FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1998-07-22** | Period of Report: **1997-12-31**
SEC Accession No. 0000893220-98-001240

FILER

PLD TELEKOM INC

CIK:**890568**| IRS No.: **133950002** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K/A** | Act: **34** | File No.: **000-20444** | Film No.: **98669769**
SIC: **4813** Telephone communications (no radiotelephone)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 2)

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED] FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-20444

PLD TELEKOM INC.
(FORMERLY PETERSBURG LONG DISTANCE INC.)
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	13-3950002 (I.R.S. EMPLOYER IDENTIFICATION NO.)
680 FIFTH AVENUE, 24TH FLOOR NEW YORK, NY (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	10019 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(212) 262-6060

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
NONE	NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, PAR VALUE $.01 PER SHARE
(TITLE OF CLASS)

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this annual report on Form 10-K or any amendment to this annual report on Form 10-K. [ ]

As of March 27, 1998, the aggregate market value of the Common Stock held by non-affiliates of the registrant was $178,045,652. Such aggregate market value was computed by reference to the closing sale price of the Common Stock as reported on the National Market segment of The Nasdaq Stock Market on such date. For purposes of making this calculation only, the registrant has defined affiliates as including all executive officers, directors and beneficial owners of more than ten percent of the Common Stock of the Company.

As of March 27, 1998, there were 33,324,290 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Unless the context indicates otherwise, the terms "PLD" and "Company" refer to PLD Telekom Inc.

PLD TELEKOM INC.

FORM 10-K ANNUAL REPORT FOR FISCAL YEAR ENDED DECEMBER 31, 1997

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PART I

ITEM 1. BUSINESS

OVERVIEW

PLD Telekom Inc. ("PLD" or the "Company"), through its operating subsidiaries, is a major provider of local, long distance and international telecommunications services in the Russian Federation and Kazakhstan. The Company's four principal operating businesses are: (i) PeterStar Company Limited ("PeterStar"), which provides integrated local, long distance and international telecommunications services in St. Petersburg through a fully digital fiber optic network; (ii) Technocom Limited ("Technocom"), which, through Teleport-TP, provides dedicated international telecommunications services to Russian and foreign businesses in Moscow and operates a satellite-based pan-Russian long distance network; (iii) Baltic Communications Limited ("BCL"), which provides dedicated international telecommunications services in St. Petersburg; and (iv) ALTEL (known until May 1998 as BECET International) ("ALTEL"), which currently provides the only national cellular service in Kazakhstan.

Since 1994, Cable and Wireless plc ("Cable & Wireless"), a leading global communications company whose shares are listed on the London and New York Stock Exchanges, has been the Company's principal shareholder, with a current stake of approximately 30%. On April 19, 1998, Cable & Wireless entered into an agreement with News America Incorporated ("News America") providing for the sale by Cable & Wireless to News America of its complete stake in the Company. See "-- Recent Developments -- Transactions with Cable & Wireless and News."

The Company's objective is to be a leading participant in the targeted development of telecommunications infrastructure in the emerging markets of the Russian Federation and other countries of the former Soviet Union. The Company expects to achieve this goal through: (i) expanding and further integrating its existing business and network infrastructure into the public telecommunications networks; (ii) providing high quality national long distance services in the Russian Federation to complement the international long distance services it currently provides to its business customers; (iii) providing additional value-added services such as wireless communications, fax, data and Internet service as a means of developing new traffic streams; and (iv) further developing relationships with local and national strategic partners in the Russian Federation and other countries of the former Soviet Union.

The Company has several potential sources of cash flows, including fees from management services, dividends, repayment of intercompany advances, lease payments and payments under equipment sales contracts. The Company currently generates fees from management services provided to certain of its operating subsidiaries. Although its ability to generate dividend income in the near future may be limited due to the cash flow requirements of its operating businesses, the Company expects to receive dividends in the future. One of its operating subsidiaries, ALTEL, paid two dividends in 1997 and a further one early in 1998. The Company received payments in respect of intercompany advances during the course of 1997 and expects this to continue in 1998. In relation to leases and equipment sales contracts entered into with its operating subsidiaries, the Company started to receive payments in 1998.

The Company's receivables (described above) are all denominated in U.S. Dollars, as are its Senior Notes, its Convertible Notes and its Revolving Credit Notes (all as hereinafter defined), which represent all of its outstanding indebtedness. Certain of its operating subsidiaries have incurred bank indebtedness, and are expected to continue to do so from time to time. All such indebtedness has been, and is expected to continue to be denominated in U.S. Dollars. The Company's operating subsidiaries invoice in U.S. Dollars, but receive payment in local currency at the then-current rate of exchange for the U.S. Dollar. The Company faces an exchange risk to the extent that payment is delayed, or the operating subsidiary experiences any difficulty in converting the local currency payment received into U.S. Dollars. The Company does not attempt to hedge this exchange risk. To date, this exchange risk has not been significant. However, there can be no assurance that delays or difficulties in converting local currencies may not occur and that such developments, in conjunction with volatility in the local currencies, may not have a material adverse effect upon the Company.

The fostering of existing, and the creation of new, partnerships with local and regional partners is crucial to the long-term success of the Company in this environment. In its operating businesses, the Company's partners include: Petersburg Telephone Network ("PTN"), the local telephone system operator in St. Petersburg, and St. Petersburg Intercity & International Telephone ("SPMMTS"), the gateway for national and international long distance calls to and from St. Petersburg, which together hold an indirect 14% interest in PeterStar; Kazakhtelekom, the state-owned national telecommunications operator in Kazakhstan and the holder of a 50% interest in ALTEL; and AO Rostelecom ("Rostelecom"), the primary long distance and international carrier in the Russian Federation and a 44% shareholder in Teleport-TP. The Company will seek to continue developing ventures with local partners who can provide: (i) assistance in obtaining telecommunications operating licenses; (ii) access to network facilities; and (iii) political support.

RECENT DEVELOPMENTS

TRANSACTIONS WITH CABLE & WIRELESS AND NEWS

On April 19, 1998, the Company entered into separate agreements with News America and Cable & Wireless regarding, among other things, the acquisition by the Company of (i) an additional 11% interest in its subsidiary PeterStar from News America (after its acquisition of such interest from Cable & Wireless) and (ii) a 50% interest in Belcel, a mobile telephone business in Belarus, and certain intercompany indebtedness from Cable & Wireless. In connection with these acquisitions, the Company agreed to issue an aggregate of 4.2 million shares of its Common Stock to News America and Cable & Wireless. In addition, Cable & Wireless and News America entered into an agreement providing for the sale by Cable & Wireless to News America of its complete stake in the Company (including the Common Stock being issued by the Company to Cable & Wireless in exchange for the interest in Belcel and a warrant to purchase 250,000 shares of Common Stock). The transactions are conditioned on, among other things, clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (which was received on May 4, 1998) and approval of the acquisition of the additional PeterStar interest by the shareholders of the Company. The Company currently expects the transactions to close in August 1998.

RUSSIAN FINANCIAL MARKETS

In recent weeks there has been considerable turmoil and uncertainty in the Russian financial markets, prompted in large part by the crisis in the Asian financial markets which began in late 1997 and is still continuing, and the economic and political problems being experienced by a number of Asian countries. The Russian Rouble has been under significant pressure, requiring the Russian government to raise interest rates substantially, and to seek special assistance from the International Monetary Fund in order to defend its currency. These developments have been accompanied by a substantial decline in the Russian stock market, the Moscow Times Index having dropped over 50% since January 1, 1998.

At the present time it is not possible to predict whether the Russian government will be successful in avoiding a devaluation of the Rouble, or when stability will return to its financial markets. Any devaluation of the Rouble could exacerbate existing economic problems in Russia. Such devaluation would not immediately affect the Company's operating subsidiaries which, although they receive payment in local currencies, invoice by reference to U.S. Dollars. However, increased economic difficulties in Russia could have an impact on the Company's operating subsidiaries in that country, the effect of which it is impossible to assess at the present time. There can be no assurance that these developments will not have a material adverse effect upon the Company in the future.

INCREASED INTEREST RATE ON INDEBTEDNESS

Under the terms of the Company's Senior Notes due 2004 and its Revolving Credit Notes due 1998, the interest rate payable increases if the Company has not raised $20,000,000 in additional equity by May 31, 1998. The Company did not complete such an equity offering by such date and accordingly the interest rate on the Senior Notes increased from 14% to 14.5% per annum, and the interest rate on the Revolving Credit Notes increased from 12% to 15% per annum, in each case effective June 1, 1998. Such rates revert to their former

levels once the equity offering has been completed. The accreted value of the Senior Notes as of March 31, 1998 was $99.7 million. Interest due thereon accretes until December 1, 1998, and thereafter is payable in cash, semi-annually, on each June 1 and December 1 thereafter. The amount currently outstanding in respect of the Revolving Credit Notes is $15,420,000, and interest is payable thereon monthly in cash.

CORPORATE STRUCTURE

The following chart shows the corporate structure of the Company and its material interests (but excludes intermediate holding companies and leasing companies such as NWE Capital (Cyprus) Ltd. ("NWE Cyprus") and PLD Asset Leasing Limited ("PLD Leasing")), together with the percentage of equity ownership of the Company and Technocom in each operating subsidiary and other significant investments.

[CORPORATE STRUCTURE CHART]

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(1) The Company holds its interests in a number of its subsidiaries through NWE Cyprus to take advantage of the double taxation treaty between Cyprus and the Russian Federation.

(2) The other shareholders of PeterStar are: PLD Holdings Ltd., a company registered in Bermuda (11%), which is indirectly wholly owned by Cable & Wireless; and Telecominvest (29%), which is owned 51% by an affiliate of

Commerzbank AG, 25% by PTN and 24% by SPMMTS, and which was formed by PTN and SPMMTS to act as a holding company for their respective interests in a number of telecommunications ventures in Northwest Russia.

(3) In November 1997, the Company acquired an additional 29.65% of the ordinary shares in Technocom, bringing its total interest to the current 80.40% As a result, the remaining interests in Technocom are beneficially owned by: (i) Plicom Limited (14.57%), an Irish company beneficially owned by the family interests of Mr. Mark Klabin ("Plicom"); and (ii) Elite International Limited (5.03%), an Irish company beneficially owned by a trust advised by Dr. Boris Antoniuk ("Elite"). The Company understands that Dr. Antoniuk has the power to exercise the voting rights of the shares in Technocom owned by Elite. The remainder of the interests held by Plicom and Elite are subject to put and call arrangements with the Company. See "-- Acquisition of Additional Interests in Technocom;" "-- Risk Factors -- Risks Involving the Company -- Effect of Technocom Minority Shareholders' Put Options on Company's Ability to Transfer its Stake in Technocom."

Technocom also holds an effective 100% interest in Space Communication Services (SCS) Limited, a company organized under the laws of Guernsey, Channel Islands ("SCS"), which acts as Teleport-TP's marketing arm for the selling and administration of TV broadcasting services, and a 50% interest in Rosh Telecom Limited, a telecommunications equipment distributor.

(4) The Company holds its 50% interest in ALTEL through its wholly owned subsidiary, Wireless Technology Corporations Limited ("WTC"), a corporation organized under the laws of the British Virgin Islands, which in turn is wholly owned by NWE Cyprus. The other 50% interest in ALTEL is currently held by Kazakhtelekom, a Kazakh joint stock company, formerly wholly owned by the government of Kazakhstan, which operates the public telephone network in that country. In May 1997, the Kazakh government announced the sale of a 40% stake in Kazakhtelekom to Daewoo. However, in March 1998, it was reported that Daewoo had sold a portion of its stake (reported to be approximately 10%) to an unnamed third party. The report did not indicate whether Daewoo proposed to sell or retain the remainder of its stake in Kazakhtelekom.

(5) In 1996, Technocom's interest in Teleport-TP was increased to its current 49.33% (56% voting interest) through: (i) its acquisition of a 55.51% interest in JV Technopark Limited ("Technopark"), which owns a 7.5% interest in Teleport-TP; and (ii) the acquisition by Roscomm Limited, a Guernsey company ("Roscomm"), which is 66.67% beneficially owned by Technocom and which already owned a 5% interest in Teleport-TP, of an additional 5% interest previously held in trust for the VVC, the All-Russian Exhibition Center, a business park in Moscow. Technocom holds 38.5% of its beneficial interest directly, 6.67% through its 66.67% beneficial interest in Roscomm (which owns a 10% interest in Teleport-TP), and 4.16% through its 55.51% interest in Technopark (which owns a 7.5% interest in Teleport-TP). The remaining 44% voting interest in Teleport-TP is held by Rostelecom.

Teleport-TP holds a 25% interest in Gorizont-RT, a cellular telecommunications operator in the Republic of Sakha. The remaining interests in Gorizont-RT are held by Sakhatelekom (51%) and local business partners (24%).

(6) Technocom holds a 49% interest in MTR-Sviaz, a wireline telecommunications operator in Moscow. The remaining 51% interest is held by Mosenergo, the Moscow city power utility.

THE PRIVATE PLACEMENT OF NOTES AND WARRANTS

In June 1996, the Company issued the following securities to a limited number of U.S. institutional investors (the "June 1996 Placement"): (i) $123,000,000 aggregate principal amount at maturity of 14% Senior Discount Notes due 2004 (the "Senior Notes"); (ii) 123,000 warrants (the "Placement Warrants") to purchase an aggregate of 4,182,000 shares of Common Stock (the "Placement Warrant Shares"); and (iii) $26,500,000 aggregate principal amount of 9% Convertible Subordinated Notes due 2006 (the "Convertible Notes" and together with the Senior Notes, the "Notes"). The Senior Notes and the Placement

Warrants were initially issued as units (the "Units") and the Placement Warrants became separable from the Senior Notes on December 10, 1996.

Pursuant to a consent solicitation dated March 4, 1998, the Company proposed, and the required number of holders of the Senior and Convertible Notes approved, certain amendments to the Senior Note and Convertible Note Indentures. See "-- The Consent Solicitation."

Unless the context clearly requires otherwise, references to the "Notes", the "Senior Notes" and the "Convertible Notes" shall refer to such securities as so amended, and references to the "Senior Note Indenture", the "Convertible Note Indenture" and the "Indentures" shall refer to such indentures, as so amended.

CHANGE OF COMPANY NAME AND CONTINUANCE

Effective August 1, 1996, the Company changed its name from Petersburg Long Distance Inc. to PLD Telekom Inc. Prior to February 28, 1997, the Company was a corporation organized under the laws of the Province of Ontario. On February 28, 1997, after having obtained the necessary authorizations from its shareholders and Canadian authorities, the Company simultaneously discontinued its existence in Ontario and continued as a corporation organized under the laws of the State of Delaware (the "Continuance"). The Continuance effected a change in the legal domicile of the Company as of February 28, 1997, but did not change the business or operations of the Company or the directors or officers of the Company. Following the Continuance, the Company has established its executive offices in New York, New York.

ACQUISITION OF ADDITIONAL INTERESTS IN TECHNOCOM

On November 26, 1997 the Company acquired a further 59 ordinary shares of Technocom, thereby increasing its percentage interest in Technocom from 50.75% to 80.4%. The Company acquired 30 of these shares from Plicom, one of the two other shareholders of Technocom, for $18.5 million in cash. The remaining 29 shares were acquired from the other shareholder of Technocom, Elite, for $6.25 million in cash and 1,316,240 shares of Common Stock. Sale of these shares is prohibited prior to January 1, 2000.

In addition, the Company restructured certain "put and call" arrangements with the other two shareholders of Technocom. Under these arrangements as originally structured, the remaining ordinary shares of Technocom held by these shareholders (29 shares, or approximately 14.6% of the total ordinary shares outstanding, in the case of Plicom, and 10 shares, or approximately 5% of the total ordinary shares outstanding, in the case of Elite) were to have been independently valued in 1999 and the Company had the right to call, and Plicom and Elite had the right to put, their respective interests at the per share value established by the valuation.

These arrangements were restructured as follows. In the case of the interest held by Plicom, while the date on which the put or call could be exercised did not change, the valuation procedure was eliminated and the "put and call" price for its interest was set at a fixed $17,500,000. In the case of Elite, two of its remaining ten ordinary shares were made subject to a new put and call arrangement which would come into effect in 1998, with the "put and call" price to be $1 million or, at Elite's option, that number of shares of the Common Stock which resulted from dividing $1 million by the lower of $5.85 and the average closing price of such shares over the preceding ten trading days. The remaining eight ordinary shares continued to be subject to the existing put and call arrangements in 1999, except that the valuation would be made by the Company and the amount paid pursuant to the exercise of either the put or the call could not exceed $9,620,689 or be less than $6,689,655.

The Company financed these acquisitions by using $9 million from the proceeds of the Senior Notes (and, pursuant to the terms of the Indenture governing the Senior Notes, pledging 17 of the Technocom shares acquired), and also by issuing $12.32 million in 12% Series A secured revolving credit notes (the "Series A Notes") and $3.1 million in 12% Series B revolving credit notes (the "Series B Notes" and, together with the Series A Notes, the "Revolving Credit Notes"), to The Travelers Insurance Company and The Travelers Indemnity Company (collectively, the "Travelers Parties") pursuant to a Revolving Credit

Note and Warrant Agreement dated November 26, 1997 between the Company and the Travelers Parties (the "Revolving Credit Agreement"). Required amortization of the Revolving Credit Notes at the rate of $1,000,000 per month commences on July 31, 1998. The Series B Notes come due on September 30, 1998, and the Series A Notes come due on December 31, 1998. Both the Series A Notes and the Series B Notes are secured by the Company's inventory and accounts receivable. In addition, the Series B Notes are secured by 28 of the Technocom shares acquired. In addition to issuing the Series A and Series B Notes, the Company also issued to the Travelers Parties a total of 423,000 warrants to purchase Common Stock at $8.625 at any time up to December 31, 2008 (the "Travelers Warrants"). A value of $423,000, which has been ascribed to the Travelers Warrants, has been included in the Company's shareholders' equity.

In addition, the Company will be obligated to issue additional warrants to the holders of the Series A and B Notes should the Company not effect certain "targeted reductions in commitment" as follows:

COMMITMENT REDUCTION DATE	TARGETED REDUCTION AMOUNT
July 31, 1998	$ 500,000
August 31, 1998	$ 500,000
September 30, 1998	$1,000,000
October 31, 1998	$1,500,000
November 30, 1998	$1,500,000

The holders of the Series A Notes will receive 30,000 additional warrants to purchase shares of the Company on each date on which such reduction was not made. In the event that the Company has not made the "targeted reductions" scheduled for July 31, 1998 and August 31, 1998, the holders of the Series B Notes will receive 16,000 additional warrants to purchase shares of such common stock. The exercise price of the above warrants is $8.625 per share, except that, if the Series B Notes are not repaid in full by September 30, 1998, the exercise price of all warrants issued to the holders of the Series B Notes becomes $0.01 per share, and, if the Series A Notes are not repaid in full by December 31, 1998, the exercise price of all warrants issued to the holders of the Series A Notes also becomes $0.01. The total number of warrants which could be issued under these arrangements is 182,000. All of the warrants expire on December 31, 2008.

In addition, if the Series B Notes are not repaid in full on September 30, 1998, then, commencing September 30, 1998 and on the last day of each succeeding month until the Series B Notes have been repaid in full, the holders of the Series B Notes shall receive 32,000 additional warrants to purchase shares of the Company's stock at a price of $0.01 per share. If the Series A Notes are not repaid in full on December 31, 1998, then, commencing December 31, 1998 and on the last day of each succeeding month until the Series A Notes have been repaid in full, the holders of the Series A Notes shall receive 32,000 additional warrants to purchase shares of the Company's stock at a price of $0.01 per share. All such warrants, referred to as "Default Warrants" will have an expiration date ten years after their respective dates of issue.

THE CONSENT SOLICITATION

In 1997, the Company made the determination to solicit the holders of the Senior Notes and the Convertible Notes with a view to making certain amendments to the Indentures governing such Notes, intended to give the Company more flexibility in conducting its business and also to clarify certain provisions of those Indentures, in both cases based upon the Company's experience in operating under the terms of the Indentures since they were first executed in June 1996.

In summary, the amendments were intended to achieve the following:

- Broaden the range of transactions by which the Company can use escrowed funds in order to make telecommunications assets available to its operating companies

- Permit the Company or its special purpose subsidiaries to use escrowed funds to secure letters of credit issued to suppliers of telecommunications assets

- Clarify that the purchase price of telecommunications assets which is to be funded out of escrowed funds may include certain "soft costs" related to the acquisition of such assets

- Eliminate certain provisions in the Indentures having relevance only when the Company was a Canadian corporation

- Permit the use of U.S. as well as Cyprus special purpose subsidiaries

- Authorize the conversion of a lease entered into by PLD Leasing, a special purpose subsidiary of the Company, into an installment sale accompanied by a pledge of the equipment being sold, and the transfer of PLD Leasing's interest to a new special purpose subsidiary incorporated in the U.S.

- Revise certain covenants relating to incurrence and guaranteeing of indebtedness, to:

  - provide a more specific definition of the term "revolving credit facilities"

  - specify that the maximum amount of general indebtedness (i.e., other than certain specific forms of "permitted indebtedness", including so-called "international vendor indebtedness") that may be incurred at the subsidiary level, whether in the form of revolving credit facilities or otherwise, is $15 million

  - clarify that the Company may guarantee on an unsecured basis any general indebtedness and any so-called "international vendor indebtedness" which its subsidiaries are permitted to incur, without such guarantee being counted as "indebtedness" of the Company for purposes of a $25 million limitation on Company level indebtedness

  - specify that subsidiaries of the Company may no longer guarantee indebtedness of the Company, and that any guarantees of any other indebtedness will count as "indebtedness" for purposes of the $15 million limitation on subsidiary level indebtedness

  - specify that, since these changes would mean that the Series A and Series B Notes issued to the Travelers Parties in November 1997 (see "-- Acquisition of Additional Interests in Technocom") would be in violation of the terms of the Indentures, the transaction pursuant to which such Notes were issued and certain guarantees given in connection therewith are specifically exempted from the applicable terms of the Indentures, although the amount of the Notes issued will be counted against the $25 million limit on Company level indebtedness.

- Permit the advance by the Company to its subsidiary Technocom of $8 million of the proceeds of the Senior Notes being held in escrow to fund the purchase of telecommunications assets

Under each of the Indentures, the consents of holders of not less than a majority in principal amount at stated maturity of each of the Senior Notes and the Convertible Notes are required to authorize their amendment.

Prior to soliciting the consent of the holders of the Senior and Convertible Notes to the proposed amendments, the Company had various discussions with Merrill Lynch as a result of which the Company entered into an agreement with Merrill Lynch Global Allocation Fund, Inc. and Merrill Lynch Equity/Convertible Series -- Global Allocation Portfolio (collectively, "ML Global"), which together were the holders of approximately 62% in principal amount at stated maturity of the Senior Notes and approximately 72.5% in principal amount at stated maturity of the Convertible Notes, under which ML Global agreed to direct the nominees through which they held their Senior and Convertible Notes to consent to the amendment of the Indentures.

On March 4, 1998, the Company mailed to the holders of record on March 3, 1998 of the Senior Notes and the Convertible Notes a consent solicitation statement (the "Consent Solicitation"). Pursuant to the Consent Solicitation, the Company offered to each holder of the Senior Notes who consented to the amendment of the Senior Note Indenture a five-year warrant to purchase 1.8 shares of Common Stock at a price of $6.90 per share for each $1,000 in unpaid principal amount at stated maturity of the Senior Notes held by such holder, and to each holder of the Convertible Notes who consented to the amendment of the

Convertible Note Indenture a five-year warrant to purchase 2 shares of Common Stock at a price of $6.90 per share for each $1,000 in unpaid principal amount of the Convertible Notes held by such holder.

As of close of business on March 18, 1998, when the solicitation period ended, parties holding 100% in principal amount at stated maturity of the Senior Notes and 85.66% in principal amount at stated maturity of the Convertible Notes had consented to the amendments. Pursuant to such consents, The Bank of New York, as trustee under the Indentures, the Company and certain other parties executed a supplemental indenture, dated March 20, 1998 (the "Supplemental Indenture"), bringing the amendments to the Indentures and certain related documents into effect. In addition, the Company issued a total of 123,000 five-year warrants to purchase 1.8 shares of Common Stock at $6.90 per share to the holders of the Senior Notes, and a total of 22,700 five-year warrants to purchase 2 shares of Common Stock at a price of $6.90 per share to the holders of the Convertible Notes. If all of these warrants are exercised, the Company will issue a total of 266,800 shares of Common Stock.

The Company's executive offices are located at 680 Fifth Avenue, 24th Floor, New York, New York, 10019 (telephone number (212) 262-6060).

The Company's Common Stock is traded on the Nasdaq National Market under the symbol "PLDI" and the Toronto Stock Exchange under the symbol "PLD". It is also quoted on SEAQ International and traded on the Berlin and Frankfurt Stock Exchanges. Prior to March 6, 1997, the Company's trading symbol on the Nasdaq National Market was "PLDIF."

TELECOMMUNICATIONS IN THE FORMER SOVIET UNION

In the Soviet era, telecommunications in the Russian Federation and other republics of the former Soviet Union were designed principally to serve the defense and security needs of the state. The telephone network itself was highly centralized, reflecting the centralized nature of the Soviet economy. Telephonic links were directed towards the center of the network while neglecting inter-regional links. As a result, the ability to direct calls between regions without going through the center remains limited, which in turn has been a major constraint on economic growth in regional markets. Being committed to a "hub and spoke" network, the former Soviet Union never developed a trunk "backbone" capable of providing network expansion on a nationwide basis.

Consistent with a political philosophy which limited access to the world outside the former Soviet Union, all international calls originating in the former Soviet Union until 1992 were routed through a single international exchange in Moscow which had a capacity of only 3,200 circuits. Due to the inadequacies of the public network, as well as to ensure secrecy, many individual ministries and security organizations, including the Communist Party itself, established their own private nationwide networks. These private networks absorbed a substantial amount of the relatively limited resources available for investment in telecommunications. At the same time, these networks currently present an opportunity for the development of a national network apart from the existing public network.

With the break-up of the Soviet Union and the liberalization of the economies of its former republics, the demand for telecommunications services has increased significantly. However, the governments of the countries of the former Soviet Union do not currently have the significant capital necessary for the development of the telecommunications infrastructure. As a result, they have actively encouraged market liberalization, privatization and foreign investment in the telecommunications sector. This has resulted in significant development in the areas of fixed wire overlay systems, private networks and cellular and data services. As modern telecommunications capability is critical to the successful transition to a market economy, it is expected that the next stage of development will focus on basic telecommunications infrastructure.

TELECOMMUNICATIONS IN THE RUSSIAN FEDERATION

The Russian telecommunications sector has experienced substantial difficulty in meeting the rapidly growing demand for telecommunications services in the Russian Federation. At the local level, there has been

a significant growth in joint ventures providing discrete telecommunications services, such as international access and cellular service. While the bulk of this activity has been in Moscow and St. Petersburg, it has occurred in other regions as well. This trend has been encouraged by the Russian government which has issued over 600 licenses through the Ministry of Communications of the Russian Federation (the "Former MOC") (which as of March 17, 1997 has been replaced by the Russian Federal Committee on Telecommunications and Informatics (the "RFCTI")) to these new service providers. Most joint ventures involve a Russian and a foreign partner. Many of these joint ventures have remained moribund; however, where they have commenced operations, there has been an immediate improvement in telecommunications services in the targeted areas. Since much of the marketing activity has been aimed at the business community, the benefits of these improvements have not been (and for the foreseeable future are not likely to be) widely felt by residential customers, particularly those outside major metropolitan areas.

When the Former MOC was reorganized in 1991, the Russian government decided to convert each regional telephone center into a separate, privatized company with the government maintaining the controlling interest in the company. There are approximately 85 of these regional telephone companies. The government's interests in these companies are now held through Sviazinvest.

The national and international long distance market in the Russian Federation is dominated by Rostelecom, a formerly state-owned enterprise which has been privatized, but in which the Russian government continues to hold a 38% equity and 51% voting interest through Sviazinvest. Until 1991, Rostelecom was the monopoly provider of national and international long distance service. Since then, the Former MOC has issued licenses to approximately twenty other providers of international services. Rostelecom itself has entered into a number of joint ventures to develop its network and services, including through its participation in Teleport-TP. Rostelecom was originally charged by the Former MOC with the task of developing a long distance "backbone" as the basis for a new nationwide network, known as the "Russian Digital Overlay Network" or "50 X 50" (based on the fact that the "backbone" was to consist of fifty digital trunk switches and 50,000 kilometers of fiber optic cables and microwave relays). However, work on the "50 X 50" project ceased in June 1995, when the government of the Russian Federation announced that Sviazinvest would become a second long distance and international carrier in the Russian Federation, with the intention that it would become a nationwide competitor to Rostelecom.

Sviazinvest, which was originally 100% owned by the Russian State Property Committee, is a holding company for the Russian government's interests in the 85 local and regional telephone companies across the Russian Federation. In general, Sviazinvest has a portfolio that comprises holdings of 35% of the equity interest and 51% of the voting interests, with a number of notable exceptions, in these telephone companies. Sviazinvest is represented on the board of directors of each of these companies, but does not participate in the day-to-day management of the operations.

In 1997, it was reported that, notwithstanding its previously announced plans to have Sviazinvest compete with Rostelecom, the Russian government had consolidated its telecommunications holdings in Sviazinvest and Rostelecom by transferring its shareholding in Rostelecom (38% of the common stock, and 51% of the voting stock) to Sviazinvest. The balance of the shares in Rostelecom remain in the hands of private investors. In April 1997, the government announced that it was seeking to sell 49% of Sviazinvest in two auctions, one as to a 25% stake open to Russian and foreign investors and the other as to a 24% stake open only to Russian investors. In July 1997, the government announced that the 25% stake had been sold to a consortium which included Oneximbank and Renaissance Capital, for a purchase price of $1.875 billion. Following this auction, the Russian government announced its intention to increase the size of the other stake being sold to 25% minus one share. The schedule for the auction of the second stake has not been announced, but it is currently expected to occur by the end of the third quarter of 1998. While it is not yet clear how the proceeds of this sale will be employed, it is understood that the government wishes to have a substantial part, if not all, of the proceeds allocated to its current budget deficit. At the same time, Sviazinvest has announced plans to raise $400 million through a Eurobond offering later in 1998. In light of all of the foregoing, it is unclear what impact the consolidation of the government's telecommunications holdings and the auctions of significant stakes in Sviazinvest will have on the Russian telecommunications market in general and the Company in particular.

The provision of telecommunication services is currently regulated by the Law on Telecommunications which came into effect on February 22, 1995 (the "Telecommunications Law"). While the Former MOC had significant regulatory powers prior to the passage of the Telecommunications Law, principally through the issuance of new licenses, telecommunications had traditionally been viewed as the province of the military and security services. The Telecommunications Law placed control of the Russian telecommunications network in the hands of a civilian regulatory authority. Under the Telecommunications Law, the Former MOC was, and now the RFCTI is, charged with the responsibility of coordinating the development of telecommunications in the Russian Federation and regulating the provision of services. Specifically, the Former MOC was and now the RFCTI is, given authority to issue telecommunications licenses, allocate frequencies and certify equipment for use in Russia, although it is not yet clear whether the RFCTI will in fact continue to operate in the same manner, and wield the same influence as the Former MOC. See "-- Risk Factors -- Risks Involving the Company -- Regulatory Uncertainties." The Telecommunications Law also establishes a number of important principles in the telecommunications area, including the guarantee of equal access for all providers of telecommunications services and safeguards for private business activity in the telecommunications sector. The Telecommunications Law extends these principles to foreign companies and individuals, thereby recognizing the need to encourage foreign participation in the development of the Russian telecommunications sector.

The Federal Committee for Regulating Natural Monopolies in Telecommunications has been empowered to regulate international and, since mid-1997, domestic long distance tariffs, together with interconnect fees for public operators in the Russian Federation. In addition, this Committee has the authority to establish the framework for local fees and tariffs which, in the future, will be regulated by newly-established Regional Committees for Regulating Natural Monopolies. At the current time, regional governments set and regulate local tariffs, and it is currently uncertain as to how, and when, local tariff regulation will be transferred to the Regional Committees. The Company's businesses are not public operators and will therefore not be directly affected by any tariff regulation imposed by the Federal or Regional Committees.

While the RFCTI appears to have succeeded to all of the powers and authorities of the Former MOC (with the exception of tariff regulation), it is not yet clear whether it will in fact continue to operate in the same manner, and wield the same influence as the Former MOC. In particular, it is not clear whether the RFCTI will be able to control the actions of local governmental and other regulatory authorities who may endeavor to impose their own informal licensing and other regulatory requirements or conditions on operators. In addition, in the area of tariff regulation, it is not yet clear how the various Committees will interact with the regional governments, and the regional governments may continue to seek to regulate tariffs in their regions. See "-- Risk Factors -- Risks Involving Technocom Limited and Teleport-TP -- Capital and Management Resources Required for Network Expansion; Management of Growth."

Moscow. Local public fixed-line telephone service in Moscow is provided by MGTS, a recently privatized company which operates the telephone network in Moscow. MGTS currently serves 4,900,000 subscribers, of which 79% are residential. Approximately 10% of the switches on the MGTS network are digital and digital service generally is available to only 10% of its subscribers. Since local calls are free, the bulk of MGTS' revenue comes from line rental. However, MGTS has announced plans to introduce call metering as part of a major redevelopment of its network.

MGTS has also announced a number of initiatives designed to develop the Moscow public network. In 1996, it was reported that MGTS planned to invest approximately $70 million in modernization programs. Two projects are to be carried out jointly with AT&T and Rostelecom and are aimed at creating 400,000 new access lines using fiber optic cable and digital exchanges. MGTS will be responsible for 75% to 80% of the total cost of the investments, with the remainder being supplied by joint venture partners and through credits. To date, MGTS has received a $50 million credit from Credit Suisse associated with equipment supplied by AT&T. A second project involving Siemens contemplates the installation of an additional 300,000 digital lines.

In addition to MGTS, there are a number of digital overlay networks in Moscow which involve a Western investor (e.g., GPT, Belgacom, Lucent Technologies (formerly, AT&T Network Systems ("Lucent")) and

Global TeleSystems ("GTS")) and a local Russian partner (usually MGTS, the Central Telegraph Office or Rostelecom). Finally, there are a number of private network facilities owned by the local and regional utilities that provide services to a limited market segment.

MGTS routes long distance traffic through a gateway exchange called MMTS. This traffic is directed to the Rostelecom long distance network for delivery to the regional telephone operators. International traffic is also passed to Rostelecom via MMTS. The international network of Rostelecom is supported by a combination of Russian and Western satellite capacity including that provided by Teleport-TP. However, there continues to be considerable congestion at the MMTS and Rostelecom switching centers due to their inability to keep up with demand.

Certain calls to other countries of the former Soviet Union can still be routed through the Rostelecom network although this network primarily consists of analog switching and is characterized by significant call failure rates. For callers on private networks, international access is generally provided by direct satellite facilities, such as Teleport-TP. The telecommunications market in Moscow also supports four cellular operators (two analog and two digital) and nine paging networks.

In August 1997, the Moscow city government (which holds a 33% voting stake in MGTS) announced the planned consolidation of its telecommunications holdings, through the formation of Mostelekom. It has been reported that Mostelekom will act as a holding company for the city's shares in MGTS and other telecommunications interests, including MGTS's 50% holding in Comstar, a joint venture with GPT.

St. Petersburg. The telephone network serving St. Petersburg is operated by PTN, the local telephone company which was privatized in May 1993. PTN has 1,800,000 lines in operation, amounting to a nominal penetration rate of 36%. PTN's intra-city traffic is carried through a network of thirty-four transit exchanges distributed throughout St. Petersburg and all connected to each other in a "cobweb" fashion. The existing PTN network is outdated and overloaded, producing congestion, interference, "crossed lines" and poor transmission quality. Only 23% of PTN's exchanges are digital/electronic, and some of its equipment is over 40 years old. PTN has recently installed a modern fiber optic loop which, once operational, will significantly enhance its ability to deliver traffic throughout its service area, and in addition has commenced efforts to access the international capital markets in order to raise funds with which to further modernize its system. PTN has entered into a number of other, primarily wireless, telecommunications joint ventures.

PTN routes long distance traffic through a gateway exchange operated by SPMMTS. This traffic is then passed to the Rostelecom long distance network for delivery throughout the rest of the Russian Federation and the other countries of the former Soviet Union. The Company acquired a 10.4% equity interest in SPMMTS in 1994, which it sold in June 1997.

SPMMTS is the gateway for international calls to and from St. Petersburg. SPMMTS has a number of options for the forwarding of international calls. Such calls can be directed to an international gateway owned by St. Petersburg International ("SPI"), a joint venture between British Telecommunications plc ("BT") and SPMMTS which has satellite connections to the UK. In addition, SPMMTS has access, via Rostelecom, to the undersea cable between Russia and Denmark for international traffic. Finally, SPMMTS has the option to route international traffic through the international gateway in Moscow. In addition to SPMMTS, there are several independent dedicated networks which provide international telecommunications access in St. Petersburg, including BCL. Under the terms of its license, PeterStar is required to route its long distance and international traffic via the public network gateway.

The telecommunications market in St. Petersburg also supports three cellular operators (two analog and one digital) and a number of paging networks.

In 1996, PTN and SPMMTS formed Telecominvest, originally as a joint venture to act as a holding company for their respective interests in a number of telecommunications ventures in Northwest Russia. Subsequently, also in 1996, a Commerzbank affiliate acquired a 51% interest in Telecominvest. Currently Telecominvest owns 29% of PeterStar, 31% of North West GSM ("NW GSM"), the digital 900 MHZ operator for St. Petersburg, 49% of Neva Cable and 5% of Neda Paging. It is understood that PTN intends to transfer all or part of its interests in Delta Telecom and Neva Paging to Telecominvest, subject to final agreement with their joint venture partners. Although as a result of this activity Telecominvest will hold

interests in regional cellular operators which are customers of PeterStar, as well as other ventures which may be possible customers for PeterStar, it is unclear what the exact nature of Telecominvest's plans are with respect to these holdings or how such plans will affect PeterStar.

TELECOMMUNICATIONS IN KAZAKHSTAN

At the time of Kazakhstan's independence in 1991, the Kazakh telephone system consisted of the same outdated network equipment as the other telephone systems in the former Soviet republics. Currently, only 13% of Kazakhstan's population of approximately 17,000,000 has telephone lines. The existing national telephone network consists of approximately 1,900,000 lines, of which 330,000 are in Almaty. Due to the outdated condition of much of the telecommunications infrastructure in Kazakhstan, basic telephone service is characterized by poor transmission quality. Quality international lines are available only to subscribers willing to pay premium rates for the services of an overlay operator. As a result, wireless communications are becoming an increasingly important aspect of telecommunications in Kazakhstan.

The national network is served by trunk switches in 19 regional centers throughout the country. New transit switches supplied by Alcatel and Lucent have been installed in approximately one half of the regional centers, and there are plans to complete the modernization of the remaining regional centers. The existing inter-regional long distance transmission network is wholly analog, based on high capacity coaxial cables running north to south and east to west through the major cities. In addition, a balanced pair cable route passes diagonally northwest from Almaty to the remaining regional centers in the middle of Kazakhstan. All of these cables are equipped with outdated Soviet or East German analog transmission equipment. These analog transmission routes are expected to be replaced by modern fiber optic cable and digital transmission systems. Kazakhtelekom, in a joint venture with Deutsche Telekom, has developed a fiber optic network linking Alekseyevka (a city 30 kilometers from Almaty) to the new capital city of Astana.

All local exchange switching in Kazakhstan has been via electromechanical exchanges using outdated equipment. The first modern digital exchange installed in Almaty consists of an early generation digital switch with a capacity of 20,000 lines. Conversion of all local exchanges to modern digital equipment is planned and some conversion has already begun. However, since modernization of the local exchanges and associated networks will be extremely costly and likely to produce a slow return on capital investment, it is estimated to be at least two to three years before there is a significant increase in modern digital local exchange capacity and growth in network capacity.

Until 1992, the sole means of international access to and from Kazakhstan was through a central switch located in Moscow. Kazakhstan acquired its own international gateway in August 1992 when a new AT&T 5ESS switch was installed in Almaty. It now has approximately 800 direct international circuits via satellite with 22 countries, including the United States, Japan, Australia, Germany, France, Israel and Turkey and via analog cables to Moscow. Kazakhstan has also announced plans to participate in projects to install fiber optic cable links between China, the countries of Central Asia and Europe, which on current forecasts will commence service in 2000.

The Kazakh Law on Enterprises dated February 13, 1991 authorizes the Cabinet of Ministers to issue licenses for certain types of activities in Kazakhstan, including the provision of telecommunications services. The Cabinet of Ministers delegated the authority to license telecommunication providers, allocate frequencies and certify telecommunications equipment to the Kazakh Ministry of Communications (the "KMOC"). Pursuant to this delegation of authority, the KMOC adopted temporary procedures for the consideration of applications for and the issuance of such licenses. In April 1995, President Nazarbayev issued a decree setting forth the licensing procedures in greater detail. The decree also confirmed the authority of the Cabinet of Ministers to grant licenses and the right of non-Kazakh companies and individuals to equal treatment in the granting of licenses. However, apart from these licensing procedures, there is virtually no other regulation in the telecommunications sector, and no comprehensive regulatory framework. Administration of the telecommunications sector is essentially left to the discretion of the KMOC.

Actual operation of the public telephone network is carried out by Kazakhtelekom, which was created for this purpose in June 1994, as well as regional operators. A variety of functions previously carried out by other

governmental entities, including representation of the Kazakh government in international telecommunications matters and the planning and development of the network in Kazakhstan, have been transferred to Kazakhtelekom. Kazakhtelekom has recently been granted a revised license giving it specific authority to act as the exclusive operator of the Kazakh national network and to represent the Kazakh government in international telecommunications matters, along with a broad series of powers to enable it to fulfil this function. Kazakhtelekom carries out its functions under the oversight and direction of the KMOC. In May 1997, the Kazakh government announced that it had sold a 40% stake in Kazakhtelekom to Daewoo. However, in March 1998, it was reported that Daewoo had sold a portion of its stake (reported to be approximately 10%) to an unnamed third party. The report did not indicate whether Daewoo proposed to sell or retain the remainder of its stake in Kazakhtelekom. See "-- Risk Factors -- Risks Involving ALTEL -- Effect of Sale of Stake in Kazakhtelekom on ALTEL and the Telecommunications Market in Kazakhstan" and "-- Ownership and Management of Operating Subsidiaries -- ALTEL -- Relationship with Other Equity Holders."

PETERSTAR COMPANY LIMITED

OVERVIEW

PeterStar, in which the Company owns a 60% interest, operates a fully digital, city-wide fiber optic telecommunications network in St. Petersburg that is interconnected with the network of PTN, the local telephone company, as well as the Russian national and international long distance systems. PeterStar provides integrated, high quality, digital telecommunications services with modern transmission equipment, including local, national and international long distance and value-added services, to businesses in St. Petersburg. The PeterStar network provides an alternative to the PTN network, which to date has been characterized by significant capacity constraints. PeterStar is able to provide integrated telecommunications services to business customers, including users of high bandwidth voice, data and video communications services. PeterStar's network is designed to support a wide range of telecommunications products and services with a high degree of reliability. Additionally, PeterStar provides the three cellular operators in St. Petersburg with access to digital switching and transmission capacity which significantly improves their ability to consistently receive and deliver their customers' traffic. As of December 31, 1997, PeterStar had a total of 114,774 lines, of which 85,948 were provided to cellular operators.

PeterStar, which started limited service in 1993, generated net income for the year ended December 31, 1997 of $16.5 million on operating revenues of $54.5 million, as compared to net income of $5.9 million on operating revenues of $32.5 million for the year ended December 31, 1996. Subscriber lines installed increased from 52,005 at the end of 1996 to 114,774 at December 31, 1997, reflecting increased penetration of the business community and cellular operators. PeterStar accounted for 47.6% of the Company's operating revenues for the year ended December 31, 1997, as compared to 52.4% for the year ended December 31,1996.

STRATEGY

PeterStar's strategy is to meet the growing demands of business customers and other network operators in St. Petersburg through the expansion of its current numbering capacity of 100,000 lines allocated by the RFCTI to a total of approximately 200,000 lines by 2001. PeterStar has recently added incremental transmission capacity and upgraded its transmission network from STM-4 to STM-16, as well as introducing new service features such as ISDN capability, which allows simultaneous transmission of voice, data, video and still images. In addition, as part of its strategic relationship with PTN, PeterStar intends to continue to provide targeted support to PTN in its efforts to upgrade and modernize its network. The business environment in St. Petersburg continues to improve, with the ongoing growth of small to mid-sized Russian and foreign businesses and the development of the banking and financial services industries. PeterStar has placed increased emphasis on this market segment in order to capitalize on what it considers to be a significant market opportunity.

PeterStar has recently commenced several projects designed to expand its direct dial services in St. Petersburg and Northwest Russia. PeterStar has agreed with PTN to undertake a major infrastructure

project involving the replacement of analog exchanges with digital exchanges for certain parts of the network on Vassilievski Island, a city district in St. Petersburg. This project will require the conversion of approximately 30,000 business and residential lines that are currently operated by PTN, after which such lines become a part of the PeterStar network. In addition, PeterStar plans to further enhance its transit network capabilities in order to provide continued support to the cellular and other network providers in terminating traffic in St. Petersburg and to the national and international gateway.

PRODUCTS AND SERVICES

PeterStar currently provides: (i) voice and data services to business and residential customers; (ii) switched transit services for cellular and other network operators; and (iii) value-added voice and data services. PeterStar markets its products and services through its own direct sales force which targets mainly corporate accounts.

PeterStar also provides, or plans to introduce, a number of value-added voice and data services to complement the basic fixed network services it currently provides. The Company believes that the ability to provide such services on the PeterStar digital network is a key competitive advantage in the St. Petersburg marketplace. Current and planned services include the following:

Data Services. PeterStar provides high speed data links across the city of St. Petersburg. These connections provide links between the computer networks of banks and large companies, allowing for data interchange between a variety of back office systems. The target customer for such services is the emerging financial sector, with the Russian Stock Market, Sberbank, Promstroibank, and Bank St. Petersburg all currently using PeterStar's services. Other customers for these high speed links, such as Reuters, utilize PeterStar to deliver value-added services to their own customers.

Operator services. PeterStar has provided operator assistance service since the third quarter of 1995 pursuant to a 1995 agreement with SPMMTS. The agreement with SPMMTS provides PeterStar with primary access to the "07" (long distance) operators connecting customers on a non-automatic dial destination throughout the Russian Federation and the other countries of the former Soviet Union. Other operator services offered include conference calling and person-to-person calling. PeterStar also plans to provide access to wider databases including those provided by C.P.Y. Yellow Pages Limited, the Company's wholly owned subsidiary which publishes a business-to-business directory for St. Petersburg ("Yellow Pages").

Calling Card Services. In November 1995, PeterStar launched a direct dial calling card service, enabling subscribers to dial directly through to the PeterStar network if using a tone dial telephone. The service, which provides both debit and credit card service, is also available via the PeterStar operator service for pulse and rotary dial telephones. PeterStar has recently expanded this service offering through co-operation with Comstar, a network operator in Moscow, providing PeterStar customers access in Moscow. The Company is currently considering a further expansion of its calling card platform in conjunction with the development of the Teleport-TP national network facilities.

Audiotext. PeterStar has recently launched audiotext (i.e., "1-900") services, offering recorded information including information on cultural events, weather, traffic and horoscopes.

Equipment Sales. PeterStar offers customers a wide range of telecommunications equipment as a means of enhancing its service. It offers PBXs, key systems, handsets, and the full range of customer terminals including Partner, Partner Plus, Merlin and Definity. PeterStar also offers a maintenance service for the equipment.

Frame Relay. PeterStar has commenced the operation of a frame relay data network service as an enhanced feature of its current service offering. Customers include Citibank, the Russian Central Bank and the Russian Stock Market.

ATM. PeterStar has installed an ATM service, including eight switches, for selected customers to complement the existing service offering. Customers include Coca-Cola and financial institutions such as

Promstroibank and Bank St. Petersburg, and it is anticipated that an expansion of this service will take place once market demand has been confirmed.

ISDN. PeterStar has installed an ISDN platform to service the demand in the local marketplace. PeterStar also offers international ISDN services, following agreement on the standard for C-7 signaling and the upgrading of the international gateway.

Internet. Since August 1996, PeterStar has provided its subscribers access to the Internet via WEBplus, a local Internet service provider. PeterStar provides dial-up and dedicated network access to customers wishing to use the WEBplus service.

CUSTOMERS AND MARKETING

PeterStar's customer base currently consists of three general categories:

(i) business customers; (ii) cellular and other network operators; and (iii) residential customers. PeterStar's primary focus is the provision of voice and data services to business customers, including those which generate large amounts of outgoing long distance and international traffic.

PeterStar has experienced a shift in its customer base, from foreign companies (which tend to use the higher priced international services) to predominantly Russian businesses and, to a lesser extent, residential customers (for whom local calling is the principal usage).

The following table illustrates, as of December 31, 1994, 1995, 1996 and 1997, the number of lines on the PeterStar network, set forth by customer segment:

<TABLE>
<CAPTION>

TYPE OF CUSTOMER	NO. OF LINES AS OF DEC. 31, 1997	% OF 1997 TOTAL	NO. OF LINES AS OF DEC. 31, 1996	% OF 1996 TOTAL	NO. OF LINES AS OF DEC. 31, 1995	% OF 1995 TOTAL	NO. OF LINES AS OF DEC. 31, 1994	% OF 1994 TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Direct dial -- business.........	24,344	21%	12,482	24%	4,840	23%	1,500	36%
Direct dial -- residential......	4,482	4%	2,310	4%	2,029	9%	214	5%
Cellular operators.............	85,948	75%	37,213	72%	14,659	68%	2,386	59%
Total.................	114,774	100%	52,005	100%	21,528	100%	4,100	100%

</TABLE>

COMMERCIAL VOICE AND DATA SERVICES

PeterStar's digital overlay network provides its customers with improved connectivity, as well as a package of exchange services such as call waiting, call forwarding and three-way conferencing. PeterStar offers its customers a choice between new digital installations or the upgrading of existing PTN analog connections to digital capability. New lines are provided via either traditional copper connections or fiber optic cables.

For domestic long distance connections, PeterStar offers dedicated digital circuits to Moscow. Moscow is the destination of approximately 80% of the long distance traffic from St. Petersburg, all other national traffic being directed to the national switching center of Rostelecom in Moscow for delivery throughout the Russian Federation.

SPMMTS is the gateway for international calls to and from St. Petersburg and SPMMTS has a number of options for the forwarding of international calls. Such calls can be directed to an international gateway owned by SPI, a joint venture between BT and SPMMTS which has satellite connections to the UK. In addition, SPMMTS has access, via Rostelecom, to the undersea cable between Russia and Denmark for international traffic. Finally, SPMMTS has the option to route international traffic through the international gateway in Moscow. In addition to SPMMTS, there are several independent dedicated networks which provide international telecommunications access in St. Petersburg, including BCL.

Call revenues and total minutes in the commercial voice and data services segment (i.e, non-cellular) amounted to $22.5 million, $12.8 million, $6.2 million and $4.4 million, and 126,220,000, 71,128,000, 19,995,000, and 6,153,000, in 1997, 1996, 1995 and 1994, respectively.

Business Customers. PeterStar's primary focus has been the provision of telecommunications products and services to business customers, including those which generate large amounts of outgoing international traffic. PeterStar targets both foreign and, increasingly, Russian businesses which have requirements for high quality local, long distance and international telecommunications services. As of December 31, 1997, Russian businesses, such as Baltika Brewery and LenEnergo, represented approximately 70% of PeterStar's 19,862 business subscriber lines and foreign businesses, such as ABB, Rothmans Inc., Unilever N.V., Littlewoods, Coopers and Lybrand and Cadbury, represented the balance. Total call revenues from PeterStar's directly connected business customers were $19.6 million in 1997, 45% of which was accounted for by Russian businesses.

Residential Customers. As of December 31, 1997, PeterStar had connected 4,482 residential customers to its network. Revenues from direct dial residential customers (principally connection charges and line rentals) totaled $171,000 in 1997. At present, PeterStar does not directly receive any call revenues from its residential customers. See "-- Billing, Tariffs and Interconnection Charges -- Tariffs -- Residential Customers." PeterStar has commenced a project with PTN to upgrade telecommunications services on Vassilievski Island, a project which will increase the number of residential customers on the PeterStar network. See "-- Expansion of Voice and Data Services."

EXPANSION OF VOICE AND DATA SERVICES

PeterStar has agreed with PTN to undertake an infrastructure project centering on the replacement of analog step-by-step and cross-bar exchanges with digital telecommunications equipment for Vassilievski Island, a city district in St. Petersburg. The project will require the conversion of a total of approximately 30,000 business and residential lines that are currently operated by PTN, over the 1997-98 period, after which such lines become part of the PeterStar network and the users will become PeterStar customers. Approximately 2,800 lines were converted at the end of 1997; an additional 3,000 lines are expected to be converted by the end of the second quarter of 1998, with the balance completed by the end of the third quarter of 1998. While the business customers will be charged PeterStar tariffs, the residential customers will only pay PeterStar the equivalent PTN rate for the line rental. PeterStar anticipates collecting the revenues on national and international calling from these customers, although the level of such calling for residential customers, who are expected to be the bulk of the new customers, is not expected to be substantial. The total cost of the project is estimated at between $18-20 million, of which $13 million is for network infrastructure and the balance for civil works and local network upgrades. This amount also includes approximately $3 million for an upgrade to the core PeterStar overlay network.

PeterStar also expects to increase its operating presence in Northwest Russia through the targeted development of digital infrastructure to connect business customers and to develop operational relationships with the regional telephone companies. PeterStar is exploring the possibilities for closer cooperation with both Teleport-TP and BCL in connection with the expansion of its core business in St. Petersburg and the implementation of its strategy in Northwest Russia.

The implementation of the proposed expansion in direct dial services involves a variety of risks, including those set forth in "-- Risk Factors -- Risks Involving PeterStar Company Limited and Baltic Communications Limited."

