# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Amendment No. 1 to
# FORM 10-Q/A

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

**FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003**

**COMMISSION FILE NO. 1-5706**

# METROMEDIA INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **DELAWARE**<br>(State or Other Jurisdiction of Incorporation or Organization) | **58-0971455**<br>(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)
**505 Park Avenue, 21st Floor, New York, New York 10022**
(Former name or former address, if changed since last report)

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 ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b of the exchange act). Yes o No ý

The number of shares of common stock outstanding as of June 30, 2003 was 94,034,947.

**Restatement of Prior Financial Information**

The Company determined that the following accounting errors had been made in its past financial statements:

1. The Company has determined that it should have recorded a $2.1 million tax refund that it received on November 10, 2003 from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, in fiscal year 2002. Specifically, the Company has determined that it should have recorded an income tax benefit within the "Income tax expense" line item within its consolidated financial statements in each of the three months ended March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002 of $1.1 million, $0.8 million, $41.0 thousand and $0.2 million, respectively;

2. The Company has determined that it should have recorded a $2.3 million tax refund from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, that the Company had previously recorded within the "Loss from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002 in an earlier accounting period in 2002. Specifically, the Company has determined that it should have recorded the $2.3 million income tax benefit within the "Income tax expense" line item within its consolidated financial statements for the three months ended March 31, 2002. In connection with this adjustment, the Company reclassified $66.0 thousand of interest from discontinued components to "Interest income" in the three months ended December 31, 2002;

3. The Company has determined that it should have recorded a $0.8 million income tax receivable, related to a refund owed to the Company based on an amended state tax return filed in early January 2003, within the "Loss from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002; and

4. The Company historically accounted for unpaid dividends on its $7^1/_4$% cumulative convertible preferred stock ("the Preferred Stock") on a simple interest basis; however, according to the Preferred Stock Certificate of Designation, cumulative unpaid dividends are subject to quarterly compounding. The Company has recalculated the cumulative unpaid dividend amount for 2002 and 2003 based on the date of the first unpaid dividend and has increased the quarterly dividend expense amounts in the 2002 and 2003 quarterly periods by $0.2 million, $0.3 million, $0.4 million, $0.4 million and $0.5 million for the three months ended March 31, 2002, June 30, 2002, September 30, 2002, December 31, 2002 and March 31, 2003, respectively. Under-reported dividend expense amounts prior to 2002 were immaterial. With all quarterly compounding corrections applied, as of March 31, 2003 the total dividend in arrears was $32.6 million.

The effects of the tax adjustments resulted in an increase in "Prepaid expenses and other current assets" of $2.1 million; an increase in "Current assets of discontinued components" of $0.8 million; and a reduction of "Accumulated deficit" of $2.9 million at December 31, 2002 and March 31, 2003 and no impact on the condensed statement of cash flows for the three months ended March 31, 2003 and 2002. The adjustment related to the dividends has no impact on the balance sheet or on the statement of cash flows.



The effects of the adjustments for income statement purposes are summarized in the following financial results tables:

| | March 31, 2003 | | March 31, 2002 | |
|---|---|---|---|---|
| | Three Months Ended | | Three Months Ended | |
| | Originally Reported | Restated | Originally Reported | Restated |
| Revenues | $ 22,715 | $ 22,715 | $ 20,582 | $ 20,582 |

| | March 31, 2003 | | March 31, 2002 | |
|---|---|---|---|---|
| Operating loss | (8,239) | (8,239) | (9,692) | (9,692) |
| Income tax (expense) benefit | (1,396) | (1,396) | (1,422) | 2,021 |
| Loss from continuing operations | (15,112) | (15,112) | (17,158) | (13,715) |
| Loss from discontinued components | (188) | (188) | (13,587) | (13,587) |
| Cumulative effect of a change in accounting principle | | | (3,157) | (3,157) |
| Net loss | (15,300) | (15,300) | (33,902) | (30,459) |
| Cumulative convertible preferred stock dividend | (3,752) | (4,255) | (3,752) | (3,960) |
| Net loss attributable to common stockholders | $ (19,052) | $ (19,555) | $ (37,654) | $ (34,419) |
| Loss per common share attributable to common stockholders Basic & Diluted: | | | | |
| Continuing operations | $ (0.20) | $ (0.21) | $ (0.23) | $ (0.20) |
| Discontinued components | | | (0.14) | (0.14) |
| Cumulative effect of a change in accounting principle | | | (0.03) | (0.03) |
| Net loss per common share attributable to common stockholders | $ (0.20) | $ (0.21) | $ (0.40) | $ (0.37) |

**Amended Items**

The Company hereby amends the following items, financial statements, exhibits or other portions of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as set forth herein:

**Part I Financial Information**

**Item 1. *Financial Statements*.**

The financial information of the Company is amended to read in its entirety as set forth at pages 5 through 27 herein and is incorporated herein by reference.

**Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations.***

The information set forth under the caption "Management's Discussion and Analysis" is amended to read in its entirety as set forth at pages 28 through 45 herein and is incorporated herein by reference.

**Item 4. *Controls and Procedures***

The information set forth under the caption "Controls and Procedures" is amended to read in its entirety as set forth at pages 48 through 50 herein and is incorporated herein by reference.

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**Part II Other Information**

**Item 3. *Defaults upon Senior Securities*.**

The information set forth under the caption "Defaults upon Senior Securities" is amended to read in its entirety as set forth on page 51 herein and is incorporated herein by reference.

**Item 6.** ***Exhibits and Reports on Form 8-K.***

The list of exhibits set forth in, and incorporated by reference from, the Exhibit Index, is amended to include the following additional exhibits:

31.1* Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

31.2* Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

32.1* Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

32.2* Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

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* Filed herewith

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**METROMEDIA INTERNATIONAL GROUP, INC.**
**Index to**
**Quarterly Report on Form 10-Q**

**PART I FINANCIAL INFORMATION**



**PART II OTHER INFORMATION**

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**METROMEDIA INTERNATIONAL GROUP, INC.**
**Consolidated Condensed Statements of Operations**
**(in thousands, except per share amounts)**
**(unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | **2003** | **2002** |
| | | **(restated)** |
| Revenues | $ 22,715 | $ 20,582 |
| Cost and expenses: | | |
| Cost of sales and operating expenses | 5,685 | 5,286 |
| Selling, general and administrative | 19,076 | 17,976 |
| Depreciation and amortization | 6,193 | 7,012 |
| Operating loss | (8,239) | (9,692) |
| Other income/(expense): | | |
| Interest expense | (5,682) | (5,912) |
| Interest income | 169 | 331 |
| Equity in income of unconsolidated investees | 2,659 | 522 |
| Foreign currency income/(expense) | 489 | (329) |
| Other (expense)/income | (543) | 581 |
| | (2,908) | (4,807) |
| Loss before income tax expense, minority interest, discontinued components and the cumulative effect of a change in accounting principle | (11,147) | (14,499) |
| Income tax (expense)/benefit | (1,396) | 2,021 |
| Minority interest | (2,569) | (1,237) |
| Loss from continuing operations before discontinued components and the cumulative effect of a change in accounting principle | (15,112) | (13,715) |
| Loss from operations of discontinued components | (188) | (13,587) |
| Cumulative effect of a change in accounting principle | | (3,157) |
| Net loss | (15,300) | (30,459) |
| Cumulative convertible preferred stock dividend requirement | (4,255) | (3,960) |
| Net loss attributable to common stockholders | $ (19,555) | $ (34,419) |

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| Weighted average number of common shares Basic and diluted | | 94,035 | | 94,035 |
| Loss per common share attributable to common stockholders Basic and diluted: Continuing operations | $ | (0.21) | $ | (0.19) |
| Loss from operations of discontinued components | | | | (0.15) |
| Cumulative effect of a change in accounting principle | | | | (0.03) |
| Net loss per common share attributable to common stockholders | $ | (0.21) | $ | (0.37) |

See accompanying notes to consolidated condensed financial statements.



**METROMEDIA INTERNATIONAL GROUP, INC.**
**Consolidated Condensed Balance Sheets**
**(in thousands)**
**(unaudited)**

| | | March 31, 2003 | | December 31, 2002 |
|---|---|---|---|---|
| | | | | (restated) |
| ASSETS: | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 1) | $ | 25,676 | $ | 27,542 |
| Investments | | 2,500 | | 500 |
| Accounts receivable, net | | 7,492 | | 7,798 |
| Inventories | | 2,039 | | 2,413 |
| Prepaid expenses and other assets | | 8,902 | | 9,861 |
| Current assets of discontinued components | | 10,455 | | 10,368 |
| Total current assets | | 57,064 | | 58,482 |
| Investments in and advances to business ventures | | 29,785 | | 38,244 |
| Property, plant and equipment, net | | 85,537 | | 86,006 |
| Goodwill | | 34,733 | | 34,733 |
| Intangible assets, net | | 18,031 | | 19,111 |
| Other assets | | 7,433 | | 4,947 |
| Noncurrent assets of discontinued components | | 14,556 | | 17,436 |
| Business ventures held for sale | | 30,158 | | 31,189 |
| Total assets | $ | 277,297 | $ | 290,148 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY: | | | | |
| Current liabilities: | | | | |
| Accounts payable | $ | 6,269 | $ | 6,969 |
| Accrued expenses | | 43,455 | | 38,538 |
| Current portion of long-term debt | | 1,861 | | 1,797 |
| Current liabilities of discontinued components | | 15,190 | | 17,399 |

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Total current liabilities | 66,775 | 64,703 |
| Long-term debt, less current portion | 213,351 | 213,864 |
| Other long-term liabilities | 3,667 | 2,412 |
| Total liabilities | 283,793 | 280,979 |
| Minority interest (including $866 and $298, related to discontinued components at March 31, 2003 and December 31, 2002) | 31,571 | 31,667 |
| Commitments and contingencies | | |
| Stockholders' deficiency: | | |
| 7 1/4% Cumulative Convertible Preferred Stock | 207,000 | 207,000 |
| Common Stock, $1.00 par value, authorized 400.0 million shares, issued and outstanding 94.0 million shares at March 31, 2003 and December 31, 2002 | 94,035 | 94,035 |
| Paid-in surplus | 1,102,769 | 1,102,769 |
| Accumulated deficit | (1,429,654) | (1,414,354) |
| Accumulated other comprehensive loss | (12,217) | (11,948) |
| Total stockholders' deficiency | (38,067) | (22,498) |
| Total liabilities and stockholders' deficiency | $ 277,297 | $ 290,148 |

See accompanying notes to consolidated condensed financial statements.



**METROMEDIA INTERNATIONAL GROUP, INC.**
**Consolidated Condensed Statements of Cash Flows**
**(in thousands)**
**(unaudited)**

| | Three months ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| Cash used in operating activities | $ (4,694) | $ (3,700) |
| Investing activities: | | |
| Investments in and advances to business ventures | (142) | (206) |
| Distributions from business ventures | 11,968 | 949 |
| Purchase of investments | (2,000) | |
| Additions to property, plant and equipment | (3,061) | (3,295) |
| Other, net | (1,219) | |
| Cash provided by (used in) investing activities | 5,546 | (2,552) |
| Financing activities: | | |
| Payments on notes and debt | (449) | (249) |
| Dividends paid to minority shareholders | (3,233) | |

| | Three months ended March 31, | |
|---|---|---|
| Cash used in financing activities | (3,682) | (249) |
| Cash provided by discontinued components, net | 964 | 84 |
| Net decrease in cash and cash equivalents | (1,866) | (6,417) |
| Cash and cash equivalents at beginning of period | 27,542 | 25,043 |
| Cash and cash equivalents at end of period | $ 25,676 | $ 18,626 |

See accompanying notes to consolidated condensed financial statements.



**METROMEDIA INTERNATIONAL GROUP, INC.**
**Consolidated Condensed Statement of Stockholders' Deficiency and Comprehensive Loss**
**(in thousands)**
**(unaudited)**
**(restated)**

| | 7 1/4% Cumulative Convertible Preferred Stock | | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Paid-in Surplus | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Comprehensive Loss | Total Stockholders' Deficiency |
| Balances at December 31, 2002 | 4,140 | $ 207,000 | 94,035 | $ 94,035 | $ 1,102,769 | $ (1,414,354) | $ (11,948) | | $ (22,498) |
| Net loss | | | | | | (15,300) | | $ (15,300) | (15,300) |
| Other comprehensive income: | | | | | | | | | |
| Foreign currency translation adjustments | | | | | | | (269) | (269) | (269) |
| Total comprehensive loss | | | | | | | | $ (15,569) | |
| Balances at March 31, 2003 | 4,140 | $ 207,000 | 94,035 | $ 94,035 | $ 1,102,769 | $ (1,429,654) | $ (12,217) | | $ (38,067) |

See accompanying notes to consolidated condensed financial statements



**Metromedia International Group, Inc.**

**Notes to Unaudited Consolidated Condensed Financial Statements**

**1. Basis of Presentation, Description of Business, Going Concern and Recent Developments**

*Basis of Presentation*

The accompanying consolidated condensed financial statements include the accounts of Metromedia International Group, Inc. ("MMG" or the "Company") and its direct and indirect wholly-owned subsidiaries, Metromedia International Telecommunications, Inc. and PLD Telekom, Inc. All significant intercompany transactions and accounts have been eliminated. Certain reclassifications have been made to the consolidated financial statements for prior years to conform to the current presentation.

