METROMEDIA INTERNATIONAL GROUP INC
Form 10-K
May 26, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For Fiscal Year Ended December 31, 2003**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)** **For the transition period from to**

Commission file number 1-5706

Metromedia International Group, Inc.

(Exact name of registrant, as specified in its charter)

Delaware	**58-0971455**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

8000 Tower Point Drive, Charlotte, North Carolina 28227

(Address and zip code of principal executive offices)

(704) 321-7380

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, $0.01 par value
7 1/4% Cumulative Convertible Preferred Stock

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark if disclosure whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934 Yes o No þ

The aggregate market value of voting stock of the registrant held by non-affiliates of the registrant at April 30, 2004 based on the average bid and ask prices of its Common Stock on the over-the-counter market on such date of $0.29 per share was approximately $21,848,512.

The number of shares of Common Stock outstanding as of April 30, 2004 was 94,034,947.

DOCUMENTS INCORPORATED BY REFERENCE

None

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Certain statements set forth below in this Form 10-K constitute Forward-looking Statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. See Special Note Regarding Forward-Looking Statements on page 32.

PART I

Item 1. *Business*

Metromedia International Group, Inc. (MIG or the Company) is a holding company owning interests in business ventures, through its wholly owned subsidiary Metromedia International Telecommunications, Inc. (MITI), that principally provide telecommunication services to customers in Northwestern Russia and the Republic of Georgia. The Company s interests in the business ventures are managed and operated in the following three business segments: fixed telephony, wireless telephony and cable television. In addition, the Company is currently in the process of disposing of certain non-core media businesses that consist of eighteen radio businesses operating in Finland, Hungary, Bulgaria, Estonia, and the Czech Republic and one cable television network in Lithuania.

The Company s principal executive offices are located at 8000 Tower Point Drive, Charlotte, North Carolina, 28227, telephone: (704) 321-7380, fax: (704) 845-1835.

Recent Developments

Restructuring Strategy

In the first quarter of 2003, the Company embarked on an overall restructuring of its business (the Restructuring). The Restructuring was prompted by and was intended to resolve the severe liquidity issues that had confronted the Company since the beginning of 2002. In this Restructuring, the Company undertook to sell its non-core businesses, which at the beginning of the Restructuring included nine cable television networks, twenty radio broadcasting stations and various non-core telephony businesses located in Western, Central and Eastern Europe. Proceeds of these sales mitigated short-term liquidity concerns and provided capital for further core business development. Upon the completion of all planned sales, the Company will emerge as a business with its principal attention focused on the continued development of its core telephony businesses in Northwest Russia and the Republic of Georgia. In connection with the Restructuring, the Company also substantially downsized its corporate headquarters staff and undertook actions with the intended objective of significantly decreasing its corporate overhead cash-burn rate.

The Restructuring of business interests and corporate operations has progressed substantially and will soon be fully completed. The Company s remaining non-core media businesses held for sale consist of eighteen radio broadcast stations operating in Finland, Hungary, Bulgaria, Estonia, and the Czech Republic and one cable television network in Lithuania. Sale of these remaining non-core businesses is expected within the first half of 2004. The Company has relocated its corporate headquarters from New York City, New York to Charlotte, North Carolina and has achieved a significant reduction in its corporate personnel and office related expenditures. Further reductions in corporate overhead expenditures will follow the final disposition of all non-core operations. The Company s core telephony businesses are now:

- PeterStar, the leading competitive local exchange carrier in St. Petersburg, Russia, in which the Company has a 71% ownership interest; and

- Magticom, the leading mobile telephony operator in the Republic of Georgia, in which the Company has an effective 34.5% ownership interest.

Both of these business ventures are currently self-financed and hold leading positions in their respective markets. Furthermore, the Company also intends to retain its ownership in Ayety TV, a cable television provider in Tbilisi, Georgia, in which the Company has an 85% ownership interest and Telecom Georgia, a long-distance transit operator in Tbilisi, Georgia, in which the Company has a 30% ownership interest. The Company expects that these businesses can be further developed to strengthen the market position of

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Magticom. The Company intends to use its corporate cash reserves to provide for the development of these core businesses, with the expectation that their future dividend distributions will be sufficient to meet, on a timely basis, the Company s corporate overhead requirements and interest payment obligations, including those associated with its $152.0 million aggregate principal (fully accreted) 10 1/2% Senior Notes, due 2007 (the Senior Notes).

Liquidity Concerns

The Company is a holding company; accordingly, it does not generate cash flows from operations. As of December 31, 2003 and April 30, 2004, the Company had approximately $25.6 million and $30.0 million, respectively, of unrestricted cash on hand that can be used to meet corporate liquidity requirements. In addition, as of December 31, 2003, the Company had approximately $1.4 million of cash at the Company s consolidated business ventures. Furthermore, as of December 31, 2003, the Company s unconsolidated business ventures had approximately $18.0 million of cash, $17.6 million of which is held in banks in the Republic of Georgia.

Due to legal and contractual restrictions, cash balances at the Company s business ventures cannot be readily accessed without distribution of dividends, which require formal declarations to effect transfers to the Company to meet the Company s corporate liquidity requirements. Furthermore, the dividend policy of Magticom must be approved by the Company s partners and thus, is not under the Company s exclusive control. *See Risks Associated with the Company The Company is materially dependent on future distributions from PeterStar and Magticom* and *See Risks Associated with the Company The Company is dependent on certain local parties, and we cannot assure you that it will be able to maximize its return on certain investments* and *Item 7: Management s Discussion and Analysis of Financial Condition and Results from Operations Liquidity and Capital Resources.*

The Company continues to actively pursue the sale of remaining non-core businesses to raise additional cash and has undertaken to maximize cash distributions from all of its business ventures. The Company projects that its current corporate cash reserves, anticipated cash proceeds of non-core business sales and anticipated continuing dividends from core business operations will be sufficient for the Company to meet, on a timely basis, its future corporate overhead requirements and interest payment obligations, associated with its Senior Notes. However, the Company cannot assure that dividends from core businesses will be declared and paid nor can it assure that it will be successful in selling any additional non-core businesses or that these sales, if they occur, will raise sufficient cash to meet short-term liquidity requirements. The Company also is subject to legal and contractual restrictions, including those under the indenture for the Senior Notes, on its use of any cash proceeds from the sale of its assets or those of its business ventures.

Separately, the Company projects that it has sufficient corporate cash on hand today to support the Company s planned operating, investing and financing cash flows through the end of 2004, including the Company s $8.0 million semi-annual interest payment due on September 30, 2004 on its Senior Notes. This projection does not include cash inflows that might reasonably arise from operating business venture dividend distributions or cash proceeds from the sale of the remaining non-core media businesses; either of which would further strengthen our current liquidity position.

However, the Company does not believe that it has sufficient corporate cash on hand today to support the Company s planned operating, investing and financing cash flows through March 31, 2005, including the Company s $8.0 million semi-annual interest payment that is due on March 31, 2005 associated with its Senior Notes.

The outstanding principal on the Senior Notes becomes due in full on September 30, 2007. Failure on the part of the Company to make any required payment of interest or principal on the Senior Notes would represent a default under the Senior Notes. A default, if not waived, could result in acceleration of the Company s indebtedness, in which case the full amount of the Senior Notes would become immediately due and payable. If this occurs, the Company would not be able to repay the Senior Notes and would likely not be able to borrow sufficient funds to refinance them.

If the Company is not able to satisfactorily address the liquidity issues described above, the Company may have to resort to certain other measures, including ultimately seeking the protection afforded under the U.S. Bankruptcy Code. The Company cannot assure at this time that it will be successful in avoiding such measures. Additionally, the Company has a stockholders deficit and has suffered recurring operating losses and net operating cash deficiencies.

The factors discussed above raise substantial doubt about the Company s ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Sale of Businesses

In early 2002, the Company began assessing the marketability of its business ventures, which at that time consisted of fixed-line and wireless telephony businesses, cable television businesses, radio broadcast businesses, China software development businesses and the Company s US-based lawn and garden equipment manufacturer (Snapper). This assessment anticipated the Company undertaking sales transactions that could yield sufficient cash to meet the Company s mounting corporate obligations.

In June 2002, the Company engaged United Financial Group (UFG) in an advisory capacity to assist the Company in evaluating certain unsolicited offers that it had received for its Russian and Georgian telephony businesses, including its PeterStar and Magticom business ventures. This engagement eventually led to UFG formally undertaking to market the Company s Telephony businesses. This marketing process actively proceeded into early 2003 and included solicitation of formal bids. Based somewhat on the disappointing results of this marketing effort and on current management s view of the development potential presented by PeterStar and Magticom, the Company terminated the UFG marketing process associated with its PeterStar, BCL and Magticom business ventures in April 2003. This action was connected with initiation of the Company s aforementioned Restructuring strategy in early 2003. Marketing of other telephony interests continued, eventually resulting in sale of these interests later in 2003 as described in detail elsewhere herein.

In February 2003, and also connected with initiation of the Restructuring Strategy, the Company engaged Communications Equity Associates (CEA) in an advisory capacity to assist the Company in marketing its the non-core cable television and radio broadcast and businesses, which included at that time, nine cable television networks and twenty radio broadcast stations located in Western, Central and Eastern Europe. As of today, the Company s remaining non-core media businesses consist of eighteen radio broadcast stations operating in Finland, Hungary, Bulgaria, Estonia, and the Czech Republic and one cable television network in Lithuania. The Company currently anticipates that these remaining businesses will be disposed by June 30, 2004

In 2002, the Company held various interests in China which it also considered to be non-core. In July 2002, the Company commenced a rights offering to the existing minority shareholders of Metromedia China Corporation (MCC), a majority owned subsidiary. The rights offering expired on August 22, 2002. Management determined prior to commencing the rights offering that it could not continue to fund MCC s operations or meet the minimum capital contributions required under the existing charter documents for MCC s operating subsidiaries. Management further recognized that if the rights offering were successful in raising the minimal funding required to sustain the operations, the Company would be substantially diluted in its ownership rights in MCC.

On September 19, 2002, the Company notified the minority shareholders of MCC that it had negotiated the sale of two of the three MCC operating subsidiaries to one of the general directors of MCC. In addition, the Company began the asset sale closing process for the two operating subsidiaries and began the liquidation process for the third operating subsidiary. The sale of the two operating subsidiaries was completed in early 2003.

On November 27, 2002, the Company completed the sale of substantially all of the assets and certain liabilities of Snapper, Inc. (Snapper) to Simplicity Manufacturing, Inc. (Simplicity) for an ultimate sale price of $60.0 million. Snapper manufactures premium-priced power lawnmowers, garden tillers, snow throwers and related parts and accessories.

The Company recorded an estimated loss on disposal of $10.1 million during the year ended December 31, 2002. Such loss was based on the minimum amount of cash expected once the final terms of the settlement with the buyer were agreed. The $10.1 million estimated loss was comprised of a write down of assets and estimated severance and disposal costs.

In the six months ended June 30, 2003, a final accounting for this transaction was made, and the Company adjusted a receivable that was due from Simplicity to $6.0 million to include additional net proceeds due to the Company of $0.7 million. The additional net proceeds were recorded as an adjustment to the loss on sale in income from discontinued components in the six months ended June 30, 2003 and resulted in an adjusted net loss on disposal of $9.4 million. Simplicity paid the $6.0 million to the Company in the quarter ended September 30, 2003.

On September 30, 2003, the Board of Directors formally approved management s plan to dispose of the remaining non-core media businesses of the Company. Management anticipates that the remaining non-core media businesses will be disposed by June 30, 2004.

Non-core businesses to be disposed include:

all remaining radio businesses; and

all remaining cable television businesses with the exception of Ayety TV.

In light of these events, the Company has concluded that certain businesses ventures meet the criteria for classification as discontinued business components as outlined in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and these entities have been presented as such within the consolidated financial statements.

Accordingly, as of December 31, 2003, the statement of operations of the Company for current and prior periods has presented the results of operations of the discontinued components, including any gain or loss recognized on such disposition, in income (loss) from discontinued components and the balance sheet presents the assets and liabilities of such operations as assets and liabilities of discontinued components.

A summary of business venture dispositions from January 1, 2002 to December 31, 2003 are summarized below:

Business Unit	Location	Nature of Business	Date of Sale	Proceeds ($ millions)
Snapper	USA	Lawn Care Products	November 27, 2002	21.6
Baltcom TV	Latvia	Cable TV	August 1, 2003	14.5
Alma TV	Kazakhstan	Cable TV	May 24, 2002	8.5
ALTEL	Kazakhstan	Mobile Telephony	October 2, 2002	4.8
Technocom/ Teleport-TP	Russia	Fixed Telephony	June 25, 2003	4.5
CYP Yellow Pages	Russia	Directory Services	October 18, 2002	2.4
Sun TV	Moldova	Cable TV	November 12, 2003	2.1
BELCEL	Belarus	Mobile Telephony	July 25, 2002	1.6
Tyumenruskom	Russia	Mobile Telephony	September 24, 2003	1.2
Teleplus	Russia	Cable TV	November 21, 2003	0.9
Caspian American Telecommunications	Azerbaijan	Wireless Local Loop	August 27, 2002	0.1
Comstar	Russia	Fixed Telephony	April 24, 2003	(1)
Kosmos TV	Russia	Cable TV	April 24, 2003	(1)
SAC/ Radio 7	Russia	Radio Broadcasting	April 24, 2003	(1)
Radio Katusha	Russia	Radio Broadcasting	April 24, 2003	(1)

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(1) The Company exchanged these businesses for $58.6 million face value Senior Notes, $3.5 million accrued interest and $5.0 million cash.

In addition to the business venture dispositions noted above, the Company has disposed of certain business ventures subsequent to December 31, 2003, which include the following:

Business Unit	Location	Nature of Business	Date of Sale	Proceeds ($ millions)
FX Communications/ FX Internet	Romania	Cable TV	March 4, 2004	16.0
Arkhangelsk Television Company	Russia	Cable TV	March 26, 2004	1.5
Cosmos TV	Belarus	Cable TV	March 26, 2004	0.7
Radio Skonto	Latvia	Radio Broadcasting	April 28, 2004	0.5

Impairment Charges

The Company recognized non-cash charges of $1.5 million, $34.1 million and $36.8 million in its 2003, 2002 and 2001 consolidated financial statements, respectively. These charges result from the Company s analysis of the recoverability of long-lived assets and investments in certain of its continuing and equity business ventures. In addition, the Company recognized charges of $1.3 million, $3.9 million and $113.0 million on its discontinued components in 2003, 2002 and 2001, respectively. As a result of adopting SFAS No. 142, the Company recorded a transitional impairment charge of $16.8 million as of January 1, 2002 of which $15.7 million is included in discontinued components. *See Item 8: Financial Statements and Supplementary Data* and *Notes to Consolidated Financial Statements Note 1 Basis of Presentation, Going Concern and Recent Developments* .

Restructure of Balance Sheet

During 2003, the Company engaged in discussions with representatives of holders of a substantial portion of the Company s Senior Notes concerning a restructuring of the Senior Notes. To date, no restructuring has been agreed upon and further restructuring discussions with these substantial Senior Note holders were suspended.

Beginning in late 2003 and continuing into 2004, the Company has had and continues to have discussions with several holders of the Company s 7 1/4% cumulative convertible preferred stock (the Preferred Stock) regarding the preferred stockholders right to elect two new directors to the Company s Board of Directors.

Opportunities to restructure the Company s balance sheet, including to refinance the Senior Notes and Preferred Stock, which had an aggregate preference claim of $252.9 million and $257.4 million as of December 31, 2003 and March 31, 2004, respectively, are being pursued, but present Company plans presume the continued service of the Senior Notes on current terms and the continued deferral of the payment of dividends on the Preferred Stock. The Company cannot provide assurances at this time that a capital restructuring effort will be undertaken or, if undertaken, that such effort would produce a material improvement in short-run cash flows or equity valuations.

Delisting

On February 25, 2003, the Company received notice from the staff of the American Stock Exchange (the Exchange or AMEX) indicating that the Exchange filed an application with the United States Securities and Exchange Commission on February 20, 2003, to strike the Company s Common Stock and 7 1/4% Cumulative Convertible Preferred Stock from listing and registration on the Exchange, effective at the opening of the trading session on March 3, 2003.

From March 3, 2003 through September 23, 2003, the Company s equity securities were quoted on the OTC Bulletin Board trading system (OTCBB); however, on September 24, 2003, the Company s equity securities were removed from quotation on the OTCBB because the Company was not then in compliance with the NASD Rule 6530. The Company was required to file its Quarterly Report on Form 10-Q for the

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quarter ended June 30, 2003 with the SEC by September 23, 2003 to remain in compliance with Rule 6530. As a result, the Company s Common Stock (OTCPK: MTRM) and 7 1/4% Cumulative Convertible Preferred Stock (OTCPK: MTRMP) is traded only by means of the Pink Sheets.

Available Information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act). The Company therefore files periodic reports, proxy statements and other information with the Securities and Exchange Commission (SEC). Such reports may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street NW, Washington, D.C. 20549, or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

The Company maintains an Internet website at: *www.metromedia-group.com* that investors and interested parties can access, free-of-charge, to obtain copies of all reports, proxy and information statements and other information that the Company submits to the SEC. This information includes copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act.

Investors and interested parties can also submit electronic requests for information directly to the Company at the following e-mail address: *investorrelations@mmgroup.com.* However, please be aware that the Company may not respond immediately, since the Company does not employ an individual whose sole responsibility is investor relations, the Company s investor relations function is currently managed by the Company s Chief Financial Officer. Furthermore, with the exception of the Company s annual communication with its shareholders, the Company s current investor relations policy is to only provide information in an electronic format, in lieu of paper format, to keep the costs of managing investor relations to a minimum.

Information on our website is not incorporated into this Form 10-K or our other securities filings and is not a part of them.

Corporate History

The Company was organized in 1929 under Pennsylvania law and reincorporated in 1968 under Delaware law. Prior to 1995, the Company operated under the names of The Actava Group Inc. and Fuqua Industries, Inc. , and during that time period, the Company owned, operated and sold dozens of companies in diverse industries, including photofinishing, lawn and garden equipment and sporting goods. On November 1, 1995, as a result of the merger of Orion Pictures Corporation (Orion) and Metromedia International Telecommunications, Inc. (MITI) with and into wholly-owned subsidiaries of the Company and the merger of MCEG Sterling Incorporated (MCEG) with and into the Company, the Company changed its name from The Actava Group Inc. to Metromedia International Group, Inc. MITI held interests in communications and media ventures operating principally in countries that were formerly part of the Soviet Union. Orion was a motion picture production and distribution company. MCEG was an independent film production and distribution company. With the November 1995 mergers, the Company adopted a strategy of development of media, communications and entertainment holdings, with emphasis on developments in the emerging markets of the former Soviet Union countries. On February 28, 1997, as a result of the merger of Asian American Telecommunications into a wholly owned subsidiary of the Company, the scope of communications business development was extended to include the People s Republic of China.