CELLULAR SERVICES

The three cellular operators in St. Petersburg currently utilize the PeterStar network to deliver high quality services to their customers and provide reliable access to the local, long distance and international networks. PeterStar's digital infrastructure enhances the ability of the cellular operators to consistently receive and deliver their customer's traffic, a benefit that is not achievable by using the outdated PTN transmission network. In addition, the lack of capacity on the PTN network provides a significant constraint on the ability of the cellular operators to expand their capacity to meet market demand. Access to the PeterStar network provides these cellular operators with the additional capacity necessary to accommodate their planned growth.

The number of cellular customers in St. Petersburg has increased from approximately 6,400 at December 31, 1994 to approximately 107,000 at December 31, 1997, as St. Petersburg has become one of the fastest growing cellular markets in Russia. Subscribers are primarily business customers who use cellular service as a mobile telecommunications tool rather than as an alternative to the wireline network.

The three cellular operators in St. Petersburg are:

Delta Telecom. Delta, the NMT 450 operator, was connected to the PeterStar network in September 1995. Delta, a joint venture between PTN and an affiliate of U.S. West Media Group, Inc., has over 30,000 active subscribers on its network, of which 16,596 were connected as of December 31, 1997 to the PeterStar network for local access and overflow long distance and international access, with the balance connected via PTN. PeterStar recently reached an agreement with Delta whereby Delta has connected the remainder of its cellular subscribers to the PeterStar network.

North West GSM. NW GSM, the digital 900 MHZ operator for the city, has been connected to the PeterStar system since September 1994. At December 31, 1997, all of NW GSM's subscribers (of which 52,681 are active) were connected to the PeterStar network, which provides NW GSM with local, long distance and international digital access.

Fora Communications. Fora, a joint venture between Millicom International Cellular ("Millicom") and the City of St. Petersburg, is an AMPS 800 cellular system that has been connected to the PeterStar network since July 1994. At December 31, 1997, all of Fora's subscribers (of which 16,671 are active subscribers) were connected to the PeterStar network, which provides Fora with local, long distance and international digital access.

The following table sets forth, for each cellular operator, the number of active lines connected to PeterStar at December 31, 1994, 1995, 1996 and 1997:

CELLULAR OPERATOR	DECEMBER 31, 1997	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994
Fora Communications....	16,671	8,603	3,410	1,896
NorthWest GSM..........	52,681	22,210	7,049	490
Delta Telecom..........	16,596	6,400	4,200	--

Call revenues and total minutes in the cellular segment amounted to $9.0 million, $5.2 million, $2.2 million and $0.2 million, and 119,096,000, 57,729,000, 17,830,000, and 2,005,000 minutes, in 1997, 1996, 1995 and 1994, respectively.

NETWORK AND FACILITIES

PeterStar's network and facilities give it the ability to provide advanced digital services to the telecommunications market in St. Petersburg, services that the Company believes PTN, with its primarily analog network, will be unable to provide in the near term due to internal funding constraints at PTN. The PeterStar network consists of digital exchanges which are connected by fiber optic cables, advanced transmission systems and remote switching units and concentrators. The fiber optic network forms three rings, permitting traffic to be re-routed in the event that a cable is cut or damaged. The network is fully interconnected with the PTN network, with direct and indirect connections via approximately 540 kilometers of fiber optic cable to all thirty-four PTN transit exchanges distributed throughout St. Petersburg. These direct connections to all of the primary PTN exchanges enable callers to by-pass congestion on the PTN network. The fiber optic cables also provide direct links to the national and international switch, providing PeterStar customers with high quality long distance and international access. PeterStar expects that it will continue to incrementally add switching, transmission capacity and local loop infrastructure to its core network in order to address its target market in St. Petersburg and regional points of presence.

In addition to core network development, PeterStar, as part of its goal to be the full service telecommunications provider to the business community in St. Petersburg, undertook a number of specialized customer connections to its network, tailoring the solution to the specific customers' needs. This involved investment in, among other things, new cable, trunked radio, and customer premises equipment. Contracts

concluded in 1997 include those with the Central Bank of Russia, Pepsi, Pratt & Whitney, AT&T (USA Direct) and IBM.

PeterStar has signed a contract with Tadiran, an Israeli wireless equipment manufacturer, to supply 1,500 lines of wireless local loop infrastructure. PeterStar intends to deploy such equipment where: (i) local loop infrastructure is non-existent or of poor quality; and (ii) the cost of installing cable would be prohibitive. PeterStar may expand this service if the initial project proves successful. It is anticipated that the equipment will be installed during the first half of 1998.

The PeterStar network currently consists of two AT&T 5ESS exchanges and several remote concentrators. PeterStar's Vassilievski Island exchange now serves as its main transit exchange, and is linked to the other PeterStar exchange located in Ligovskaia, in the central business district of St. Petersburg, as well as with PTN and SPMMTS. The Vassilievski Island exchange has the capacity to serve a large number of customers, both in the immediate vicinity of Vassilievski Island and at remote locations via the fiber optic network. This capacity enables PeterStar to carry substantial volumes of traffic to and from the PTN network to other network operators, such as cellular, Internet and paging operators, and to provide high quality links for long distance and international calls. PeterStar has recently added incremental transmission capacity and upgraded its transmission network from STM-4 to STM-16, as well as working on the provision of new service features. In addition, as part of its strategic relationship with PTN, PeterStar intends to continue to provide targeted support to PTN in its effort to upgrade and modernize its network. See "-- Risk Factors -- Risks Involving PeterStar Company Limited and Baltic Communications Limited -- Dependence on PTN Facilities" and "-- Products and Services -- Expansion of Voice and Data Services."

BILLING, TARIFFS AND INTERCONNECTION CHARGES

Billing

PeterStar provides monthly itemized bills to its customers denominated in U.S. Dollars. Installation and initiation charges, line rental and local and long distance call charges must be paid in Roubles at the U.S. Dollar/Rouble exchange rate on the date when the customer instructs its bank to make payment. Currency regulations govern the currency in which international call charges may be paid. Russian resident companies are required to pay in Roubles, while non-resident companies may pay in Roubles or U.S. Dollars. Customers who are permitted to pay in U.S. Dollars are also able to pay by U.S. Dollar-denominated credit cards, as PeterStar is now registered to accept all major credit cards. Late fees are assessed on all invoices after 30 days, at the rate of 7.25% per month. By denominating its bills in U.S. Dollars (and exchanging Roubles at the then current U.S. Dollar/Rouble exchange rate), PeterStar limits the exchange rate risk otherwise associated with transacting business in a foreign currency. See "-- Risk Factors -- Country Risks -- Restrictions on Currency Conversion; Historical Volatility in Currency Prices."

Tariffs

There are no specific regulations regarding tariffs charged by PeterStar. PeterStar sets its tariffs taking into account those charged by PeterStar's interconnect parties, namely PTN, SPMMTS and SPI, as well as competitive pressures in the marketplace. PeterStar charges its customers for the installation of equipment and initiation of service, line rental, local, long distance and international calls and special services.

In the period during which PeterStar has operated, there has been significant price convergence between PeterStar and public network national and international call tariffs. As PeterStar has widened its customer base, it has reduced its national and international call tariffs. At the same time, public network tariffs have increased for long distance access. Until PTN introduces local call metering to its customers, PeterStar will not receive any such revenues from its residential customers, and the timing of the introduction of such metering remains unclear.

PeterStar's published tariff for local calls is $0.03 per minute peak (8 AM to 8 PM) and $0.02 per minute at other times. For domestic long distance calls, the tariffs range from $0.38 to $0.98 per minute, depending on the call's destination and the time of the call. For international long distance calls, tariffs are based on the

call's destination and the time of the call, with peak time tariffs ranging from $0.98 to $2.98 per minute. The tariffs for peak time calls to Europe and North America are $1.30 and $1.90 per minute, respectively. PeterStar offers discounts, based on call volumes, for customers who make a large number of calls per month.

The installation charge for PeterStar telephone lines has been $500 per line for the first 4 lines, $350 per line for the next five lines and $200 per line for each line above nine lines. Commencing April 1998, the installation charge will be $450 per line, regardless of the number of lines installed. For 2

Mb/s digital circuits, the installation charge is currently $4,500 for the first circuit and $3,500 for each additional circuit. The monthly rental charge is $20 for a telephone line and $750 for a 2 Mb/s digital circuit.

Business Customers. PeterStar business customers are charged the full PeterStar published tariffs for installation and initiation charges, line rental and local, long distance and international calls. Certain discounts are given for installations based on the number of lines installed at a single customer location and for call volumes.

Cellular Operators. The cellular companies pay PeterStar for the installation and lease of 2 Mb/s links, a connection charge for each number connected and a monthly rental fee for each number, plus volume related call charges.

Residential Customers. PeterStar currently only receives line rental and connection charges from residential customers at the PTN rate. PeterStar will not receive local call charges from residential customers until PTN imposes such charges and then will only receive charges at the PTN rate. Long distance and international calls are billed directly to residential customers by SPMMTS and PeterStar receives no part of these revenues. For residential customers connected as part of the Vassilievski Island project, PeterStar collects all revenues for long distance and international calling, with some of the charges at PTN tariff levels.

Interconnection Charges

PeterStar has been able to negotiate favorable tariffs for interconnection fees and carrier charges with both PTN and SPMMTS. PeterStar's current interconnect agreements with PTN and SPMMTS expire in December and November 1998, respectively. The agreements provide for automatic extensions at the end of their term unless otherwise terminated by either party. The interconnection fees and carrier charges payable under the interconnect agreements are subject to renegotiation between the parties from time to time. PeterStar anticipates that it will have to pay a local line rental charge to PTN commencing in 1998. The exact fee, and the timing of the fee, has not yet been determined, but PeterStar believes that a certain element of such fee can be exchanged for transmission capacity provided by PeterStar to PTN. See "-- Risk Factors -- Risks Involving PeterStar Company Limited and Baltic Communications Limited -- Dependence on Interconnect Parties" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations."

SUPPLIERS

Lucent is PeterStar's primary network equipment supplier. PeterStar has entered into a series of equipment supply agreements with Lucent for the purchase of telecommunications equipment, including transmission systems, switching equipment and related software, for the PeterStar network. In addition, Lucent has been the provider of the switching and other equipment for the Vassilievski Island project. See "-- Description of Agreements -- PeterStar Company Limited." PeterStar also has supplier relationships with ECI/Rosh Telecom for SDH transmission equipment, GDC for the supply of certain elements of its data network and Tadiran for the supply of wireless local loop infrastructure.

BALTIC COMMUNICATIONS LIMITED

BCL, in which the Company acquired a 100% equity interest in April 1996, provides international direct dial, international payphone and leased line services for Russian and foreign businesses in St. Petersburg and, commencing during 1997, the Leningrad Oblast. BCL also offers a number of advanced broadband services, as well as "carrier's carrier" services to other telecommunications operators. BCL has its own switching and

international transmission facilities in St. Petersburg, which act as a gateway for corporate customers in both Moscow and St. Petersburg. The BCL network consists of an international and local switch and capacity on the international fiber optic cable via Finland to Sweden and the United Kingdom. BCL's primary international carrier relationships are with Telia of Sweden, Cable & Wireless Communications of the United Kingdom and Lattelekom of Latvia. BCL rents local access from PeterStar and PTN to connect its customers in St. Petersburg.

See "-- Telecommunications Licenses -- Baltic Communications Limited" for a description of the telecommunications licenses held by BCL.

BCL had approximately 1,200 lines as of December 31, 1997 and generated approximately 8.3 million minutes of traffic for the year ended December 31, 1997. BCL is currently investigating means to increase the capacity on its network and to provide additional capacity for "carrier's carrier" services.

The Company endeavors to cross-sell the distinct service offerings provided by PeterStar and BCL to their respective customer bases. For example, PeterStar's marketing representatives are now also able to market BCL's international private line services to PeterStar's and other corporate customers. In addition, the acquisition provides the Company with the opportunity to: (i) potentially realize economies of scale at the operational level (i.e. a single sales and customer services channel and coordinated technical resources); and (ii) introduce new services to targeted markets in a more efficient manner. In addition, PeterStar and BCL are exploring the possibilities of closer cooperation in connection with the expansion of their respective core businesses in St. Petersburg and the implementation of their strategies in Northwest Russia.

BCL generated net income for the year ended December 31, 1997 of $0.5 million on operating revenues of $7.6 million. The Company acquired BCL in April 1996 and it therefore accounted for only nine months of earnings to December 31, 1996. BCL generated net income for the nine months ended December 31, 1996 of $0.7 million on operating revenues of $5.1 million. BCL accounted for 6.6% of the Company's operating revenues for the year ended December 31, 1997, compared to 8.2% for the year ended December 31, 1996.

CPY YELLOW PAGES LIMITED

Yellow Pages, a Cyprus company in which the Company holds a 100% interest, is the owner of one of the most comprehensive databases of Russian and foreign businesses in St. Petersburg and publisher of what is primarily a business to business directory. Yellow Pages has 18 employees in St. Petersburg who handle all of the graphic design and database management. Yellow Pages hires part-time workers for the periodic update of the directory. The directory is printed in Denmark because printing of the requisite quality is not currently available in Russia. However, it is intended to switch printing operations to Russia once this has been remedied. The Company is seeking to utilize the database of Yellow Pages to the benefit of PeterStar and BCL, particularly in more effective target marketing and in operator services.

The Yellow Pages database is widely respected as the most comprehensive and reliable data source for organizations operating within the city. Local governmental bodies, including the local telephone company, cannot provide accurate data information due to bureaucratic intricacies and a number of peculiarities of operating within the city's developing economy.

TECHNOCOM LIMITED

OVERVIEW

Technocom, in which the Company owns a 80.4% interest, through its subsidiaries, is the primary mechanism through which the Company provides high quality long distance telecommunications infrastructure and services in the Russian Federation. Technocom's principal asset is its 49.33% equity interest (56% voting interest) in Teleport-TP, a Moscow-based long distance and international operator targeting the commercial sector and other telecommunications operators with its satellite-based telecommunications services. Technocom also holds a 49% interest in MTR-Sviaz, a venture formed by Technocom and Mosenergo, the Moscow city power utility, to modernize and commercialize a portion of Mosenergo's internal

telecommunications network. See "-- Ownership and Management of Operating Subsidiaries -- Technocom Limited."

In addition, Teleport-TP is a 25% shareholder in Gorizont-RT, a GSM cellular operator in the Republic of Sakha, an autonomous region within the Russian Federation. Teleport-TP is required to supply switches to Gorizont-RT, which Technocom is supplying to the venture through a lease arrangement. In addition to realizing lease revenues from the equipment, Teleport-TP will be a primary carrier for long distance traffic for both the cellular network and the local telephone company, Sakhatelekom, which is the majority shareholder in Gorizont-RT.

Other interests of Technocom include: a 50% interest in Rosh Telecom Limited, a telecommunications equipment distributor, and an effective 100% interest in SCS, a marketing company responsible for selling and administering television broadcasting services.

Technocom recorded a net loss for the year ended December 31, 1997 of $4.7 million on operating revenues of $21.2 million, as compared with a net loss of $0.2 million on operating revenues of $4.4 million for the year ended December 31, 1996. Technocom accounted for 18.5% of the Company's operating revenues for the year ended December 31,1997 as compared to 7.1% for the year ended December 31, 1996.

Teleport-TP recorded a net loss for the year ended December 31, 1997 of $2.8 million on operating revenues of $16.9 million, as compared with a net loss of $0.1 million on revenues of $11.1 million for the year ended December 31, 1996.

STRATEGY

Teleport-TP is expanding its existing operations from the provision of international telecommunications services to the provision of domestic long distance telecommunications services in the Russian Federation utilizing Western satellite capacity and technology. The Company believes that there is a largely untapped market for satellite-based services between various regions of the Russian Federation due to the current poor quality, or total absence, of terrestrial long distance lines in many areas. Installation of the first phase of the long distance network commenced in the second half of 1996, with 29 sites installed as of December 31, 1997. Technocom has contracted with the telecommunications equipment supplier Scientific-Atlanta, Inc. to supply equipment for a total of 45 sites which, based on current plans, will be installed by the end of the first half of 1998. Technocom is currently formulating its plans in connection with the installation of additional earth stations and has held preliminary discussions with Scientific-Atlanta on this subject.

Technocom expects to further develop its group's presence in Moscow through the targeted development of infrastructure via Teleport-TP and MTR-Sviaz, and through co-operation agreements with other network providers to deliver value added voice and data services to the corporate market. Teleport-TP and MTR-Sviaz are presently working together to address the corporate market, with MTR-Sviaz providing or arranging to provide the local infrastructure in Moscow, connecting customers to Teleport-TP for national and international access.

TELEPORT-TP

Overview

Since 1994, Teleport-TP has operated an international telecommunications network providing dedicated voice, data and video services, as well as bandwidth, to Russian and foreign businesses and private telecommunications networks. During 1997, Teleport-TP continued the installation of a long distance network which is being targeted to high volume customers requiring high quality, reliable long distance service across the Russian Federation. Targeted customers include: (i) regional public telephone companies (Electrosviaz); (ii) local public telephone companies; (iii) private cellular, wireline, data and other network operators; and (iv) corporate users.

Dedicated International Network Services

Products and Services

Teleport-TP provides international voice and data services, as well as bandwidth, to a number of private networks in the Russian Federation and to Russian and foreign businesses, including Rostelecom, the primary national and international long distance carrier in the Russian Federation and a 44% shareholder in Teleport-TP, Sprint and MTR-Sviaz. As of December 31, 1997, Teleport-TP provided access to over 1,200 international digital circuits to 27 operators in 24 countries, making it one of the largest international carriers in the Russian Federation. Teleport-TP has recently opened up direct routes to Georgia and Turkmenistan in the CIS.

Teleport-TP provides these international telecommunications services through access to two Intelsat satellites and one Eutelsat satellite.

Teleport-TP's arrangements with Intelsat and Eutelsat provide it with flexible and reliable satellite capacity, allowing Teleport-TP to provide consistent, high quality dedicated international telecommunications services to Russian and foreign businesses. The Company believes these arrangements represent a competitive advantage over carriers using less reliable Russian-made satellite systems.

In order to reach those countries to which it has not yet opened direct routes, Teleport-TP has entered into carrier relationships with Deutsche Telekom ("DT") in Germany, AT&T in the United States and Kokusai Denshin Denwa Co., Ltd. ("KDD") in Japan. Teleport-TP receives at least the same accounting rates and equal division of revenues from DT, AT&T and KDD as has been negotiated between the predecessor to the RFCTI and the German, United States and Japanese governments.

Television Transmission. An additional source of revenue for Teleport-TP has been the provision of international circuits for the transmission of television signals to broadcasters who require international transmission capacity on an as-needed, rather than a scheduled, basis. Customers for this service include Capital Cities -- ABC, NHK and Fuji TV of Japan and TV India. Revenues from the transmission of television signals totaled approximately $413,000 for the year ended December 31, 1997, accounting for approximately 2.4% of Teleport-TP's revenues for the period.

Customers and Marketing

Rostelecom. Rostelecom, the primary national and international carrier in the Russian Federation and the holder of a 44% ownership interest in Teleport-TP, is Teleport-TP's principal customer for dedicated international network services. As of December 31, 1997, Teleport-TP leased approximately 900 active circuits via Intelsat and Eutelsat to Rostelecom, pursuant, as to the Intelsat circuits, to a five-year contract signed on December 1, 1992 and, as to the Eutelsat circuits, a ten-year contract which commenced in September 1995. Revenue from Rostelecom in 1997 totaled $4.7 million. The contract with respect to the Intelsat circuits was renewed in December 1997 for an additional three-year term, and is automatically renewable upon the expiration of its initial term, unless terminated by either party. Rostelecom utilizes Teleport-TP on traffic routes where it does not yet have a direct terrestrial connection and where the cost of a terrestrial connection would be prohibitive. On such routes, Teleport-TP provides Rostelecom with a means of accessing high quality digital international circuits that are not available via other Russian satellite or terrestrial means. See "-- Risk Factors -- Risks Involving Technocom Limited and Teleport-TP -- Dependence on Rostelecom as Customer; Necessity to Further Develop Customer Base."

Carrier Relationships. Teleport-TP, through its direct carrier relationships principally with KDD of Japan, generates revenues from the carriage of traffic to and from the Russian Federation. Teleport-TP carried approximately 4.1 million minutes of incoming international traffic to its private network during the year ended December 31, 1997.

Private Networks. Teleport-TP also has relationships with a number of business centers and private network operators. Teleport-TP's most important private network customer to date has been Sprint Sviaz, a Russian subsidiary of Global One, which leases 60 international circuits. Other customers include MTR-Sviaz, Technopark, the Intourist Computer Center and the Oil House Business Center.

Network and Facilities

Teleport-TP Network. Teleport-TP's dedicated international telecommunications network consists of an earth station (with three antennae), an international gateway switch and fiber optic cable. These network facilities are owned by Technocom and leased to Teleport-TP. The earth station consists of two Standard-A 18.3 meter antennas linked to two Intelsat satellites, one of which (at 342 degrees) serves Western Europe and the United States and the other of which (at 62 degrees) serves the Far East, and a 13 meter antenna linked to a Eutelsat satellite (at 21.5 degrees) which provides additional connectivity to European countries. See "-- Description of Agreements -- Technocom Limited -- Teleport-TP -- International Network Facilities -- Intelsat" and "-- Eutelsat."

Fiber optic cable links Teleport-TP's switch with its principal customers, including the national network of Rostelecom, the national television switching center in Ostankino, and a number of business parks, overlay network operators such as MTR-Sviaz and Comstar, and state-owned utilities located in Moscow and the Moscow region.

Teleport-TP is connected to the facilities of MTR-Sviaz to terminate certain traffic to users on the MTR-Sviaz network. MTR-Sviaz uses both leased circuits from a number of network providers, access to the Teleport-TP fiber optic facilities, and the Mosenergo internal communications network to terminate its calls. Teleport-TP also uses the MTR-Sviaz facilities to locate its Internet gateway, from which links to Internet Service Providers are provided via leased and dial-up lines on the public network. Teleport-TP also acts as the long distance gateway for subscribers on the MTR-Sviaz network.

The fiber optic cable utilizes the underground duct facilities of MGTS, the operator of the local telephone network in Moscow, under one year agreements which are subject to automatic one year renewals unless either party provides timely notice of cancellation. The current agreements expire on December 31, 1998. See "-- Risk Factors -- Risks Involving Technocom Limited and Teleport-TP -- Dependence on MGTS Facilities."

Intelsat Arrangements. Teleport-TP currently routes international traffic through two Intelsat satellites at 342 degrees and 62 degrees pursuant to a fifteen year contract with Intelsat signed in January 1993. In addition, Teleport-TP has commenced using transponder capacity on a third Intelsat satellite (at 66 degrees) in connection with the development of its long distance network program. The agreement requires quarterly payments of $616,500 for the remainder of its term. See "-- Long Distance Network Services -- Network and Facilities."

The Intelsat system, with 22 operational satellites of 4 different configurations, is of significantly greater size, and provides greater coverage, than any of its competitors. Intelsat's global capacity makes it the leading international telecommunications satellite operator. The Intelsat organization is able to offer flexible and reliable satellite capacity, supported by a variety of contingency plans. Additionally, because of the strength of the Intelsat organization, manufacturers and operators have designed their ground stations to be compatible with Intelsat's specifications, creating a system that is global and transparent to users and their customers.

Since January 1993, Teleport-TP has been one of only three direct Intelsat customers in the Russian Federation. In December 1997 the government of the Russian Federation also designated Teleport-TP as that country's sole private investing entity, as a result of which, following the completion of certain licensing requirements, Teleport-TP will become an equity participant in the Intelsat organization. Teleport-TP's relationship with Intelsat provides a number of advantages to Teleport-TP and its customers, including: (i) high quality and reliable service resulting from the reliability of the satellite system; (ii) a wide range of service options; (iii) a wide range of consulting and training services; and (iv) operational planning and management services reflecting Intelsat's experience with in excess of 60 telecommunications satellites over a period of 30 years. See "-- Long Distance Network Services -- Network and Facilities."

Eutelsat Arrangements. Pursuant to a ten-year agreement with Eutelsat, which commenced in September 1995, Teleport-TP has access to a total switched capacity of 1,800 international circuits. Teleport-TP currently provides access to six countries in Europe via a Eutelsat satellite at 21.5 degrees.

Teleport-TP is the only private registered Eutelsat operator in the Russian Federation and, during 1997, became an equity participant in Eutelsat as well. Eutelsat is the intergovernmental organization responsible for providing satellite communications space segment facilities for almost all European nations. Although originally designed to provide principally television and radio capacity, Eutelsat satellites now carry large quantities of telecommunications traffic. Unlike Teleport-TP, most of the signatories to Eutelsat are national telephone companies, often with a right to exclusive use or monopoly control of operations of users within their home territory.

Teleport-TP has already benefitted from its relationships with Eutelsat by obtaining relatively inexpensive access to the Eutelsat system. Pursuant to the initial agreement between Teleport-TP and Eutelsat, 50% of the cost of the earth station is being financed on favorable terms by Eutelsat and 300 satellite circuits are being provided free to Teleport-TP for the first three years.

The Eutelsat system is designed to have high transponder capacity, with built-in redundancy, both within its satellites and by the provision of in-orbit spare capacity. Additionally, the transponder, antenna and cross-connect facilities make for very flexible space segment capacity. The Company believes that Teleport-TP's position as a participant in Eutelsat and a provider of Eutelsat services in the Russian Federation will provide it with a considerable strategic advantage with respect to intra-European telecommunications.

Long Distance Network Services

Products and Services

The Company believes that there is a largely untapped market for satellite links between various regions of the Russian Federation due to the current poor quality, or total absence, of terrestrial long distance lines in many areas. In order to expand its customer base beyond Moscow and to meet growing demand for reliable telecommunications links, Teleport-TP is developing satellite links using PAMA/SCPC (Pre-Assigned Multiple Access/Single Channel Per Carrier) technology between cities and regions in the Russian Federation. These links will be provided by Teleport-TP, under the registered tradename "Satelink", directly between cities and regions, without going through Teleport-TP's Moscow hub. In particular, Teleport-TP is seeking to address the market for inter-regional communications where call completion rates are understood to be low, primarily due to the underdeveloped nature of the Rostelecom infrastructure. In addition, Teleport-TP is seeking to address the market for intra-regional communications where call completion is the responsibility of the regional network provider. In such instances Teleport-TP becomes an integral part of regional network developments. Currently, Teleport-TP has reached agreements with Uraltelecom and the regional operators in Tomsk, Sakha, Rostov and Chita for such regional networks. While, due to various startup problems including logistical difficulties and administrative difficulties with local and regional governmental authorities, there have been significant delays in the installation of, and the clearance to operate the equipment for this network, it is expected that a total of 45 sites will be installed by the end of the first half of 1998. See "-- Risk Factors -- Risks Involving Technocom Limited and Teleport-TP -- Capital and Management Resources Required for Network Expansion; Management of Growth."

Internet Services. Teleport-TP opened an Internet gateway during the first quarter of 1997, using the registered tradename "Portal." The gateway is configured to provide high speed data access to regional Internet service providers as well as leased line and dial-up access in Moscow for corporate clients.

Television Services. Teleport-TP has formulated a strategy to address the growing demand for the resale of transponder capacity to domestic television companies for: (i) the distribution of programming to regional sites for onward terrestrial re-broadcasting; and (ii) direct distribution of digital TV broadcasting. Both services would utilize additional capacity on the Intelsat 66 degrees satellite.

Private Line Services. Teleport-TP also provides national and international private leased circuit access to corporate entities, either as part of an integrated private network package or on a case-by-case basis as defined by the customer.

Value-Added Services. The Company anticipates that Teleport-TP will develop a portfolio of corporate network services to address this specific market sector as Teleport-TP's operations mature. Cooperation with PeterStar in addressing this corporate market is also envisaged.

Customers and Marketing

These long distance services are being targeted to high volume customers requiring high quality, reliable long distance service across the Russian Federation. Targeted customers include: (i) regional and local public telephone companies (Electrosviaz); (ii) private cellular, wireline, data and other network operators; and (iii) corporate users. As of December 31, 1997, 22 contracts had been signed (covering a total of 39 cities). Of these, 9 are with regional and local public telephone companies, 6 are with cellular operators and alternative local access providers and the balance are with corporate and individual users.

Implementation of these contracts in a timely manner is subject to the ability of Teleport-TP to comply with any new operating conditions that may be set by the local and regional governmental authorities in the areas in which it operates. See "-- Risk Factors -- Risks Involving Technocom Limited and Teleport-TP -- TP -- Capital and Management Resources Required for Network Expansion; Management of Growth."

Teleport-TP will act as a "carrier's carrier" to public telephone companies and cellular, wireline and other operators. Teleport-TP will provide these operators with long distance and, in many cases, international access so that these operators can provide high quality access to their own subscribers.

In developing a package of voice and data services for the corporate user, Teleport-TP has enhanced its marketing and sales functions through recruitment of experienced sales personnel and is addressing three distinct corporate market segments: (i) the corporate market where the main focus of the customer is located in Moscow and St. Petersburg (where co-operation can take place with PeterStar and BCL), but where the customer also requires regional network services; (ii) international ventures with requirements for both national and international connectivity; and (iii) the corporate market in which the customer has made the decision to expand to the regional cities or in which the decision-making will take place in the regional centers.

Network and Facilities

The Teleport-TP network uses Scientific-Atlanta Skylinx.DDS(TM) Digital PAMA/SCPC and IDR satellite telephony systems, a technology that is used by public telephone companies either as a market entry mechanism or as an enhancement of the existing terrestrial infrastructure. The network utilizes an 18.3-meter Standard-A Intelsat satellite master antenna at the hub site in Moscow. Agreements are in place with Intelsat for access to 72 MHZ of transponder capacity on the Intelsat 704 satellite at 66 degrees. Teleport-TP believes that using this digital capacity from Intelsat represents a competitive advantage over telecommunications operators using less reliable Russian domestic satellite systems. Customers on Teleport-TP's long distance network, initially public and private telecommunications companies, have the choice of taking permanent leased circuits or switched circuits, depending on their requirements. In addition, corporate customers now have the ability to create their own private networks throughout the Russian Federation using this combination of permanent and switched circuits.

As of December 31, 1997, 29 medium (7 meter) and small (4.5 meter) antenna terminals had been installed in major cities throughout the Russian Federation; including Murmansk, Volgodonsk, Cheliabinsk, Ekaterinburg, Rezh, Yakutsk, Mirny and Neriungry, providing digital voice and data services. It is anticipated that a total of 45 antennas will be installed by the end of the first half of 1998. The system is designed to be flexible, allowing for timely installation of antennas in regional sites without changing the existing network configuration. Additional channel units can be quickly installed at existing sites should demand increase.

The network will have full mesh topology allowing customers in remote sites to connect with other remote sites without going through a central hub station, thus avoiding a "double-hop" on the satellite. This offers considerable improvement over traditional "star" configuration satellite-based systems.

In order to satisfy the demands of the corporate market, Teleport-TP intends to install antennas of 2.4 meter diameter for specific corporate customer applications. These antennae will be supplied by the current

network provider, Scientific-Atlanta, and will be configured to offer the same functionality as the larger antennae connected to the public network providers. It is anticipated that Teleport-TP will either sell or lease these antennae to the end-user customer.

In addition, the Teleport-TP long distance network interconnects with Rostelecom for the delivery of calls to locations where Teleport-TP does not have its own facilities.

MTR-SVIAZ

MTR-Sviaz, which commenced operations in November 1996 and had approximately 700 lines connected as of December 31, 1997, provides local, national and international services to both corporate customers and the Internet market. MTR-Sviaz uses leased circuits from a number of providers, access to the Teleport-TP fiber cable facilities and the Mosenergo internal communications network to terminate its calls. Teleport-TP uses the MTR-Sviaz facilities to locate its Internet gateway, from which links to Internet service providers (ISPs) are provided via leased and dial-up lines on the public network. MTR-Sviaz also acts as a local provider to the Teleport-TP international and long distance gateway.

MTR-Sviaz is a venture between Mosenergo (51%) and Technocom (49%) to modernize and commercialize a portion of Mosenergo's internal telecommunications network. MTR-Sviaz commenced operations in the third quarter of 1996 with the initial network program encompassing the installation of a 10,000 line Siemens exchange as a central switching node on the existing Mosenergo telecommunications network. The switch is connected to Teleport-TP via fiber optic cable, giving customers on the Mosenergo network direct access to the digital long distance facilities of the Teleport-TP network. In addition to the Mosenergo organization itself, other entities connected to the Mosenergo network include commercial enterprises located at business centers on Mosenergo premises.

Technocom's contribution to MTR-Sviaz includes provision of the switch to service 8,000 Moscow city lines and 2,000 lines on the internal Mosenergo network and the acquisition of 4,000 Moscow city lines. The switch and lines were purchased by Technocom and are leased to MTR-Sviaz. See "-- Description of Agreements -- Technocom Limited -- MTR-Sviaz." Further capital investment may be required if subscriber demand is greater than anticipated. Customers on the MTR-Sviaz network include Mosenergo (1,000 lines) and nine Internet service providers.

OTHER ACTIVITIES

Cellular Services. Teleport-TP holds a 25% interest in Gorizont-RT, a joint venture which has a license to provide GSM cellular service in the Republic of Sakha, a semi-autonomous region of the Russian Federation. The other parties to the joint venture are Sviazservice (24%) and Sakhatelekom, the local Electrosviaz (51%). The network is currently operational in the city of Yakutsk and service is expected to commence in the first half of 1998 in the cities of Mirny and Neriungry. In addition to taking an equity interest in the project, Teleport-TP will provide the long distance access for the venture through the installation of Satelink antennae at the above three sites. In addition, Teleport-TP has an agreement with Sakhatelekom for the provision of long distance access. The telecommunications network equipment for the two additional network sites has been bought by Technocom from Italtel and is being leased to Gorizont-RT. As of December 31, 1997, Gorizont-RT had approximately 1,000 subscribers generating approximately $180,000 in revenues per month.

Teleport-TP paid an initial fee for its participation, and was required to provide three antennae and two digital switches capable of serving 1,500 subscribers. Teleport-TP receives 27% of the income derived from new installations, line rentals and local calling, and 80% of the income derived from long distance and international calling. Sakhatelekom has committed to provide a minimum of 90,000 minutes of traffic per month, at a minimum tariff of $1.50 per minute. Gorizont-RT's license has a term of eight years and requires that 20% coverage of the territory of the Republic of Sakha (and an installed network capacity of 3,000 numbers) be achieved by the end of 1997 and 50% coverage of the territory of the Republic of Sakha (and an installed network capacity of 20,000 numbers) be achieved by the end of 2004. Gorizont-RT did not meet the

initial coverage requirement by the end of 1997, but management does not believe that this will have any material impact on its future licensing position.

Other Joint Ventures. Technocom anticipates that it may, either directly or through Teleport-TP, enter into joint ventures with local partners in connection with the development of local network infrastructure either wireline or wireless, to complement the development of its long distance network.

SUPPLIERS

The telecommunications equipment for the long distance network is being supplied by Scientific-Atlanta. Under the initial supply agreement entered into in November 1995, Teleport-TP was supplied with one master earth station and seven medium and 23 small remote earth stations. An amendment to this agreement, made in November 1996, provides for the supply of an additional 11 medium and three small earth stations, in addition to upgrades to seven existing facilities. Additional amendments to the agreement were made in 1997 to cover the purchase of additional equipment and upgrades to existing facilities. The master earth station is co-located, together with Teleport-TP's international network facilities, on the grounds of the VVC. Technocom has commenced preliminary discussions with Scientific Atlanta regarding expansion of the network program in 1998. The equipment is owned by Technocom and leased to Teleport-TP. See "-- Description of Agreements -- Technocom Limited -- Teleport-TP -- Long Distance Network Facilities."

Technocom has used a variety of major international suppliers to acquire equipment for the building of the Teleport-TP network for dedicated international telecommunications services.

Lucent supplied the two initial Intelsat Standard-A earth stations and the associated 5ESS international switch, along with a vendor financing package. Hughes supplied the Eutelsat earth station, which is being financed 50% by Hughes and 50% through a financing package arranged by Eutelsat.

The third Intelsat antenna and all remote antennas, together with other operating equipment and software for the Satelink network, have been supplied by Scientific-Atlanta and Siemens.

ECI Telecom of Israel has supplied the Digital Channel Multiplication Equipment and modems for the Teleport-TP international and domestic long distance service facilities.

Teleport-TP has contracted with Siemens AG of Germany for the supply of the converter technology to ensure that the Teleport-TP network can interface correctly with the many switching protocols used in the Russian public network.

Supply arrangements were concluded with Italtel for the provision of GSM cellular switches and related equipment for the Gorizont-RT venture; this equipment has been installed in the cities of Mirny and Neriungry.

BILLING AND TARIFFS

Billing

International Network Services. Teleport-TP bills the operators of the networks it serves, who in turn are responsible for billing the individual subscribers to those networks. For its foreign carrier relationships, Teleport-TP has agreed with KDD, DT and AT&T the inter-administration settlement process for international traffic settlements.

Long Distance Network Services. Teleport-TP invoices the operators of public telephone, and private cellular, wireline and other networks, which in turn invoice their own subscribers. Teleport-TP invoices all corporate users directly.

Currency of Billing. Teleport-TP's bills are predominantly denominated in U.S. Dollars. Installation and initiation charges, line rental and local and long distance call charges must be paid in Roubles at the U.S. Dollar/Rouble exchange rate on the date when the customer instructs its bank to make payment. Currency regulations govern the currency in which international call charges may be paid. Russian resident

companies are required to pay in Roubles, while non-resident companies are permitted to pay in Roubles or U.S. Dollars. By denominating its bills in U.S. Dollars (and exchanging Roubles at the then current U.S. Dollar/Rouble exchange rate), Teleport-TP limits the exchange rate risk otherwise associated with transacting business in a foreign currency. See "-- Risk Factors -- Country Risks -- Restrictions on Currency Conversion; Historical Volatility in Currency Prices."

Tariffs

International Network Services. Teleport-TP is not subject to federal or local regulation on tariffs. Teleport-TP sets its tariffs taking into account those charged by its interconnect parties, as well as competitive pressures in the marketplace. Teleport-TP maintains tariffs for international calls, private line services for corporate clients and television transmissions. Teleport-TP also has fixed line charges, for connection and rental fees, although these currently do not contribute significantly to its revenues. However, as Teleport-TP expands its activities and more private customers are connected to its network, revenues from fixed line charges may become more significant.

The tariff schedule that Teleport-TP offers to its dedicated network customers for international calls ranges from $1.35 to $2.60 per minute, depending on the call's destination and the volume of calls placed by each customer regardless of the time or day. Teleport-TP offers a range of discounts for customers that exceed a certain targeted level of call minutes. Discount packages are being developed for individual customers on a case-by-case basis as the business matures. Teleport-TP provides international private leased circuits to corporate customers commencing at $2,600 per month for point-to-point 64 kb/s circuits, with prices determined by the amount of bandwidth and the destination required by the customer.

International Television Broadcasting Services. The basic charge for use of Teleport-TP facilities for television broadcasting is $803 for the first ten minutes of broadcast time, and $25 for each additional minute. Due to the administration required for each set-up, the customer is charged for a minimum of ten minutes on each occasion.

Domestic Long Distance Network Services. Tariffs for the satellite-based domestic long distance network services range between $0.20 and $1.50 per minute, depending on the call's destination and the volume of traffic. The tariffs for PAMA and IDR circuits will be determined by the distance to the operator and will range between $10,000 and $40,000 per month. Tariff packages are being developed for individual customers on a case-by-case basis as the business matures and will incorporate, where necessary, the sale or lease of the antenna as part of the package. Tariffs for private leased circuits to corporate customers range between $3,000 and $5,000 per month for point-to-point 64 kb/s circuits, with higher prices for higher bandwidth as required by the customer.

ALTEL

OVERVIEW

ALTEL, in which the Company owns a 50% interest, currently operates the only national cellular network in Kazakhstan. ALTEL was formerly known as BECET International, although marketing its services under the name "ALTEL". In May 1998 ALTEL changed its corporate name to the name under which it was doing business.

The other 50% of ALTEL is held by Kazakhtelekom, the operator of the national telephone network in Kazakhstan. In May 1997, the Kazakh government announced the sale of a 40% stake in Kazakhtelekom, the state-owned telecommunications company, to Daewoo. However, in March 1998, it was reported that Daewoo had sold a portion of its stake (reported to be approximately 10% of Kazakhtelekom) to an unnamed third party. The report did not indicate whether Daewoo proposed to sell or retain the remainder of its stake in Kazakhtelekom. Kazakhtelekom recently received a revised license specifically naming it as the exclusive national network operator in Kazakhstan, and giving it a wide range of powers to carry out this function.

The Company's primary objectives for ALTEL are to increase revenues and cash flows through increased subscriber penetration, usage and network coverage. Cellular service provides a rapid and relatively inexpen-

sive way to overcome the deficiencies of the wireline telecommunications infrastructure in Kazakhstan. ALTEL's cellular telecommunications network in Kazakhstan currently consists of separate systems in Almaty, South Kazakhstan (Chimkent), Karaganda, Pavlodar, Astana (formerly known as Akmola), Aktyubinsk, Kustanai, East Kazakhstan (Ust-Kamenogorsk), Atyrau, Taraz, Petropavlovsk and Kyzl Orda. As of December 31, 1997, ALTEL's cellular telecommunications network covered a geographic area of approximately 4,200,000 people, or "POPS", representing 24% of the total population, in 12 cities. ALTEL commenced cellular service in September 1994 and has since experienced significant subscriber and revenue growth. As of December 31, 1997, ALTEL had 11,102 subscribers, as compared to 6,957 subscribers as of December 31, 1996. During the year ended December 31, 1997, ALTEL's subscribers generated average monthly recurring revenues of $220 per subscriber.

See "-- Telecommunications Licenses -- ALTEL" for a description of the telecommunications license held by ALTEL.

ALTEL, which began operations in September 1994, generated net income for the year ended December 31, 1997 of $7.2 million on operating revenues of $30.0 million, as compared to net income of $4.5 million on operating revenues of

$19.1 million for the year ended December 31, 1996. The subscriber base grew from 2,882 at the end of 1995 to 11,102 at December 31, 1997. ALTEL accounted for 26.2% of the Company's operating revenues for the year ended December 31, 1997.

STRATEGY

The Company believes the development of a market economy in Kazakhstan is likely to increase demand for modern telecommunications services, including wireless communications, as demonstrated by the subscriber growth experienced to date by ALTEL. While the Kazakh telephone network is expected to be modernized over time, the Company believes this is likely to be an expensive and lengthy process. The Company believes that this environment provides ALTEL with the opportunity to provide customers in Kazakhstan with a viable, high quality alternative to wireline telephone service during the period it will take to modernize the basic public network.

NETWORK AND FACILITIES

As of December 31, 1997, ALTEL's cellular telecommunications network in Kazakhstan consisted of separate systems in Almaty, South Kazakhstan (Chimkent), Karaganda, Pavlodar, Astana, Aktyubinsk, Kustanai, East Kazakhstan (Ust-Kamenogorsk), Atyrau, Taraz, Petropavlovsk and Kyzl Orda, and it met the second (and final) "coverage" condition of its license from the KMOC by having 11 systems in place by December 31, 1996. Further installations remain dependent upon many factors including the successful location of additional cell sites and the results of marketing and other studies. As of December 31, 1997, investment in ALTEL's cellular network infrastructure and support facilities totaled approximately $28.9 million. ALTEL anticipates that its capital expenditure program in 1998 will total approximately $8.2 million and will be used to develop new installations, expand network capacity in the existing cities (particularly in Almaty, Astana and Atyrau), introduce pre-paid cellular services and technical safeguards against cloning fraud, and to upgrade equipment. The Company believes that this funding will all be provided by internally generated cashflows.

All ALTEL systems are connected to the local telephone network and the regional trunk switch in the cities where they are located. The system in Almaty is also linked to an international trunk exchange and the Astana system will be linked to a new international switch in that city when it becomes operational. Long distance and international calls are completed using the national and international network of Kazakhtelekom. International calls are switched through a digital exchange in Almaty.

Space for most ALTEL switches, cell sites and associated equipment is provided by Kazakhtelekom. ALTEL also uses space in a Kazakhtelekom exchange building in Almaty for office and administrative purposes. ALTEL has also established, and will continue to establish, customer service centers in each city in which service is offered. Virtually all space for customer service centers and equipment not provided by Kazakhtelekom is leased, although ALTEL has purchased its facilities in Taraz, one base station site and

building in Chimkent and a base station building in Karaganda. ALTEL is considering the purchase of a central office building in Almaty, although suitable premises have yet to be identified. Commencing March 1998, ALTEL is leasing new premises in Almaty to combine its central retail store and provide a larger customer service center.

In November 1997, the official political capital of Kazakhstan was moved from Almaty to Astana. Although ALTEL does have a presence in Astana, the long-term effect of this move on ALTEL's business remains uncertain. For example, ALTEL could need to incur the cost of moving its administrative functions to Astana. Currently, both the number of customers in Astana and the traffic between Almaty and Astana are increasing, but there is a risk that the move could result in reduced cellular activity in Almaty in the future.

PRODUCTS AND SERVICES

ALTEL customers may choose from three types of cellular service: service within a single city, service within Kazakhstan as a whole, and full service including international access. Optional services include call waiting, three party conferencing, call forwarding, voice mail and busy transfer. ALTEL also markets cellular telephones and related equipment manufactured by Motorola.

ALTEL offers a roaming facility between the home city of the subscriber and other cities served by the ALTEL network. In addition, as of December 31, 1997, ALTEL had established roaming agreements with other cellular operators: (i) Katel in Kyrgyzstan; (ii) Uzdunrobita in Uzbekistan, (iii) SCC in the Russian city of Omsk, (iv) BEELINE in Moscow; and (v) Fora in St. Petersburg.

ALTEL will introduce a pre-paid cellular system by mid-1998, thereby adding to its existing service offerings. In addition to further reducing the potential for bad debts, this system will also permit ALTEL to market a portable unit having fewer features and more economical pricing, thus enabling ALTEL to expand into a new and potentially much larger market segment than that to which it has addressed its marketing efforts to date.

ALTEL markets its cellular services through its own outside direct sales force, which targets corporate and government accounts and high volume consumers, together with customer service centers. Although subscribers to ALTEL's services include individuals, ALTEL anticipates that for the foreseeable future its services will appeal principally to businesses. While all market segments are growing, ALTEL is experiencing the most significant growth in the area of Kazakh businesses and individuals.

ALTEL does business under the registered trade name "ALTEL" and features this name in all of its marketing and promotional activity. ALTEL uses a variety of marketing channels to promote its services, including television, radio, newspapers, billboards and sponsorship of concerts and other popular events. ALTEL believes that both the identification of the "ALTEL" trade name with its services, and its marketing activities, have been effective in stimulating demand for its products and services.

OPERATIONS

Billing and Tariffs

Subscribers are billed monthly in U.S. Dollars for access charges, airtime charges, and toll charges and optional services. Government regulations determine the currency in which invoices may be paid, which depends upon the residency status of the customer. Domestic subscribers may pay only in Tenge, while foreign subscribers are permitted to pay in Tenge or U.S. Dollars. Historically, if the payment was made in Tenge, the subscriber was required to convert the invoice amount to Tenge at the exchange rate effective on the date of payment. Commencing March 1998, ALTEL is now required to issue a tax invoice with each bill stating the amount in Tenge as of the billing date, and the customer then pays that Tenge amount. ALTEL is therefore now exposed to a greater currency risk since the Tenge could weaken against the U.S. Dollar in the time between the dates the bill is issued (and the exchange rate set) and the bill is paid.

Under the terms of its license, ALTEL is free to establish the rates for all cellular services provided on its network, without prior approval from the KMOC. ALTEL's pricing is subject to review by the Kazakh Anti-

Monopoly Commission. ALTEL currently employs one pricing structure for all of its customers, but Kazakh government agencies are offered a 25% discount on activation and a 35-40% discount on monthly access fees and airtime charges. Currently, ALTEL has 141 subscribers in this category and management does not expect this number to increase significantly over time.

A new subscriber currently pays a one-time activation fee of $474 or $336 and makes a security advance of $500, $250, or $100 to cover monthly fees and usage charges depending on whether the subscriber has international, inter-city or local access, respectively. Non-residents of Kazakhstan pay security advances of $850, $350 or $250 depending on whether the subscriber has international, inter-city or local access. Monthly access fees are $24 for local service alone, $48 for inter-city service and $78 for full international service. Usage charges are $0.30 off-peak and $0.48 per minute plus the applicable tariffs for international and inter-city calls. In addition, there is a monthly fee of $6.00 for each optional service, including call waiting, three party conferencing, call forwarding, itemized billing and busy transfer. ALTEL also charges its subscribers a fee for the ability to roam to other regional cities. ALTEL periodically offers special tariff-related promotions which include discounts on certain elements of the tariff schedule when packaged together. In addition, certain customers are offered volume discounts on the tariff schedule. ALTEL is currently developing a simplified range of tariff packages, effectively bundling the service offering and linking call tariffs to the subscribers' calling patterns. It is anticipated that these tariff packages will be available to the market during the first half of 1998. All of the above tariffs include VAT at the rate of 20%.

Interconnection

ALTEL is dependent on its interconnection to networks operated by Kazakhtelekom for the completion of its local, long distance and international calls. ALTEL pays an annual license fee to the KMOC in lieu of all frequency or interconnection charges, equal to up to 6% of its after-tax profits as calculated by the Kazakh statutory audit. ALTEL pays Kazakhtelekom a tariff in respect of local calls, and enjoys a preferential tariff in respect of long distance and international calls which provides ALTEL with an average margin of 25% on such calls. Kazakhtelekom has recently been authorized, in connection with its appointment as the exclusive operator of the Kazakh national network, to levy interconnection charges, and to do this on a basis which yields it a profit. There can be no assurance that Kazakhtelekom will not use this authority to start assessing interconnection charges against ALTEL, notwithstanding that ALTEL is already paying a license fee expressly stated to be in lieu of interconnection charges. See "Risk Factors -- Risks Involving ALTEL -- Dependence on Interconnect Parties" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations -- Year Ended December 31, 1997 Versus Year Ended December 31, 1996 -- ALTEL."

Suppliers

ALTEL has entered into a series of agreements with Motorola for the purchase of the equipment required for its cellular network. See "-- Description of Agreements -- ALTEL."

OTHER OPERATIONS

PLD MANAGEMENT SERVICES LIMITED

PLD Management Services Limited ("PLDMS") is a wholly owned subsidiary of the Company based in the United Kingdom that to date has performed certain management, commercial and technical consulting, investor relations, new business development, corporate finance and accounting services for and on behalf of the Company. As a result of the Continuance, the Company has transferred most of these functions to New York City. PLDMS has charged, and will continue to charge, the costs it incurs in providing its services, principally salaries, travel and office costs, to both the Company and its subsidiaries.

COMPETITION

PETERSTAR COMPANY LIMITED

PeterStar is building and operating its business in a highly competitive environment. PeterStar does not have an exclusive license to provide telecommunications services in St. Petersburg, and a number of other entities, including Russian companies and international joint ventures, are competing with PeterStar for a share of the St. Petersburg telecommunications market. A number of such companies (or their joint venture partners) are larger than PeterStar and have greater access to capital or resources.

Although PTN has historically supported the development of PeterStar, PTN and PeterStar must be regarded as competitors in the telephony segment. PTN can offer its customers the same core services as PeterStar, notwithstanding (to date) the lower transmission quality and call completion rates of the PTN network. Furthermore, PTN has recently completed the installation of a modern fiber optic loop in St. Petersburg which, when operational, will significantly enhance its ability to carry traffic and therefore to compete with PeterStar (in particular for the carriage of cellular traffic). In addition, PTN has commenced efforts to raise funds to further modernize its network by accessing the international capital markets. Although PeterStar believes that PTN would require substantial additional capital to completely modernize its network, PTN, either alone or though Telecominvest, is free at any time to enter into joint venture arrangements with other foreign partners to modernize its network independently of PeterStar. While PeterStar believes that there is a constructive working relationship between PeterStar and PTN, there can be no assurance that PTN will not in the future start to compete more aggressively with PeterStar and/or that future disputes between the partners will not occur and/or that PTN will not seek another partner. See "-- Risk Factors -- Risks Involving PeterStar Company Limited and Baltic Communications

Limited -- Dependence on Interconnect Parties" and "-- Ownership and Management of Operating Subsidiaries -- PeterStar Company Limited."

The other major competitors to PeterStar are: (i) Global One, the international joint venture between Sprint, DT, France Telecom and its Russian partner, the telegraph office, which provides national and international voice and data services to certain destinations; and (ii) Sovintel, a joint venture between Rostelecom and GTS, which is currently based in Moscow, both of which have been expanding their operations in St. Petersburg. Since they are generally unable to compete effectively with PeterStar based on quality, these competitors principally compete on the basis of price, thereby exerting some price pressure on PeterStar. PeterStar reacted to the increased competition from GlobalOne and Sovintel in 1997 through a combination of, among other things, tariff reductions, volume discounts and dialing plans for large customers.

Other competitors include: (i) Combellga, a joint venture of CominCom, BelgaCom, Alcatel Bell and MMTS which operates an international overlay network in Moscow and has been attempting to penetrate the St. Petersburg market, offering international access similar to BCL, as well as long distance access to Moscow; (ii) JS Leivo, a joint venture of LenEnergo and Imatran Voima of Finland which provides outgoing international access; (iii) St. Petersburg Teleport, which offers only outgoing international services and offers lower priced services; and (iv) Metrocom, which provides local data access in St. Petersburg. In addition, the three cellular operators in St. Petersburg are competitors of PeterStar because they offer local, long distance and international access. At the same time, each cellular operator uses PeterStar to deliver its traffic. See "-- PeterStar Company Limited -- Products and Services -- Cellular Services."

TELEPORT-TP

Teleport-TP is building and operating its business in a highly competitive environment. Both in the market for international telecommunications services and the pan-Russian long distance market, Teleport-TP faces competition from a number of entities, including Russian companies and international joint ventures. A number of such companies (or their joint venture partners) are larger than Teleport-TP and have greater access to capital or resources.

International Network Services

In providing international circuits and direct dial services in Moscow, Teleport-TP faces competition from a number of operators offering similar services. Such operators, including Comstar, Combellga, Telmos and Sovintel, are primarily targeting Russian and foreign businesses in the city, replicating the services that PeterStar is providing in St. Petersburg. In terms of providing international circuits, Teleport-TP faces direct competition from the Russian Space Communications Corporation, the state owned operator which uses both Intelsat and the Russian satellites, and indirectly from Rostelecom, which owns capacity in and operates the international cable facilities connecting the Russian Federation to the telecommunications networks of the major global carriers.