The Company is a holding company with ownership interests in telephony, cable television and radio broadcasting businesses that operate in Russia, Georgia, and other Eastern European countries. The telephony businesses generate 70% of consolidated revenues, while the cable television and radio broadcasting businesses generate 16% and 14%, respectively, of consolidated revenues.

These condensed consolidated financial statements also include the Snapper, Inc. ("Snapper"); ALTEL, CPY Yellow Pages and MetroMedia China ("MCC"), SAC, Radio Katusha and Technocom businesses; which have been presented as discontinued business components (See Note 3 Discontinued Business Components).

The accompanying interim consolidated condensed financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2002. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of March 31, 2003, and the results of its operations and its cash flows for the three-month periods ended March 31, 2003 and 2002, have been included. The results of operations for the interim period are not necessarily indicative of the results which may be realized for the full year.

**Restatement of Prior Financial Information**

The Company determined that the following accounting errors had been made in its past financial statements:

1. The Company has determined that it should have recorded a $2.1 million tax refund that it received on November 10, 2003 from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, in fiscal year 2002. Specifically, the Company has determined that it should have recorded an income tax benefit within the "Income tax expense" line item within its consolidated financial statements in each of the three months ended March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002 of $1.1 million, $0.8 million, $41.0 thousand and $0.2 million, respectively;

2. The Company has determined that it should have recorded a $2.3 million tax refund from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, that the Company had previously recorded within the "Loss



from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002 in an earlier accounting period in 2002. Specifically, the Company has determined that it should have recorded the $2.3 million income tax benefit within the "Income tax expense" line item within its consolidated financial statements for the three months ended March 31, 2002. In connection with this adjustment, the Company reclassified $66.0 thousand of interest from discontinued components to "Interest income" in the three months ended December 31, 2002;

3. The Company has determined that it should have recorded a $0.8 million income tax receivable, related to a refund owed to the Company based on an amended state tax return filed in early January 2003, within the "Loss from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002; and

4. The Company historically accounted for unpaid dividends on its 7 1/4% cumulative convertible preferred stock ("the Preferred Stock") on a simple interest basis; however, according to the Preferred Stock Certificate of Designation, cumulative unpaid dividends are subject to quarterly compounding. The Company has recalculated the cumulative unpaid dividend amount for 2002 and 2003 based on the date of the first unpaid dividend and has increased the quarterly dividend expense amounts in the 2002 and 2003 quarterly periods by $0.2 million, $0.3 million, $0.4 million, $0.4 million and $0.5 million for the three months ended March 31, 2002, June 30, 2002, September 30, 2002, December 31, 2002 and March 31, 2003, respectively. Under-reported dividend expense amounts prior to 2002 were immaterial. With all quarterly compounding corrections applied, as of March 31, 2003 the total dividend in arrears was $32.6 million.

The effects of the tax adjustments resulted in an increase in "Prepaid expenses and other current assets" of $2.1 million; an increase in "Current assets of discontinued components" of $0.8 million; and a reduction of "Accumulated deficit" of $2.9 million at December 31, 2002 and March 31, 2003 and no impact on the condensed statement of cash flows for the three months ended March 31, 2003 and 2002. The adjustment related to the dividends has no impact on the balance sheet or on the statement of cash flows.

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The effects of the adjustments for income statement purposes are summarized in the following financial results tables:

| | March 31, 2003 | | March 31, 2002 | |
|---|---|---|---|---|
| | Three Months Ended | | Three Months Ended | |
| | Originally Reported | Restated | Originally Reported | Restated |
| Revenues | $ 22,715 | $ 22,715 | $ 20,582 | $ 20,582 |
| Operating loss | (8,239) | (8,239) | (9,692) | (9,692) |
| Income tax (expense) benefit | (1,396) | (1,396) | (1,422) | 2,021 |
| Loss from continuing operations | (15,112) | (15,112) | (17,158) | (13,715) |
| Loss from discontinued components | (188) | (188) | (13,587) | (13,587) |
| Cumulative effect of a change in accounting principle | | | (3,157) | (3,157) |
| Net loss | (15,300) | (15,300) | (33,902) | (30,459) |
| Cumulative convertible preferred stock dividend | (3,752) | (4,255) | (3,752) | (3,960) |
| Net loss attributable to common stockholders | $ (19,052) | $ (19,555) | $ (37,654) | $ (34,419) |
| Loss per common share attributable to common stockholders Basic & Diluted: | | | | |
| Continuing operations | $ (0.20) | $ (0.21) | $ (0.23) | $ (0.19) |
| Discontinued components | | | (0.14) | (0.15) |
| Cumulative effect of a change in accounting principle | | | (0.03) | (0.03) |
| Net loss per common share attributable to common stockholders | $ (0.20) | $ (0.21) | $ (0.40) | $ (0.37) |

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*Description of the Business*

The Company invests in communications businesses principally in Eastern Europe and the Commonwealth of Independent States ("CIS"). The Company owns interests in and participates with partners in the management of business ventures that had various operational systems, consisting of cable television systems, wireless telephone systems, fixed and other telephony networks, radio broadcasting stations and other telephony-related businesses. All of the Company's business ventures other than the businesses of PLD Telekom report their financial results on a three-month lag. Therefore, the Company's financial results for March 31 include the financial results for those business ventures for the 3 months ending December 31.

*Going Concern and Recent Developments*

The Company is presently in the process of an overall restructuring in which its interests in cable TV, Radio and certain telephony businesses will be sold and a substantially downsized supervisory staff will manage the remaining business ventures. This restructuring was prompted by and is intended to resolve the severe liquidity issues confronting the Company since the beginning of 2002. This restructuring focuses on "core" telephony business operations that are currently self-financed and hold leading positions in their respective markets. These core operations will be held and developed, with the expectation that their future dividend distributions will be sufficient to meet the Company's debt service and overhead requirements. All other "non-core" operations will be sold; with the intention that sale proceeds will mitigate short-term liquidity concerns and provide capital for further core business development.

Upon completion of the restructuring, the Company intends that its core holdings will consist of PeterStar, Magticom and Baltic Communications Limited ("BCL").

The Company is a holding company; accordingly, it does not generate cash flows from operations. As of March 31, 2003 and June 30, 2003, the Company had approximately $16.7 million and $17.4 million, respectively, of unrestricted cash at its headquarters level. In addition, as of March 31, 2003 and June 30, 2003, the Company had approximately $9.0 million and $2.9 million, respectively, of cash at the Company's consolidated business ventures. Furthermore, as of March 31, 2003 and June 30, 2003, the Company's unconsolidated business ventures had approximately $8.7 million and $2.8 million, respectively, of cash.

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 and debt service obligations on a timely basis and will resolve its remaining liquidity concerns. Opportunities to refinance the Company's Senior Discount Notes are also being pursued, but present Company plans presume the continued service of this debt on current terms. The Company, however, cannot provide assurances that its restructuring efforts will be successful or, if successful, that they will provide for sufficient cash reserves to support long-term sustainable operations. If the Company does not successfully complete its restructuring and does not realize the cash proceeds it anticipated on further sale of its non-core businesses, the Company does not believe that it will be able to pay the approximately $8.0 million interest payment due on March 30, 2004 on its Senior Discount Notes and fund its operating, investing and financing cash flows through July 2004. Assuming no proceeds from further sale of non-core assets, the Company projects that its cash flow



and existing capital resources will permit it to pay the approximately $8.0 million interest payment due on September 30, 2003 on its Senior Discount Notes.

Substantially all present Company headquarters personnel with responsibility for preparation of financial statements and reports have entered into separation agreements terminating their employment as of August 31, 2003. The Company intends to re-engage certain of these persons as part of its continuing long-term work force under new employment agreements. As necessary, it will also seek to extend the effective separation date of other employees to meet short-term demands of the Company's planned restructuring. New employees will be recruited in the US as part of a permanent, post-restructuring financial reporting work force. The Company cannot assure that it will be successful in this force management and recruiting plan. If a sufficient work force is not retained or engaged, the Company could be unable to meet its future statutory financial reporting obligations.

The Company is actively pursuing sale of non-core businesses to raise additional cash and has undertaken to maximize cash distributions from all of its business ventures. The Company believes these measures will succeed in providing sufficient liquidity to meet cash demands for the coming twelve months and beyond. However, the Company cannot assure that it will be successful in selling any of its non-core businesses or that these sales 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 Discount Notes, on its use of any cash proceeds from sale of its assets or those of its business ventures or subsidiaries.

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 US Bankruptcy Code. The Company cannot assure at this time that it will be successful in avoiding such measures. Additionally, the Company has suffered recurring net losses and net operating cash deficiencies.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. These factors 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.

*Delisting Action*

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. As a result, the Company's Common Stock (OTCBB: MTRM) and 7 1/4% Cumulative Convertible Preferred Stock (OTCBB: MTRMP) are now trading on the OTC Bulletin Board.



## 2. Summary of Significant Accounting Policies

### Stock Option Plans

The Company has elected to account for its stock-based compensation in accordance with the provisions of APB No. 25 "Accounting for Stock Issued to Employees" and present pro forma disclosures of results of operations as if the fair value method had been adopted.

| | Three months ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| | (In thousands, except per share data) (restated) | |
| Net loss attributable to common stockholders as reported | $ (19,555) | $ (34,419) |
| Add stock-based employee compensation expense determined under fair value based method | (172) | (209) |
| Pro forma net loss | $ (19,727) | $ (34,628) |
| Net loss per share attributable to common stockholders  Basic and Diluted: | | |
| As reported | $ (0.21) | $ (0.37) |
| Pro forma | $ (0.21) | $ (0.37) |

### Accounting Change

The Company adopted Statement of Financial of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles". Accordingly, the Company recorded a transitional impairment change of $3.2 million as of January 1, 2002.

## 3. Discontinued Business Components

*Adamant Transaction*

On April 24, 2003 the Company completed an exchange with Adamant Advisory Services ("Adamant") of its ownership in certain of its business units in Russia for approximately $58.6 million, face value, of the Company's Senior Discount Notes held by Adamant. The Company conveyed to Adamant its ownership interests in Comstar, a Moscow based fixed-line telephony operator, Kosmos TV, a Moscow based cable television operator, and the Company's Russian radio businesses (the "Radio Businesses"). In addition to conveying the Senior Discount Notes to the Company, Adamant paid $5.0 million in cash and released the Company of its $3.5 million obligation to pay interest accrued on the Senior Discount Notes being exchanged. The consideration was determined by arms length negotiations between the Company and Adamant.

The Company will recognize a total gain of $33.0 million on the transaction in April 2003, which is comprised of a gain of $25.4 million related to the early extinguishment of the exchanged Senior Discount Notes and $7.6 million on the transfer of its interests in the Radio Businesses. The extinguishment gain will be reflected in loss from continuing operations and the gain on sale of business interests will be reflected in discontinued components in the consolidated statement of operations for the three months ended June 30, 2003.



*Snapper*

On November 27, 2002, the Company completed the sale of substantially all the assets and certain liabilities of Snapper to Simplicity Manufacturing. Snapper manufactures premium-priced power lawnmowers, garden tillers, snow throwers and related parts and accessories. The sale, which called for a gross purchase price of $73.3 million, is subject to a dollar for dollar adjustment based on the post closing balance sheet amount by which the net purchased assets at closing is greater or less than the net purchased assets of $76.2 million at December 31, 2001.

Using the audited September 30, 2002 balance sheet of Snapper, the adjusted purchase price was estimated to be $55.8 million. As a result, the Company received net cash proceeds of approximately $15.6 million, after the repayment of the Snapper bank debt facility and the satisfaction of various employee severance obligations. The Snapper bank debt facility had increased approximately $5.4 million from September 30, 2002 to approximately $34.7 million at the date of closing of the sale. In addition, the Company anticipates that the transactional costs will approximate $2.4 million, which is comprised of investment banking, legal and accountant's fees.

The transaction is subject to a post-closing audit process and therefore the financial terms of this transaction are subject to adjustment. The Company anticipates receiving an additional $5.2 to $7.0 million, which will ultimately affect the final loss on disposal.

In accordance with the provisions of SFAS No. 142, the Company completed its evaluation of the fair value of Snapper and determined that as of January 1, 2002, there was a transitional impairment charge required on the Company's recorded goodwill. Accordingly, the Company recorded a $13.6 million transitional charge in 2002. In addition, the Company has recorded an estimated loss on disposal of $10.1 million during the year ended December 31, 2002. Such loss is based on the minimum amount of cash expected once the final terms of the settlement with the buyer are agreed. The $10.1 million estimated loss is comprised of a write down of assets and estimated severance and disposal costs.

*Metromedia China Corporation*

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 might not be able to continue to fund the operations or meet the minimum capital contributions required under the existing charter documents for MCC's operating subsidiaries. Furthermore, 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, with 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. The liquidation of the remaining operating subsidiary is expected to be complete during 2003.



*Other Non Core Asset Sales*

The Company disposed of its ownership interests in ALTEL and CPY Yellow Pages during 2002. Accordingly, such businesses, assets and operations have been presented as discontinued components.

*Technocom Transaction*

On June 25, 2003, the Company sold its wholly-owned subsidiary Technocom Limited ("Technocom") for $4.5 million. Technocom holds interests in several Russian telecommunication enterprises including satellite-based transport operator Teleport-TP. Simultaneous with the sale of Technocom, the Company entered into agreements intended to settle all historical claims concerning Technocom- related businesses;

including claims arising from the litigation in Guernsey that Technocom initiated in 2002 concerning its majority-owned subsidiary Roscomm and from arbitration proceedings initiated in 2003 in connection with that Guernsey litigation. The Company further expects that the broad releases, from and among all potential claimants contained in the settlement agreements will avoid any further dispute in connection with Technocom, its subsidiary businesses, or its past or present stakeholders. The Company received cash proceeds of $4.5 million and incurred closing costs of $0.6 million, principally legal fees and severance costs, resulting in the Company realizing an estimated gain of $2.9 million on the disposition, which will be recorded in the three months ended June 30, 2003.