On July 10, 1997, the Company consummated the sale of substantially all of its entertainment assets, consisting of Orion Pictures Corporation, Samuel Goldwyn Company and Motion Picture Corporation of America (and each of their respective subsidiaries), including its feature film and television library of over 2,200 titles, to P&F Acquisition Corp., the parent company of Metro-Goldwyn-Mayer, Inc., for a gross consideration of $573.0 million. Thereafter, on April 16, 1998, the Company sold to Silver Cinemas, Inc. its remaining entertainment assets consisting of all of the assets of the Landmark Theatre Group (Landmark), except cash, for an aggregate cash purchase price of approximately $62.5 million and the assumption of certain

Landmark liabilities. These transactions provided significant funds for the Company s expansion of its emerging market communications and media businesses.

On September 30, 1999, the Company consummated the acquisition of PLD Telekom, holder of interests in several communications businesses providing high quality long distance and international telecommunications services in the Commonwealth of Independent States (CIS). In December 1999, the Company was forced to liquidate its interests in the telecommunications business ventures in China by order of the Chinese government, and the Company s subsequent interests in China were limited to several start-up E-commerce business ventures.

By 2002, the Company operated as a holding company for telephony, radio and cable TV business operations located essentially in Eastern Europe, Russia and Central Asia. Remaining operations in China were in early development. The Company also owned the non-strategic business Snapper Inc., a lawn and garden equipment manufacturer. Cash proceeds of prior year operations and sale of business holdings had been invested in acquisition or development of the Company s primary communications and media businesses in Europe, Russia and Central Asia. Cash reserves had been substantially depleted by these investments, coupled with a historically high level of overhead spending. The Company faced a serious liquidity situation, compounded by the onset of semi-annual interest payment obligations for the Senior Notes commencing in September 2002.

During 2002, and in response to growing liquidity pressures, the Company implemented measures to monetize its interest in several non-core businesses. Sufficient cash was generated from these sales and from dividends received from remaining business operations to meet 2002 requirements, including payment in October 2002 of $11.2 million of interest then due on the Senior Notes. The Company, however, continued to face serious liquidity pressures on entering 2003. At this time, the Company adopted the aforementioned Restructuring strategy. Additional cash reserves were developed from business sales undertaken in 2003, and the Company eliminated nearly one-third of the outstanding principal on its Senior Notes. In consequence, the Company was able to meet its historical and ordinary course business obligations and pay the semi-annual $8.0 million interest due on its Senior Notes. The Company believes that its strategy of monetizing interest in non-core media businesses, reduction of operating overheads and focused attention on further development of PeterStar and Magticom, its core telephony business ventures, will yield sufficient cash from sale proceeds and dividend distributions to meet current overhead requirements and interest payment obligations. This strategy aims to yield a stable, ongoing business focused, initially at least, on telecommunications services in Northwestern Russia and the Republic of Georgia. However, no assurances can be made that the Company s present strategy will be successful.

Description of Business Fixed Telephony

Overview

The Company owns interest in PeterStar, a fixed telephony business with operations centered in St. Petersburg and the Northwest Region of Russia. PeterStar provides local telephony services, transit services for other telecommunications operators, and data communications services for businesses and individual customers. These services are delivered to stationary locations via copper, fiber optic or wireless loop connections. PeterStar operates as a Competitive Local Exchange Carriers or CLEC, providing telephony services in a market also served by an incumbent monopoly carrier. A CLEC obtains telephone numbers and access to national or international telephone networks via interconnection with the incumbent monopoly operator.

The Company also owns interest in Telecom Georgia, a long distance access and transit business centered in Tbilisi, Georgia. Telecom Georgia provides domestic and international long distance access to telephone subscribers within Georgia. Customers of mobile and fixed line operators in Georgia can access Telecom Georgia s domestic and international calling gateway by dialing code 810, the most common dialing prefix for long distance calls in former Soviet Union countries. Telecom Georgia also provides terminating access to Georgian fixed and mobile subscribers for international callers from outside Georgia. These call terminations are arranged through Telecom Georgia s interconnections to most of Georgia s other telecommunications service providers. Telecom Georgia acts as a Transit Operator , arranging through its own switches calls among customers of other domestic and international operators.

The following table summarizes the Company s interests in PeterStar and Telecom Georgia at December 31, 2003 and the Company s voting interest percentage in each company at that date:

Business Venture(1)	Company Voting %
PeterStar (St. Petersburg, Russia)	71%
Telecom Georgia (Tbilisi, Georgia)(2)(3)	30%

(1) Each parenthetical notes the area of operations for each operational business venture.

(2) The Company follows the equity method of accounting for this business operation within the Company s 2003 consolidated financial statements.

(3) Since the Company s investment in Telecom Georgia, as pursuant to United States generally accepted accounting principles, is zero and that there is no obligation for the Company to fund its operations, the Company has ceased to record its share of the operational losses of Telecom Georgia. Further, the operating performance of Telecom Georgia will not be reported within the Company s public disclosures, until such time that circumstances surrounding the Company s investment interest has substantially changed, which could include the Company deciding to make further investments and or loans to the business venture.

To remain competitive, the Company may need to make further investment in these business ventures to fund capital spending for construction, development and maintenance of their network infrastructure and operational systems. The planned capital expenditures program for PeterStar, for the twelve months ended December 31, 2004, is approximately $11.6 million. The Company anticipates that this capital expenditure program will be self-funded from PeterStar s current cash reserves and its anticipated 2004 operating cash flows and will, thus, not require additional Company investment. Telecom Georgia s capital improvements program for the current year has not yet been finalized, but current plans do not indicate the need for any additional funding from Telecom Georgia s shareholders.

PeterStar (St. Petersburg, Russia)

The Company owns a 71% equity interest in PeterStar. The remaining 29% is owned by Telecominvest, a telecommunications holding company with interests in over 30 telecommunications, media and technology companies in Russia.

Overview: PeterStar is the leading CLEC in Russia s second largest city, St. Petersburg and is licensed to offer telecommunications services throughout the Northwest Region of Russia and Moscow. PeterStar commands a significant share of the St. Petersburg market and a volume of business almost twice that of its nearest CLEC competitor.

PeterStar operates a digital, fiber optic telecommunications network that is fully interconnected with the incumbent network of St. Petersburg Telephone Network (PTS, recently renamed North-West Telecom) and has a transport and access network comprising of approximately 2,000 kilometers of fiber optic cable in St. Petersburg with national and international switches and more than 70 kilometers of fiber optic cable installed in Moscow.

PeterStar is increasing the long-run stability of its business by expanding its own facilities network, thereby decreasing dependence on PTS. During 2003, approximately 80% of PeterStar s new connections were served via PeterStar s owned infrastructure. PeterStar is also aggressively introducing its own data transport, Internet and Voice-Over-IP (VoIP) services. These new generation services meet the steadily expanding demand for data and IP-based trafficking among commercial customers and provide a low-cost, high-function alternative to traditional circuit switched telephony. The PeterStar brand is well established in St. Petersburg as a hallmark for high quality service at competitive prices.

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PeterStar opened branch operations in Moscow in 2003 to expand services to those of its St. Petersburg customers with Moscow business interests. PeterStar anticipates further expansions into the Northwest region of Russia, exploiting its established St. Petersburg operational capacities, customer base and network. In March 2004, Peterstar executed an agreement to acquire a controlling interest in Pskov Telephone Company, the incumbent fixed line telephony service provider in the City of Pskov. Acquisition or start-up of fixed line businesses in other Northwest Region cities is also currently underway. PeterStar s immediate strategy focuses on rapidly developing a position as the Northwest Region s largest independent fixed line operator centered on its dominant position in the St. Petersburg area.

As of October 1, 2003, Baltic Communications Limited (BCL) became a wholly owned subsidiary of PeterStar. Prior to that time, BCL was a wholly owned subsidiary of MIG.

The following table summarizes PeterStar s and BCL s combined key operating and financial results for the last three years:

	2003	2002	2001
	(Amount in millions unless otherwise noted)		
Revenues	$ 70.5	$ 62.8	$ 55.1
Gross Margin(1)	46.9	43.8	39.4
Selling, General and Administrative Expenses	13.7	16.7	15.3
Depreciation and Amortization	20.3	18.8	21.7
Capital Expenditures	16.2	13.1	8.3
Active Numbers(2) Business	58,880	54,555	52,742
Active Numbers(2) Vasilievsky Island	37,051	35,801	34,697
Number of Leased Lines(2)	3,150	1,839	1,251
Number of Dial-up Customers(2)	16,238	10,144	3,552

(1) Excludes depreciation and amortization of the network infrastructure.

(2) Amounts represent whole numbers.

Customers and Markets: PeterStar provides integrated, high-quality telecommunications services to business and residential customers, principally in the city of St. Petersburg and on a developing basis throughout the Northwest Region of Russia. In addition to its CLEC operations, PeterStar is the main fixed-line telecommunications services provider on Vasilievsky Island, a predominantly residential district in the city of St. Petersburg where it serves nearly all of the residential subscribers. Although the tariffs of PeterStar in this area are regulated so as to be equal to those of the incumbent operator PTS, PeterStar management believes that Vasilievsky Island represents a significant opportunity because of the large potential base of customers it offers for PeterStar s Internet and VoIP services.

Customers are connected to the PeterStar network via direct fiber optic connection or via copper links or wireless local loops to nearby fiber optic nodes. The method of connection depends on the services subscribed, availability of direct fiber access, and traffic volume. Large corporate users with greater requirements are generally linked to the PeterStar network directly via fiber optic cable. This results in efficient, inexpensive, more reliable connections with high data transmission speeds. PeterStar implemented narrow band wireless local loop capabilities in 1999 and in first quarter 2003 launched wireless broad-band capabilities, thus enabling it to speedily extend services to customers not yet reached by its fiber networks. This capability allows rapid service deployment to new customers and reduces reliance on rented copper facilities provided by PTS.

PeterStar has opened its own IP traffic interconnection nodes in London and New York. Through these nodes, PeterStar can directly exchange IP-based voice and data traffic with international operators. The nodes are connected to PeterStar s switching systems and customer base in Northwest Russia over high capacity channels, enabling PeterStar to directly terminate international traffic in Russia at attractive rates and to deliver Russia-originated IP traffic to international destinations at low cost. Foreign tourists, travelers and local residents needing to make national and international telephone calls are also served by PeterStars network of pre-paid and credit card pay phones, located in the main tourist and transport centers of St. Petersburg as well as on the main highway to Finland and at the Russian-Finnish border crossings.

Services: Services provided include local, national and international long distance voice telephony, data transfer, Internet access, and value added services such as Voice-Over-IP (VoIP) services. PeterStar offers both regular numbers (one line one number), and serial numbers (several lines one number). Several subscriber lines can be grouped into series, with one number assigned to the combined series. Serial numbers can support several simultaneous calls and are an effective solution for the offices of large companies, and information and reference systems.

PeterStar has developed a number of telephony and data transmission services for its business customers. These services include: point-to-point channels, ISDN services, broadband Internet access via its fiber network, digital dedicated circuit services, frame relay services and DSL services (providing high speed Internet access). Within this service line, PeterStar offers telephony equipment installation services (including the development of technical requirements and network design) at customer s offices, and after-sale support. PeterStar also offers dial-up Internet access (available to both its telephony subscribers and to the subscribers of other operators).

PeterStar is the official distributor of Avaya equipment, enabling it to offer turn-key solutions for its customers (telecommunications services plus hardware). The equipment is sold to customers who use PeterStar network services. PeterStar also sells Ericsson, Cisco and General Datacom equipment.

PeterStar-issued calling cards can be used in the following Russian cities Moscow, St Petersburg, and Novgorod, as well as in the countries of Australia, Belgium, Denmark, Finland, France, Germany, Norway, Sweden and the United Kingdom.

PeterStar provides a high level of service support through its Russian and English speaking customer service team and also provides a 24 hours, 7 days per week bilingual helpdesk. PeterStar also maintains a separate customer service support team whose focus is to support only highly valued customers.

Network and Technology: PeterStar s fully digital telephone network is built on the nodes of PTS network and has connections to the networks of other operators: Petersburg Transit Telecom, Telecom XXI, Metrocom, Golden Telecom, Rostelecom, and others. The PeterStar telephone network makes it possible to provide telephony services to customers over analog communication lines as well as over E1 digital trunks with the possibility of implementing ISDN functions.

The PeterStar wireless access network (WAN) is built using a cellular structure, with cells covering the St. Petersburg region and Leningrad oblast. Each cell contains a base station with one or more radio ports. Each radio port is equipped with sector antennas to implement the point-to-multipoint access scheme. Subscriber terminals enable between one and four subscriber lines to be connected. PeterStar WAN consists of two segments 1.5 GHz and 2.4 GHz. Currently, both networks connect 3,890 lines.

PeterStar data and Internet access network covers St. Petersburg and the neighboring regions, such as Petrodvorets, Pavlovsk, Pushkin, Sestroretsk, Zelenogorsk, and Krondshtadt. The network has gateways to all carriers represented on the territory of St. Petersburg and the Leningrad oblast. At present, PeterStar possesses four Internet access nodes in order to access the Internet over dedicated switched circuits. The capacity of PeterStar Internet nodes is 1,680 simultaneous switched connections and 558 dedicated channels, 64 Kbps each. The Company has the following external Internet channels: Cable & Wireless 155 Mbps, Golden Telecom (TeleRoss) 100 Mbps and Rostelecom 100 Mbps. A VoIP node has been installed for 1,290 simultaneous connections.

The data network consists of a Frame Relay, ATM, and Gigabit Ethernet. The Frame Relay network uses 2 Mbps streams provided by PeterStar transport network as internode trunks. The equipment installed makes it possible to provide services on leasing dedicated circuits and Frame relay channels at a speed of N*64 Kbps (N = 1... 31). The ATM network is built on three switches combined in a ring with a speed of 622 Mbps. The PeterStar Gigabit Ethernet network makes it possible to construct closed corporate networks for business and banking structures and for wireless broadband access to PeterStar Internet nodes at speeds of 10/100 Mbps over fiber communication lines.

Competition: There are a number of competitive local exchange carriers operating in St. Petersburg, including PTT, Golden Telecom, Equant and Metrocom. Although targeting the same market segments, PeterStar remains the market leader amongst St. Petersburg operators, boasting the widest network coverage after PTS (the local incumbent operator) with direct access to end users. PeterStar also competes with PTS on certain services.

In 2001, PeterStar lost its wholesale mobile transit business to PTT, which had the same shareholder as two out of three St. Petersburg mobile operators: Delta Telecom and North West GSM. At the time, mobile transit traffic provided a significant portion of PeterStar s operating margins, and the loss had an immediate negative impact on PeterStar s earnings. Nevertheless, PeterStar continued to show healthy financial results and strong revenue growth. By year-end 2002, revenues had recovered to near pre-2001 levels, based principally on growth in conventional telephony and new data services.

Licenses: PeterStar holds various material licenses to provide telecommunications, telematic, data transmission and video conference services; it also holds a license to lease circuits. These licenses are generally granted by various Russian regulatory authorities for 5 to 10 years and are typically renewable through negotiations.

PeterStar s license for local and national telephony connections contains the provision that PeterStar shall, by the end of 2001, deploy 70% of 300,000 telephone numbers originally allowed for PeterStar s use. PeterStar did not meet the terms of this provision. PeterStar and Company management believe that the telephone number deployment level set out in the license is permissive rather than mandatory; setting an upper limit on PeterStar s use of telephone numbers rather than imposing a requirement to deploy numbers to that limiting level. This interpretation is supported by the fact that PeterStar s license as a whole has not been challenged in annual reviews by the Russian regulatory authority, despite the fact that the regulator did note PeterStar s non-conformity with the aforementioned number deployment provision in its October 2003 and April 2004 reviews. Furthermore, this authority is directly involved in all continuing telephone number deployment activities, including those of PeterStar. However, if the aforementioned license provision were ever to be interpreted as expressing a mandatory deployment requirement, this could have an adverse effect on PeterStar. While it is highly unlikely that the license would be revoked under such circumstances, PeterStar could be obligated to purchase and implement telephone numbers up to the level set out in the aforementioned license provision. This could entail substantial unplanned and uncompensated expense. PeterStar could also be at risk of having the maximum limit on its telephone numbering capacity lowered from the current level of 300,000. This could impose limitations on PeterStar s future capacity to grow revenues associated with telephone number based service offerings.

The granting authorities have the power to terminate the licenses at any time, subject to certain restrictions. PeterStar cannot operate its business without these licenses. *See Risks Associated with the Company Licenses on which the Company s business depend could be cancelled or not renewed, resulting in material impairment to the value of these businesses.*

Telecom Georgia (Tbilisi, Georgia)

The Company owns 30% of Telecom Georgia. The Georgian state government, with a 51% ownership interest, and Bulcom-c Ltd., a private Cyprus company with the remaining 19% ownership interest, owns the remaining 70% of Telecom Georgia.

Since the Company s investment in Telecom Georgia, as pursuant to United States generally accepted accounting principles, is zero and that there is no obligation for the Company to fund its operations, the Company has ceased to record its share of the operational losses of Telecom Georgia. Further, the operating performance of Telecom Georgia will not be reported within the Company s public disclosures, until such time that circumstance surrounding the Company s investment interest has substantially changed, which could include the Company deciding to make further investments and or loans to the business venture.

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By virtue of its controlling ownership position, the state government has treated Telecom Georgia essentially as a state-owned entity. Telecom Georgia had been almost solely directed by the Georgian Telecommunications Ministry and, more recently, the Georgian State Property Commission. In consequence, the Company s participation in the management of Telecom Georgia has been sharply limited and operations of Telecom Georgia have often been quite opaque. Although Telecom Georgia had delivered dividends until 1999, the absence of dividends since that time has reflected a sharp decline in Telecom Georgia s cash flows. This condition, coupled with the very limited degree to which the Company has been able to influence operations within Telecom Georgia, prompted the Company s decision to completely write-down its interest in this asset. The Company, however, has not moved to divest its interests in Telecom Georgia on the possibility of ultimately being able to obtain the state s interest in a future privatization by virtue of the pre-emptive rights the Company has as a current shareholder in Telecom Georgia. Under such circumstances, the business of Telecom Georgia could reasonably be developed in conjunction with the Company s other business interests in Georgia.

In the fourth quarter of 2003 widespread discontent over prior public elections in the Republic of Georgia resulting in the premature resignation of President Eduard Shevardnadze and the election of Mikhail Saakashvili, has significantly increased the level of political uncertainty within the Republic of Georgia. *See Risks Associated with the Company The Company is dependent on certain local parties, and we cannot assure you that it will be able to maximize its return on these investments* and *See Risks Associated with the Company The Company operates in countries with significant political, social and economic uncertainties which might have a material adverse effect on its operations in these areas* and *See Risks Associated with the Company The Company faces unusual economic and legal risks by operating abroad.* This condition could affect the further development prospects of Telecom Georgia as well as the Company s potential to secure a controlling interest or other rights to significant participation in management.

