taxes

Our charge for income taxes was $2.1 million for the nine months ended September 30, 2001 compared to $0.6 million for the nine months ended September 30, 2000. The increase was due to increased levels of profitability and combined with maximum utilization of loss carryforwards in our Russian and Ukrainian entities.

Net Loss and Net Loss per Share

Our net loss for the nine months ended September 30, 2001 was $9.3 million, compared to $8.1 million for the nine months ended September 30, 2000.

Our net loss per share of common stock increased to $0.39 for the nine months ended September 30, 2001, compared to $0.34 in the nine months ended September 30, 2000. The increase in net loss per share of common stock was due to the increase in net loss and to a decrease in the number of weighted average shares to 24,014,256 at September 30, 2001, compared to 24,073,446 at September 30, 2000.

NON-CONSOLIDATED RESULTS -- NON-CONSOLIDATED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THE NON-CONSOLIDATED RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

This section is comprised of a limited discussion of the results of operations of our principal non-consolidated entity, Sovintel, in which we own a 50% interest.

SOVINTEL

Revenue

Sovintel's revenue increased by 23% to $84.0 million for the nine months ended September 30, 2001 from $68.2 million, for the nine months ended September 30, 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.

Cost of Revenue

Sovintel's cost of revenue increased by 31% to $46.5 million for the nine months ended September 30, 2001 from $35.5 million for the nine months ended September 30, 2000. The increase of cost of revenue to 55% of revenue from 52% of revenue was primarily the result of increases in lower margin traffic in the revenue mix.

Selling, General and Administrative

Sovintel's selling, general and administrative expenses decreased by 19% to $10.0 million, or 12% of revenue, for the nine months ended September 30, 2001 from $12.4 million, or 18% of revenue for the nine months ended September 30, 2000. The decrease was largely due to a reduction in the rate of revenue related taxes incurred, also reductions in employee related costs, advertising, bad debt and other costs.

LIQUIDITY AND CAPITAL RESOURCES

On May 11, 2001, our former majority shareholder, GTS, completed the sale of approximately 12.2 million, or approximately 50%, of our common stock. This transaction triggered an acceleration of $6.0 million, including accrued interest, of our long-term debt under change of control provisions in certain promissory notes issued an equipment vendor. We paid this long-term debt to the lender in July 2001. As part of the transaction, an additional $6.3 million of pre-existing long-term debt due from GTI to GTS is now payable

on May 11, 2002. For other third party debt agreements, held at the subsidiary level, the lenders have agreed that this transaction will not affect the terms of those agreements.

Our cash, cash equivalents and investments available for sale were $43.0 million and $112.2 million as of September 30, 2001 and December 31, 2000, respectively. Of these amounts, our cash and cash equivalents were $43.0 million and $57.9 million as of September 30, 2001 and December 31, 2000, respectively. In the fourth quarter of 2000, we invested in money market instruments with an original maturity greater than three months which are classified as investments available for sale. At September 30, 2001 and December 31, 2000, investments available for sale were none and $54.3 million, respectively.

Our total restricted cash was $3.9 million and $2.5 million as of September 30, 2001 and December 31, 2000, respectively. The restricted cash is maintained in connection with certain of our debt obligations as described below.

During the nine months ended September 30, 2001, we had net cash inflows of $19.1 million from our operating activities. During the nine months ended September 30, 2000, we had net cash inflows of $16.1 million from our operating activities. The increase in cash inflows was mainly due to an improvement in our operating income, excluding depreciation and amortization. We had net cash outflows of $3.0 million and $48.6 million at September 30, 2001 and September 30, 2000, respectively, from our investing activities. During the first quarter of 2001, we liquidated our total investment available for sale of $54.3 million. Cash used in investing activities was principally attributable to building our telecommunications networks and acquisitions.

We had working capital of $21.4 million as of September 30, 2001 and $100.0 million as of December 31, 2000. At September 30, 2001, we had total debt of approximately $14.3 million, of which $10.1 million were current maturities. At December 31, 2000, we had total debt of approximately $19.0 million, of which $3.3 million were current maturities. Total debt includes amounts that are fully collateralized by restricted cash. At September 30, 2001 and December 31, 2000, $6.3 million and $11.0 million, respectively, of our debt was at fixed rates.

In the first quarter of 2000, we entered into a lease for fiber 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. Full prepayments were made to the lessor in April and August 2000 and February 2001. These prepayments have been offset against the lease obligation in the financial statements of the Company. In September 2001, we acquired the 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. This lease has terms of five years.