In light of the above transactions, the Company concluded that the above businesses meet the criteria for classification as a discontinued component as outlined in Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144") and presented the entities as such within its consolidated condensed financial statements.

The operating results of the Snapper business segment are as follows (in thousands):

| | Three months ended March 31, 2002 |
|---|---|
| Revenues | $ 31,539 |
| Operating loss | (318) |
| Cumulative effect of a change in accounting principle | (13,570) |
| Net loss | $ (13,252) |

The combined operating results of the Radio Businesses are as follows (in thousands):

| | Three months ended March 31, | |
|---|---|---|
| | **2003** | **2002** |
| Revenues | **$ 2,846** | $ 2,893 |
| Operating income | **878** | 1,463 |
| Net income | **$ 628** | $ 1,055 |

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The combined operating results of the Telephony and MCC businesses are as follows (in thousands):

| | Three months ended March 31, | |
|---|---|---|
| | **2003** | **2002** |
| Revenues | **$ 258** | $ 10,339 |
| Operating loss | **(235)** | (1,652) |
| Net loss | **$ (385)** | $ (1,278) |

The principal balance sheet items included in Discontinued Business Components are as follows (in thousands):

| | **March 31, 2003** | **December 31, 2002** |
|---|---|---|
| | | **(restated)** |
| Cash and cash equivalents | **$ 3,245** | $ 3,039 |

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Other receivable | **6,049** | 6,049 |
| Other current assets | **1,161** | $ 1,280 |
| Current assets | **$ 10,455** | $ 10,368 |
| | | |
| Property, plant and equipment, net | **$ 5,651** | $ 6,686 |
| Investment in and advances to business ventures | **1,043** | 1,218 |
| Intangible assets, net | **1,864** | 1,951 |
| Other noncurrent assets | **5,998** | 7,581 |
| Noncurrent assets | **$ 14,556** | $ 17,436 |
| | | |
| Current portion of long term debt | **$ 1,711** | $ 1,711 |
| Accrued expenses | **12,454** | 14,281 |
| Accounts payable | **1,025** | 1,407 |
| Current liabilities | **$ 15,190** | $ 17,399 |

**4. Business Ventures Held for Sale**

Included in the Adamant disposal group (See Note 3) were two business ventures (Comstar and Kosmos-TV) that were accounted for on the equity method of accounting. The Company has presented its investments in such ventures as "Business Ventures Held for Sale" in noncurrent assets. Such presentation resulted in a reduction of the Company's "Investments in and advances to Ventures" totaling $30.2 million and $31.2 million at March 31, 2003 and December 31, 2002, respectively.

The results of such ventures are required to be presented in the Statement of Operations of the company as continuing operations and have been included in the "Equity in income (losses) of unconsolidated investees."

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The combined results of such ventures for the three months ended March 31, 2003 and 2002 are summarized as follows:

| | 2003 | 2002 |
|---|---|---|
| Revenues | $ 18,186 | $ 17,886 |
| Operating (loss) income | 792 | (266) |
| Net loss | (887) | (1,015) |
| Equity in losses of unconsolidated investees | (621) | (1,191) |

**5. Investments in and advances to business ventures**

*General*

Advances are made to business ventures and subsidiaries in the form of cash, for working capital purposes, payment of expenses or capital expenditures, or in the form of equipment purchased on behalf of the business ventures. Interest rates charged to the business ventures and subsidiaries range from prime rate to prime rate plus 6%. The credit agreements generally provide for the payment of principal and interest from 90% of the business ventures' and subsidiaries' available cash flow, as defined, prior to any substantial distributions of dividends to the business venture partners. The Company has entered into credit agreements with its business ventures and subsidiaries, of which $24.8 million in funding obligations remain at March 31, 2003. Subsequent to March 31, 2003, through disposals and terminations of agreements, such obligation was reduced to $4.3 million. The Company's funding commitments are contingent on its approval of the respective business ventures' and subsidiaries' business plans. The Company's ability to fund these commitments is dependent on the resolution of its liquidity issues (see Note 1).

*Equity Method Investment Information*

At March 31, 2003 and December 31, 2002, the Company's unconsolidated investments in and advances to business ventures by business line, principally in Eastern Europe and the CIS, at cost, including associated goodwill and net intangible asset balances, and net of adjustments for its equity in earnings or losses, impairment charges and distributions were as follows (in thousands):

| Name | March 31, 2003 | December 31, 2002 | Ownership % |
|---|---|---|---|
| Wireless Telephony | $ 23,467 | $ 30,297 | 35% |
| Cable Television and other Communications Entities | 6,318 | 7,947 | 30-50% |
| Total | $ 29,785 | $ 38,244 | |

Included in Cable Television and other Communications Entities is goodwill totaling $2.8 million as of March 31, 2003 and December 31, 2002.

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Summarized combined financial information of unconsolidated business ventures accounted for under the equity method as of December 31, 2002 and September 30, 2002 are as follows (in thousands):

*Combined Information of Unconsolidated Business Ventures*

**Combined Balance Sheets**

| | December 31, 2002 | September 30, 2002 |
|---|---|---|
| Assets: | | |
| Current assets | $ 6,960 | $ 12,681 |
| Property and equipment, net | 67,745 | 67,320 |
| Other assets | 5,200 | 5,782 |
| Total assets | $ 79,905 | $ 85,783 |
| Liabilities and business ventures' equity: | | |
| Current liabilities | $ 31,744 | $ 32,752 |
| Amount payable under credit facility | 26,004 | 36,877 |
| Other long-term liabilities | 2,575 | 2,587 |
| Total liabilities | 60,323 | 72,216 |
| Business ventures' equity | 19,582 | 13,567 |
| Total liabilities and business ventures' equity | $ 79,905 | $ 85,783 |

The results of operations presented above are before the elimination of intercompany interest. Financial information for business ventures, which are no longer reported since they have been abandoned, are not included in the above summary.

Excluded from the combined balance sheet are Comstar and Kosmos-TV as they are presented as "Business Ventures Held for Sale." Such entities are included in the combined results of operations below. For further information, see Note 4.

The following tables represent summary financial information for the Company's operating unconsolidated business ventures being grouped as indicated as of and for the three months ended

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December 31, 2002 and 2001. The results of operations presented below are before the elimination of intercompany interest (in thousands):

| | Three months ended December 31, 2002 | | | |
|---|---|---|---|---|
| | Fixed Telephony | Wireless Telephony | Cable Television | Total |
| Revenues | $ 21,865 | $ 16,163 | $ 4,761 | $ 42,789 |
| Costs and expenses: | | | | |
| Cost of sales and operating expense | 9,568 | 2,798 | 1,030 | 13,396 |
| Selling, general and administrative | 6,157 | 1,240 | 2,975 | 10,372 |
| Depreciation and amortization | 4,222 | 4,056 | 1,384 | 9,662 |
| Operating income (loss) | 1,918 | 8,069 | (628) | 9,359 |
| Other income (expense) | (1,794) | (1,318) | 359 | (2,753) |
| Interest expense | (279) | (13) | (640) | (932) |
| Net income (loss) | $ (155) | $ 6,738 | $ (909) | $ 5,674 |
| Capital expenditures | $ 1,702 | $ 5,362 | $ 1,039 | $ 8,103 |
| Equity in income (losses) of unconsolidated investees | $ (165) | $ 3,121 | $ (297) | $ 2,659 |

| | Three months ended December 31, 2001 | | | |
|---|---|---|---|---|
| | Fixed Telephony | Wireless Telephony | Cable Television | Total |
| Revenues | $ 21,093 | $ 13,202 | $ 6,363 | $ 40,658 |
| Costs and expenses: | | | | |
| Cost of services and operating expense | 10,932 | 1,927 | 1,327 | 14,186 |
| Selling, general and administrative | 5,371 | 2,406 | 3,301 | 11,078 |
| Depreciation and amortization | 5,612 | 3,749 | 1,880 | 11,241 |
| Operating income (loss) | (822) | 5,120 | (145) | 4,153 |
| Other income (expense) | (179) | 334 | (543) | (388) |
| Interest expense | (430) | (422) | (779) | (1,631) |
| Net income (loss) | $ (1,431) | $ 5,032 | $ (1,467) | $ 2,134 |
| Capital expenditures | $ 1,502 | $ 2,392 | $ 1,683 | $ 5,577 |
| Equity in income (losses) of unconsolidated investees | $ (1,233) | $ 2,337 | $ (582) | $ 522 |

**6. Long-term Debt**

*10 1/2% Senior Discount Notes*

In connection with the acquisition of PLD Telekom, the Company issued $210.6 million in aggregate principal amount at maturity of $10^1/_2$% senior discount notes due 2007 (the "Senior Discount Notes") to the holders of certain PLD notes.



The terms of the Senior Discount Notes are set forth in an Indenture, dated as of September 30, 1999, between the Company and U.S. Bank Trust National Association as trustee. The Senior Discount Notes will mature on September 30, 2007. The Senior Discount Notes were issued at a discount to their aggregate principal amount at maturity and accreted in value until March 30, 2002 at the rate of $10^1/_2$% per year, compounded semi-annually to an aggregate principal amount at maturity of $210.6 million. Holders of the Senior Discount Notes are due interest in cash at the rate of $10^1/_2$% per year, payable semi-annually.

The indenture for the Senior Discount Notes 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, or repurchase or redeem their capital stock or subordinated obligations, invest in and sell assets and subsidiary stock, engage in transactions with affiliates or incur additional liens. The Indenture for the Senior Discount Notes also limits the ability of the Company to engage in consolidations, mergers and transfers of substantially all of its assets and contains limitations and restrictions on distributions from its subsidiaries.

On April 24, 2003, the Company completed an exchange with Adamant of its ownership interest in certain of its business units in Russia for approximately $58.6 million, face value of the Senior Discount Notes held by Adamant, $5.0 million in cash and a release of its $3.5 million obligation to pay interest accrued on the Senior Discount Notes being exchanged. For additional detail, see Note 12, "Subsequent Events."

For disclosure on debt compliance issues subsequent to March 31, 2003, see Note 12, "Subsequent Events."

**7. Stockholders' Equity**

*Preferred Stock*

There are 70.0 million shares of preferred stock authorized of $7^1/_4$% cumulative convertible preferred stock with a liquidation preference of $50.00 per share, of which 4.1 million shares were outstanding as of March 31, 2003 and December 31, 2002.

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) issuance of the Company's common stock or (iii) through a combination thereof. The dividend requirements for the twelve months ending March 31, 2004 will be $17.8 million, including the effects of compounding and assuming there are no payments of the dividends.

Through March 15, 2001, the Company paid its quarterly dividends in cash. The Company elected to not declare a dividend for any quarterly dividend periods ending after March 15, 2001. As of March 31, 2003, total dividends in arrears are $32.6 million.

**8. Earnings Per Share of Common Stock**

Basic earnings per share excludes all dilutive securities. It is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if securities exercisable for or convertible into common stock were



exercised or converted into common stock. In calculating diluted earnings per share, no potential shares of common stock are to be included in the computation when a loss from continuing operations attributable to common stockholders exists. For the three months ended March 31, 2003 and 2002, the Company had losses from continuing operations.

At March 31, 2003 and 2002, the Company had potentially dilutive shares of common stock of 22.6 million and 24.8 million, respectively.

**9. Business Segment Data**

The Company provides the following services: (i) fixed telephony; (ii) wireless telephony; (iii) cable television and (iv) radio broadcasting.

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.

The Company's segment information is set forth as of and for the three months ended March 31, 2003, and 2002 in the following tables (in thousands):

| | Three months ended March 31, 2003 | | | | | |
|---|---|---|---|---|---|---|
| | Fixed Telephony | Wireless Telephony | Cable Television | Radio Broadcasting | Corporate, Other and Eliminations | Consolidated |
| ***Consolidated*** | | | | | | |
| Revenues | $ 15,950 | $ | $ 3,603 | $ 3,127 | $ 35 | $ 22,715 |
| Cost of services | 4,962 | | 723 | | | 5,685 |
| Selling, general and administrative | 3,661 | | 1,580 | 3,565 | 10,270 | 19,076 |
| Depreciation and amortization | 3,242 | | 820 | 404 | 1,727 | 6,193 |
| Operating income (loss) | $ 4,085 | $ | $ 480 | $ (842) | (11,962) | (8,239) |
| Equity in income (losses) of unconsolidated investees (1) | $ (165) | $ 3,121 | $ (297) | $ | $ | $ 2,659 |



| | Three months ended March 31, 2002 | | | | | |
|---|---|---|---|---|---|---|
| | Fixed Telephony | Wireless Telephony | Cable Television | Radio Broadcasting | Corporate, Other and Eliminations | Consolidated |
| ***Consolidated*** | | | | | | |
| Revenues | $ 14,520 | $ | $ 3,412 | $ 2,452 | $ 198 | $ 20,582 |
| Cost of services | 4,531 | | 696 | | 59 | 5,286 |
| Selling, general and administrative | 3,881 | | 1,951 | 3,304 | 8,840 | 17,976 |
| Depreciation and amortization | 3,146 | | 954 | 276 | 2,636 | 7,012 |
| Operating income (loss) | $ 2,962 | $ | $ (189) | $ (1,128) | $ (11,337) | $ (9,692) |
| Equity in income (losses) of unconsolidated investees(1) | $ (1,233) | $ 2,337 | $ (582) | $ | $ | $ 522 |

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

Information about the Company's operations of continuing businesses in different geographic locations is as follows (in thousands):

| | Revenues | Assets | |
|---|---|---|---|
| Country/Region | For the three months ended March 31 | March 31, 2003 | December 31, 2002 |

| | Revenues | | Assets | |
|---|---|---|---|---|
| | 2003 | 2002 | | |
| CIS | | | | |
| Russia | $ 16,329 | $ 14,947 | $ 138,806 | $ 140,669 |
| Georgia | 662 | 551 | 24,428 | 31,532 |
| All other CIS | 535 | 569 | 2,134 | 2,336 |
| Eastern Europe | | | | |
| Romania | 1,631 | 1,601 | 9,998 | 9,961 |
| Hungary | 1,414 | 1,296 | 6,005 | 5,671 |
| All other Eastern Europe | 1,867 | 1,353 | 4,998 | 5,812 |
| Other | 277 | 265 | 1,642 | 1,785 |
| | $ 22,715 | $ 20,582 | $ 188,011 | $ 197,766 |

The Company's investments in and advances to business ventures and goodwill include amounts maintained at the corporate headquarters in the United States. Such amounts are relative to the Company's operations in Russia and Eastern Europe.