Long Distance Network Services

In providing long distance services, Teleport-TP faces competition from a number of sources, both on a national and regional basis. Nationally, Teleport-TP faces competition from Rostelecom in the provision of long distance access to the local telephone companies. Rostelecom currently appears to support the continued development of Teleport-TP and Rostelecom stands to gain from its relationship with Teleport-TP, not only as a Teleport-TP shareholder but also to the extent that expansion of the Teleport-TP network facilitates the modernization of the Rostelecom network on a targeted basis. There are no other commercial national networks of the same scale as the Rostelecom network, although there are a number of private networks, including those of the Ministries of Defense and Railways, that could, if funding were made available, provide further competition to Teleport-TP.

At this time, it is unclear what impact the consolidation of the government's telecommunications holdings and the auctions of significant stakes in Sviazinvest will have on the Russian telecommunications market in general and the Company in particular. See "-- Telecommunications in the Former Soviet Union -- Telecommunications in the Russian Federation."

Teleport-TP also faces competition from other Western-financed entities seeking to provide various forms of higher bandwidth voice and data communications services throughout Russia, including: (i) TeleRoss, a subsidiary of GTS, which is offering service in 12-15 cities using the Russian domestic satellite systems; (ii) Rosnet, principally a provider of data network services; (iii) Aerocom, a satellite and fiber optic-based carrier's carrier based in Moscow, which provides international circuits via the Russian Express satellite network; (iv) Belcom, a private carrier providing international point-to-point leased circuits to the oil and gas companies in remote locations, and secondly closed user group services to communities of interest; (v) Romantis, a satellite based provider of services targeted at the corporate user; and (vi) Tass-Loutsch, a satellite-based venture formed by Trans-World Communications and ITAR-TASS to offer access to network operators.

ALTEL

There is currently no other licensed cellular network operating in Kazakhstan. A local "pirate" operator named Tolkyn at one time operated a limited radio-based communications system, which was believed to have no more than 200 subscribers in the city of Almaty. However, the government of Kazakhstan appears desirous to establish a GSM network in Kazakhstan and to license one or more parties to develop this. See "-- Telecommunications Licenses -- ALTEL." Until more details of the network and licensing process are known, ALTEL is currently unable to assess the impact of this potential development upon its business.

TELECOMMUNICATIONS LICENSES

PETERSTAR COMPANY LIMITED

In June 1996, PeterStar was granted a license, which superseded a license granted in November 1994, for an eight year term expiring November 2004 to provide local, national and international telecommunications services within St. Petersburg and the surrounding region. One of the conditions of this license is that access to long distance and international communications be through the public network. Other licenses that have been

issued to PeterStar include a dedicated network license (expiring September 2001), a data communications license (expiring May 2001), a telematics license (expiring May 2001) and a videoconferencing license (expiring June 2001). Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management believes that, so long as they are being actively utilized, all such licenses will be renewed at the end of their respective terms.

The main PeterStar license, governing the provision of public telecommunications services, sets the number of lines which PeterStar may have in St. Petersburg and the surrounding region at 106,000, and requires that capacity equal to 74,200 lines be introduced by June 1999. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management of PeterStar believes that the maximum and minimum number of lines are not strict requirements but are instead designed to provide general guidance as to the number of lines intended to be included on the system. As of December 31, 1997, PeterStar had 114,774 lines, of which 85,948 were provided to cellular operators. PeterStar does not believe that its license would be terminated or re-negotiated, that it would be forced to reduce the number of its subscribers, or that other penalties would be imposed, by reason of its exceeding its 106,000 line ceiling, but there can be no assurance that the RFCTI would not take a different position which in turn could result in the revocation of the license or its renegotiation on terms unfavorable to PeterStar or the imposition of penalties. It is not possible to calculate the amount of any penalties which might be imposed, which are in the discretion of the RFCTI.

The dedicated network license permits PeterStar to provide long distance and international telephone transmission services to dedicated network operators (such as BCL) in St. Petersburg and the surrounding region for a term expiring in September 2001. This license therefore enables PeterStar to offer its clients the potential cost efficiencies and synergies which come from working with affiliated companies, as well as allowing PeterStar and BCL to explore ways to work together to provide integrated solutions to customer needs. The dedicated network license sets the number of lines which PeterStar may have at 30,000 and requires that capacity equal to 21,000 lines be introduced by September 1999. Once again, based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management of PeterStar believes that the maximum and minimum number of lines are not strict requirements but are instead designed to provide general guidance as to the number of lines intended to be included on the system. However, there can be no assurance that the RFCTI would not take a different position which in turn could result in the revocation of the licenses or their renegotiation on terms unfavorable to PeterStar or the imposition of penalties. It is not possible to calculate the amount of any penalties which might be imposed, which are in the discretion of the RFCTI. See "-- Risk Factors -- Risks Involving PeterStar Company Limited and Baltic Communications Limited -- Reliance on Telecommunications Licenses; Risks of Revocation or Renegotiation of Licenses."

BALTIC COMMUNICATIONS LIMITED

BCL's primary license permits it to provide long distance and international telephone, facsimile and data transmission services within St. Petersburg and the surrounding region for a term expiring on December 31, 2003. Management believes that, so long as it is being actively utilized, BCL's license will be renewed at the end of its current term. BCL is not required to route its long distance traffic through the facilities of SPMMTS, and has its own international facilities providing cable access. However, BCL's license does not permit it to interconnect with PTN's public network. BCL is therefore working with PeterStar to explore providing integrated long distance and international solutions for customers. The license sets the upper limit of subscribers to the BCL network at 100,000 and requires that 70,000 of these be in place by January 2001. BCL had approximately 1,200 lines as of December 31, 1997. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management of BCL believes that the maximum and minimum line numbers are not strict requirements but are instead designed to provide general guidance as to the number of lines intended to be included on the system. However, there can be no assurance that the RFCTI would not take a different position which in turn could result in the revocation of the license or its renegotiation on terms unfavorable to BCL or the imposition of penalties. It is not possible to calculate the amount of any penalties which might be imposed, which are in the

discretion of the RFCTI. See "-- Risk Factors -- Risks Involving PeterStar Company Limited and Baltic Communications Limited -- Reliance on Telecommunications Licenses; Risks of Revocation or Renegotiation of Licenses."

TECHNOCOM LIMITED

Teleport-TP

Teleport-TP has been issued two licenses for long distance and international leased circuits for dedicated network services and for television, and a data license providing for interconnection to the public network. In addition, Teleport-TP has been issued an overlay license to offer local, long distance and international voice and data services which are interconnected to the public telephone network in the 40 regions (plus Moscow and St. Petersburg) in which Teleport-TP's long distance network will initially be operational. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management believes that, so long as they are being actively utilized, all of the licenses will be renewed at the expiration of their respective terms.

License N4207, issued in October 1996 (replacing earlier licenses N100 and N1661 obtained by Teleport-TP) authorizes Teleport-TP to provide long distance and international telecommunications services to private networks within Moscow's city limits and, to a limited extent, elsewhere in the Russian Federation. No interconnection of the Teleport-TP network with the public switched telephone network is permitted under this license. License N4207 expires in November 2004.

A second license, license N4437, issued in October 1996 (replacing an earlier license N386), authorizes Teleport-TP to provide international leased lines and circuits for the transmission of television signals within Moscow's city limits. International lines may only be leased to customers holding an appropriate license granted by the RFCTI. The license also provides that Teleport-TP may lease up to 1,000 international circuits for the transmission of television and telecommunications services. Teleport-TP believes that this number of lines and circuits is sufficient to cover its requirements through the remainder of the current term of the license. License N4437 expires October 28, 2004.

The data license, license N3654, authorizes Teleport-TP to provide data transmission services in Moscow, St. Petersburg and other cities of the Russian Federation and permits interconnection with the public network. The data license expires in January 2002.

The overlay license, license N4199, permits Teleport-TP to offer local, long distance and international voice and data services which are interconnected to the public telephone network in the 40 regions (plus Moscow and St. Petersburg) in which Teleport-TP's long distance network will initially be operational. This permits Teleport-TP to deliver calls to all subscribers on the public network in such regions. License N4199 expires in May 2001.

License N4207 limits the number of subscribers under such license to 15,000 and requires that 10,500 be in place by October 1999. License N4437, unlike its predecessor N386, makes no reference to minimum subscriber targets. (License N386 limited the number of subscribers to 1,700 and required that 1,190 be in place by October 28, 1997.) License N3654 provides that the installed subscriber capacity of Teleport-TP's data network should permit the connection of at least 70,000 subscribers by December 2000 and at least 100,000 subscribers by the end of the license, but it does not impose any limit on the number of subscribers. License N4199 provides that the total installed capacity of the long distance network should be at least 100,000 numbers with at least 70,000 numbers operational by May 2000. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management of Teleport-TP believes that these subscriber provisions are not strict requirements, but are instead designed to provide general guidance as to the number of subscribers intended to be included on the system. Based on that experience, management further believes that, so long as a license is being actively utilized, such license will not be terminated nor other sanctions imposed if Teleport-TP failed to have the minimum number of subscribers in place by any date specified or if it was to exceed the maximum number of subscribers permitted by the license, but there can be no assurance that the RFCTI would not take a different

position, which in turn could result in the revocation of the license or its renegotiation on unfavorable terms or the imposition of penalties. It is not possible to calculate the amount of any penalties which might be imposed, which are in the discretion of the RFCTI. See "-- Risk Factors -- Risks Involving Technocom Limited and Teleport-TP -- Reliance on Telecommunications Licenses; Risks of Revocation or Renegotiation of Licenses."

MTR-Sviaz

MTR-Sviaz has been issued license N3644 which authorizes MTR-Sviaz to provide local telephone service through interconnection with the public switched telephone network within the city and region of Moscow. The license permits connection only through the Mosenergo network. License N3644 is limited to a maximum of 9,500 lines in the city of Moscow and a further 500 lines in the Moscow oblast. License N3644 expires in December 2006. Under the terms of the license, MTR-Sviaz is obligated to have at least 70% of the total number of subscribers permitted under the terms of the license in place within six years.

MTR-Sviaz has also been issued license N2463 which authorizes MTR-Sviaz to provide local and long distance leased line services within the city and region of Moscow. Local and long distance lines may only be leased to customers holding an appropriate license issued by the RFCTI. License N2463 is limited to a maximum of 3,500 lines and expires in October 2001. MTR-Sviaz is obligated by the terms of the license to have at least 70% of the total number of subscribers permitted under the license in place by October 1999.

ALTEL

ALTEL holds a 15-year renewable license issued in February 1994 for the creation and operation of cellular communications networks in Kazakhstan for local, long distance and international calling, using the 800 MHZ frequency band and "AMPS" technology. Under the terms of the license ALTEL was required to provide cellular services to Almaty and ten to twelve additional regional centers by the end of 1996, a condition which has been met. See "-- ALTEL -- Network and Facilities."

The license specifies that ALTEL is to be the exclusive provider of cellular service in Kazakhstan for the first five years of the license term. The license also specifies that, if the KMOC determines that it will issue any other license to create and operate a cellular network in accordance with GSM or NMT-450 standards or any other technology, ALTEL will be given the right of first refusal with respect to such license. Additionally, the license is transferable upon approval by 75% of ALTEL's shareholders.

The exclusivity provision of ALTEL's license has recently been the subject of scrutiny by various governmental agencies in Kazakhstan, and questions have been raised as to its validity. In order to put the matter to rest, ALTEL has been discussing with the KMOC substituting a new license with revised terms for its existing license. While those terms are not finally negotiated, they would likely include a combination of:

- eliminating the exclusivity provision (which terminates in any event in February 1999);

- eliminating ALTEL's right of first refusal with respect to other licenses, in favor of giving it a guaranteed right to participate in any tenders or negotiations for a new license; and

- eliminating the ability to transfer the license,

in return for a new 15 year license to be valid from the date of issue.

Management of ALTEL believes that a resolution of the kind envisaged would put to rest the issues that have been raised regarding ALTEL's existing license and assure ALTEL a suitable environment in which to continue the development of its business. Management also believes that, by virtue of its cost structure and its market penetration to date, it is in a good position to compete with any parties who are hereafter licensed to operate cellular networks in Kazakhstan, even those which may enjoy the backing of the KMOC or other agencies of the government of Kazakhstan. However, there can be no assurance that efforts to limit the scope of its license or otherwise revise its terms in a way which could be detrimental to ALTEL will not continue, or that ALTEL will in fact be able to compete successfully with any new licensees. See "-- Risk Factors --

Country Risks -- Legal Risks" and "-- Risks Involving ALTEL -- Reliance on Telecommunications License; Elimination of Exclusivity Provision."

DESCRIPTION OF AGREEMENTS

PETERSTAR COMPANY LIMITED

Equipment. Lucent is PeterStar's primary network equipment supplier. In recent years, both PeterStar and the Company have entered into equipment supply agreements with Lucent for the purchase of telecommunications equipment, including transmission systems, switching equipment and related software, for the PeterStar network, including for the Vassilievski Island project.

During 1997, PeterStar signed contracts totaling approximately $16.7 million with Lucent for the supply of telecommunications switching equipment and services for the development of its network and for the Vassilievski Island project.

In 1996, contracts totaling $6.6 million were signed with Lucent for the supply of telecommunications switching and transmission equipment and services to PeterStar. The equipment is owned by PLD Leasing and leased to PeterStar for a five year term, with PeterStar having the right to purchase the equipment at the end of the term. Following the execution of the Supplemental Indenture, the Company intends to convert the equipment lease with PeterStar into an installment sales contract.

Cellular and Other Operators. Pursuant to interconnect agreements with Delta, NW GSM and Fora, PeterStar provides interconnect service from the cellular networks to the local network and a gateway for long distance and international networks. Traffic interconnections are linked and made through PeterStar's switch system. The interconnect agreements provide for the following payments to be made by each cellular operator to PeterStar based on 2 Mb/s trunk connections, monthly lease fees for each trunk, per-subscriber number fees and per-minute tariffs. The Delta agreement is for a one year term, renewable for additional one year periods by mutual agreement. The NW GSM agreement is for a minimum period of two years, after which either party may terminate upon not less than three months prior written notice. The agreement with Fora is for two years and may be extended by mutual agreement for successive five year periods.

BALTIC COMMUNICATIONS LIMITED

The Company acquired 100% of the outstanding share capital of BCL on April 1, 1996 for $3.0 million plus an additional capital commitment of up to $1.5 million to cover certain existing liabilities payable to Mercury Communications (for carrier charges) and to Eutelsat (for satellite circuit charges). Long-term debt of BCL owed to Cable & Wireless was transferred to (i.e., became payable to) NWE Cyprus as part of the transaction. In addition, BCL has contracted with Cable & Wireless Communications of the United Kingdom, Telia of Sweden, and Comstar and Sovintel of Moscow, for the provision of transit traffic services through the BCL gateway switch in St. Petersburg.

TECHNOCOM LIMITED

Acquisition of Additional Interests in Technocom Limited. In November 1997, the Company increased its voting interest in Technocom to 80.4% through the acquisition of additional interests from Plicom and Elite. See "-- Ownership and Management of Operating Subsidiaries -- Technocom Limited."

Acquisition of Additional Interests in Teleport-TP. As a result of two acquisitions in 1996, Technocom increased its economic interest in Teleport-TP to 49.33%, its voting interest to 56%, and its control of the nomination of directors on the five seat board of directors to three.

First, in May 1996, Roscomm, an entity in which Technocom beneficially owns a 66.67% interest, increased its ownership interest in Teleport-TP from 5% to 10%. Roscomm purchased the additional 5% interest from VVC for a cash payment of $2.0 million.

Second, in December 1996, Technocom acquired a 55.51% interest in Technopark, which, in turn, holds a 7.5% interest in Teleport-TP and controls the nomination of one director on the Teleport-TP board. The

Technopark interest was acquired in separate transactions from Elite (38% interest in Technopark) and Plicom (17.5% interest in Technopark) for an aggregate cash payment of $3.0 million, pursuant to separate Sale-Purchase Agreements between Technocom and each of Elite and Plicom. Immediately prior to transferring their interests to Technocom, Elite and Plicom had purchased their interests from five shareholders of Technopark.

Equipment Leases. Equipment purchased by Technocom for the various projects undertaken by Teleport-TP is leased to Teleport-TP pursuant to lease agreements between Technocom and Teleport-TP. Equipment purchased by Technocom for the various projects undertaken by MTR-Sviaz is leased to MTR-Sviaz pursuant to lease agreements between Technocom and MTR-Sviaz.

Teleport-TP -- International Network Facilities -- Intelsat. The original two Intelsat antennas and the AT&T type 5ESS switch for Teleport-TP's operations were supplied on a turnkey basis by AT&T for a total cost of approximately $12.8 million (inclusive of all financing charges) payable under a supplier financing arrangement with AT&T over 48 months. Rostelecom, Technocom and Technopark guaranteed Teleport-TP's obligations to AT&T, and Teleport-TP provided a security interest in its assets, including receivables, as security for its obligations under the financing. In July 1995, Technocom agreed to pay off the outstanding balance on the AT&T debt of $8.0 million in Teleport-TP in return for ownership of the assets. Technocom then leased the equipment back to Teleport-TP over a ten year lease period. In addition, Technocom has purchased additional network telecommunications equipment valued at $0.5 million which was also leased to Teleport-TP.

Teleport-TP -- International Network Facilities -- Eutelsat. The Eutelsat antenna was supplied on a turnkey basis pursuant to an equipment purchase and installation agreement, dated August 25, 1995, between Technocom and Hughes for a total cost of approximately $2.8 million, including equipment and services. Fifty percent of the purchase price was financed by the supplier pursuant to a three-year supplier credit agreement between Technocom and Hughes, supported by a guarantee drawn on the Bank of Austria as security for Technocom's obligations to Hughes. The remaining fifty percent of the purchase price was financed by a five-year loan agreement, dated September 12, 1995, between Eutelsat and Teleport-TP, which provides for no principal payments during the first 18 months. Pursuant to the loan agreement, Eutelsat made disbursements under the loan directly to Hughes. Teleport-TP's obligations to Eutelsat have been guaranteed by the RFCTI. The funds were provided by Eutelsat on the condition that Teleport-TP will use the TDMA earth station exclusively for the Eutelsat space segment for a minimum continuous period of ten years from the start of the earth station's operation. The equipment is being leased to Teleport-TP by

Technocom under a lease agreement, dated September 1, 1995, pursuant to which Teleport-TP, for a period of eight years, will make monthly payments of $103,000 to Technocom (which sum will cover the loan payments due to Eutelsat). Teleport-TP has the right to purchase the equipment from Technocom at the end of the lease period.

Teleport-TP -- Long Distance Network Facilities. The initial equipment for the satellite-based network, consisting of a master 18-meter antenna in Moscow, and seven 7-meter and twenty three 4.5-meter remote antennas, was supplied by Scientific-Atlanta for a total cost of $12.0 million, pursuant to a purchase and installation agreement between Technocom and Scientific-Atlanta, dated November 16, 1995.

In November 1996, Technocom and Scientific-Atlanta extended this agreement to provide for 11 new 7-meter and three new 4.5-meter remote antennas, IDR equipment for seven of the existing 7-meter remote antennas, one IDR upgrade for an 11-meter antenna in Kazan and an expansion of the 18-meter master antenna in Moscow. The total cost of this new agreement is $14.0 million.

Two further amendments were made to the basic Scientific-Atlanta agreement during 1997, to cover additional equipment and upgrades to existing facilities, with a total cost of approximately $1.85 million.

All of the telecommunications equipment purchased under the Scientific-Atlanta agreement is being leased to Teleport-TP by Technocom pursuant to telecommunications asset leases.

In August 1997, the Company entered into an agreement with Siemens for the purchase of converters and other telecommunications equipment related to the long distance network for an aggregate purchase price

of approximately three million Deutsche Marks. The equipment is being leased by Technocom to Teleport-TP.

MTR-Sviaz. Technocom's contribution to MTR-Sviaz included provision of, among other things, a switch to service 8,000 Moscow city lines and 2,000 lines on the internal Mosenergo network. Technocom also purchased 4,000 Moscow city lines, for which it will be paid by MTR-Sviaz as part of the equipment lease described below. Mosenergo's contribution to MTR-Sviaz includes the provision of Moscow city lines at a discounted price, the premises for the switch and the construction of the fiber optic connections between the Mosenergo network and the Moscow city network. Mosenergo is also responsible for network design, securing the numbering plan for the 4,000 city lines and supplying the technical data for connecting the Mosenergo network to the city network. To meet its contribution commitment, Technocom arranged for the purchase of a HICOM 300 switch for MTR-Sviaz pursuant to a purchase agreement, dated June 2, 1995, between Technocom and Siemens, for a total cost of approximately DM 4.9 million (approximately $2.9 million). Seventy percent of the purchase price is being financed by the supplier, pursuant to a five-year supplier loan agreement between Technocom and Siemens, supported by a guarantee drawn on the Bank of Austria as security for at least fifty percent of Technocom's obligations to the supplier. The HICOM 300 switch is being leased by Technocom to MTR-Sviaz under an eight-year lease agreement, dated June 1, 1995, pursuant to which MTR-Sviaz will make monthly payments to Technocom of $253,000. MTR-Sviaz will have the right to purchase the equipment from Technocom at the end of the lease period.

ALTEL

ALTEL has agreed pursuant to an agreement entered into in May 1994 (the "Motorola Purchase Agreement") to purchase from Motorola the infrastructure equipment required for the cellular systems to be installed in Almaty and eighteen other regional centers throughout Kazakhstan. The Motorola Purchase Agreement requires that ALTEL purchase the equipment required for Almaty in all events for the sum of $7.8 million. Management believes that ALTEL has now met this requirement. The agreement permits ALTEL to not proceed with the purchase of equipment for any of the other sites by so notifying Motorola, subject to incurring a penalty if this is done less than a specified number of days before the applicable equipment is scheduled for shipment. Management also believes that it has complied with these requirements in reducing the total number of installations in Kazakhstan to 12, including Almaty. Finally, the agreement prohibits ALTEL from purchasing cellular system equipment from other suppliers during the five year term unless the delivery by Motorola of any equipment ordered by ALTEL is unreasonably delayed.

Pursuant to a separate agreement, Motorola has agreed to furnish services with respect to the equipment, which will include system design, installation, optimization, system engineering, program management, software maintenance and on-site switch maintenance.

The term of both agreements is five years. Thereafter, each agreement will automatically renew for consecutive five-year terms unless either ALTEL or Motorola notifies the other of its intent to terminate such agreement at least 30 days prior to the expiration of the then current five-year term.

EMPLOYEES

PLD TELEKOM INC.

As of December 31, 1997, the Company had ten employees, nine of whom were full-time.

PLD MANAGEMENT SERVICES LIMITED

As of December 31, 1997, PLDMS had five employees, four of whom were full-time.

PETERSTAR COMPANY LIMITED

As of December 31, 1997, PeterStar had 392 employees, of whom 306 were full-time. Of these employees, 390 were Russian nationals and two were expatriate managers. None of its employees is subject to a collective bargaining agreement. PeterStar believes that its relations with its employees are good.

TECHNOCOM LIMITED

As of December 31, 1997, Technocom and Teleport-TP had 9 and 103 employees, respectively, all of whom were fulltime. All but two of these employees were Russian nationals. None of Technocom's or Teleport-TP's employees is subject to a collective bargaining agreement. Technocom believes that its relations with its employees are good.

ALTEL

As of December 31, 1997, ALTEL had 428 employees, two of whom were part-time. Of these employees, 426 were Kazakh nationals and two were expatriate managers. The number of employees involved in branch operations was 181. None of its employees is subject to a collective bargaining agreement. ALTEL believes that its relations with its employees are good.

BALTIC COMMUNICATIONS LIMITED

As of December 31, 1997, BCL had 84 employees, all of whom were full-time. Of these employees, 83 were Russian nationals and one was an expatriate manager. None of its employees is subject to a collective bargaining agreement, although there is a union representative at BCL. BCL believes that its relations with its employees are good.

OWNERSHIP AND MANAGEMENT OF OPERATING SUBSIDIARIES

PETERSTAR COMPANY LIMITED

Ownership Structure

The Company holds its 60% interest in PeterStar through NWE Cyprus. It acquired its interest at various times over the period 1992 - 96.

Prior to 1997, the other shareholders of PeterStar were Telecominvest (20%) and Complus Enterprises Holding S.A. ("Complus") (20%). Telecominvest was a joint venture between PTN and SPMMTS formed to act as a holding company for their respective interests in a number of telecommunications ventures in Northwest Russia. Telecominvest acquired its interest in PeterStar from PTN as part of PTN's contribution to this joint venture. Complus was a 55% owned indirect subsidiary of Cable & Wireless.

In 1996, a Commerzbank affiliate acquired a 51% interest in Telecominvest. In May 1997, the holdings in PeterStar were restructured in connection with the recapitalization of PeterStar, so that Telecominvest came to acquire an additional 9% interest in PeterStar from Complus, while at the same time the

Commerzbank affiliate gave up its interest in Complus, which thereafter became wholly owned by Cable & Wireless. Cable & Wireless then transferred its 11% interest in PeterStar from Complus to PLD Holdings. Accordingly, as of December 31, 1997 PeterStar was owned 60% by NWE Cyprus, 11% by PLD Holdings, and 29% by Telecominvest, which is owned 51% by the Commerzbank affiliate, 25% by PTN and 24% by SPMMTS.

If the transactions with Cable & Wireless and News America are consummated, the Company will acquire PLD Holdings and thereby increase its interest in PeterStar to 71%. See "-- Recent Developments -- Transactions with Cable & Wireless and News."

Relationship with Other Equity Holders

Under the PeterStar foundation documents, a general meeting of shareholders may take action through a simple majority of those present. Accordingly, since the Company has a 60% interest in PeterStar, it should be assured of being able to take whatever action it requires once a meeting is constituted. However, representatives of 75% of the ordinary shares must first be present to constitute a quorum. Thus, it is possible for Telecominvest (and Commerzbank, through its control position in Telecominvest) to prevent action from being taken by ensuring that there is no quorum at a shareholders meeting. Also, pursuant to the PeterStar foundation documents, the shareholders have rights of first refusal to purchase any shares which any

shareholder wishes to transfer, and to purchase any shares held by any shareholder who is bankrupt or goes into liquidation.

PeterStar is dependent on PTN for the completion of most of its calls, and the PeterStar network is linked to the PTN network, giving PeterStar access to PTN's large local subscriber base. In addition, PeterStar is dependent on PTN's buildings, ducts and tunnels in order to house its exchanges and to reach its customers. To date, PTN has permitted PeterStar to house its exchanges in PTN buildings and use its other facilities without paying rent or call charges. Although PTN is required to do this under the terms of PeterStar's foundation documents, the presently unforeseen refusal by PTN to honor this commitment for free access or to condition access on unfavorable terms, or to restrict or condition completion of calls from the PeterStar network, could have a material adverse effect upon PeterStar, and hence upon the Company. PTN has been pressing PeterStar to commence making payments for the use of its local lines and negotiations have been conducted between the parties for the introduction of local line rental charges. At present it is not possible to predict the outcome of these negotiations, nor their impact upon PeterStar's results of operations. Given the extent of the reliance of PeterStar upon PTN, PTN is clearly in a position to exercise a high degree of influence over PeterStar's affairs as a practical matter, even as an indirect minority shareholder.

Notwithstanding its ability to influence PeterStar's affairs, the Company believes that PTN will continue to support the development of PeterStar's business as presently planned, and that PTN's business objectives are basically consistent with PeterStar's own plans.

Management

At the beginning of 1997, the board of directors of PeterStar consisted of seven directors, three of whom were appointed by the Company, two by Telecominvest and one by Complus. The seventh director was the General Director, who is required to be nominated by the Company but approved by the general meeting of shareholders. During 1997, the size of the board was increased to eight, with three each being appointed by the Company and Telecominvest, and one being appointed by PLD Holdings, which is currently wholly owned by Cable & Wireless. The eighth director remained the General Director, who is still required to be nominated by the Company subject to final approval by the shareholders.

Inasmuch as six of the eight directors must be present to constitute a quorum, the possibility exists that the Telecominvest directors (or any three other directors) may be able from time to time to prevent the creation of a quorum. Once a quorum is present, however, the Company is currently reasonably assured of a majority of the votes on the board, on the basis that both the director appointed by PLD Holdings, which is wholly-owned by Cable & Wireless, the Company's principal shareholder and therefore presumed to be likely to support the Company in respect of matters coming before the PeterStar board, and the General Director, who is a Company appointee, will vote with the three

Company-appointed directors. Even if only the PLD Holdings director votes with the three Company appointees, the Company can still achieve a majority of votes because the PeterStar foundation documents specify that the person designated as Chairman of the Board (whom the Company is entitled to appoint) also has a casting vote in the event of a tie vote among the board of directors. If the transactions with Cable & Wireless and News America are consummated, the Company will be assured of the right to appoint four of the eight directors of PeterStar. See "-- Recent Developments -- Transactions with Cable & Wireless and News."

The day-to-day management of PeterStar is the responsibility of the General Director and a management board which is composed of the PeterStar divisional directors. The PeterStar operational divisions are: Sales and Marketing, Finance, Technical and Operations and Administration.

The officers of PeterStar are as follows:

<TABLE>

<S>	<C>
Vladimir A. Akulich..................	General Director
Stephen Gardner......................	Sales and Marketing Director (through April 1998)
Rick Macy............................	Commercial Director (commencing April 1998)
James Maude..........................	Finance Director
Alexander Belyakov...................	Technical and Operations Director

</TABLE>

Vladimir Akulich became Acting General Director of PeterStar in March 1995 and was confirmed as General Director in May 1995. Previously, he had been its Technical and Operations Director. After completing his education at the St. Petersburg Institute of Communications in 1978, Mr. Akulich worked in the Radio Communications Equipment Factory until 1982. In 1983, he began his professional career in the telecommunications industry, holding positions of increasing responsibility at PTN. His last position at PTN was as Chief Engineer of one of five telephone nodes in the PTN network. Mr. Akulich is 39 years of age.

Stephen Gardner became Sales, Marketing and Customer Service Director on January 1, 1996. Effective April 1998, he will become Vice President -- Commercial, Russia for PLD. Previously, he was Commercial Director of BCL, on secondment from Cable & Wireless, in St. Petersburg from February 1994 to December 1995. Prior to that time, he had been an employee of Cable & Wireless in San Francisco since 1989 as a District Manager and in Los Angeles as a Senior Sales Executive. Mr. Gardner is a graduate of the University of Southern California, with a degree in business. Mr. Gardner is 31 years of age.

Rick Macy joined PeterStar as Commercial Director in April 1998, replacing Stephen Gardner who then became Vice President -- Commercial, Russia for PLD. Prior to joining PeterStar, Mr. Macy was the Commercial Director, Moscow for Millicom International Cellular, where he was responsible for the sales and marketing of all of Millicom's Russian cellular joint ventures. Previously, he was Area Sales Manager for Harris Corporation, responsible for their European markets. He also spent four years as an electronics technician in the U.S. Navy. Mr. Macy is 33 years old.

James Maude joined PeterStar as Finance Director in September 1996. Prior to this he worked as an auditor for Deloitte and Touche, opening their office in St. Petersburg in 1993. During this time he was responsible for world clients of Deloitte and Touche such as RJR Nabisco. Before moving to Russia, Mr. Maude worked for Deloitte and Touche in Malawi, Africa, and Binder Hamlyn in London. Mr. Maude is 36 years old.

Alexander Belyakov became Technical and Operations Director in May 1996. His previous positions were Acting Technical and Operations Director (beginning in March 1995) and Chief Engineer of the Technical Department. Mr. Belyakov graduated from the St. Petersburg Institute of Communications in 1978. From 1978 until 1982, he worked in "Mezhgorsvjazstroy", where his responsibilities were the installation of optical fiber links and switching equipment. From 1982 through 1992, he worked in PTN as a leading engineer in digital telecommunication systems. In January 1993, Mr. Belyakov joined PeterStar and became Transmission Systems Manager. Mr. Belyakov is 40 years old.

Service Agreement

PeterStar entered into a service agreement, dated January 1, 1998, with NWE Cyprus, pursuant to which, for a one-year term, NWE Cyprus will provide management services to PeterStar, including advice and assistance with respect to the design, implementation, operations, marketing and expansion of PeterStar's network for a one-year term. NWE Cyprus invoices PeterStar quarterly for these services in U.S. Dollars. PeterStar has had similar agreements with NWE Cyprus for all years dating back to 1992.

PLD Telekom Inc. Representative Office

Following approval by the Company's Board of Directors in April 1997, the Company has established a representative office of the Company in St. Petersburg. The office is co-located at the premises of BCL. The Company employs as its Representative Director Peter Owen Edmunds, formerly with PeterStar, and two administrative staff members. Mr. Owen Edmunds, who was previously the Deputy General Director and Sales and Marketing Director of PeterStar, formed part of the initial team from the Company that helped formulate the development of PeterStar commencing in April 1992. Prior to joining the Company, Mr. Owen Edmunds served for 14 years as an officer in the British Army. He served in the United Kingdom and Germany, ending his military career in Berlin on the Five Nation Liaison team. Mr. Owen Edmunds underwent Russian language training in the service and is a qualified Russian interpreter. Mr. Owen Edmunds is 39 years of age.

TECHNOCOM LIMITED

Ownership Structure

The Company holds a 80.4% voting interest in Technocom, with the balance being held by Plicom (14.57%) and Elite (5.03%). In November 1997, the Company acquired: (i) 30 Technocom ordinary shares (or approximately 15.1% of the total such shares issued) held by Plicom, an Irish company beneficially owned by the family interests of Mr. Mark Klabin, for $18.5 million in cash; and (ii) 29 Technocom ordinary shares (or approximately 14.8% of the total such shares issued) held by Elite, an Irish company beneficially owned by a trust advised by Dr. Boris Antoniuk, for $6.25 million in cash and 1,316,240 shares of Common Stock. See "-- Acquisition of Additional Interests in Technocom."

Technocom's principal asset is its equity interest in Teleport-TP. The shareholders of Teleport-TP are Technocom (38.5%), Rostelecom (44%), Roscomm (10%) and Technopark (7.5%). During 1996, Technocom's direct and indirect interests in Teleport-TP were increased to 49.33% through: (i) the acquisition of a 55.51% interest in Technopark, a 7.5% shareholder in Teleport-TP; and (ii) the acquisition by Roscomm (in which Technocom holds a 66.67% interest) of a 5% interest previously held in trust for the VVC. The completion of these transactions by Technocom has given Technocom the ability to control 56% of the voting shares in Teleport-TP and nominate three of the five seats on the Teleport-TP board, thereby permitting the consolidation of Teleport-TP's financial results into the Company's consolidated financial statements under U.S. GAAP effective December 31, 1996. See "-- Risk Factors -- Risks Involving the Company -- Absence of Complete Control; Dependence on Local Partners."

Technocom also owns a 49% beneficial interest in MTR-Sviaz. The remaining 51% is owned by Mosenergo, the Moscow city power utility. MTR-Sviaz is a joint venture formed to modernize and commercialize a portion of Mosenergo's internal telecommunications network. See "-- Technocom Limited -- MTR-Sviaz."

Technocom also holds a 50% interest in Rosh Telecom, a venture with ECI, an Israeli equipment supplier. Rosh Telecom is the exclusive agent for ECI in the Russian Federation.

Technocom also has an effective 100% of SCS. SCS acts as Teleport-TP's marketing arm for satellite circuit capacity made available by Teleport-TP to international television agencies with occasional broadcasting requirements.

Relationship with Other Equity Holders

In connection with the November 1997 acquisitions of portions of the Technocom interests held by Plicom and Elite, the Company entered into a revised put and call option agreement with Plicom, whereby Plicom has the right, commencing June 30, 1999 and continuing until June 30, 2019, to require the Company to acquire its remaining holding in Technocom, and the Company has the right to require Plicom to sell such holding, for a purchase price of $17.5 million. In addition, the Company entered into a revised put and call option agreement with Elite, whereby: (i) Elite has the right, commencing June 30, 1998 and continuing until June 30, 2019, to require the Company to acquire 2 of its remaining shares in Technocom, and the Company has the right to require Elite to sell such shares, for a purchase price of $1.0 million or, at Elite's option, that number of shares of Common Stock which results from dividing $1 million by the lower of $5.85 and the average closing price of such shares over the preceding ten trading days; and (ii) Elite has the further right, commencing June 30, 1999 and continuing until June 30, 2019, to require the Company to acquire its 8 remaining shares in Technocom, and the Company has the right to require Elite to sell such shares, for a purchase price based on the Company's valuation of Technocom, provided that such purchase price shall not be less than $6,689,655 nor more than $9,620,689. See "-- Risk Factors -- Risks Involving the Company -- Limitations on Ability to Transfer Interests."

The success of Teleport-TP's business is very dependent upon the continuing support of Rostelecom. Rostelecom holds a 44% interest in Teleport-TP, and Mr. Oleg Belov, the general director of Rostelecom, is Rostelecom's representative on the Teleport-TP board of directors.

Currently, Rostelecom is Teleport-TP's largest customer for its international network services, accounting for approximately 27% of total Teleport-TP revenues in 1997, as compared to 41% in 1996. Teleport-TP leases Intelsat circuits to Rostelecom pursuant to a five-year contract which commenced in December 1992 and Eutelsat circuits pursuant to a ten year contract which commenced in September 1995. The Intelsat contract was renewed in December 1997 for an additional three year term, and is automatically renewable upon the expiration of its initial term, unless terminated by either party.

Additionally, to date Rostelecom has supported all of Teleport-TP's plans (and related license applications) for the expansion of its "Satelink" network in Russia, even though Rostelecom is the principal provider of national and international long distance service in Russia (see "-- Telecommunications in the Former Soviet Union -- Telecommunications in the Russian Federation"), and thus in direct competition with Teleport-TP (see "-- Competition -- Teleport-TP"). Rostelecom's motivation appears to be its equity interest in Teleport-TP as well as the fact that Teleport-TP's network provides improved telecommunications links with areas of the Russian Federation which Rostelecom is unable to serve fully, or at all, and thus increases traffic utilizing Rostelecom's own network. See "-- Technocom Limited -- Teleport-TP -- Dedicated International Network Services -- Customers and Marketing."

In 1997, it was reported that, notwithstanding its previously announced plans to have Sviazinvest compete with Rostelecom, the Russian government had consolidated its telecommunications holdings in Sviazinvest and Rostelecom by transferring its shareholding in Rostelecom (38% of the common stock, and 51% of the voting stock) to Sviazinvest. The balance of the shares in Rostelecom remain in the hands of private investors. In April 1997, the government announced that it was seeking to sell 49% of Sviazinvest in two auctions, one as to a 25% stake open to Russian and foreign investors and the other as to a 24% stake open only to Russian investors. In July 1997, the government announced that the 25% stake had been sold to a consortium which included Oneximbank and Renaissance Capital, for a purchase price of $1.875 billion. Following this auction, the Russian government announced its intention to increase the size of the other stake being sold to 25% minus one share. The schedule for the auction of the second stake has not been announced, but it is expected to be completed by the end of the third quarter of 1998. While it is not yet clear how the proceeds of this sale will be employed, it is understood that the government wishes to have a substantial part, if not all, of the proceeds allocated to its current budget deficit. At the same time, Sviazinvest has announced plans to raise $400 million through a Eurobond offering later in 1998. In light of all of the foregoing, it is unclear what impact the consolidation of the government's telecommunications holdings and the auctions of significant stakes in Sviazinvest will have on the Russian telecommunications market in general and the Company in particular. See "-- Telecommunications in the Former Soviet Union -- Telecommunications in the Russian Federation."

In view of the importance of the relationship of Rostelecom to Teleport-TP and the central position which Rostelecom plays in the Russian telecommunications industry, Rostelecom is clearly in a position to exercise considerable influence over Teleport-TP's affairs, notwithstanding the fact that it holds a minority position in the company and its representative on the board of directors is also in a minority. While there is no guarantee that Rostelecom will continue to support the expansion of Teleport-TP, the Company knows of no reason to believe, based on the nature of its support to date and the benefits it receives from the relationship, that Rostelecom will not continue to support Teleport-TP in the future. See "-- Risk Factors -- Risks Involving Technocom

Limited and Teleport-TP -- Dependence on Rostelecom as Customer; Necessity to Further Develop Customer Base."

Management

Technocom is managed by a board of directors consisting of five members, three of whom are designated by the Company, with Plicom and Elite, Technocom's other shareholders, each nominating one member. The day-to-day management of Technocom is the responsibility of Boris Antoniuk, who is the principal executive officer of Technocom. The Company has identified a number of other executives to work with Dr. Antoniuk, as a result of which efforts Mr. David Castillo was appointed as Chief Operating Officer of Technocom in January 1998, and Mr. Michael Maltby was appointed Finance Director of Technocom in February 1998. The Company has also provided, and will continue to provide, logistical, engineering and project management

support to the development of Teleport-TP's satellite-based long distance network, the costs associated with which are borne by Technocom.

In connection with the Company's acquisition of the additional interests in Technocom, the Company entered into a amendment to its existing consulting agreement with Plicom, amending and increasing the duties to be performed thereunder, increasing the annual fee payable thereunder from $100,000 to $200,000, providing for the payment of expenses reasonably incurred, and specifying that the agreement will terminate once the Company has acquired the remainder of Plicom's interest in Technocom. The Company also entered into an amendment to its existing consulting agreement with Elite, increasing the annual fee from $108,333 to $158,333. Separately, both Mr. Klabin and Dr. Antoniuk have agreed not to compete with the Company in the field of telecommunications in the former Soviet Union both while they are directors of Technocom and for two years after they cease to be directors of Technocom. See "-- Risk Factors -- Risks Involving the Company -- Dependence on Key Management."

Boris Antoniuk has served as general manager of Technocom and Chairman and Chief Executive Officer of Teleport-TP since 1992. Dr. Antoniuk has also served as a Director of the Company since June 1997 and as Group Director -- CIS and Russia of the Company since November 1997. He has many years' experience in the telecommunications field, having worked for various government agencies and trade delegations in the Soviet Union and Russia since 1974, including six years as head of the U.S. department of the USSR State Committee for Science and Technology in Moscow and three years as economic adviser to a deputy Prime Minister of the USSR Council of Ministers. Since the economic liberalization of Russia, he has been involved in a number of commercial ventures, including the publishing of several Russian computer magazines. He also holds the post of Deputy Chairman of Technopark, a subsidiary of Technocom.

David Castillo became Chief Operating Officer of Technocom and Teleport-TP in January 1998. Prior to joining the Company, he was Country Manager of Russia and the CIS for Dow Jones. From 1994 to 1996, Mr. Castillo was Project and Development Director for Reuters Russia and CIS, and prior to that he was Operations Director for Reuters in England. Mr. Castillo is 53 years old.

Michael Maltby became Finance Director of Technocom in February 1998. Prior to joining the Company, he was the Financial Director of Belcel, a cellular operator based in Minsk, Belarus. From 1995 to 1996, Mr. Maltby was a Financial Systems Accountant for Comstar in Moscow. Previously, he was a chartered accountant with Ernst & Young where he worked in the London, St. Petersburg and Moscow offices. Mr. Maltby is 33 years old.

ALTEL

Ownership Structure

The Company's 50% interest in ALTEL is held by WTC, a British Virgin Islands corporation and a wholly owned indirect subsidiary of the Company. The shares of WTC are held by the Company through NWE Cyprus. The other 50% interest in ALTEL is currently held by Kazakhtelekom, a joint stock company which is owned by the government of Kazakhstan and which operates the public telephone network in that country (the authority to operate such network having been recently confirmed by the grant to Kazakhtelekom of specific authority to act as the exclusive operator of the public network in Kazakhstan and as representative of the Kazakh government in international telecommunications matters). In May 1997, the Kazakh government announced that it had sold a 40% stake in Kazakhtelekom to Daewoo. However, in March 1998, it was reported that Daewoo had sold a portion of its stake (reported to be approximately 10% of Kazakhtelekom) to an unnamed third party. The report did not indicate whether Daewoo proposed to sell or retain the remainder of its stake in Kazakhtelekom. See "-- Risk Factors -- Risks Involving ALTEL -- Effect of Sale of Stake in Kazakhtelekom on ALTEL and the Telecommunications Market in Kazakhstan" and "-- Relationship with Other Equity Holders."

Relationship with Other Equity Holders

The relationship between WTC and Kazakhtelekom is governed principally by the terms of a joint venture agreement entered into in December 1993. The agreement sets forth the respective capital contributions of the parties. In the case of the Kazakh partner, these consisted of the cellular license and frequencies, as well as all physical facilities required for the operation of the cellular network. As required, WTC contributed cash, equipment, property and services with an aggregate value of $20.0 million by February 1995. WTC has no obligation to make any additional contributions. Should the board of directors of ALTEL determine that ALTEL requires an additional capital contribution, then each shareholder will be required to contribute its proportionate share of the capital contribution or face dilution.

Each ALTEL shareholder has the same voting, distribution and liquidation rights, except that upon a liquidation, WTC is entitled to receive out of any distributions the first $20.0 million for its capital contribution plus any subsequent capital contributions not matched by Kazakhtelekom.

Prior to February 4, 1999, neither party may sell, assign, pledge or otherwise transfer its equity interest in ALTEL without the written consent of the other party. After February 4, 1999, either party may transfer its equity interest provided that the transferee agrees to be bound by the terms of the Joint Venture Agreement.

ALTEL and Kazakhtelekom entered into an interconnection agreement pursuant to which Kazakhtelekom agreed to provide ALTEL with access to the public switched telephone network in Kazakhstan for the fifteen year term of ALTEL's current license free of charge (but subject to payment of certain charges to local operators for carriage and termination of calls from ALTEL's network). While there is no reason to suppose that Kazakhtelekom will not honor this commitment, the loss of, or any significant limitation on its access to the network could have a material adverse effect on the operations of ALTEL.

While WTC may have the power, pursuant to the management structure described below, to direct the operations or determine the strategies of ALTEL, management believes that it is unlikely, in view of the pivotal importance of Kazakhtelekom to the business of ALTEL, that any significant initiatives would be undertaken by WTC without the consent of Kazakhtelekom. To date, Kazakhtelekom has not used its position to undermine initiatives proposed by WTC, nor to cause ALTEL to take any action to WTC's detriment; however, there can be no assurance that it will not do so in the future.

The sale of a 40% stake in Kazakhtelekom to Daewoo in May 1997 may result in changes in the relationship between ALTEL and WTC, on the one hand, and Kazakhtelekom, on the other, but the effects are not possible to predict at the present time. The March 1998 report regarding the sale by Daewoo of a portion of its stake (reported to be approximately 10%) to an unnamed third party also increases uncertainty, as to the government's attitude towards Kazakhtelekom and Daewoo's intentions with respect to the remainder of their stake. Additionally, it is not known what effect on ALTEL, or its license or business, the recent designation of Kazakhtelekom as the exclusive operator of the public network, or the recent efforts by the KMOC to eliminate the exclusivity element of ALTEL's license and to appoint new licensees, will have. All of these developments will present new uncertainties and challenges for ALTEL. See "-- Risk Factors -- Risks Involving ALTEL -- Effect of Sale of Stake in Kazakhtelekom on ALTEL and the Telecommunications Market in Kazakhstan" and "-- Reliance on Telecommunications License; Elimination of Exclusivity Provision," "-- Telecommunications in the Former Soviet Union -- Telecommunications in Kazakhstan" and "-- Telecommunications Licenses -- ALTEL."

In connection with the grant of its telecommunications license in 1994, WTC agreed to lend the KMOC up to $3 million on commercial terms for use for various KMOC projects. During 1995, the Company advanced $3 million to Monogram Finance Group Limited ("MFGL") in exchange for a convertible promissory note due on February 20, 2000. The note is convertible at any time prior to February 29, 2000 into common stock of MFGL representing 50% of its total issued and outstanding common stock. Its sole asset is an agreement to acquire a 50%

interest in Monogram Telecommunications Limited, a Bermuda company ("MTL"). MTL has an agreement to acquire 100% of an Irish company known as Kazakhstan Telecommunications Development Corporation Limited ("KTDC"). KTDC has agreed in principle with the government of Kazakhstan to assist the government in connection with the privatization of Kazakhtelekom. While the

Company believes that this arrangement satisfies the commitment given by WTC to the KMOC, there can be no assurance that the KMOC will not still call upon WTC to advance, and that WTC will not be obligated to pay, the $3 million.

Management

ALTEL is managed by a board of directors consisting of six members, three designated by Kazakhtelekom and three by WTC. WTC designates the Chairman of the Board who has a casting vote in the event of a tie vote. At least four members of the board are required to approve any of the following actions: amendment of ALTEL's charter, dissolution, voluntary bankruptcy, approval of the annual budget, acquisition of assets or businesses in excess of $5 million or any disposition or transfer of the ALTEL license, other investments in excess of $1 million or incurring indebtedness in excess of $2 million. These arrangements cannot be changed without WTC's consent. Accordingly, while there may be some question about the enforceability of these arrangements, WTC believes that it has the ongoing ability to make all significant strategic, operating, financing and investing decisions on behalf of ALTEL through the arrangements described above, although it is not likely that it would choose to take action without the approval of Kazakhtelekom.

ALTEL has two co-chief executive officers ("Co-CEOs") and a treasurer who is also the chief financial officer ("CFO"), and may appoint other officers as the board determines. In addition, ALTEL has a chief Kazakh financial officer ("CKFO") who reports directly to the CFO and who is responsible for accounting matters under Kazakh law as well as serving as a liaison between ALTEL and the Kazakh tax authorities. One of the Co-CEOs and the CKFO are appointed by the directors who are designees of Kazakhtelekom and the other Co-CEO and the CFO are appointed by the directors who are designees of WTC. The Co-CEO appointed by the WTC directors has the ultimate responsibility for the management of ALTEL, subject to the authority of the board of directors.

The officers of ALTEL are as follows:

<TABLE>

<S>	<C>
Rex Power..........................	Co-Chief Executive Officer
Maxut Sauranbekov..................	Co-Chief Executive Officer
Tamara Darcy.......................	Acting Chief Financial Officer (through April 1998)
Michael Leaver.....................	Chief Financial Officer (commencing April 1998)
Natalia V. Sauranbekova............	Chief Kazakh Financial Officer

</TABLE>

Rex Power became Co-Chief Executive Officer of ALTEL in June 1997. He is a registered chartered engineer and a registered European engineer. Prior to joining ALTEL, he worked for Cable & Wireless for over 30 years, mostly in overseas assignments, including management positions in Nigeria, Saudi Arabia and Macau. Additional positions with Cable & Wireless included Regional Business Manager for the Bermuda, Caribbean and Atlantic Islands Region and General Manager, Eastern Russia/Director, Special Projects in the Northeast Asia Region, Hong Kong and Japan. Mr. Power is 50 years old.

Maxut Sauranbekov became Co-Chief Executive Officer of ALTEL in June 1997. He joined ALTEL in October 1994 as Vice President for Marketing, Sales and Customer Service and then served as Vice President for Corporate Affairs. Prior to joining ALTEL, he worked for eight years in various other commercial and financial ventures. Mr. Sauranbekov is 35 years old.

Tamara Darcy served as Acting Chief Financial Officer of ALTEL from January 1998 to April 1998, while ALTEL sought a new Chief Financial Officer. Ms. Darcy has many years of accounting and financial consulting experience, including with DHL Worldwide Express in Moscow and Glaxo Holdings in Moscow. She has also worked as a financial consultant for BCL. Ms. Darcy, who graduated from the Technical University in St. Petersburg with an engineering degree, is a Chartered Management Accountant and is fluent in Russian and English. She resigned from her position upon Michael Leaver becoming the Chief Financial Officer in April 1998.

Michael Leaver joined ALTEL as Chief Financial Officer in April 1998, replacing Tamara Darcy. From 1995 until joining ALTEL, he was Deputy General Director of Uralwestcom, a cellular telephony operator in Yekaterinburg. Previously, Mr. Leaver was the Financial Director for Kiev Tetra Pak, a Ukrainian joint venture, for three years during its start-up phase. Mr. Leaver is 41 years old.

Natalia V. Sauranbekova has more than seven years experience in finance. For over three years, she was Financial Director at Kazryastechnika, which provided research and planning services for the KMOC, and prior to that she was an economist with a number of Kazakh government agencies. She is married to Mr. Maxut Sauranbekov, one of the two Co-Chief Executive Officers.

ALTEL entered into a Consulting and Information Services Agreement with WTC, dated January 30, 1995, pursuant to which WTC provided certain consulting, information, management services and personnel expertise to ALTEL. In consideration for these services, ALTEL paid WTC a fee of $25,000 per month plus 3% of ALTEL's monthly gross revenues. This agreement was terminated as of December 31, 1997, and ALTEL is currently negotiating with the Company and Kazakhtelekom for new consulting agreements. These contracts are anticipated to provide for consulting fees, in the case of the Company, of $25,000 per month plus 3.4% of ALTEL's gross revenues, and, in the case of Kazakhtelekom, of 300,000 Tenge per month plus 1% of ALTEL's gross revenues, and to be effective as of January 1, 1998, with a one year term automatically renewable for successive one year periods unless terminated by either party.

RISK FACTORS

This document contains certain forward-looking statements that are subject to risks and uncertainties. Forward-looking statements include certain information relating to political, social and economic conditions in the countries of the former Soviet Union and the Commonwealth of Independent States, the commencement of certain programs and the proposed offering of certain services by the Company's operating subsidiaries, proposed changes in the Company's corporate structure and centers of operations and interpretations and actions of certain regulatory authorities, including in the United States, Canada, Russia and Kazakhstan, as well as information contained elsewhere in this Report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates" or similar expressions. For such statements the Company claims the protection of the safe harbor for forward-looking statements contained in the private Securities Litigation Reform Act of 1995. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including without limitation, those discussed elsewhere in this Report and in the documents incorporated herein by reference.