Overview: Telecom Georgia is an international and long distance telephony service provider in the Republic of Georgia, with more than 1,100 international channels and direct interconnect arrangements with international long distance carriers. Telecom Georgia is the oldest independent long distance operator in Georgia and has exclusive rights to use the dialing code 810, which was the long distance access code employed throughout the former Soviet Union. This positioning had earlier enabled Telecom Georgia to virtually monopolize long distance trafficking in Georgia; however, a number of competitor long distance operators have come into being since Telecom Georgia s formation. Nonetheless, Telecom Georgia remains the largest long distance operator in the country and enjoys the widest range of connections to international operators.

The Georgian government had earlier announced its intention to privatize its 51% stake in Telecom Georgia; however, attempts to privatize were not successful. With the formation of a new Georgian government in late 2003 following a revolution in that country, the Company re-opened discussion with government representatives concerning acquisition of the states 51% controlling ownership interest in Telecom Georgia. *See Risks Associated with the Company The Company is dependent on certain local parties, and we cannot assure you that it will be able to maximize its return on these investments* and *See Risks Associated with the Company The Company operates in countries with significant political, social and economic uncertainties which might have a material adverse effect on its operations in these areas* and *See Risks Associated with the Company The Company faces unusual economic and legal risks by operating abroad.* Although Telecom Georgia s financial performance and competitive positioning have declined in recent years, the Company believes that, with restructured and redirected management, Telecom Georgia could capture the predominant share of Georgia s voice long distance market and its rapidly growing IP traffic market. The Company cannot, however, provide assurances that current discussions with the Georgian government will be fruitful or that significant improvement in Telecom Georgia s financial and competitive positioning can be realized, even if the Company is able to secure a controlling interest or other participating right in Telecom Georgia s management.

Customers and Products: Telecom Georgia markets its services on the basis of a strong advertising campaign, competitive tariffs and high quality service, principally on residential subscribers. The company has exclusive rights to the 810 international long distance dialing code, which is the most known and frequently used long distance prefix.

Network and Technology: Telecom Georgia s long distance telecommunications network splits Georgia into eastern and western zones, with digital transit switches in each zone that are connected via SDH microwave. In turn, they are linked in Tbilisi with Intelsat and Turksat earth stations. Telecom Georgia also has connections to fiber capacity both within the country and to international carriers.

Competition: Although Telecom Georgia remains a significant provider of international and long distance services, barriers to entry to this market are very low and competition has increased significantly since the opening of the market in 1998. Currently there are several operators holding significant shares of Georgia s international telephone service market, including Georgia Online, Sactelcomplus and Global One. Telecom Georgia competes primarily on the basis of quality of service, tariffs, contractual relationships and the well-known status of its 810 dialing code.

Although Telecom Georgia has maintained a significant market share in international and long distance telephony services in Georgia, its margins have continually eroded due to price competition, declining traffic termination rates and high overhead costs. In the third quarter of 2002, the Georgian state-owned fixed telephony operator, GEC, began to offer services competing with those of Telecom Georgia. GEC had previously utilized Telecom Georgia to handle a significant portion of its international telephony traffic. Telecom Georgia believes that GEC has a significant competitive advantage over Telecom Georgia due to its customer base, brand and country wide last mile capabilities.

Description of Business Wireless Telephony

Overview

The Company owns an interest in Magticom, a GSM wireless telephony operator in the Republic of Georgia. Magticom offers mobile telephony and roaming services, and related information services for businesses and individual customers. It provides these services via wireless mobile telephony networks, and has an operating process that is substantially different from that of the Company s fixed telephony businesses.

To remain competitive the Company may need to make further investment in Magticom to fund capital spending for construction, development and maintenance of network infrastructure and operational systems. The planned capital expenditures program for Magticom, for the twelve months ended December 31, 2004, is expected to be $13.6 million. The Company anticipates that this capital expenditure program will be self-funded from Magticom s current cash reserves and its anticipated 2004 operating cash flows and will, thus, not require additional Company investment.

Magticom (Tbilisi, Georgia)

The Company owns a 70.41% interest in Telcell Wireless LLC, a Delaware LCC with Western Wireless, a US public company, as the sole other partner, Telcell Wireless, in turn, is a direct 49% shareholder of Magticom. In this fashion, the Company currently owns a 34.5% economic interest in Magticom. As the managing partner of Telcell Wireless, the Company essentially exercises all rights to participation in Magticom management connected with Telcell Wireless s 49% Magticom share holding. Dr. George Jokhtaberidze, a Georgian private citizen and co-founder of Magticom directly owns the remaining 51% interest in Magticom.

In the fourth quarter of 2003 widespread discontent over prior public elections in the Republic of Georgia resulted in the premature resignation of President Eduard Shevardnadze and the so-called Rose Revolution in Georgia.*See Risks Associated with the Company The Company is dependent on certain local parties, and we cannot assure you that it will be able to maximize its return on these investments* and *See Risks Associated with the Company The Company operates in countries with significant political, social and economic uncertainties which might have a material adverse effect on its operations in these areas* and *See Risks Associated with the Company The Company faces unusual economic and legal risks by operating abroad.* On February 20, 2004, Dr. Jokhtaberidze, who is the son-in-law of former president Shevardnadze, was detained in the Republic of Georgia pursuant to laws pertaining to investigative detention and without any charges having been filed against him. As reported by various media sources, Dr. Jokhtaberidze was being held in connection with the post-revolutionary Georgian government s investigation of various tax-related matters. Beginning in January 2003, the Georgian Tax Inspectorate initiated review of certain interconnect arrangements that Magticom has with other telecommunications businesses within the Republic of Georgia to determine whether Magticom has complied with Georgian tax regulations. At the request of the Prosecutor General s Office of the Republic of Georgia, the Center for Expertise and Special Inquiries of the Ministry of Justice of Georgia (the Representatives of the New Georgian Government) coincidentally initiated an additional review of Magticom s interconnect arrangements to determine whether Magticom has complied with Georgian tax regulations.

On April 26, 2004, the Georgian government s prosecution of Dr. Jokhtaberidze was dropped without finding any wrong-doing and Dr. Jokhtaberidze was released from investigative detention. At the same time, the Georgian government investigations into past business and tax payment practices of Magticom were completed with no adverse findings. Roughly coincident with these events, Dr. Jokhtaberidze and the Georgian government entered into certain memoranda of understanding with the Company, as described in detail hereinafter, concerning changes in ownership position in Magticom. The Company now believes that no further investigations or prosecutions of Magticom, Magticom personnel or Dr. Jokhtaberidze with respect to past business or tax payment practices will be undertaken by the Georgian Government.

The Company, the equity holders of Telcell and Dr. Jokhtaberidze entered into a binding memorandum of understanding, providing for, upon execution of definitive documents and satisfaction of certain conditions, Dr. Jokhtaberidze to convey his 51% interest in Magticom to ITC in exchange for a 49.9% interest in ITC plus certain cash consideration. The Company will retain the remaining 50.1% majority ownership of ITC. After completion of all transactions contemplated by this memorandum of understanding, the Company will have the largest effective ownership interest in Magticom at 42.8% and will be able to exert operational control over Magticom as a result of its status as managing member of Telcell and majority stockholder of ITC. The parties anticipate that all transactions contemplated in this memorandum of understanding will be concluded by end of second quarter 2004.

Further, ITC entered into a memorandum of understanding with the Georgian Government providing for issuance by ITC of an assignable option (the Option) to purchase a 20% ownership interest from ITC in Magticom after completion of the restructuring of Dr. George Jokhtaberidze s ownership interest in Magticom as discussed above (the Magticom Restructuring). The Georgian Government is prohibited from directly exercising the Option, but may assign the Option to certain qualified European Union or American entities, as defined in the MOU, (a Qualified Holder), provided that the transfer of the Option to a Qualified Holder which directly or indirectly owns or controls or is controlled by or is under common control with any telecommunications business in the Republic of Georgia is subject to approval by ITC at its sole discretion. Furthermore, no Qualified Holder is permitted to transfer the Option. The exercise price of the Option is based on a formula that is calculated by using twenty percent of the product of Magticom s earnings before income taxes, depreciation and amortization for the four most recently ended fiscal quarters prior to the date of the exercise of the Option multiplied by 2.5. Any entity that exercises the Option will be subject to certain transfer restrictions that encourage holding the acquired 20% Magticom ownership interest for a period of at least 3 years. The Option will have a limited exercise period of 12 months from the date of issuance.

Upon completion of the Magticom Restructuring and if the Option is exercised, ITC will retain a 31% direct ownership in Magticom and a 34.5% indirect ownership in Magticom through Telcell. In such event, the Company would have the largest effective ownership interest in Magticom, at 32.8%, and will be able to exert operational control over Magticom as a result of its status as majority stockholder of ITC and managing member of Telcell.

Overview: Magticom operates and markets mobile voice communication services to private and commercial users nationwide in Georgia utilizing that utilizes a GSM telephony infrastructure. Magticom has built a nationwide network with coverage that supports roaming throughout Georgia.

The following table summarizes Magticom s key operating and financial results for the last three years. The results for 2002 and 2001 represent the twelve months ended September 30, 2002 and 2001, respectively, as Magticom was previously reported on a three-month lag.

	2003	2002	2001
	(Amount in millions unless otherwise noted)		
Revenues	$72.1	$46.4	$35.0
Gross Margin(1)	61.7	39.6	29.9
Selling, General and Administrative Expenses	9.1	7.1	7.1
Depreciation and Amortization	12.9	12.7	9.8
Capital Expenditures	19.4	14.2	20.2
Number of Subscribers(2)	350	242	154
Number of Minutes	447	278	213

(1) Excludes depreciation and amortization of the network infrastructure.

(2) Amounts in thousands.

Magticom began to operate and offer services in the 1800 MHz range in 2000 (in addition to its existing 900 MHz range), thereby providing a substantial expansion to available capacity. In 2002 and 2003, Magticom continued to extend its service coverage from urban areas into surrounding locales.

Management believes the comparatively low mobile penetration level and telephone density in Georgia, together with competitive advantages in coverage and distribution, will support steady subscriber growth for Magticom.

Services: Magticom s services are marketed primarily on a pre-paid basis through sale of scratch cards that enable buyers to obtain a given amount of service usage. Such pre-payments may be applied to conventional voice calls, short message services (SMS) or other vertical service offerings. If pre-paid amounts are fully used, a subscriber s service is automatically stopped until another pre-payment is made. Prepayment accounts for more than 90% of Magticom s service revenue. Post-paid customers have access to all Magticom services but are billed after the fact for services actually used.

Customers and Markets: Magticom offers mobile telephony and roaming services to business and consumer users in Georgia. The company s wide range of coverage in Georgia supports country-wide roaming and distinguishes Magticom from its competitors. Magticom frequently introduces innovative scratch card pricing and promotion programs to continually adapt its effective rate structure to meet current consumer interests. For its high-end customers, Magticom offers wireless internet and messaging services. In 2003 it introduced a series of information services for consumers, including games, sport scores and horoscopes. These have proven to be immediately attractive. Magticom has distinguished itself by providing access into remote areas of the Caucasus mountains providing basic telephone access for previously isolated villages.

Network and Technology: Magticom s network operates using the GSM standard, which is the leading standard for wireless service throughout Western Europe and Asia and allows Magticom s customers to roam throughout Europe. The establishment of GSM as the leading standard in terms of number of networks and subscribers in Asia and Europe, as well as facilities such as automatic global roaming between networks, provides a comparative advantage over competing digital wireless systems or analog systems (such as AMPS) which cannot readily offer international roaming service. Magticom s network covers essentially all populated areas of Georgia.

Competition: Magticom s primary competitors are Geocell, a Georgian-Turkish business venture using a GSM system, and an existing smaller provider of wireless telephony services which uses the AMPS technology in its network, both of which commenced service prior to Magticom. Competition between operators has been on the basis of coverage but is transitioning to a combination of pricing, services and brand recognition.

Magticom was the second GSM entrant into the Georgian market and therefore had the disadvantage of competing with the established wireless provider. Barriers to entry in wireless telephony markets are very high, since the number of licenses for a particular market is typically limited and initial establishment of a wireless system requires substantial capital expenditures. Therefore, although Magticom faced difficulties in gaining market share from the initial operator in this market, Magticom does not anticipate that the Georgian market will become further fragmented because of these barriers to entry. Magticom is now the market leader in Georgia, based on revenues and number of subscribers.

License. Magticom holds material licenses to provide telecommunications. These licenses are generally granted by regulatory authorities for a ten year time period and are typically renewable through negotiations. The granting authorities have the power to terminate the license any time, subject to certain restrictions. Magticom cannot operate its business without these licenses. *See Risks Associated with the Company Licenses on which the Company s business depend could be cancelled or not renewed, resulting in material impairment to the value of these businesses.*

Description of Business Cable TV

Overview

The Company owns interest in Ayety TV, a cable television provider in Tbilisi, Georgia, in which the Company has an 85% ownership interest. The remaining 15% ownership interest is held by Mtatsminda Tower, a privately owned Georgian company that controls Tbilisi s main television broadcasting center and tower.

To remain competitive the Company may need to make further investment in Ayety to fund capital spending for construction, development and maintenance of network infrastructure and operational systems. The planned capital expenditures program for Ayety for the twelve months ended December 31, 2004, is expected to be $0.2 million. The Company anticipates that this capital expenditure program will be self-funded from Ayety s current cash reserves and its anticipated 2004 operating cash flows and will, thus, not require additional Company investment.

The following table summarizes the consolidated cable TV business (Ayety TV) key operating and financial results for the last three years. The results for 2002 and 2001 represent the twelve months ended September 30, 2002 and 2001, respectively, as the cable TV businesses were previously reported on a three-month lag.

(Amounts in millions unless otherwise noted)	2003	2002	2001
Revenues	$ 2.6	$ 2.3	$ 2.0
Gross Margin(1)	2.6	2.1	1.7
Selling, General and Administrative Expenses(3)	2.3	2.1	0.9
Depreciation and Amortization	0.5	1.1	1.9
Capital Expenditures	0.3	0.6	1.3
Cable Wire Subscribers(2)	37.2	34.2	28.8
Cable MMDS Subscribers(2)	7.3	7.3	7.3

(1) Excludes depreciation and amortization of the network infrastructure.

(2) Amounts in thousands.

(3) Exclusive of asset impairment charges

Overview: Ayety is the first provider of quality multi-channel pay television services in Tbilisi currently providing service using both wireless and wired network technology.

Ayety has been concentrating its investment focus on wired network deployment, further reducing its dependence on exiting wireless systems. These measures are intended to enable Ayety to broaden its service offerings to at least two and possibly three revenue streams over a common fiber-coax infrastructure (TV, internet and voice) thus maximizing margins and returns. Although ventures will continue to operate MMDS networks, the Company does not anticipate significant growth coming from these operations in the future.

Programming and Marketing: Ayety believes that programming is a critical component in building a successful cable television business. Ayety currently offer a wide variety of programming including Russian, Georgian and English. In order to maximize penetration and revenues per subscriber, the cable TV ventures generally offer multiple levels of service including, at a minimum, a lifeline service, a basic service and a premium service. The lifeline service generally provides programming of local off-air channels. The basic and premium services generally include the channels which constitute the lifeline service, as well as an additional number of satellite channels and a movie channel that offers recent and classic movies.

Competition: Ayety currently competes with a number of entities in Tbilisi, including other cable television and over the air broadcast television operators. Many of Ayety s competitors provide wired cable television services on semi-pirating basis which puts Ayety at a competitive disadvantage since it must pay programming fees for certain of the content that it sells to its customers.

Ayety endeavors to compete in its markets on the following bases:

Quality of programming line-ups: Ayety offers quality programming and has established relationships with many international programming providers.

Price of services: Ayety provides tiered pricing and services to allow for a low entry point and an upgrade path for higher levels of services.

Customer service: Ayety provides superior customer service by employing proven western style management techniques and by installing western subscriber management software and customer care centers into its business.

Bundled Internet (dial-up and broadband) and CATV services: Ayety believes that its subscriber base is the broadest demographic group from which to market additional services. Its network is well positioned in Tiblisi and has captured a sizable share of Internet usage in Georgia.

Barriers to entry: Ayety pre-wires certain geographic areas to create a barrier to entry in locations where it perceives a competitive threat.

Licenses: Ayety holds various MMDS licenses, licenses to operate cable television networks, licenses to provide internet services, or licenses to use certain frequencies for broadband wireless internet services. These licenses are generally granted by various regulatory authorities and are typically renewable through negotiations.

Ayety, is currently operating its business without a license for certain (but not all) of its channels. The Company s minority shareholding partner in Ayety TV, has the license rights for the channels in question. Despite efforts to do so, Ayety TV has been unable to apply for the license in its own name because the governmental licensing agency is not currently accepting license applications. Ayety TV management has received oral assurances that the licenses will be granted, but no assurance can be made that it will receive the licenses. In the event that it does not receive the licenses and enforcement action is taken, Ayety TV would be able to continue to operate, but would only be permitted to broadcast over fewer channels which could have a material adverse effect on its results of operations or financial condition.

Discontinued Businesses

As of today, the Company s remaining non-core media businesses consist of eighteen radio broadcast stations operating in Finland, Hungary, Bulgaria, Estonia, and the Czech Republic and one cable television network in Lithuania. The Company anticipates the sale of these remaining non-core businesses within the first half of 2004.

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Description of Business Radio Broadcasting

Overview

The following table summarizes the Company s Radio Broadcasting principal operating business ventures at December 31, 2003 and the Company s voting interest percentage in each business venture at that date:

Business Venture (1)	Company Voting %
Radio Juventus (Budapest, Hungary)(2)	100%
Country Radio (Prague, Czech Republic)	85%
Radio One (Prague, Czech Republic)	80%
Metroradio EOOD (Bulgaria)	100%
Oy Metromedia Finland Ab (Finland)	100%
Radio Skonto (Riga, Latvia)(3)	55%
AS Trio LSL (Estonia)(4)	67%

(1) Each parenthetical notes the area of operations for each operational business venture.

(2) Radio Juventus operates a radio station serving the larger Budapest region, and through a network of six (6) radio stations, the rest of the country.

(3) Radio Skonto was sold in April 2004.

(4) AS Trio LSL operates six radio stations covering, in various degrees, the territory of Estonia.

The Company entered the radio broadcasting business in Central and Eastern Europe (CEE) through the acquisition of Radio Juventus in Hungary in 1993. Ten years later, the Company operated the largest Radio group, by number of individual radio stations, in the CEE region. With a portfolio of seventeen wholly or majority-owned radio stations in six countries, the Company has well-established brand names in a number of key markets in the region, including Hungary, Prague (Czech Republic), Bulgaria, Estonia, Riga (Latvia), and Finland.

The table below summarizes the consolidated Radio Broadcasting businesses key operating and financial results for the last three years. The results for 2002 and 2001 represent the twelve months ended September 30, 2002 and 2001, respectively, as the radio businesses were previously reported on a three-month lag.

(Amounts in millions unless otherwise noted)	2003	2002	2001
Revenues	$13.8	$17.7	$14.1
Selling, General and Administrative Expenses	15.3	17.1	12.7
Depreciation and Amortization	1.8	1.7	1.8

Radio Strategy: As part of its restructuring strategy, the Company intends to sell its interests in radio businesses (S*ee Item 1: Business Recent Developments Restructuring Strategy*). Until such sales are consummated, however, the Company remains focused on maximizing the cash flow generation from its radio businesses. To this end, business development and results improvement programs are being pursued at all of the radio ventures; and, where feasible, new licenses and business alliances are being pursued. The Company organized a Radio Group management unit during 2002 to oversee these efforts.