**10. Other Consolidated Condensed Financial Statement Information**

*Accounts Receivable*

The total allowance for doubtful accounts at March 31, 2003 and December 31, 2002 was $2.8 million and $3.4 million, respectively.

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*Interest Expense*

Interest expense includes accretion of debt discount $5.3 million for the three months ended March 31, 2002.

*Intangible Assets*

Intangible assets at March 31, 2003 and December 31, 2002 consist of the following (in thousands):

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Licenses | $ 42,169 | $ (26,618) | $ 41,572 | $ (24,541) |
| Broadcast rights and other intangibles | 6,680 | (4,200) | 6,087 | (4,007) |
| | $ 48,849 | $ (30,818) | $ 47,659 | $ (28,548) |

**11. Commitments and Contingencies**

*Guarantees and Commitments*

The Company and certain of its subsidiaries and business ventures are contingently liable for debts and other obligations to third parties and non wholly-owned business ventures which they have guaranteed. These contingent liabilities at March 31, 2003 are summarized as follows (in thousands):

| | |
|---|---|
| Benefit Plans | $ 9,200 |
| Loan guarantee (1) | 1,400 |
| | $ 10,600 |

(1) The Company has $1.4 million for its obligations under the loan guarantee.

***Benefit Plans.*** The Company maintains certain benefit plans for former employees of the Company and its subsidiaries. During 2002, actual asset returns for the Company's plans were adversely affected by continued deterioration in the equity markets. For the year ended December 31, 2002, the asset returns on the plans were negative. During the same time, corporate bond yields, which are used in determining the discount rate for future pension obligations, continued to decline. The negative asset returns and declining discount rates unfavorably affected the Company's year end funded status. However, additional contributions, which are expected to be $0.6 million in 2003, will favorably impact the pension funded status. As of March 31, 2003, future benefit obligations of these plans exceeded the fair value of plan assets by $9.2 million.

***Tyumenruskom.*** As part of its investment in Tyumenruskom, the Company agreed to provide a guarantee of payment of $6.1 million to Ericsson Radio Systems, A.B. for equipment financing provided by Ericsson to Tyumenruskom. In 1999, the Company reserved $4.3 million for its contingent obligations under this guarantee. At March 31, 2003, there was $1.4 million outstanding under this financing arrangement.



**Contingencies**

*Risks Associated with the Company's Investments*

The ability of the Company and its business ventures and subsidiaries to establish and maintain profitable operations is subject to, among other things, significant political, economic and social risks inherent in doing business in emerging markets such as Eastern Europe and CIS. These include matters arising out of government policies, economic conditions, imposition of or changes in government regulations or policies, imposition of or changes to taxes or other similar charges by government bodies, exchange rate fluctuations and controls, civil disturbances, deprivation or unenforceability of contractual rights, and taking of property without fair compensation.

*Escrowed Severance*

As a condition of the settlement for the disposal of Snapper's assets and the termination of its employees, the Company was required to escrow monies owed to former employees under severance arrangements. Such amounts outstanding totaled $1.7 million and $2.3 million as of March 31, 2003 and December 31, 2002, respectively.

*Employee Matters*

Under the terms of the key employee retention program, the Company agreed to pay incremental termination benefits to employees in exchange for their agreement to remain employed through a specified termination date. Generally, the Company paid a portion of the termination benefits upon reaching agreement with the affected employees with the remainder due within 30 days of separation, which is at various dates through August 31, 2003. Following is a summary of the total termination benefits expected to be incurred and amounts incurred in the quarter ended March 31, 2003 (in thousands):

| | Total Expected to be incurred | Amount incurred in quarter ended March 31, 2003 | Amount paid in quarter ended March 31, 2003 | Accrued (prepaid) at March 31, 2003 |
|---|---|---|---|---|
| Continuing Businesses | $ 1,747 | $ | $ | $ |
| Corporate | 1,019 | 325 | 325 | |

| | Total Expected to be incurred | Amount incurred in quarter ended March 31, 2003 | Amount paid in quarter ended March 31, 2003 | Accrued (prepaid) at March 31, 2003 |
|---|---|---|---|---|
| Discontinued Components | $ 485 | $ | $ | $ |
| Total | $ 3,251 | $ 325 | $ 325 | $ |

*Litigation*

The Company is involved in various legal and regulatory proceedings. While the results of any litigation or regulatory issue contain an element of uncertainty, management believes that the outcome of any known, pending or threatened legal proceedings, including those noted in the preceding paragraph, will not have a material effect on the Company's consolidated financial position and results of operations.

*Report to the Pension Benefit Guaranty Corporation*

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) a that the Company believes that there are no further corrective actions required with respect to either plan. The PBGC has not responded to our June 2003 notification but it might seek late reporting penalties and/or other corrective actions, the cost of which could be material to the Company and/or its subsidiary.

**12. Related Party Transactions**

The Company entered into a Consulting Services Agreement with Metromedia Company for the provision by Metromedia Company to the Company of certain consulting services on an hourly basis as requested by the Company. The services provided by Metromedia Company pursuant to the agreement have been provided as requested by us and have been invoiced to us at agreed-upon hourly rates. There is no minimum required level of services. We are also obligated to reimburse Metromedia Company for all of its out-of-pocket costs and expenses incurred and advances paid by Metromedia Company in connection with the agreement.

Fees charged by Metromedia Company under these agreements amounted to $0.1 million and $0.5 million for the three months ended March 31, 2003 and 2002, respectively.

**13. Subsequent Events**

*Adamant Transaction*

On April 24, 2003 the Company completed an exchange with Adamant of its ownership in certain of its business units in Russia for approximately $58.6 million, face value, of the Company's Senior Discount Notes held by Adamant. The Company conveyed to Adamant its ownership interests in Comstar, a Moscow based fixed-line telephony operator, Kosmos TV, a Moscow based cable television operator, and the Company's Russian radio businesses (the "Radio Businesses"). In addition to conveying the Senior Discount Notes to the Company, Adamant paid $5.0 million in cash and released the Company of its $3.5 million obligation to pay interest accrued on the Senior Discount Notes being exchanged. The consideration was determined by arms length negotiations between the Company and Adamant. The Company will recognize a total gain of $33.0 million on the transaction in April 2003, which is comprised of a gain of $25.4 million related to the early extinguishment of the exchanged Senior Discount Notes and $7.6 million on the transfer of its interests in the Radio Businesses. The gain will be reflected in loss from continuing operations on the consolidated statement of operations in the three months ended June 30, 2003. In addition, in the year ended December 31, 2002, the Company recorded an impairment charge of $1.1 million to reflect Comstar and Kosmos TV, unconsolidated investees of the Company, at their respective fair values. This charge was reflected in the equity in losses and write-down of investment in unconsolidated investees in the accompanying consolidated statement of operations.

*10 1/2% Senior Discount Note Compliance*

On May 16, 2003, the Company received notification from the trustee of its Series A and B 10 1/2% Senior Discount Notes Due 2007 ("Senior Notes") concerning compliance with the covenants as outlined in the indenture governing the Senior Notes (the "Indenture"). The trustee reported that the

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Company had not yet filed with the Securities and Exchange Commission and furnished to the trustee certain statements, the timely public filing of which is required under Section 4.3(a) of the Indenture. The required statements include the Company's Form 10-K and Form 10-Q for periods ending December 31, 2002 and March 31, 2003, respectively. The trustee reported that, under the terms of the Indenture, the Company must resolve this compliance item within 60 days of receipt of the trustee's letter or the trustee will be required to declare an event of default. If such default were declared, the trustee or holders of at least 25% aggregate principal value of Senior Notes outstanding could demand all Senior Notes to be due and payable immediately. As part of his annual reporting duties under Section 7.6 of the Indenture, the trustee reported these compliance issues to the SEC and the holders of the Senior Notes on May 15, 2003. Concurrent with the filing of this Form 10-Q, the Company is in compliance with these covenants.

*Technocom Disposal*

On June 25, 2003, the Company sold its wholly-owned subsidiary Technocom Limited ("Technocom") for $4.5 million. Technocom holds interests in several Russian telecommunication enterprises including satellite-based transport operator Teleport-TP. Simultaneous with the sale of Technocom, the Company entered into agreements intended to settle all historical claims concerning Technocom-related businesses; including claims arising from the litigation in Guernsey that Technocom initiated in 2002 concerning its majority-owned subsidiary Roscomm and from arbitration proceedings initiated in 2003 in connection with that Guernsey litigation. The Company further expects that the broad releases, from and among all potential claimants contained in the settlement agreements will avoid any further dispute in connection with Technocom, its subsidiary businesses, or its past or present stakeholders. The Company received cash proceeds of $4.5 million and incurred closing costs of $0.6 million, principally legal fees and severance costs, resulting in the Company realizing an estimated gain of $2.9 million on the disposition, which will be recorded in the three months ended June 30, 2003.

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**Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations**

***Certain statements set forth below in this Form 10-Q/A 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 46.***

**Liquidity and Capital Resources**

**The Company**

***Overview.*** The Company is a holding company; accordingly, it does not generate cash flows from operations. As a result, the Company is dependent on repayments of principal and interest under its credit agreements with its business ventures and subsidiaries and on payment of fees for services provided by the Company to certain of its business ventures, as well as on the earnings of its subsidiaries and equity investees and the distribution or other payment of these earnings to it to meet its obligations, including making distributions to its stockholders. 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. Furthermore, due to legal and contractual restrictions, a substantial portion of the cash balances in certain of the Company's business ventures and subsidiaries cannot be readily accessed, if at all, for the Company's liquidity requirements.

**Liquidity Issues**

As of March 31, 2003 and June 30, 2003, the Company had approximately $16.7 million and $17.4 million, respectively, of unrestricted cash at its headquarters level. In addition, as of March 31, 2003 and June 30, 2003, the Company had approximately $9.0 million and $2.9 million, respectively, of cash at the Company's consolidated business ventures. Furthermore, as of March 31, 2003 and June 30, 2003, the

Company's unconsolidated business ventures had approximately $8.7 million and $2.8 million, respectively, of cash.

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 and debt service obligations on a timely basis. Opportunities to refinance the Company's $10^1/_2$% Senior Discount Notes due 2007 with a current outstanding principal balance (fully accreted) of $152.0 million (the "Senior Discount Notes") are also being pursued, but present Company plans presume the continued service of this debt on current terms. The Company, however, cannot provide assurances that its restructuring efforts will be successful or, if successful, that they will provide for sufficient cash reserves to support long-term sustainable operations.

If the Company does not successfully complete its restructuring and does not realize the cash proceeds it anticipates on further sale of its non-core businesses, the Company does not believe that it will be able to pay the approximately $8.0 million interest payment due on March 30, 2004 on its Senior Discount Notes and fund its operating, investing and financing cash flows through July 2004. Assuming no proceeds from further sale of non-core assets, the Company projects that its cash flow and existing capital resources will permit it to pay the approximately $8.0 million interest payment due on September 30, 2003 on its Senior Discount Notes.

The outstanding principal on the Senior Discount 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 Discount Notes would represent a default under the Senior Discount Notes. A default, if not waived, could result in acceleration of the Company's indebtedness, in which case the full amount of the Senior Discount Notes would become immediately due and payable. If this occurs, the Company would not be able to repay the Senior Discount Notes and would likely not be able to borrow sufficient funds to refinance them.

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The Company is actively pursuing sale of non-core businesses to raise additional cash and has undertaken to maximize cash distributions from all of its business ventures. The Company believes these measures will succeed in providing sufficient liquidity to meet cash demands for the coming twelve months and beyond. However, the Company cannot assure you that it will be successful in selling any of its non-core businesses or that these sales 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 Discount Notes, on its use of any cash proceeds from sale of its assets or those of its business ventures or subsidiaries.

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 you at this time that it will be successful in avoiding such measures. Additionally, the Company has suffered recurring net losses and net operating cash deficiencies.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The aforementioned factors, however, 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.