COUNTRY RISKS

General. Foreign companies conducting operations through affiliates in the Russian Federation and Kazakhstan face significant political, economic, currency, legal and social risks. For example, a report released February 20, 1997 by the United States Embassy in Moscow on the commercial environment in the Russian Federation listed the following general difficulties affecting trade and investment in the Russian Federation, most of which are also encountered in Kazakhstan and some or all of which could affect the ability of the Company or its operating businesses to conduct or realize income from their businesses:

- ownership disputes
- high taxes, and a frequently changing tax regime
- high operating costs
- lack of systematic and accessible credit information
- corruption and commercial crime
- financial illiquidity of many Russian firms
- changing requirements from regulatory bodies
- lack of market information
- an infant commercial legal framework
- cultural and language differences
- infrastructure problems
- payments, arrears and frozen accounts

- frequent changes in governmental personnel

Political Risks. Since the breakup of the Soviet Union, the political situation in the Russian Federation and Kazakhstan has been characterized by uncertainty and instability.

In the Russian Federation, the political situation has been characterized by tensions between the executive and legislative branches of the government and efforts by the regions and autonomous republics of the Russian Federation to gain a greater degree of independence (the most dramatic example of which was the conflict in Chechnya). Lack of consensus between local and regional authorities and the federal government often results in the enactment of conflicting legislation at various levels and may result in political instability. This lack of consensus may have negative economic effects on the Company, which could be material to its operations. Communist and nationalist parties wield strong influence in the lower house of Parliament (the Duma) and have made gains in regional governorships which could result in a slow down or reversal of the development of a free market economy.

During the transformation to a market-oriented economy in the Russian Federation, legislation has been enacted to protect property against expropriation and nationalization. However, a resurgence in nationalism could result in pressures for the reduction or even elimination of non-Russian ownership of Russian businesses, and there can be no assurance that such recently enacted protections would be enforced in the event of an attempted expropriation or nationalization. Legislation to restrict foreign ownership in the telecommunications

industry is introduced from time to time and, while not expected to become law, is symptomatic of these increasingly nationalistic attitudes. Boris Yeltsin, President of the Russian Federation, recently announced that he will not run for re-election in 2000. The resulting change in leadership at that time could result in political instability and substantial changes in government policies. Any such matters could have a material adverse effect on the Company.

The political situation in Kazakhstan is characterized by one-man rule by President Nursultan Nazarbayev who demonstrates considerable political power. While such concentration of power may at times be perceived as providing a stabilizing influence, it also increases the risk of nepotism, arbitrary decision-making and significant policy changes in the event of succession. In addition, Russia has substantial political and economic influence in Kazakhstan and may seek to use such influence to further its own goals, which may be inconsistent with the national interests of Kazakhstan and create political instability in that country, which could have a material adverse effect on the Company.

Economic Risks -- Uncertain Pace of, and Difficulties Experienced in, Economic Reform; Reliance on Foreign Economic Aid. Until recently, the economies of both the Russia Federation and Kazakhstan were administered by the central authorities of the former Soviet Union. Following the collapse of those authorities and the command economy they managed, the governments of both the Russian Federation and Kazakhstan sought to implement policies designed to introduce free market economies into their respective countries. While these policies have met with some success, the economies of both the Russian Federation and Kazakhstan have been characterized by high unemployment, high rates of business failure, the deterioration of certain sectors of the economy, high government debt relative to gross domestic product and declining real wages. In both the Russian Federation and Kazakhstan real economic improvement has been limited to specific regions (the Moscow and St. Petersburg regions in Russia, and Almaty in Kazakhstan). The Russian Federation is still experiencing a lack of political consensus as to the scope, content and pace of free market reforms. No assurance can be given that policies to introduce or support a free market economy will continue to be implemented in either the Russian Federation or Kazakhstan, that these countries will remain receptive to foreign investment or that the economies of the Russia Federation or Kazakhstan will stabilize. The failure of any of these to occur could have a material adverse effect on the Company. In addition, the Russian Federation currently receives substantial financial assistance from several foreign governments and international organizations. To the extent any of this financial assistance is reduced or eliminated, economic development in the Russian Federation may be adversely affected, and any resulting difficulties in the Russian economy could have a material adverse effect on the Company.

-- Limited Experience with Free Market Economy. Russian businesses have limited operating history in free market conditions and have had limited experience compared with Western companies with the entering into and performance of contractual obligations. Accordingly, as compared to Western companies, such businesses are often characterized by management that lacks experience in responding to changing market conditions and limited capital resources with which to develop their operations. In addition, the Russian Federation has limited infrastructure to support a market system and banks and other financial systems are not well developed or well regulated. Businesses therefore may experience difficulty in obtaining working capital facilities. Moreover, the Russian banking system has faced and may encounter in the future liquidity crises as well as other problems arising as a result of under-capitalization of the banking sector as a whole. A general Russian banking crisis could have a material adverse effect on the Company's operations and financial performance and on the ability of its customers to pay amounts due.

-- Recent Financial Turmoil. In the early part of 1998 there has been considerable turmoil and uncertainty in the Russian financial markets, prompted in large part by the crisis in the Asian financial markets which began in late 1997 and is still continuing, and the economic and political problems being experienced by a number of Asian countries. The Russian Rouble has been under significant pressure, requiring the Russian government to raise interest rates substantially, and to seek special assistance from the International Monetary Fund in order to defend its currency. These developments have been accompanied by a substantial decline in the Russian stock market, the Moscow Times Index having dropped over 50% since January 1, 1998.

At the present time it is not possible to predict whether the Russian government will be successful in avoiding a devaluation of the Rouble, or when stability will return to its financial markets. Any devaluation of the Rouble could exacerbate existing economic problems in Russia. Such devaluation would not immediately affect the Company's operating subsidiaries which, although they receive payment in local currencies, invoice by reference to U.S. Dollars. However, increased economic difficulties in Russia could have an impact on the Company's operating subsidiaries in that country, the effect of which it is impossible to assess at the present time. There can be no assurance that these developments will not have a material adverse effect upon the Company in the future.

Restrictions on Currency Conversion; Historical Volatility in Currency Prices. The Russian Rouble and the Kazakh Tenge are not convertible outside of the Russian Federation and Kazakhstan, respectively. Within those countries, a market exists for the conversion of Roubles and Tenge into other currencies, but it is limited in size and is subject to rules limiting the purposes for which conversion may be effected. The history of trading in the Russian Rouble and Kazakh Tenge against the U.S. Dollar has been characterized by significant declines in value and considerable volatility. Although the Russian Rouble and the Kazakh Tenge experienced relative stability against the U.S. Dollar during 1996 and 1997 and, in the case of the Kazakh Tenge, during the early part of 1998. During the early part of 1998 the Russian Rouble has been under considerable pressure. See "-- Economic Risks -- Recent Financial Turmoil." Historically, the Company has largely been able to limit its exposure to declines in the value of the Rouble and the Tenge because its operating businesses invoice their customers in U.S. Dollars which is permitted under current Russian and Kazakh regulations. The Company's customers then pay in local currency at the then-current exchange rate to the U.S. Dollar. The Company's operating businesses have experienced certain costs in exchanging local currencies for U.S. Dollars, but to date these have not been material. Nonetheless, no assurance can be given that the Company's operating businesses will continue to be able to bill customers in U.S. Dollars or in local currencies in amounts determined by reference to the value of the U.S. Dollar, or that they will continue to be able to exchange local currencies for U.S. Dollars without significant difficulties, delays or costs. In particular, ALTEL may face greater exchange risks as a result of new Kazakh regulations regarding invoicing. See "-- ALTEL -- Operations -- Billing and Tariffs." The Company does not hedge any of its exchange risks. Any of these developments, in conjunction with further declines, or volatility, in the value of the Rouble or the Tenge against the U.S. Dollar, could have a material adverse effect on the Company. See also "-- Risks Involving the Company -- Currency Controls."

Legal Risks -- Underdeveloped Legal System. Both the Russia Federation and Kazakhstan lack fully developed legal systems. Russian and Kazakh law is evolving rapidly and in ways that may not always coincide with market developments, resulting in ambiguities, inconsistencies and anomalies, and ultimately in investment risk that would not exist in more developed legal systems. Furthermore, effective redress in Russian and Kazakh courts in respect of a breach of law or regulation, or in an ownership dispute, may be difficult to obtain.

Risks associated with the Russian and Kazakh legal systems include: (i) the untested nature of the independence of the judiciary and its immunity from economic, political or nationalistic influences; (ii) the relative inexperience of judges and courts in commercial dispute resolution, and generally in interpreting legal norms; (iii) inconsistencies among laws, presidential decrees and governmental and ministerial orders and resolutions; (iv) often times conflicting local, regional and national laws, rules and regulations; (v) the lack of judicial or administrative guidance on interpreting the applicable rules; and (vi) a high degree of discretion on the part of government authorities and arbitrary decision-making which increases, among other things, the risk of property expropriation. The result has been considerable legal confusion, particularly in areas such as company law, property, commercial and contract law, securities law, foreign trade and investment law and tax law. No assurance can be given that the uncertainties associated with the existing and future laws and regulations of the Russian Federation or Kazakhstan will not have a material adverse effect on the Company. In addition, there is no guarantee that a foreign investor would obtain effective redress in any court. No treaty exists between the United States and the Russian Federation or Kazakhstan for the reciprocal enforcement of foreign court judgments.

Furthermore, the relative infancy of business and legal cultures in the Russia Federation and Kazakhstan are reflected in the inadequate commitment of local business people, government officials, agencies and the judicial system to honor legal rights and agreements, and generally to uphold the rule of law. Accordingly, the Company may, from time to time, confront threats of, or actual, arbitrary or illegal revision or cancellation of its licenses and agreements, and face uncertainty or delays in obtaining legal redress, any of which could have a material adverse effect on the Company.

-- Possible Additional Liability of Shareholders. The Civil Code of the Russian Federation and the Law of the Russian Federation on Joint Stock Companies generally provide that shareholders in a Russian joint stock company are not liable for the obligations of the joint stock company, and only bear the risk of loss of their investment. However, if a company (an "effective parent") is capable of determining decisions by another company (an "effective subsidiary"), and such capability is provided for in the charter of the effective subsidiary or in a contract between the companies, and if the effective parent gives obligatory directions to the effective subsidiary, such effective parent bears joint and several responsibility for transactions concluded by such effective subsidiary in carrying out such directions. In addition, an effective parent is secondarily liable for an effective subsidiary's debts in the event an effective subsidiary becomes insolvent or bankrupt resulting from the action or inaction of an effective parent which is capable of determining decisions of the effective subsidiary whether as a result of the effective parent's ownership interest, pursuant to the terms of a contract between the companies or in any other way. In such instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent which caused the effective subsidiary to take action(s) or fail to take action(s) knowing that such action(s) or failure to take action(s) would result in losses. Accordingly, it is possible that the Company may be deemed to be an effective parent of certain of its subsidiaries and therefore be liable in certain cases for the debts of its effective subsidiaries. Such liability could have a material adverse effect on the Company.

-- Limited Protection of Minority Shareholders. Russian laws regulating ownership, control and corporate governance of Russian companies may, in some cases, provide limited protection to shareholders, particularly minority shareholders. Disclosure and reporting requirements, and anti-fraud and insider trading legislation have only recently been enacted and most Russian companies and managers are not accustomed to such restrictions on their activities. The concept of fiduciary duties on the part of management or directors to their companies or shareholders is also new and is not well developed. See "-- Risks involving the Company -- Potential Conflicts of Interest." Nevertheless, there are signs that Russian securities regulators and courts have become more sympathetic to the need to protect minority shareholders, and more willing to set aside management decisions (such as sales below value to insiders or highly dilutive share issues). At the same time procedural protections to which U.S. shareholders are accustomed, such as contingent fee arrangements or the ability to bring class actions, are as yet still unknown in Russia.

Social Risks. The political and economic changes in both the Russian Federation and Kazakhstan since the break up of the former Soviet Union have resulted in significant social dislocations, as existing governing structures have collapsed and new ones are only beginning to take shape. The resulting broad decline in the standard of living has often resulted in substantial political pressure on the government to slow or even reverse the economic policies currently being pursued. In addition, such decline in the standard of living has led in the past, and could lead in the future, to labor and social unrest. Such labor and social unrest may have political, social and economic consequences, such as increased support for a renewal of centralized authority, increased nationalism (with restrictions on foreign investment in the Russian or Kazakh economy) and increased violence, any of which could have a material adverse effect on the Company.

In addition, the local and international press have reported significant organized criminal activity, particularly in large metropolitan centers, directed at revenue-generating businesses, and an increased integration of Russian organized crime with major international criminal organizations. A substantial increase in property crime in large cities has also been reported. Finally, the local and international press have reported high levels of official corruption in the locations where the Company's operating businesses operate. No assurance can be given that organized or other crime or claims that the Company or any of its operating businesses has been involved in official corruption will not in the future have a material adverse effect on the Company.

Official Data Reliability. The official data published by Russian federal, regional and local governments and federal agencies, and by the Kazakh government and its agencies, are substantially less complete or reliable than those of Western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable. Official statistics may also be produced on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation or Kazakhstan herein must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

RISKS INVOLVING THE COMPANY

History of Losses. The Company has reported net losses during each of its years of operations and there can be no assurance that the Company will be able to generate profits in the future. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Capital Requirements. The Company's capital requirements arise in three main areas.

-- Capital Expenditures and Working Capital for Operating Businesses. The Company may need to provide for the capital expenditures and working capital needs of its operating businesses until such time as such operating businesses become self-sustaining. To date, only ALTEL has achieved that position. The Company has significant cash; however, the bulk of this (representing the proceeds of the Senior Notes) is being held in escrow and can only be released from escrow upon compliance with certain conditions. Those conditions include a specific requirement that the funds be used solely to acquire assets for use in a telecommunications business. This requirement means, among other things, that these funds cannot be used for the working capital needs of the operating businesses, or to pay for civil engineering and related works required in connection with the installation of telecommunications networks. In addition, the Company has found compliance with the conditions for release burdensome, in that it is time consuming and expensive.

-- Acquisitions and Other Business Development. The Company needs funds to acquire and/or develop new businesses. Again, the funds in escrow can only be used for this to the extent that equipment is being purchased; start up costs and working capital have to be met out of other Company funds.

-- Payment of Principal and Interest on Outstanding Indebtedness. The Company has significant debt service requirements. Currently, it is indebted under the Series A and Series B Notes to the Travelers Parties in the amount of $15,420,000, which bears interest at an annual rate of 12%, payable monthly in cash. This interest rate increased to 15% on June 1, 1998 as a result of the Company not raising $20,000,000 in additional equity by May 31, 1998. The Series A and Series B Notes are required to be amortized at the rate of $1,000,000 per month starting in July 1998. The Series B Notes, whose original principal amount is $3,100,000, are due in full on September 30, 1998, and the Series A Notes, in the original principal amount of $12,320,000, are due in full on December 31, 1998. In addition, the Company is obligated under the Senior Notes and the Convertible Notes issued in June 1996. As of December 31, 1997, the value of the Senior Notes on the Company's balance sheet was $95.7 million. These Notes accrete until December 1, 1998, when interest on the full accreted value annually thereafter in cash. Until May 31, 1998 these Notes accreted at the rate of 14% per annum. As a result of the Company not raising $20,000,000 in additional equity by May 31, 1998, as of June 1, 1998 they commenced to accrete at 14.5% per annum. The first semi-annual payment of interest in cash, due June 1, 1999, will be at least $8,610,000. The exact amount of the semi-annual interest payment will depend of the accreted value of the Senior Notes as of December 1, 1998 and the interest rate then payable. The Senior Notes come due in full on June 1, 2004. The Convertible Notes (in the principal amount of $26,500,000) come due on June 1, 2006, and bear interest, payable semi-annually in cash, at the rate of 9% per year.

In addition, pursuant to the terms of the Travelers Warrants, under certain circumstances additional warrants may be issued and/or the exercise price of the Travelers Warrants may be reduced. In the event that the Company does not effect any of the specified targeted reductions in commitment for the Series A Notes, the holders of the Series A Notes will receive 30,000 additional warrants to purchase shares of the Company's common stock on each date on which such reduction was not made. In the event that the Company does not effect the specified targeted reductions in commitment for the Series B Notes scheduled for July 31, 1998 and

August 31, 1998, the holders of the Series B Notes (which otherwise come due on September 30, 1998) shall receive 16,000 additional warrants to purchase shares of such common stock. Any additional warrants are referred to as the "Additional Warrants." The Company could be required to issue up to 182,000 additional 10-year warrants to purchase shares of Common Stock under these arrangements.

The exercise price for the Travelers Warrants and Additional Warrants is $8.625 per share, except that, if the Series B Notes are not repaid in full by September 30, 1998, the exercise price of all warrants issued to the holders of the Series B Notes becomes $0.01, and, if the Series A Notes are not repaid in full by December 31, 1998, the exercise price of all warrants issued to the holders of the Series A Notes also becomes $0.01. All of the warrants expire on December 31, 2008. In addition, if the Series B Notes are not repaid in full on September 30, 1998, then, commencing September 30, 1998 and on the last day of each succeeding month until the Series B Notes have been repaid in full, the holders of the Series B Notes shall receive 32,000 additional warrants to purchase shares of the Company's common stock at a price of $0.01 per share. If the Series A Notes are not repaid in full on December 31, 1998, then, commencing December 31, 1998 and on the last day of each succeeding month until the Series A Notes have been repaid in full, the holders of the Series A Notes shall receive 70,000 additional warrants to purchase shares of such common stock at a price of $0.01 per share. These default warrants (the "Default Warrants") have an expiration date ten years after their respective dates of issue.

The issuance of Additional Warrants and/or the Default Warrants could result in the issuance of a substantial number of additional shares of Common Stock upon their exercise. In addition, any adjustment of the exercise price on the Travelers Warrants, the Additional Warrants and the Default Warrants would result in the issuance of the shares of Common Stock at a significant discount, resulting in substantial dilution to the holders of the Company's Common Stock.

The Company may face significant challenges in meeting its obligations to pay cash interest on the indebtedness referred to above, and in effecting its repayment upon its maturity. See "-- Holding Company Structure; Barriers to Realizing Cash from Subsidiaries."

-- Possible Effects of Insufficient Capital Resources. Any or all of these matters may require that the Company raise funds in a public or private equity or debt offering. If the Company is required to conduct such an offering, its ability to do so on acceptable terms, if at all, will be affected by several factors, including financial market conditions and the value and performance of the Company at the time of such offering or refinancing, which in turn may be affected by many factors, including economic and industry cycles. There can be no assurance that such an offering can or will be completed on satisfactory terms.

Failure to generate sufficient funds for these matters in the future, whether from operations or additional debt or equity financing, or difficulties encountered in providing capital to its operating businesses, may require the

Company to delay or abandon some or all of its anticipated expenditures and expansions, or in an extreme case to sell some or all of its assets, any of which could have a material adverse effect upon the growth of the Company's businesses and on the Company.

Also, failure to generate the required funds in a timely manner could lead to the Company defaulting under equipment purchase contracts, which could lead to the loss of important equipment, or under the indebtedness referred to above, which could result in acceleration and actions by the holders of such indebtedness to realize upon guarantees and other security for such indebtedness. Any of such events could have a material adverse impact upon the Company and its shareholders.

Limitations on Activities Imposed by Indentures and Revolving Credit Agreement. The Indentures pursuant to which the Senior Notes and the Convertible Notes were issued were issued in the June 1996 Placement, and the Revolving Credit Agreement pursuant to which the Series A and Series B Notes were issued in November 1997, contain covenants which impose substantial restrictions upon activities in which the Company may wish to engage. These covenants also cover the activities of the Company's "Restricted Subsidiaries", meaning companies in which the Company has directly or indirectly a greater than 50% interest (but specifically including ALTEL). These covenants, which in many cases are extremely complex, include restrictions upon the types, amounts and terms of indebtedness which may be incurred (including the giving of

guarantees) and of the security which may be given for such indebtedness, restrictions upon payment of dividends (other than by subsidiaries to the Company), bars on additional investments other than those falling within relatively narrow exceptions (such as investments in wholly-owned subsidiaries, or to increase the size of the Company's interest in a subsidiary), limits on sale-leaseback transactions or the issuance of preferred stock, restrictions on transactions with affiliates unless certain conditions are met, and the requirement that sales of assets be made for 75% cash proceeds and all of the proceeds be re-invested within one year or used to pay indebtedness. In addition, as a result of the Company not having raised $20,000,000 in additional equity by May 31, 1998, under the terms of the Series A and Series B Notes, the Company is not permitted until such equity is raised, to make any unscheduled debt repayments or to make any capital expenditures (or fund any subsidiary's capital expenditures) other than out of the proceeds of the Senior Notes being held in escrow. These covenants impose substantial restraints upon the ability of the Company and its subsidiaries to conduct their respective businesses, and upon their capacity to engage freely in transactions which may be beneficial or to respond timely to opportunities they may encounter and, to this extent, could affect the growth and development of these companies. Additionally, their breadth and complexity raises the possibility that the Company or a subsidiary may inadvertently breach a covenant, thereby triggering a default and possible acceleration of the indebtedness. While the Company may endeavor to obtain waivers of particular covenants or of possible breaches thereof, see "Business -- Consent Solicitation," that procedure is cumbersome and slow and not conducive to prompt decision making. Finally, the requirement that the Company only access the funds in escrow may impact its ability to respond promptly to its subsidiaries' capital expenditure needs. See "-- Risks Involving the Company -- Capital Requirements."

Effect of Substantial Leverage. As of December 31, 1997, the Company had approximately $133.5 million of consolidated long-term debt and shareholders' equity of approximately $127.1 million.

The substantial degree to which the Company is leveraged could have important consequences including, but not limited to, the following: (i) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may be limited; (ii) a substantial portion of the Company's cash flow from operations will be dedicated to the payment of interest on, and the principal of, its debt; (iii) the agreements governing the Company's indebtedness contain certain restrictive financial and operating covenants which could limit the Company's ability to compete and expand; and (iv) the Company's substantial leverage may make it more vulnerable to economic downturns, limit its ability to withstand competitive pressures and reduce its flexibility in responding to changing business and economic conditions. Certain of the Company's competitors currently operate on a less leveraged basis and have significantly greater operating and financial flexibility than the Company.

Holding Company Structure; Barriers to Realizing Cash from

Subsidiaries. As a holding company that conducts virtually all of its business through subsidiaries, the Company has essentially no source of cash other than distributions and other payments from its subsidiaries. In order to pay cash interest on the Convertible Notes and the Series A and Series B Notes (and, in the case of the Senior Notes, after December 1, 1998, when cash interest on the Senior Notes commences to accrue) or the principal amount of the Notes and the Series A or Series B Notes at maturity, or to redeem or repurchase the Notes or the Series A or Series B Notes, or to fund its working capital requirements, the Company will be required to obtain the necessary cash from its subsidiaries. As set forth hereinafter, there may be a number of legal and other hurdles to be overcome in connection with obtaining such cash from its subsidiaries.

The ability of the Company's subsidiaries to make payments to the Company may be constrained by: (i) their own ability to generate sufficient cash from their operations; (ii) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdictions in which they operate, see "-- Taxation"; (iii) exchange controls and repatriation restrictions in effect in the jurisdictions in which they operate, see "-- Currency Controls; and (iv) the ownership interests of other investors in the Company's subsidiaries.

Taxation. Taxes payable by Russian and Kazakh companies are substantial and include value-added taxes ("VAT"), excise taxes, export taxes and income taxes. The tax risks of investing in the Russian Federation and Kazakhstan can be substantial. Obtaining the benefits of any relevant tax treaties can be extremely difficult due to the documentary and other requirements imposed by the Russian and Kazakh

authorities and, in the case of Kazakhstan, the unfamiliarity of those administering the tax system with the international tax treaty system. In addition, a recent instruction issued by the Russian State Tax Service mandates full withholding regardless of tax treaty status and requires the recipient to seek to obtain a refund for withholding in excess of treaty amounts. The need to deal with these issues may negate or impair tax planning initiatives undertaken by the Company to reduce its and its subsidiaries' overall tax obligations. Furthermore, the taxation systems in the Russian Federation and Kazakhstan are at an early stage of development and are subject to varying interpretations, frequent changes and inconsistent and arbitrary enforcement at the federal, regional and local levels. In certain instances, new taxes have been given retroactive effect.

Technocom established a representative office in Moscow in October 1995 and registered this office with the relevant Russian tax authorities. As a result of this, Technocom became subject to profits and other Russian taxes as of such date. Inasmuch as Technocom operated to some extent in the Russian Federation prior to this date, without clarifying its tax status with any Russian taxing authority, it is also possible that tax officials may take the position that Technocom may be subject to Russian taxes with respect to the period before October 1995. See "-- Country Risks -- Legal Risks -- Underdeveloped Legal System."

Currency Controls -- Risks of Changing Regulatory and Administrative Environment. While applicable legislation in both the Russian Federation and Kazakhstan currently permits the repatriation of profits and capital and the making of other payments in hard currency, the ability of the Company to repatriate such profits and capital and to make such other payments is dependent upon the continuation of the existing legal regimes for currency control and foreign investment, administrative policies and practices in the enforcement of such legal regimes and the availability of foreign exchange in sufficient quantities in those countries.

The Company's ability to repatriate distributions and other payments in hard currency will be dependent upon the continued ability of the Company's operating subsidiaries to bill their customers in U.S. Dollars or the equivalent amount of local currency, as well as their ability to freely exchange local currency receipts into U.S. Dollars. See "-- Country Risks -- Restrictions on Currency Conversion; Historical Volatility in Currency Prices." There can be no assurance that, because of future changes in Russian and Kazakh currency regulations, the Company's ability to fully and/or on a timely basis realize benefits from its operations in the Russian Federation and Kazakhstan through the receipt of hard currency payments will continue.

-- Currency Licensing Requirements. Under current currency regulations in the Russian Federation and Kazakhstan, while there do not appear to be additional administrative requirements for the payment of dividends or interest on debt, specific licenses from both the Central Bank and the National Bank of Kazakhstan are required for the making of equipment lease payments to a foreign lessor and for repayments of principal on debt with a term of more than 180 days. Failure to obtain such currency licenses where required can result in the imposition of fines and penalties. While the requirements for obtaining such licenses largely involve the production of documentation, not only are the documentary requirements themselves burdensome, but there can be no assurance that the entity granting the licenses may not impose additional, substantive requirements for the grant of a license or deny a request for a license on an arbitrary basis. See "-- Country Risks -- Legal Risks -- Underdeveloped Legal System." Furthermore, the time typically taken by the Central Bank and the National Bank of Kazakhstan to issue such licenses can be lengthy. In the case of the Central Bank, delays of up to one year or more in the issuance of licenses have not been uncommon. The failure of the Company to obtain, or any significant delay in the issuance of, such licenses could substantially delay the time at which the Company may receive payments under such leases. To address this problem, and based on the Company's belief that currency licenses are presently not required in the Russian Federation for payments under installment sales contracts, the Company has proposed providing equipment to its operating businesses on an installment sales basis rather than through leasing and, as a result of the Consent Solicitation, the Indentures have been amended to permit the Company to make installment sales as well as leases of equipment to its operating businesses. However, there is no assurance that the Central Bank or other relevant Russian entity will not construe the applicable currency legislation as requiring licenses for installment sales as well as leases. Failure to obtain currency licenses, where required, can result in the imposition of fines and penalties, significant delays in delivering equipment to the Company's operating businesses and resulting difficulties in generating cash flows from the Company's operating businesses in the Russian Federation.

-- Licensing Requirements for Prior Investments. Until 1995, most direct foreign investment in the Russian Federation appears to have been made without licenses from the Central Bank, due to the lack of clear guidelines from the Central Bank governing such investments. However, in 1995 the Central Bank confirmed that licenses were required for such direct foreign investments and that upon application it would issue licenses specifically authorizing such direct foreign investments in Russian companies. In response to private inquiries, the Central Bank also indicated that it would consider retroactive licensing of previously made direct foreign hard currency investments upon appropriate application. The Company is actively reviewing with the managements of its operating subsidiaries its obligations to comply with these licensing requirements, particularly on a retroactive basis. If the Central Bank were to determine that the Company did not hold the required licenses, this could give rise to substantial fines and penalties.

-- Possible Effects of Currency Controls and Regulations on the Company's Ability to Meet its Obligations. There can be no assurance that, due to the risks outlined above, the Company will not experience difficulties or delays in receiving cash flows from its operating subsidiaries. Any such difficulties or delays could materially affect the Company's ability to make payments on its outstanding indebtedness and could result in defaults in the Company's payment obligations under that indebtedness or an acceleration of the maturity of that debt. In addition, the Company's ability to meet its working capital requirements or to declare and pay dividends to its shareholders could be adversely affected by any cash flow restrictions experienced by the Company.

Anti-Monopoly Committee Approval. Under Russian anti-monopoly legislation, transactions which potentially influence competition in the Russian Federation are subject to the prior consent of the Russian Anti-Monopoly Committee. The Anti-Monopoly Committee generally has wide discretion to approve or disapprove transactions falling within the scope of its authority, though in practice transactions are rarely challenged. The time typically required by the Anti-Monopoly Committee to review a proposed transaction varies between three and four months. Failure to obtain prior consent may constitute grounds for the Anti-Monopoly Committee to seek a court decision declaring the relevant transaction null and void. In particular, transactions (including rental or lease transactions) which involve the transfer of assets amounting to more than 10% of the assets of a transferor to a transferee, are subject to prior consent of the Anti-Monopoly Committee.

This requirement on its face applies to companies leasing assets to other companies, including Technocom and PLD Leasing, which would therefore need to obtain such consent before leasing equipment to the Company's operating subsidiaries. While the Company has been advised that such requirement should not apply to such arrangements, there can be no assurance that the Anti-Monopoly

Committee will concur and accordingly that the Anti-Monopoly Committee will not require such consent. Although the Company does not believe that equipment leases could have an anti-competitive effect in the Russian Federation, no assurance can be given that consent from the Anti-Monopoly Committee will be granted. The refusal of the Anti-Monopoly Committee to give consent to any equipment leases could have a material adverse effect upon the Company.

Absence of Complete Control; Dependence on Local Partners. The Company's principal assets are its interests in its operating subsidiaries. The Company holds a 60% ordinary share interest in PeterStar and a 50% interest in ALTEL. The Company also has a 80.4% interest in Technocom, which in turn currently has a 49.33% direct and indirect beneficial economic interest (56.0% voting interest) in Teleport-TP and a 49% interest in MTR-Sviaz. While the Company may have the ability, in the case of PeterStar, ALTEL and Teleport-TP, to direct the operations or determine the strategies of such subsidiaries under the terms of their respective constituent documents, the enforceability of some of the Company's rights is uncertain. See "-- Country Risks -- Legal Risks." Further, the other shareholders may, as a practical matter, be able to impede the Company's ability to exercise effective control. In addition, the Company would be unlikely to take significant initiatives without the approval, in the case of PeterStar, of Telecominvest and PTN; in the case of ALTEL, of Kazakhtelekom; and, in the case of Teleport-TP, of Rostelecom. See "-- Ownership and Management of Operating Subsidiaries." Certain of the Company's operating subsidiaries are dependent on continued access, on favorable terms, to the facilities of certain of the Company's partners, and this may adversely affect the Company's ability to rely on its legal rights to influence the conduct of the business of its

operating subsidiaries. In summary, the absence of complete legal control by the Company over the operations of PeterStar, ALTEL and Teleport-TP, coupled with the dependence of these ventures on continued access to the facilities of the Company's partners, could have a material adverse effect on the Company. Finally, PeterStar, Technocom, Teleport-TP and ALTEL are all restricted subsidiaries under the Senior Note Indenture and the Convertible Note Indenture, and the Company is required by the terms of such indentures not to permit its restricted subsidiaries to violate the various covenants contained in such Indentures. See "-- Limitations on Activities Imposed by Indentures and Revolving Credit Agreement." There can be no assurance that the Company will always be in a position to comply with this obligation, and its failure to do so could cause a default under the Senior Note Indenture or the Convertible Note Indenture.

Susceptibility to Political and Other Pressures. Although the governments of the countries and regions in which the Company operates may be limited in the extent to which they can legally direct the Company's policies, in practice they may be able to exercise significant influence. As a consequence, not only may the Company's activities be restrained if a governmental entity is not supportive, but the Company may be forced to take action to support policies or agendas of the government which are not in its commercial or other interests. In addition, in order to maintain good working relationships with its partners, the Company may need to take certain actions which may not necessarily be in its commercial or business interests. See "-- Risks Involving PeterStar Company Limited and Baltic Communications Limited -- Dependence on PTN Facilities."

Dependence on Key Management. The Company's various operating businesses are managed by a small number of key management personnel, both expatriate and local. PeterStar is dependent upon its general director, Vladimir Akulich, and upon its expatriate managers, James Maude and Stephen Gardner. The Company also relies heavily on the experience of Maxut Saurenbekov and Rex Power for the technical guidance and operational and financial management of ALTEL. The further expansion of the Technocom business depends upon the continued involvement of Boris Antoniuk in the management of Technocom's affairs and those of its subsidiaries. While Dr. Antoniuk is under contract to Technocom and the Company, no assurance can be given that his services or the services of these other key individuals will continue to be available to the Company's operating subsidiaries. In addition, the Company is dependent on its core management team of James Hatt, John Davies, Simon Edwards, Alan Brooks and Conor Carroll, as well as Peter Owen Edmunds, who heads the Company's representative office in St. Petersburg. Neither the Company nor its operating subsidiaries carry "key-man" insurance with respect to these individuals. The Company could be materially and adversely affected if any key management personnel should cease to be active for any reason in the management at the corporate and/or operating subsidiary level.

Historical Dependence on Cable and Wireless plc. The Company is engaged in developing various telecommunications businesses in challenging environments.

The scope of some of its projects, e.g. the development of a cellular network in Kazakhstan and the development of a satellite-based long distance network across the Russian Federation, requires both significant financial and human resources. The Company has been able to draw, when necessary, on the worldwide expertise (access to which is paid for on a case by case basis) of Cable & Wireless to assist the Company's operating businesses in certain areas of their operations. The Company and Cable & Wireless have entered into a support services agreement which sets out the terms, on an arm's-length basis, under which the Company and its subsidiaries have access to Cable & Wireless' resources. While this agreement will be terminated following the disposition by Cable & Wireless of its stake in the Company, the Company currently knows of no reason why it would not be able to continue to draw upon the resources of Cable & Wireless on an ad-hoc basis thereafter, but no assurances can be made that such resources will continue to be made available to the Company. See "-- Recent Developments -- Transactions with Cable & Wireless and News."

Competition. The Company is developing and operating its businesses in highly competitive environments. A number of companies compete with the Company's operating businesses, many of which have access to greater financial and technical resources than the Company. There can be no assurance that the Company will be able to overcome successfully the competitive pressures to which it is subject, both in the markets in which it currently operates and in markets into which it might expand. Furthermore, in many instances the Company's partners in its operating businesses are also potential -- and in some cases actual -- competitors. For example, PTN has recently completed the installation of a fiber optic network in St. Petersburg which will

improve call completion rates on the PTN network and could provide a serious alternative to PeterStar's network and permit PTN to compete more effectively for business in St. Petersburg. In addition, while Rostelecom appears to be generally supportive of the development of Teleport-TP's long distance network, such network is in direct competition with the national long distance network operated by Rostelecom, and there can be no assurance that Rostelecom will continue to support the development of Teleport-TP's network. Similarly, ALTEL's cellular network in Kazakhstan could be seen as being in competition with the national network operated by Kazakhtelekom. At this time it is unclear what impact the consolidation of the Russian government's holdings in Sviazinvest and Rostelecom and the sale of significant stakes in Sviazinvest to Russian and foreign investors will have on the Russian telecommunications market in general and the Company in particular, nor what impact the recently announced sale of a 40% stake in Kazakhtelekom to Daewoo and the efforts by the KMOC to limit ALTEL's exclusive license and permit more cellular operators in Kazakhstan will have upon the Kazakh telecommunications market and the Company in particular. See "-- Impact of Auction of Stakes in Sviazinvest on the Company and the Telecommunications Market in Russia" and "-- Risks Involving ALTEL." Finally, the increasing ability of Russian telecommunications companies to access Western capital markets for their financing needs may reduce their reliance on the Company for financing and improvement of their networks. Such reduced reliance may affect the Company's ability to exert influence on its Russian partners in the operating businesses. See "-- Impact of Auction of Stakes in Sviazinvest on the Company and the Telecommunications Market in Russia," "-- Telecommunications in the Former Soviet Union" and "-- Competition."

Potential Conflicts of Interest. Each of the Company's principal partners in PeterStar, ALTEL and Teleport-TP have interests that may conflict with those of the Company.

PTN, which holds its interest in PeterStar through Telecominvest and is the main provider of basic telephony services in St. Petersburg, already competes to some degree with PeterStar for customers and may increasingly become a substantial competitor with the eventual upgrading of its telecommunications network. See "-- Competition -- PeterStar Company Limited." Kazakhtelekom, the public switched telephone network operator and the Company's partner in ALTEL, may be a significant competitor for ALTEL's cellular operations when it improves the telephony services it provides in Kazakhstan by upgrading its fixed wire telecommunications network, or if it should be awarded one of the new cellular licenses the Kazakh government is considering issuing. See "-- Competition -- ALTEL." Rostelecom, the Russian telecommunications company that is Technocom's principal partner in the Teleport-TP venture, competes with Teleport-TP, both directly and indirectly through joint ventures with other international companies in the provision of telephony and related services. See "-- Competition -- Teleport-TP." Finally, certain directors of the Company's operating subsidiaries also act as directors or officers of its partners in the Russian Federation and Kazakhstan. See "-- Dependence on Key Management."

In light of these competing interests, and, in particular, the extent of the legal and practical control that the Company's partners have over the affairs of the Company and its operating subsidiaries, any or all of the companies named above may use their influence, through the directors they appoint to the boards of the Company and its operating subsidiaries or otherwise, to benefit themselves or other businesses in which they have an interest at the expense of the Company and its operating subsidiaries, subject to such limited fiduciary duties as they may have under applicable law. Moreover, such persons are not obliged (except for such obligations as they may have under applicable law) to allocate to the Company and its operating businesses corporate opportunities of which they become aware through the directors referred to above or otherwise. No assurance can be given that the fiduciary duty and corporate opportunity doctrines that exist under United States law will provide adequate protections to the Company's shareholders against the pursuit of such conflicting interests. Kazakh law currently provides no protection in this regard and, while Russian corporate law has recently introduced the concept of the fiduciary duties of corporate officers and directors, the law is too new for any prediction to be made as to how much protection it will, in fact, provide. The pursuit of conflicting interests by the persons referred to above could have a material adverse effect on the Company.

Impact of Auction of Stakes in Sviazinvest on the Company and the Telecommunications Market in Russia. In 1997, it was reported that, notwithstanding its previously announced plans to have Sviazinvest compete with Rostelecom, the Russian government had consolidated its telecommunications holdings in

Sviazinvest and Rostelecom by transferring its shareholding in Rostelecom (38% of the common stock, and 51% of the voting stock) to Sviazinvest. The balance of the shares in Rostelecom remain in the hands of private investors. In April 1997, the government announced that it was seeking to sell 49% of Sviazinvest in two auctions, one as to a 25% stake open to Russian and foreign investors and the other as to a 24% stake open only to Russian investors. In July 1997, the government announced that the 25% stake had been sold to a consortium which included Oneximbank and Renaissance Capital, for a purchase price of $1.875 billion. Following this auction, the Russian government announced its intention to increase the size of the other stake being sold to 25% minus one share. The schedule for the auction of the second stake has not been announced, but it is expected to be completed by the end of the third quarter of 1998. While it is not yet clear how the proceeds of this sale will be employed, it is understood that the government wishes to have a substantial part, if not all, of the proceeds allocated to its current budget deficit. At the same time, Sviazinvest has announced plans to raise $400 million through a Eurobond offering later in 1998. In light of all of the foregoing, it is unclear what impact the consolidation of the government's telecommunications holdings and the auctions of significant stakes in Sviazinvest will have on the Russian telecommunications market in general and the Company in particular.

Regulatory Uncertainties. The Company's operating businesses operate in uncertain regulatory environments. The Russian telecommunications system is currently regulated by the RFCTI, and the Kazakh telecommunications system is currently regulated by the KMOC, largely through the issuance of licenses. Despite the 1995 enactment of the Telecommunications Law in Russia, considerable uncertainty still exists as to the application and interpretation of many of its terms. There is currently no comprehensive legal framework with respect to the provision of telecommunications services in Kazakhstan, although a number of laws, decrees and regulations govern or affect the telecommunications sector. Further, the recently announced appointment of Kazakhtelekom as the exclusive operator of the public telephone network in Kazakhstan and/or the recently announced sale of a 40% stake in Kazakhtelekom to Daewoo, may lead to restructuring of the telecommunications sector in Kazakhstan, the effects of which are difficult to predict at the present time. See "-- Risks Involving ALTEL -- Effect of Sale of Stake in Kazakhtelekom on ALTEL and the Telecommunications Market in Kazakhstan."

While the RFCTI appears to have succeeded to all of the powers and authorities of the Former MOC, it is not yet clear whether it will in fact continue to operate in the same manner and wield the same influence as the Former MOC. In particular, it is unclear whether the RFCTI will be able to control the actions of local and regional governmental authorities who may endeavor to impose new conditions upon operators in their respective jurisdictions or areas of influence. As an example, significant delays in the rollout of Teleport-TP's long distance network have been caused by administrative difficulties experienced with local and regional governmental authorities. See "-- Risks Involving Technocom Limited and Teleport-TP -- Capital and Management Resources Required for Network Expansion; Management of Growth."

The absence of adequate regulation in the telecommunications sector has meant that decisions, including the granting and renewal of licenses, may at times be made by governmental officials without reference to precedent or procedure. The introduction of regulation of tariffs, or any other type of regulation, could have far-reaching, and potentially materially adverse effects on the Company.

Limitations on Ability to Transfer Interests. The terms of the PeterStar and ALTEL shareholder and joint venture agreements, and the terms of the shareholder and joint venture agreements relating to Teleport-TP and MTR-Sviaz, impose restrictions on the Company's ability to transfer its interests in such companies and give the other shareholders in such companies certain pre-emptive and other similar rights. It is likely that the Company's ability to transfer its interests in other future investments will be similarly limited. The restrictions on, and other provisions relating to the sale of these interests, and the lack of liquidity in the market for interests the Company now holds or may acquire, may impede their resale by the Company. While it may be possible to arrange for negotiated sales with one or more buyers, the Company may not be able to realize value from these interests, or acceptable terms, in a timely manner or at all.

Effect of Technocom Minority Shareholders' Put Options on Company's Ability to Transfer its Stake in Technocom. The Company has put and call agreements with Plicom and Elite which, following the

November 1997 acquisition by the Company of a portion of each of their interests in Technocom, beneficially own 14.57% and 5.03%, respectively, of the ordinary shares of Technocom. Under the put and call option agreement with Plicom, Plicom has the right, commencing June 30, 1999 and continuing until June 30, 2019, to require the Company to acquire its remaining holding in Technocom, and the Company has the right to require Plicom to sell such holding, for a purchase price of $17.5 million. Under its put and call option agreement with Elite, Elite has: (i) the right, commencing June 30, 1998 and continuing until June 30, 2019, to require the Company to acquire 2 of its remaining shares in Technocom, and the Company has the right to require Elite to sell such shares, for a purchase price of $1 million or, at Elite's option, that number of shares of Common Stock which results from dividing $1 million by the lower of $5.85 and the average closing price of such shares over the preceding ten trading days; and (ii) the further right, commencing June 30, 1999 and continuing until June 30, 2019, to require the Company to acquire its 8 remaining shares in Technocom, and the Company has the right to require Elite to sell such shares, for a purchase price based on the Company's valuation of Technocom, provided that such purchase price shall not be less than $6,689,655 nor more than $9,620,689. In the event the Company determined to sell its stake in Technocom, the existence of these agreements could adversely affect the Company's ability to do so. The Company has no present intention to dispose of its shares in Technocom.

Management of Growth. The Company is at a relatively early stage of development and has experienced, and may continue to experience, rapid growth resulting from the continued development of PeterStar, ALTEL, Technocom and its other operating businesses. The Company's future growth will require the Company to manage its expanding operations and to adapt its operational systems to respond to changes in the business environment. The expansion of the Company's operations has placed and will continue to place significant demands on the Company and its management to improve the Company's operational, financial and management information systems, to develop further the management skills of the Company's managers and supervisors and to continue to train, motivate and effectively manage the Company's employees. The failure of the Company to manage its growth effectively could have a material adverse effect on the Company.

RISKS INVOLVING PETERSTAR COMPANY LIMITED AND BALTIC COMMUNICATIONS LIMITED

Limited Operating History. PeterStar was formed in May 1992 and started operating a modern digital telephone exchange network in St. Petersburg in February 1993. BCL, which was acquired by the Company in April 1996, was also formed in 1992 to provide international direct dial and private line services for foreign companies in St. Petersburg. While both PeterStar and BCL generated profits in the years ended December 31, 1996 and 1997, in view of their limited operating history there can be no assurance that PeterStar or BCL will be able to generate sufficient revenues or control their costs enough to remain profitable in the future.

Reliance on Telecommunications Licenses; Risks of Revocation or Renegotiation of Licenses. PeterStar's business is dependent on the maintenance of its principal telecommunications license which permits it to operate a public telephone system in the Russian Federation for a term expiring in November 2004. Other licenses that have been issued to PeterStar include a dedicated network license (expiring September 2001), a data communications license (expiring May 2001), a telematics license (expiring May 2001) and a videoconferencing license (expiring June 2001). The main PeterStar license, governing the provision of public telecommunications services, sets the number of lines which PeterStar may have in St. Petersburg and the surrounding region at 106,000, and requires that capacity equal to 74,200 lines be introduced by June 1999. However, management of PeterStar believes that the maximum and minimum number of lines are not strict requirements but are instead designed to provide general guidance as to the number of lines intended to be included on the system. As of December 31, 1997, PeterStar had 114,774 lines, of which 85,948 were provided to cellular operators. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, PeterStar does not believe that its license would be terminated or re-negotiated, that it would be forced to reduce the number of its subscribers, or that other penalties would be imposed, by reason of its exceeding its 106,000 line ceiling, but there can be no assurance that the RFCTI would not take a different position. The dedicated network license permits PeterStar to provide long distance and international telephone transmission services to dedicated network operators (such

as BCL) in St. Petersburg and the surrounding region for a term expiring in September 2001. This license therefore enables PeterStar to offer its clients the potential cost efficiencies and synergies which come from working with affiliated companies, as well as allowing PeterStar and BCL to explore ways to work together to provide integrated solutions to customer needs. The dedicated network license sets the number of lines which PeterStar may have at no less than 30,000 and requires that capacity equal to 21,000 lines be introduced by September 1999. Once again, based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management of PeterStar believes that these maximum and minimum number of lines are not strict requirements but are instead designed to provide general guidance as to the number of lines intended to be included on the system. There can be no assurance that the RFCTI would not interpret the provisions of the licenses differently, which in turn could result in the revocation of the licenses or their renegotiation on terms unfavorable to PeterStar or the imposition of penalties. It is not possible to calculate the amount of any penalties which might be imposed, which are in the discretion of the RFCTI.

BCL's primary license permits it to provide long distance and international telephone, facsimile and data transmission services to private networks in St. Petersburg and the surrounding region for a term expiring on December 31, 2003. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, Management believes that, so long as it is being actively utilized, BCL's license will be renewed at the end of its current term. The license limits the number of subscribers to 100,000 and requires that 70,000 of these be in place by January 2001. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, management of BCL believes that the maximum and minimum line numbers are not strict requirements but are instead designed to provide general guidance as to the number of lines intended to be included on the system. As of December 31, 1997, BCL had approximately 1,200 lines. Based on that knowledge and experience, BCL has no reason to believe that its license would be terminated if it either exceeded 100,000 lines or failed to have 70,000 lines in place by January 2001, but there can be no assurance that the RFCTI would not interpret the license provisions differently, which in turn could result in the revocation of its license or its renegotiation on terms unfavorable to BCL or the imposition of penalties. It is not possible to calculate the amount of any penalties which might be imposed, which are in the discretion of the RFCTI.

No assurance can be given that either PeterStar or BCL will be able to maintain its licenses, that the terms will not be interpreted, altered or renegotiated to its disadvantage or that they will be renewed upon expiration. See "-- Country Risks -- Legal Risks." The loss of, or a substantial limitation upon the terms of, either PeterStar's or BCL's licenses could have a material adverse effect on the Company.

Dependence on Interconnect Parties. PeterStar is dependent on PTN, SPMMTS and other operators for the completion of most of its calls. The PeterStar network is linked to the PTN network, which gives PeterStar access to PTN's large local subscriber base. PeterStar is required by the terms of its license to route all long distance and international calls through the public network. PeterStar has been able to negotiate favorable tariffs for interconnection fees and carrier charges with both PTN and SPMMTS. PeterStar's current interconnect agreements with SPMMTS and PTN expire in November and December 1998, respectively. The agreements provide for automatic extensions at the end of their term unless otherwise terminated by either party. The interconnection fees and carrier charges payable under the interconnect agreements are subject to renegotiation between the parties from time to time. There can be no assurance, however, that PeterStar will continue to have access to the PTN network or that PeterStar will continue to receive such favorable tariffs. The loss of access to such network or increases in such tariffs could have a material adverse effect upon the Company.

Dependence on PTN Facilities. PeterStar is also dependent on PTN's buildings, ducts and tunnels in order to house its exchanges and to reach its customers. To date, PeterStar has not been required to pay rent to PTN to house its exchanges in PTN buildings, nor has it paid rentals for ducts or tunnels. Although PTN is required to provide certain of these facilities under the terms of PeterStar's foundation documents, the presently unforeseen loss of access to these facilities or the availability of access only on unfavorable terms could have a material adverse effect upon the Company. PeterStar anticipates that it will have to pay a local

line rental charge to PTN commencing in 1998. The exact fee, and the timing of the fee, has not yet been determined.

Capital and Management Resources Required for Expansion of Direct Dial Services; Management of Growth. PeterStar has recently commenced several projects designed to expand its direct dial services in St. Petersburg and Northwest Russia. PeterStar has agreed with PTN to undertake an infrastructure project centering on the replacement of analog exchanges with digital exchanges for certain parts of the network on Vassilievski Island, a city district in St. Petersburg. This project will require the conversion of approximately 30,000 business and residential lines that are currently operated by PTN, after which such lines become a part of the PeterStar network. In addition, PeterStar plans to further enhance its transit network capabilities in order to provide continued support to the cellular and other network providers in terminating traffic in St. Petersburg and to the national and international gateway. PeterStar also expects to increase its operating presence in Northwest Russia through the targeted development of digital infrastructure to connect business customers and develop operational relationships with the regional telephone companies. These projects represent a major expansion of PeterStar's operations which will require substantial capital and special management efforts if they are to be carried into effect successfully. See "-- Capital Requirements."

Pressure to Provide Residential Service. The Vassilievski Island project also represents part of a continuing effort on the part of PTN to deal with unanswered demand for improved residential service in St. Petersburg. The local calling element of residential service is presently provided free of charge (other than connection fees and line rental charges), and there has been considerable political resistance to the introduction of time-based charges for local calls. Even after calling charges have been introduced, it is likely to remain a low margin business for the foreseeable future. Even though PTN has now been privatized, the Company does not believe that the pressures on PTN to improve residential service have lessened. Although the Company believes that PeterStar has, following long and detailed negotiations with PTN, fulfilled its commitment to the residential customers, there can be no assurance that PTN will not continue to try to involve PeterStar in this effort, or that PTN's continued support for PeterStar's access to the business market may be linked to PeterStar's further commitment to develop the residential market in St. Petersburg.

RISKS INVOLVING ALTEL

Limited Operating History. ALTEL was formed in January 1994 and commenced commercial operations in September 1994. Although ALTEL generated profits for the years ended December 31, 1996 and 1997, there can be no assurance that ALTEL will be able to generate sufficient revenues or control its costs sufficiently to remain profitable in the future.

Reliance on Telecommunications License; Elimination of Exclusivity Provision. ALTEL's business is dependent on the 15-year renewable license issued in February 1994 for the creation and operation of cellular communications networks in Kazakhstan for local, long distance and international calling, using the 800 MHZ frequency band and "AMPS" technology. Under the terms of the license ALTEL was required to provide cellular services to Almaty and ten to twelve additional regional centers by the end of 1996, a condition which has been met. The license specifies that ALTEL is to be the exclusive provider of cellular service in Kazakhstan for the first five years of the license term. The exclusivity provision of ALTEL's license has recently been the subject of scrutiny by various governmental agencies in Kazakhstan, and questions have been raised as to its validity. In order to put the matter to rest, ALTEL has been discussing with the KMOC substituting a new license with revised terms for its existing license. While those terms are not finally negotiated, they would likely include eliminating the exclusivity provision (which terminates in any event in February 1999). See "-- Telecommunications Licenses -- ALTEL." Management of ALTEL believes that a resolution of the kind envisaged would put to rest the issues that have been raised regarding ALTEL's existing license and assure ALTEL a suitable environment in which to continue the development of its business. Management also believes that, by virtue of its cost structure and its market penetration to date, it is in a good position to compete with any parties who are hereafter licensed to operate cellular networks in Kazakhstan, even those which may enjoy the backing of the KMOC or other agencies of the government of Kazakhstan. However, there can be no assurance that efforts to limit the scope of its license or otherwise revise its terms in a way which could be detrimental to ALTEL will not continue, or that ALTEL will in fact be able to compete

successfully with any new licensees. See "-- Country Risks -- Legal Risks" and "-- Telecommunications Licenses -- ALTEL."

Effect of Network Expansion on Management Resources; Management of Growth. ALTEL has engaged in a significant expansion of its cellular network, from its initial base of operations in Almaty to a total of 12 cities throughout Kazakhstan as of December 31, 1997. The timing of such expansion was dictated by the terms of the license, so that in some regions it occurred at a time when economic activity in those regions was still at a sufficiently low level as to raise a question as to whether, and if so, when, cellular service in such regions will be commercially viable. Furthermore, because of the distances involved, the difficulty of hiring, training and supervising staff at remote locations and the underdeveloped nature of the business infrastructure, such as banks and professional advisers in many of the proposed locations for expansion, the establishment and provision of cellular service will present significant challenges to the management of ALTEL, and there can be no assurance that these challenges will be met successfully in all cases. In addition, further network development is planned on a targeted basis to address key market sectors. Failure to manage the ALTEL network, and any future expansion of the network, successfully could have a material adverse effect on the Company.