The Company s radio stations operate with either national coverage or, at the least, with coverage of the capital city in their respective country. Expansion to national coverage is generally sought in all markets. The Company s radio operations currently enjoy high level of consolidation in Estonia, Bulgaria, and increasingly, in Hungary and Finland. National or near-national distribution is achieved in Estonia and Bulgaria, while semi-national is achieved in Finland and Hungary. In the Czech Republic and Latvia the Company s operations are local to the capital city only.

The Company s radio business ventures also engage in businesses ancillary to FM radio broadcasting, such as Internet radio broadcasting, operation of Internet portals, streaming services and concert organizing.

The Company launched three local-language Internet portals affiliated with its radio stations in Estonia, Hungary and Bulgaria. These portals are managed as additional marketing channels complementary to the respective radio operations and benefiting from content and cross marketing synergies. The Company continuously explores ways to capitalize on the experience gained in Internet operations in these markets, and especially in Estonia where it operates a leading entertainment portal, to bolster cross-marketing and Internet-related revenue-generating activities in other markets, such as Finland, Hungary, Bulgaria and the Czech Republic.

Programming: The Company s Radio Group management team utilizes its programming expertise to identify available opportunities within each market, using sophisticated in-house research techniques, and to then tailor the programming of each station to provide maximum coverage of a targeted demographic group.

The Company s radio business ventures make efforts to implement only such formats that appeal to a demographic group of a particular interest to the local advertisers. Each of the radio stations adheres to single, clearly identifiable programming format. In the majority of the markets the Company s radio business ventures operate radio stations with formats consisting primarily of popular music from the United States, Western Europe and the local region. In several of its markets, the Company s radio business ventures have also identified a significant audience niche for local-music programming, and in such markets have launched radio stations broadcasting music exclusively in the local language.

News programming is provided on all of the radio stations, and is delivered by local announcers and in the local language. Commercials are also locally produced and are in the local language.

The Company s radio business ventures place a strong emphasis on programming research in ongoing operations in each of its radio markets. The existing radio stations use music research to ensure that they maintain their initial strong appeal to their target audiences. The Company s radio business ventures have developed proprietary software and hardware for programming and music research, which eliminates the incurrence of third party costs by the radio stations, and ensures regular, cyclical testing of the competitive positioning of most of its stations.

In markets where the Company operates more than one radio station, it attempts to diversify its program offerings so that each local group of radio stations (cluster) reaches the maximum number of different listeners. In almost all cases (with the exception of the two radio stations in Prague), stations in the same market are operated as clusters, with common management and synchronized programming strategies. Certain programming elements, and the related costs, such as news and music databases, are routinely shared among cluster stations.

By developing a strong listener base comprised of a specific demographic group, or several different demographic groups in each of its markets, the Company believes that its radio stations are able to attract advertisers seeking to reach these listeners. The Company believes that the programming, marketing and technical expertise that it provides to its business ventures enhances the value of these radio stations to the advertisers.

Marketing and Advertising: The Company s radio stations are generally targeted to audiences that are large in absolute numbers and interesting to the advertisers in the respective market. In certain cases, primarily in cluster (station group) environments, the Company may operate niche stations that do not produce high absolute listener numbers but target a particularly affluent or otherwise attractive demographic.

To the extent consistent with its current strategy, the Company makes a conscious effort to increase, through acquisitions or license applications, the number of radio programs it offers in each of its market of operations. Whenever this is not feasible, the Company attempts to increase the scope of its demographics offerings to advertisers through local co-marketing arrangements (LMAs) with outside radio stations. Under LMAs, the Company s business ventures represent the audiences of such outside stations, in addition to their own audiences, to the Company s stations advertising clients. Starting in 2003, the Company s ventures operate LMAs in Hungary, and until the acquisition of an LMA partner by the Company, in Bulgaria. Through a combination of acquisitions, green-field licenses and LMAs, the Company seeks to achieve a broader scale of the audiences its business ventures offer their advertisers, as through this it is able to gain marketing leverage and other competitive advantages over competing, single-station broadcasters.

Advertising on the Company s radio stations is sold to local and national advertisers. The radio stations handle their advertising sales through a combination of in-house sales staff and outside sales agencies. Most of the outside sales agencies have a non-exclusive mandate to broker advertising time on the Company s radio stations to end-user clients, while the Company reserves its right to deal with the end client directly. The exception to this rule is the Czech Republic, where the outside sales agency has exclusive rights to sell advertising time on the Company s stations to national clients, in exchange for a contractual commitment for a certain volume of sales.

The Company emphasizes and encourages the role of in-house sales departments in working with the end client, even when advertising contacts are mediated through outside sales agencies. The Company believes this helps establish long-term relationships between each radio station and its advertising clients, which usually result in increased loyalty toward the radio station and in achieving a share of the advertising market that exceeds the respective radio station s share of the audience.

In cluster environments, the Company s business ventures generally offer advertising in suites over several of their radio stations (*advertising packages*), in addition to individual advertising possibilities on each station. Such multi-station advertising packages tend to divert advertising expenditures from competitors, as they frequently offer sufficient coverage of the demographic groups desired by advertisers.

Competition: While the Company s radio stations generally occupy leading ratings positions in each of their respective markets, they are exposed to significant competition from other operating radio stations in most of the Company s markets. In some of the markets, such as Bulgaria and Estonia, the Company s stations are exposed to competition from more than twenty other radio stations. Other media businesses, including broadcast television, cable television, newspapers, magazines and billboard advertising also compete indirectly with the Company s radio stations for advertising revenues.

For the most part, the Company s radio stations compete with other radio stations and other advertising media on the basis of the cost to the advertiser per targeted consumer reached. The radio stations that have the greatest audience reach, as evidenced by market-accepted third-party ratings surveys, generally obtain the highest advertising rate. Clustered operations that offer advertising packages of more than one radio station and thereby wider reach also enjoy an advantage over single-station operations. Further, advertisers generally prefer radio stations that broadcast nationally to local broadcast radio stations.

In certain markets, competitors operate stations with larger coverage than the Company s stations. Such is the case in Hungary, Finland, and Czech Republic, where competitors with complete national coverage are able to garner a higher share of national advertising than the Company s stations. In other markets, clusters owned by competitors contain a larger number of individual stations, as is the case in the Czech Republic, Latvia and Hungary. Further, in many markets certain competitors are able to market their radio stations more extensively, either through the availability of shareholder funding for marketing, or through cross-media ownership.

Licenses: The Company s Radio businesses hold various broadcast licenses in various regions. These licenses are generally granted by various Russian regulatory authorities and are typically renewable through negotiations. The granting authorities have the power to terminate the licenses at any time, subject to certain restrictions. The Company s radio business ventures cannot operate their business without these licenses. *See Risks Associated with the Company Licenses on which the Company s business depend could be cancelled or not renewed, resulting in material impairment to the value of these businesses.*

Other Business Factors

Environmental Protection

The Company has agreed to indemnify a former subsidiary of the Company for certain obligations, liabilities and costs incurred by the subsidiary arising out of environmental conditions existing on or prior to

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the date on which the subsidiary was sold by the Company in 1987. Since that time, the Company has been involved in various environmental matters involving property owned and operated by the subsidiary, including clean-up efforts at landfill sites and the remediation of groundwater contamination. The costs incurred by the Company with respect to these matters have not been material during any year through and including the year ended December 31, 2003. As of December 31, 2003, the Company had a remaining reserve of approximately $0.4 million to cover its obligations to its former subsidiary.

In 1996, the Company was notified by certain potentially responsible parties at a superfund site in Michigan (Butterworth) that the former subsidiary might also be a potentially responsible party at the superfund site. The former subsidiary has agreed to participate in remediation in a global settlement that is subject to court approval, but the amount of the liability has not been determined. The Company believes that such liability will not exceed the reserve. *See Risks Associated with the Company The Company could incur environmental liabilities as a result of its current operations and past divestitures, the costs of which could materially affect its results of operations*.

Employees

As of April 30, 2004, the Company and its consolidated core business ventures had approximately 740 regular employees, of which 24 were employed in the Company s headquarters and with the remaining principally employed by PeterStar. In addition, our unconsolidated core business ventures had approximately 780 employees at April 30, 2004. The Company believes that its employee relations are generally good.

Segment and Geographic Data

Business segment data and information regarding the Company s foreign revenues by country/geographic area are included in Notes 1 and 12 in the Notes to Consolidated Financial Statements included in Item 8 hereof.

Risks Associated with the Company

The Company faces significant liquidity limitations and may not be able to continue as a going concern.

Throughout 2002, 2003 and at the present time, the Company has generated less cash from its business ventures than has been required to fund its overhead and indebtedness interest payment obligations associated with its Senior Notes. As a consequence, the Company undertook to sell certain of its non-core business holdings to generate needed cash and has substantially reduced its rate of overhead spending through outplacement of personnel and elimination of professional support services *(See Recent Developments Restructuring Strategy).* Although these measures are ultimately intended to provide sufficient liquidity to support continued operation, at the present time the Company has insufficient cash on hand to meet its projected obligations through March 31, 2005. If the cash proceeds from the sale of remaining non-core businesses and the anticipated dividends from core operations fail to meet expectations, or if reduced overhead spending levels cannot be sustained, the Company may not realize sufficient cash to continue operations.

KPMG LLP, our independent auditor, issued a report dated May 14, 2004 stating their opinion that our recurring operating losses and net operating cash deficiencies, and our insufficiency of funds on hand to meet our current debt obligations raise substantial doubt as to our ability to continue as a going concern. Investors in our securities should review carefully the report of KPMG LLP.

The Company is a holding company and, accordingly, realizes cash only through distributions from business ventures, to the extent such distributions are made, and from the sale of business ventures. As of December 31, 2003 and April 30, 2004, the Company had approximately $25.6 million and $30.0 million, respectively, of unrestricted cash on hand. The uses of corporate cash for the twelve months following April 30, 2004 are expected to include cash payments of $15.8 million for the interest payments on the Senior Notes and an estimated $10.0 million to $14.0 million for corporate overhead expenditures. Thus, cash resources as of April 30, 2004 must be augmented by proceeds of non-core business sales and dividend distribution from core businesses to assure sufficient liquidity. Although the Company expects to realize cash

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from sales of its non-core businesses and distributions from its core businesses in excess of amounts required to meet all short-term obligations, it cannot assure you that it will be successful in doing so. If insufficient cash is realized from these sources or expenditures materially exceed currently projected levels, the Company would not be able to continue as a going concern and would have to seek restructuring or liquidation under the US Bankruptcy Code. In such event, the Company s common and preferred stock may have little or no value.

Absent the completion of the sale of its non-core businesses and the receipt of cash distributions from business venture operations, the Company may not have sufficient liquidity to meet interest obligations on its Senior Notes for the next twelve months, which would constitute an event of default under its indenture.

In addition to its overhead costs and the need to support its operating business ventures, the Company commenced paying interest on its outstanding Senior Notes beginning September 30, 2002. The semi-annual interest payment is approximately $8.0 million, due in September and March. The principal on the remaining Senior Notes, in a fully accreted amount, is $152.0 million (due in full on September 30, 2007).

The Company projects that its current corporate cash reserves, anticipated cash proceeds of non-core asset sales and continuing dividends from core operations will be sufficient for the Company to meet its future operating expenses and interest payment obligations associated with the Senior Notes on a timely basis until March 31, 2005. During 2003, the Company engaged in discussions with representatives of holders of a substantial portion of the Senior Notes concerning a restructuring of the Senior Notes. To date, no restructuring has been agreed upon and further restructuring discussions with these substantial Senior Note holders have been suspended. Opportunities to restructure the Company s balance sheet, including the Senior Notes and Preferred Stock, which had an aggregate preference claim of $252.9 million and $257.4 million, as of December 31, 2003 and March 31, 2004, respectively, are being pursued, but present Company plans presume the continued service of the Senior Notes in accordance with their terms and the continued deferral of the payment of dividends on the Preferred Stock. The Company cannot provide assurances at this time that a capital restructuring effort will be undertaken or, if undertaken, that such an effort would produce a material improvement in short-run cash flows or equity valuations. If the Company does not realize the cash proceeds it anticipates from further sales of its non-core businesses or receive the anticipated cash dividends from the core-businesses, the Company does not believe that it will be able to pay the approximately $8.0 million interest payment due on March 31, 2005 on its Senior Notes and fund its operating, investing and financing cash flows through March 31, 2005. Assuming no proceeds from further sales of non-core businesses and no further cash dividends from core-businesses, the Company projects that its corporate cash on hand today is sufficient to support the Company s planned operating, investing and financing cash flows, including the $8.0 million semi-annual interest payment due on September 30, 2004 on its Senior Notes, through the end of 2004. *See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources* .

Failure on the part of the Company to make any required payment of interest on the Senior Notes would represent a default under the Senior Notes. A default, if not waived, could result in acceleration of the Company s indebtedness, in which case the full amount of the debt would become immediately due and payable. The Company would be unable to repay its senior debt in full and would likely not be able to borrow sufficient funds to refinance this debt. Thus, in the event of acceleration following a default, the Company would have to seek protection under the U.S. Bankruptcy Code. In a restructuring or liquidation pursuant to a bankruptcy filing, common and preferred stock holdings may be very substantially diluted or completely eliminated.

The Company s planned sale of non-core business ventures may be compromised by adverse market conditions that could materially limit proceeds of these sales.

The Company is presently marketing its remaining non-core media businesses *(See: Recent Developments Restructuring Strategy)*. The Company s distressed financial condition has been publicized in markets where non-core business sales are now being pursued. This can have the effect of reducing prices offered by

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purchasers expecting to capitalize on a perceived urgency on the Company s part to sell. This can have the further effect of generally reducing the level of prices offered by all potential purchasers.

The aforementioned conditions could have the effect of significantly reducing the proceeds the Company realizes on sales of its non-core businesses. The Company has made reasonable allowance for this in its projections and has undertaken to effectively manage its overall marketing efforts. No assurance can be given, however, that the Company s marketing efforts will be successful or that non-core business sales will yield cash proceeds in amounts and on a schedule as currently projected. If ultimate sale proceeds are substantially less than currently projected, the Company may not be able to meet its debt service and other obligations over the coming twelve months. In such event, the Company might have to seek further restructuring or liquidation under the US Bankruptcy Code.

The Company has experienced a significant reduction in its personnel, which may affect the Company s ability to develop and execute its business strategies and manage its operations.

As part of its restructuring efforts, the Company terminated substantially all of its employees at its U.S. headquarters as well as certain European-based business venture support personnel during the first quarter of 2003. However, the Company has employed a Charlotte, North Carolina workforce that the Company believes is adequate to manage its businesses. However, a small number of key employees manage all of the Company s operations, and the loss of one or more of them would materially affect the Company s ability to operate. In addition, the reduced size of the Company s work force could limit the Company s ability to develop and execute business strategies and manage operations. Either occurrence could adversely affect the Company s results of operations and financial condition. *See Item 9a: Internal Controls and Procedures* .

The Company has substantial debt leverage, which may limit its ability to borrow, restrict the use of its cash flows and constrain its business strategy.

The Company has substantial debt and debt service requirements. The Company s substantial debt has important consequences, including:

- the Company s ability to borrow additional amounts for working capital, capital expenditures or other purposes may be limited,
- a substantial portion of the Company s cash flow from operations is required to make debt service payments, and
- the Company may not be able to capitalize on significant business opportunities and its flexibility to react to changes in general economic conditions, competitive pressures and adverse changes in government regulation is limited.

Restrictions imposed by the indenture governing the Senior Notes may significantly limit the Company s business strategy and increase the risk of default under the Company s debt obligations. The indenture for the Company s outstanding Senior Notes contains a number of significant covenants. These covenants limit the Company s ability to, among other things:

- borrow additional money,
- make capital expenditures and other investments,
- repurchase its own common and preferred stock,
- pay dividends,
- merge, consolidate, or dispose of its assets,
- enter into transactions with related entities and
- use proceeds from asset sales.

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If the Company fails to comply with these covenants, a default will occur under the indenture. A default, if not waived, could result in acceleration of the Company s indebtedness, in which case the debt would become immediately due and payable. If this occurs, the Company would not be able to repay its debt, and would likely not be able to borrow sufficient funds to refinance.

Complying with these covenants may cause the Company to take actions that it otherwise would not take, and these actions may have the effect of reducing or diluting the value of the Company s common and preferred stock.

The Company s current financial situation may prevent it from successfully supporting future profitable operations of its core businesses.

The Company is presently restructuring its holdings to ultimately include only two core business operations, PeterStar and Magticom. In addition, the Company intends to retain its ownership interest in both Ayety TV and Telecom Georgia *(see: Recent Developments Restructuring Strategy)*. The Company anticipates that dividend distributions from PeterStar and Magticom, in conjunction with cash proceeds from the sale of non-core businesses and cash-on-hand, will be sufficient to meet the Company s future operating expenses and interest payment obligations on its Senior Notes on a timely basis. Both PeterStar and Magticom are presently self-financed for capital expenditures and are projected to remain so. The Company, however, cannot assure you that the projected operating performance of PeterStar and Magticom and the Company s other core businesses will be realized without further investment by the Company. Due to its general financial situation, the Company may not be able to summon the financial resources required by its core businesses in such circumstances. If core business performance deteriorates, cash flows upon which the Company relies to maintain adequate liquidity might be jeopardized. This condition, if sustained, could result in insolvency.

The Company is materially dependent on future distributions from PeterStar and Magticom.

The Company is a holding company with no direct operations and no assets of significance other than its investment in its business ventures. The Company is presently engaged in marketing efforts aimed at monetizing its interests in remaining non-core businesses. Upon completion of this effort, the Company s sole material source of cash will be dividend distributions from its PeterStar and Magticom business ventures. The Company projects that such cash distributions will be sufficient to meet the Company s future operating expenses and interest payment obligations on its Senior Notes on a timely basis. However, both PeterStar and Magticom are separate legal entities that have no obligation to pay any amounts the Company owes to third parties. Furthermore, the dividend policy of Magticom must be approved by the Company s partners and thus, is not under the Company s exclusive control. The Company cannot assure you that PeterStar or Magticom will perform profitably or to a level sufficient to support dividends to the Company in an amount sufficient to meet the Company s liquidity needs, or that the partners in Magticom will approve dividend distributions at the level projected by the Company.

The Company may be materially and adversely affected by competition from larger global communications companies or the emergence of competing technologies in its current or future markets.

The Company s core businesses operate in highly competitive markets and compete with other well-known and well-financed communications companies that have established operating infrastructures, management capacities and other resources comparable to or exceeding the Company s core business units. In addition, the Company s partner in PeterStar owns interests that compete directly with PeterStar. Although the Company s core business units presently enjoy leadership positions in their respective markets, no assurance can be given that this situation can or will be preserved indefinitely. Current brand recognition and positioning as market leader allows the Company s business units to command premium prices and limits certain service delivery expenses; advantages that would be threatened if the business units were displaced by competitors. The effect of competition could also generally erode prices in these markets and require larger than projected expenditure on promotion and service operations.