During 2003, the Company engaged in discussions with representatives of holders of a substantial portion of its $152.0 million outstanding Senior Discount Notes concerning restructuring of this debt. To date, no restructuring has been agreed upon and further restructuring discussions with these substantial Senior Discount Note holders have been suspended. The Company's present plans anticipate continued servicing of the Senior Discount Notes on current terms. The Company continues to pursue opportunities for refinancing its debt on favorable terms; however, no assurance can be given as to the Company's ability to consummate a refinancing transaction.

**Senior Discount Notes**

In connection with the acquisition of PLD Telekom, the Company issued $210.6 million in aggregate principal amount at maturity of its $10^1/_2$% Senior Discount Notes due 2007 (the "Senior Discount Notes") in exchange for PLD Telekom's then outstanding senior discount notes and convertible subordinated notes. The Senior Discount Notes did not accrue cash interest before March 30, 2002. As of April 1, 2002, holders of the Senior Discount Notes are due interest at the rate of $10^1/_2$% per year, payable semi-annually in cash. The Company is attempting to restructure its obligations relating to the Senior Discount Notes. The Senior Discount 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 Discount Notes are redeemable at the sole option of the Company only 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 Discount Notes (the "Indenture")), the holders of the Senior Discount Notes will be entitled to require the Company to repurchase such holders' 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 for the Senior Discount Notes 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 for the Senior Discount Notes also limits the ability of the Company to engage in consolidations, mergers and transfers of substantially all of its assets and also contains limitations on restrictions on distributions from its subsidiaries.



**Convertible Preferred Stock**

The Company completed a public offering of 4.1 million shares of $1.00 par value, 7 1/4% cumulative convertible preferred stock in 1997, generating net proceeds of approximately $199.4 million.

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 March 31, 2004 will be $17.8 million, including the effects of compounding and assuming there are no payments of the dividends.

Through March 15, 2001, the Company paid its quarterly dividends on the preferred stock in cash. The Company has not declared a dividend for any quarterly dividend period ending after June 15, 2001. As of March 31, 2003, total dividends in arrears were $32.6 million. Holders of the preferred stock have the right to call a stockholders meeting and to elect two new directors to the Company's Board of Directors.

**Business Venture Support and Corporate Overhead Costs**

In 2002 and 2001, the Company expended $31.2 million, and $34.0 million, respectively on support of its subsidiary business ventures and headquarter overheads. The Company provides business development, engineering, marketing and financial reporting services to its operating units through its wholly-owned subsidiary Metromedia International Telecommunications, Inc. (MITI). 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 general and administrative costs associated (insurance and regulatory compliance costs).

The Company currently anticipates that its 2003 business venture support and corporate overhead costs will range from approximately $30.0 million to $35.0 million. A substantial portion of these costs were expended in fees for financial and legal advice, cost of severance, marketing of non-core assets and other similar expenditures with respect to the Company's restructuring. As of June 30, 2003, the Company's year-to-date business venture support and corporate overhead costs were $21.0 million, of which $20.0 million was paid in cash.

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.

**Guarantees and Commitments**

The Company and certain of its subsidiaries and business ventures are contingently liable for debts and other obligations to third parties and non wholly-owned business ventures which they have guaranteed. These contingent liabilities at March 31, 2003 are summarized as follows (in thousands):

| | |
|---|---|
| Benefit Plans | $ 9,200 |
| Loan guarantee | 1,400 |
| | $ 10,600 |

For further information regarding the nature of these contingent liabilities, see Note 10 to the Company's unaudited consolidated condensed financial statements contained herein.

**Discussion of Changes in Financial Position**

***Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002***

*Cash Flows from Operating Activities*

Cash used in operating activities for the quarter ended March 31, 2003 was $4.7 million, an increase in cash used in operating activities of $1.0 million from the same period in the prior year. Non-cash items decreased in the quarter ended March 31, 2003 compared to the quarter ended March 31, 2002, principally as a result of an increase in equity in income from investments in business ventures ($2.2 million), a decrease in accretion of debt discount ($5.3 million) and a decrease of cumulative effect of accounting principle ($3.2 million).

Changes in operating assets and liabilities for the quarter ended March 31, 2003 resulted in cash inflows of $4.1 million, principally as a result of an increase of $4.2 million in accounts payable and accrued expenses. Changes in operating assets and liabilities for the quarter ended March 31, 2002 resulted in cash inflows of $0.5 million, as a result of an increase of $3.2 million in offset by decreases in other assets and liabilities ($1.4 million), accounts receivable ($0.9 million) and accounts payable ($0.5 million).

*Cash Flows from Investing Activities*

Cash provided in investing activities for the quarter ended March 31, 2003 amounted to $5.6 million as compared to $2.6 million cash used in investing activities for the quarter ended March 31, 2002. This improvement is principally due to an increase of distributions from business ventures from $0.9 million in 2002 to $12.0 million in 2003, reflecting the Company's strategy of increasing distributions. The increase was offset by an increase in cash used for other investing activities in 2003 totaling $3.2 million to purchase short term investments at PeterStar ($2.0 million) and a purchase of broadcasting rights at PeterStar ($1.2 million).

*Cash Flows from Financing Activities*

Cash used by financing activities was $3.7 million for the quarter ended March 31, 2003 as compared to $0.2 million for the same period in the prior year. The increase in use of cash in 2003 was primarily due to the increase in dividends paid to minority shareholders.

**Results of Operations**

*Overview*

The Company has operations in Eastern Europe and the Commonwealth of Independent States ("CIS"). The Company provides the following services: (i) fixed telephony; (ii) wireless telephony; (iii) cable television and (iv) radio broadcasting.

The Company is presently in the process of an overall restructuring in which its interests in cable TV, Radio and certain telephony businesses will be sold and a substantially downsized supervisory staff will manage the remaining business ventures. This restructuring was prompted by and is intended to resolve the severe liquidity issues confronting the Company at the beginning of 2002. This restructuring focuses on "core" telephony business operations that are currently self-financed and hold leading positions in their respective markets. These core operations will be held and developed, with the expectation that their future dividend distributions will be sufficient to meet the Company's debt service and overhead requirements. All other "non-core" operations will be sold; with the intention that sale proceeds will mitigate short-term liquidity concerns and provide capital for further core business development.

Upon completion of the restructuring, the Company intends that its core holdings will consist of PeterStar, Magticom and Baltic Communications Limited ("BCL").

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**Segment Information**

The following tables set forth operating results for the three months ended March 31, 2003 and 2002, for the Company's business segments.

**Segment Information**
**Three months ended March 31, 2003**
**(in thousands)**

| | Fixed Telephony | Wireless Telephony | Cable Television | Radio Broadcasting | Corporate, Other and Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| *Consolidated* | | | | | | |
| Revenues | $ 15,950 | $ | $ 3,603 | $ 3,127 | $ 35 | $ 22,715 |
| Cost of services | 4,962 | | 723 | | | 5,685 |
| Selling, general and administrative | 3,661 | | 1,580 | 3,565 | 10,270 | 19,076 |
| Depreciation and amortization | 3,242 | | 820 | 404 | 1,727 | 6,193 |
| Operating income (loss) | $ 4,085 | $ | $ 480 | $ (842) | $ (11,962) | (8,239) |
| *Unconsolidated Business Ventures* | | | | | | |
| Revenues | $ 21,865 | $ 16,163 | $ 4,761 | | | |
| Cost of services | 9,568 | 2,798 | 1,030 | | | |
| Selling, general and administrative | 6,157 | 1,240 | 1,240 | | | |
| Depreciation and amortization | 4,222 | 4,056 | 1,384 | | | |
| Asset impairment charge | | | | | | |
| Operating income (loss) | $ 1,918 | $ 8,069 | $ (628) | | | |
| Net income (loss) | $ (155) | $ 6,738 | $ (909) | | | |
| Equity in income (losses) of unconsolidated investees (Note 1) | $ (165) | $ 3,121 | $ (297) | | | 2,659 |
| Foreign currency gain | | | | | | 489 |
| Minority interest | | | | | | (2,569) |
| Interest expense | | | | | | (5,682) |
| Interest income | | | | | | 169 |
| Other expense | | | | | | (543) |
| Income tax expense | | | | | | (1,396) |
| Loss from continuing operations before discontinued components and cumulative effect of a change in accounting principle | | | | | | $ (15,112) |

Note

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



**Segment Information**
**Three months ended March 31, 2002**
**(in thousands)**

**(restated)**

| | Fixed Telephony | Wireless Telephony | Cable Television | Radio Broadcasting | Corporate, Other and Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| ***Consolidated*** | | | | | | |
| Revenues | $ 14,520 | $ | $ 3,412 | $ 2,452 | $ 198 | $ 20,582 |
| Cost of services | 4,531 | | 696 | | 59 | 5,286 |
| Selling, general and administrative | 3,881 | | 1,951 | 3,304 | 8,840 | 17,976 |
| Depreciation and amortization | 3,146 | | 954 | 276 | 2,636 | 7,012 |
| Operating income (loss) | $ 2,962 | $ | $ (189) | $ (1,128) | $ (11,337) | (9,692) |
| ***Unconsolidated Business Ventures*** | | | | | | |
| Revenues | $ 21,093 | $ 13,202 | $ 6,363 | | | |
| Cost of services | 10,932 | 1,927 | 1,327 | | | |
| Selling, general and administrative | 5,371 | 2,406 | 3,301 | | | |
| Depreciation and amortization | 5,612 | 3,749 | 1,880 | | | |
| Operating income (loss) | $ (822) | $ 5,120 | $ (145) | | | |
| Net income (loss) | $ (1,431) | $ 5,032 | $ (1,467) | | | |
| Equity in income (losses) of unconsolidated investees (Note 1) | $ (1,233) | $ 2,337 | $ (582) | | | 522 |
| Foreign currency loss | | | | | | (329) |
| Minority interest | | | | | | (1,237) |
| Interest expense | | | | | | (5,912) |
| Interest income | | | | | | 331 |
| Other income | | | | | | 581 |
| Income tax benefit | | | | | | 2,021 |
| Loss from continuing operations before discontinued components and cumulative effect of a change in accounting principle | | | | | | $ (13,715) |

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

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**CONSOLIDATED RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2003 COMPARED TO THE CONSOLIDATED RESULTS OF OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2002**

**Fixed Telephony**

*Revenues.* Fixed telephony revenues increased by $1.5 million (10%) to $16.0 million for the three months ended March 31, 2003 as compared to $14.5 million for the three months ended March 31, 2002. This revenue growth was attributable to an increase at PeterStar partially offset by a decrease at BCL.

Revenues at PeterStar increased by $1.8 million (14%) to $14.4 million for the three months ended March 31, 2003 as compared to $12.6 million for the three months ended March 31, 2002. This growth in revenues is driven by a $1.4 million increase in data and internet services and a $0.3 million growth in long distance revenues. Revenues at Baltic Communications Ltd. ("BCL") decreased by $0.3 million (16%) to $1.6 million for the three months ended March 31, 2003 as compared to $1.9 million for the three months ended March 31, 2002. This decrease was the result of a $0.6 million (36%) drop in call revenue due to the loss of a major customer. This decrease was partially offset by increased revenue from data services.

*Gross margin.* Fixed telephony gross margin increased by $1.0 million (10%) to $11.0 million for the three months ended March 31, 2003 as compared to $10.0 million for the three months ended March 31, 2002.

PeterStar's gross margin increased $0.8 million (9%) to $10.0 million for the three months ended March 31, 2003 as compared to $9.2 million for the three months ended March 31, 2002. The decrease in the gross margin percentage is primarily due to lower margins on long distance traffic. Even though long distance traffic is growing the margins are contracting due to competition in this product line. Interconnection costs also increased in the quarter.

BCL's gross margin increased $0.2 million (17%) to $1.0 million for the three months ended March 31, 2003 compared to $0.8 million for the three months ended March 31, 2002. This increase in gross margin on both on an absolute dollar basis and on a percentage of sales is the result of the change in product mix. Low margin transit traffic was replaced by high margin data revenues

*Selling, general and administrative.* Fixed telephony selling, general and administrative expenses decreased by $0.2 million, or 6%, to $3.7 million for the three months ended March 31, 2003 as compared to $3.9 million for the three months ended March 31, 2002.

PeterStar's selling, general and administrative expenses decreased $0.2 million (7%) to $3.1 million for the three months ended March 31, 2003 as compared to $3.3 million for the three months ended March 31, 2002. Management fee expenses decreased by $0.3 million offsetting an overall increase in other expenses of $0.1 million. BCL's SG&A was flat at $0.6 million for the three months ended March 31, 2003 compared to the three months ended March 31, 2002.

*Depreciation and amortization.* Fixed telephony depreciation and amortization expense increased by $0.1 million (3%) to $3.2 million for the three months ended March 31, 2003 as compared to $3.1 million for the three months ended March 31, 2002.

PeterStar's depreciation and amortization increased $0.2 million (6%) to $3.1 million for the three months ended March 31, 2003 compared to $2.9 million for the three months ended March 31, 2002. Increased expenditures on expanding and upgrading of the network infrastructure accounted for the increase.

BCL's depreciation and amortization decreased $0.1 million (41%) to $0.1 million for the three months ended March 31, 2003 as compared to $0.2 million for the three months ended March 31, 2002.



**Cable Television**

*Revenues.* Cable television revenues increased by $0.2 million to $3.6 million for the quarter ended March 31, 2003 as compared to $3.4 million for the quarter ended March 31, 2002. This growth in revenues is due principally to the Company's Ayety ($0.1million) and Viginta ($0.1 million) Cable TV businesses. The growth in Ayety revenues was caused by an increase in subscribers which rose from to 36 thousand at the end of the first quarter of 2002 to 41 thousand at the end of the first quarter of 2003. The growth in Viginta revenues largely represents an increase in advertising revenues for the sale of airtime on the station owned by Viginta.