Some of our operating companies have received debt financing through direct loans from affiliated companies. In addition, certain operating companies have borrowed funds under a $2.5 million back-to-back, seven-year credit facility from a Western-owned bank licensed to operate in Russia. 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. Previously, this was a $22.7 million facility which in part related to our former Russian mobile properties involved in the MCT transaction. In a second, similar facility, we provide full cash collateral for a $10.0 million short term back-to-back, revolving, credit facility from the same bank for two of our larger Russian operating companies. These two facilities replaced the previous $30.0 million back to back facility that expired on September 30, 2000. The funding level as of September 30, 2001 for both these facilities totaled $3.0 million, of which $2.1 million was funded to our consolidated subsidiaries and $0.9 was funded to our affiliates.

In order for us to compete successfully, we will require additional 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 significant additional capital for our acquisition and business development initiatives. The net proceeds from our IPO and our private placement have been and will continue to be applied to these funding requirements until such proceeds are depleted. 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.

We announced on November 6, 2001 that we had signed a Memorandum of Understanding to purchase 50% of Sovintel from Rostelecom for approximately 3.9 million shares of our common stock and $52.0 million in cash. In order to complete this transaction and ensure sufficient operating cash on hand, we are seeking debt financing contingent on the closing of the purchase of the 50% in Sovintel. The sum we intend to borrow will be conditional on the final terms of the purchase of Sovintel, availability of debt financing coupled with our operating and investing cash flow requirements.

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 that may be on a secured or unsecured basis and through the divestment of non-core assets. In the event that these especially large or numerous acquisitions, including the purchase of 50% of Sovintel, do not materialize, we expect our current sources of funding, including the remaining net proceeds from our IPO and private placement, to finance our capital requirements for the next 12 months. The actual amount and timing of our future capital requirements may differ materially from our current estimates because of changes and fluctuations in our anticipated acquisitions, investments, revenue, operating costs and network expansion plans and access

to alternative sources of financing on favorable terms. However, 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.

Although we have achieved positive cash flow from operations, we cannot assure you that our operations will sustain positive operating cash flow or achieve operating profitability in the future. If we cannot achieve and sustain operating profitability or positive cash flow from operations, we may not be able to meet our debt service obligations or working capital requirements, and the value of our shares of common stock may decline.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other parts of this document, including, without limitation, those concerning (i) projected traffic volume; (ii) expected benefits from our acquisitions, (iii) future revenues and costs; (iv) changes in the Golden Telecom's competitive environment; (v) our projections concerning our liquidity and capital resources; and (vi) the political and financial situation in the markets in which we operate, contain forward-looking statements concerning the Company's operations, economic performance and financial condition. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. Among the key factors that have a direct bearing on the Company's results of operations, economic performance and financial condition are the commercial and execution risks associated with implementing the Company's business plan, the political, economic and legal environment in the markets in which the Company operates, increasing competitiveness in the telecommunications and Internet-related businesses that may limit growth opportunities, and the consummation of numerous or large acquisitions. These and other factors are discussed herein under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Report.

Additional information concerning factors that could cause results to differ materially from those in the forward looking statements are contained in the Company's filings with the U.S. Securities and Exchange Commission ("SEC") and especially in the Risk Factor sections therein, including, but not limited to the Company's report on Form 10-K for the year ended December 31, 2000, the Company's Post Effective Amendment No.1 on Form S-3 to Registration Statement No. 333-39260 on Form S-1 filed with the SEC on April 27, 2001 and the Company's Form S-8 Registration Statement No. 333-72036 filed with the SEC on October 23, 2001.

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

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

PART II. OTHER INFORMATION

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

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

DESIGNATION	DESCRIPTION
99.1	Press Release announcing Golden Telecom Signs MOU With Rostelecom Regarding Sovintel.

b) Reports on Form 8-K

DATE OF REPORT	SUBJECT OF REPORT
July 11, 2001	The Company agrees to buy-back $25.0 million, or 2,272,727 shares, of the Company's common stock from a subsidiary of Global TeleSystems, Inc.
July 26, 2001	The Company completes the buy-back of $25.0 million, or 2,272,727 shares, of the Company's common stock from a subsidiary of Global TeleSystems, Inc.

SIGNATURES

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

GOLDEN TELECOM, INC.
(Registrant)

By: /s/ DAVID STEWART

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

By: /s/ MARK BURDEN

Name: Mark Burden
Title: Corporate Controller
(Principal Accounting Officer)

Date: November 9, 2001

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
99.1	Press Release announcing Golden Telecom Signs MOU With Rostelecom Regarding Sovintel.