Certain risks exist with respect to continuation of PeterStar s license to offer local and national telephony connections.

PeterStar s license for local and national telephony connections contains a provision mandating that PeterStar deploy 70% of the 300,000 telephone numbers originally allowed for PeterStar s use by the end of 2001. PeterStar did not meet the terms of this provision. PeterStar and Company management believe that the telephone number deployment level set out in the license is permissive rather than mandatory; setting an upper limit on PeterStar s use of telephone numbers rather than imposing a requirement to deploy numbers to that limiting level. This interpretation is supported by the fact that PeterStar s license as a whole has not been challenged in annual reviews by the Russian regulatory authority, despite the fact that the regulator did note PeterStar s non-conformity with the aforementioned number deployment provision in its October 2003 and April 2004 reviews. Furthermore, this regulatory authority is directly involved in all continuing telephone number deployment activities, including those of PeterStar. However, if the aforementioned license provision were ever to be interpreted as expressing a mandatory deployment requirement, this could have an adverse effect on PeterStar and, by extension, the Company. While it is highly unlikely that the license would be revoked under such circumstances, PeterStar could be obligated to purchase and implement telephone numbers up to the level set out in the aforementioned license provision. This could entail substantial unplanned and uncompensated expense. PeterStar could also be at risk of having the maximum limit on its telephone numbering capacity lowered from the current level of 300,000. This could impose limitations on PeterStar s future capacity to grow revenues associated with telephone number based service offerings.

Licenses on which the Company s businesses depend could be cancelled or not renewed, resulting in material impairment to the value of these businesses.

The Company s business ventures, including PeterStar and Magticom, operate under licenses that are generally issued for limited periods. Failure to obtain renewals of these licenses would have a material adverse effect on these businesses. For most of the licenses held or used by the Company s business ventures, no statutory or regulatory presumption exists for renewal by the current license holder and the Company cannot assure you that these licenses will be renewed upon the expiration of their current terms. The current effectiveness of licenses and ability to renew expiring licenses is a material factor in determining the value of the Company s non-core businesses now being offered for sale. Impending expiration without guaranteed renewal could result in reduced sale prices.

The Company s cable venture in Georgia, Ayety TV, is currently operating its business without a license for certain (but not all) of its channels. The Company s minority shareholding partner in Ayety TV has the license rights for the channels in question. Despite efforts to do so, Ayety TV has been unable to apply for the license in its own name because the governmental licensing agency is not currently accepting license applications. Ayety TV management has received oral assurances that the licenses will be granted, but no assurance can be made that it will receive the licenses. In the event that it does not receive the licenses and enforcement action is taken, Ayety TV would be able to continue to operate, but would only be permitted to broadcast over fewer channels which could have a material adverse effect on its results of operations or financial condition.

The Company is dependent on certain local parties, and we cannot assure you that it will be able to maximize its return on these investments.

The Company has invested in substantially all of its business ventures with local partners. In certain cases, the voting power and veto rights of its business venture partners limit the Company s ability to control certain of the operations, strategies and financial decisions of the business ventures in which it has an ownership interest. In such instances, performance of those business ventures may not yield economic benefits to the Company to the same degree as would be the case if the Company exerted control over those business ventures. The Company is dependent on the continuing cooperation of some of its partners in its business ventures and any significant disagreements among the participants could have a material adverse effect on those business ventures operations.

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Certain of the Company s business ventures have from time to time been unable and may in the future be unable to prevent expenditures and commitments that do not provide full economic benefit to the business venture s operations, although no such expenditures or commitments have been material to the Company s historical results of operations and financial condition. Further, management is not aware of any instances in which such expenditures and commitments are not properly reflected in its consolidated financial statements. However, future transactions may impact the amounts that the Company will be able to repatriate from those business ventures. In light of the Company s current liquidity issues and limited cash resources, any limitation on the Company s ability to repatriate amounts from those business ventures could adversely affect its future cash flows.

In certain instances, the Company s partners in a business venture include a governmental entity or an affiliate of a governmental entity. This poses a number of risks, including:

- the possibility of decreased governmental support or enthusiasm for the business venture as a result of a change of government or government officials,
- a change of policy by the government, and
- the ability of the governmental entities to exert undue control or influence over the business ventures in the event of a dispute or otherwise.

In addition, to the extent the Company s business ventures are profitable and generate sufficient cash flows in the future, there is no assurance that the business ventures will pay dividends or return capital at any time. Moreover, the Company s equity interests in these investments generally are not always freely transferable. Therefore, there is no assurance that the Company will realize economic benefits through the sale of its interests in its business ventures.

The Company s dependence on local operators, interconnect parties or local customers may materially and adversely affect its operations.

PeterStar and Magticom are dependent on access to networks of local operators or inter-connect parties for a significant portion of their telephony operations. There is no assurance that these businesses will continue to have access to these operators networks or that such access will be on favorable tariffs. The loss of access to these networks or substantial increases in tariffs would have a material adverse effect on performance of these businesses, the effect of which could be to materially reduce or eliminate dividends paid by these businesses to the Company. These businesses are also dependent on the non-network facilities of local operators or inter-connect parties for certain of its operations; including, for example, rights to use buildings, ducts or tunnels. The loss of the right to use such facilities could have a material adverse effect on these operations.

Certain customers account for a significant portion of PeterStar s revenues. The loss of these customers would materially and adversely affect their results of operations. In addition, several of the businesses customers, interconnect parties or local operators experience liquidity problems from time to time. The businesses dependence on these parties may make it vulnerable to their liquidity problems, both in terms of pressure for financial support for the expansion of their operations, and in its ability to achieve prompt settlement of accounts.

The Company s equipment may not be approved by the authorities regulating the markets in which it operates, which could have a material adverse effect on its operations in these markets.

Operations at PeterStar and Magticom are, from time to time, dependent upon type approval of equipment by the communications authorities of the markets in which these businesses operate. The equipment that the Company planned for use in these markets may not be approved. The failure to obtain approval could have a material adverse effect on future operations of these units.

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The Company may not be able to keep pace with the emergence of new technologies and changes in market conditions that might materially and adversely affect its results of operations.

The communications industry has been characterized in recent years by rapid and significant technological changes and changes in market conditions. Competitors could introduce new or enhanced technologies with features that could render the Company s technology obsolete or significantly less marketable. The ability of the Company s core businesses to compete successfully will depend to a large extent on their ability to respond quickly and adapt to technological changes and advances in their industry and markets. There can be no assurance that they will be able to keep pace, or will have the financial resources to keep pace, with the technological demands of the marketplace.

The Company operates in countries with significant political, social and economic uncertainties which might have a material adverse effect on its operations in these areas.

The Company operates in Russia and the Republic of Georgia, and other selected emerging markets. These countries face significant political, social and economic uncertainties that could have a material adverse effect on its operations in these areas. These uncertainties include:

- possible internal military conflicts,
- civil unrest fueled by economic and social crises in those countries,
- political tensions between national and local governments which often result in the enactment of conflicting legislation at various levels and may result in political instability,
- bureaucratic infighting between government agencies with unclear and overlapping jurisdictions,
- high unemployment, high inflation, high foreign debt, weak currencies and the possibility of widespread bankruptcies,
- unstable governments,
- pervasive and evolving regulatory control of the state over the telecommunications and information industries,
- uncertainty whether many of the countries in which the Company operates will continue to receive the substantial financial assistance they have received from several foreign governments and international organizations which helps to support their economic development,
- the failure by government entities to meet their outstanding foreign debt repayment obligations, and
- the risk of increased support for a renewal of centralized authority and increased nationalism resulting in possible restrictions on foreign partnerships and alliances, foreign ownership and/or discrimination against foreign owned businesses.

The Company cannot assure you that the pursuit of economic reforms by the governments of any of these countries will continue or prove to be ultimately effective, especially in the event of a change in leadership, social or political disruption or other circumstances affecting economic, political or social conditions.

The Company has experienced, and may continue to experience difficulty in the timely collection of financial data with respect to certain of its business ventures.

Many of the countries in which the Company operates, particularly in Russia and the Republic of Georgia where the Company derives most of its revenues, are lacking in standard Western management, accounting, financial reporting and business operations processes. As a result, the timely collection of financial data and preparation of consolidated financial statements in accordance with accounting standards generally accepted in the United States, based on the books of account and corporate records of those business ventures, has required significant resources of the Company.

The Company has continued its efforts to improve its management, accounting, financial reporting and business operations processes. However, the Company s liquidity constraints have, and are likely to continue to limit the size of the workforce the Company can engage to implement improvements to its management and accounting, reporting and business operations processes.

As part of its restructuring, the Company has recruited Charlotte, North Carolina based headquarters personnel. These personnel replaced the New York City personnel whom were historically engaged in preparation of financial statements and reports. The Company may, however, experience delays or difficulties in implementing these plans that could hamper its ability to collect timely and accurate information from its business operations.

The Company faces unusual economic and legal risks by operating abroad.

The Company has invested all of its resources in operations outside of the United States. The Company is exposed to a number of risks by investing in foreign countries including:

loss of revenue, property and equipment from expropriation, nationalization, war, insurrection, terrorism and other political risks,

increases in taxes and governmental royalties and involuntary changes to its licenses issued by, or contracts with, foreign governments or their affiliated commercial enterprises,

changes in foreign and domestic laws and policies that govern operations of overseas-based companies,

amendments to, or different interpretations or implementations of, foreign tax laws and regulations that could adversely affect the profitability after tax of the Company s business ventures and subsidiaries,

criminal organizations in certain of the countries in which the Company operates that could threaten and intimidate our businesses. The Company cannot assure you that pressures from criminal organizations will not increase in the future and have a material adverse effect on its operations,

high levels of corruption and non-compliance with the law exist in many countries in which the Company operates businesses. This problem significantly hurts economic growth in these countries and the ability of the Company to compete on an even basis with other parties, and

official data published by the governments of many of the countries in which it operates is substantially less reliable than that published by Western countries.

Laws restricting foreign alliances, partnerships and investments in the telecommunications industry could adversely affect the Company s operations in these countries.

Laws restricting foreign alliances, partnerships and investment in the field of communications and information industries may also materially and adversely affect the Company. Some countries in which the Company operates have extensive restrictions on foreign alliances, partnerships and investments in the communications field and information industries. There is no way of predicting whether additional limitations will be enacted in any of the Company s markets, or whether any such law, if enacted, will force the Company to reduce or restructure its ownership interest in any of its ventures or modify or terminate its alliances and partnerships. If additional limitations are enacted in any of the Company s markets and the Company is required to reduce or restructure its ownership interests in or relationships with any ventures, it is unclear how this reduction or restructuring would be implemented, or what impact this reduction or restructuring would have on the Company and on its financial condition or results of operations.

Fluctuations in currency exchange rates in the countries in which the Company operates could negatively impact the Company s results of operations in these countries.

The values of the currencies in the countries in which the Company operates fluctuate, sometimes significantly. The Company currently does not hedge against exchange rate risk and therefore could be negatively impacted by declines in exchange rates between the time any of its business ventures receives its

funds in local currency and the time it distributes these funds in U.S. dollars to the Company. Also, revenues and cash available for dividends can be negatively affected should devaluation of the Russian Ruble or Georgian Lari occur.

The tax risks of investing in the markets in which the Company operates can be substantial and can make effective tax planning difficult, which could materially affect its financial condition.

Taxes payable by the Company s business ventures are substantial and the Company may be unable to obtain the benefits of tax treaties due to:

- the documentary and other requirements imposed by the government authorities,

- the unfamiliarity of those administering the tax system with the international tax treaty system of their country, or their unwillingness to recognize the treaty system, and

- the absence of applicable tax treaties in certain countries in which the Company operates.

The Company s tax planning initiatives to reduce its overall tax obligations may be negated or impaired by the need to deal with these issues. Furthermore, the taxation systems in the countries in which the Company operates are at early stages of development and are subject to varying interpretations, frequent changes and inconsistent and arbitrary enforcement at the federal, regional and local levels. In some instances, new taxes and tax regulations have been given retroactive effect, which further complicates effective tax planning.

Commercial and corporate legal structures are still developing in the Company s target markets, which create uncertainties as to the protection of its rights and operations in these markets.

Commercial and corporate laws in Russia and the Republic of Georgia are less developed or clear than comparable laws in the United States and the countries of Western Europe. These laws remain subject to frequent changes, preemption and reinterpretation by local or administrative regulations, and by administrative officials. There may also be inconsistencies among laws, presidential decrees and governmental and ministerial orders and resolutions, and conflicts between local, regional and national laws and regulations. In some cases, laws are imposed with retroactive force and punitive penalties. In other cases, laws go un-enforced. The Company cannot assure you that the uncertainties associated with the existing and future laws and regulations in these markets will not have a material adverse effect on its ability to conduct its business and to generate profits.

There is also significant uncertainty as to the extent to which local parties and entities, particularly government authorities, in the Company s markets will respect the Company s contractual and other rights and also the extent to which the rule of law has taken hold and will be upheld in each of these countries. The courts in many of the Company s markets often do not have the experience, resources or authority to resolve significant economic disputes and enforce their decisions, and may not be insulated from political considerations and other outside pressures. The Company cannot assure you that the licenses held by its businesses or the contracts providing its businesses access to the airwaves or other rights or agreements essential for operations will not be significantly modified, revoked or canceled without justification. If that happens, the Company s ability to seek legal redress may be substantially delayed or even unavailable in such cases.

The Telecommunication laws of Russia are evolving and may be difficult or financially material to the Company to comply with such changes.

On January 1, 2004, a new Russian law on Communications (the 2004 Law) came into effect. The 2004 Law outlines the regulatory framework for the telecommunications industry and clarifies certain areas of Russian telecommunications law, such as interconnection and licensing. It sets forth general principles for the right to carry on telecommunications activities, describes government involvement in telecommunications regulation and operation, establishes the institutional framework involved in regulation and administration of telecommunications, and deals with various operational matters, such as ownership of networks, protection of fair competition, interconnection, privacy and liability. Separate legislation and administrative regulations implement this institutional framework.

The 2004 Law introduces a Universal Service Fund (USF), which will result in higher taxes for all operators, including PeterStar. Under the 2004 Law, all telecom operators will be expected to contribute to the USF, but clarity as to how the USF will be collected and administered is not yet available. The amount payable by each operator is not specified in the 2004 Law. However, the Ministry of Communications has stated that it will not exceed 3% of a company s revenues. It is expected that the USF will not be operatable before 2005.

The 2004 Law also introduces the significant operator concept. Significant operators are defined as those companies which generate either more than 25% of traffic or possess more than 25% of the local infrastructure. Significant operators may not refuse to provide interconnect services and interconnect rates should be public and equal for all operators. This change will make it more difficult for regional operators to discriminate against competitors in order to protect their own operations, which could have an impact on PeterStar s operations.

The 2004 Law also makes the telecommunications licensing process more transparent. Licenses must be issued with frequencies attached to them. Frequencies are to be sold through tenders or auctions and licenses must be issued within thirty days if the frequencies are available.

We cannot predict with any certainty how the 2004 Law will affect us. We expect a period of confusion and ambiguity as regulators interpret the legislation. We cannot predict with any certainty whether we will face additional costs associated with the implementation of the 2004 Law.

Russian law may hold the Company liable for the debts of its business ventures, which could have a material adverse effect on its financial condition.

Generally, under the Civil Code of the Russian Federation and the Law of the Russian Federation on Joint Stock Companies, shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company, and only bear the risk of loss of their investment. However, if a parent company has the capability under its charter or by contract to direct the decision-making of a subsidiary company, the parent company will bear joint and several responsibility for transactions concluded by its subsidiary in carrying out its direction. In addition, a parent company capable of directing the actions of its subsidiary is secondarily liable for its subsidiary s debts if the subsidiary becomes insolvent or bankrupt as a result of the action or inaction of its parent. In this instance, other shareholders of the subsidiary could claim compensation for the subsidiary s losses from the parent company that caused the subsidiary to take action or fail to take action, knowing that this action or failure to take action would result in losses. It is possible that the Company may be deemed to be this type of parent company for some of its business ventures, and could therefore be liable in some cases for the debt of these business ventures, which could have a material adverse effect on the Company.

The Company has shareholder interests in countries where the laws may not adequately protect shareholder rights.

Shareholders have limited rights and legal protections under the laws in many of the countries in which the Company operates. The concept of fiduciary duties on the part of management or directors to their companies is also new and is not well developed. In some cases, the officers of a company may take actions without regard to or in contravention of the directions of the shareholders or the board of directors appointed by the shareholders. In other cases, a shareholder s ownership interest may be diluted without its knowledge or approval or even erased from the shareholder s ownership registry. The Company cannot assure you that it could obtain legal redress for any such action in the court systems of these countries.

The Company could incur environmental liabilities as a result of its past divestitures, the costs of which could materially affect its results of operations.

The Company has been in operation since 1929 through its predecessors and, over the years, has operated in diverse industries within the United States including equipment, sporting goods and furniture manufacturing, sheet metal processing, and trucking. The Company has already divested all of its non-communications and non-media-related operations. However, in the course of these divestitures, it has retained certain indemnification obligations for environmental cleanup matters. In one case, the Company has undertaken specific clean up activities at a contaminated parcel. It could incur additional cleanup obligations with respect to environmental problems at other locations that so far have remained undetected. Furthermore, its obligation to clean up could arise as a result of changes in legal requirements since the original divestitures. Even though these divestitures may have occurred many years ago, the Company cannot assure you that environmental matters will not arise in the future that could have a material adverse effect on its results of operations or financial condition.

Legal proceedings could adversely affect the Company s financial condition.

The Company is involved in several legal and regulatory matters that could adversely affect the Company s financial condition. *See Item 3: Legal Proceedings* .

The Company has had discussions with the United States Justice Department and Securities and Exchange Commission (the SEC) regarding the fact that certain personnel engaged in conduct that may have violated foreign and United States laws, including the Foreign Corrupt Practices Act. This conduct, which involved certain of the Company s business ventures in the Commonwealth of Independent States, was the subject of an investigation by special outside counsel. The last time that the Company engaged, whether directly or indirectly through its legal counsel, in discussions with the United States Justice Department and Securities and Exchange Commission regarding the matters referred to above was in the First Quarter of 2003.

The Company has concluded that the transactions were not material to the Company s historical results of operations or financial condition, and management currently does not anticipate any restatement of the Company s past financial results. The Company cannot predict with any certainty whether, as a result of its disclosures, the Justice Department or the SEC will commence formal civil or criminal investigations. The Company is not currently in a position to predict the outcome of any such proceedings, or the extent to which they could adversely affect the Company s financial condition and results of operations. *See Item 3: Legal Proceedings* .

The Company is involved in several regulatory matters in connection with its Defined Benefit Plans. The Company has undertaken remedial efforts and reported its lack of compliance with certain ERISA and Internal Revenue Code provisions to the Pension Benefit Guaranty Corporation and the Internal Revenue Service. While the Company believes that the measures it has undertaken are sufficient to bring it into compliance with all legal requirements, it is possible that the Company could be assessed a fine, penalty or directed to undertake an action sufficient to have a material adverse effect on its financial condition. *See Item 3: Legal Proceedings* .