*Cost of services.* Cable television cost of services remained constant at $0.7 million for the quarter ended March 31, 2003 as compared to the quarter ended March 31, 2002. Although there is no overall movement the results include an increase in cost of services in Romsat TV offset by a similar decrease of $0.1 million in Sun TV. The increase in cost of service at Romsat is the result of the settlement, in excess of the accrual on Romsat's books, of a dispute with a programmer over content costs, while that in Sun TV reflects the fact that Sun TV re-structured its programming tiers at the end of the second quarter of 2002, reducing the non Russian and Moldovan foreign language content of the cable product offerings thereby reducing expenditures to third parties for the delivery of this content.

*Selling, general and administrative.* Cable television selling, general and administrative expenses decreased by $0.4 million in 2003 as compared to 2002. Reductions were achieved in most business ventures and in particular Romsat ($0.2million) and Vilsat ($0.1million). The reductions reflect the increasing emphasis on efficiency introduced in April 2002 with the appointment of a new management team to run the Cable Group.

*Depreciation and amortization.* Cable television depreciation and amortization expense decreased by $0.1 million to $0.8 million for the quarter ended March 31, 2003 as compared to $0.9 million for the quarter ended March 31, 2002. The movements represents the result of a decrease of $0.2 million relating to Ayety, Romsat and Viginta offset by an increase of $0.1 million relating to ATK and Sun. The decrease in Ayety, Romsat, and Viginta in depreciation and amortization reflects that their networks were developed earlier and as a result a number of fixed assets have become fully depreciated. The increase in depreciation and amortization at ATK and Sun TV reflects the fact that the Cable Group has continued to invest in the upgrade of the Sun and ATK networks to be 860 Mhz capable throughout the period under review, increasing channel capacity and the ability to introduce premium tiered product, as well as supporting the planned development of broadband internet services.

**Radio Broadcasting**

*Revenues.* Radio operations generated consolidated revenues of $3.1 million for the quarter ended March 31, 2003, an increase of $0.7 million, or 27.6%, over the quarter ended March 31, 2002. A total of $0.4 million of the revenue increase was due to local currency appreciation to the US dollar, principally in Hungary, the Czech Republic and Estonia. On a comparable currency basis an increase of $0.3 million, or 12%, was achieved over the prior year period. This increase in revenues was due principally to increases in revenue at Metromedia Finland, Metroradio Bulgaria, Country Radio (Czech Republic) and Trio Group (Estonia), offset by a decrease at Juventus.

On a comparable currency basis, revenues in Metromedia Finland, which operates two semi-national radio broadcasting networks in Finland, increased by $0.1 million as a consequence of the growth of a newly launched (March 2001) radio station with steady audience ratings and a growing acceptance by advertisers as an effective advertising medium.

Metroradio Bulgaria, which operates a country-wide radio broadcasting network in Bulgaria, also benefited from post start-up growth (launched March 2001), coupled with steady ratings performance and access to annual advertising campaign planning by advertising agencies which are normally committed in the first quarter of the calendar year for the first time in 2002. On a comparable



currency basis, these developments at Metroradio resulted in increased revenues of $0.1 million for the quarter ended March 31, 2003.

Revenues at Country Radio, which operates a local radio station in Prague, increased by $0.1 million on a comparable currency basis for the quarter ended March 31, 2003 due to a change of the sales house, selling advertising in the station's programming on an exclusive basis to national clients, resulting in improved terms of representation. The change was implemented in April 2002 and the improved terms included a guaranteed minimum sales turnover and additional audience research and marketing services. These new terms, as well as the more aggressive performance of this sales house resulted in increased revenues in the quarter ended March 31, 2003. The growth in national sales was further facilitated by the fact that Country Radio regained its leading ratings position in the Prague market as of August 2002.

Trio Group, which operates five networks in Estonia and one local station in the capital city Tallinn, recorded an increase in revenues of $0.1 million, on a comparable currency basis. This increase was primarily due to increases in agency revenue due to the exit of state TV from the advertising market as of August 2002, which resulted in an across-the-board increase in the pricing of advertising in electronic media. In addition, revenues were bolstered by an improvement in Trio's revenue market share, resulting from hiring additional sales force in the third quarter of 2002. Further, Trio's results for the quarter ended March 31, 2003 included sales from Metromedia's Internet portal in Estonia, whereas such sales were not consolidated in Trio's results in the same period in 2002. The portal operations were integrated into the Trio Group from April 2002.

Revenues at Juventus Radio, which operates a local Budapest radio station and a network of owned or contractually affiliated radio stations, declined, on a comparable currency basis, by $0.1 million for the quarter ended March 31, 2003, due to the depressed Hungarian radio advertising market in the latter part of 2002. The Hungarian radio market suffered a decline partially due to the unresolved situation with the broadcasting license of a national radio broadcasting competitor, which had suspended payments of its significant license fee throughout the twelve months preceding this quarter. The uncertainty around the future of commercial radio in this market in light of litigation between this and other competitors, on one side, and the Hungarian government's media regulator, on the other; as well as the attempt by the regulator to withdraw the license of this and other competitors, coupled with the short-term low-pricing policies employed by the competition, resulted in a negative effect on pricing in the radio advertising market. During the last calendar quarter of 2002, the litigating national competitor reached a settlement with the government media regulator and resumed payments of its broadcasting license fees, which contributed to a normalization of the radio advertising market in Hungary that took place in the subsequent quarter.

*Selling, general and administrative.* Radio broadcasting selling, general and administrative expenses increased by $0.2 million, or 6.1%, to $3.5 million for the quarter ended March 31, 2003 as compared to $3.3 million for the quarter ended March 31, 2002. The increase in selling, general and administrative expenses, attributable to local currency appreciation, was $0.5 million by unfavorable currency movements. On a comparable currency basis a decrease of $0.3 million was realized over the prior year period.

The comparable currency basis decrease in selling, general and administrative expenses for the quarter ended March 31, 2003 was primarily due to decreases at Metromedia Finland and Juventus, offset by increases at Metroradio Bulgaria and Country Radio.

The comparable currency basis decrease in selling general and administrative expenses of $0.2 million, or 24%, at Metromedia Finland was due to reductions in promotional and programming expenses due to the radio station being in its second year of operation and requiring less advertising and imaging production expenditures, as well as reduced spending across all departments as a cost-savings initiative.



The comparable currency basis decrease in selling general and administrative expenses of $0.3 million, or 14.3%, at Juventus was primarily due to reduced sales commissions, bad debt and management fees offset by increases in barter expenses and broadcast license fees. The decrease in sales commissions was attributed to high bonuses earned in 2002 on account of the sales team meeting its sales goals. The decrease in bad debt was due to the improved collections driven by a revised commission calculation structure, which requires cash collection of direct sales in order to be paid commissions. The decrease in management fees was due to a one-time increase in management fees by Corporate in 2002, which eliminates in consolidation. The increase in barter expenses was driven by a greater amount of Juventus' marketing activities being settled through barter transactions than in the same quarter of 2002. The increase in broadcasting license fees was pursuant to a contractually based annual adjustment for inflation. The broadcast license fees at Juventus are significantly higher than in the other markets the Company operates, and in the 2003 quarter represented 22% of the venture's SG&A costs. The business venture is currently in negotiations with the Hungarian government media regulators with the objective of negotiating a reduction in Juventus' annual broadcast license fee and the Company expects that those negotiations should be completed during third quarter 2003; however, the Company can make no assurances that such negotiations will result in a successful reduction of such license fees.

The comparable currency basis increase in selling general and administrative expenses of $0.1 million, or 151%, at Metroradio Bulgaria reflected increased revenue-based expenses, as well as achieving full staffing level in the first full year of operations (2002). Revenues doubled year-on-year and this resulted in additional sales commissions, music royalties and other revenue-driven costs. Headcount increased from 26 to 37 due to the full-year operation and full staffing level, and several promotional campaigns were made in this period in 2003 to attempt to preserve and improve the high ratings achieved by the station following its 2001 launch.

The comparable currency basis increase in selling general and administrative expenses of $0.1 million, or 29.5%, at Country Radio included the effect of a recovery of previously provisioned bad-debt trade receivables (bad debt reversal) in the quarter ended March 31 2002. The increase in operating expenses between the two periods was due to increased payroll expenses in 2003 due to hiring additional sales staff, a music manager and an IT engineer to service growing business needs.

*Depreciation and amortization.* Radio depreciation and amortization expense increased by $0.1 million, or 46.7%, to $0.4 million for the quarter ended March 31, 2003 as compared to $0.3 million for the quarter ended March 31, 2002. Its increase was principally due to a $0.1 million increase at Juventus due to the amortization of the license (previously charged on group consolidation) and additional depreciation associated with expansion-related fixed asset purchases.

**OTHER CONSOLIDATED RESULTS**

Other consolidated results include the activities of the segment headquarters, which relate to executive, administrative, logistical and joint venture support activities including corporate headquarters costs.

*Selling, general and administrative.* Selling, general and administrative expenses at the corporate level increased from $8.8 million in the quarter ended March 31, 2002 to $10.3 million for the quarter ended March 31, 2003. The increase was due to increases in fees paid to professional advisors associated with the disposal of certain assets and the potential restructuring of the company.

*Depreciation and amortization.* Depreciation and amortization at the corporate level decreased from $2.6 million in the quarter ended March 31, 2002 to $1.3 million for the quarter ended March 31, 2003. This principally related to the adoption of SFAS No. 142, which resulted in a reduction of amortization of goodwill recorded at the corporate level.

*Interest expense.* Interest expense for the quarter ended March 31, 2003 decreased by $0.2 million to $5.7 million for the quarter as compared to $5.9 million for the quarter ended March 31, 2002. Interest expense is principally attributable to interest on the Senior Discount Notes and debt incurred at various consolidated ventures, principally PeterStar.

*Interest income.* Interest income decreased by $0.1 million to $0.2 million for the quarter ended March 31, 2003 as compared to $0.3 million for the quarter ended March 31, 2002. This decrease is principally due the reduction in interest rates over this period.

*Equity in income of unconsolidated investees.* Equity in income of unconsolidated investees increased by $2.2 million to an income of $2.7 million for the quarter ended March 31, 2003 as compared to income of $0.5 million for the quarter ended March 31, 2002. For further information on the ventures reported under the equity method, refer to the unconsolidated results discussion below.

*Foreign currency income (losses).* Foreign currency income increased by $0.8 million to $0.5 million for the quarter ended March 31, 2003 as compared to a loss of $0.3 million for the quarter ended March 31, 2002.

*Other income (expense).* Other expense increased by $1.1 million to $0.5 million for the quarter ended March 31, 2003 as compared to income of $0.6 million for the quarter ended March 31, 2002. The other income in 2002 was attributable to a gain of $0.4 million related to the disposal of fixed assets at PeterStar.

*Income tax (expense)/benefit.* Income tax expense increased to $1.4 million in the quarter ended March 31, 2003 from a benefit of $2.0 million in the quarter ended March 31, 2002. The income tax expense in 2003 is principally from foreign income taxes on PeterStar's operations. In 2002, foreign income taxes were offset by $3.4 million in tax benefits related to alternative minimum tax carrybacks.

*Minority interest.* Minority interest represents the allocation of losses by the Communications Group's majority owned subsidiaries and joint ventures to its minority ownership interest. Minority interest increased by $1.4 million to $2.6 million for the quarter ended March 31, 2003 as compared to $1.2 million for the quarter ended March 31, 2002. The minority interest amount relates principally to PeterStar's operations.

*Cumulative effect of a change in accounting principle.* The Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles" effective January 1, 2002. Accordingly, the Company recorded the cumulative effect of adoption for transitional impairment as a charge to earnings of $3.2 million. There was no such similar charge in the quarter ended March 31, 2003.



**RESULTS OF UNCONSOLIDATED OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2003 COMPARED TO THE RESULTS OF UNCONSOLIDATED OPERATIONS FOR THE QUARTER ENDED MARCH 31, 2002**

**Fixed Telephony**

*Revenues.* Fixed telephony revenues increased by $0.8 million (4%) to $21.9 million for the three months ended March 31, 2003 as compared to $21.1 million for the three months ended March 31, 2002. This increase was principally attributable to revenue growth at Telecom Georgia and at Comstar.

Revenues at Telecom Georgia increased by $0.5 million (11%) to $5.2 million for three months ended March 31, 2003 as compared to $4.7 million for three months ended March 31, 2002. Revenues growth was attributable to a key contract for Russian traffic that resulted in higher outgoing traffic volumes to Russia and increased revenues for incoming traffic from Russia.

Revenues at Comstar increased by $0.3 million (2%) to $16.3 million for the three months ended March 31, 2003 as compared to $16.0 million for the three months ended March 31, 2002. The growth in revenue is due to higher data, internet and local line rental revenues offset by lower long distance revenues. The Company disposed of its interests in Comstar in April 2003.

*Gross margin.* Fixed telephony gross margin increased by $2.1 million (21%) to $12.3 million for the three months ended March 31, 2003 as compared to $10.2 million for the three months ended March 31, 2002. This increase is principally due to increases at Comstar and Telecom Georgia.

Gross margin at Comstar increased by $0.9 million (10%) to $9.5 million for the three months ended March 31, 2003 as compared to $8.6 million for the three months ended March 31, 2002. Gross margin increased significantly due to the change in product mix as high margin data and rental revenues increased and lower margin transit traffic decreased in the quarter.