Effect of Sale of Stake in Kazakhtelekom on ALTEL and the Telecommunications Market in Kazakhstan. Since its formation, ALTEL has been 50% owned, directly or indirectly, by the government of Kazakhstan. ALTEL believes that the attitude of the government towards its operations has generally been favorable and that this has derived in some part from the government's interest in ALTEL. Currently, the government's 50% interest in ALTEL is held through Kazakhtelekom, which until May 1997 was owned 100% by the government. In May 1997, the Kazakh government announced that it had sold a 40% interest in Kazakhtelekom to Daewoo. However, in March 1998, it was reported that Daewoo had sold a portion of its stake (reported to be approximately 10%) to an unnamed third party. The report did not indicate whether Daewoo proposed to sell or retain the remainder of its stake in Kazakhtelekom. Both of these transactions create considerable uncertainty as to the government's attitude towards Kazakhtelekom. There is also a question as to Daewoo's intentions with respect to the remainder of their stake. In addition, the KMOC recently issued a revised license to Kazakhtelekom specifically naming it as the exclusive national network operator in Kazakhstan, and giving it a wide range of powers to carry out this function. The Company has not yet fully assessed what impact these matters may or will have on ALTEL and its business. There can be no assurance that the government's favorable attitude towards ALTEL will continue to the same degree. Any significant change in the government's attitude toward ALTEL could have a material adverse effect on the Company.

Dependence on Interconnect Parties. Under the terms of its license, ALTEL is entitled to interconnection free of charge to networks operated by

Kazakhtelekom, the public switched telephone network operator, for the completion of its local, long distance and international calls. The loss of, or any significant limitation on, its access to such network could have a material adverse effect on the Company. Further, under its revised license, Kazakhtelekom was directed to assess interconnection charges for connection to its network, and to levy such charges on a basis which will yield it a profit. Kazakhtelekom may try to use this authority to endeavor to assess interconnection charges on ALTEL, notwithstanding the fact that its license exempts it from payment of such charges. The imposition of such interconnection charges would impact ALTEL's profitability, perhaps materially.

RISKS INVOLVING TECHNOCOM LIMITED AND TELEPORT-TP

Limited Operating History. Technocom was formed in January 1992. Until 1995, its principal business was Teleport-TP, which commenced operations in late 1993. In view of their limited operating history, there can be no assurance that they will generate sufficient revenues or control their costs sufficiently to become and remain profitable in the future. Nor can there be any assurance that Technocom's other businesses, all of which have only just commenced operations or are still in the planning stage, will become or remain profitable.

Reliance on Telecommunications Licenses; Risks of Revocation or Renegotiation of Licenses. Teleport-TP holds four licenses from the RFCTI with respect to its operations. Two licenses expire in 2004, one in

2002 and one in 2001. One of the licenses, expiring in November 2004, limits the number of subscribers under such license to 18,050 (15,000 within Moscow's city limits) and requires that 12,635 be in place by November 1997. Another license, expiring in October 2004, limits the number of subscribers to 1,700 and requires that 1,190 be in place by October 28, 1997. The third license, expiring in January 2002, provides that the installed subscriber capacity of Teleport-TP's data network must permit the connection of at least 70,000 subscribers by December 2000 and at least 100,000 subscribers by the expiration of the term of the license, but it does not impose any limit on the number of subscribers. The fourth license, expiring in 2001, provides that the total installed capacity of Teleport-TP's long distance network should be at least 100,000 numbers with at least 70,000 numbers operational by May 2000. Based on its experience in renewing existing, and obtaining new, licenses and its general knowledge of the licensing environment in Russia, Management of Teleport-TP believes that the subscriber numbers are not strict requirements but are instead designed to provide general guidance as to the number of subscribers intended to be included on the system. Based on that knowledge and experience, management further believes that, so long as a license is being actively utilized, such license will not be terminated nor other sanctions imposed if Teleport-TP failed to have the minimum number of subscribers in place by the specified date or if it exceeded the maximum number of subscribers permitted by the license, but there can be no assurance that the RFCTI would not take a different position, which in turn could result in the revocation of the license or its renegotiation on terms unfavorable to Teleport-TP or the imposition of penalties. It is not possible to calculate the amount of any penalties which might be imposed, which are in the discretion of the RFCTI. The loss of, or the failure to obtain renewal of, or any substantial limitation upon the terms of, any of Teleport-TP's licenses could have a material adverse effect on the Company.

No assurance can be given that Teleport-TP will be able to maintain its licenses, that the terms will not be interpreted, altered or renegotiated to its disadvantage or that they will be renewed upon expiration. See "-- Country Risks -- Legal Risks." The loss of, or a substantial limitation upon the terms of, Teleport-TP's licenses could have a material adverse effect on the Company.

Although Teleport-TP's failure to satisfy any of the conditions of the foregoing licenses could result in the revocation of such licenses, which in turn could have a material adverse effect upon Teleport-TP and the Company, the management of Technocom believes that this would be unlikely to occur as long as Teleport-TP is otherwise providing needed services to its customers. The Company also knows of no reason why any of these licenses will not be renewed upon their expiration; however, the expiration of these licenses without renewal, or their renewal on less favorable terms, could have a material adverse impact upon the Company.

Dependence on Rostelecom as Customer; Necessity to Further Develop Customer Base. Rostelecom accounted for approximately 27% of Teleport-TP's total revenues for the year ended December 31, 1997, as compared to 41% for the year ended December 31, 1996. Teleport-TP will seek, through the installation of its long distance network facilities, to develop a substantial alternative customer base in order to reduce its dependance on Rostelecom; however, there can be no assurance that it will be able to do so successfully. Thus, for the immediate future Rostelecom will likely remain Teleport-TP's single largest customer. While the risk of Rostelecom taking action which could harm Teleport-TP should be ameliorated because of the fact that Rostelecom itself owns 44% of Teleport-TP, any significant negative change in the relationship with Rostelecom could have a material adverse effect upon both Teleport-TP and Technocom. See "-- Network Expansion." Additionally, while Rostelecom currently utilizes approximately 900 circuits, it is only contractually committed to utilize, on a long-term basis, 100 circuits. Until Teleport-TP is able to develop a broader customer base, any significant cutback by Rostelecom in the number of circuits it utilizes could have a material adverse impact on Teleport-TP and Technocom.

In addition, at this time it is unclear what impact the consolidation of the Russian government's holdings in Sviazinvest and Rostelecom and the sale of significant stakes in Sviazinvest to Russian and foreign investors will have on the Russian telecommunications market in general and the Company and Technocom in particular. See "-- Risks Involving the Company -- Impact of Auction of Stakes in Sviazinvest on the Company and the Telecommunications Market in Russia."

Dependence on MGTS Facilities. Teleport-TP is dependent upon the facilities of MGTS for the operation of its existing network in Moscow, since a substantial part of the fiber optic cabling it uses is laid in

the ducts of MGTS pursuant to agreements under which Teleport-TP pays MGTS for the use of such facilities. The agreements between Teleport-TP and MGTS are one year agreements which are subject to automatic one year renewals unless MGTS provides a timely notice of cancellation. The current agreements expire on December 31, 1998. Technocom knows of no reason why MGTS would refuse to renew these agreements. However, the failure on the part of MGTS to renew these agreements or to honor their terms could have a material adverse effect on Teleport-TP.

Dependence on MTR-Sviaz Facilities. Teleport-TP is dependent upon the facilities of MTR-Sviaz to terminate certain traffic to users on the MTR-Sviaz network. MTR-Sviaz uses leased circuits from a number of providers, access to the Teleport-TP fiber cable facilities and the Mosenergo internal communications network to terminate its calls. Teleport-TP uses the MTR-Sviaz facilities to locate its Internet gateway, from which links to Internet service providers (ISPs) are provided via leased and dial-up lines on the public network. Furthermore, Teleport-TP acts as the long distance gateway for subscribers to the MTR-Sviaz network. Teleport-TP and MTR-Sviaz have developed a carrier services agreement to formally set out the relationship between the operators.

In addition, like many major Russian companies, Mosenergo experiences liquidity problems from time to time. While the relationship with Mosenergo has the potential to be mutually beneficial as described above, the increased dependence on the Mosenergo network may make Technocom more vulnerable to Mosenergo's liquidity problems, both in terms of pressure for financial support for the expansion of its network, and in its ability to achieve prompt settlement of accounts.

Capital and Management Resources Required for Network Expansion; Management of Growth -- Capital and Management Resources. Technocom, through Teleport-TP, has commenced a major program for the provision to cities and other locations throughout the Russian Federation of satellite-based long distance and international telecommunications service (the latter through Teleport-TP's international gateway in Moscow). Installation of the first phase of the long distance network program commenced in 1996, with 29 sites installed as of December 31, 1997. The Company currently plans to install equipment in a total of 45 sites by the end of the first half of 1998. This represents a major expansion of Teleport-TP's operations which will require substantial capital and special management efforts if it is to be carried into effect successfully. See "-- Risks Involving the Company -- Capital Requirements."

Further expansion of the network program beyond the initial 45 sites will be defined by customer demand and, therefore, has yet to be fully determined. The ability of the Company to expand such a program further will also be heavily dependent on the efforts of management, as well as the availability of additional capital on favorable terms or internally generated cash. Failure on the part of Teleport-TP to manage the development of this network successfully could have a material adverse effect on the Company.

-- Difficulties in Implementing Network Expansion. Teleport-TP has experienced significant delays in its network roll-out program. Factors in these delays have included: (i) logistical difficulties installing sites during the winter season; (ii) unsuitable local site conditions; (iii) administrative difficulties with local and regional governmental authorities; (iv) technical interconnect difficulties with local switching exchanges; and (v) availability of suitable human resources. In particular, notwithstanding the licenses granted to Teleport-TP by the Former MOC, and administered by its successor, the RFCTI, local and regional governmental authorities have imposed, and may continue to attempt to impose, licensing and other conditions with respect to Teleport-TP's operations in their respective jurisdictions or areas of influence. The need on the part of Teleport-TP to comply with such unanticipated local regulations has significantly delayed, and may continue to delay, the implementation of the network program. See "-- Country Risks -- Political Risks" and "-- Legal Risks -- Underdeveloped Legal System."

For the program to be commercially successful, Teleport-TP will have to identify commercially viable markets for its services in each of the locations which it intends to serve. In many areas of the Russian Federation the economic conditions are still very weak and growth rates uncertain, and hence the ability of a particular region to be, or to become within the short term, a successful market for the network may be difficult to gauge. The results of operations will be directly affected by Teleport-TP's success in identifying economically viable locations for the development of its network.

Furthermore Teleport-TP has had, and in all likelihood will continue to have, to form alliances with suitable regional partners. There can be no assurance that the arrangements made so far, or any future arrangements, will prove to be commercially viable.

-- Significant Competition. Teleport-TP anticipates significant competition from other companies seeking to serve the Russian long distance telephone market. While Rostelecom, the principal long distance carrier in the Russian Federation, appears to be supportive of Teleport-TP's development program, any decision by Rostelecom to compete directly with Teleport-TP or to impede the implementation of Teleport-TP's network could have a material adverse effect upon the program itself and upon the Company. See "-- Dependence upon Rostelecom as Customer; Necessity to Further Develop Customer Base." In addition, at this time, it is unclear what impact the consolidation of the Russian government's telecommunications holdings (including Rostelecom) in Sviazinvest and the auctions of significant stakes in Sviazinvest will have on the Russian telecommunications market in general and the Company in particular. See "-- Risks Involving the Company -- Impact of Auction of Stakes in Sviazinvest on the Company and the Telecommunications Market in Russia."

ITEM 2. PROPERTIES

Executive Offices and Representative Office. As a result of the Continuance, the Company has closed its executive offices in Toronto, where the Company previously leased approximately 500 square feet of office space on a month-to-month basis. The Company has established an executive office in New York, New York, consisting of approximately 6,000 square feet of office space, which it has leased through December 31, 1999.

The Representative Office of PLD is co-located with the premises of BCL in St. Petersburg.

PLD Management Services Limited. PLD Management Services Limited, a wholly owned English subsidiary of the Company, maintains an office in London, England where it leases approximately 2,400 square feet of office space pursuant to a long-term lease. In connection with the Continuance, the Company has moved many of the functions performed by this office to the United States during 1997, although the Company anticipates continuing to have an operational support facility in England for the foreseeable future.

PeterStar Company Limited. PeterStar's principal office, which it leases from PTN, is located on Vassilievski Island, St. Petersburg, Russia. Its principal switches are also located at this site. PeterStar also occupies other space in St. Petersburg which is used to house other switching and transmission equipment.

Baltic Communications Limited. BCL's principal office, which it leases on a commercial basis, is located in the Admiralteiski district of St. Petersburg, Russia. BCL's commercial and technical facilities are located at this location.

Technocom Limited. Technocom uses Teleport-TP's office space and does not own any real property. Teleport-TP leases premises, which also house its administrative functions, at VVC. Teleport-TP's core network, comprising the switching facilities and the four Intelsat and Eutelsat earth stations, are also located at VVC.

ALTEL. ALTEL leases space for its administrative offices in a Kazakhtelekom exchange building located in Almaty. It also leases space from Kazakhtelekom for its switches, cell sites and associated equipment in Kazakhstan, and leases other space in cities in Kazakhstan where it has operations for customer service centers, although ALTEL has purchased its facilities in Taraz. ALTEL is considering the purchase of a building in Almaty so as to permit the consolidation of a number of operations housed in different locations throughout the city.

The Company believes that its offices and the various facilities used by PeterStar, ALTEL, Technocom and Teleport-TP are suitable and adequate for their respective current businesses and operations.

ITEM 3. LEGAL PROCEEDINGS

Neither the Company nor its subsidiaries are parties to any material legal proceedings.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1997.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY

The Company's Common Stock is quoted on the Nasdaq National Market under the symbol "PLDI" (as of March 6, 1997). Prior to this date it was quoted under the symbol "PLDIF." The Company's Common Stock is also listed on The Toronto Stock Exchange under the symbol "PLD." It is also quoted on SEAQ International and traded on the Berlin and Frankfurt Stock Exchanges. Prior to the Continuance of the Company in Delaware on February 28, 1997, the Company's Common Stock was referred to as "Common Shares." The Common Shares began trading on The Toronto Stock Exchange on September 28, 1987 and on the Nasdaq National Market on February 18, 1993. The Company's principal market, based on the percentage of trading volume, is the Nasdaq National Market.

The following table sets forth the high and low closing prices for the Company's Common Stock, as reported by Nasdaq, for each full quarterly period within the two most recent fiscal years. The prices below represent prices between dealers, without adjustment for retail mark-ups, mark-downs or commissions, and may not reflect actual transactions.

	CLOSING PRICES	
	HIGH	LOW
1996		
1st Quarter	$6.375	$4.625
2nd Quarter	$9.000	$4.500
3rd Quarter	$8.500	$6.125
4th Quarter	$8.125	$5.50
1997		
1st Quarter	$8.000	$5.625
2nd Quarter	$5.875	$4.4375
3rd Quarter	$9.250	$4.875
4th Quarter	$9.750	$5.250

On March 25, 1998, the closing sale price for a share of Common Stock as reported on the Nasdaq National Market was $8.00. As of March 27, 1998, there were 314 holders of record of the Company's Common Stock.

The Company did not declare dividends on its Common Stock in 1997 and does not intend to declare dividends on its Common Stock in the foreseeable future.

RECENT SALES OF UNREGISTERED SECURITIES

During the three years ended December 31, 1997, the following issuances of unregistered securities of the Company were made:

(a) On June 12, 1996, the Company issued the following securities: (i) $123,000,000 aggregate principal amount at maturity of Senior Notes; (ii) 123,000 Placement Warrants to purchase an aggregate of 4,182,000 shares of Common Stock; and (iii) $26,500,000 aggregate principal amount of Convertible Notes. The Senior Notes and the Placement Warrants were initially issued as Units, and the Placement Warrants became separable from the Senior Notes on December 12, 1996.

The Units and the Convertible Notes were issued to Smith Barney Inc., as initial purchaser (the "Initial Purchaser"), in a transaction exempt from the registration requirements of the Securities Act pursuant to Regulation D. The Initial Purchaser then sold the Units and the Convertible Notes to a limited number of U.S. institutional investors in transactions exempt from the registration requirements of the Securities Act pursuant to Rule 144A thereof. Discounts and commissions of approximately $4.6 million were paid to the Initial Purchaser in connection with the issuance of the Units and the Convertible Notes and the Company

agreed to indemnify the Initial Purchaser against certain liabilities, including those arising under the Securities Act. In addition, the Company issued an aggregate of 100,000 warrants (the "Initial Purchaser Warrants") to the Initial Purchaser in consideration for its financial advisory activities on behalf of the Company.

The Convertible Notes are convertible into shares of Common Stock, at a price of $6.90 per share. Each $1,000 principal amount of Convertible Notes is convertible into 144.93 shares of Common Stock. The Placement Warrants are exercisable at any time on or before June 1, 2006 into shares of Common Stock, at a price of $6.60 per share. Each Placement Warrant is exercisable for 34 shares of Common Stock. The Initial Purchaser Warrants are exercisable at any time on or before April 30, 2001 into shares of Common Stock, at a price of $4.70 per share. Each Initial Purchaser Warrant is exercisable for one share of Common Stock.

The net proceeds from the issuance of the Senior Notes were used for repayment of the Company's bank facility, capital expenditures for the operating businesses and general corporate purposes. The proceeds from the Senior Notes, except for the repayment of the bank facility and the amounts to be used for general corporate purposes, were deposited into an escrow account for the benefit of the holders of the Senior Notes. As of March 31, 1998, the balance in the escrow account was approximately $34.3 million. The net proceeds from the issuance of the Convertible Notes were used for the acquisition of $20 million of Preferred Shares of Technocom and for general corporate purposes.

(b) On November 26, 1997, the Company issued $12.32 million in Series A Notes and $3.1 million in Series B Notes, to The Travelers Parties. The Series A Notes and the Series B Notes were issued to a limited number of institutional investors in reliance upon Section 4(2) of the Securities Act of 1933 as a transaction not involving a public offering. No commissions were paid to any underwriter, broker or dealer in connection with such issuance. The net proceeds from the issuance of the Series A Notes and the Series B Notes were used in connection with the Company's acquisition of additional interests in Technocom. See "Business -- Acquisition of Additional Interests in Technocom."

The Series B Notes come due on September 30, 1998, and the Series A Notes come due on December 31, 1998. Both the Series A Notes and the Series B Notes are secured by the Company's inventory and accounts receivable. In addition, the Series B Notes are secured by 28 of the Technocom shares acquired. In addition to issuing the Series A and Series B Notes, the Company also issued to the Travelers Parties a total of 423,000 warrants to purchase Common Stock at $8.625 at any time up to December 31, 2008, and may become obligated to issue additional warrants to the Travelers Parties in the event that certain amortization payments are not made, or if the Series A or Series B Notes are not paid in full at their maturity.

(c) In partial consideration for the acquisition of additional interests in Technocom from Elite, on November 26, 1997, the Company issued, at the direction of Elite, an aggregate of 1,316,240 shares of Common Stock to P.S. Marketing & Consulting Services Limited, a Gibraltar company. The shares of Common Stock were issued to a single institutional investor in reliance upon Section 4(2) of the Securities Act of 1933 as a transaction not involving a public offering. No commissions were paid to any underwriter, broker or dealer in connection with such issuance.

ITEM 6. SELECTED FINANCIAL DATA

The following summary consolidated financial and operating data was derived from, and should be read in conjunction with, the audited Consolidated Financial Statements of the Company and the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained elsewhere herein. Prior to the Continuance the Company's audited Consolidated Financial Statements were prepared in accordance with Canadian GAAP, which differ in certain respects from U.S. GAAP. See Note 15 to the Company's audited Consolidated Financial Statements. As a result of the Continuance, the consolidated financial data presented below for the fiscal years 1994 and 1993 have been restated in accordance with U.S. GAAP.

<TABLE>
<CAPTION>

	FISCAL YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Operating revenues.................	$114,424	$ 61,966	$ 29,120	$ 8,526	$ 2,308
Operating expenses.................	102,406	59,099	38,266	17,248	7,606
Operating income/(loss)............	12,018	2,867	(9,146)	(8,722)	(5,298)
Loss from continuing operations before income taxes and minority interest........................	(3,428)	(6,271)	(13,440)	(9,491)	(5,264)
Income taxes.......................	7,739	3,669	1,490	--	--
Loss from continuing operations before minority interest........	(11,167)	(9,940)	(14,930)	(9,491)	(5,264)
Minority interest..................	9,399	2,521	551	--	--
Loss from continuing operations....	(20,566)	(12,461)	(15,481)	(9,491)	(5,264)
Discontinued operations............	--	--	--	--	(5,138)
Loss for the year..................	$(20,566)	$(12,461)	$(15,481)	$(9,491)	$(10,402)
Loss per common share(1)...........	$ (0.64)	$ (0.39)	$ (0.49)	$ (0.78)	$ (1.33)
Weighted average number of shares outstanding.....................	32,061	31,579	31,315	12,663	8,155

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31,				
	1997	1996	1995	1994	1993
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE SHEET DATA:					
Cash and cash equivalents(2).......	$ 17,256	$ 40,674	$ 15,676	$ 56,710	$ 948
Non-cash working capital/(deficiency)............	(18,642)	(26,440)	(22,001)	(17,706)	(5,121)
Escrow funds.......................	33,868	40,984	--	--	--
Property and equipment, net........	134,998	93,039	45,357	21,718	6,306
Telecommunications licenses........	78,837	72,310	49,583	54,099	18,337
Investments and other assets.......	32,801	39,052	29,293	18,925	2,223
Investment in Teleport-TP..........	--	--	23,564	15,699	--
Total assets.......................	335,586	306,357	178,092	171,760	28,700

Long-term debt....................	133,516	107,954	--	--	4,297
Shareholders' equity..............	127,231	137,954	135,832	147,470	11,448

</TABLE>

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(1) In 1993, loss per common share includes a loss from discontinued operations of $(0.63).

(2) The December 31, 1996 and December 31, 1995 balances includes cash of $9.0 million and $6.1 million, respectively, held on deposit as collateral to secure bank indebtedness of the same amount.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except as otherwise indicated, all references to 1995, 1996 and 1997 refer to the fiscal year ended on December 31 of those years respectively.

INTRODUCTION

Basis of Presentation. Effective February 28, 1997 PLD Telekom Inc. was continued as a Delaware corporation. As a result, the consolidated financial statements for 1995, 1996 and 1997 have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). Prior to 1996, the audited consolidated financial statements were prepared in accordance with Canadian GAAP, with a reconciliation to U.S. GAAP. EBITDA, which is used as a measure of operating performance, is defined as

follows: earnings before taxes and minority interest plus interest (interest expense less interest and other income) plus depreciation and amortization. EBITDA is used as a supplementary measure of operating performance and is commonly quoted in the telecommunications industry. It is particularly relevant in comparing the Company's operating results with those of its peers based outside the U.S., many of whom are not subject to amortizing license or goodwill costs and who have the ability to write-off such costs on date of acquisition. In the Company's case, such amortization costs make up a significant portion of the Company's operating expenses. The Company has consistently disclosed EBITDA figures on a consolidated basis and for its subsidiaries in its quarterly and annual filings. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

Principal Operations and Future Activities. The Company's key interests at December 31, 1997 include a 60% equity interest in PeterStar, which provides telecommunication services in St. Petersburg, Russia; a 50% equity interest in ALTEL, which provides cellular services in Kazakhstan; and an 80.4% equity interest in Technocom which, through its 49.33% equity interest in Teleport-TP, operates an international teleport in Moscow, fiber optic networks in Moscow and its environs and a satellite-based long distance network across Russia. Cable & Wireless is the Company's principal shareholder at December 31, 1997. The consolidation of financial information in the 1997 financial statements differs from 1996 by reflecting the Company's acquisition of an additional 29.65% interest in Technocom effective December 31, 1997. The consolidation of financial information in the 1996 financial statements differs from 1995 by reflecting (i) the Company's acquisition of 100% of the outstanding shares of BCL in April 1996; and (ii) the acquisition by Technocom of a controlling voting interest in Teleport-TP effective December 31, 1996.

The Company's telecommunications businesses are developing rapidly in an emerging economy which, by its nature, has an uncertain economic, political and regulatory environment. The general risks of operating businesses in the former Soviet Union include the possibility for rapid change in government policies, economic conditions, the tax regime and foreign currency regulations. In addition, Teleport-TP's satellite-based long distance network is at an early stage of its development and operations.

Ultimate recoverability of the Company's investments in PeterStar, ALTEL and Teleport-TP is dependent upon each of these subsidiaries achieving and maintaining profitability, which is dependent to a certain extent on the stabilization of the economies of the former Soviet Union, the ability to maintain the necessary telecommunications licenses and the ability to obtain adequate financing to meet capital commitments.

Effect of change from Canadian GAAP to U.S. GAAP. The effect of the restatement of prior year comparatives from Canada to U.S. GAAP is explained in Note 15 to the consolidated financial statements. However, the main differences may be summarized as follows: (i) under Canadian GAAP, the Convertible Notes issued in connection with the June 1996 Placement are a compound financial instrument and the debt and equity elements are separately accounted for. Under U.S. GAAP, the Convertible Notes are accounted for as a single debt instrument under the "Long-term debt" caption; and (ii) U.S. GAAP does not permit the capitalization of pre-operating costs. Therefore, in anticipation of the change to U.S. GAAP, effective December 31, 1996 the Company changed its Canadian GAAP policy with respect to pre-operating costs to be in accordance with U.S. GAAP. As a result, all such costs were retroactively expensed.

Accounting Standards. Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income," and Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosure about Segments of an Enterprise and Related Information," were issued in June 1997. SFAS 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company has not determined the impact of SFAS 130 on its financial statements. SFAS 131 establishes standards for the way public companies report information about operating segments in annual financial statements and requires that those companies

report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company is required to adopt both new standards in the first quarter of 1998.

Management Fees. Certain of the Company's subsidiaries pay management fees to their shareholders, including the Company. The figures presented for the subsidiaries reflect all payments of such fees -- ie, management fees are included in operating expenses in the same way as other expenses of the subsidiary. Profitability measures -- EBITDA, operating profit and net income -- are therefore quoted after accounting for such payments.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1997 VERSUS YEAR ENDED DECEMBER 31, 1996

PLD Telekom Inc. -- Consolidated

In 1997, the Company reported a loss of $20.6 million, or $0.64 per share, on total revenues of $118.0 million, including operating revenues of $114.4 million. This compares with a loss in 1996 of $12.5 million, or $0.39 per share, on total revenues of $66.8 million (operating revenues of $62.0 million). EBITDA of $30.3 million compared with $12.1 million in 1996. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. See "Liquidity and Capital Resources" for a discussion of the Company's cash flows from operating activities, investing activities and financing activities in 1997 and 1996.

The loss of $20.6 million in 1997 incorporates a profit contribution from PeterStar of $16.5 million (after income taxes of $3.2 million), a profit contribution from ALTEL of $7.2 million (after income taxes of $3.6 million), a profit contribution from BCL of $0.5 million (after income taxes of $0.4 million), corporate interest and other income of $3.1 million, a corporate foreign exchange gain of $0.1 million and a corporate gain on the disposal of an investment of $1.0 million, offset by a net loss of $4.7 million incurred in Technocom, corporate general and administrative costs of $8.3 million, interest on corporate bank indebtedness and long-term debt of $16.7 million, corporate amortization and depreciation charges of $8.5 million, corporate taxes of $0.9 million and minority interest charges of $10.0 million relating to PeterStar, ALTEL and Technocom.

Operating revenues. Consolidated operating revenues increased by 85% from $62.0 million in 1996 to $114.4 million in 1997, principally as a result of strong growth in PeterStar and ALTEL, and the consolidation of a full year's revenues from BCL and Teleport-TP in 1997. Operating revenues from PeterStar increased in 1997 to $54.5 million from $32.5 million in 1996 due mainly to a continued rapid increase in line penetration from 52,005 at December 31, 1996 to 114,774 at December 31, 1997. ALTEL contributed operating revenues of $30.0 million, as compared to $19.1 million in 1996. This increase is attributable to the growth in ALTEL's subscriber base from 6,957 at December 31, 1996 to 11,120 at December 31, 1997. Technocom contributed operating revenues of $21.2 million in 1997, compared to $4.4 million in 1996, largely as a result of the consolidation of Teleport-TP. BCL contributed operating revenues of $7.6 million for the Company in its first full year as an operating subsidiary of the Company compared with part year revenues of $5.1 million in 1996. Yellow Pages contributed $1.0 million in operating revenues in 1997 compared to $0.8 million in 1996.

Direct costs. Direct costs, including the direct costs of sales of all of the Company's subsidiaries, increased 81% in 1997 to $39.2 million. As a percentage of revenues, direct costs reduced marginally to 34% from 35% in 1996.

General and administrative costs. General and administrative costs include the day-to-day expenses in all five subsidiary operations as well as corporate expenses. Consolidated general and administrative expenses increased 56% from $24.8 million in 1996 to $38.7 million in 1997, reflecting the continued growth in the scale and extent of the operating businesses and the full year consolidation of BCL and Teleport-TP. As a percentage of operating revenues, these costs continued a downward trend, falling from 62% in 1995 to 40% in 1996 to 34% in 1997.

Depreciation. Depreciation increased 100% from $5.2 million in 1996 to $10.4 million in 1997, reflecting 1997 capital expenditures within the operating businesses of $43.0 million as the build-out of the PeterStar, ALTEL and Teleport-TP networks progressed. In 1996, $43.2 million was invested in these companies' networks.

Amortization. Upon the acquisition by the Company of its interests in PeterStar, ALTEL and Technocom (incorporating Teleport-TP), the differential between the purchase price and the fair value of the net assets acquired was allocated to the telecommunications licenses held by these entities. These licenses, which expire in 2004, 2009 and 2004 respectively, are being amortized on a straight line basis over the appropriate terms. In this respect, in 1997, the Company incurred total non-cash amortization charges of $7.4 million, including $2.6 million relating to the telecommunications licenses of PeterStar, $2.1 million relating to the telecommunications license of ALTEL and $2.7 million relating to the telecommunications licenses of Teleport-TP. The Company also incurred amortization charges of $0.2 million relating to goodwill associated with the acquisition of Yellow Pages and $1.2 million relating to deferred financing costs associated with the senior discount and convertible subordinated note financing undertaken in 1996. In 1996, the Company incurred amortization charges of $4.7 million relating to the telecommunications licenses of PeterStar and ALTEL, together with $0.2 million relating to goodwill associated with Yellow Pages and $0.7 million relating to deferred financing costs. In addition, included in Technocom's share of the 1996 results of its equity investments were amortization charges of $2.5 million relating to the telecommunications licenses of Teleport-TP.

Taxes other than income taxes. Taxes other than income taxes of $6.2 million in 1997 compared with $2.5 million in 1996 and included such taxes as property taxes, road taxes, police taxes, transport taxes, advertising taxes, housing taxes and education taxes, most of which are specific to doing business in Russia and Kazakhstan. The increase of 148% in these taxes reflects the significant increases in revenues and net earnings of the Company's operating subsidiaries which form the bases for computing many of these taxes.

Operating income. Operating income of $12.0 million in 1997 compared to $2.9 million in 1996.

Share of loss from equity investments, after amortization of licenses. Share of loss from equity investments, after amortization of licenses, in 1997 relate entirely to the equity investments held by Technocom, primarily MTR Sviaz and Rosh Telecom. The 1997 loss of $0.5 million consisted of Technocom's 49% share of MTR Sviaz's loss of $1.8 million partially offset by its 50% share of Rosh Telecom's net earnings of $0.8 million. In 1996, the loss related primarily to amortization charges in connection with licenses held by Teleport-TP. Teleport-TP's financial statements were not consolidated with Technocom until January 1, 1997.

Interest expense. Interest expense of $17.8 million consisted of interest on bank indebtedness and short-term borrowings of $1.3 million and interest on long-term debt of $16.5 million. Interest on the Senior Notes and the Convertible Notes resulted in total interest charges on long-term debt of $16.5 million for the full year in 1997 compared to $8.7 million in 1996. Of this amount, $2.4 million related to the Convertible Notes and was paid during the year. The balance of $14.1 million was added to the accreted value of the Senior Notes on the Company's balance sheet.

Interest and other income. Interest and other income in 1997 of $3.6 million compared with $4.9 million in 1996. Interest earned on the Company's escrow account (funds from which may be used to acquire telecommunications equipment or telecommunications companies in Russia and Kazakhstan) totaled $2.2 million in 1997 compared with $1.3 million earned for the partial year in 1996. Escrowed funds are invested in short-term reverse repurchase agreements secured by U.S. treasury bonds. Interest earned at the subsidiary level totaled $1.0 million for the year.

Foreign exchange loss. Foreign exchange losses in 1997 of $0.3 million compared with losses of $0.6 million in 1996 and resulted from the unfavorable movement of local currencies vis-a-vis the U.S. dollar applied to net monetary assets held by a number of the Company's operating subsidiaries.

Gain on disposal of investments and property and equipment. Gain on disposals of investments in 1997 related to the $1.0 million earned on the Company's sale of its 10.4% interest in SPMMTS for gross proceeds of $17.2 million in June 1997, offset by a loss on disposal of equipment of $0.3 million at BCL.

Income taxes. Income taxes of $7.7 million in 1997, compared with $3.7 million in 1996 and relate substantially to current income taxes in the Company's Russian and Kazakh businesses. The higher charge in 1997 reflects the improved profitability of these subsidiaries. The Company is currently evaluating its overall tax structure in an effort to endeavor to better utilize existing tax loss carry forwards at the corporate level while sheltering taxable income at the subsidiary level.

Minority interest. Minority interest of $9.4 million in 1997 compared with $2.5 million in 1996 and relates primarily to the minorities' share of the net after-tax profit of PeterStar (40%), ALTEL (50%) and the net loss of Technocom (49.25%). Effective January 1, 1998, the minorities' share of Technocom's earnings or losses has been reduced to 19.6% as a result of the Company's acquisition of an additional 29.65% interest in Technocom effective December 31, 1997. Minority interest charges for the above subsidiaries are calculated after deducting any management fees payable to the Company. In 1997, the Company charged PeterStar and ALTEL $2.0 million and $1.2 million, respectively, in respect of such fees. Additionally in 1997, the Company agreed to write-off $5.3 million in historical inter-company advances made to PeterStar. Accordingly, the minority interest charge for PeterStar was calculated after inclusion of this write back in PeterStar statements.

Net loss. Net loss of $20.6 million in 1997 compared to a net loss of $12.5 million in 1996.

PeterStar Company Limited

PeterStar reported net income of $16.5 million and an operating profit of $20.5 million on operating revenues of $54.5 million for the year ended December 31, 1997, compared to net income of $5.9 million and an operating profit of $8.0 million on operating revenues of $32.5 million for the year ended December 31, 1996. EBITDA grew to $24.1 million for the year ended December 31, 1997, representing 44% of revenues, compared to EBITDA of $10.3 million, representing 31% of revenues in 1996. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

PeterStar's cash flows from operating activities in 1997 totaled $19.3 million (1996 -- $7.7 million). Major adjustments to PeterStar's $16.5 million net income (1996 -- $5.9 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $4.0 million (1996 -- $2.7 million), and deferred revenues of $2.0 million (1996 -- a reduction of $0.9 million) offset by an increase in net operating assets and liabilities of $3.8 million (1996 -- nil).

Net cash used in investing activities of $16.6 million (1996 -- $6.3 million) related to the purchase of telecommunications switching and transmission equipment in connection with the development of PeterStar's fiber optic ring around central St. Petersburg, the construction of a new digital exchange on Vassilievski Island and the improvement of access to the long distance and international gateway between PeterStar and SPMMTS.

Net cash used in financing activities totaled $3.6 million (1996 -- $0.9 million) consisting of the issuance of $13.5 million in common stock (1996 -- nil), bank financing of $0.9 million (1996 -- nil) offset by the repayment of related company advances of $18.0 million (1996 -- $0.9 million).

Revenues. Call revenues for the year ended December 31, 1997 ($31.5 million) were 47% higher than the call revenues in the year ended December 31, 1996 ($21.5 million), reflecting increases in subscriber lines installed and transit traffic carried during the period. Total subscriber lines increased by 121%, to 114,774 at December 31, 1997 from 52,005 at December 31, 1996. Directly connected customers (i.e. business and residential lines) increased to 28,826 from 14,792, or 95%, over the same period. Lines to cellular operators increased by 131% to 85,948 lines at December 31, 1997 from 37,213 lines at December 31, 1996.

Revenues from line rentals increased by 92%, reflecting the increase in installed lines, both fixed and cellular. Similarly, installation fees grew at a rate of 118% over the year ended December 31, 1996, reflecting the increased number of lines put into service.

Call revenues accounted for 58% of operating revenues for the year ended December 31, 1997 compared to 66% in 1996, installation fees accounted for 22% of total revenues for the year ended December 31, 1997 compared to 17% in 1996 and line rentals accounted for 20% of total revenues for the year ended December 31, 1997 compared to 17% in 1996.

Of PeterStar's total network traffic in 1997, 87% was local compared with 89% in 1996 and 9% was long distance in 1997 compared with 7% in 1996. International traffic was unchanged in 1997 at 4% of total network traffic. These changing traffic patterns have reduced revenue per line to $654 in 1997 from $885 in 1996, while recurring revenue per line (calling charges and line rentals) were $520 per line compared to $736 in 1996. By the end of 1997, Russian businesses accounted for 70% of PeterStar's customers and 45% of its revenues. These trends are expected to continue as Russian companies and individuals increasingly constitute PeterStar's customer base.

PeterStar expects line growth for both fixed and cellular services to continue as the market expands for high quality digital telecommunications services. PeterStar believes that its focus on the introduction of data services such as frame relay and ATM services will increase revenues and improve its competitive positioning.

Gross Profit. Gross profit increased 86% to $38.6 million for the year ended December 31, 1997 from $20.7 million in 1996. The gross margin of 71% is significantly higher than the margin of 64% in 1996 due to discounted outpayment charges on higher traffic volumes, although continuing competition, plus the possibility that PTN may start to levy access charges in 1998, is expected to put pressure on margins in the future.

Operating expenses. Operating expenses increased 43% to $18.2 million for the year ended December 31, 1997 from $12.7 million in 1996. Operating expenses represented 33% of revenues in 1997 compared to 39% in 1996, as revenue generation grew faster than costs. In particular, staff costs and depreciation each accounted for 22% of total operating expenses for the year ended December 31, 1997, compared to 30% and 21%, respectively, for the same period in 1996. Staff costs increases were directly related to the growth in PeterStar's business during the year, with overall staff levels increasing from 220 in 1996 to 310 at the end of 1997. The biggest increases in staffing were in the sales and marketing and technical departments. Staffing is expected to increase to approximately 400 employees in 1998. Depreciation is expected to increase in 1998 as a result of $25 million in planned capital expenditures.

ALTEL

ALTEL recorded net income of $7.2 million and an operating profit of $10.9

million on operating revenues of $30.0 million for the year ended December 31, 1997, compared to net income of $4.5 million and operating income of $6.0 million on operating revenues of $19.1 million for the year ended December 31, 1996. EBITDA grew to $13.9 million for the year ended December 31, 1997, compared to EBITDA of $7.8 million for the same period in 1996. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

ALTEL's cash flows from operating activities in 1997 totaled $8.8 million (1996 -- $9.8 million). Major adjustments to ALTEL's $7.2 million net income (1996 -- $4.5 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $3.3 million (1996 -- $2.1 million), offset by an increase in net operating assets and liabilities of $2.1 million (1996 -- reduction of $2.8 million).

Net cash used in investing activities totaled $4.3 million (1996 -- $8.2 million) related to the purchase of telecommunication equipment.

Cash used in financing activities of $2.0 million (1996 -- nil) related to the payment of common stock dividends during the year.

Revenues. Call revenues for the year ended December 31, 1997 ($18.9 million) were 60% higher than the call revenues for the same period in 1996 ($11.8 million), reflecting a substantial increase in subscribers during the period, from 6,957 at December 31, 1996 to 11,120 at December 31, 1997. Subscription fees increased during the year by 53% to $3.8 million, connection fees increased by 5% to $1.7 million and equipment sales increased by 45% to $4.7 million. Other revenues of $1.0 million increased fivefold during the year.

Call revenues accounted for 63% of operating revenues for the year ended December 31, 1997, up marginally from 62% in 1996, subscription fees accounted for 13% of total revenues for the year ended December 31, 1997 -- unchanged from 1996, connection fees accounted for 6% of total revenues for the year ended December 31, 1997 compared with 8% in 1996, while equipment sales represented 16% of revenues, as against 17% in 1996.

Local and incoming traffic during 1997 accounted for 75% of total traffic compared with 76% during 1996, mobile to mobile traffic accounted for 11% of total traffic compared with 9% in 1996, while long distance traffic in 1997 accounted for 7% of total traffic compared with 6% during 1996, and international traffic accounted for only 7% of total traffic compared with 9% during 1996. ALTEL's customer base increasingly consists of Kazak companies and individuals, who tend not to use its higher priced long distance and international services. This has had an effect upon per subscriber revenues -- total revenue per subscriber for the year ended December 31, 1997 was $3,382 against $3,886 per subscriber for 1996, while recurring revenue per subscriber also reduced from $2,900 in 1996 to $2,666 per subscriber in 1997. The reductions in total per subscriber and recurring per line revenues also stem from the different calling patterns of these classes of customers who generally use as much as 38% less airtime as the foreign business customers. ALTEL expects both of these trends to continue; however, ALTEL expects to offset the effects of these factors by continuing to expand its overall customer base, through, among other things, the introduction of pre-paid cellular service during 1998.

Gross Profit. Gross profit increased 69% to $23.1 million for the year ended December 31, 1997 from $13.7 million in 1996. Gross margin showed continued improvement at 77% of operating revenues compared to the 72% margin realized in 1996, primarily due to the greater calling volumes and reduced dependence on revenues from equipment sales.

Operating Expenses. Operating expenses increased 60% to $12.3 million for the year ended December 31, 1997 from $7.7 million in 1996, reflecting the opening of an additional 4 operating sites and the increase in staffing from 307 at the end of 1996 to 426 at December 31, 1997. Operating expenses were relatively unchanged at 41% of revenues in 1997 compared to 40% in 1996. Depreciation accounted for 11% of total revenues for the year ended December 31, 1997, compared to 10% for the same period in 1996, in each case reflecting the considerable capital investment in ALTEL over the past two years. Depreciation is expected to increase in 1998 as ALTEL deploys an additional $8.2 million of capital investment.

Technocom Limited

Technocom recorded a net loss of $4.7 million and an operating loss of $4.3 million on operating revenues of $21.2 million for the year ended December 31, 1997, compared to a net loss of $0.2 million and an operating loss of $0.7 million on operating revenues of $4.4 million for the year ended December 31, 1996. EBITDA showed a loss of $1.6 million for the year ended December 31, 1997, compared to an EBITDA loss of $0.6 million in 1996. In 1997, the results of Technocom's principal asset, Teleport-TP, were consolidated with those of Technocom as a result of its acquisition of an additional 7.5% voting interest (12.5% voting interest) in Teleport-TP, late in 1996. In 1996, Technocom's investment in Teleport-TP was accounted for using the equity method. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

Technocom's cash flows from operating activities in 1997 totaled $9.3 million (1996 -- $12.7 million). Major adjustments to Technocom's $4.4 million net loss (1996 -- $0.2 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $2.8 million (1996 -- $0.1 million) and a reduction in net operating assets and liabilities of $10.8 million (1996 -- $12.4 million).

Net cash used in investing activities of $16.8 million (1996 -- $25.3 million) related to the purchase of telecommunications switching and transmission equipment.

Cash used in financing activities of $15.8 million related to the repayment of bank financing. Cash provided by financing activities of $28.0 million in 1996 related to bank financing of $8.0 million and an issuance of preferred stock of $20.0 million.

Technocom's 1997 revenues of $21.2 million consisted of $16.9 million in telecommunications revenues generated by Teleport-TP, $2.0 million in finance lease income from MTR-Sviaz and $2.3 million in other income.

Technocom's consolidated net loss of $4.7 million consisted of a net loss of $2.8 million within Teleport-TP (including finance lease interest expense), a $1.2 million loss within Technocom's statutory accounts, a $0.2 million loss within Technopark (55% owned by Technocom) and a $0.3 million loss within SCS (100% owned by Technocom), amortization charges of $0.3 million, and share of losses from equity investments of $0.5 million offset by a minority interest credit of $0.6 million.

The net loss of $2.8 million at Teleport-TP, which is 49.3% owned by Technocom but consolidated with Technocom's results based on voting control of 56%, consisted of $16.9 million in revenues offset by direct costs of $11.8 million, operating expenses of $6.5 million and finance lease interest of $1.4 million.

The $1.2 million loss within Technocom's statutory accounts relates to a gross margin on revenues, including finance lease income, of $3.4 million and interest and other income of $1.0 million offset by selling, general and administrative expenses of $3.1 million, taxes of $1.2 million and interest expense of $1.1 million.

Share of losses from equity investments of $0.5 million consists of Technocom's 49% share of losses from MTR-Sviaz of $0.9 million, offset by Technocom's 50% share of net income from Rosh Telecom of $0.4 million.

In 1996, Technocom's primary revenue stream was from the leasing of telecommunications equipment to Teleport-TP and MTR-Sviaz, which generated lease income of $1.4 million. Technocom also earned revenues from a number of other telecommunications projects and the provision of marketing services to Teleport-TP, in total amounting to $3.0 million.

Direct costs of $2.1 million in 1996 related to the provision of these marketing services to Teleport-TP. Operating expenses of $3.0 million included $2.1 million of general and administrative expenses and $0.3 million relating to an investment write-off.

Interest income of $1.3 million was generated in 1996.

Presented below is a comparison of Teleport-TP's result of operations in 1997 and 1996.

Teleport-TP generated a 1997 net loss of $2.8 million, operating loss of $1.4 million and EBITDA of $0.9 million on revenues of $16.9 million, compared with a net loss of $0.1 million, an operating profit of $0.1 million and EBITDA of $1.4 million on revenues of $11.1 million for the year ended December 31, 1996. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

Teleport-TP's cash flows from operating activities in 1997 totaled $0.2 million (1996 -- $3.1 million). Major adjustments to Teleport-TP's net loss of $2.8 million (1996 -- $0.1 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $2.3 million (1996 -- $1.2 million) offset by an increase in net operating assets and liabilities of $0.6 million (1996 -- a reduction of $1.9 million).

Net cash used in investing activities of $1.2 million (1996 -- $0.5 million) related to property and equipment and investments.

Net cash provided by financing activities, primarily advances from related parties, totaled $1.1 million in 1997. In 1996, net cash used in financing activities totaled $3.9 million, and consisted primarily of lease principal repayments.

Revenues. Teleport-TP generated revenues from three sources in 1997: international leased circuits, occasional TV broadcasting, and direct dial telephony services. Overall revenues for the year ended December 31, 1997 increased 52% to $16.9 million from $11.1 million for the year ended December 31, 1996, primarily reflecting the increase in international incoming traffic.

Revenue from international circuits of $5.3 million amounted to 31.5% of total revenue for the year ended December 31, 1997, as compared with 42% of total revenue in 1996. Revenue from this source increased marginally as circuits are leased for a fixed sum for a term of years, and revenue growth can generally only be achieved by increasing the number of circuits leased. Revenues of $3.4 million from national circuits accounted for 20% of revenues in 1997, a significant increase from 1996. Revenues from the provision of international television broadcasting services and other income amounted to $3.3 million or 19.5% of total revenues, up from $0.8 million (6% of total revenues) in 1996. Other international direct dial services generated $4.9 million or 28.8% of total Teleport-TP revenues, compared to 52% of revenues in 1996. The Company had anticipated that Teleport-TP's long distance services would be a more significant contributor to revenues in 1997, but continued logistical delays in installing remote earth stations delayed the start up of many sites until very late in 1997. The Company continues to expect that these services will provide steady revenue growth during 1998 and beyond as the various sites planned become operational. Teleport-TP expects to complete the installation of the first 45 sites on the network by mid-1998.

Gross profit. Teleport-TP's gross profit increased 12.5% to $5.1 million for the year ended December 31, 1997 from $4.6 million in 1996. The gross margin decreased to 30.4% from 41% in 1996, primarily due to costs associated with the build-out and operation of the satellite network and lower margins earned on the network's national traffic which commenced in 1997.

Operating expenses. Operating expenses increased 48% to $6.6 million for the year ended December 31, 1997 from $4.4 million in 1996. General and administrative costs increased 35% to $3.5 million for the year ended December 31, 1997, compared with $2.6 million in 1996, reflective of increased personnel and other costs relating to the development of the long distance network. Depreciation of assets under capital lease was $2.2 million for the year ended December 31, 1997, compared with $1.0 million in 1996, and is expected to increase further in 1998 as Teleport-TP acquires an additional $10 million in equipment related to the build-out of its long distance network. The Company also expects Teleport-TP to increase its operating expenses in 1997 as it further develops its long distance services.

Interest. Lease interest expense increased from $0.5 million in 1996 to

$1.4 million in 1997 resulting from an increase in rentals payable under equipment leases between Technocom and Teleport-TP.

Baltic Communications Limited

The Company acquired BCL on April 1, 1996, and accordingly only the nine months ended December 31, 1996 were consolidated in the Company's 1996 financial statements. BCL recorded operating income of $1.1 million and net income of $0.5 million on revenues of $7.6 million for the full year in 1997 compared to operating and net income of $0.7 million on revenues of $5.1 million for the nine months ended December 31, 1996. EBITDA of $1.7 million in 1997 compared with $1.2 million in the nine months ended December 31, 1996. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

BCL's cash flows from operating activities in 1997 totaled $0.8 million compared to $1.3 million in the nine month period ended December 31, 1996 (Note, the Company acquired BCL effective April 1, 1996 -- all 1996 figures quoted below related to the nine months ended December 31, 1996). Major adjustments to

BCL's $0.5 million net income (1996 -- $0.7 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $0.8 million (1996 -- $0.5 million) offset by an increase in net operating assets and liabilities of $0.7 million (1996 -- reduction of $0.1 million).

Net cash used in investing activities of $0.8 million (1996 -- $1.8 million) related to the purchase of telecommunications equipment.

No cash was provided by or used in financing activities within BCL in 1997 or 1996.

Revenues. Call revenues accounted for 79% of total revenues for the year ended December 31, 1997, primarily driven by international call minutes. Call revenues accounted for 81% of 1996 revenues. Line rentals accounted for 14% of total revenue in 1997 compared to 12% in 1996. The balance of revenues, consisting of installations and equipment sales, accounted for 7% of revenues in 1997 compared to 7% of revenues in 1996.

Gross profit. Gross profit of $4.7 million (61% of revenues) compared with gross profit of $3.0 million (59% of revenues) generated in the nine months ended December 31, 1996.

Operating expenses. Operating expenses totaled $3.9 million (51% of revenues) in 1997 compared to $2.3 million (46% of revenues) incurred in the nine months ended December 31, 1996. Staff costs and depreciation accounted for 49% and 21% of total operating costs in 1997 compared to 45% and 22% respectively of total operating costs for the nine months ended December 31, 1996.

St. Petersburg Yellow Pages

Yellow Pages recorded a 25% increase in revenues to $1.0 million in 1997 as a result of a 19% increase in the number of companies placing advertisements in the directory during the year. Gross profits increased 40% to $0.7 million in 1997 (70% of sales), from $0.5 million in 1996 (63% of sales), reflecting both revenue growth and increased operating leverage. A net loss of $3,000 in 1997 compared to a net profit of $33,000 in 1996.

YEAR ENDED DECEMBER 31, 1996 VERSUS YEAR ENDED DECEMBER 31, 1995

PLD Telekom Inc. -- Consolidated

In 1996, the Company reported a net loss of $12.5 million, or $0.39 per share, on total revenues of $66.8 million, including operating revenues of $62.0 million. This compared to a net loss in 1995 of $15.5 million, or $0.49 per share, on total revenues of $31.2 million (operating revenues of $29.1 million).

The loss of $12.5 million in 1996 incorporated a profit contribution from PeterStar of $5.9 million (after profits tax of $1.8 million), a profit contribution from ALTEL of $4.5 million (after profits tax of $1.5 million), a profit contribution from BCL of $0.7 million (after profits tax of $0.2 million), and corporate interest and other income of $2.8 million, offset by corporate general and administrative costs of $6.3 million, interest on corporate bank indebtedness and long-term debt of $9.5 million, amortization charges of $5.6 million, a share of the loss from equity investments of $2.7 million (including amortization of licenses of $2.5 million) and minority interest charges of $2.5 million relating primarily to PeterStar and ALTEL.

Operating revenues. Consolidated operating revenues increased by 113% from $29.1 million in 1995 to $62.0 million in 1996, principally as a result of strong growth in PeterStar and ALTEL and the addition of BCL to the portfolio with effect from April 1, 1996. Operating revenues from PeterStar grew 118% in 1996, to $32.5 million from $14.9 million in 1995, due mainly to a continued rapid increase in line penetration from 21,528 at December 31, 1995 to 52,005 at December 31, 1996. ALTEL contributed operating revenues of $19.1 million, as compared to $9.3 million in 1995. This increase was attributable to the growth in ALTEL's subscriber base from 2,882 at December 31, 1995 to 6,957 at December 31, 1996. Technocom contributed operating revenues of $4.4 million in both 1996 and 1995 from its leasing of telecommunications equipment and from telecommunications projects. BCL contributed operating revenues of $5.1 million for the Company, and Yellow Pages contributed $0.8 million for the full year.

Direct costs. Direct costs were 35% of operating revenues in 1996 compared to 36% of operating revenues in 1995, and include the direct costs of sales of PeterStar, ALTEL, Technocom, BCL and Yellow Pages.

General and administrative costs. Consolidated general and administrative expenses increased 36% from $18.2 million in 1995 to $24.8 million in 1996, reflecting the continued growth in the scale and extent of the operating businesses and the acquisition of BCL. As a percentage of operating revenues these costs exhibited a downward trend, falling from 62% in 1995 to 40% in 1996. At the corporate level, general and administrative overhead increased to $6.3 million in 1996 from $5.1 million in 1995.

Depreciation. Depreciation increased 36% from $3.8 million in 1995 to $5.2 million in 1996, reflecting 1996 capital expenditures within the operating businesses of $43.2 million as the build-out of the PeterStar and ALTEL networks progressed.