A complaint was filed against the Company in the Court of Chancery of the State of Delaware. The plaintiff is seeking to enforce his rights as a shareholder of the Company to inspect and copy certain books and records of the Company. The Company believes that the request made by the plaintiff is overly broad and lacks a proper purpose. The Company is preparing to defend its position in court. The parties anticipate that the trial in this case can be scheduled by the Court as early as August 2004. No trial has been scheduled in this case. The Company is not in a position to predict the outcome of any such proceedings, or the extent to which they could adversely affect the Company s financial condition and results of operations. *See Item 3: Legal Proceedings* .

In addition, several stockholders of the Company have commenced derivative actions against some of the current and former officers and directors of the Company. The Company has agreed to indemnify its officers and directors to the extent not prohibited by law. See Legal Proceedings.

In light of the Company s current liquidity issues and limited cash resources, the future costs of defense or settlement of any of these or any other legal or regulatory proceedings could be material, and could adversely affect the future cash flows of the Company.

Special Note Regarding Forward-Looking Statements

Any statements in this document about the Company s expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are often but not always made through the use of words or phrases like believes, expects, may, will, should or anticipates or the negative of these words or phrases or other variation these words or phrases or comparable terminology, or by discussions of strategy that involves risks and uncertainties.

These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company s actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These risks, uncertainties and other factors include, among others:

- liquidity issues facing the Company, and the restructuring of the Company,
- the ability of the Company to consummate sales of its non-core businesses,
- the ability to obtain the requisite consents for any sales of Company businesses;
- the timing and structure of any sale of the Company s businesses;
- the consideration or values obtained by the Company for any businesses that are sold;
- general economic and business conditions, which will, among other things, impact demand for the Company s products and services,
- competition from other communications companies or companies engaged in related businesses, which may affect the Company s ability to enter into or acquire new businesses, or generate revenues,
- political, social and economic conditions and changes in laws, rules and regulations or their administration or interpretation, particularly in Russia and the Republic of Georgia, which may affect the Company s results of operations,
- timely completion of construction projects for new systems for the business ventures in which the Company has invested, which may impact the costs of these projects,
- developing legal structures in Russia and the Republic of Georgia, which may affect the Company s ability to enforce its legal rights,
- cooperation of local partners in the Company s communications investments in Russia and the Republic of Georgia, which may affect the Company s results of operations,
- exchange rate fluctuations,
- license renewals for the Company s communications investments in Russia and the Republic of Georgia,
- the loss of any significant customers, or the deterioration of credit quality of the Company s customers,

changes in business strategy or development plans,

the quality of management,

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the availability of qualified personnel,

changes in or the failure to comply with government regulation or actions of regulatory bodies, and

other factors referenced in this document.

Accordingly, any forward-looking statement is qualified in its entirety by reference to these risks, uncertainties and other factors and you should not place any undue reliance on them. Furthermore, any forward-looking statement speaks only as of the date on which it is made. New factors emerge from time to time and it is not possible for the Company to predict which will arise. In addition, the Company cannot assess the impact of each factor on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Item 2. ***Properties***

The following table contains a list of the Company s principal properties as of April 30, 2004:

Description	Number of Owned	Number of Leased	Location
Office Space		1	Moscow, Russia
Office Space		1	Vienna, Austria*
Office Space		1	Charlotte, USA

The Company s management believes that the facilities listed above are generally adequate and satisfactory for their present usage and are generally well utilized.

* The Company filed notice with its landlord that it intends to vacate such premises by June 30, 2004.

In addition, the Company s business ventures own and lease properties in Northwestern Russia and the Republic of Georgia.

Item 3. ***Legal Proceedings***

Fuqua Industries, Inc., Shareholder Litigation

In re Fuqua Industries, Inc. Shareholder Litigation, Del. Ch., Consolidated C.A. No. 11974, plaintiff Virginia Abrams filed a purported class and derivative action in the Delaware Court of Chancery on February 22, 1991 against Fuqua Industries, Inc. (predecessor company to The Actava Group), Intermark, Inc., the then-current directors of Fuqua Industries and certain past members of the board of directors. The action challenged certain transactions which were alleged to be part of a plan to change control of the board of Fuqua Industries from Fuqua to Intermark and sought a judgment against the defendants in the amount of $15.7 million, other unspecified money damages, an accounting, declaratory relief and an injunction prohibiting any business combination between Fuqua Industries and Intermark in the absence of approval by a majority of Fuqua Industries disinterested shareholders. Subsequently, two similar actions, styled *Behrens v. Fuqua Industries, Inc. et al.*, Del. Ch., C.A. No. 11988 and *Freberg v. Fuqua Industries, Inc. et al.,* Del. Ch., C.A. No. 11989 were filed with the Court. On May 1, 1991, the Court ordered all of the foregoing actions consolidated. On October 7, 1991, all defendants moved to dismiss the complaint. Plaintiffs thereafter took three depositions during the next three years.

On December 28, 1995, plaintiffs filed a consolidated second amended derivative and class action complaint, purporting to assert additional facts in support of their claim regarding an alleged plan, but deleting their prior request for injunctive relief. On January 31, 1996, all defendants moved to dismiss the second amended complaint. After the motion was briefed, oral argument was held on November 6, 1996. On May 13, 1997, the Court issued a decision on defendants motion to dismiss, the Court dismissed all of plaintiffs class claims and dismissed all of plaintiffs derivative claims except for the claims that Fuqua Industries board members (i) entered into an agreement pursuant to which Triton Group, Inc. (which was subsequently merged into Intermark) was exempted from 8 Del. C. 203 and (ii) undertook a program pursuant to which

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4.9 million shares of Fuqua Industries common stock were repurchased, allegedly both in furtherance of an entrenchment plan. On January 16, 1998, the Court entered an order implementing the May 13, 1997 decision. The order also dismissed one of the defendants from the case with prejudice and dismissed three other defendants without waiver of any rights plaintiffs might have to reassert the claims if the opinion were to be vacated or reversed on appeal.

On February 5, 1998, plaintiffs filed a consolidated third amended derivative complaint and named as defendants Messrs. Fuqua, Klamon, Sanders, Scott, Warner and Zellars. The complaint alleged that defendants (i) entered into an agreement pursuant to which Triton was exempted from 8 Del. C. 203 and (ii) undertook a program pursuant to which 4.9 million shares of Fuqua Industries common stock were repurchased, both allegedly in furtherance of an entrenchment plan. For their relief, plaintiffs seek damages and an accounting of profits improperly obtained by defendants.

In March 1998, defendants Fuqua, Klamon, Sanders, Zellars, Scott and Warner filed their answers denying each of the substantive allegations of wrongdoing contained in the third amended complaint. The Company also filed its answer, submitting itself to the jurisdiction of the court for a proper resolution of the claims purported to be set forth by the plaintiffs.

On May 2, 2002, Chancellor Chandler issued a decision granting in part and denying in part plaintiff s motion to compel production of documents. In his decision, the Chancellor determined that some of the documents as to which the Company had asserted the attorney-client privilege in the litigation would have to be produced, but declined to order the Company to produce documents for which the work product privilege had been asserted. The parties have completed document production and have participated in numerous depositions. Plaintiffs have submitted pre-trial orders to the defendants. On March 1, 2004, the defendants filed a motion for summary judgment seeking to dispose of the case in its entirety. In response, the plaintiffs have filed briefs in opposition to the motion for summary judgment. A trial date has not been scheduled by the court.

The Company s Directors and Officers liability insurance carrier for this litigation is Reliance Insurance Company. On May 29, 2001, Reliance consented to the entry of an Order of Rehabilitation by the Commonwealth Court of Pennsylvania. On October 3, 2001, the court ordered Reliance Insurance Company into liquidation. The current status of Reliance Insurance Company raises doubt concerning Reliance s ability to reimburse the Company for any litigation expenses incurred by the Company in connection with this litigation.

Report to the Pension Benefit Guaranty Corporation (PBGC)

The Company and a subsidiary maintain tax-qualified pension plans that are subject to regulation by the Pension Benefit Guaranty Corporation (PBGC). In June 2003, we notified the PBGC (i) that the Company may have historically failed to timely satisfy certain minimum funding requirements with respect to one plan, (ii) that the sale of corporate assets by a subsidiary of the Company may have triggered certain PBGC reporting, bonding and/or escrow requirements with respect to a second plan, (iii) that the Company had recently added extra contributions to one plan, and (iv) that the Company believes that there are no further corrective actions required with respect to either plan. The PBGC has not formally responded to our June 2003 notification but it may seek late reporting penalties and/or other corrective actions, the cost of which could be material to the Company and/or its subsidiary.

Campbell Litigation

On March 31, 2003, Mr. James Campbell filed a complaint in the Circuit Court of Walker County, Alabama against Turtle Shell, Inc., formerly known as Snapper, Inc. (a wholly owned subsidiary of the Company) for damages related to injuries allegedly sustained by him while operating a Snapper lawnmower. In November 2002, the Company disposed of all assets and most liabilities of Snapper, Inc., but retained certain liabilities, including any obligations that may arise out of this litigation. Mr. Campbell expired on July 14, 2003. In light of Mr. Campbell s death, his complaint has been amended to include a wrongful death claim and a claim of damages for any pain and suffering incurred by Mr. Campbell from the time of injury until death. Mr. Campbell s estate has been substituted as the plaintiff in this action. Also named as a defendant in this case is Briggs & Stratton, the company that manufactured the engine of the lawnmower. Discovery is ongoing in this case. The Company is not currently in a position to predict the outcome of any such proceedings, or the extent to which they could adversely affect the Company s financial condition and results of operations. The Company has historically self-insured itself for product liability related claims; however, the Company does have stop-loss coverage for settlement damages in excess of $3.0 million. The stop-loss coverage does not apply to any legal fees that the Company may incur to defend itself.

Demand for Books and Records

On January 8, 2004, a complaint was filed against the Company in the Court of Chancery of the State of Delaware. In the complaint Mr. McLaughlin, the plaintiff, is seeking to enforce his rights as a shareholder of the Company to inspect and copy certain books and records of the Company. The Company believes that the request made by the plaintiff is overly broad and lacks proper purpose and is preparing to defend its position in court. However, in order to minimize costs of a potential trial, the Company has entered into discussions with the plaintiff regarding the nature of information sought by him. The parties anticipate that the trial in this case can be scheduled by the Court as early as August 2004. No trial has been scheduled in this case. The Company is not in a position to predict the outcome of any such proceedings, or the extent to which they could adversely affect the Company s financial condition and results of operations.

Georgian Matters

The Company has received letters from, and has corresponded with, two Georgian individuals involved in the initial formation, approximately eight to ten years ago, of certain of the Company s business ventures in the Republic of Georgia. These individuals allege that the Company has not fully complied with its obligations to them under certain contracts. In addition, the individuals have alleged that Company personnel may have violated the Foreign Corrupt Practices Act and possibly engaged in other improper or illegal conduct. However, the individuals have so far refused to specify details of the alleged violations and have provided no evidence in support of the allegations that they have made.

The Company had entered into contracts with both of these Georgian individuals. The contract with one of these individuals entitles him to 5% of any dividends the Company receives from Telecom Georgia. The Company believes it has fully performed its obligations to date under this contract and has so informed the individual. The Company also believes that the fair value of the continuing dividend interest that the individual has in Telecom Georgia is not material. The contract with the other individual entitled him, assuming certain conditions are satisfied, to up to a 1% portion of the Company s equity interest in certain of the Company s business ventures in the Republic of Georgia, which the Company currently believes could only include Telecom Georgia, Ayety TV and Paging One (a now defunct paging company). In the first quarter of 2004, the Company entered into a settlement with the latter individual, which included a release by such individual of all claims to equity interests in any of the Company s business ventures in the Republic of Georgia.

As a matter of prudence and to ensure the claims of these Georgian individuals are properly considered, the Company s Board of Directors authorized the Company s outside counsel to conduct an independent inquiry into both the Company s obligations under the contracts referred to above and the unspecified allegations of possible improper or illegal conduct referenced above, as well as to investigate the existence of other contractual obligations that the Company or its subsidiaries may have with regard to the Company s Georgian business ventures.

This investigation has been completed and the results have been reported by the Company s outside counsel to the Board of Directors of the Company. The investigation has not uncovered any specific factual support for the allegations regarding alleged improper or illegal conduct, nor has it uncovered any other contractual obligations that the Company or its subsidiaries may have with regard to their Georgian business ventures. Additionally, the Company does not believe that the investigation has uncovered any facts which would require the Company to amend or alter the report that it made to the United States Justice Department and the Securities and Exchange Commission in the first quarter of 2003 regarding possible violations of foreign and United States laws, including the FCPA. As previously disclosed, the Company has settled the contractual dispute with one of the Georgian individuals by entering into a settlement agreement with him. Due to the relatively low current fair value of the business subject to contract with the second Georgian individual and in view of the unspecific and unsupported nature of the individual s allegations, the Company believes that these matters will not result in any material adverse effect on the Company s business, financial condition or results of operations.

Indemnification Agreements

In accordance with Section 145 of the General Corporation Law of the State of Delaware, pursuant to the Company s Restated Certificate of Incorporation, the Company has agreed to indemnify its officers and directors against, among other things, any and all judgments, fines, penalties, amounts paid in settlements and expenses paid or incurred by virtue of the fact that such officer or director was acting in such capacity to the extent not prohibited by law.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

PART II

Item 5. ***Market for Registrant s Common Stock and Related Stockholder Matters***

The American Stock Exchange (the Exchange) suspended the Company s common stock from trading from November 26, 2002 until January 6, 2003. On February 25, 2003, the Company received notice from the staff of the Exchange indicating that the Exchange filed an application with the United States Securities and Exchange Commission on February 20, 2003, to strike the Company s common stock from listing and registration on the Exchange, effective at the opening of the trading session on March 3, 2003. From March 3, 2003 through September 23, 2003, the Company s equity securities were quoted on the OTC Bulletin Board trading system (the OTCBB); however, on September 24, 2003, the Company s common stock was removed from quotation from the OTCBB trading system because the Company was not then in compliance with NASD Rule 6530. Under Rule 6530 the Company was required to keep current with its periodic reporting filing requirements with the SEC. As a result, the Company s common stock (OTCPK:MTRM) is traded only by means of the Pink Sheets .

The following table sets forth the high and low bid quotations per common share as reported on the over-the-counter market from March 4, 2003 through December 31, 2003 and the high and low bid information as reported by the AMEX for prior periods.

	Market Price of Common Stock			
	2003		2002	
Quarter Ended	High	Low	High	Low
March 31	$0.07	$0.01	$0.90	$0.28
June 30	$0.15	$0.01	$0.34	$0.04
September 30	$0.21	$0.10	$0.12	$0.04
December 31	$0.21	$0.09	$0.15	$0.02

Holders of Common Stock are entitled to such dividends as may be declared by the Company s Board of Directors and paid out of funds legally available for the payment of dividends. The Company has not paid a dividend to its common stockholders since the dividend declared in the fourth quarter of 1993, and has no plans to pay cash dividends on the Common Stock in the foreseeable future. The decision of the Board of Directors as to whether or not to pay cash dividends in the future will depend upon a number of factors, including the Company s future earnings, capital requirements, financial condition, and the existence or absence of any contractual limitations on the payment of dividends, including the contractual limitations set

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forth in the indenture for the Senior Notes and the certificate of designation for the Company s existing Preferred Stock. In addition, the Company s ability to pay dividends is limited because the Company operates as a holding company, conducting its operations solely through its subsidiaries. *See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations.*

As of April 30, 2004, there were approximately 6,547 record holders of common stock.

The following table sets forth information regarding the Company s equity compensation plans:

	Equity Compensation Plan Information		
Plan Category	**Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))**
	(a)	**(b)**	**(c)**
Equity compensation plans approved by security holders	2,082,850	$6.70	3,524,291
Equity compensation plans not approved by security holders	2,000,000	7.44	
Total	4,082,850	$7.06	3,524,291

The equity compensation plan not approved by security holders listed in the table above consists of two options to purchase shares of common stock of the Company granted to John Kluge and Stuart Subotnick. The options were granted on April 18, 1997, allowing each optionee to purchase 1,000,000 shares of common stock of the Company at a price of $7.44 per share. The options are fully vested and are exercisable until their expiration on April 17, 2007.

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Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with *Item 7: Management s Discussion and Analysis of Financial Conditions and Results of Operations* and the consolidated financial statements, including the notes thereto, and the other consolidated financial data included elsewhere in this report. The consolidated statements of operations data and consolidated balance sheet data as of and for the five years ended December 31, 2003 are derived from our consolidated financial statements and the notes related thereto, which were audited by KPMG LLP, independent certified public accountants. The consolidated financial statements as of December 31, 2003 and 2002 and for each of the years in the three-year period ended December 31, 2003 and the report of KPMG LLP thereon, are included elsewhere in this report. The report of KPMG LLP contains an explanatory paragraph that states that the Company has suffered recurring operating losses and net operating cash deficiencies and does not presently have sufficient funds on hand to meet its current debt obligations. These factors raise substantial doubt about the Company s ability to continue as a going concern. Management s plans in regard to these matters are described in *Item 15: Exhibits, Financial Statements, Schedules and Reports on Form 8-K Notes to Consolidated Financial Statements Note (1) Basis of Presentation, Going Concern and Recent Developments.* The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Certain reclassifications have been made to the consolidated financial statements for prior years to conform to the current presentation.

	Years Ended December 31				
	2003	**2002**	**2001**	**2000(6)**	**1999(7)**
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenues	$ 73,121	$ 65,112	$ 57,086	$ 79,213	$ 19,139
Asset impairment charges		6,728			14,252
Equity in income (losses) of and write-downs of investment in unconsolidated investees	14,298	(21,908)	(47,150)	(12,689)	(18,824)
Income (loss) from continuing operations before the cumulative effect of changes in accounting principles and discontinued components	138	(71,770)	(107,756)	(589)	(61,152)
Income (loss) from discontinued components(1)	8,306	(35,578)	(140,775)	(23,715)	(80,831)
Cumulative effect of changes in accounting principles	2,012(2)	(1,127)(3)			
Net income (loss)	10,456	(108,475)	(248,531)	(24,304)	(141,983)
Net loss attributable to common stockholders	(7,031)	(124,749)	(263,539)	(39,312)	(157,343)
Income (loss) per common share Basic and diluted:					
Continuing operations before the cumulative effect of changes in accounting principles and discontinued components	$ (0.18)	$ (0.94)	$ (1.30)	$ (0.17)	$ (1.02)
Discontinued components(1)	0.09	(0.38)	(1.50)	(0.25)	(1.07)
Cumulative effect of changes in accounting principles	0.02(2)	(0.01)(3)			
Net loss	$ (0.07)	$ (1.33)	$ (2.80)	$ (0.42)	$ (2.09)
Ratio of earnings to fixed charges(4)	n/a	n/a	n/a	n/a	n/a
Weighted average common shares outstanding	94,035	94,035	94,035	93,978	75,232
Dividends per common share					
Balance Sheet Data (at end of period):					
Cash and cash equivalents(5)	$ 26,925	$ 26,467	$ 24,059	$ 70,856	$ 43,216
Total assets	226,966	290,148	469,721	736,119	776,854
Notes and subordinated debt	154,759	215,661	206,484	188,500	180,905
Redeemable preferred stock	207,000	207,000	207,000	207,000	207,000
Stockholders (deficiency) equity	(13,155)	(22,498)	90,776	343,676	384,935

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(1) On September 30, 2003, the Board of Directors formally approved management s plan to dispose of the remaining non-core media businesses of the Company. Management presently anticipates that the remaining non-core media businesses will be disposed of by June 30, 2004. In light of these events, the Company concluded that such businesses meet the criteria for classification as discontinued business components as outlined in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and these entities have been presented as such within the consolidated financial statements. In addition to remaining non-core media business, certain other business disposed of during 2003 and 2002, including Snapper, Inc. and Metromedia China Corp., have been classified as discontinued business components in the consolidated financial statements. In addition, the Company recorded a $12.8 million charge in discontinued components in 1999, which represented the net present value of the payments to be made as a result of a settlement relative to litigation concerning certain entertainment group discontinued operations.