Gross margin at Telecom Georgia increased by $1.3 million (100%) to $2.6 million for the three months ended March 31, 2003 as compared to $1.3 million for the three months ended March 31, 2002, due to savings of $1.0 million that was achieved on the renegotiated contract for Russian traffic. Incoming margins increased by $0.4 million and expenses for outgoing Russian traffic decreased by $0.6 million. The additional $0.3 million increase in margin was due to a favorable product mix of incoming traffic.

*Selling, general and administrative.* Fixed telephony selling, general and administrative expenses increased by $0.8 million (15%) to $6.2 million for the three months ended March 31, 2003 as compared to $5.4 million for the three months ended March 31, 2002. This increase was principally the result of increases in expenses at Comstar where sales and marketing increased by $0.2 million, labor increased by $0.2 million and other miscellaneous costs increased by $0.1 million offset by slight reductions in taxes other than profit taxes. TG's SG&A was flat at $1.2 million for the three months ending March 31, 2003 compared to March 31, 2002. Increases in taxes other than profit was offset by savings in labor, telecommunication channel rental and other miscellaneous expenses.

*Depreciation and amortization.* Fixed telephony depreciation and amortization expense decreased by $1.4 million to $4.2 million for the three months ended March 31, 2003 as compared to $5.6 million for the three months ended March 31, 2002. This principally is due to the impairment charge recorded in 2002 at Comstar, thus reducing current amortization base.

**Wireless Telephony**

*Revenues.* Wireless telephony revenues increased by $3.0 million (22%) to $16.2 million for the three months ended March 31, 2003 as compared to $13.2 million for the three months ended March 31, 2002. This growth in revenues was primarily attributable to Magticom, the Company's GSM wireless operator in Georgia, offset by a decrease due to the sale of the Company's interest in BELCEL in July 2002.



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Revenues at Magticom increased by $4.5 million (43%) to $14.9 million for three months ended March 31, 2003 as compared to $10.4 million for three months ended March 31, 2002. This increase in revenues is due to strong growth in the subscriber base. Total subscribers were 259 thousand at March 31, 2003 compared to 177 thousand at March 31, 2002, an increase of 46%. Magticom is the market leader in Georgia with the greatest subscriber count and largest coverage area. The percentage of increase in revenue is slightly less than the subscriber growth because as the subscriber base expands, the newer customers tend to have a slightly lower average revenue.

TyumenRuscom's revenues were flat at $1.3 million for the three months ended March 31, 2003 compared to $1.3 million for the three months ended March 31, 2002. Subscribers increased from 10.3 thousand at March 31, 2002 to 13.4 thousand at March 31, 2003. Despite the increase in subscribers revenue was flat because of falling rates due to intense pricing competition from GSM companies in the region.

BELCEL, which was sold in July 2002, had revenues of $1.5 million for the first quarter of 2002.

*Gross margin.* Wireless telephony gross margin increased by $2.1 million (19%) to $13.4 million for the three months ended March 31, 2003 as compared to $11.3 million for the three months ended March 31, 2002. This increase was due primarily to the increase in gross margin at Magticom partially offset by a decrease resulting from the sale of BELCEL.

Gross margin at Magticom increased $3.1 million (34%) to $12.4 million for the three months ended March 31, 2003 as compared to $9.1 million for the three months ended March 31, 2002. Total gross margin dollars increased due to the strong increase in revenue. Gross margin as a percent of revenues decreased by 4% from 87% in 2002 to 83% in 2003. Gross margin as a percentage decreased due to an increase in interconnection costs and network maintenance costs.

Tyumen's gross margin increased $0.1 million (10%) to $1.0 million for the three months ended March 31, 2003 as compared to $0.9 million for the three months ended March 31, 2002. This increase is due to lower cost of handsets sold of $0.1 million in the current quarter. Fewer handsets are being sold as the company is starting to churn subscribers. Also, there has been rate pressure at Tyumen but the effect on gross margin has not been significant.

The March 31, 2002 gross margin included gross margin of $1.3 million for BELCEL which was sold in July 2002.

*Selling, general and administrative.* Wireless telephony selling, general and administrative expenses decreased by $1.2 million (48%) to $1.2 million for the three months ended March 31, 2003 as compared to $2.4 million for the three months ended March 31, 2002. This decrease is principally related to BELCEL. BELCEL was sold in July 2002 and March 31, 2002 SGA included $0.7 million of BELCEL SG&A expenses. Magticom's SG&A decreased $0.4 million, or 29%, to $1.0 million for the three months ended March 31, 2003 as compared to $1.4 million for the three months ended March 31, 2002. Tyumen's SG&A was flat at $0.3 million for the three months ended March 31, 2003 and the three months ended March 31, 2002.

*Depreciation and amortization.* Wireless telephony depreciation and amortization expense increased by $0.3 million (8%) to $4.1 million for the three months ended March 31, 2003 as compared to $3.8 million for the three months ended March 31, 2002. This increase is due to Magticom's depreciation and amortization expense increasing $0.6 million, or 20%, to $3.6 million for the three months ended March 31, 2003 as compared to $3.0 million for the three months ended March 31, 2002 due to depreciation on new capital expenditures supporting geographic network expansion and increasing subscriber capacity at existing cell sites. Gross fixed assets increased $18.4 million or 25% from March 31, 2002 to March 31, 2003. Tyumen's depreciation and amortization expense increased $0.2 million (45%) to $0.5 million for the three months ended March 31, 2003 as compared to $0.3 million for the three months ended March 31, 2002. The increase relates primarily to an increase



in capital expenditures for the network. March 31, 2002 expense included $0.4 million of depreciation and amortization expense from BELCEL which was sold in July 2002.

**Cable Television**

*Revenues.* Cable television revenues decreased by $2.1 million to $4.7 million for the quarter ended March 31, 2003 as compared to $6.8 million for the quarter ended March 31, 2002. This decrease in revenues is due principally to a decrease in revenues from Kamalak TV of $0.5 million, on which the Company no longer reports as such venture was abandoned effective December 31, 2002 and from Alma-TV of $2.0 million due to its sale in the second quarter of 2002. Excluding the effects of Kamalak TV and Alma-TV, revenues increased by $0.4 million to $4.7 million for the quarter ended March 31, 2003 as compared to $4.3 million for the quarter ended March 31, 2002. This growth in revenues primarily relates to Cosmos TV (Minsk) ($0.2 million) and Baltcom ($0.1 million). The revenue growth in Cosmos TV reflects an increase in cable wire customers as the new wire line network is built out. Homes passed increased to 70 thousand at March 31, 2003 from 34 thousand at March 31, 2002. Wire customers increased by 20,810 at March 31, 2003 from 9,920 at March 31, 2002. The increase in Baltcom primarily reflects a growth in cable wire and internet subscribers. Cable subscribers grew from 81 thousand at the end of March 2002 to 90 thousand at the end of March 2003. Internet subscribers grew from 1 thousand as at the end of March 2002 to 2 thousand at the end of March 2003.

*Cost of services.* Cable television cost of services decreased by $0.5 million to $1.0 million for the quarter ended March 31, 2003 as compared to $1.5 million for the quarter ended March 31, 2002. This decrease is primarily related to a decrease in cost of services from Kamalak TV of $0.2 million, and from Alma-TV of $0.3 million due to its sale in the second quarter of 2002. Excluding the effects of Kamalak TV and Alma-TV, cost of services remained constant at $1.0 million for the quarter ended March 31, 2003 as compared to the quarter ended March 31, 2002.

Kosmos TV's cost of services increased by $0.1 million to $0.4 million in the quarter ended March 31,2003 from $0.3 million in the quarter ended March 31, 2002. The increase reflects the growth in customers from 27 thousand at the end of March 2002 to 33 thousand at the end of March 2003, leading to higher total payments to programmers who are paid on a per-subscriber basis.

Baltcom TV's cost of services decreased by $0.1 million to $0.5 million in the quarter ended March 31, 2003 from $0.6 million in respect of the quarter ended March 31, 2002. The decrease largely reflects the result of renegotiating a programming contract with a Russian programmer.

*Selling, general and administrative.* Cable television selling, general and administrative expenses decreased by $0.5 million to $3.0 million for the quarter ended March 31, 2003 as compared to $3.5 million for the quarter ended March 31, 2002. This decrease is primarily related to decreases at Kamalak TV of $0.2 million and at Alma-TV of $0.8 million due to its sale in the second quarter of 2002. Excluding the effects of Kamalak TV and Alma-TV, cost of services increased by $0.5 million to $3.0 million for the quarter ended March 31, 2003 from $2.5 million for the quarter ended March 31, 2002. The increase in selling, general and administrative was attributable to Kosmos TV ($0.1 million), Cosmos TV ($0.1 million) and Baltcom TV ($0.3 million). Kosmos TV was sold on April 25, 2003.

The increases in SG&A at Kosmos TV was primarily due to increase in recurring rental costs associated with the relocation to a new office in June 2002.

The increases in SG&A at Cosmos TV reflect an increase in payroll costs reflecting the increased sales commissions resulting from the rapid growth of subscribers on the HFC network as well as the additional technical staff employed to maintain the networks and develop the internet product offering.

The increase in SG&A at Baltcom TV primarily reflects an increase in advertising expenses and salaries and benefits.



*Depreciation and amortization.* Cable television depreciation and amortization expense decreased by $0.6 million to $1.4 million for the quarter ended March 31, 2003 as compared to $2.0 million for the quarter ended March 31, 2002. This decrease is primarily related to decreases from Kamalak TV of $0.1 million and Alma-TV of $0.6 million due to its sale in the second quarter of 2002. Excluding the effects of Kamalak TV and Alma-TV, depreciation and amortization increased by $0.2 million from $1.4 million for the quarter ended March 31, 2003 from $1.2 million for the quarter ended March 31, 2002.

**Discontinued Business Components**

On April 24, 2003 the Company completed an exchange with Adamant Advisory Services, a British Virgin Islands company, of its ownership in certain of its business units in Russia for approximately $58.6 million, face value, of the Company's Senior Discount Notes held by Adamant. As part of this transaction, the Company conveyed to Adamant its ownership interests in its Russian radio stations ZAO SAC in Moscow and ZAO Radio Katusha in St. Petersburg.

In addition, on May 5, 2003 the Company completed the sale of its ownership interests in Radio Georgia.

*Revenues.* Radio broadcasting revenues decreased by $0.1 million, or 1.6%, to $2.8 million for the quarter ended March 31, 2003 as compared to $2.9 million for the quarter ended March 31, 2002. The decrease was due principally to a $0.1 million decrease at SAC. This decrease is primarily due to introduction of VAT as of January 1, 2002, which resulted in depressed radio advertising expenditures, as well as to increased competition in the Moscow radio market during 2002.

*Selling, general and administrative.* Radio selling, general and administrative expenses increased by $0.1 million, or 8.3%, to $1.4 million for the quarter ended March 31, 2003 as compared to $1.3 million for the quarter ended March 31, 2002. This increase was due to the net effect of a $0.2 million increase at Katusha offset by a $0.1 million decrease at SAC.

Selling, general and administrative expenses at Katusha increased by $0.2 million, or 50%, to $0.5 million principally due to increased sales commissions, salaries, and barter expense. The increase in sales commissions was driven by a change in revenue mix in favor of direct revenues. The increase in salaries is primarily driven by annual bonus increases in the current year. And the increase in barter expense resulted from an increase in advertising campaigns from the prior year period.

Selling, general and administrative expenses at SAC decreased by $0.1 million, or 8.3%, to $0.8 million principally due to tax law change in Russia which abolished SAC's VAT-exempt status as of January 1, 2002, and resulted in the elimination of VAT as a cost due to the venture's ability to recover VAT through revenues.

*Depreciation and amortization.* Radio depreciation and amortization expense remained consistent at $0.1 million in the quarter ended March 31, 2003 as compared to the quarter ended March 31, 2002.



In February 2003 the Company completed the sale of its ownership interests in Ala TV (Kyrgystan).

*Revenues.* Cable television revenues are in respect of Ala TV and were $0.2 million in both the quarter ended March 31, 2003 and the quarter ended March 31, 2002.

*Cost of services.* Cable television cost of services are in respect of Ala TV and were $0.1 million in both the quarter ended March 31, 2003 and the quarter ended March 31, 2002.

*Selling, general and administrative.* Cable television selling, general and administrative expenses are in respect of Ala TV and were $0.1 million in both the quarter ended March 31, 2003 and the quarter ended March 31, 2002.

*Depreciation and amortization.* Cable television depreciation and amortization expense are in respect of Ala TV and were $0.1 million in both the quarter ended March 31, 2003 and the quarter ended March 31, 2002.

In addition, during 2002, the company disposed of Snapper, ALTEL and CPY Yellow Pages ("Yellow Pages") and discontinued the operations of Metromedia China Corporation ("MCC"). Accordingly, there are no results reported in 2003 for these business operations.

*Revenues.* Revenues for Snapper, ALTEL, Yellow Pages and MCC for the quarter ended March 31, 2002 quarter ended March 31, 2002 were $31.5 million, $2.5 million, $0.3 million and nil, respectively.

*Cost of services.* Cost of services for Snapper, ALTEL, Yellow Pages and MCC for the quarter ended March 31, 2002 were $21.3 million, $0.8 million, $0.04 million and nil, respectively.