Amortization. In 1996, the Company incurred total non-cash amortization charges of $5.6 million, including $2.6 million relating to the telecommunications licenses of PeterStar, and $2.1 million relating to the telecommunications license of ALTEL. In addition, it incurred charges of $0.2 million relating to goodwill associated with the acquisition of Yellow Pages and $0.7 million relating to deferred financing costs. As well as the $5.6 million of amortization noted above, the Company's share of the results of its equity investments -- Teleport-TP, MTR-Sviaz and Rosh Telecom -- which were accounted for on an equity basis, included amortization of $2.5 million relating to the telecommunications licenses of Teleport-TP. Total amortization charges in 1995 were $6.2 million principally relating to the PeterStar, ALTEL and Teleport-TP telecommunications licenses.

Taxes other than income taxes. Taxes other than income taxes of $2.5 million in 1996 compared with $1.2 million in 1995 and included such taxes as property taxes, road taxes, police taxes, transport taxes, advertising taxes, housing taxes and education taxes, most of which are specific to doing business in Russia and Kazakhstan. The increase of 108% in these taxes reflects the significant increases in revenues and net earnings, of the Company's operating subsidiaries, which form the bases for computing many of these taxes.

Operating income. Operating income of $2.9 million in 1996 compared to an operating loss of $9.1 million in 1995.

Share of loss from equity investments, after amortization of licenses. Share of loss from equity investments, after amortization of licenses, in 1996 of $2.7 million compared with $1.6 million in 1995 and resulted from the equity investments held by Technocom. Both the 1996 and 1995 losses related primarily to amortization of licenses held by Teleport-TP. Teleport-TP did not become a subsidiary of Technocom until January 1, 1997.

Interest expense. On June 12, 1996, the Company completed a $149.5 million private placement consisting of (i) 123,000 units consisting of $123 million aggregate principal amount at stated maturity of Senior Notes together with Placement Warrants to purchase a total of 4,182,000 shares of Common Stock; and (ii) $26.5 million aggregate principal amount of 9% convertible notes. The purchase/conversion prices respectively on the Warrants and the convertible notes are $6.60 and $6.90 per share of Common Stock.

These debt instruments represented entirely new indebtedness of the Company and resulted in an interest charge on long-term debt in 1996 of $8.7 million as against zero expense in 1995. Prior to the completion of this offering the Company had a $22.5 million bank facility with a Canadian chartered bank (CIBC), guaranteed by Cable & Wireless, which resulted in corporate interest charges of $0.7 million in 1996, as compared with $0.5 million in 1995, and which together with interest expenses relating to certain indebtedness of Technocom yields total interest expense on bank indebtedness of $1.2 million in 1996 ($1.0 million in 1995).

Interest and other income. Under the terms of the debt offering, $46.0 million was deposited into an escrow account, for subsequent disbursement into telecommunications equipment or telecommunications companies in Russia and Kazakhstan. All funds which had yet to be disbursed were invested throughout the period in short-term reverse repurchase agreements secured by U.S. treasury bonds. These investments,

together with interest earned on other cash deposits and miscellaneous other income, produced total interest and other income at the corporate level of $2.8 million, compared with $0.4 million in 1995. The bulk of the remainder of the $4.9 million accrued in Technocom.

Foreign exchange loss. Foreign exchange losses in 1996 of $0.6 million compared with losses of $0.4 million in 1995 and resulted from the unfavorable movement of local currencies vis-a-vis the U.S. dollar applied to net monetary assets held by a number of the Company's operating subsidiaries.

Loss on disposal of investments and property and equipment. The $0.9 million loss on disposal of investments and property and equipment in 1995 related primarily to a write-off of the Company's remaining interest in North West Estates (Holdings) Limited, a discontinued real estate development company based in the United Kingdom.

Income taxes. Income taxes of $3.7 million in 1996, compared with $1.5 million in 1995 and relate substantially to current income taxes in the Company's Russian and Kazakh businesses. The higher charge in 1996 reflects the improved profitability of these subsidiaries.

Minority interest. Minority interest of $2.5 million in 1996 compared with $0.6 million in 1995 and relates to the minorities' share of net after-tax profit of PeterStar (40%) and ALTEL (50%) and Technocom (49.25%). Minority interest charges for the above subsidiaries are calculated after deducting any management fees payable to the Company. In 1996, the Company charged PeterStar and ALTEL $1.2 million and $0.9 million, respectively, in respect of such fees.

Net loss. Net loss of $12.5 million in 1996 compared to a net loss of $15.5 million in 1995.

PeterStar Company Limited

PeterStar had net income of $5.9 million and an operating profit of $8.0 million on operating revenues of $32.5 million for the year ended December 31, 1996, compared to a net loss of $1.0 million and an operating profit of $0.1 million on operating revenues of $14.9 million for the year ended December 31, 1995. EBITDA grew to $10.3 million for the year ended December 31, 1996, representing 31% of revenues, compared to EBITDA of $2.4 million, representing 16% of revenues, for the same period in 1995. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

PeterStar's cash flows from operating activities in 1996 totaled $7.7 million (1995 -- cash used in operating activities of $1.2 million). Major adjustments to PeterStar's $5.9 million net income (1995 -- $1.0 million loss) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $2.7 million (1995 -- $2.7 million), offset by a reduction in deferred revenues of $0.9 million (1996 -- an increase of $1.8 million). In 1995, cash flows from operating activities were also reduced by an increase in net operating assets and liabilities of $4.7 million.

Net cash used in investing activities of $6.3 million (1995 -- nil) related to the purchase of telecommunications switching and transmission equipment.

Cash used in financing activities of $0.9 million related to the repayment of related company advances. In 1995, cash provided by financing of $2.4 million related to inter-company advances.

Revenues. Call revenues for the year ended December 31, 1996 ($21.5 million) were 149% higher than the call revenues in the year ended December 31, 1995 ($8.6 million), reflecting increases in subscriber lines installed and transit traffic carried during the period. Total subscriber lines increased by 142%, to 52,005 at December 31, 1996 from 21,528 at December 31, 1995. Directly connected customers (i.e. business and residential lines) increased to 14,792 from 6,869, or 115%, over the same period. Lines to cellular operators increased by 153%, to 37,213 lines at December 31, 1996 from 14,659 lines at December 31, 1995.

Revenues from line rentals increased by 298%, reflecting the increase in installed lines, both fixed and cellular. Conversely, installation fees grew only at a rate of 29% over the year ended December 31, 1995,

reflecting a reduction in the level of fees implemented by PeterStar during 1996 and the fact that installation fees on cellular lines are substantially lower than on fixed lines.

Call revenues accounted for 66% of operating revenues for the year ended December 31, 1996 compared to 58% in 1995, installation fees accounted for 17% of operating revenues for the year ended December 31, 1996 compared to 28% in 1995 and line rentals accounted for 17% of operating revenues for the year ended December 31, 1996 compared to 9% in 1995. (In addition, in 1995 other income represented a further 5% of operating revenues.)

PeterStar experienced in 1996 a shift in its customer base, from foreign companies which used the higher priced international and long distance services to a predominantly Russian business and residential market for which local calling is the principal usage. Thus, 89% of PeterStar's total network traffic in 1996 was local compared with 84% in 1995, 7% of traffic was long distance in 1996 compared with 9% in 1995, and only 4% of traffic was international in 1996 compared with 7% in 1995. Accordingly, total revenue per line for the year ended December 31, 1996 was $885 as against $1,163 per line for 1995, while recurring revenue per line (calling charges and line rentals) were $736 per line as against $783 in 1995.

Gross profit. Gross profit increased 115% to $20.7 million for the year ended December 31, 1996 from $9.6 million in 1995. The gross margin of 64% was slightly lower than the margin of 65% in 1995, with lower tariffs on international traffic being offset by a reduction in the level of payments due to the carriers of this traffic and an increase in local traffic where PeterStar, under the terms of its arrangements with PTN, does not pay carrier charges.

Tariffs. During 1996 there was continuing pressure on international rates (part of a global trend in the telecommunications industry). PeterStar also reduced tariffs on certain other routes, in response to competition.

Operating expenses. Operating expenses increased 32% to $12.7 million for the year ended December 31, 1996 from $9.6 million in 1995. Operating expenses represented 39% of revenues in 1996 compared to 64% in 1995, as revenue generation grew faster than costs. In particular, staff costs and depreciation accounted for 30% and 21%, respectively , of total operating expenses for the year ended December 31, 1996, compared to 45% and 28%, respectively, for the same period in 1995. The slower growth in staff costs reflected the fact that personnel during 1996 only increased to 232 from 226 at the end of 1995, while depreciation was lower because all capital investments in PeterStar were made in the latter half of the year.

ALTEL

ALTEL recorded net income of $4.5 million and an operating profit of $6.0 million on operating revenues of $19.1 million for the year ended December 31, 1996, compared to a net loss of $0.2 million and an operating loss of $0.5 million on revenues of $9.3 million for the year ended December 31, 1995. EBITDA grew to $7.8 million for the year ended December 31, 1996, compared to EBITDA of $0.6 million for the same period in 1995. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

ALTEL's cash flows from operating activities in 1996 totaled $9.8 million (1995 -- cash used in operating activities of $0.7 million). Major adjustments to ALTEL's $4.5 million net income (1995 -- net loss of $0.2 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $2.1 million (1995 -- $1.1 million), offset by an increase in net operating assets and liabilities of $2.0 million (1995 -- $2.1 million).

Net cash used in investing activities of $8.2 million (1995 -- $12.3 million) related to the purchase of telecommunications equipment.

No cash was provided by or used in financing activities in 1996 compared to $13.9 million raised through the issuance of common stock by ALTEL in its share capital increase in 1995.

Revenues. Call revenues for the year ended December 31, 1996 ($11.8 million) were 137% higher than the call revenues for the same period in 1995 ($5.0 million), reflecting a substantial increase in subscribers during the period. Total subscribers increased from 2,882 at December 31, 1995 to 6,957 at December 31, 1996. Subscription fees increased by 166%, connection fees increased by 35% and equipment sales increased by 57% over 1995.

Call revenues accounted for 62% of operating revenue for the year ended December 31, 1996 compared to 53% in 1995, subscription fees accounted for 13% of total revenues for the year ended December 31, 1996 compared to 11% in 1995, connection fees accounted for 8% of total revenues for the year ended December 31, 1996 compared with 13% in 1995, while equipment sales represented 17% of revenues, as against 23% in 1995.

Local and incoming traffic during 1996 accounted for 76% of total traffic compared with 75% during 1995, mobile to mobile traffic accounted for 9% of total traffic compared with 6% in 1995, while long distance traffic in 1996 accounted for 6% of total traffic compared with 7% during 1995, and international traffic accounted for only 9% of total traffic compared with 12% during 1995. Total revenue per subscriber for the year ended December 31, 1996 was $3,886 against $5,513 per subscriber for 1995, while recurring revenue per subscriber also reduced from $3,490 in 1995 to $2,900 per subscriber in 1996 reflective of ALTEL's customer base shifting to Kazakh companies and individuals, who tended not to use its higher priced long distance and international services. The reductions in total per subscriber and recurring per line revenues also stemmed from the different calling patterns of these classes of customers who generally used as much as 40% less airtime than the foreign business customers.

Gross Profit. Gross profit increased 123% to $13.7 million for the year ended December 31, 1996 from $6.2 million in 1995. The gross margin of 72% was an improvement from the 66% margin realized in 1995, primarily due to the greater calling volumes and reduced dependence on revenues from equipment sales.

Operating Expenses. Operating expenses increased 15% to $7.7 million for the year ended December 31, 1996 from $6.7 million in 1995, reflecting the opening of an additional eight operating sites and the increase in staffing from 220 at the end of 1995 to 307 at December 31, 1996. Operating expenses represented 40% of revenues in 1996 compared to 72% in 1995, the difference representing both ALTEL's increasing realization of economies of scale and substantial growth in revenue generation. Depreciation accounted for 10% of total revenues for the year ended December 31, 1996, compared to 12% for the same period in 1995, in each case reflecting the considerable capital investment in the ALTEL network.

Technocom Limited

Technocom recorded a net loss of $0.2 million and an operating loss of $0.7 million on operating revenues of $4.4 million for the year ended December 31, 1996, compared to net income of $1.1 million and an operating profit $1.1 million on operating revenues of $4.4 million for the year ended December 31, 1995. EBITDA showed a loss of $0.6 million for the year ended December 31, 1996, compared to EBITDA of $1.1 million, for the same period in 1995. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

Technocom's cash flows from operating activities in 1996 totaled $12.7 million (1995 -- $10.3 million). Major adjustments to Technocom's $0.2 million net loss (1995 -- net income of $0.8 million) to arrive at cash provided by operating activities included a reduction in net operating assets and liabilities of $12.4 million (1995 -- $9.4 million).

Net cash used in investing activities totaled $25.3 million (1995 -- $5.5 million) related to the purchase of telecommunications switching and transmission equipment ($20.8 million), a $2.9 million investment in Technopark and an incremental investment in Teleport-TP of $2.1 million.

Cash provided by financing activities of $28.0 million (1995 -- $7.7 million) related to bank financing of $8.0 million and an issuance of preferred stock of $20.0 million. In 1995, financing was provided entirely by bank debt.

Interest income of $1.3 million was generated in 1996, compared with $0.9 million in 1995.

Effective December 31, 1996, Technocom acquired an additional interest in Teleport-TP which gave Technocom effective control over Teleport-TP. The following is a discussion of Teleport-TP's results of operations in 1996 when Teleport-TP was accounted for using the equity method.

Technocom's principal asset, Teleport-TP, in which it has a 49.3% interest as at December 31, 1996, recorded a net loss of $0.1 million and an operating profit of $0.1 million on revenues of $11.1 million for the year ended December 31, 1996, compared to a net loss of $0.1 million and an operating profit of $2.9 million on revenues of $7.1 million for the year ended December 31, 1995. EBITDA decreased to $1.4 million for the twelve months ended December 31, 1996, compared to EBITDA of $3.4 million for the same period in 1995. EBITDA should not be construed as an alternative to operating income (as determined in accordance with GAAP) as an indicator of an entity's operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity.

Teleport-TP's cash flows from operating activities in 1996 totaled $3.1 million (1995 -- $2.3 million). Major adjustments to Teleport-TP's net loss of $0.1 million (1995 -- $0.1 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization of $1.2 million (1995 -- $1.3 million) and a reduction in net operating assets and liabilities of $1.9 million (1995 -- $1.0 million).

Net cash used in investing activities totaled $0.5 million (1995 -- $1.3 million) relating to property and equipment and other asset additions.

Net cash used in financing activities, principally lease repayments, totaled $3.9 million in 1996 (1995 -- $0.8 million).

Revenues. In 1996, Teleport-TP generated revenues from three sources: international leased circuits, occasional TV broadcasting, and direct dial telephony services. Revenues for the year ended December 31, 1996 increased 56% to $11.1 million from $7.1 million for the year ended December 31, 1995, primarily reflecting the increase in international incoming traffic. Revenues from international circuits amounted to 42% of total revenue for the year ended December 31, 1996, as compared with 58% of total revenue in 1995. Revenues remained relatively stable because circuits are leased for a fixed sum for a term of years, and revenue growth can generally only be achieved by increasing the number of circuits leased. Revenues from the provision of international television broadcasting services amounted to $0.75 million or 6% of total revenues, down from $1.1 million (15% of total revenues) in 1995. Other international direct dial services generated $5.7 million or 52% of total Teleport-TP revenues.

Gross Profit. Teleport-TP gross profit decreased 8% to $4.6 million for the year ended December 31, 1996 from $5.0 million in 1995. The gross margin declined to 41% from 71% in 1995, primarily due to the greater dependence on calling revenues rather than the higher margin leased circuit revenues.

Operating Expenses. Operating expenses increased 52% to $4.4 million for the year ended December 31, 1996 from $2.9 million in 1995. General and administrative costs increased 63% to $2.6 million for the year ended December 31, 1996, compared with $1.6 million in 1995 reflective of increased personnel and other costs relating to the development of the long distance network. Depreciation of assets under capital lease was $1.0 million for the year ended December 31, 1996, compared with $0.6 million in 1995.

Interest. Lease interest expense decreased from $1.4 million in 1995 to $0.5 million in 1996 resulting from a reduction in rentals payable under the of equipment leases between Technocom and Teleport-TP.

Baltic Communications Limited

The Company acquired BCL on April 1, 1996, and therefore it has only been consolidated for the nine months ended December 31, 1996. There is no comparable information available for prior years. BCL recorded net income of $0.7 million and an operating profit of $0.7 million on revenues of $5.1 million for the nine months ended December 31, 1996. EBITDA of $1.2 million was also recorded for this period.

Revenues. Call revenues accounted for 81% of total revenues for the year ended December 31, 1996, primarily driven by international call minutes. Installation fees accounted for 7% of total revenues with line rentals accounting for the balance. The Company expects that BCL will continue to derive most of its revenues from directly connected business customers and acting as a transit gateway for other international operators.

Gross Profit. A gross profit of $3.0 million was generated for the nine months ended December 31, 1996, a gross margin of 59%. The Company expects this margin to reduce over time as a result of continuing pressure on international rates.

Operating Expenses. Operating expenses of $2.3 million were incurred for the nine months ended December 31, 1996, representing 46% of revenues. Staff costs and depreciation account for 45% and 22% respectively of total operating costs for the year ended December 31, 1996. The Company does not expect to see any significant change to the operating costs in BCL in 1997.

Yellow Pages

Yellow Pages recorded an operating profit of $33,000 on revenues of $0.8 million for the year ended December 31, 1996, compared to an operating loss of $29,000 on revenues of $0.5 million for the year ended December 31, 1995. Gross profit increased 70% to $0.5 million in 1996, from $0.3 million in 1995.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities in 1997 totaled $10.8 million (1996 -- $15.6 million). Major adjustments to the Company's net loss of $20.6 million (1996 -- $12.5 million) to arrive at cash provided by operating activities included the addback of depreciation and amortization charges of $19.5 million (1996 -- $10.8 million), accrued interest on the Company's Senior Notes of $14.3 million (1996 -- $7.3 million), minority interest of $9.4 million (1996 -- $2.5 million), deferred revenue of $2.1 million (1996 -- a reduction in deferred revenue of $0.9 million), share of loss of equity investments of $0.5 million (1996 -- $2.7 million), and a $1.0 million gain resulting from the sale of the Company's 10.4% interest in SPMMTS, offset by an increase in net operating assets and liabilities of $13.3 million (1996 -- a decrease in net operating assets and liabilities of $5.3 million).

Cash flows from investing activities in 1997 totaled $40.9 million (1996 -- $88.2 million). Major components included capital expenditures on telecommunications equipment within the Company's operating subsidiaries of $39.0 million and cash consideration of $25.6 million paid on the Company's acquisition of an additional 29.65% interest in Technocom offset by $17.2 million in proceeds on the SPMMTS sale and a $7.1 million escrow draw. In 1996, cash used in investing activities of $88.2 million consisted primarily of $43.2 million in capital expenditures on telecommunications equipment within the Company's operating subsidiaries, $41.0 million invested in escrow, and $7.5 million invested in additional ownership interests in Technopark and Teleport-TP, offset by a $3.9 million reduction in finance leases and advances.

Net cash provided by financing activities in 1997 totaled $6.7 million (1996 -- $97.6 million) which included $15.4 million raised from the issuance of the Company's Revolving Credit Notes issued in November 1997 in connection with the acquisition of an additional 29.65% interest in Technocom, and $1.7 million in proceeds from the issuance of common stock pursuant to the exercise of employee stock options, offset by the repayment of $10.9 million in short-term borrowings. In 1996, net cash provided by financing activities of $97.6 million consisted primarily of proceeds from the issuance of the Company's Senior Notes of $87.7 million, proceeds from the issuance of the Company's Convertible Notes of $26.5 million, offset by the repayment of $6.6 million in short-term borrowings and $9.2 million in deferred finance costs associated with the Senior and Convertible Note offerings.

As at December 31, 1997, the Company's consolidated cash position was $17.3 million compared to $40.7 million at the end of 1996.

The Company's emergence as a key player in the telecommunications markets of the C.I.S. has involved significant investment in telecommunications assets, licenses and property and equipment, which have been

financed through public and private placements of equity stock, a private placement of long-term debt instruments, shareholder loans, bank lines of credit and trade financing.

From time to time, the Company has had discussions with other telecommunications entities concerning the establishment of possible relationships or other transactions, including the taking of equity positions in the Company or its subsidiaries. While no agreement has materialized to date from any such discussions, the Company will continue to consider appropriate opportunities.

Effective February 28, 1997, the Company continued from Ontario into Delaware and, in connection therewith, moved its executive offices to the United States. The benefits of this continuance are anticipated to include improved access to the U.S. capital markets, reduced costs of financing and streamlining of management and operations. No material adverse tax charges resulted from this continuance.

PETERSTAR COMPANY LIMITED

By December 31, 1996, PeterStar had invested a total of $43.0 million in property and equipment, related primarily to the construction of its fiber optic ring around central St. Petersburg and the construction of a new digital exchange on Vassilievski Island. In 1997, PeterStar invested a further $26.2 million on new switching equipment increasing transmission capacity, and improving access to the long distance and international gateway between PeterStar and SPMMTS. PeterStar expects to fund its 1998 capital expenditures, estimated at approximately $25 million, from a combination of the Company's escrow funds, bank and supplier financing and its own internal cashflows.

ALTEL

Total investment in the cellular telecommunications network and related support infrastructure, such as customer service centers and administration facilities, totaled $28.9 million by December 1996.

ALTEL had capital expenditures of approximately $4.3 million in 1997 and anticipates an additional $8.2 million in 1998 in connection with further investment in cities where the network currently operates. This continued expansion in 1998 is expected to be entirely financed through ALTEL's own internally generated cashflows.

TECHNOCOM LIMITED

Technocom is pursuing a number of new telecommunications opportunities throughout the Russian Federation including its joint venture with Mosenergo, the Moscow city power utility, called MTR-Sviaz. Technocom has thus far invested approximately $5.2 million in MTR-Sviaz, principally through the acquisition of telecommunications equipment and numbering capacity which it then leased to MTR-Sviaz.

Technocom is also significantly involved in supporting the development by Teleport-TP of a satellite-based long distance network. During 1997, Technocom had capital expenditures of approximately $11.0 million related to the Teleport-TP project. Funding was provided, in part, from the $20.0 million contributed to Technocom by the Company out of the proceeds of the debt placement in June 1996. Additional funding of approximately $10 million will be required in 1998 and will be provided from a combination of sources including supplier financing, Technocom's own internally generated cashflows, and proceeds from the Company's escrow account.

PLD TELEKOM INC. -- CORPORATE

In connection with the continuance of the Company from Ontario to Delaware, the Company closed its executive offices in Toronto, Canada on February 27, 1997 and subsequently established executive offices in New York, USA in the second quarter of 1997. At the same time the Company reduced substantially the activities carried out by its wholly owned subsidiary, PLDMS, from its offices in London, England. The Company estimates that its total corporate overhead costs, including management salaries, professional costs, investor relations costs, regulatory fees and general office costs, will be $8.5 million in 1998 and expects to

fund these by a combination of cash on hand, and management fees and dividends to be paid by the Company's operating subsidiaries.

WORKING CAPITAL AND OTHER BALANCE SHEET ITEMS

At December 31, 1997, the Company had a working capital deficit (not including funds held in escrow) of $1.4 million compared to a working capital surplus of $14.2 million at December 31, 1996. The reduction in working capital was primarily the result of the Company's acquisition of the additional 29.65% interest in Technocom for gross consideration of $32.1 million. The acquisition, which increased the Company's ownership in Technocom to 80.4%, was financed with $12.32 million 12% Series A Senior Secured Revolving Credit Notes, $3.1 million 12% Series B Senior Revolving Credit Notes, both due in 1998, a $9.0 million draw from escrow of the proceeds of the Senior Notes originally issued in June 1996 and the issuance of 1,316,240 shares of Common Stock from treasury.

The Company placed privately a total of $149.5 million in Senior and Convertible Notes in June 1996. The proceeds, which amounted to $105.0 million (net of discounts, commissions and expenses), were used to pay off the Company's $22.5 million bank facility and to meet the Company's then outstanding $20.0 million commitment to Technocom, with the remainder being targeted for capital investments in the existing operating units, the development of additional products and services to be delivered over the Company's networks, and general corporate purposes. Funds targeted for capital investment or new products and services were required to be held in escrow.

The Senior Notes mature on June 1, 2004 with interest accreted at a rate of 14% per annum, compounding semi-annually, to an aggregate principal amount of $123 million by December 31, 1998. Cash interest does not accrue on the Senior Notes prior to December 31, 1998. Thereafter, interest will accrue at the rate of 14% per annum and will be payable in cash, semi-annually, on June 1 and December 1 of each year, commencing June 1, 1999.

The Convertible Notes, with a face value of $26.5 million, mature on June 1, 2006 with interest accruing at the rate of 9% per annum, payable in cash, semi-annually, on June 1 and December 1 of each year.

At December 31, 1997, the funds being held in escrow, which are not included in current assets, totaled $33.9 million compared to $41.0 million at the end of 1996. The Company's ability to access these funds freely is restricted since the funds in escrow can only be accessed after compliance with a number of conditions, including ensuring that the funds are only used for certain designated purposes and that certain other safeguards are in place. The Company believes that the funds in escrow should be sufficient to implement the business plans of its operating subsidiaries at least through 1998.

The indentures governing the release of the escrow funds have recently been amended to broaden the range of transactions for which the Company may use the escrow funds to make telecommunications assets available to its operating subsidiaries. In connection with this, $8 million was released from escrow in April 1998. The indentures have also been amended to revise certain covenants relating to corporate indebtedness, the guarantee of subsidiary debt, and the establishment of U.S. special purpose subsidiaries.

Under the terms of the Company's Senior Notes, the Company is required to raise $20 million in a common share financing by May 31, 1998. The Company did not complete such an offering by May 31, 1998, and as a result the rate at which the Senior Notes accrete increased to 14.5% until such time as an offering in completed. See "Business -- Recent Development."

The obligation to raise $20 million in equity is also a requirement under the terms of the Series A and B Senior Revolving Credit Notes issued in November 1997. Since the Company did not raise $20 million in equity prior to May 31, 1998, the interest rate on the 12% Series A and B Notes increased to 15% per annum for the period commencing on June 1, 1998 until maturity. Interest on both the Series A and B Notes is payable monthly in arrears. The Series A Notes mature on December 30, 1998 and the Series B Notes mature on September 30, 1998. The Company is also required, under the terms of the Revolving Credit Notes, to reduce the aggregate commitments of the Notes by $1 million on July 31, 1998 and on the last day of each succeeding month.

In connection with the issuance of the Series A and B Notes, the Company issued warrants to purchase a total of 423,000 shares of its Common Stock. In addition, the Company will be obligated to issue additional warrants to the holders of the Series A and B Notes should the Company not effect certain "targeted reductions in commitment" as follows:

<TABLE>
<CAPTION>

COMMITMENT REDUCTION DATE	TARGETED REDUCTION AMOUNT
<S>	<C>
July 31, 1998	$ 500,000
August 31, 1998	$ 500,000
September 30, 1998	$1,000,000
October 31, 1998	$1,500,000
November 30, 1998	$1,500,000

</TABLE>

The holders of the Series A Notes will receive 30,000 additional warrants to purchase shares of the Company on each date on which such reduction was not made. In the event that the Company has not made the "targeted reductions" scheduled for July 31, 1998 and August 31, 1998, the holders of the Series B Notes will receive 16,000 additional warrants to purchase shares of such common stock. The exercise price of the above warrants is $8.625 per share, except that, if the Series B Notes are not repaid in full by September 30, 1998, the exercise price of all warrants issued to the holders of the Series B Notes becomes $0.01 per share, and, if the Series A Notes are not repaid in full by December 31, 1998, the exercise price of all warrants issued to the holders of the Series A Notes also becomes $0.01. The total number of warrants which could be issued under these arrangements is 182,000. All of the warrants expire on December 31, 2008.

In addition, if the Series B Notes are not repaid in full on September 30, 1998, then, commencing September 30, 1998 and on the last day of each succeeding month until the Series B Notes have been repaid in full, the holders of the Series B Notes shall receive 32,000 additional warrants to purchase shares of the Company's stock at a price of $0.01 per share. If the Series A Notes are not repaid in full on December 31, 1998, then, commencing December 31, 1998 and on the last day of each succeeding month until the Series A Notes have been repaid in full, the holders of the Series A Notes shall receive 32,000 additional warrants to purchase shares of the Company's stock at a price of $0.01 per share. All such warrants, referred to as "Default Warrants" will have an expiration date ten years after their respective dates of issue.

The Company's consolidated balance sheet at December 31, 1997 reflects total assets of $335.6 million, as compared to $306.4 million at December 31, 1996. Total assets at December 31, 1997 were comprised of $52.1 million in current assets (including $17.3 million of cash and term deposits), $135.0 million in property and equipment, $78.8 million in telecommunications licenses related to PeterStar, ALTEL and Teleport-TP, escrow funds of $33.9 million, and other assets and the investments of $32.8 million including $11.1 million in goodwill relating to the Company's acquisition of an additional 29.65% interest in Technocom effective December 31, 1997. Long-term indebtedness of $133.5 million, as a percentage of total assets, was 39.8% at December 31, 1997. The corresponding figures at December 31, 1996 were $108.0 million and 35.2%.

Shareholders' equity of $127.1 million at December 31, 1997 compared with $138.0 million at the end of 1996 and consisted of $204.3 million in common stock and additional paid-in capital, offset by the Company's deficit of $77.1 million. Capital stock increased during the year as a result of the issuance of 1,316,240 common shares, at an effective price of $5.85 per share, as part consideration in respect of the Company's acquisition of the additional interest in Technocom and the exercise throughout the year of 312,166 share options and warrants at prices ranging between C$3.50 and US$6.50. The Company's ratio of long-term indebtedness to equity at December 31, 1997 was 104.9% compared with 78.3% at December 31, 1996.

Corporate overhead, estimated at $8.5 million for 1998, is expected to be funded by a combination of management fees earned at PeterStar and ALTEL, dividends to be declared at ALTEL over the course of 1998 and corporate cash on hand which totaled $5.5 million as of December 31, 1997. The Company's short-term funding requirements also include the $20.0 million equity required to be raised pursuant to the Senior and Revolving Credit Notes discussed above. It is expected that such a financing will be completed later this year with proceeds used to pay off the $15.4 million Revolving Credit Notes with the balance added to corporate working capital.

With the exception of certain planned capital expenditures in 1998, all of the Company's operating subsidiaries are expected to be self-financing. The Company anticipates its operating subsidiaries will spend approximately $44.2 million by the end of 1998 on telecommunications equipment to expand their networks including $10.0 million within Teleport-TP, $25.0 million within PeterStar, $8.2 million within ALTEL and $1.0 million within BCL. Funding for this capital expenditure program will come primarily from the Company's escrow funds which at year end totaled $33.9 million. The balance will be funded from internally generated funds at the subsidiary level.

In the long-term, all funding for capital expenditures within the Company's operating subsidiaries is expected to be provided by internally generated funds at the subsidiary level.

The Company is constantly assessing acquisition opportunities throughout the C.I.S. which would complement and add value to the Company's existing businesses. Should the Company enter into any agreements to acquire or invest in any additional companies operating in the C.I.S., additional debt and equity financing may be required.

In addition, to the extent that: (i) actual cash flows from operations are below the Company's estimates as a result of lower than expected revenues per line or higher operating costs; or (ii) development costs of the build-out of the PeterStar, ALTEL and Technocom/Teleport-TP networks exceed current estimates, the Company may be required to seek additional debt or equity financing beyond that required above.

The Company's future cash flows may be adversely affected by the continued volatility in the Russian currency, which may adversely affect the Russian economy. See "Business -- Country Risks -- Economic Risks -- Recent Financial Turmoil." To date, this volatility has not had a material impact on the Company's ability to generate revenues and profits given the fundamental need for quality telecommunications products and services in those markets. However, the Company is unable to assess to what extent the problems affecting the Russian currency, and the effects this may have on the Russian economy, will affect the Company's operating businesses.

Accordingly, there can be no assurance that the Company's operating businesses may not be adversely affected by these recent developments. Management of the Company believes that, should additional external financing be required for any of the above reasons, such financing will generally be available to the Company from both the private and public equity and debt markets. It is further believed that such financing would be available at a lower cost than historically experienced by the Company, in part, if the proposed transaction whereby News America, a Company with assets in excess of $32.7 billion as of December 31, 1997, would acquire a 38% interest in the Company, is concluded. See "Business -- Recent Developments -- Transactions with Cable & Wireless and News."

At present, it is not unknown how the proposed investment by News America, if concluded, will affect the Company's current expansion and investment plans. However, the Company does not believe that News America's objectives concerning the development of PLD's businesses will differ materially from those of current management.

YEAR 2000 ISSUE

The Year 2000 issue exists because many computer systems and applications, particularly older systems and applications, use a two-digit, rather than a four-digit, date field to designate a particular year. As a result, with the century change, date-sensitive systems may recognize dates in the twenty-first century (i.e., after 2000) as dates in the twentieth century (i.e., the corresponding year commencing with the prefix 19--). Equally, such systems may not recognize dates in the twenty-first century at all. All of this could lead to system failures or miscalculations which could lead to disruption of operations such as data being lost, an inability to process transactions, incorrect data being generated and critical deadlines being overlooked. The impact of these disruptions could be significant.

The Company has addressed the Year 2000 issue in the following ways.

First, the Company has contacted, and has required all of its operating businesses to contact the manufacturers of equipment and producers of software which they use in their businesses (or review "websites" or other materials published by such parties relating to such equipment or software). Such survey has indicated that, except in a few instances, all such equipment and software is Year 2000 compliant. Where possible, steps are being taken to upgrade or replace equipment which is not Year 2000 compliant. While there can be no assurance that disruptions will not occur, the Company believes, based on this survey and the fact that much of the equipment and software on which its businesses are for the most part of recent vintage, that it should not encounter material problems in this particular area.

While it does not appear that any of the parties from whom the Company or any of its operating businesses have obtained goods or services in the past have provided specific undertakings regarding Year 2000 compliance, and there is some doubt whether existing warranties or other undertakings will in fact be construed to cover Year 2000 compliance, starting in January 1998, all operating businesses are also being required to use their best efforts to obtain specific warranties of Year 2000 compliance from parties with which they contract for products or services thereafter.

Additionally, such operating businesses have been required to review the terms under which they have heretofore supplied products and/or services to third parties. No case has been identified in which any operating business has specifically guaranteed Year 2000 compliance, and the Company has instituted a policy regarding the giving of such guarantees in the future in order to control and limit possible exposure thereunder. Further, since none of the operating businesses manufacture equipment or produce proprietary software for customers other than in exceptional cases, virtually all such transactions involve the re-sale or assignment of products and services supplied by others. Accordingly, the Company believes that, to the extent that such products and services are either warranted or shown to be Year 2000 compliant, its own exposure is commensurately reduced.

The Company has investigated the possibility of obtaining insurance against liability arising out of claims that products or services supplied are not Year 2000 compliant, but has determined that such insurance is not obtainable upon terms which are sufficiently comprehensive and/or is only obtainable upon terms which are uneconomical given the level of perceived risk, and accordingly has elected not to pursue such insurance.

Based on all of the foregoing, the Company believes that it does not have any material exposure to claims that the products or services it supplies are not Year 2000 compliant, that the cost of ensuring that equipment and software used in its operations and the operations of its operating businesses is likely to be immaterial, and that the possible disruptions to all such operations arising from Year 2000 problems is likely to be relatively minimal.

TAXATION

The Company and its subsidiaries are subject to a number of taxes in different jurisdictions. The most significant taxes affecting the Company and its subsidiaries are likely to be taxes in Russia and Kazakhstan (including withholding taxes) and income taxes payable by the Company in the United States. Withholding taxes could apply to distributions by the Company's operating businesses in Russia and Kazakhstan and to distributions by intermediate level companies in jurisdictions outside Russia, Kazakhstan, Canada and the United States. The Company has attempted to mitigate the potential for withholding tax liabilities by structuring its interests through a Cypriot holding company, thereby taking advantage of the double taxation treaty between the Russian

Federation and Cyprus. As a result of the Continuance and its ability to take advantage of the double taxation treaties between the United States and the Russian Federation and Kazakhstan, respectively, the Company may elect to hold its interests through one or more Delaware holding companies. Notwithstanding this, obtaining the benefits of applicable tax treaties can be extremely difficult due to the documentary and other requirements imposed by the Russian and Kazakh authorities. For example, the Kazakh tax authorities require that an exemption application be submitted in respect of every payment made, while at the same time requiring non-standard certifications from the home country taxing authority. In addition, a recent instruction issued by the Russian State Tax Service mandates full withholding regardless of any treaty and requires the recipient to seek to obtain a refund for withholding in excess of treaty amounts.

The need to comply with these provisions may negate or impair tax planning initiatives undertaken by the Company to reduce its and its subsidiaries' overall tax obligations.

In general, the Company's Russian and Kazakh operating businesses are faced with a wide variety of taxes, including property taxes, advertising taxes, road taxes, housing taxes, transport taxes and education taxes. In addition, PeterStar, Technocom and ALTEL are subject to corporate profits taxes of 34%, 35% and 30%, respectively. The tax systems in Russia and Kazakhstan have changed rapidly in recent years and may undergo additional changes, which may have a material adverse effect on the Company.

Technocom established a representative office in Moscow in October 1995 and registered this office with the relevant Russian tax authorities. This resulted in Technocom becoming subject to profits and other Russian taxes as of such date. Inasmuch as Technocom operated to some extent in the Russian Federation prior to this date, without clarifying its tax status with any Russian taxing authority, it is also possible that tax officials may take the position that Technocom may be subject to VAT and/or profits and other Russian taxes with respect to the period before October 1995.

At December 31, 1997, the Company had operating loss carryforwards for U.S. federal income tax purposes of approximately $26.3 million. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable future income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in making these assessments.

At December 31, 1996, the Company had operating loss carryforwards for Canadian income tax purposes of approximately $36.0 million and allowable capital loss carryforwards of approximately $19.0 million. Upon the Company's emigration to the United States in February 1997, these losses do not carryover for U.S. tax purposes.

CURRENCY CONTROLS

THE RUSSIAN FEDERATION

Exchange Controls. The Russian Federation currently has in place relatively liberal policies regarding hard currency transfers by Russian residents to non-residents. Payments in U.S. Dollars may generally be made freely between Russian residents (which generally includes all Russian companies and citizens resident in Russia) and non-residents (which generally includes non-Russian companies even if they have a representative office or other permanent establishment in Russia) for current currency transactions (generally those where payment is made within 180 days of the provision of goods and services). Payments in U.S. Dollars classified as movements of capital (which generally includes direct investments, portfolio investments, acquisition of real estate and payments made pursuant to loan agreements, or agreements for the lease or sale of goods and services having terms of over 180 days) are subject to licensing by the Central Bank. The Company believes that all of its operating subsidiaries hold, or have applied for and expect eventually to receive, all required Central Bank licenses. The need to apply for Central Bank licenses can be burdensome, because of the substantial documentary and other requirements involved and because of the considerable length of time involved, often running into several months. Failure to apply for the appropriate licenses, or to receive the outstanding licenses could result in fines and penalties. See

"Business -- Risk Factors -- Risks Involving the Company -- Currency Controls." Finally, banks in Russia require that certain hard currency transfers be accompanied by a "transaction passport" setting forth that all required tax and regulatory requirements have been followed.

Payments between Russian residents must generally be made in Roubles. Russian companies may exchange Roubles for U.S. Dollars if they can document U.S. Dollar-denominated liabilities that are due and payable within specified periods. Russian companies are required to convert 50% of most hard currency earnings into Roubles, but (as noted in the preceding sentence) may be able to reconvert such amounts into hard currency if they can document hard currency denominated liabilities that are due and payable within a

specified period. Roubles may not be lawfully exported from, or converted into, other currencies outside of Russia.

Availability of Hard Currency for Conversion Purposes. The ability of foreign investors to convert Roubles into hard currency is also subject to the availability of hard currency in the Russian currency markets. Although there is an existing market within Russia for the conversion of Roubles into other currencies, including the interbank currency exchange, over-the-counter and currency futures markets, the development of this market is uncertain.

Exchange Rates. Significant fluctuations in the value of the Rouble against the U.S. Dollar and other hard currencies can also have a material impact on the value of a foreign investor's Rouble dividend income or Rouble proceeds from the sale of Rouble denominated securities. In recent years, the Rouble has experienced a significant depreciation relative to the U.S. Dollar and other hard currencies, although during 1996 and 1997 it achieved relative stability vis-a-vis the U.S. Dollar and other hard currencies.

Repatriation. Although Russian law governing foreign investment guarantees foreign investors the right to repatriate their earnings from Russian investments, the Russian exchange control regime, including licensing requirements administered by the Central Bank, may materially affect their ability to do so and may increase the cost of such repatriation. See "Business -- Risk Factors -- Risks Involving the Company -- Currency Controls."

Impact upon the Company. In general, the impact on the Company of the Russian exchange controls regime has not been particularly adverse. While no dividends have been paid by any of the operating subsidiaries in Russia, payments of interest and management fees have been made relatively freely. The need to apply for Central Bank licenses for certain types of transactions, and the delays in the receipt of such licenses, has delayed the completion of certain transactions. Additionally, the process of applying for such licenses has been time consuming and expensive. Finally, delays in the receipt of licenses has delayed the time at which the Company can start to realize cashflows from the sale or leasing of assets to its operating subsidiaries in Russia. See "Business -- Risk Factors -- Risks Involving the Company -- Currency Controls -- Currency Licensing Requirements."

KAZAKHSTAN

Exchange Controls. Kazakhstan currently has in place relatively liberal policies governing hard currency transfers by Kazakh residents to non-residents. Residents (which generally includes all Kazakh companies and citizens resident in Kazakhstan) can use hard currency to pay non-residents (which generally includes all non-Kazakh companies and their branch offices and representative offices in Kazakhstan) for current currency transactions (generally those where payment is made within 180 days of the provision of goods or services). Payments in U.S. Dollars classified as movements of capital (which generally includes direct investments, portfolio investments, payments with respect to real estate and payments made after 180 days for goods and services) are subject to licensing by the National Bank of Kazakhstan.

Payments between Kazakh residents must generally be made in Tenge. Kazakh companies may exchange Tenge for U.S. Dollars if they can document U.S. Dollar-denominated liabilities that are due and payable within specified periods. The National Bank of Kazakhstan does not currently require the conversion of hard currency earnings into Tenge. Tenge may not be lawfully exported from Kazakhstan or converted into other currencies outside of Kazakhstan.

Availability of Hard Currency for Conversion Purposes. The ability of foreign investors to convert Tenge into hard currency is also subject to the availability of hard currency in the Kazakh currency markets. Although there is an existing market within Kazakhstan for the conversion of Tenge into other currencies, including the interbank currency exchange and the over-the-counter markets, the development of this market is uncertain.

Exchange Rates. Significant fluctuations in the value of the Tenge against the U.S. Dollar and other hard currencies can also have a material impact on the value of a foreign investor's Tenge dividend income or

Tenge proceeds for the sale of Tenge-denominated securities. Since January 1995, the Tenge has experienced relative stability against the U.S. Dollar and other hard currencies.

Repatriation. Kazakhstan's foreign investment legislation provides that earnings from investments made by foreign investors may be freely repatriated provided that all applicable fees and taxes have been paid. However, the exchange control regime in Kazakhstan may materially affect an investor's ability to do so and may increase the cost of such repatriation. See "Business -- Risk Factors -- Risks Involving the Company -- Currency Controls."

Impact upon the Company. The Company has not experienced particular difficulties with the Kazakh exchange control regime. Both dividends and management fees have been received from ALTEL during 1997. While there are paperwork requirements in relation to hard currency transfers, these have not delayed the making of such transfers.

INFLATION

Since the break-up of the Soviet Union, both the Russian and Kazakh economies have been characterized by high rates of inflation. Although in 1996 and 1997, inflation in both countries decreased substantially, there is no assurance that these trends will continue. In recent years, the devaluation of the Rouble and Tenge has not kept pace with inflation. To the extent that the Company's costs are denominated in the Rouble or the Tenge and devaluation of these currencies does not fully offset inflation, the Company's local currency costs will increase in hard currency terms. If the Company's operating businesses are unable to increase prices in line with inflation, due to competitive pressures or otherwise, the results of operations of the Company's operating businesses may be adversely affected.

EXCHANGE RATES

The following tables summarize the Rouble-U.S. Dollar and Tenge-U.S. Dollar exchange rates since January 1994 in the case of the Rouble and since October 1994 in the case of the Tenge:

ROUBLE/U.S. DOLLAR EXCHANGE RATES(1)

MONTH	1994	1995	1996	1997
January	1,247	3,550	4,640	5,636
February	1,560	4,059	4,736	5,676
March	1,688	4,400	4,830	5,726
April	1,761	4,008	4,940	5,760
May	1,841	5,130	5,031	5,773
June	1,918	4,958	5,105	5,771
July	1,988	4,539	5,189	5,798
August	2,060	4,405	5,352	5,824
September	2,204	4,445	5,396	5,861
October	2,643	4,495	5,455	5,887
November	3,085	4,509	5,511	5,917
December	3,249	4,578	5,550	5,997

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(1) Spot rate on the last business day of each month.

TENGE/U.S. DOLLAR EXCHANGE RATES(1)

MONTH	1994	1995	1996	1997
January		55.6	65.5	75.8
February		60.1	65.3	75.5
March		60.8	66.0	75.3
April		63.5	67.1	75.4
May		64.3	66.9	75.5
June		64.3	67.2	75.6
July		63.2	67.5	75.5
August		59.0	68.1	75.6
September		60.9	68.8	75.6
October	50.0	61.7	69.5	75.6
November	50.0	63.9	70.4	75.6
December	50.0	59.6	73.1	76.2

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(1) Spot rate on the last business day of each month.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and its subsidiaries and supplementary data required by this item are attached to this report beginning on page F-1. In addition, the financial statements of NWE Capital (Cyprus) Ltd., Technocom Limited and Wireless Technology Corporations Limited, as pledgees under the terms of the Senior Notes and the Convertible Notes, are attached to this report beginning on page F-38.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth certain information with respect to the executive officers and directors of the Company:

NAME OF DIRECTOR	AGE	POSITION
James R.S. Hatt	38	Chairman, President and Chief Executive Officer
Dr. Boris Antoniuk	49	Director and Group Director -- CIS and Russia
Edward Charles Dilley	59	Director
Simon Edwards	35	Director, Senior Vice President and Chief Financial Officer
Gordon Humphrey	57	Director
Gennady Kudriavtsev	57	Director
Dr. Vladimir Kvint	48	Director
Julian Rawle	36	Director
Robert Smith	60	Director
David M. Stovel	49	Director
John Davies	51	Deputy Chief Executive Officer and Chief Operating Officer
Alan G. Brooks(1)	56	Special Projects Director
Conor Carroll	31	Vice President, Operations

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(1) Mr. Brooks was an executive officer of the Company, in his role as Chief

Operating Officer, through January 31, 1998. It is not expected that he will be considered an executive officer for the remainder of the 1998 fiscal year.

Set forth below is selected biographical information for the executive officers and directors of the Company.

James R.S. Hatt has served as a Director of the Company since June 1994, as Chief Executive Officer since January 1995 and as Chairman since June 1995. His career has been exclusively devoted to building telecommunications businesses in developed and emerging companies around the world. Prior to joining the Company, Mr. Hatt worked in a number of senior positions at C&W, involved extensively in privatizations and new business development. From 1988 to January 1995, he was Group Manager for Business Development, Europe, where he was responsible for corporate development activities in Europe, the Middle East, India, the CIS, the Baltic States and Scandinavia.

Dr. Boris Antoniuk has served as a Director of the Company since June 1997 and as Group Director -- CIS and Russia of the Company since November 1997. He has many years' experience in the telecommunications field, having worked for various government agencies and trade delegations in the Soviet Union and Russia since 1974, including six years as head of the U.S. department of the USSR State Committee for Science and Technology in Moscow and three years as economic adviser to a deputy Prime Minister of the USSR Council of Ministers. Since the economic liberalization of Russia, he has been involved in a number of commercial ventures, including the publishing of several Russian computer magazines. Dr. Antoniuk has served as general manager of Technocom and Chairman and Chief Executive Officer of Teleport-TP since 1992. Both Technocom and Teleport-TP are operating subsidiaries of the Company. He also holds the post of Deputy Chairman of Technopark, a subsidiary of Technocom.

Edward Charles Dilley has served as a Director of the Company since June 1997. Since January 1996, Mr. Dilley has been Director of Corporate Finance for Cable & Wireless. Prior to joining Cable & Wireless, he was employed by Barclays Bank for 40 years, including in several executive positions. From 1988 to December 1995, he was Business Centre Director for Barclays Bank.

Simon Edwards has served as Director of the Company since June 1997, as Chief Financial Officer of the Company since October 1995 and Senior Vice President and Treasurer since February 1997. He was previously Director of Finance for Cable & Wireless Europe from October 1994 to September 1995. From July 1992 to October 1994, he held a number of corporate finance positions within Cable & Wireless. From July 1988 to June 1992 he was a management consultant with Arthur Andersen.

Senator Gordon Humphrey has served as a Director of the Company since June 1997. He served two terms as United States Senator from the State of New Hampshire, from 1979 to 1991, where he was a member of the Committee on Foreign Relations, the Armed Services Committee and the Judiciary Committee. Upon his return to the private sector in 1991, Senator Humphrey founded the Humphrey Group, Inc., which serves clients in international commerce, with primary focus on Russia and the CIS.

Gennady Kudriavtsev has served as a Director of the Company since June 1997. He has many years of telecommunications experience in Russia and the former Soviet Union. He has served as Director General of Intersputnik, a Russian state-owned satellite operator since 1992. Prior to the breakup of the former Soviet Union, he served as Minister of Communications of the USSR.

Dr. Vladimir Kvint has served as a Director of the Company since June 1997. He is currently Professor, Management Systems and International Business at Fordham University Graduate School of Business and Adjunct Professor of Management Strategy at the Stern School of Business, New York University. Dr. Kvint is a Full Lifetime Member of the Russian Academy of Natural Sciences. From 1989 until 1995 he was a consultant to Cable & Wireless Executive Chairman, Lord David Young. From 1992 to 1997, he was Director, Emerging Markets for Arthur Andersen LLP. He has published numerous articles and books on emerging Eastern European markets.

Julian Rawle has served as a Director of the Company since March 1998. He joined Cable & Wireless in April 1995 and is currently the Representative Director of the Cable & Wireless CIS office in Moscow. Prior to joining C&W, Mr. Rawle worked for several international petroleum companies in Russia and Kazakhstan. From 1990 to 1993, he was Business Development Manager -- BP

International Lubricants Marketing in Moscow, where he was responsible for setting up BP's first sales office in the former Soviet Union. From 1993 to 1995, he was a Business Development Consultant for Chevron involved in business planning and other projects in Russia and Kazakhstan.

Robert Smith has served as a Director of the Company since September 1993. He has been President of Newmark Capital Limited ("Newmark"), a private investment and consulting company since 1992. From 1990 to 1992, he was Chief Executive Officer of the First Hungarian Investment Advisory RT. He also serves as Chairman of ALTEL ("ALTEL"), an operating subsidiary of the Company and sits on the boards of other companies including Rogers Cantel Mobile Communications Inc.

David Stovel has served as a Director of the Company since February 1993. He has been President of Brawley Cathers Limited, an investment bank headquartered in Toronto, Canada since 1987.

John Davies has served as Deputy Chief Executive Officer of the Company since June 1997 and as Chief Operating Officer of the Company since February 1, 1998. Previously, from 1995 to 1997, he was a director and partner in Beldi & Cie SA providing services to multinational companies and entrepreneurs. From 1987 to 1995, he was one of the founding directors of Financiere Indosuez, a subsidiary of the Suez Group, which was active in cross-border mergers and acquisitions and corporate finance. Prior to that, Mr. Davies served as a business consultant and a vice president for international finance of a privately-owned shipping and commodity trading group.

Alan Brooks has served as Special Projects Director of the Company since February 1, 1998. He served as Chief Operating Officer of the Company from January 1996 through January 1998 and Senior Vice President from February 1997 through January 1998. Previously, he served in a number of senior management positions with Cable & Wireless for over 30 years, most recently in Sweden, Japan, Papua New Guinea and the Middle East. Mr. Brooks was on secondment to the Company from Cable & Wireless from March 1995 until December 1995.

Conor Carroll has served as Vice President, Operations of the Company since February 1997. From January 1995 until February 1997 he was Vice President, Business Development of the Company. From 1991 to December 1994, Mr. Carroll was Business Development Manager for Cable & Wireless Europe.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires that directors and certain officers of the Company, and persons who own more than ten percent of the Company's Common Stock, file with the Securities and Exchange Commission (the "SEC") initial reports of ownership and reports of changes of ownership of such Common Stock. Based solely on its review of the copies of such reports received by the Company and written representations from certain reporting persons that no Forms 5 were required for those persons, the Company believes that during the year ended December 31, 1997 all filing requirements applicable to its officers, directors and ten-percent stockholders were satisfied, with the exception of the Initial Statements of Beneficial Ownership on Form 3 for Messrs. Antoniuk, Kvint and Kudriavtsev, current directors of the Company. Each such director was elected as a director of the Company in June 1997 and was obligated to file Initial Statements of Beneficial Ownership within 10 days of their election. Due to an administrative oversight, these filings were not timely made, but were filed in February 1998 as soon as the oversight was discovered.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth for the years ended December 31, 1997, 1996 and 1995 certain compensation paid by the Company to its Chief Executive Officer and the four other most highly paid executive officers of the Company.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

	ANNUAL COMPENSATION			LONG TERM COMPENSATION
			OTHER ANNUAL	SECURITIES UNDERLYING

NAME AND PRINCIPAL POSITION	YEAR	SALARY(1)	BONUS	COMPENSATION(2)	OPTIONS
James R.S. Hatt	1997	$390,000	$117,000	$78,000	-0-
Chairman, President and Chief	1996	$290,000	$191,000	$58,000	250,000
Executive Officer	1995	$220,000	$ 75,000	$44,000	200,000
John Davies	1997	$175,000(3)	$ 52,500	$17,500	500,000
Deputy Chief Executive Officer and	1996	--	--	--	--
Chief Operating Officer	1995	--	--	--	--
Simon Edwards	1997	$325,000	$ 97,500	$65,000	-0-
Senior Vice President, Chief	1996	$225,000	$165,000	$45,000	200,000
Financial Officer and Treasurer	1995	$ 43,750	$ 15,000	$ 8,750	150,000
Conor Carroll	1997	$150,700	$ 45,210	$30,140	-0-
Vice President, Operations	1996	$150,700	$ 90,280	$30,140	150,000
	1995	$110,000	$ 14,300	$22,000	50,000
Robert Smith	1997	$100,000(4)	-0-	-0-	-0-
Chairman of ALTEL	1996	$145,833(4)	-0-	-0-	100,000
	1995	$200,000(4)	-0-	-0-	-0-
Alan G. Brooks	1997	$200,000	$ 60,000	-0-	150,000
Special Projects Director	1996	$149,500	$ 40,000	-0-	-0-
	1995	-0-	-0-	-0-	-0-

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(1) All amounts are stated in U.S. Dollars. Certain amounts were paid to Messrs. Hatt, Edwards, Carroll and Brooks in British Pounds and have been converted to U.S. Dollars at a conversion rate of $1.50/pound sterling 1.00.