(2) Effective January 1, 2003, the Company changed its policy regarding accounting for certain business ventures previously reported on a lag basis. All of the Company s current operating business ventures with the exception of PeterStar have historically reported their financial results on a three-month lag. Therefore, the Company s financial results for the years ended December 31, 2002, 2001, 2000 and 1999 includes the results for those business ventures for the twelve months ended September 30, 2002, 2001, 2000 and 1999, respectively. In an effort to provide more timely and meaningful financial information on the Company s business operations, the Company determined that all business ventures should be reported on a real-time basis. Therefore, the financial results as of and for the twelve months ended December 31, 2003 reflect the change of bringing all business ventures off of the three month lag. As a result of this change, a $2.5 million decrease to beginning accumulated deficit was recorded, of which $2.0 million is reflected as income related to the cumulative effect of a change in accounting principle and the remaining $0.5 million is included in income from discontinued components for the twelve months ended December 31, 2003.

(3) On January 1, 2002, the Company adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. As a result of applying the provisions of SFAS No. 142, the Company recorded a transitional impairment charge of $1.1 million in continuing operations and $15.7 million in discontinued operations as of January 1, 2002. Amortization of goodwill for the years ended December 31, 2001, 2000 and 1999 was $3.6 million, $4.9 million and $1.9 million, respectively. Goodwill amortization included in equity in losses and write-downs of investment in unconsolidated investees for the years ended December 31, 2001, 2000 and 1999 was $4.9 million, $5.1 million, $4.3 million, respectively.

(4) For purposes of this computation, earnings are defined as pre-tax earnings or loss from continuing operations of the Company before adjustment for the cumulative effect of a change in accounting principle, minority interests in consolidated subsidiaries or income or loss from equity investees attributable to common stockholders plus (i) fixed charges and (ii) distributed income of equity investees. Fixed charges are the sum of (i) interest expensed and capitalized, (ii) amortization of deferred financing costs, premium and debt discounts, (iii) the portion of operating lease rental expense that is representative of the interest factor (deemed to be one-third) and (iv) dividends on Preferred Stock. The ratio of earnings to fixed charges of the Company was less than 1.00 for each of the years ended December 31, 2003, 2002, 2001, 2000 and 1999; thus, earnings available for fixed charges were inadequate to cover fixed charges for such periods. The deficiency in earnings to fixed charges for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 were: $64.6 million; $105.4 million; $101.7 million; $85.4 million and $104.8 million, respectively.

(5) Cash balances at the Company s business ventures are generally only made available to the Company as a result of the declaration and payment of dividends by the ventures. Due to legal and contractual restrictions on the declaration and payment of dividends, such cash balances can not be readily accessed by the Company to meets it liquidity needs. Moreover, dividends require formal declarations to effect transfers to the Company. See Item 1: *Business Risks Associated with the Company* The Company is dependent on certain local parties, and we cannot assure you that it will be able to maximize

its return on these investments and Item 7: Management s Discussion and Analysis of Financial Condition and Results from Operations Liquidity and Capital Resources.

(6) In October 2000, the Company sold its indirect 22% interest in Baltcom GSM for a total cash consideration of $66.3 million and recorded an after tax gain on the sale of $57.4 million.

(7) The Company acquired PLD Telekom Inc on September 30, 1999 for 24.1 million shares of its common stock valued at $4.3125 per share.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the Company s consolidated financial statements and related notes thereto and the Business section included as Item 1 herein.

Liquidity and Capital Resources

The Company

Overview. In the first quarter of 2003, the Company embarked on an overall restructuring of its business (the Restructuring). The Restructuring was prompted by and was intended to resolve the severe liquidity issues that had confronted the Company since the beginning of 2002. In this Restructuring, the Company undertook to sell its non-core businesses, which at the beginning of the Restructuring included nine cable television networks, twenty radio broadcasting stations and various non-core telephony businesses located in Western, Central and Eastern Europe. Proceeds of these sales mitigated short-term liquidity concerns and provided capital for further core business development. Upon completion of the planned sales, the Company will emerge as a business with its principal attention focused on the continued development of its core telephony businesses in Northwest Russia and the Republic of Georgia. In connection with the Restructuring, the Company also substantially downsized its corporate headquarters staff and undertook actions with the intended objective of significantly decreasing its corporate overhead cash-burn rate.

The Restructuring of business interests and corporate operations has progressed substantially and will soon be fully completed. The Company s remaining non-core media businesses held for sale consist of eighteen radio broadcast stations operating in Finland, Hungary, Bulgaria, Estonia, and the Czech Republic and one cable television network in Lithuania. Sale of these remaining non-core businesses is expected within the first half of 2004. The Company has relocated its corporate headquarters from New York City, New York to Charlotte, North Carolina and has achieved a significant reduction in its corporate personnel and office related expenditures. Further reductions in corporate overhead expenditures will follow the final disposition of all non-core operations. The Company s core telephony businesses are now:

PeterStar, the leading competitive local exchange carrier in St. Petersburg, Russia, in which the Company has a 71% ownership interest; and

Magticom, the leading mobile telephony operator in the Republic of Georgia, in which the Company has an effective 34.5% ownership interest.

Both of these business ventures are currently self-financed and hold leading positions in their respective markets. Furthermore, the Company also intends to retain its ownership in Ayety TV, a cable television provider in Tbilisi, Georgia, in which the Company has an 85% ownership interest and Telecom Georgia, a long-distance transit operator in Tbilisi, Georgia, in which the Company has a 30% ownership interest. The Company expects that these businesses can be further developed to strengthen the market position of Magticom. The Company intends to use its corporate cash reserves to provide for the development of these core businesses, with the expectation that their future dividend distributions will be sufficient to meet, on a timely basis, the Company s corporate overhead requirements and indebtedness interest payment obligations, including those associated with its $152.0 million aggregate principal (full accreted) 10 1/2% Senior Notes, due 2007 (the Senior Notes).

The Company is a holding company; accordingly, it does not generate cash flows from operations. As a result, the Company is dependent on the distribution of earnings from its business ventures and subsidiaries and the repayments of principal and interest under its credit agreements with its business ventures and subsidiaries. The Company s business ventures and subsidiaries are separate legal entities that have no obligation to pay any amounts the Company owes to third parties. Cash balances at the Company s business ventures are generally only made available to the Company as a result of the declaration and payment of dividends by the ventures. Due to legal and contractual restrictions on the declaration and payment of dividends, such cash balances can not be readily accessed by the Company to meets it liquidity needs. Moreover, dividends require formal declarations to effect transfers to the Company. *See Risks Associated with the Company The Company is dependent on certain local parties, and we cannot assure you that it will be able to maximize its return on certain investments* and *Item 7: Management s Discussion and Analysis of Financial Condition and Results from Operations Liquidity and Capital Resources.*

Liquidity Issues

As of December 31, 2003 and April 30, 2004, the Company had approximately $25.6 million and $30.0 million, respectively, of unrestricted cash on hand. In addition, as of December 31, 2003, the Company s consolidated business ventures held $1.4 million of cash. Furthermore, as of December 31, 2003, the Company s unconsolidated business ventures had approximately $18.0 million of cash on hand, $17.6 million of which is held in banks in the Republic of Georgia.

The Company continues to actively pursue the sale of remaining non-core businesses to raise additional cash and has undertaken to maximize cash distributions from all of its business ventures. The Company projects that its current corporate cash reserves, anticipated cash proceeds of non-core business sales and anticipated continuing dividends from core business operations will be sufficient for the Company to meet on a timely basis its future corporate overhead requirements and interest payment obligations, associated with the Senior Notes. However, the Company cannot assure that dividends from core businesses will be declared and paid nor can it assure that it will be successful in selling any additional non-core businesses or that these sales, if they occur, will raise sufficient cash to meet short-term liquidity requirements. The Company also is subject to legal and contractual restrictions, including those under the indenture for the Senior Notes, on its use of any cash proceeds from the sale of its assets or those of its business ventures.

Separately, the Company projects that it has sufficient corporate cash on hand to support the Company s planned operating, investing and financing cash flows through the end of 2004, including the Company s $8.0 million semi-annual interest payment due on September 30, 2004 on its Senior Notes. This projection does not include cash inflows that might reasonably arise from operating business venture dividend distributions or cash proceeds from the sale of the remaining non-core media businesses; either of which would further strengthen our current liquidity position.

However, the Company does not believe that it has sufficient corporate cash on hand today to support the Company s planned operating, investing and financing cash flows through March 31, 2005, including the Company s $8.0 million semi-annual interest payment that is due on March 31, 2005 associated with its Senior Notes.

If the Company is not able to satisfactorily address the liquidity issues described above, the Company may have to resort to certain other measures, including ultimately seeking the protection afforded under the U.S. Bankruptcy Code. The Company cannot provide assurances at this time that it will be successful in avoiding such measures. Additionally, the Company has a stockholders deficit and has suffered recurring operating losses and net operating cash deficiencies.

See *Item 1: Business Risks Associated with the Company* for a discussion of the liquidity issues facing the Company.

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The following represents contractual commitments associated with long-term debt, capital leases, and non-cancelable operating leases, net of any non-cancelable subleases, exclusive of interest payments (in thousands):

	Total	Long-Term Debt	Capital Leases	Non-Cancelable Operating Leases
2004	$ 1,723	$	$ 1,634	$ 89
2005	1,516		1,427	89
2006	103		12	91
2007	152,120	152,026		94
2008	72			72
Thereafter				
Less: amount representing interest	(340)		(340)	
	$ 155,194	$ 152,026	$ 2,733	$ 435

Prior to 2002, the Company had historically made significant capital infusions to fund acquisitions by its business ventures. In addition, the Company made capital contributions and loans to its business ventures for their capital expenditure and working capital requirements. Many of the Company s business ventures require significant capital investment in order to construct, develop and maintain operational systems and market their services.

The Company s capital expenditure program for the twelve months ended December 2004 for its core businesses, inclusive of Magticom, is anticipated to approximate $25.4 million and the Company does not anticipate that corporate headquarters cash resources will be required to fund this program; that is, the Company believes that this amount will be funded by the cash reserves and operating cash flows of the respective business ventures.

The Company currently anticipates that it will fund approximately $1.0 million into certain of its non-core media business ventures through the end of the first half 2004 in order for them to meet their working capital requirements.

Certain of the Company s non-core business ventures are experiencing continuing losses and negative operating cash flows. The ability of these non-core business ventures to execute their respective business plans is dependent upon attracting subscribers to their systems, selling commercial advertising time and controlling operating expenses. There can be no assurances that these non-core business ventures will have sufficient resources to execute their business plans. If the necessary resources are not available, the growth and continued viability of certain of these non-core business ventures may be impaired.

Credit agreements between certain of these non-core business ventures and the Company are intended to provide such business ventures with sufficient funds for operations and equipment purchases. The credit agreements generally provide for interest to accrue at rates ranging from the prime rate to the prime rate plus 6% and for payment of principal and interest from 90% of the applicable business venture s available cash flow, as defined, prior to any distributions of dividends to the applicable business venture s equity holders. The credit agreements also often provide the Company contractual rights to appoint the general director of the business venture and the right to approve its annual business plan. Generally, advances under the credit agreements are made to the business ventures in the form of cash for working capital purposes.

Senior Notes

In connection with the acquisition of PLD Telekom, the Company issued $210.6 million in aggregate principal amount at maturity of its Senior Notes in exchange for PLD Telekom s then outstanding senior notes and convertible subordinated notes. The Senior Notes accrue interest at the rate of 10 1/2% per year, payable semi-annually in cash. On April 24, 2003, the Company completed an exchange with Adamant Advisory Services, a British Virgin Islands company (Adamant), in which the Company conveyed its ownership interest in certain of its businesses in Russia in exchange for, among other things, approximately $58.6 million, face value, of the Company s Senior Notes held by Adamant. With the completion of this transaction, the outstanding principal balance on the Senior Notes was reduced to $152.0 million.

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The Senior Notes are general senior unsecured obligations of the Company, rank senior in right of payment to all existing and future subordinated indebtedness of the Company, rank equal in right of payment to all existing and future senior indebtedness of the Company and will be effectively subordinated to all existing and future secured indebtedness of the Company to the extent of the assets securing such indebtedness and to all existing and future indebtedness of the Company s subsidiaries, whether or not secured.

The Senior Notes are redeemable at the sole option of the Company at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date of redemption.

Upon the occurrence of a change of control of the Company (as such term is defined in the indenture for the Senior Notes (the Indenture)), the holders of the Senior Notes will be entitled to require the Company to repurchase their Senior Notes at a purchase price equal to 101% of the principal amount of such notes plus accrued and unpaid interest to the date of repurchase.

The Indenture limits the ability of the Company and certain of its subsidiaries to, among other things, incur additional indebtedness or issue capital stock or preferred stock, pay dividends on, and repurchase or redeem their capital stock or subordinated obligations, invest in and sell assets and subsidiary stock, engage in transactions with affiliates and incur additional liens. The Indenture also limits the ability of the Company to engage in consolidations, mergers and transfers of all or substantially all of its assets and also contains limitations on restrictions on distributions from its subsidiaries.

Convertible Preferred Stock

As of December 31, 2003 there were 4.1 million shares of the Company s 7 1/4% cumulative convertible preferred stock (the Preferred Stock) par value $1.00 per share, outstanding. Each share has a liquidation preference of $50.00 plus accrued and unpaid dividends thereon.

Dividends on the Preferred Stock are cumulative from the date of issuance and payable quarterly, in arrears. The Company may make any payments due on the Preferred Stock, including dividend payments and redemptions (i) in cash; (ii) through issuance of the Company s common stock or (iii) through a combination thereof. The dividend requirement for the twelve months ending December 31, 2004 will be $18.8 million, inclusive of the effects of compounding and assuming no payments of the dividends.

Through March 15, 2001, the Company paid its quarterly dividends in cash. The Company has elected not to declare a dividend for any quarterly dividend periods ending after June 15, 2001. As of December 31, 2003, total dividends in arrears are $45.9 million. The holders of the Preferred Stock have no voting rights except that once dividends on the Preferred Stock were in arrears for six quarterly periods, the holders of the Preferred Stock, voting separately as a class, became entitled to elect two additional individuals to the Company Board. Such voting rights will continue until such time as the dividend arrearage has been paid in full. Beginning in late 2003 and continuing into 2004, the Company has had and continues to be in discussions with several holders of the Preferred Stock regarding the preferred stockholders right to elect two new directors to the Company s Board.

Business Venture Support and Corporate Overhead Costs

In 2003, 2002 and 2001, the Company expended $30.4 million, $28.7 million and $31.7 million, respectively on support of its business ventures and corporate overheads. The Company provides business development, marketing and financial reporting services to its operating units. The principal components of the Company s corporate overhead costs relate to personnel costs (salaries and wages, other employee benefits and travel related costs), professional fees (lawyers, accountants and bankers), consultants, facility related costs and other associated general and administrative costs (e.g., insurance and regulatory compliance costs).

The Company anticipates that its 2004 corporate overhead costs will be significantly lower than what it incurred in 2003; however, the amount of the reduction cannot be reasonably quantified at this time.

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Although the Company has been working to reduce its overhead costs, the Company believes that there is a limit to such reduction without losing ability to provide the appropriate level of management oversight. *See Item 1. Risks Associated with the Company. The Company has experienced a significant reduction in its personnel, including its executive ranks, which may affect the Company s ability to develop and execute its business strategies and manage its operations.*

Guarantees and Commitments

Benefit Plans. The Company sponsors two defined benefit pension plans, a supplemental retirement plan and a postretirement medical benefit plan for certain former employees of the Company (the Benefit Plans). The Company s anticipated expenditures for the Benefit Plans are dependent on various assumptions regarding the ultimate obligation to be paid by the Company on behalf of the participants. Based on present assumptions, we expect 2004 benefits to be paid by these Benefit Plans to be $1.5 million, as compared with $1.6 million in both 2003 and 2002.

The funding obligations for the Benefit Plans are also dependent on investment returns, discount rates and actuarial assumptions, including mortality rates, inflation and retirement age. Based on present assumptions, we expect our 2004 cash funding for the Benefit Plans to be $1.1 million, as compared to $2.2 million and $0.9 million in 2003 and 2002, respectively. However, we review our assumptions regularly and the Company may make contributions beyond those that are currently anticipated.

As of December 31, 2003, the unfunded status of the Benefit Plans was $7.7 million as compared with $9.2 million as of December 31, 2002. The improvement in the unfunded status from December 31, 2002 to December 31, 2003, is attributable to actual return on plan assets and employer contributions being in excess of benefits paid pursuant to these Benefit Plans.

Access to Business Ventures Cash Balances

The Company has invested in substantially all of its business ventures with local partners. In certain cases, the voting power and veto rights of its business venture partners may limit the Company s ability to control certain of the operations, strategies and financial decisions of the business ventures in which it has an ownership interest. As a result, although cash balances exist in these business ventures, due to legal and contractual restrictions, cash balances of the business ventures cannot be readily accessed without distribution of dividends, which require formal declarations to effect transfers to the Company. Furthermore, the dividend policy of Magticom must be approved by the Company s partners and thus, is not under the Company s exclusive control.

Certain of the Company s business ventures have from time to time been unable and may in the future be unable to prevent expenditures and commitments that do not provide full economic benefit to the business venture s operations, although no such expenditures or commitments have been material to the Company s historical results of operations and financial condition. Further, management is not aware of any instances in which such expenditures and commitments are not properly reflected in its consolidated financial statements. However, future transactions may impact the amounts that the Company will be able to repatriate from those business ventures. In light of the Company s current liquidity issues and limited cash resources, any limitation on the Company s ability to repatriate amounts from those business ventures could adversely affect its future cash flows.