*Selling, general and administrative.* Selling, general and administrative expenses for Snapper, ALTEL, Yellow Pages and MCC for the quarter ended March 31, 2002 were $8.8 million, $1.6 million, $0.1 million, and $1.2 million, respectively.

*Depreciation and amortization.* Depreciation and amortization for Snapper, ALTEL, Yellow Pages and MCC for the quarter ended March 31, 2002 was $1.1 million, $0.3 million, $0.01 million, and $0.1 million, respectively.

**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 were to deteriorate, resulting in an impairment of their ability to make payments, or customers otherwise do not pay, additional allowances may be required.

The Company holds minority interests in many 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 assesses its level of control over the operating and financial decisions of its business ventures and subsidiaries when determining whether to account for their operations as either equity method or consolidated entities. The assessment considers all relevant facts including the Company's voting interests and the existence of protective or participating rights of other parties. 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.

**New Accounting Pronouncements**

Effective January 1, 2002, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." In accordance with SFAS No. 142, we discontinued the amortization of goodwill as of such date. Upon the adoption of SFAS No. 142, we recorded a cumulative effect of a change in accounting principle for the impairment of goodwill in the amount of $3.2 million.

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

During the year ended December 31, 2002, the FASB issued several new accounting standards including, SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This standard did not have a material impact on our financial position or results of operations

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit of Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement nullifies Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an



Activity (including Certain Costs Incurred in A Restructuring)," which required that liability for an exit cost be recognized upon the entity's commitment to an exit plan. SFAS No. 146 did not have a material impact on our results of operations or financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements of Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN No. 45"). FIN No. 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN No. 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The adoption of the provision of FIN No. 45 did not have a material impact on our result of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition of SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB No. 28, "Interim Financial Reporting", to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While the Statement does not amend SFAS No.123's fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25. SFAS No. 148 disclosure provisions are effective for years ending after December 15, 2002. We have adopted the amendments to SFAS No. 123 disclosure provisions required under SFAS No. 149 but we will continue to use the intrinsic value method under APB No. 25 to account for stock-based compensation. As such, the adoption of SFAS No. 148 did not have an impact on our consolidated financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 defines the concept of "variable interest" and requires existing unconsolidated variable interest entities to be consolidated into the financial statement of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquires before February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN No. 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. There were no such entities created after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. The Company has not yet completed its analysis of the effect of adopting the remaining provisions of FIN No. 46. At July 1, 2003, the Company held interests in Magticom, a core unconsolidated investee that will be evaluated to determine if it should be consolidated. In addition, the Company holds interests in four non-core Cable television ventures and a telephony venture that will be evaluated as well. See

Note 6 for further discussions and summary financial information of the Company's unconsolidated investees.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

In the normal course of business, the financial position of the Company is routinely subjected to a variety of risks. In addition to the market risk associated with interest rate movements on outstanding debt and currency rate movements on non-U.S. dollar denominated assets and liabilities, other



examples of risk include collectibility of accounts receivable and significant political, economic and social risks inherent in doing business in emerging markets such as Eastern Europe and the CIS.

The Company does not currently hedge against foreign exchange rate risks. In the majority of the countries that the Company's business ventures operate, the currencies (such as the Russian ruble) are non-convertible outside the country, so the Company's ability to hedge against devaluation by converting to other currencies is significantly limited. In these countries, a sophisticated or reliable market for the trade of derivative instruments does not currently exist in order to allow the Company to hedge foreign currency risk. Accordingly, the Company seeks to maintain the minimal amount of foreign currency on hand to reduce its exposure. However, such amount is limited by the fact that certain expenses are denominated in foreign currencies and many countries in which the Company does business have strict foreign currency regulations.

The Company is exposed to foreign exchange price risk in that a substantial portion of its operations is located outside of the United States. In remeasuring the financial statements stated in the local currency into the functional currency, U.S. dollars, a gain or loss may result. In Russia, where the Company has the majority of its operations in consolidated subsidiaries, a further 10% devaluation of the Russian ruble in the first quarter of 2003 relative to the first quarter of 2002 exchange rate, for example, would have resulted in an increase to the Company's net loss of $0.1 million, with all other variables held constant. In addition, certain of the Company's business ventures accounted for under the equity method could be exposed to foreign exchange price risk. The Company's exposure to these risks is limited by its less significant ownership interest.

The majority of the Company's debt obligations and those of its operating businesses are fixed rate obligations, and are therefore not exposed to market risk from upward changes in interest rates. Although market risk exists for downward changes in interest rates, the Company's fixed interest rate of 10$^1/_2$% on its Senior Discount Notes would likely approximate or be lower than a hypothetical rate on similar variable rate obligations, thereby limiting the risk. Furthermore, with the exception of the approximately $2.9 million in vendor financing which is denominated in Euros, the Company's long-term debt and that of its operating businesses are denominated in or tied to U.S. dollars. The Company does not believe that the Company's debt not denominated in U.S. dollars exposes the Company to a material market risk from changes in foreign exchange rates.

"Item 2: *Management's Discussion and Analysis of Financial Conditions and Results of Operations*" contains additional information on risks associated with the Company's investments in Eastern Europe and the CIS.

**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 variations on 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, ability of the Company to consummate sales of its non-core businesses,



obtaining the requisite consents for any sales of Company's 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,

industry capacity, which tends to increase during strong years of the business cycle,

changes in public taste, industry trends and demographic changes,

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 Eastern Europe, the CIS and other selected emerging markets, 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 Eastern Europe, the CIS and other selected emerging markets, which may affect the Company's ability to enforce its legal rights,

cooperation of local partners in the Company's communications investments in Eastern Europe, the CIS and other selected emerging markets, which may affect the Company's results of operations,

exchange rate fluctuations,

license renewals for the Company's communications investments in Eastern Europe, the CIS and other selected emerging markets,

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,

the availability of qualified personnel,

timely completion of construction projects for new systems for the business ventures in which the Company has invested, which may impact the cost of such projects,

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 4. Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. An evaluation was performed by the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures as of the end of the period covered by this amended quarterly report.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the presence of the matters described below constitute material weaknesses as defined under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. To specifically respond to this matter, and in general to meet our obligations under Section 404 of the Sarbanes-Oxley Act of 2002, the Company has taken the actions described below.

As of the date of this Report, the Company believes it has a plan that, when fully implemented, will reduce the likelihood that similar errors could occur in the future. There were no other changes during the fourth quarter ended December 31, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's disclosure controls and procedures, subsequent to the date of their evaluation, except as described below.

The Company continues to use both financial and personnel resources to improve its management, accounting, reporting and business operations processes. However, the Company's limited liquidity has, and could continue to limit management's ability to implement improvements to its management and accounting, reporting and business operations processes. In addition, certain structural complexities of the Company's business may impact the effectiveness of disclosure controls and procedures and internal controls.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, does not expect that the disclosure controls and procedures or internal controls will prevent all errors and all improper conduct. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of improper conduct, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

The effective oversight by the Company of the business managers who are responsible for managing the daily business matters of the Company's business ventures, both consolidated and unconsolidated, may be encumbered due to business practice common within the geographic area of

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the business operations, the degree of the Company's historic and current participation as a shareholder within the respective businesses and resource constraints imposed by the Company's current liquidity situation.

Furthermore, the Company does not control and may be limited in its participation in management of its unconsolidated business ventures. Thus, its disclosure controls and procedures with respect to such business ventures are necessarily more limited than those it maintains with respect to its consolidated business ventures.

The Company has from time to time been unable and may in the future be unable to prevent expenditures and commitments from occurring at certain business ventures that do not provide full economic benefit to the business venture's operations. Such expenditures or commitments have not been material to the Company's historical results of operations and financial condition, and management is not aware of any instances in which such expenditures and commitments are not properly reflected in its consolidated financial statements.

In addition, the Company has experienced, and may continue to experience difficulty and incur significant cost in the timely collection of financial data with respect to certain of its business ventures. Many of the foreign emerging market countries in which the Company operates are lacking in standard Western management, accounting, 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.

Due to liquidity pressures, management and the Board of Directors determined that it was most appropriate to terminate the employment of a significant number of personnel that oversee or provide supporting services to the Company's various European business ventures. Such terminations have effective dates that are staggered in relation to expected disposal dates of various ventures and businesses. There is no guarantee that the Company will be able to dispose of these various ventures and businesses during the employment periods of the affected individuals. However, the Company believes that relations with these individuals are generally good and that should the disposals not occur within the time frame estimated by management, that the individuals would likely extend their employment to the dates of disposal. Should the disposals not occur within management's estimated time frame, there can be no guarantees that the affected individuals would agree to similar terms for an extended period. Under such circumstances, the Company could be significantly hindered in production of books and records within a timely fashion to remain compliant with its financial reporting obligations.

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 entered into new employment agreements with certain individuals, including the Company's Chief Financial Officer, the Chief Accounting Officer, the General Counsel and has recruited accounting and finance personnel who work in Charlotte. Furthermore, during the third quarter of 2003, the Company began the process of relocating its corporate headquarters from New York City to Charlotte and the Company closed its New York City office before the end of 2003. The Company's decision to move its corporate headquarters operation from New York City was principally driven by the commitment to substantially reduce corporate overhead expenditures. Upon completing this move, the Company will benefit from significant reductions in continuing office-related, personnel and professional service costs. Management anticipates that upon the completion of the relocation of its corporate headquarters, that the accounting and finance personnel that are currently engaged and the workflow processes that are currently in place will enable the Company to meet its financial reporting obligations in a more timely manner. However, due to the timing of departures of New York City based accounting and financial

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personnel and the hiring of Charlotte based personnel, the Company did experience some delays in preparation of financial statements and reports.

In the fourth quarter of 2003, it was determined that the Company's consolidated statements of operations for fiscal 2002, and the first two quarters of fiscal 2003, would need to be restated as a result of an error discovered in the computation of its unpaid dividends on its $7^{1}/_{4}$% cumulative convertible preferred stock. The error was a result of the failure by Company personnel to correctly apply compounding to the unpaid dividends. The Company has determined that deficiencies in its internal review processes resulted in this error not being detected on a timely basis. As a result of the Company's recent relocation to Charlotte, NC, management of the Company reassessed its finance organizational structure and has recruited the necessary personnel to improve its internal control and review processes.

In addition, during the fourth quarter of 2003 and early 2004, it was determined that the Company's consolidated statements of operations for fiscal 2002, and the first two quarters of fiscal 2003, would need to be restated as a result of errors regarding the reporting of certain tax refunds. Most of these refunds were received because the Company became eligible to carry back certain losses and recover taxes previously paid to various taxing authorities five or more years ago. One of these refunds resulted from a change in tax laws. The Company has determined that not having full-time in-house tax personnel resulted in this error not being detected on a timely basis. In an effort to prevent these errors from occurring again, the Company recently hired a tax director to oversee the preparation of tax filings and deferred tax computations. In addition, the Company intends to implement a more stringent review process over the filing of tax returns and preparation of its deferred tax computations on a prospective basis.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

Updated information on litigation and environmental matters subsequent to December 31, 2002 is as follows:

***Contact with the United States Justice Department and Securities and Exchange Commission***

For description of this proceeding through December 31, 2002, see Item 3 in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

***Fuqua Industries, Inc., Shareholder Litigation***

For description of this proceeding through December 31, 2002, see Item 3 in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

***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 responded to our June 2003 notification but it might seek late reporting penalties and/or other corrective actions, the cost of which could be material to the Company and/or its subsidiary.



***Barberis v. Kluge, et al.***

For description of this proceeding through December 31, 2002, see Item 3 in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

On May 3, 2003, the parties to these litigations entered a stipulation of dismissal. The court entered an order dismissing these cases on May 10, 2003.

**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 2. Changes in Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

(a) None

(b) The Company has 4.1 million shares of its $1.00 par value, $7^{1}/_{4}$% cumulative convertible preferred stock that has a liquidation preference of $50.00 per share.

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 requirements for the twelve months ending March 31, 2004 will be $17.8 million, including the effects of compounding and assuming there are no payments of the dividends.

Through March 15, 2001, the Company paid its quarterly dividends on the preferred stock in cash. The Company has not declared a dividend for any quarterly dividend period ending after June 15, 2001. As of December 31, 2002 and June 30, 2003, total dividends in arrears were $28.4 million and $37.0 million, respectively. As the Company did not pay the dividend on the preferred stock for six consecutive quarters, holders of the preferred stock have the right to call a stockholders meeting and to elect two new directors to the Company's Board of Directors.

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

None.



**Item 5. Other Information**

**Item 6. Exhibits and Reports on Form 8-K**

| Exhibit Number | Description |
|---|---|
| (a) | Exhibits |
| 31.1* | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 |
| 31.2* | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 |
| 32.1* | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 |

| Exhibit Number | Description |
|---|---|
| 32.2* | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 |
| 99.1 | Sarbanes-Oxley Act Section 906 Certification of Chief Executive Officer |
| 99.2 | Sarbanes-Oxley Act Section 906 Certification of Chief Financial Officer |
| (b) | Reports on Form 8-K |
| | On February 18, 2003, the Company filed a current report on Form 8-K (Items 5 and 7), on February 26, 2003 the Company filed a current report on Form 8-K (Items 5 and 7) and on April 1, 2003 the Company filed a current report on Form 8-K (Items 5 and 7) |

* Filed herewith



**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

METROMEDIA INTERNATIONAL GROUP, INC.

By: /s/ HAROLD F. PYLE, III

*Executive Vice President,*
*Chief Financial Officer and Treasurer*

Dated: February 24, 2004



QuickLinks