(2) Other Annual Compensation consists of amounts paid in lieu of certain benefits.

(3) Mr. Davies' employment with the Company commenced on June 1, 1997 and this amount is the amount paid to him in salary during the period June 1 to December 31, 1997. His current base salary is $300,000 per annum.

(4) Amounts classified as "salary" were paid as a consulting fee to Newmark for the provision of Mr. Smith's services to ALTEL and the Company. See "Item 13 -- Certain Relationships and Related Transactions."

The following table summarizes stock options granted during 1997 to the persons named in the Summary Compensation Table.

OPTION GRANTS IN LAST FISCAL YEAR

NAME	OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN 1997	EXERCISE PRICE	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1) 5%	10%
James R. S. Hatt............	-0-	--	--	--	--	--
John Davies.................	500,000	37.0%	$5.25	6/23/07	$1,650,848	$4,183,574
Simon Edwards...............	-0-	--	--	--	--	--
Conor Carroll...............	-0-	--	--	--	--	--
Robert Smith................	-0-	--	--	--	--	--
Alan G. Brooks..............	150,000	11.1%	$6.00	4/27/02	$ 248,653	$ 549,459

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(1) Potential Realizable Values are based on an assumption that the stock price of the Common Stock starts equal to the exercise price shown for each particular option grant and appreciates at the annual rate shown (compounded annually) from the date of grant until the end of the term of the option. These amounts are reported net of the option exercise price, but before any taxes associated with exercise or subsequent sale of the underlying stock. The actual value, if any, an option holder may realize will be a function of

the extent to which the stock price exceeds the exercise price on the date the option is exercised. The actual value to be realized by the option holder may be greater or less than the values estimated in this table.

The following table summarizes option exercises during 1997 and the value of vested and unvested options for the persons named in the Summary Compensation Table at December 31, 1997. Year-end values are based upon a price of $5.375 per share, which was the closing market price of a share of the Company's Common Stock on the Nasdaq Stock Market on December 31, 1997.

AGGREGATED OPTION EXERCISES IN LAST YEAR AND YEAR-END OPTION VALUES

			NUMBER OF UNEXERCISED OPTIONS AT DECEMBER 31, 1997		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1997	
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
James R. S. Hatt......	90,000	$222,150	153,333	166,667	0	0
John Davies...........	-0-	--	166,666	333,334	31,250	104,167
Simon Edwards.........	90,000	$250,950	126,666	133,334	0	0
Conor Carroll.........	-0-	--	83,333	116,667	0	0
Robert Smith..........	10,000	$ 21,886	115,833	66,666	0	0
Alan G. Brooks........	-0-	--	150,000	-0-	0	--

The Company does not currently grant any long-term incentives, other than stock options, to its executives or other employees. Similarly, the Company does not sponsor any defined benefit or actuarial plans at this time.

EMPLOYMENT AGREEMENTS

Pursuant to employment agreements, dated as of January 1, 1995, with the Company and PLD Management Services Limited ("PLDMS"), James Hatt was employed (i) as Chief Executive Officer of the Company at an initial annual salary of $167,500 and (ii) as an Executive of PLDMS at an initial annual salary of pound sterling 35,000. During 1996, Mr. Hatt's annual salaries under these agreements were $237,500 and pound sterling 35,000, respectively. Effective as of August 1, 1997, and as a consequence of the Company moving its executive offices to the United States, the agreement with PLDMS was terminated, and the agreement with the Company was amended and restated so as, inter alia, to combine the salary and other compensation arrangements previously provided by the two separate agreements. Under the amended and restated agreement Mr. Hatt's annual salary was $390,000 for 1997. In addition to his salary, an amount equal to twenty percent of his then current salary amount is payable by the Company to Mr. Hatt annually in lieu of all pension and other benefits. The agreement may be terminated without cause by either party upon six months prior written notice or for cause as specified; provided, that if Mr. Hatt gives notice of termination of employment with the Company, the Company may, in its sole discretion, terminate employment immediately upon the payment of the lump sum of six months' gross salary. Mr. Hatt may also terminate his employment with the Company upon three months prior written notice upon a change in control of the Company, as defined in the Company's Equity Compensation Plan (a "Change of Control"). Upon termination without cause by the Company or upon termination by Mr. Hatt upon a Change of Control, Mr. Hatt is to receive as a termination fee an amount equal to two times his then current annual salary from the Company.

John Davies is employed as Deputy Chief Executive Officer pursuant to a letter agreement intended to be effective as June 1, 1997, at an initial annual salary of $300,000. In addition, he receives an amount equal to ten percent of his then current salary amount annually until such time as the Company is able to put in place for his benefit a full range of fringe benefits, including pension arrangements. The agreement may be terminated without cause by either party upon six months prior written notice or for cause as specified. Mr. Davies may also terminate his employment with the Company upon three months prior written notice upon a Change of Control. Upon termination without cause by the Company or upon termination by Mr. Davies upon a Change of Control, Mr. Davies is to receive as a termination fee an amount equal to two times his then current annual salary from the Company.

Pursuant to employment agreements, dated as of October 1, 1995, with the

Company and PLDMS, Simon Edwards was employed (i) as Chief Financial Officer of the Company at an initial annual salary of $107,500 and (ii) as an Executive of PLDMS at an initial annual salary of pound sterling 45,000. During 1996, Mr. Edwards' annual salaries under these agreements were $157,500 and pound sterling 45,000, respectively. As with Mr. Hatt, effective as of July 1, 1997 the agreement with PLDMS was terminated and the agreement with the Company was amended and restated. Under the amended and restated agreement Mr. Edwards' annual salary for 1997 was $325,000. In addition to his salary, an amount equal to twenty percent of his then current salary amount is payable by the Company to Mr. Edwards annually in lieu of all pension and other benefits. The agreement may be terminated without cause by either party upon six months prior written notice or for cause as specified; provided, that if Mr. Edwards gives notice of termination of employment with the Company, the Company may, in its sole discretion, terminate employment immediately upon the payment of the lump sum of six months' gross salary. Mr. Edwards may also terminate his employment with the Company upon three months prior written notice upon a Change in Control of the Company. Upon termination without cause by the Company or upon termination by Mr. Edwards upon a Change of Control, Mr. Edwards is to receive as a termination fee an amount equal to two times his then current annual salary from the Company.

Pursuant to an employment agreement, dated August 6, 1996, with PLDMS, Mr. Brooks was employed as Chief Operating Officer as of July 1, 1996 at an initial annual salary of $200,000 and for an initial term of 18 months. During 1997, Mr. Brooks' annual salary under this agreement was $200,000. Effective July 28, 1997, the termination date for the agreement was extended to September 30, 1997, and that termination date has been extended orally. Since February 1, 1998, Mr. Brooks has been Special Projects Director of the Company.

Pursuant to employment agreements, dated as of January 1, 1995, with the Company and PLDMS, Mr. Carroll was employed (i) as Vice President, Business Development of the Company at an initial annual salary of $55,000 and (ii) as an Executive of PLDMS at an initial annual salary of pound sterling 36,000. During 1996, Mr. Carroll's annual salaries under these agreements were $75,000 and pound sterling 50,000, respectively. As of February 1997, Mr. Carroll became Vice President, Operations of the Company. The agreement with the Company was amended and restated effective as of August 1, 1997 to incorporate various changes made in the agreements with Messrs. Hatt and Edwards, but without changing the overall compensation arrangements. The agreement may be terminated without cause by either party upon six months prior written notice or for cause as specified; provided, that if Mr. Carroll gives notice of termination of employment with the Company, the Company may, in its sole discretion, terminate employment immediately upon the payment of the lump sum of six months' gross salary. Mr. Carroll may also terminate his employment with the Company upon three months prior written notice upon a Change in Control of the Company. The agreement with PLDMS may be terminated without cause by either party upon thirty days prior written notice or for cause as specified. Upon termination without cause by the Company or upon termination by Mr. Carroll upon a Change of Control, Mr. Carroll is to receive as a termination fee a specific multiple of his then annual current salary from the Company, as determined from time to time by the board of directors. As of December 31, 1997, the applicable multiple for Mr. Carroll is 4.000. In addition to his salary from the Company and PLDMS, an amount equal to twenty percent of his then current salary amount is payable by the Company to Mr. Carroll annually in lieu of all pension and other benefits. No termination payment is payable to Mr. Carroll by PLDMS.

COMPENSATION OF DIRECTORS

Non-employee directors are paid an annual directors' fees of $15,000 and fees of $750 for each board meeting and $250 for each committee meeting attended, and are reimbursed for expenses incurred in connection with attendance at Board of Directors and Committee meetings. In addition, the chairman of each Committee receives an additional annual fee of $5,000. Messrs. Dilley and Timothy Lowry (the other representative of Navona during 1997) declined all fees during 1997. All directors are eligible to participate in the Company's 1997 Equity Compensation Plan (the "Plan"). However, non-employee directors are only permitted to receive non-qualified stock options under the Plan, pursuant to arrangements under which, subject to approval by the Board of Directors, such individuals are automatically awarded 10,000 options upon becoming a director and a further 5,000 options annually, thereafter. Messrs. Dilley and Lowry declined all such options during 1997.

See "Item 13 -- Certain Relationships and Related Transactions" for a description of (i) the Company's consulting agreement with Newmark for the provision of services by Robert Smith during 1997, (ii) a description of certain arrangements between the Company and Cable & Wireless and (iii) a description of certain arrangements between the Company, Technocom and Dr. Antoniuk.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Hatt was on the board of directors of ALTEL during 1997. Until February 1997, Robert Smith, the Chairman of ALTEL, was a member of the Compensation Committee.

The following Compensation Committee Report and the Comparative Stock Performance Graph shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K, as amended, into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Board of Directors created the Compensation Committee (the "Committee") to have the responsibility for implementing and administrating the Company's compensation policies and programs for its executive officers.

The Compensation Committee is responsible for setting the base salaries and the total compensation levels of the Chief Executive Officer (the "CEO") and the other executive officers of the Company having total annual compensation of over $200,000 and for determining which executives, including the CEO, will be granted stock options and the size of such grants. Mr. Hatt does not participate in the approval of his compensation.

Prior to the continuance of the Company from Ontario to Delaware in February 1997, the Compensation Committee did not have the authority to approve stock option grants, which were approved by the entire Board of Directors. Robert Smith served on the Compensation Committee during 1996, but ceased to be a member of the committee in February 1997. David L. Heavenridge served on the Committee during his tenure as a director of the Company during 1997 and, upon his resignation as a director in October 1997, was replaced by Vladimir Kvint.

Compensation Policies

The Company's compensation policies for executive officers are designed to (a) provide competitive compensation packages that will attract and retain superior executive talent, (b) link a significant portion of compensation to financial results, so as to reward successful performance, and (c) provide long-term equity compensation, to further align the interests of executive officers with those of stockholders and further reward successful performance. The principal components of the Company's executive officer compensation program are base salary, annual cash incentive awards, and grants of stock options. Pursuant to the terms of the Plan, the Company's executive officer compensation program also includes grants of stock appreciation rights, restricted stock and performance units.

Base salary levels for the Company's executive officers are reviewed on an annual basis by the Committee and are set generally to be competitive with other companies of comparable size and geographic location, taking into consideration the positions' complexity, responsibility, need for special expertise and personal hardships due to extensive international travel. Individual salaries also take into account individual experience and performance.

The bonus program in 1997 was based on the performance of the Company's principal operating subsidiaries during 1997. Bonuses earned for 1997 consisted of 30% of base salary for each of Messrs. Hatt, Edwards, Davies, Brooks and Carroll.

Long-Term Compensation

The Committee periodically considers the desirability of granting stock options to officers and other employees of the Company. Prior to the Company's continuance as a Delaware corporation in February 1997, stock option grants were subject to approval by the entire Board of Directors. After February 1997, the Committee was granted the authority to make such grants. The objective of these grants are to align senior management and stockholder long-term interest by creating a strong and direct link between the executive's accumulation of wealth and stockholder return and to enable executives to develop and maintain a significant, long-term stock ownership position in the Company's Common Stock. Individual grants of stock options are based upon individual performance. The Committee believes that its past grants of stock options have successfully focused the Company's executive officers and other members of senior management on building stockholder value.

Compensation of Chief Executive Officer

In determining the compensation of Mr. Hatt, the Committee has taken into consideration his experience, dedication, performance and contribution to the growth of the Company and its operating subsidiaries over the past two years, the personal hardships resulting from extensive international travel, including long periods in the countries of the former Soviet Union, and Mr. Hatt's overall management strengths and business acumen.

Presented by the Compensation Committee:

David M. Stovel
Edward Charles Dilley
Dr. Vladimir Kvint

COMPARATIVE STOCK PERFORMANCE GRAPH

The graph below compares the cumulative total stockholder return on the Company's Common Stock with the cumulative total stockholder return of (i) the Nasdaq Stock Market Composite Index (the "Nasdaq Index"), and (ii) the Nasdaq Telecommunications Index, assuming an investment of $100 on February 18, 1993 (the date the Company's Common Shares were first traded in the United States on the Nasdaq Stock Market) in each of the Common Stock of the Company, the stocks comprising the Nasdaq Index and the stocks comprising the Nasdaq Telecommunications Index, and further assuming reinvestment of dividends, if any.

Measurement Period (Fiscal Year Covered)	PLD Telekom Inc.	Nasdaq Stock Market Composite Index	Nasdaq Telecommunications Index
02/18/93	100.0	100.0	100.0
12/31/93	121.1	117.3	142.0
12/31/94	67.1	113.5	119.2
12/31/95	50.0	158.8	159.9
12/31/96	64.5	194.9	165.7
12/31/97	56.6	237.1	235.2

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information (as of March 31, 1998, except as otherwise noted), with respect to shares of Common Stock beneficially owned by owners of more than five percent of the outstanding Common Stock, by all current directors and nominees, by the executive officers of the Company named in the Summary Compensation Table included elsewhere in this proxy statement and by all current directors and executive officers of the Company as a group.

BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED(1)	PERCENT OF CLASS(2)

Navona Communications Corporation Ltd.(3)..................	10,305,739	30.7%
Princeton Services, Inc.(4)................................	7,013,856	18.2%
BEA Associates(5)..	2,165,000	6.5%
Citibank, N.A.(6)..	1,928,525	5.8%
James R.S. Hatt(7)...	184,333	*
John G. Davies(8)..	166,667	*
Simon Edwards(9)...	128,666	*
Alan G. Brooks(10)...	151,500	*
Conor Carroll(11)..	85,833	*
Robert Smith(12)...	106,333	*
Dr. Boris Antoniuk(13).....................................	1,326,240	
Edward Charles Dilley......................................	--	--
Gordon Humphrey(8)...	10,000	*
Gennady Kudriavtsev(8).....................................	10,000	*
Dr. Vladimir Kvint(8)......................................	10,000	*
Julian Rawle...	--	--
David M. Stovel(8)...	22,500	*
All current directors and executive officers of the Company as a group (13 persons)..................................	2,202,072	6.4%

</TABLE>

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(1) In accordance with Securities and Exchange Commission regulations, the table lists all shares as to which such persons have or share the power to vote or to direct disposition. The number of shares indicated includes shares issuable upon the exercise of outstanding stock options, warrants or convertible securities held by each individual or group to the extent exercisable or convertible at March 31, 1998 or within 60 days thereafter. Unless otherwise indicated, each person has the sole power to vote and to direct disposition of the shares listed as beneficially owned by such person.

(2) Percentage for each individual or group calculated with reference to an aggregate of 33,324,290 shares of Common Stock outstanding at March 31, 1998 and all shares issuable upon the exercise of outstanding stock options, warrants or convertible securities that are exercisable by such individual or group within 60 days of March 31, 1998. Percentages of less than 1% have not been indicated.

(3) This information based upon Amendment No. 6 to Schedule 13D, filed April 20, 1998, with the Securities and Exchange Commission by Cable and Wireless plc. The amount shown includes currently exercisable warrants to purchase 250,000 shares of Common Stock held by Cable and Wireless plc, a corporation organized under the laws of England ("Cable & Wireless") located at 124 Theobalds Road, London WC1X 8RX. The remaining shares are held by Navona Communications Corporation Ltd., a Bermuda corporation ("Navona") and a wholly owned subsidiary of Cable & Wireless. Navona is located at Cedar House, 41 Cedar Avenue, Hamilton HM 12, Bermuda.

(4) This information is based upon Amendment No. 2 to Schedule 13G, filed February 2, 1998, with the Securities and Exchange Commission by Princeton Services, Inc. ("PSI"), Merrill Lynch Asset Management, L.P. ("Merrill Lynch Asset Management") and Merrill Lynch Global Allocation Fund, Inc., each of which is located at 800 Scudders Mill Road, Princeton, New Jersey 08536. The amount shown includes shares of Common Stock issuable upon the conversion of 9% Convertible Subordinated

Notes of the Company (CUSIP 71623PAC) (the "Convertible Notes") and upon exercise of warrants to purchase shares of Common Stock (CUSIP 71623PAA) (the "Warrants"). In the aggregate, PSI may be deemed to beneficially own 1,698,200 shares of Common Stock, $19,200,000 aggregate principal amount of Convertible Notes and 74,500 warrants. Each such warrant may be exercised for 34 shares of Common Stock at an exercise price of $6.60 per share. The Convertible Notes are convertible, at the rate of 144.93 shares per $1,000 principal amount, at a conversion price of $6.90 per share. PSI disclaims beneficial ownership of the securities of the Company.

(5) This information is as of December 31, 1997 and is based upon Schedule 13F, filed with the Securities and Exchange Commission by BEA Associates, Inc., which is located at 153 East 53rd Street, New York, New York 10022.

(6) This information is as of December 31, 1997 and is based upon Schedule 13G, filed February 13, 1998, with the Securities and Exchange Commission by

Citicorp and Citibank, N.A., which are located at 399 Park Avenue, New York, New York 10043.

(7) The amount shown includes currently exercisable options to purchase 153,333 shares of Common Stock.

(8) The amount shown consists entirely of currently exercisable options to purchase shares of Common Stock.

(9) The amount shown includes currently exercisable options to purchase 126,666 shares of Common Stock.

(10) The amount shown includes currently exercisable options to purchase 150,000 shares of Common Stock.

(11) The amount shown includes currently exercisable options to purchase 83,333 shares of Common Stock.

(12) The amount shown includes currently exercisable options to purchase 105,833 shares of Common Stock.

(13) The amount shown includes 1,316,240 shares held by P.S. Marketing & Consultancy Services Limited "P.S. Marketing"), which were issued to P.S. Marketing, at the direction of Elite International Limited ("Elite"), in connection with the November 1997 acquisition by the Company from Elite of additional interests in Technocom. Elite is an Irish company owned by a trust advised by Dr. Antoniuk and the shares of Common Stock are deemed to be beneficially owned by Dr. Antoniuk The amount shown also includes currently exercisable options to purchase 10,000 shares of Common Stock. Elite is the beneficial owner of 10 ordinary shares, par value IRpound sterling 1.00, of Technocom Limited, an Irish corporation and subsidiary of the Company ("Technocom"), representing 5.03% of the outstanding ordinary shares of Technocom. The Company understands that Dr. Antoniuk has the power to exercise the voting rights of the shares of Technocom owned by Elite. None of the other current directors and executive officers of the Company own any ordinary shares of Technocom, in which the Company owns a 80.4% equity interest.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During 1994 and 1995, Cable & Wireless provided services to and met certain liabilities of the Company. At December 31, 1995, the aggregate amount owed to Cable & Wireless under these arrangements was $1,843,000. These amounts were repaid in 1996.

The Company entered into an agreement as of January 1, 1995 with Newmark with respect to the provision of the services of Robert Smith as a consultant to the Company and to act as Chairman of ALTEL. The agreement provides for the payment of $100,000 per annum (plus additional amounts depending on the amount of time devoted by Mr. Smith to the affairs of the Company or ALTEL) and is terminable for cause or by either party upon two years notice of termination. In addition, Newmark has the option of terminating the agreement in the event of a change of control of the Company (defined as control of more than 30% of all outstanding voting shares being acquired by any person or persons acting in concert other than Cable & Wireless and its affiliates) and shall be terminated if Mr. Smith shall be removed from the office of Chairman of ALTEL, in which events Newmark shall be entitled to the payment of two years remuneration. In 1997, Newmark received $100,000 with respect to the provision of Mr. Smith's services. Mr. Smith is President of Newmark. In May 1998, the Company and Newmark agreed to terminate the agreement, in exchange for a

cash payment of $200,000 from the Company to Newmark. At such time, Mr. Smith resigned as a director of the Company, Chairman of ALTEL and ceased providing consulting services to the Company.

On November 26, 1997 the Company acquired a further 59 ordinary shares of Technocom from the two minority shareholders of Technocom, thereby increasing its percentage interest in Technocom from 50.75% to 80.4%. The Company acquired 29 of these shares from Elite, an Irish company beneficially owned by a trust advised by Dr. Antoniuk. The total consideration for the shares purchased from Elite was $6.25 million in cash and 1,316,240 shares of the Company's Common Stock. Sale of these shares is prohibited prior to January 1, 2000.

In addition, the Company restructured certain "put and call" arrangements with the other two shareholders of Technocom. Under these arrangements as originally structured the remaining ordinary shares of Technocom held by these shareholders (10 shares, or approximately 5% of the total ordinary shares outstanding, in the case of Elite) were to have been independently valued in 1999 and the Company had the right to call, and Elite and the other shareholder had the right to put, their respective interests at the per share value established by the valuation. These arrangements were restructured as follows. In the case of Elite, two of its remaining ten ordinary shares were made subject to a new put and call arrangement which would come into effect in 1998, with the "put and call" price to be $1 million or, at Elite's option, that number of shares of the Common Stock which resulted from dividing $1 million by the lower of $5.85 and the average closing price of such shares over the preceding ten trading days. The remaining eight ordinary shares continued to be subject to the existing put and call arrangements in 1999, except that the valuation would be made by the Company and that the amount paid pursuant to the exercise of either the put or the call could not exceed $9,620,689 or be less than $6,689,655.

Technocom has entered into a consulting agreement with Elite for the provision to Technocom of the services of Dr. Antoniuk for a period expiring on June 30, 2002, pursuant to which Technocom paid Elite fees equal to $108,333 per annum for the term of the agreement, reviewable periodically, plus the reasonable expenses of Dr. Antoniuk. As of November 26, 1997, the annual fees payable to Elite under this agreement were increased to $158,333.

In addition, pursuant to a Service Agreement, dated as of November 26, 1997, with the Company, Dr. Antoniuk has been employed since such date as Group Director -- Russia and CIS, at an annual salary of $50,000. The agreement may be terminated without cause by either party upon six months prior written notice or for cause as specified; provided that, if either party gives notice of termination of employment with the Company, the Company may, in its sole discretion, terminate such employment immediately upon the payment of the lump sum of six months' gross salary. Dr. Antoniuk may also terminate his employment with the Company upon three months prior written notice upon a Change in Control of the Company. Upon termination without cause by the Company or upon termination by Dr. Antoniuk upon a Change of Control, Dr. Antoniuk is to receive as a termination fee an amount equal to two times his then current annual salary from the Company.

Since June 16 1997, Dorothea Hatt, the wife of James Hatt, the Company's President and Chief Executive Officer, has been employed as Legal Assistant of the Company at an annual salary of $75,000.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements. Financial Statements listed in the accompanying Index to Financial Statements appearing on page F-1 are filed as part of this annual report on Form 10-K.

2. Exhibits. (see (c) below).

(b) Reports on Form 8-K

On December 16, 1997, the Company filed a Current Report on Form 8-K with the Securities and Exchange Commission regarding the Company's acquisition of additional interests in Technocom and the related financing transaction with the Travelers Parties.

(c) Exhibits

The following is a list of exhibits filed as part of this Annual Report on Form 10-K. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference.

<TABLE>
<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
2	Certificate of Domestication. (Exhibit 3.1)(9)
3.1	Certificate of Incorporation. (Exhibit 3.2)(9)
3.2	By-Laws. (Exhibit 3.3)(9)

4.1	Indenture dated as of May 31, 1996 among the Registrant, as Issuer, NWE Capital (Cyprus) Limited, PLD Asset Leasing Limited, PLD Capital Limited, Baltic Communications Limited and Wireless Technology Corporations Limited as Guarantors, and The Bank of New York, as Trustee, with respect to $123,000,000 aggregate principal amount at stated maturity of 14% Senior Discount Notes due 2004 (the "Senior Note Indenture") (including exhibits B, C, D and K only). (Exhibit 4.1)(10)
4.2	Indenture dated as of May 31, 1996 among the Registrant as Issuer, NWE Capital (Cyprus) Limited, PLD Asset Leasing Limited, PLD Capital Limited, Baltic Communications Limited and Wireless Technology Corporations Limited as Guarantors, and The Bank of New York, as Trustee, with respect to $26,500,000 aggregate principal amount of 9% Convertible Subordinated Notes due 2006 (the "Convertible Note Indenture") (including exhibit B only). (Exhibit 4.2)(10)
4.3*	First Supplemental Indenture, Amendment Agreement, Consent and Waiver, dated as of March 20, 1998, among the Registrant, as Issuer, NWE Capital (Cyprus) Limited, PLD Asset Leasing Limited, PLD Capital Limited, Wireless Technology Corporations Limited and Baltic Communications Limited, as Guarantors, Clayton A. Waite and Apropos Investments Ltd., as nominee shareholders, and The Bank of New York, as Trustee.
4.4	Global Note representing 14% Senior Discounted Notes due 2004. (Exhibit 4.3)(10)
4.5	Global Note representing 9% Convertible Subordinated Notes due 2006. (Exhibit 4.4)(10)
4.6	Warrant Agreement dated as of May 31, 1996 between the Registrant and The Bank of New York as Warrant Agent. (Exhibit 4.9)(10)
4.7	Warrant Certificate of the Registrant for 123,000 Warrants exercisable on or after December 10, 1996 and on or before June 12, 2006. (Exhibit 4.5)(10)
4.8	Smith Barney Warrant Agreement dated as of May 31, 1996 between the Registrant and The Bank of New York as Warrant Agent. (Exhibit 4.10)(10)
4.9	Smith Barney Warrant Certificate of the Registrant for 100,000 Warrants exercisable as to 50,000 Common Shares on or after June 12, 1996 and as to 50,000 Common Shares on or after October 30, 1996 and on or before April 30, 2001. (Exhibit 4.6)(10)

</TABLE>

<TABLE>
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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
4.10	Registration Rights Agreement dated as of May 31, 1996 between the Registrant and Smith Barney Inc. (Exhibit 4.7)(10)
4.11	Purchase Agreement dated May 24, 1996 between the Registrant and Smith Barney Inc. (without exhibits). (Exhibit 4.8)(10)
4.12	Company Senior Note Escrow Account Agreement dated as of May 31, 1996 among The Bank of New York as Escrow Agent, as Trustee under the Senior Note Indenture, as Trustee under the Convertible Note Indenture and the Registrant. (Exhibit 4.11)(10)
4.13	Company Convertible Note Escrow Account Agreement dated as of May 31, 1996 among The Bank of New York as Escrow Agent, as Trustee under the Senior Note Indenture, as Trustee under the Convertible Note Indenture and the Registrant. (Exhibit 4.12)(10)
4.14	Leasing Company Escrow Account Agreement (PLD Asset Leasing Limited) dated as of May 31, 1996 among The Bank of New York as Escrow Agent, as Trustee under the Senior Note Indenture, as Trustee under the Convertible Note Indenture and PLD Asset Leasing Limited. (Exhibit 4.13)(10)
4.15	Leasing Company Escrow Account Agreement (PLD Capital Limited) dated as of May 31, 1996 among The Bank of New York as Escrow Agent, as Trustee under the Senior Note Indenture,

	as Trustee under the Convertible Note Indenture and PLD Capital Limited. (Exhibit 4.14)(10)
4.16	Company Senior Note Security and Pledge Agreement dated as of May 31, 1996 by the Registrant in favor of The Bank of New York, as Trustee under the Senior Note Indenture, as Trustee under the Convertible Note Indenture, and as Collateral Agent. (Exhibit 4.15)(10)
4.17	Company Convertible Note Security and Pledge Agreement dated as of May 31, 1996 by the Registrant in favor of The Bank of New York, as Trustee under the Convertible Note Indenture, as Trustee under the Convertible Note Indenture, and as Collateral Agent. (Exhibit 4.16)(10)
4.18	Leasing Company Security and Pledge Agreement (PLD Asset Leasing Limited) dated as of May 31, 1996 by PLD Asset Leasing Limited in favor of The Bank of New York, as Trustee under the Senior Note Indenture, as Trustee under the Convertible Note Indenture, and as Collateral Agent. (Exhibit 4.17)(10)
4.19	Leasing Company Security and Pledge Agreement (PLD Capital Limited) dated as of May 31, 1996 by PLD Capital Limited in favor of The Bank of New York, as Trustee under the Senior Note Indenture, as Trustee under the Convertible Note Indenture, and as Collateral Agent. (Exhibit 4.18)(10)
4.20	NWE Cyprus Senior Note Security and Pledge Agreement dated as of May 31, 1996 by NWE Capital (Cyprus) Ltd. in favor of The Bank of New York, as Trustee under the Senior Note Indenture, as Trustee under the Convertible Note Indenture, and as Collateral Agent. (Exhibit 4.19)(10)
4.21*	Revolving Credit Agreement, dated as of November 26, 1997, between the Registrant, The Travelers Insurance Company and The Travelers Indemnity Company.
4.22*	Form of 12% Series A Senior Secured Revolving Credit Note.
4.23*	Form of 12% Series B Senior Secured Revolving Credit Note.
4.24*	Warrant Agreement, dated as of November 26, 1997, between the Registrant and The Bank of New York, as Warrant Agent.
4.25*	Form of Series A Warrant Certificate.
4.26*	Form of Series B Warrant Certificate.
4.27*	Registration Rights Agreement, dated as of November 26, 1997, between the Registrant, The Travelers Insurance Company and The Travelers Indemnity Company.

</TABLE>

<TABLE>
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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
4.28*	Guaranty Agreement, dated as of November 26, 1997, made and given by Wireless Technology Corporations Limited and Baltic Communications Limited in favor of The Travelers Insurance Company and The Travelers Indemnity Company.
4.29*	Trust Agreement, dated as of November 26, 1997, between the Registrant and The Bank of New York, as Trustee.
4.30*	Security Agreement (Inventory and Receivables), dated as of November 26, 1997, between the Registrant and The Bank of New York, as Trustee.
4.31*	Pledge Agreement, dated as of November 26, 1997, between the Registrant and The Bank of New York, as Trustee.
10.1*	PLD Telekom Inc. 1997 Equity Compensation Plan.
10.2*	Service Agreement, dated August 1, 1997, between the Registrant and James R.S. Hatt.
10.3*	Employment Letter, effective June 1, 1997, between the Registrant and John G. Davies.
10.4*	Amendment, dated July 30, 1997, to Employment Letter between the Registrant and John G. Davies.
10.5*	Service Agreement, dated July 1, 1997, between the Registrant and Simon Edwards.
10.6	Service Agreement, dated January 1, 1995, between PLD Management Services Limited and Conor Carroll. (Exhibit 2(l))(8)
10.7*	Amended and Restated Service Agreement, dated August 1, 1997, between the Registrant and Conor Carroll.
10.8*	Service Agreement, dated November 26, 1997, between the

	Registrant and Boris Antoniuk.
10.9*	Consultancy Agreement, dated December 28, 1994, between Technocom Limited and Elite International Limited.
10.10*	Amendment, dated November 26, 1997, to the Consultancy Agreement between Technocom Limited and Elite International Limited.
10.11	Service Agreement between the Registrant and Newmark Capital Limited dated as of January 1, 1995. (Exhibit 2(o))(8)
10.12	Purchase Agreement dated August 12, 1992, as amended, between the Registrant and Dominion Capital. (Exhibit 2(o))(2)
10.13	Warrant to Purchase Common Shares dated October 2, 1992 between the Company and Dominion Capital Inc. (Exhibit 2(l))(2)
10.14	Warrant to Purchase Common Shares dated June 8, 1994 between the Company and Dominion Capital Inc. (Exhibit 10.27)(4)
10.15	Warrant to Purchase Common Shares dated July 28, 1994 between the Company and Dominion Capital Inc. (Exhibit 10.28)(4)
10.16	Purchase Agreement dated November 17, 1992 between the Registrant, The Emerging Markets Telecommunications Fund, Inc., The Universal Global Fund and The Universal Emerging Markets Fund. (Exhibit 2(r))(2)
10.17	Share Purchase Agreement dated as of November 5, 1993 between the Registrant and Navona Communications Corporation Ltd. (Exhibit 3(a))(3)
10.18	Subscription Agreement dated as of March 3, 1994 between the Registrant and Navona Communications Corporation Ltd. (Exhibit 3(e))(3)
10.19	Variation Agreement dated as of March 25, 1994 between the Registrant and Navona Communications Corporation Ltd. (Exhibit 3(f))(3)
10.20	Variation Agreement dated as of March 29, 1994 between the Registrant and Navona Communications Corporation Ltd. (Exhibit 3(g))(3)

</TABLE>

<TABLE>
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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
10.21	Further Variation Agreement dated as of June 3, 1994 between the Registrant and Navona Communications Corporation Ltd. (Exhibit 3(h))(3)
10.22	Agreement to Purchase Warrants dated July 28, 1994 between the Registrant and Cable & Wireless. (Exhibit 10.25)(4)
10.23	Option Agreement between Cable and Wireless plc and the Registrant dated January 27, 1996. (Exhibit 2(b))(8)
10.24	Assignment of Receivables between Cable and Wireless plc and NWE Capital (Cyprus) Limited dated February 2, 1996. (Exhibit 2(d))(8)
10.25	Agreement dated May 31, 1992 between Tiller International Limited and the Registrant. (Exhibit 2(m))(1)
10.26	Joint Venture Agreement dated as of December 31, 1993 between Wireless Technology Corporations Limited and Kompania Besprovodnye Seti Sviazi. (Exhibit 3(b))(3)
10.27	Interconnection Agreement dated as of February 4, 1994 between the Ministry of Communications of the Republic of Kazakhstan and ALTEL. (Exhibit 3(d))(3)
10.28*	Amendment, dated February 28, 1996, to the Interconnection Agreement between Kazakhtelekom and ALTEL.
10.29	Cellular System Equipment Purchase Agreement dated as of May 4, 1994 between ALTEL and Motorola Inc. (Exhibit 3(k))(3)
10.30	Cellular System Installation & Optimization Agreement dated as of May 4, 1994 between ALTEL and Motorola Inc. (Exhibit 3(l))(3)
10.31	Put and Call Letter Agreement dated as of June 3, 1994 between the Company and Monogram Telecommunications Limited. (Exhibit 3(i))(3)
10.32	Subscription Agreement dated February 21, 1995 for $3,000,000 convertible note issued to the Registrant by Monogram. (Exhibit 2(a))(7)

10.33	Agreement for the Acquisition of Ninety Percent of the Issued Share Capital of St. Petersburg Mayorality & Tiller dated as of March 7, 1994 among the Registrant, Tiller International Limited and Dian A/O. (Exhibit 3(j))(3)
10.34	Shareholders and Subscription Agreement dated as of November 3, 1994 between the Registrant, Bradenham Holdings Limited and Strikeland Limited. (Exhibit 2.6)(5)
10.35	Purchase Agreement between Baltic Communications Limited and the Registrant dated January 27, 1996. (Exhibit 2(a))(8)
10.36	Share Purchase Agreement dated April 26, 1995 between Lant Investments Limited and the Registrant. (Exhibit 2(b))(7)
10.37	Escrow Agreement among the Registrant, Lant Investments Limited and Montreal Trust Company of Canada. (Exhibit 2(c))(7)
10.38	Registration Rights Agreement dated as of April 26, 1995 between the Registrant and Lant Investments Limited. (Exhibit 2(d))(7)
10.39	Side letter between the Registrant and Baltic Communications Limited dated January 27, 1996. (Exhibit 2(c))(8)
10.40	Share Sale and Purchase Agreement dated November 2, 1994 between the Registrant and Plicom Limited. (Exhibit 2.3)(4)
10.41	Form of Subscription and Shareholder Agreement between the Registrant, Plicom Limited, Elite International Limited and Technocom Limited. (Exhibit 2.4)(6)
10.42*	Amendment, dated November 26, 1997, to Subscription and Shareholder Agreement between the Registrant, Plicom Limited, Elite International Limited and Plicom Limited.

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EXHIBIT NUMBER	DESCRIPTION
<C>	<S>
10.43	Form of Deed of Covenant between the Registrant and Plicom Limited. (Exhibit 2.5)(4)
10.44	Form of Put and Call Option Agreement dated November 4, 1994 between the Company and Plicom Limited. (Exhibit 10.20)(4)
10.45	Form of Put and Call Option Agreement dated November 4, 1994 between the Registrant and Elite International Limited. (Exhibit 10.21)(4)
10.46*	Amendment, dated November 26, 1997, to Put and Call Option Agreement between the Registrant and Plicom Limited.
10.47*	Amended and Restated Put and Call Option Agreement, dated November 26, 1997, between the Registrant and Elite International Limited.
10.48*	Share Purchase Agreement, dated November 26, 1997, among the Registrant, Technocom Limited, Plicom Limited and Mark Klabin.
10.49*	Share Purchase Agreement, dated November 26, 1997, among the Registrant, Technocom Limited and Elite International Limited.
10.50*	Securities Sale and Purchase Agreement between the Registrant and Redford Limited relating to SPMMTS.
10.51	Agreement for Lease dated as of April 27, 1994 between the Registrant and The Scottish Life Assurance Company. (Exhibit 3(o))(3)
10.52*	Sublease, dated June 4, 1997, between the Registrant and The Seiko Corporation of America.
10.53	License Granted to ALTEL for the Operation of a Cellular Telecommunication System Providing Mobile Radiocommunications Services dated as of February 4, 1994. (Exhibit 3(c))(3)
10.54	License No. 2463 issued to MTR-Sviaz dated September 21, 1995 (Russian). (Exhibit 2(f))(8)
10.55	License No. 4904 issued by the RSCC to PeterStar Company Limited for the provision of local, national and international telecommunications services via a dedicated network. (Exhibit 10.3)(10)
10.56	License No. 4274 issued by the RSCC to PeterStar Company Limited for the provision of local and intercity telephone communications services. (Exhibit 10.4)(10)

10.57	License No. N4199 issued by the RSCC to Teleport-TP for the provision of local and international telephone communications. (Exhibit 10.5)(10)
10.58	License No. N4207 issued by the RSCC to Teleport-TP for the provision of international telecommunication services via dedicated network. (Exhibit 10.6)(10)
10.59	License No. N4437 issued by the RSCC to Teleport-TP for the provision of international leased lines and circuits for the transmission of television signals. (Exhibit 10.7)(10)
10.60	License No. 3654 issued to Teleport-TP for providing data transmission services. (Exhibit (2(e))(8)
21*	List of Subsidiaries.
23.1**	Consent of KPMG Peat Marwick LLP.
23.2**	Consent of KPMG.
23.3**	Consent of KPMG.
23.4**	Consent of KPMG.
23.5**	Consent of KPMG.

</TABLE>

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* Filed as an Exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1997, as filed with the Commission on March 31, 1998.

** Filed herewith.

(1) Filed as an Exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 1991.

(2) Filed as an Exhibit to the Company's Form 8 Amendment to Form 20-F for the year ended December 31, 1991.

(3) Filed as an Exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 1993.

(4) Filed as an Exhibit to the Company's Registration Statement on Form F-1 (File No. 33-86184).

(5) Filed as an Exhibit to Pre-Effective Amendment No. 1 to the Company's Registration Statement on Form F-1 (File No. 33-86184).

(6) Filed as an Exhibit to Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form F-1 (File No. 33-86184).

(7) Filed as an Exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 1994.

(8) Filed as an Exhibit to the Company's Annual Report on Form 20-F for the year ended December 31, 1995.

(9) Filed as an Exhibit to the Company's Current Report on Form 8-K dated March 7, 1997.

(10) Filed as an Exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, New York on July 22, 1998.

PLD TELEKOM INC.

By: /s/ JAMES R. S. HATT

James R. S. Hatt
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ BORIS ANTONIUK Boris Antoniuk	Director	July 22, 1998
/s/ EDWARD CHARLES DILLEY Edward Charles Dilley	Director	July 22, 1998
/s/ SIMON EDWARDS Simon Edwards	Director and Chief Financial Officer (Principal Financial Officer)	July 22, 1998
/s/ JAMES R.S. HATT James R.S. Hatt	Director, President and Chief Executive Officer (Principal Executive Officer)	July 22, 1998
/s/ GORDON HUMPHREY Gordon Humphrey	Director	July 22, 1998
/s/ GENNADY KUDRIATSEV Gennady Kudriatsev	Director	July 22, 1998
/s/ VLADIMIR KVINT Vladimir Kvint	Director	July 22, 1998
/s/ I. MARTIN POMPADUR I. Martin Pompadur	Director	July 22, 1998
/s/ JULIAN RAWLE Julian Rawle	Director	July 22, 1998
/s/ DAVID STOVEL David Stovel	Director	July 22, 1998

PLD TELEKOM INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

</TABLE>

INDEPENDENT AUDITORS' REPORT

Shareholders and Board of Directors
PLD Telekom Inc.:

We have audited the accompanying consolidated balance sheet of PLD Telekom Inc. and subsidiaries as of December 31, 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PLD Telekom Inc. and subsidiaries as of December 31, 1997, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

New York, NY
March 23, 1998

AUDITORS' REPORT

Shareholders and Board of Directors
PLD Telekom Inc.:

We have audited the accompanying consolidated balance sheet of PLD Telekom Inc. as of December 31, 1996 and the consolidated statements of operations, shareholders' equity and cash flows for each of the years in the two-year period ended December 31, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 1996 and the results of its operations and the changes in its financial position for each of the years in the two-year period ended December 31, 1996 in accordance with United States generally accepted accounting principles.

KPMG

Chartered Accountants

Toronto, Canada
March 21, 1997

PLD TELEKOM INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1996
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents (note 7)	$ 17,256	$ 40,674
Trade receivables, net of allowance of $3,226 and $1,986, respectively	17,078	10,528
Other receivables and prepaids	8,615	3,522
Inventory	2,802	1,840
Due from related parties (note 13(c))	6,320	4,408
Total current assets	52,071	60,972
Escrow funds (note 9)	33,868	40,984
Property and equipment, net (note 4)	134,998	93,039
Telecommunications licenses (note 3), net of amortization of $26,294 and $18,640, respectively	78,837	72,310
Due from related parties (note 13(c))	3,011	--
Other investments (note 5)	7,036	24,094
Other assets (note 6)	25,765	14,958
Total assets	$335,586	$306,357
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness (note 7)	--	15,829
Short-term borrowings (note 8)	20,320	--
Accounts payable	13,597	17,781
Accrued liabilities	5,750	3,126
Due to related parties (note 13(d))	5,336	4,039
Deferred revenues	3,128	1,078
Customer deposits	3,070	1,644
Other current liabilities	2,256	3,241
Total current liabilities	53,457	46,738
Long-term debt (note 9)	133,516	107,954
Minority interest	21,382	13,711
Commitments and contingencies (note 14)		
Shareholders' equity (notes 9 and 10):		
Preferred stock, par value $.01 per share in 1997 and no par value in 1996. Authorized 100,000,000 shares in 1997 and unlimited number of shares in 1996; issued and outstanding 446,884 shares	4	31
Common stock, par value $.01 per share in 1997 and no par value in 1996. Authorized 100,000,000 shares in 1997 and unlimited number of shares in 1996; issued and outstanding 33,324,290 shares in 1997 and 31,696,034 shares in 1996	333	180,878
Additional paid-in capital	204,007	13,592
Accumulated deficit	(77,113)	(56,547)
Total shareholders' equity	127,231	137,954
Total liabilities and shareholders' equity	$335,586	$306,357

See accompanying notes to consolidated financial statements.

PLD TELEKOM INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS, EXCEPT FOR SHARE AND PER SHARE DATA)

	1997	1996	1995
Revenues:			
Telecommunications (note 13(a))	$ 112,468	$ 60,562	$ 27,686
Finance lease income	1,956	1,404	1,434
	114,424	61,966	29,120
Direct costs	39,186	21,709	10,382
Gross profit	75,238	40,257	18,738
Operating expenses:			
General and administrative	38,716	24,791	18,168
Depreciation	10,433	5,226	3,837
Amortization	7,867	4,883	4,659
Taxes other than income taxes	6,204	2,490	1,220
Total operating expenses	63,220	37,390	27,884
Operating income/(loss)	12,018	2,867	(9,146)
Other income/(expense):			
Share of loss from equity investments, after amortization of licenses of $2,477 and $1,528 in 1996 and 1995, respectively	(537)	(2,692)	(1,555)
Interest and other income	3,614	4,859	2,066
Interest expense	(17,846)	(9,973)	(957)
Amortization of deferred financing costs	(1,152)	(684)	--
Foreign exchange loss	(274)	(648)	(443)
Gain/(loss) on disposal of investments and property and equipment	749	--	(915)
Provision for amounts due from a shareholder of PeterStar (note 13(e))	--	--	(2,490)
Loss before income taxes and minority interest	(3,428)	(6,271)	(13,440)
Income taxes (note 11)	7,739	3,669	1,490
Loss before minority interest	(11,167)	(9,940)	(14,930)
Minority interest	9,399	2,521	551
Net loss	$ (20,566)	$ (12,461)	(15,481)
Net loss per common share:			
Basic	$ (0.64)	$ (0.39)	$ (0.49)
Diluted	$ (0.64)	$ (0.39)	$ (0.49)
Weighted average common shares outstanding	32,061,070	31,579,201	31,314,662

See accompanying notes to consolidated financial statements.

PLD TELEKOM INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

PREFERRED STOCK		COMMON STOCK		
NUMBER		NUMBER		ADDITIONAL

	OF SHARES	AMOUNT	OF SHARES	AMOUNT	PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1995.............	446,884	$ 31	30,012,214	$ 173,034	--	(28,605)	144,460
Conversion of Series VIII preferred shares..............................	--	--	1,110,000	4,886	--	--	4,886
Issuance of shares for CPY Yellow Pages Limited (note 3(f))..................	--	--	368,820	1,900	--	--	1,900
Exercise of warrants and options........	--	--	16,000	67	--	--	67
Net loss for the year..................	--	--	--	--	--	(15,481)	(15,481)
Balance at December 31, 1995...........	446,884	31	31,507,034	179,887	--	(44,086)	135,832
Exercise of options....................	--	--	189,000	991	--	--	991
Issuance of warrants (note 9)..........	--	--	--	--	13,592	--	13,592
Net loss for the year..................	--	--	--	--	--	(12,461)	(12,461)
Balance at December 31, 1996...........	446,884	31	31,696,034	180,878	13,592	(56,547)	137,954
Increase in par value from none to $.01 (note 10)...........................	--	--	--	(180,561)	180,561	--	--
Change in par value of preferred stock (note 10)...........................	--	(27)	--	--	27	--	--
Common stock cancellations.............	--	--	(150)	--	--	--	--
Exercise of options and warrants........	--	--	312,166	3	1,736	--	1,739
Issuance of shares (note 3(c))..........	--	--	1,316,240	13	7,668	--	7,681
Issuance of warrants (note 8(a))........	--	--	--	--	423	--	423
Net loss for the year..................	--	--	--	--	--	(20,566)	(20,566)
Balance at December 31, 1997...........	446,884	$ 4	33,324,290	$ 333	204,007	(77,113)	127,231

</TABLE>

See accompanying notes to consolidated financial statements.

PLD TELEKOM INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS)

<TABLE>
<CAPTION>

	1997	1996	1995
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss..	$(20,566)	(12,461)	(15,481)
Adjustments to reconcile net loss to net cash provided by/(used in) operating activities:			
Depreciation and amortization..........................	19,452	10,793	8,496
Accrued interest on senior discount notes..............	14,260	7,349	--
Minority interest......................................	9,399	2,521	551
Gain on sale of SPMMTS.................................	(1,001)	--	--
Deferred revenue.......................................	2,050	(898)	1,958
Share of loss of equity investments....................	537	2,692	1,555
Other..	--	300	1,543
Changes in operating assets and liabilities, net of effects of acquisitions:			
Increase in trade receivables........................	(6,550)	(2,478)	(1,681)
(Increase)/decrease in other receivables and prepaids..	(5,093)	1,827	(1,909)
Increase in inventory................................	(962)	(392)	(608)
Change in amounts due from or to related parties......	386	(4,743)	(2,499)
Increase/(decrease) in accounts payable, accrued liabilities, customer deposits, and other current liabilities.......................................	(1,119)	11,108	1,351
Net cash provided by/(used in) operating activities....................................	10,793	15,618	(6,724)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures...................................	(38,990)	(43,201)	(31,538)
Proceeds from sale of SPMMTS...........................	17,180	--	--
Escrow funds...	7,116	(40,984)	--
Purchase of 30% investment in Technocom.................	(25,608)	--	--

Teleport-TP finance lease and advances	--	3,916	(7,733)
Investments in Baltic Communications Limited, J.V. Technopark Limited and Teleport-TP, net of cash acquired	--	(7,515)	--
Other investments	181	(140)	(3,000)
Other assets	(747)	(267)	(6,822)
Net cash used in investing activities	(40,868)	(88,191)	(49,093)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term debt borrowings/(repayments)	(10,929)	(6,550)	22,379
Proceeds from issuance of 12% Revolving Credit Notes	15,420	--	--
Proceeds from issuance of 14% Senior Discount Notes	--	87,697	--
Proceeds from issuance of 9% Convertible Subordinated Notes	--	26,500	--
Deferred financing costs	--	(9,224)	--
Proceeds from issuance of common stock	1,739	991	67
Cash dividends paid to minority shareholders	(1,000)	--	--
Loans from shareholders	--	(1,843)	405
Related company advances	--	--	(815)
Due to equipment supplier	--	--	(4,384)
Recapitalization of PeterStar	1,427	--	--
Other financing	--	--	(2,869)
Net cash provided by financing activities	6,657	97,571	14,783
(Decrease)/increase in cash and cash equivalents	(23,418)	24,998	(41,034)
Cash and cash equivalents at beginning of year	40,674	15,676	56,710
Cash and cash equivalents at end of year	$ 17,256	40,674	15,676
Supplementary disclosures:			
Non-cash investing and financing activities:			
Supplier financing	$ 11,302	--	--
Issuance of common stock for a portion of purchase price of Technocom	$ 7,681	--	--
Interest paid	$ 3,381	2,425	380
Income taxes paid	$ 7,424	3,678	809

</TABLE>

See accompanying notes to consolidated financial statements.

PLD TELEKOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996

(1) BUSINESS, OPERATIONS AND FUTURE ACTIVITIES

The Company was previously incorporated under the laws of Ontario, Canada and on August 1, 1996 changed its name from Petersburg Long Distance Inc. to PLD Telekom Inc. (PLD). Effective February 28, 1997, PLD was incorporated in the United States as a Delaware corporation. Through its majority-owned and controlled subsidiaries, the Company is a provider of local, long distance and international telecommunications services in the former Soviet Union.

The Company's telecommunications businesses are at various stages of development and are growing rapidly in an emerging economy which, by its nature, has an uncertain economic, political and regulatory environment. The general risks of operating businesses in the former Soviet Union include the possibility for rapid change in government policies, economic conditions, the tax regime and foreign currency regulations.

Ultimate recoverability of the Company's investments is dependent upon its ability to achieve and maintain profitability, which is dependent to a certain extent on the stabilization of the economies of the former Soviet Union, the ability to maintain the necessary telecommunications licenses and the ability to obtain adequate financing to meet capital commitments.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are summarized as follows:

(a) Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Investments in affiliates in which the Company has significant influence, but does not exercise control, are accounted for under the equity method. Investments of the Company over which significant influence is not exercised are carried under the cost method.

(b) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 1997 and 1996, the Company's cash equivalents consist of term deposits of approximately $7.2 million and $4.2 million, respectively.

(c) Investments

Management determines the appropriate classification of its investments at the time of purchase and classifies them as trading, available-for-sale or held-to-maturity in accordance with the provisions of Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1997 and 1996, the Company's investments which are held in escrow consist of U.S. Treasury Bonds with a carrying value of $33.9 million and $41.0 million, respectively, and have been classified as available-for-sale. In accordance with SFAS 115, the Company carries their available-for-sale investments at fair value, with unrealized gains and losses reported as a separate line item in shareholders' equity. Due to the short maturity period (1997 -- maturing on January 7, 1998 and 1996 -- maturing on January 5, 1997), the carrying value of these investments approximates its fair market value at December 31, 1997 and 1996.

(d) Revenue Recognition

The Company records telecommunication revenues as earned, at the time services are provided.

(e) Inventory

Inventory is stated at the lower of average cost or net realizable value and is composed of telephony products held for resale to customers.

(f) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

<TABLE>

<S>	<C>
Telecommunications equipment............................	10 years
Buildings...	28.5 years
Leasehold improvements..................................	10 years
Office furniture and equipment (including computer equipment)..	3 - 5 years

</TABLE>

Interest cost incurred during the period of construction of property and equipment is capitalized. The interest cost capitalized in 1997 amounted to $927,791.