Discussion of Changes in Financial Position

The Company s current ratio, defined as total current assets divided by total current liabilities, improved to 1.2 from 1.0 as of December 31, 2003 and 2002, respectively, after experiencing a decline to 1.0 from 1.1 as of December 31, 2002 and 2001, respectively. Excluding current assets and liabilities of discontinued components, the Company s current ratio was 1.3, 1.2 and 0.9 as of December 31, 2003, 2002 and 2001, respectively. The improvement in the current ratio during 2003 reflects the favorable impact of the non-core business sales along with the cash distributions from Magticom, in the form of loan repayments and dividend distributions. The receipt of these proceeds has allowed the Company to fund its operations to meet its current obligations on a timely basis while maintaining an overall positive current ratio. A summary of our cash flows from continuing operations is as follows (in thousands):

	Year Ended December 31,		
	2003	**2002**	**2001**
Cash flows used in operating activities	$(19,464)	$(25,360)	$(21,814)
Cash paid for the acquisition of property, plant and equipment	$(16,447)	$(13,694)	$(10,504)
Cash provided by (used in) investing activities	$ 13,163	$ (626)	$(13,582)
Cash (used in) provided by financing activities	$ (9,961)	$ 630	$ (9,368)

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Cash Flows from Operating Activities

Cash used in operating activities for the year ended December 31, 2003 was $19.5 million, a decrease of $5.9 million from cash used in operating activities for the year ended December 31, 2002. The $5.9 million favorable change reflected the net impact of improvement in cash flows of $75.2 million provided by the results from continuing operations, a $79.0 million unfavorable change in non-cash items and a $9.8 million favorable change in cash flows due to changes in operating assets and liabilities.

Non-cash items decreased by $79.0 million in the year ended December 31, 2003 as compared to the year ended December 31, 2002. During the year ended December 31, 2003 the Company recognized a gain on the retirement of debt of $24.6 million. In 2003, the Company also realized a $36.2 million decrease in the equity in income (losses) and write-down of investment in unconsolidated investees principally due to an impairment charge of $27.1 million recorded against the Company s investment in Comstar during the year ended December 31, 2002 and increased equity in earnings attributable to Magticom. The other significant components include a decrease in the accretion of debt discount of $5.3 million, a decrease in asset impairment charges of $6.7 million and a decrease in cumulative effect of changes in accounting principles of $3.1 million.

The $9.8 million favorable change in cash flows is principally due to changes in operating assets and liabilities for the year ended December 31, 2003 as compared to the year ended December 31, 2002, the Company experienced a $2.9 million favorable change in other assets and liabilities and a $7.8 million favorable change in accounts payable and accrued expenses, which was partially offset by a $0.9 million unfavorable change in accounts receivable.

Cash Flows from Investing Activities

Cash provided by investing activities for the year ended December 31, 2003 was $13.2 million as compared to cash used in investing activities of $0.6 million for the year ended December 31, 2002. The year over year improvement is primarily due to additional proceeds, of $5.7 million in 2003 from the sale of a business as well as incremental receipts from equity ventures of $9.2 million. The incremental receipts from equity ventures reflects payments under a credit line with Magticom and its dividend distributions. These amounts were partially offset by $2.7 million in additional capital spending, primarily at PeterStar.

Cash Flows from Financing Activities

Cash used in financing activities for the year ended December 31, 2003 was $10.0 million as compared to cash provided by financing activities of $0.6 million for the year ended December 31, 2002. The unfavorable change in financing cash flows in 2003 is due to additional distributions of dividends to minority shareholders and net unfavorable cash flow related to borrowings and debt payments of $6.3 million on a year over year basis. The dividend distributions are to the minority shareholders of Telcell Wireless (the direct holding company of the Company s ownership interest in Magticom) and PeterStar.

Cash Flows from Discontinued Components

Cash provided by discontinued components decreased to $16.3 million for the year ended December 31, 2003 as compared to $27.8 million for the year ended December 31, 2002. During the year ended December 31, 2002, the Company received net cash proceeds from the sale of Snapper of $15.6 million. In addition, during 2002, the Company received $4.9 million and $3.1 million related to the settlement of certain claims and taxes, respectively, related to former business ventures. During the year ended December 31, 2003, the Company received $6.0 million, $5.0 million and $4.5 million related to the sale of Snapper, the Adamant transaction and the sale of Technocom, respectively.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Cash Flows from Operating Activities

Cash used in operating activities for the year ended December 31, 2002 was $25.4 million, an increase in cash used in operating activities of $3.5 million from the same period in the prior year.

Net loss includes significant non-cash items such as loss on dispositions of businesses, depreciation and amortization, equity in losses of investees, accretion of debt discount, asset impairment charges and income allocable to minority interests. Excluding discontinued components, disposition of businesses and asset impairment, non-cash items decreased $42.7 million to $54.3 million from $97.0 million for the years ended December 31, 2002 and 2001, respectively. Changes in operating assets and liabilities decreased cash flows for the year ended December 31, 2002 by $7.8 million and decreased cash flows for the year ended December 31, 2001 by $11.5 million.

Cash Flows from Investing Activities

Cash used by investing activities for the year ended December 31, 2002 was $0.6 million as compared to cash used in investing activities of $13.6 million for the year ended December 31, 2001. The year over year improvement in investing activity cash flow primarily reflects cash generated in 2002 from sale of businesses, an increase in distributions from equity accounted businesses during the year as compared to 2001 and overall reduction in investments in and advances to business ventures. The positive impact on cash for these items year over year was partially offset by increased additions in 2002 in property, plant and equipment at PeterStar and Ayety.

Cash Flows from Financing Activities

Cash generated by financing activities was $0.6 million for the year ended December 31, 2002, compared to cash used in financing activities of $9.4 million, for the year ended December 31, 2001. Financing cash flows improved in 2002 due to borrowings, net of payments, by subsidiaries and the cessation of dividend payments on the Company s Preferred Stock, offset slightly by minor increases in distributions of dividends to minority interests.

Inflation and Foreign Currency

The effects of inflation in the respective markets that the Company s business ventures operate, is reflected with the Company s business ventures financial results as effects of foreign currency fluctuations.

During 1999, a number of emerging market economies suffered significant economic and financial difficulties resulting in liquidity crises, devaluations of currencies, higher interest rates and reduced opportunities for financing. Although the economic climate in Russia has improved, the long-term prospects for complete recovery for the economies of Russia and the Republic of Georgia remain unclear. The devaluation of many of the currencies in the region in 2000 and 2001 was not as marked as in previous years and in 2003 many currencies strengthened against the U.S. Dollar; however the potential still remains for future negative effects on the U.S. dollar value of the revenues generated by the Company s business ventures and may lead to certain additional restrictions on the convertibility of certain local currencies. Any such economic difficulties could materially negatively impact the financial performance of the Company.

The Company currently does not hedge against exchange rate risk and therefore could be materially negatively impacted by declines in exchange rates between the time one of its business ventures receives its funds in local currency and the time it distributes these funds in U.S. dollars to the Company. The ability of the Company to hedge is somewhat limited as the Company s most significant operations are in Russia and the Republic of Georgia. The Russian Ruble and the Georgian Lari are not readily convertible outside Russia and Georgia, respectively.

The Company s strategy is to minimize its foreign currency risk. Whenever possible, the Company bills and collects revenues in U.S. dollars or an equivalent local currency amount adjusted on a monthly basis for exchange rate fluctuations. However, due to the strengthening of the Russian Ruble, effective September 1, 2003 PeterStar began billing and collecting in Russian Rubles; provided that, included within the terms of the majority of contracts with businesses, PeterStar has retained the right to change the billing currency should PeterStar deem the circumstances warrant such a change. As a result, PeterStar changed its functional currency to the Russian Ruble effective October 1, 2003. In addition, due to changes in its principal liabilities, Magticom changed its functional currency to the Georgian Lari effective April 1, 2003.

The Company s business ventures are generally permitted to maintain U.S. dollar accounts to service their U.S. dollar denominated debt and current account obligations, thereby reducing foreign currency risk. As the Company s subsidiaries and business ventures expand their operations and become more dependent on local currency based transactions, the Company expects that its foreign currency exposure will increase.

The following table provides information about our principal financial instruments denominated in Russian Rubles and presents such information in US dollar equivalents (in thousands). The table summarizes information on instruments that are sensitive to foreign currency exchange rates.

	December 31, 2003	December 31, 2002	December 31, 2001
CURRENT ASSETS			
Cash and cash equivalents	$1,233	$4,473	$ 549
Accounts receivable, net	893	703	724
Prepaids and other assets	447	1,060	1,533
CURRENT LIABILITIES			
Accrued expenses	206	318	802
Closing foreign currency exchange rate	29.45	31.78	30.14

In addition to the above exposure to changes in the exchange rate of the Russian Ruble, the Company is exposed for its investments in the Republic of Georgia, principally Magticom, for changes in the exchange rate of the Georgian Lari. The Company s net investment in Magticom as of December 31, 2003, 2002 and 2001 totaled $34.7 million, $30.5 million and $24.5 million, respectively.

Asset Impairment and Restructuring Charges

The following table summarizes the components of the asset impairment charges related to continuing operations recorded by the Company in the years ended December 31 (in thousands):

	2003	2002	2001
Goodwill and other intangibles	$	$ 4,726	$
Property and equipment		2,002	
Consolidated asset impairment charges		6,728	
Impairment charges included in equity in losses and write-downs of investment in unconsolidated investees	1,516	27,347	36,752
Total asset impairment charges	$1,516	$34,075	$36,752

2003 Impairment Charge

In the year ended December 31, 2003, the Company recorded a non-cash charge to earnings of $1.5 million for the write-down of the Company s investment in Cosmos TV, which has been included as a write-down of investment in unconsolidated investees. The Company received indications of value in relation to selling the Company s interest in Cosmos TV, and evaluated the carrying value of Cosmos TV and determined that there was a loss in value that was other than temporary. Accordingly, in accordance with APB Opinion No. 18, the Company recorded an impairment charge of $1.5 million against the Company s investment in Cosmos TV. Cosmos TV was sold subsequent to December 31, 2003.

2002 Impairment Charge

The 2002 impairment charges of $6.7 million relating to consolidated ventures are reflected in the asset impairment and restructuring charge on the accompanying consolidated statement of operations. The Company determined the impairment charge based on expected cash flows.

The 2002 impairment charges relating to unconsolidated ventures of $27.3 million are reflected in the equity in losses of and write-down of investment in unconsolidated investees, in the accompanying consolidated statement of operations. Such charges related to the Company s investments in Comstar and Kosmos TV. The Company evaluated the carrying value of each of these businesses and determined that there was a loss in value that was other than temporary. Accordingly, in accordance with APB Opinion No. 18, the Company recorded impairment charges against the license and goodwill carried as part of the carrying value of these businesses.

Such charges are summarized in the following table (in thousands):

	Property and Equipment	Intangibles, Exclusive of Goodwill	Goodwill	Investments in and Advances to Business Ventures	Total
Comstar	$	$	$	$27,105	$27,105
Ayety TV	650	937	2,818		4,405
Baltic Communications Ltd.	1,352				1,352
Other			971	242	1,213
Totals	$2,002	$937	$3,789	$27,347	$34,075

2001 Impairment Charge

For the year ended 2001, the impairment charges relating to unconsolidated ventures of $36.8 million are reflected in the equity in losses of and write-downs of investment in unconsolidated investees in the accompanying consolidated statement of operations. The impairments are principally related to Kosmos TV ($16.8 million), Telecom Georgia ($10.2 million) and BELCEL ($5.2 million).

Included in selling, general and administrative expense for the year ended December 31, 2001 is a $0.3 million credit for the recovery of a previous restructuring charge.

Critical Accounting Policies

The Company reviews all significant estimates affecting its consolidated financial statements on a recurring basis and records the effect of any necessary adjustment prior to their publication. Uncertainties with respect to such estimates and assumptions are inherent in the preparation of financial statements; accordingly, it is possible that actual results could differ from those estimates and changes to estimates could occur in the near term. The preparation of the Company s financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are used when accounting for the allowance for doubtful accounts, inventory obsolescence, long-lived assets, intangible assets, recognition of revenue, assessing control over operations of business ventures, self-insured workers compensation and product liability claims, depreciation and amortization, employee benefit plans, income taxes and contingencies, among others.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the failure of its customers to make required payments. If the financial condition of the Company s customers was to deteriorate, resulting in an impairment of their ability to make payments, or customers otherwise do not pay, additional allowances may be required.

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

The Company holds minority interests in certain of its business ventures. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future. The Company assesses the impairment of identifiable intangibles, long-lived assets and related goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors the Company considers important which could trigger an impairment review include the following, (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and/or (iii) significant negative industry or economic trends. When the Company determines that the carrying value of the intangibles, long-lived assets and related goodwill may not be recoverable based upon the existence of one or more of the indicators of impairment, the Company measures any impairment using estimated market value if a value is determinable and if not, using various discounted cash flow techniques.

The Company s business ventures telephony operations recognize revenues in the period the service is provided. Installation fees for cable television services are recognized as revenues upon subscriber hook-up to the extent direct selling costs are incurred. Installation fees in excess of direct selling costs are deferred and recognized over the expected life of the customer relationship. Installation fees for telephony operations are deferred together with the related costs and amortized over the estimated term of a customer relationship. Installation costs in excess of installation fees are recognized as expense in the period incurred.

Commencing from the adoption of Statement on Financial Accounting Standard (SFAS) No. 142, Goodwill and Other Intangible Assets, on January 1, 2002, the Company performs goodwill impairment testing annually as of December 31 or whenever impairment indicators exist. This test requires a significant degree of judgment about the future events and comparison of the fair value with

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the carrying amount of each reporting unit. Based on the discounted cash flow valuations performed in 2003, the Company concluded that for all reporting units the fair value is in excess of the respective carrying amounts.

The Company assesses its level of control over the operating and financial decisions of its business ventures when determining whether to account for their operations as either cost method, equity method or consolidation method entities. The assessment considers all relevant facts including the Company s legal voting interests, the existence of protective or participating legal rights of other parties and the Company s actual involvement in the ordinary course decision making of the businesses. The Company monitors changes in its level of control due to changes in ownership percentages as well as external factors that may affect its influence or control and responds accordingly.

The Company recognizes liabilities for estimated future obligations for pension and medical benefit obligations. Such liabilities are based upon actuarial analysis which is influenced by a variety of estimates including mortality rates, estimated returns on investments, and a discount rate for future liabilities. The Company believes such estimates are reasonable.

Basis of Presentation

The Company accounts for a portion of its business ventures under the equity method of accounting since it generally does not exercise control over such ventures. Under the equity method of accounting, the Company reflects the investments in and advances to business ventures, adjusted for distributions received and its share of the income or losses on the Company s balance sheet. The income (losses) recorded represents the Company s equity in the income (losses) of the business ventures. Equity in the income (losses) of the business ventures by the Company are generally reflected according to the level of ownership of the business venture by the Company until such business venture s contributed capital has been fully depleted. Subsequently, the Company recognizes the full amount of losses generated by the business venture if the Company is the sole funding source of the business ventures.

In an effort to provide more timely and meaningful financial information on the Company s business operations, the Company determined that all business ventures should be reported on a real-time basis. Accordingly, effective January 1, 2003, the Company changed its policy regarding the accounting for the business ventures previously reported on a three-month lag basis. All of the Company s current operating business ventures with the exception of PeterStar, have historically reported their financial results on a three-month lag. Therefore, the Company s financial results for the years ended December 31, 2002 and 2001 includes the results for those business ventures for the twelve months ended September 30, 2002 and 2001, respectively.

Segment Information

The Company evaluates the performance of its operating segments based on earnings before interest, taxes, depreciation, and amortization. The segment information is based on operating income (loss) which includes depreciation and amortization. Equity in income (losses) of unconsolidated investees reflects elimination of intercompany interest expense and management fees.

The Company has operations in northwestern Russia and the Republic of Georgia. The Company s reporting segments are comprised of (i) fixed telephony, (ii) wireless telephony and (iii) cable television.

Consolidated fixed telephony is comprised of PeterStar. On October 1, 2003, PeterStar acquired the ownership rights BCL and prior to such date, BCL was an indirect wholly owned subsidiary of the Company.

Unconsolidated wireless telephony is principally comprised of Magticom.

Consolidated cable television is comprised of Ayety TV.

In addition to these segments, the Company has other operating activities which are considered discontinued components.

The Company s reporting segments are comprised of (i) fixed telephony, (ii) wireless telephony and (iii) cable television. The Company s segment information, including other unconsolidated operating segments, is set forth for the years ended December 31, 2003, 2002 and 2001 in the following tables (in thousands):

Segment Information

Year Ended December 31, 2003

	Fixed Telephony	Wireless Telephony	Cable Television	Corporate, Other and Eliminations	Consolidated
			(In thousands)		
Consolidated					
Revenues	$70,527	$	$2,594	$	$ 73,121
Cost of services	23,588		33		23,621
Selling, general and administrative	13,714		2,253	30,423	46,390
Depreciation and amortization	20,332		519	242	21,093
Operating income (loss)	$12,893	$	$ (211)	$(30,665)	$(17,983)
Unconsolidated Business Ventures					
Revenues	$25,271	$74,001	$9,592		
Cost of services	12,806	10,761	1,775		
Selling, general and administrative	6,814	9,615	5,168		
Depreciation and amortization	4,414	13,722	2,423		
Operating income	$ 1,237	$39,903	$ 226		
Net (loss) income	$ (667)	$30,307	$1,266		
Equity in (losses) income of and write-downs of investment in unconsolidated investees(1)	$ (468)	$14,900	$ (134)		14,298
Interest expense					(18,711)
Interest income					842
Gain on retirement of debt					24,582
Gain on disposition of business					12,762
Foreign currency loss					(518)
Other expense					(194)
Income tax expense					(5,945)
Minority interest					(8,995)
Income from continuing operations before discontinued components and the cumulative effect of changes in accounting principles					138
Income from discontinued components					8,306
Cumulative effect of changes in accounting principles					2,012
Net income					$ 10,456

Note 1: Equity in income (losses) of unconsolidated investees reflects elimination of intercompany interest expense.

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Segment Information

Year Ended December 31, 2002

	Fixed Telephony	Wireless Telephony	Cable Television	Corporate, Other and Eliminations	Consolidated
			(In thousands)		
Consolidated					
Revenues	$ 62,831	$	$ 2,281	$	$ 65,112
Cost of services	19,061		168		19,229
Selling, general and administrative	16,692		2,085	28,682	47,459
Depreciation and amortization	18,792		1,114	1,580	21,486
Asset impairment charges	1,352		4,405	971	6,728
Operating income (loss)	$ 6,934	$	$ (5,491)	$ (31,233)	(29,790)
Unconsolidated Business Ventures					
Revenues	$ 91,217	$ 54,582	$ 21,277		
Cost of services	44,859	8,568	3,966		
Selling, general and administrative	21,662	9,475	11,647		
Depreciation and amortization	21,526	14,828	6,541		
Asset impairment charge	440	750			
Operating income (loss)	$ 2,730	$ 20,961	$ (877)		
Net (loss) income	$ (2,319)	$ 19,025	$ (2,814)		
Equity in (losses) income of and write-downs of investment in unconsolidated investees	$ (29,187)	$ 7,021	$ 258		(21,908)
Interest expense					(22,297)
Interest income					1,413
Gain on disposition of business					5,675
Foreign currency gain					473
Other expense					