(g) Intangible Assets

Telecommunications licenses are being amortized on a straight-line basis over the terms of the licenses.

Goodwill represents the excess of the purchase price over the fair values of the net assets acquired and is being amortized on a straight-line basis over periods ranging from ten to twenty years.

Deferred financing costs represent costs incurred to issue debt. Deferred financing costs are capitalized and amortized over the term of the related debt.

(h) Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, escrow funds, trade and other receivables, amounts due from or to related parties, bank indebtedness and accounts payable approximate fair value due to their short maturities. The fair value of long-term debt is based on discounted cash flow analysis.

(i) Reporting Currency and Foreign Currency Translation

The statutory accounts of the Company's consolidated subsidiaries are maintained in accordance with local accounting regulations and are stated in local currencies.

Local statements are adjusted to U.S. GAAP and then translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 (SFAS 52), "Foreign Currency Translation."

Under SFAS 52, the financial statements of foreign entities in highly inflationary economies are measured in all cases using the U.S. dollar as the functional currency. U.S. dollar transactions are shown at their historical value. Monetary assets and liabilities denominated in local currencies are translated into U.S. dollars at the prevailing period-end exchange rate. All other assets and liabilities are translated at historical exchange rates. Results of operations have been translated using the monthly average exchange rates. Translation differences resulting from the use of these different rates are included in the accompanying consolidated statements of operations.

(j) Income Taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period it occurs.

(k) Net Loss Per Common Share

The Company has adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," on December 31, 1997. SFAS No. 128 establishes standards for computing and presenting earnings per share ("EPS") and supersedes Accounting Principles Board ("APB") Opinion No. 15, "Earnings per Share." SFAS No. 128 also requires dual presentation of basic and diluted EPS for complex capital structures on the face of the consolidated statements of operations. Basic EPS is computed by dividing income or loss by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise or conversion of securities into common stock, such as stock options, at the beginning of the period being reported on. Per share amounts for 1996 and 1995 have been retroactively restated to give effect to SFAS 128 and were not different from EPS measured under APB No. 15.

Net loss and weighted average shares outstanding used for computing diluted loss per common share were the same as that used for computing basic loss per common share for each of the years ended December 31, 1995, 1996 and 1997.

The Company had potentially dilutive common stock equivalents of 1,293,000, 135,000 and 150,000 for the years ended December 31, 1997, 1996 and 1995, respectively, which were not included in the computation of diluted net loss per common share because they were antidilutive for the periods presented.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(m) Equity Compensation

Prior to January 1, 1996, the Company accounted for its equity compensation plan in accordance with the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. As such, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method, as defined in SFAS 123, had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure required by SFAS 123.

(n) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company adopted the provisions of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," on January 1, 1996. SFAS 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(o) Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

(3) BUSINESSES AND ACQUISITIONS

The Company's key interests at December 31, 1997 include a 60% equity interest in PeterStar Company Limited ("PeterStar"); a 50% equity interest in BECET International ("BECET"); and an approximate 80% equity interest in Technocom Limited ("Technocom"), which holds an approximate 49% equity interest in Teleport-TP ("Teleport-TP"). The Company also owns 100% of Baltic Communications Limited ("BCL") and 100% of CPY Yellow Pages Limited ("Yellow Pages").

(a) PeterStar

PeterStar is a joint stock company registered in 1992 under the laws of the Russian Federation to provide international and domestic telecommunications services for St. Petersburg. In November 1994, PeterStar was granted a new license to provide these services for a further ten years. The license was reissued in June 1996 and sets the maximum number of lines which PeterStar may have at 106,000 and requires that 74,200 lines be introduced by June 1999. At December 31, 1997, PeterStar had 114,774 lines in place.

In October 1992, the Company acquired a 50% interest in PeterStar for consideration of $19.8 million. An additional 9% interest was acquired in March 1994 for consideration of $8.2 million and an additional 1% interest was acquired in April 1996 for $1.8 million. All of the considerations have been allocated to telecommunications licenses. The Company's interest in PeterStar is owned by its wholly owned subsidiary, NWE Capital (Cyprus) Limited ("NWE Cyprus"), a company incorporated in Cyprus.

(b) BECET

BECET provides cellular services pursuant to a 15-year license to operate a cellular telephony system in Kazakhstan until February 2009. The Company's 50% interest in BECET is owned by its wholly owned subsidiary, Wireless Technology Corporations Limited ("WTC"), a company incorporated in the territory of the British Virgin Islands, which in turn is owned by NWE Cyprus.

In connection with the acquisition of BECET, the Company was committed to provide financing of up to $3.0 million to fund a number of special telecommunications projects undertaken by the Ministry of Communications in Kazakhstan. In 1995, the Company provided such financing in the form of a convertible note (see note 5(b)).

(c) Technocom

The Company subscribed for preferred shares of Technocom, a company incorporated in the Republic of Ireland, in the amount of $40.0 million, of which $20.0 million was subscribed for on acquisition in 1994 and the remaining $20.0 million was subscribed for in June 1996 from the proceeds of the financing described in note 9. The preferred shares entitle the Company to the first $20.0 million of Technocom's dividend distributions. After receipt of such preference dividends, all the preferred shares will be converted into a single ordinary share of Technocom. The carrying value of the Company's investment in Teleport-TP and minority interest were each increased by a total of $10.0 million in 1995/1996 to reflect the minority interest's ultimate share in the preferred equity.

On November 26, 1997, PLD acquired an additional 59 ordinary shares of Technocom increasing its ownership from 50.1% to 80.4%. The total consideration for the acquisition was $32.5 million, plus acquisition costs of approximately $840,000 and was allocated to telecommunications licenses, goodwill, and purchase of minority interest in the amounts of $16.0 million, $11.1 million, and $6.0 million, respectively. Approximately $24.8 million was paid in cash and the remainder in shares of PLD common stock (1,316,240 shares of common stock with a fair market value of $5.85 per share, which cannot be sold until the year 2000). The cash element of the transaction was funded with escrowed funds and with the proceeds from the Company's 12% Revolving Credit Notes (see note 8).

In addition, on November 26, 1997, the Company restructured certain "put and call" arrangements with the other two shareholders of Technocom. Under these arrangements, as originally structured, the remaining ordinary shares of Technocom held by these shareholders (29 shares, or approximately 14.6% of the total ordinary shares outstanding, and 10 shares, or approximately 5% of the total ordinary shares outstanding) were to have been independently valued in 1999 and the Company had the right to call, and the other two shareholders had the right to put, their respective interests at the per share value established by the valuation. The arrangements were restructured as a part of the transaction whereby PLD acquired an additional interest in Technocom from such shareholders, and PLD requested, and the shareholders agreed to, such restructuring in consideration for PLD agreeing to acquire part of their interests.

These arrangements were restructured as follows. In the case of the holder of the 29 shares, while the date on which the put or call could be exercised did not change, the valuation procedure was eliminated and the "put and call" price for its interest was set at a fixed $17.5 million. In the case of the holder of the 10 shares, 2 of its remaining 10 ordinary shares were made subject to a new put and call arrangement which would come into effect in 1998, with the "put and call" price to be $1 million or, at the holder's option, that number of shares of common stock which results from dividing $1 million by the lower of $5.85 and the average closing price of such shares over the preceding 10 trading days. The remaining 8 ordinary shares continue to be subject to the existing put and call arrangements in 1999, except that the valuation will be made by the Company and the amount paid pursuant to the exercise of either the put or the call cannot exceed $9.6 million or be less than $6.7 million.

Both of the other two shareholders of Technocom provide services to Technocom and PLD under management contracts with Technocom (see note 13).

On December 20, 1996, Technocom acquired 55.5% of the outstanding shares of J.V. Technopark Limited ("Technopark") from the minority shareholders of Technocom for $3.0 million. Technopark is incorporated in Russia and owns a 7.5% equity interest in Teleport-TP and commercial property in Moscow. The acquisition of Technopark has been accounted for using the purchase method.

(d) Teleport-TP

The Company currently controls 56% of the voting interests in Teleport-TP through its ownership of Technocom (see note 3(c)), which has a 49.3% equity interest in Teleport-TP. The Company originally

acquired a 41.8% equity investment in Teleport-TP through its acquisition of 50.8% of the outstanding common stock of Technocom. In May 1996, Technocom acquired an additional 3.3% indirect equity interest in Teleport-TP for cash consideration of $2.0 million, substantially all of which was allocated to Teleport-TP's telecommunications licenses. The additional interest was acquired through a company controlled by a minority shareholder of Technocom.

Teleport-TP is a Russian joint stock company which holds four operating licenses. The first license expires in November 2004 and authorizes Teleport-TP to provide long distance and international telecommunications services to private networks within Moscow and, to a limited extent, elsewhere in the Russian Federation. Teleport-TP is required by the terms of the license to have at least 10,500 subscribers (which is 70% of the maximum number of subscribers permitted under the license) in place by October 1999. Under the terms of the license agreement, there are no penalties should Teleport-TP not attain the required number of lines.

The second license expires in October 2004 and permits the operation of 1,000 international leased circuits for the transmission of television and telecommunications services. The third license, which expires in January 2002, permits the provision of data services with interconnection to the public network and requires capacity for 70,000 subscribers by December 2000. The fourth license, which expires in May 2001, is an overlay license which permits Teleport-TP to offer local, long distance and international voice and data services which are interconnected to the public telephone network in 40 regions across Russia.

As a result of the acquisition of Technopark, the Company consolidated Teleport-TP's balance sheet at December 31, 1996. The results of operations of Teleport-TP have been included in the consolidated statements of operations from January 1, 1997. The consolidation of Teleport-TP's balance sheet at December 31, 1996 is summarized as follows:

<TABLE>
<CAPTION>

<S>	(IN THOUSANDS) <C>
Cash	$ 70
Other current assets	4,386
Current liabilities	(1,526)
Equipment under capital lease, net	7,415
Other property, plant and equipment, net	622
Other assets	655
Capital lease obligation to Technocom	(4,153)
Due to Technocom	(3,468)
Due to related parties	(3,405)
Minority interest	(411)
Telecommunications licenses, net of accumulated amortization of $4,005	25,595
Carrying value of investment in Teleport-TP prior to consolidation	$25,780

</TABLE>

Condensed financial information of Teleport-TP for the years ended December 31, 1996 and 1995 is as follows:

	1996	1995
	(IN THOUSANDS)	
Telecommunications revenues	$11,104	$ 7,070
Cost of sales	6,534	2,083
Gross profit	4,570	4,987
Operating expenses:		
General and administrative	2,617	1,606
Other taxes	592	--
Depreciation of assets under capital lease	1,016	570
Other depreciation and amortization	200	762
	4,425	2,938
Operating income	145	2,049
Interest on capital lease	(531)	(1,434)
Other interest and financing charges, net	251	(343)
Earnings/(loss) before income taxes	(135)	272
Income taxes	--	(335)
Net loss	$ (135)	$ (63)
Technocom's interest therein	(75)	(27)
Amortization of excess purchase price	(2,477)	(1,528)
Share of Teleport-TP loss	$(2,552)	$(1,555)

Teleport-TP's revenues for the years ended December 31, 1996 and 1995, include sales to its minority shareholder of $4.6 million and $5.0 million, respectively, making Teleport-TP to some extent economically dependent on its minority shareholder.

Teleport-TP's cost of sales for the year ended December 31, 1996 includes costs of $2.9 million charged by a company controlled by one of the minority shareholders of Technocom.

General and administrative expenses for the year ended December 31, 1996 include costs of $576,000 related to marketing services provided by a company controlled by one of the minority shareholders of Technocom.

(e) BCL

Effective April 1, 1996, the Company acquired all of the outstanding shares of BCL from Cable & Wireless and its Russian partners for cash consideration of $3.0 million, plus acquisition costs of $253,000. BCL is a Russian joint stock company which provides international direct dial, international pay phone and private line services to a corporate customer base in St. Petersburg. BCL's results of operations are included in the consolidated financial statements from the date of acquisition.

The acquisition has been accounted for using the purchase method.

(f) Yellow Pages

On April 26, 1995 the Company, through NWE Cyprus, acquired all the outstanding shares of Yellow Pages, a company incorporated in the Republic of Cyprus, for consideration of 368,820 common shares of the Company valued at $1.9 million, plus acquisition costs of $244,000. Yellow Pages publishes a Yellow Pages

PLD TELEKOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

directory and owns a database of Russian and foreign businesses in St. Petersburg. Yellow Pages' results of operations are included in the consolidated financial statements from the date of acquisition.

The acquisition has been accounted for by the purchase method and substantially all of the consideration was allocated to goodwill.

(4) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1997 and 1996 consist of the following:

	1997	1996
	(IN THOUSANDS)	
Telecommunications equipment:		
Installed	$123,902	$ 80,291
Uninstalled	10,396	3,677
Buildings	5,434	3,194
Office furniture and equipment (including computer equipment)	8,054	6,538
Leasehold improvements	6,082	4,443
Advances to equipment suppliers	4,252	7,999
Total property and equipment	158,120	106,142
Less: accumulated depreciation	(23,122)	(13,103)
Property and equipment, net	$134,998	$ 93,039

Property and equipment includes telecommunications equipment with a cost of $16.5 million which has been pledged under the terms of the long-term installment agreements (see note 9).

(5) OTHER INVESTMENTS

Other investments at December 31, 1997 and 1996 consist of the following:

	1997	1996
	(IN THOUSANDS)	
Investment in St. Petersburg Intercity & International Telephone, at cost	$ --	$16,179
Investment in Monogram Finance Group Limited	3,000	3,000
Equity investment in MTR-Sviaz	3,128	4,588
Equity investment in Rosh Telecom	542	327
Investment in Gorizont-RT, at cost	224	--
Other investments, at cost	142	--
Total	$7,036	$24,094

(a) Investment in St. Petersburg Intercity & International Telephone (SPMMTS)

The Company held a 10.4% equity interest (13.9% voting interest) in SPMMTS, a privatized Russian company which operates the long distance and international gateway in St. Petersburg.

In June 1997, the Company sold its investment in SPMMTS for proceeds of $17.2 million. The gain of $1.0 million is included in gain on disposal of investments and property and equipment on the consolidated statement of operations.

PLD TELEKOM INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(b) Investment in Monogram Finance Group Limited

During the year ended December 31, 1995, the Company advanced $3.0 million to Monogram Finance Group Limited ("Monogram") in exchange for a convertible promissory note due on February 20, 2000. The note is convertible into common shares of Monogram at any time prior to February 20, 2000 at the then current fair market price of the shares.

(c) Equity Investment in MTR-Sviaz

Technocom has a 49% equity interest in a Russian joint stock company, MTR-Sviaz, which is a joint venture with Mosenergo, the Moscow city power utility, to modernize and commercialize a portion of Mosenergo's internal telecommunications network. MTR-Sviaz holds two operating licenses and commenced operations in late 1996. The first license authorizes MTR-Sviaz to provide local and long distance leased line services within the city and region of Moscow. Under the second license, MTR-Sviaz is authorized to provide local telephone services through interconnection (via the Mosenergo network) with the public switched telephone network within the city and region of Moscow. During 1997 and 1996, Technocom leased telecommunications equipment and access rights with a net book value of $4.7 million and $5.2 million, respectively, to MTR-Sviaz under finance leases. For the years ended December 31, 1997 and 1996, the Company recorded finance lease income of $2.0 million and $872,000, respectively, related to these leases. At December 31, 1997 and 1996, the investment in MTR-Sviaz is composed of a finance lease receivable of $4.5 million and $5.0 million, offset by the Company's share of losses of MTR-Sviaz of $1.4 million and $427,000, respectively.

Future minimum lease payments receivable from MTR-Sviaz, by year and in the aggregate, are as follows:

	(IN THOUSANDS)
1998	$2,530
1999	2,530
2000	1,704
2001	547
2002	547
Thereafter	1,958
Total minimum lease payments	9,816
Amounts representing interest	5,324
Present value of minimum lease payments	$4,492

(6) OTHER ASSETS

Other assets at December 31, 1997 and 1996 consist of the following:

	1997	1996
	(IN THOUSANDS)	
Goodwill, net of accumulated amortization of $574 and $359	$12,709	1,796
Deferred financing costs, net of accumulated amortization of $1,836 and $684	7,811	8,540
Deferred charges	861	700
Other	4,384	3,922
	$25,765	$14,958

(7) CASH AND CASH EQUIVALENTS AND BANK INDEBTEDNESS

The Company's cash and cash equivalents at December 31, 1997 and 1996 consist of the following:

	1997	1996
	(IN THOUSANDS)	
Cash and cash equivalents on deposit:		
In Russia and Kazakhstan	$ 7,611	$ 5,210
Outside Russia and Kazakhstan	9,645	10,935
Term deposits (interest bearing), restricted to secure bank loan of Technocom	--	9,000
Term deposits (interest bearing), restricted to secure overdraft balances and accounts payable of Technocom	--	15,529
	$17,256	$40,674

As at December 31, 1997 and 1996, Technocom has overdraft balances of $-0- and $6.8 million and demand bank loans of $-0- and $9.0 million (bearing interest at 5.8125%). The demand bank loans were secured by term deposits in the same amount held at the same bank.

Technocom has entered into bank guarantees in connection with certain of its telecommunications equipment supplier financing agreements. The amount of the guarantees reduces automatically in accordance with installments paid. The amounts outstanding as of December 31, 1997 under these supplier financing agreements secured by bank guarantees are approximately $3.6 million (see note 9).

(8) SHORT-TERM BORROWINGS

The Company's short-term borrowings at December 31, 1997 and 1996 consist of the following:

	1997	1996
	(IN THOUSANDS)	
12% Revolving Credit Notes	$15,420	--
Note payable	4,000	--
Bank loan facility	900	--
	$20,320	--

(a) 12% Revolving Credit Notes

In November 1997, the Company issued $12.4 million in Series A secured revolving credit notes (the "Series A Notes"), and $3.1 million in Series B revolving credit notes (the "Series B Notes"), to The Travelers Insurance Company and The Travelers Indemnity Company (collectively, the "Travelers Parties"). Both the Series A Notes and the Series B Notes are secured by the Company's inventory and accounts receivable. In addition, the Series B Notes are secured by 28 of the 59 Technocom ordinary shares acquired (see note 3(c)).

Both the Series A and B Notes bear interest at an annual rate of 12%, payable monthly in cash. This interest rate increases to 15% if the Company has not raised $20 million in additional equity by May 31, 1998. The Series A and Series B Notes are required to be amortized starting in July 1998. The Series B Notes, whose original principal amount is $3.1 million, are due in full on September 30, 1998, and the Series A Notes, in the original principal amount of $12.3 million, are due in full on December 31, 1998. In addition to issuing the Series A and Series B Notes, the Company also issued to the Travelers Parties a total of 423,000 warrants to purchase Common Stock at $8.625 at any time up to

December 31, 2008 (the "Travelers Warrants"). These warrants have been valued at $423,000 and will be amortized over the term of the revolving credit notes.

The Company may become obligated to issue additional warrants to the holders in the event that certain amortization payments are not made in accordance with the agreement or if the Notes are not paid in full at maturity. Additionally, in the event that the Notes are not paid in full at maturity, all warrants issued and issuable carry an exercise price of $.01 per share.

(b) Note Payable

Note payable at December 31, 1997 consists of a promissory note issued to Scientific Atlanta, Inc. ("Scientific Atlanta") on June 10, 1997. The promissory note, in settlement of equipment and services, is due on June 10, 1998. This note was discounted to West Merchant Bank at a rate of approximately 7.84%. The Company's weighted average interest rate for the note payable is approximately 8.45%.

(c) Bank Loan Facility

In December 1997, PeterStar entered into a $2.0 million, one-year loan facility with BNP Dresdner Bank for the purchase of telecommunications equipment. Interest is charged on borrowed amounts at three-month LIBOR plus 2.5% per annum.

The amount borrowed on the loan facility at December 31, 1997 was $900,000.

(9) LONG-TERM DEBT

The Company's long-term debt at December 31, 1997 and 1996 consists of the following:

<TABLE>
<CAPTION>

	1997	1996
	(IN THOUSANDS)	
14% Senior Discount Notes	$ 95,714	$ 81,454
9% Convertible Subordinated Notes	26,500	26,500
Supplier financing	11,302	--
Total	$133,516	$107,954

</TABLE>

(a) 14% Senior Discount Notes and 9% Convertible Subordinated Notes.

On June 12, 1996, the Company completed a $149.5 million private placement consisting of: (i) 123,000 Units consisting of $123.0 million 14% Senior Discount Notes ("Senior Notes") due 2004 and ten-year Warrants to purchase a total of 4,182,000 shares of common stock at a price of $6.60 per share; and (ii) $26.5 million 9% Convertible Subordinated Notes ("Convertible Notes") due 2006, convertible into common stock of the Company at a price of $6.90 per share.

The 123,000 Units were issued at a discount for gross proceeds of $87.7 million, of which $13.6 million was allocated to the Warrants and $74.1 million was allocated to the Senior Notes for accounting purposes. The Senior Notes have a zero coupon until December 1, 1998. After such date, the notes require semi-annual cash interest payments on June 1 and December 1. The difference between the carrying value and the principal amount of $123.0 million is being charged to earnings on an effective yield basis which, together with cash interest payments, results in an effective yield of 16.8%.

The Convertible Notes require semi-annual cash interest payments on June 1 and December 1.

The terms of the Senior Notes require the Company to raise additional equity of at least $20.0 million by May 31, 1998. Failure to raise additional equity will cause the interest rate on the Senior Notes to increase to 14.5%.

The Company is party to a Registration Rights Agreement pursuant to which the Senior Notes were to have been exchanged for registered securities and the Convertible Notes registered for the shelf by October 1996. Failure to cause the registration to become effective results in additional interest payable at a rate of $0.01 per week per $1,000 of accreted value of the Senior Notes and principal amount of the Convertible Notes, increasing by $0.01 per week for each 90-day period that the securities are not registered. Additional interest ceases to accrue when the required registration statements become effective.

All, or a portion, of the Senior Notes are redeemable at the option of the Company after June 13, 2001 at 108% of the principal amount plus accrued and unpaid interest, reducing to 104% for the year commencing June 1, 2002 and 100% on or after June 1, 2003.

The Convertible Notes are redeemable at the option of the Company on or after June 1, 2000 under certain conditions at a redemption price equal to the principal amount plus accrued and unpaid interest.

The Senior Notes and the Convertible Notes were issued under the terms of Indentures dated May 31, 1996. Pursuant to the Indentures, the Company has pledged its investments in NWE Cyprus (which holds the Company's interests in PeterStar, WTC, and Yellow Pages), WTC (which holds the Company's interest in BECET), BCL, a wholly-owned special purpose leasing subsidiary incorporated in Cyprus, and the Company's investment in preferred stock of Technocom. In addition, each of these subsidiaries (except Technocom) have guaranteed the Senior Notes and the Convertible Notes.

A portion of the net proceeds of $105.0 million (after agent's commission and expenses) was used to meet the Company's $20.0 million commitment to Technocom (see note 3(c)) and to repay a revolving credit facility in the amount of $22.5 million. Under the terms of the Indentures, $46.0 million was deposited into an escrow account which is invested in eligible cash equivalents, as defined by the Indentures. The escrow funds are also pledged as security for the Company's obligations under the Indentures. Escrow funds may be disbursed for purposes of making qualifying investments of up to $9.0 million in telecommunications companies operating in Russia or Kazakhstan, or for purposes of investing in telecommunications equipment through the Company's special purpose leasing subsidiary, which then leases that equipment to the Company's operating subsidiaries. Investments in leases are also pledged as security under the Indentures and all payments received under the terms of the leases are required to be deposited into a separate escrow account, to be used to purchase additional telecommunications equipment for lease. On or after November 30, 1998, the Company must also maintain sufficient funds in the escrow accounts to meet the next interest payment due on both the Senior Notes and Convertible Notes.

In 1997, the Company made the determination to solicit the holders of the Senior Notes and the Convertible Notes with a view to making certain amendments to the Indentures governing such Notes, intended to give the Company more flexibility in conducting its business and also to clarify certain provisions of those Indentures, in both cases based upon the Company's experience in operating under the terms of the Indentures since they were first executed in June 1996.

Under each of the Indentures, the consents of holders of not less than a majority in principal amount at stated maturity of each of the Senior Notes and the Convertible Notes are required to authorize their amendment.

On March 4, 1998, the Company mailed to the holders of record on March 3, 1998 of the Senior Notes and the Convertible Notes a consent solicitation statement (the "Consent Solicitation"). Pursuant to the Consent Solicitation, the Company offered to each holder of the Senior Notes who consented to the amendment of the Senior Note Indenture, a five-year warrant to purchase 1.8 shares of Common Stock at a price of $6.90 per share for each $1,000 in unpaid principal amount at stated maturity of the Senior Notes held by such holder, and to each holder of the Convertible Notes who consented to the amendment of the Convertible Note Indenture a five-year warrant to purchase 2 shares of Common Stock at a price of $6.90 per share for each $1,000 in unpaid principal amount of the Convertible Notes held by such holder.

As of close of business on March 18, 1998, when the solicitation period ended, parties holding 100% in principal amount at stated maturity of the Senior Notes and 85.7% in principal amount at stated maturity of the Convertible Notes had consented to the amendments. Pursuant to such consents, The Bank of New York, as trustee under the Indentures, the Company and certain other parties executed a supplemental indenture bringing the amendments to the Indentures and certain related documents into effect.

At December 31, 1997 and 1996, the fair value of the Convertible Notes and Senior Notes approximates their carrying value.

(b) Supplier Financing

Amounts payable under the terms of the long-term installment purchase agreements are as follows (see notes 4 and 7):

YEAR	AMOUNT (IN THOUSANDS)
1999	$ 4,616
2000	3,864
2001	2,795
2002	2,361
Thereafter	--
	$13,636
Less: amounts representing interest	2,334
	$11,302

The above amounts have been calculated using interest rates of 8.0% to 8.5%.

(10) SHAREHOLDERS' EQUITY

(a) Common Stock

On February 28, 1997, as a result of the Company's continuance as a Delaware corporation, the authorized capital stock was changed from an unlimited number of common shares without nominal or par value to 100,000,000 common shares with a par value of $.01 per share. As a result of the change in the par value, the Common Stock was decreased by $180.6 million and additional paid-in capital was increased by the same amount.

(b) Preferred Stock

The Company had the following preferred shares issued and outstanding at December 31, 1997 and 1996:

	NUMBER OF SHARES	1997 (IN THOUSANDS)	1996 (IN THOUSANDS)
Series II	405,217	$ 4	$--
Series III	41,667	--	31
		$ 4	$31

In addition, the capital stock was also changed from an unlimited number of preferred shares issuable in series to 100,000,000 preferred shares with a par value of $.01 per share issuable in series. As a result of the change in par value, the preferred stock has been reflected at its par value in the 1997 consolidated financial statements.

The Series II and III preferred shares, issued at a price of Cdn.$1 (US $0.74) per share, are redeemable at the option of the Company at Cdn.$1 per share. The shares do not pay dividends and holders thereof do not have voting rights.

(c) Shares Reserved

In addition to stock options outstanding (see note 12), the Company has reserved 4,182,000 common shares for issuance on exercise of outstanding Warrants and 3,840,580 common shares on conversion of outstanding Convertible Notes (see note 9). In addition, at December 31, 1997, the Company has 500,000 Warrants outstanding to purchase common shares of the Company at a weighted-average exercise price of $8.11, of which 250,000 Warrants at an exercise price of Cdn.$11.31 were granted to Cable & Wireless in 1994 and 100,000 Warrants at an exercise price of US$4.70 were granted in 1996 to the agent in relation to the debt financing described in note 9. Warrants expire five years after the date of grant.

In connection with the issuance of the Series A and Series B Notes (see note 8(a)), the Company issued to the Travelers Parties a total of 423,000 warrants to purchase Common Stock at $8.625 at any time up to December 31, 2008 and may become obligated to issue additional warrants to the Travelers Parties in the event that certain amortization payments are not made, or if the Series A or Series B Notes are not paid in full at their maturity.

At the end of March of 1998, in connection with the Consent Solicitation (see note 9(a)), the Company will issue a total of 123,000 five-year warrants to purchase 1.8 shares of Common Stock at $6.90 per share to the holders of the Senior Notes, and a total of 22,700 five-year warrants to purchase 2 shares of Common Stock at a price of $6.90 per share to the holders of the Convertible Notes.

(11) INCOME TAXES

The geographic components of loss before income taxes and minority interest are as follows:

	1997	1996	1995
	(IN THOUSANDS)		
United States	$(35,163)	$ --	$ --
Canada	--	(20,829)	(16,747)
Russia and Kazakhstan	31,735	14,558	3,307
	$ (3,428)	$ (6,271)	$(13,440)

The provision for income taxes, which relates substantially to current income taxes in the Company's Russian and Kazakh businesses, differs from the United States (34% -- February 28, 1997 onwards) and

Canadian (44% -- January 1, 1995 to February 27, 1997) Federal and state/provincial statutory tax rates as follows:

	1997	1996	1995
	(IN THOUSANDS)		

<S>	<C>	<C>	<C>
Provision for income taxes at statutory rates	$(1,166)	$(2,760)	$(5,913)
Add/(deduct) the tax effect of:			
Non-deductible amortization of licenses and goodwill	2,561	3,238	2,720
Other non-deductible expenses	2,273	1,753	1,010
Concessions on capital expenditures	(3,854)	(1,000)	--
Differences in Russian and Kazakh statutory tax rates	(210)	(1,696)	(350)
Change in valuation allowance related to deferred tax assets	8,135	4,134	4,023
Provision for income tax	$ 7,739	$ 3,669	$ 1,490

</TABLE>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 1997 and 1996 are as follows:

<TABLE>
<CAPTION>

	1997	1996
	(IN THOUSANDS)	
<S>	<C>	<C>
Deferred tax assets:		
Share issue costs	$ --	$ 2,150
Operating loss carryforwards	8,929	16,200
Capital loss carryforwards	--	8,400
Expenses not yet deducted for Russian and Kazakh tax purposes	18,646	3,760
	27,575	30,510
Less: valuation allowance	(8,246)	(29,350)
Net deferred tax assets	19,329	1,160
Deferred tax liabilities:		
Debt issue costs	(1,160)	(1,160)
Expenses not currently deducted for book purposes	(705)	--
Tax on revenues not yet realized for Russian tax purposes	(17,464)	--
Deferred tax liabilities	(19,329)	(1,160)
	$ --	$ --

</TABLE>

At December 31, 1997, the Company had operating loss carryforwards for United States (U.S.) federal income tax purposes of approximately $26.3 million. In assessing the realizability of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning in making these assessments.

At December 31, 1996, the Company had operating loss carryforwards for Canadian income tax purposes of approximately $36.0 million and allowable capital loss carryforwards of approximately $19.0 million. Upon

the Company's emigration to the United States in February 1997, the Company was deemed to dispose of all its assets at fair value. As a result, a substantial portion of the operating and capital loss carryforwards were utilized. Remaining losses do not carry over for U.S. tax purposes.

(12) EQUITY COMPENSATION PLAN

The Company has an Equity Compensation Plan (the "Plan"), which was approved by the shareholders at the Annual Meeting in June of 1997. The Plan amends and supersedes in its entirety the PLD Telekom Inc. Stock Option Plan (the "Prior Plan"). No further grants will be made under the Prior Plan following the adoption of the Plan and grantees under the Prior Plan have the option of continuing to have existing grants covered by the terms of the Prior Plan, or having these grants instead covered by the terms of the Plan.

Pursuant to the Plan, the Company's Board of Directors may grant stock options, stock appreciation rights, restricted stock and performance units to directors, officers and key employees of, and certain consultants and advisors to, the Company and its subsidiaries. The Plan is administered by a committee of the Board of Directors of the Company consisting solely of "outside directors' and to date awards under the Plan have been limited to stock options.

The exercise price of each option is generally equal to the fair market value of the shares of PLD's common stock on the date of grant. The maximum term for which options are exercisable is ten years. Options shall become exercisable in accordance with such terms and conditions, consistent with the Plan, as may be determined by the committee. However, stock options granted to Non-Employee Directors are immediately exercisable.

The per share weighted-average fair value of stock options granted during 1997, 1996 and 1995 was $2.51, $2.11 and $2.31, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: 1997 -- risk-free interest rate of 6.5%, expected life of six years and expected volatility of 40%; 1996 -- risk-free interest rate of 6.5%, expected life of five years and expected volatility of 30%; 1995 -- risk-free interest rate of 6.3%, expected life of five years and expected volatility of 30%.

The Company applies APB Opinion No. 25 in accounting for its Plan and, accordingly, no compensation cost has been recognized for its stock options in the financial statements. Had the Company determined compensation cost based on the fair value at the date of grant for its stock options under SFAS 123, the Company's loss would have been increased to $22.9 million ($0.71 per share), $13.6 million ($0.43 per share) and $16.0 million ($0.51 per share) for the years ended December 31, 1997, 1996 and 1995, respectively. The pro forma loss for the year reflects only options granted in 1997, 1996 and 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS 123 is not reflected in the pro forma loss for the year because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to January 1, 1995 is not considered.

Changes in stock options outstanding are as follows:

<TABLE>
<CAPTION>

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICES
Outstanding at December 31, 1994	774,500	$7.83
Granted	610,000	$5.96
Exercised	(16,000)	$4.07
Canceled	(387,000)	$8.57
Outstanding at December 31, 1995	981,500	$6.61
Granted	1,010,000	$7.38
Exercised	(189,000)	$5.25
Canceled	(120,000)	$5.93
Outstanding at December 31, 1996	1,682,500	$7.25
Granted	1,405,000	$5.27
Exercised	(302,166)	$5.68
Canceled	(15,000)	$5.25
Outstanding at December 31, 1997	2,770,334	$6.41

</TABLE>

At December 31, 1996 and 1995, the number of options exercisable was 382,500 and 371,500 and the weighted-average exercise price of those options was $7.92 and $7.55, respectively.

The following table summarizes information about the stock options outstanding at December 31, 1997:

<TABLE>
<CAPTION>

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 12/31/97	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 12/31/97	WEIGHTED-AVERAGE EXERCISE PRICE
<C>	<C>	<S>	<C>	<C>	<C>
$ 5.06 - 6.00	1,453,334	8.4 years	$ 5.30	688,332	$ 5.45
6.10 - 6.69..	526,500	3.3	6.28	308,499	6.27
7.77 - 8.02..	643,000	3.3	7.99	251,000	7.99
10.12 - 11.38..	147,500	1.0	10.92	147,500	10.92
	2,770,334			1,395,331	

</TABLE>

(13) RELATED PARTY TRANSACTIONS

(a) PeterStar has entered into a barter agreement with an indirect minority shareholder under which the two parties have exchanged services valued at $3.4 million and $3.0 million during 1997 and 1996, respectively. The amounts are recorded in the consolidated statements of operations as telecommunications revenues and direct costs.

(b) Direct costs for the years ended December 31, 1997, 1996 and 1995 include $4.2 million, $3.3 million and $1.8 million, respectively, paid to the other shareholder of BECET in relation to the carriage of traffic over the public telephone network.

(c) Amounts due from related parties at December 31, 1997 include $2.5 million principal and interest due from MTR-Sviaz in relation to a finance lease (see note 5(c)), $1.6 million and $3.0 million due from a minority shareholder of PeterStar under short-term and long-term loans, respectively, and $2.2 million due from a company controlled by a minority shareholder of Technocom for telecommunications services.

Amounts due from related parties at December 31, 1996 include $1.1 million principal and interest due from MTR-Sviaz in relation to a finance lease (see note 5(c)), $600,000 due from a minority shareholder of PeterStar under a short-term loan and $2.5 million due from a company controlled by a minority shareholder of Technocom for telecommunications services.

(d) Amounts due to related parties at December 31, 1997 include a loan due to the minority shareholder of Teleport-TP in the amount of $477,000, trade payables of Teleport-TP in the amount of $3.2 million due to a company controlled by one of the minority shareholders of Technocom, carrier charges of $817,000 due to the other shareholder of BECET, a loan due to a company controlled by a minority shareholder of Technocom in the amount of $336,000, payments due to MTR-Sviaz for telephone services and connection charges in the amount of $292,000, and an amount due to a company controlled by one of the minority shareholders of Technocom for equipment received from them in the amount of $204,000.

Amounts due to related parties at December 31, 1996 include a loan due to the minority shareholder of Teleport-TP in the amount of $477,000, trade payables of Teleport-TP in the amount of $2.9 million due to a company controlled by one of the minority shareholders of Technocom, carrier charges of $234,000 due to the other shareholder of BECET and a loan due to a company controlled by a minority shareholder of Technocom in the amount of $336,000.

In 1997, Technocom paid a total of $220,833 pursuant to two management contracts with its two minority shareholders for provision of the services of two directors of Technocom.

(e) The Company has guaranteed telephone billing system lease payments of a shareholder of PeterStar totaling $2.5 million. Lease payments of $124,000 are due quarterly until July 1998. At December 31, 1995, full provision was made for all amounts paid to date under the guarantee and for all future amounts. The balances of $373,000 and $871,000 remaining under the lease as of December 31, 1997 and 1996 are included in other current liabilities.

(f) General and administrative expenses for the years ended December 31, 1997 and 1996 include consulting fees of $1.7 million and $300,000, respectively, charged by a minority shareholder of PeterStar.

(g) See also notes 3(c), (d), (e) and 5(c).

(14) COMMITMENTS AND CONTINGENCIES

(a) Intercompany

The Company paid certain costs on behalf of, and made certain loans to, PeterStar, resulting in an intercompany balance of approximately $27.0 million at December 31, 1996. During 1997, an agreement was reached with the minority shareholders to recapitalize PeterStar. The recapitalization of PeterStar in an amount of $13.8 million was completed during September 1997, with such funds being used to repay an equal amount of these advances. Negotiations with the minority shareholders of PeterStar as to the repayment of the remaining intercompany balance due to the Company were concluded in March 1998 and resulted in a further reduction of approximately $5.3 million in PeterStar's liability. The effect of this settlement was to increase minority interest expense by approximately $2.1 million in 1997.

(b) Currency Licenses

Under applicable Russian currency control regulations, the Company's Russian subsidiaries are required to have certain licenses from the Central Bank of Russia to enable them to make payments of and accept receipts of hard currency. While PeterStar and BCL have or have applied for all the necessary licenses, failure to receive the remaining licenses could result in fines and penalties, which the Company does not believe will be material.

(c) Russian Taxation

Certain of the Company's Russian subsidiaries have accrued profits and other taxes based on interpretations of the law which may ultimately be disputed by the Russian taxation authorities. The exposure to additional profits and other taxes, fines and penalties is not determinable. However, the Company does not believe this would have a material adverse effect on the financial position or results of operations of the Company.

(d) Purchase Commitments

At December 31, 1997, Technocom and PeterStar have commitments of approximately $943,000 and $11.4 million, respectively, related to the acquisition of telecommunications equipment. The PeterStar supply contract provides for financing of the entire amount over approximately five years.

(e) Line Rental

While it has not had to do so historically, PeterStar anticipates that it will have to begin paying local line rental charges to the Petersburg Telephone System in 1998. The exact fee, and the date from which charges will be levied, have yet to be determined, but the Company does not believe that such payments will have a material adverse effect on the Company's financial position or results of operations.

(f) Transponder Capacity

Teleport-TP currently utilizes capacity on three Intelsat satellites for the provision of its international and domestic long distance services, pursuant to a fifteen year contract signed with Intelsat in January 1993. The agreement requires quarterly payments of $616,500 for the remainder of its term.

(15) CANADIAN ACCOUNTING PRINCIPLES

These consolidated financial statements have been prepared in accordance with U.S. GAAP which, in the case of the Company, conform with Canadian GAAP, except as follows:

(a) Net loss for the years ended December 31:

	1997	1996	1995
		(IN THOUSANDS)	
Net loss for the year, as reported	$(20,566)	$(12,461)	$(15,481)
Non-cash interest on Convertible Notes	(508)	(252)	--
Net loss for the year under Canadian GAAP	$(21,074)	$(12,713)	$(15,481)

Under Canadian GAAP, the Convertible Notes are a compound financial instrument and the debt and equity elements of the instrument are separately accounted for. For Canadian GAAP purposes, $13.9 million of the Convertible Notes were classified as equity and $12.6 million were classified as debt on issuance. Additional interest expense is charged to the consolidated statements of operations to accrete the debt portion to the principal amount of $26.5 million at maturity which, together with cash interest payments, results in an effective yield of 22.3%. Accordingly, long-term debt at December 31, 1997 and 1996 would amount to $120.3 million and $94.3 million, respectively, and shareholders' equity would amount to $140.4 million and $151.6 million, respectively, under Canadian GAAP.

Effective December 31, 1996, the Company changed its Canadian GAAP policy with respect to pre-operating costs. Such costs may not be capitalized under U.S. GAAP and, therefore, all such costs have been retroactively expensed for Canadian GAAP purposes. The change in accounting policy decreased the Canadian GAAP loss in 1995 by $636,000. The deficit at December 31, 1995 was increased by $2.2 million.

(b) The following non-cash investing and financing activities would be included in the consolidated statements of cash flows under Canadian GAAP.

	1997	1996	1995
		(IN THOUSANDS)	
Investing:			
Investment in Yellow Pages	$ --	$ --	$(1,900)
Investment in BECET	--	--	--
Capital expenditures	(11,302)	--	--
Investments in Technocom	(7,681)	--	--
Financing:			
Issue of common shares	7,681	--	6,786
Conversion of preferred shares	--	--	(4,886)
Supplier financing	11,302	--	--
Recapitalization of PeterStar	4,012	--	--
Due from related party	(4,012)	--	--

(16) CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of selected quarterly financial data for the years ended December 31, 1997 and 1996:

	1997 QUARTERS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Operating revenues	$23,891	$26,389	$29,534	$34,610
Operating income	2,481	2,634	2,872	4,031
Interest and other income	1,394	1,260	625	335
Interest expense	(4,269)	(4,120)	(4,457)	(5,000)
Income taxes	1,074	2,366	2,048	2,251
Minority interest	1,766	1,457	1,391	4,785
Net loss for the period	(4,342)	(3,725)	(5,377)	(7,122)
Net loss per common share	$ (0.14)	$ (0.12)	$ (0.17)	$ (0.22)

Minority interest for the fourth quarter of 1997 includes $2.1 million in connection with the settlement reached with the minority shareholders of PeterStar (see note 14(a)).

	1996 QUARTERS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Operating revenues	$10,184	$13,478	$17,011	$21,293
Operating income/(loss)	(987)	1,897	1,782	175
Interest and other income	855	1,075	1,263	1,666
Interest expense	(296)	(1,683)	(3,861)	(4,133)
Income taxes	828	526	1,764	551
Minority interest	97	434	1,118	872
Net loss for the period	(1,623)	(808)	(4,758)	(5,272)
Net loss per common share	$ (0.05)	$ (0.03)	$ (0.15)	$ (0.16)

Operating revenues and direct costs in the fourth quarter of 1996 include $3.0 million in connection with a barter agreement with an indirect minority shareholder of PeterStar (see note 13(a)).

(17) OPERATIONS BY GEOGRAPHIC AREA

A summary of the Company's operations by geographic region is as follows:

	1997	1996	1995
	(IN THOUSANDS)		
Revenues:			
Russia	$ 84,412	42,661	19,780
Kazakhstan	30,012	19,305	9,340
North America	--	--	--
Total	$114,424	61,966	29,120
Income/(loss) before income taxes and minority interest			
Russia	$ 21,603	9,615	3,943
Kazakhstan	10,132	4,943	(636)
North America	(35,163)	(20,829)	(16,747)

Total	$ (3,428)	(6,271)	(13,440)

</TABLE>

	1997	1996
	(IN THOUSANDS)	
Identifiable assets:		
Russia	$216,107	170,139
Kazakhstan	58,249	54,784
North America	61,230	81,434
Total	$335,586	306,357

(18) CONSOLIDATING FINANCIAL INFORMATION

NWE Cyprus, WTC, BCL, PLD Asset Leasing Limited ("PLD Asset Leasing") and PLD Capital Limited ("PLD Capital") (collectively, the "Subsidiary Guarantors") have guaranteed the Senior Notes and the Convertible Notes described in note 9. The following consolidating balance sheets as of December 31, 1997 and 1996 and consolidating statements of operations and cash flows for each of the years in the three-year period ended December 31, 1997, depict the financial position and results of operations and cash flows for the Company, presented using the equity method of accounting for its subsidiaries, the combined Subsidiary Guarantors, presented using the equity method of accounting, and the combined non-guarantor subsidiaries together with consolidating eliminations to arrive at the consolidated balance sheets, statements of operations and cash flows of the Company and its subsidiaries. Each of the Subsidiary Guarantors are wholly owned and their guarantees are full, unconditional and joint and several. Ownership of all other significant subsidiaries and their holdings are more fully described in note 3.

NWE Cyprus and WTC are holding companies and have no operations independent of their subsidiaries. PLD Asset Leasing and PLD Capital are special purpose holding companies incorporated in Cyprus which lease equipment to non-guarantor subsidiaries. Separate financial statements for the Subsidiary Guarantors are not presented because they are not material to investors.

There can be no assurance that guarantees by the Subsidiary Guarantors can be enforced easily, if at all. Each of such companies are incorporated in jurisdictions which are outside the United States. Persons seeking to enforce those guarantees may therefore need to do so outside the United States. The need to bring enforcement actions in such other jurisdictions, and to comply with the laws of those jurisdictions in relation thereto, may significantly complicate, delay or limit enforcement of such guarantees.

In addition, the ability to enforce an "upstream" guarantee (or guarantee by a subsidiary of a parent's obligations) is subject to some uncertainty not only in the United States but also other applicable jurisdictions such as Cyprus and Russia, and may well be subject to similar uncertainty in other jurisdictions where such guarantee may be sought to be enforced against any Subsidiary Guarantor. Efforts have been made to minimize the effect of any possible invalidity of the guarantees by limiting the extent to which they may be enforced against a Subsidiary Guarantor to such amounts which will not render the guarantees void, voidable or unenforceable, and, in the case of PLD Asset Leasing and PLD Capital Limited, by limiting the activities of each such subsidiary to its leasing, selling or investing operations and in the case of PLD Asset Leasing, PLD Capital and NWE Cyprus by limiting the activities of each such subsidiary to incur indebtedness. However, there can be no assurance that such efforts have been successful.

Payments under the guarantee given by BCL may require a license from the

Russian Central Bank and may also (to the extent such payments are considered to be interest) be subject to Russian withholding tax. While under current law payments under the guarantees by PLD Asset Leasing, PLD Capital, WTC and NWE Cyprus currently in existence may be made without the need for licenses or withholding of tax, there can be no assurance that PLD Asset Leasing, PLD Capital, WTC or NWE Cyprus will not encounter such problems hereafter.

Finally, the ability of a foreign claimant to enforce a judgment or arbitral award obtained in respect of a guarantee outside those jurisdictions in which the Subsidiary Guarantors are incorporated may be limited. For example, some jurisdictions (i.e., Russia) generally only recognize foreign judgments or arbitral awards pursuant to bilateral or multilateral treaty arrangements. In addition, the local courts may have limited experience in the enforcement of foreign judgments. The possible need to re-litigate in the jurisdiction in which a Subsidiary Guarantor is located a judgment or arbitral award obtained elsewhere in respect of its guarantee may significantly delay the enforcement of such judgment or award.

There are no restrictions in the charter or other foundation documents of the Subsidiary Guarantors which restrict their ability to pay dividends, and each of such companies is a wholly owned, direct or indirect, subsidiary of the Company. However, each such company's ability to pay dividends may be affected, from time to time, by: (i) their own ability to generate sufficient cash from their operations; (ii) the level of taxation, particularly corporate profits and withholding taxes, in the jurisdictions in which they operate and (iii) exchange controls and currency repatriation restrictions in effect in the jurisdictions in which they operate.

CONSOLIDATING SCHEDULES

CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 1997
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

<S>	PARENT <C>	SUBSIDIARY GUARANTORS (COMBINED) <C>	NON-GUARANTOR SUBSIDIARIES (COMBINED) <C>	ELIMINATIONS <C>	CONSOLIDATED <C>
ASSETS					
Current assets:					
Cash and cash equivalents	5,513	241	11,502	--	17,256
Trade receivables, net of allowance	--	1,239	15,839	--	17,078
Other receivables and prepaids	1,220	168	7,227	--	8,615
Inventory	--	214	2,588	--	2,802
Due from related parties	1,600	--	4,720	--	6,320
Total current assets	8,333	1,862	41,876	--	52,071
Escrow funds	33,868	--	--	--	33,868
Intercompany investments and advances	210,844	148,295	610	(359,749)	--
Property and equipment, net	191	6,181	129,780	(1,154)	134,998
Telecommunications licenses, net of amortization	--	--	2,627	76,210	78,837
Due from related parties	3,011	--	--	--	3,011
Other investments	3,000	7,384	4,036	(7,384)	7,036
Other assets	11,971	2,846	803	10,145	25,765
Total assets	271,218	166,568	179,732	(281,932)	335,586
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities:					
Bank indebtedness	--	--	--		--
Short-term borrowings	19,420	--	900	--	20,320
Accounts payable	1,224	1,861	10,512	--	13,597
Accrued liabilities	371	34	5,495	(150)	5,750
Due to related parties	--	--	6,394	(1,058)	5,336
Deferred revenues	--	--	3,128	--	3,128
Customer deposits	--	--	3,070	--	3,070
Other current liabilities	758	283	1,258	(43)	2,256

Total current liabilities......	21,773	2,178	30,757	(1,251)	53,457
Long-term debt..........................	122,214	--	11,302	--	133,516
Intercompany payables...................	--	45,949	36,250	(82,199)	--
Minority interest.......................	--	--	--	21,382	21,382
Commitments and contingencies					
Shareholders' equity					
Preferred stock.......................	4	--	40,000	(40,000)	4
Common stock..........................	333	125,640	33,908	(159,548)	333
Additional paid-in capital............	204,007	--	--	--	204,007
Accumulated deficit...................	(77,113)	(7,199)	27,515	(20,316)	(77,113)
Total shareholders' equity.....	127,231	118,441	101,423	(219,864)	127,231
Total liabilities and shareholders' equity.........	271,218	166,568	179,732	(281,932)	335,586

</TABLE>

CONSOLIDATING SCHEDULES

CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

<S>	PARENT <C>	SUBSIDIARY GUARANTORS (COMBINED) <C>	NON-GUARANTOR SUBSIDIARIES (COMBINED) <C>	ELIMINATIONS <C>	CONSOLIDATED <C>
		ASSETS			
Current assets:					
Cash and cash equivalents..........	7,271	331	33,072	--	40,674
Trade receivables, net of allowance......................	--	880	9,648	--	10,528
Other receivables and prepaids.....	126	155	3,241	--	3,522
Inventory..........................	--	70	1,770	--	1,840
Due from related parties...........	600	--	3,808	--	4,408
Total current assets.......	7,997	1,436	51,539	--	60,972
Escrow funds.......................	40,984	--	--	--	40,984
Intercompany investments and advances.......................	170,813	116,606	82	(287,501)	--
Property and equipment, net........	334	6,494	87,976	(1,765)	93,039
Telecommunications licenses, net of amortization...................			4,964	67,346	72,310
Other investments..................	19,179	3,910	4,915	(3,910)	24,094
Other assets.......................	8,561	1,814	895	3,688	14,958
Total assets..............	247,868	130,260	150,371	(222,142)	306,357
		LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:					
Bank indebtedness..................	--	--	15,829	--	15,829
Short-term borrowings..............	--	--		--	--
Accounts payable...................	322	1,929	15,530	--	17,781
Accrued liabilities................	523	7	2,596	--	3,126
Due to related parties.............	--	--	4,039	--	4,039
Deferred revenues..................	--	--	1,078	--	1,078
Customer deposits..................	--	--	1,644	--	1,644
Intercompany and other current liabilities.....................	1,115	12,658	2,183	(12,715)	3,241
Total current liabilities..............	1,960	14,594	42,899	(12,715)	46,738
Long-term debt.....................	107,954	--	--	--	107,954
Intercompany payables..............	--	10,745	39,953	(50,698)	--
Minority interest..................	--	--	638	13,073	13,711

Commitments and contingencies					
Shareholders' equity					
Preferred stock....................	31	--	40,000	(40,000)	31
Common stock.......................	180,878	125,640	20,392	(146,032)	180,878
Additional paid-in capital.........	13,592	--	--		13,592
Accumulated deficit................	(56,547)	(20,719)	6,489	14,230	(56,547)
Total shareholders' equity..................	137,954	104,921	66,881	(171,802)	137,954
Total liabilities and shareholders' equity.....	247,868	130,260	150,371	(222,142)	306,357

</TABLE>

CONSOLIDATING STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 1997
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

<TABLE>
<CAPTION>

<S>	PARENT <C>	NON-SUBSIDIARY GUARANTORS (COMBINED) <C>	GUARANTOR SUBSIDIARIES (COMBINED) <C>	ELIMINATIONS <C>	CONSOLIDATED <C>
Revenues:					
Telecommunications............	$ --	7,648	104,820	--	112,468
Finance lease income..........	--	783	1,956	(783)	1,956
Management fees...............	3,155	--	3,507	(6,662)	--
	3,155	8,431	110,283	(7,445)	114,424
Direct costs....................	--	2,623	36,563	--	39,186
Gross profit..........	3,155	5,808	73,720	(7,445)	75,238
Operating expenses:					
General and administrative....	7,401	5,679	29,186	(3,550)	38,716
Depreciation..................	(246)	812	9,867	--	10,433
Amortization..................	2,973	4,914	334	(354)	7,867
Management fees...............	8,845	(3,155)	(5,690)	--	--
Taxes other than income taxes.....................	618	602	4,984	--	6,204
Total operating expenses............	19,591	8,852	38,681	(3,904)	63,220
Operating income/(loss).......	(16,436)	(3,044)	35,039	(3,541)	12,018
Other income/(expense):					
Share of income/(loss) from equity investments, after amortization of licenses...	9,283	18,222	(537)	(27,505)	(537)
Interest and other income.....	2,639	48	939	(12)	3,614
Interest expense..............	(16,142)	(5)	(1,704)	5	(17,846)
Amortization of deferred financing costs...........	(1,152)	--	--	--	(1,152)
Other.........................	1,242	(276)	(491)	--	475
Loss before income taxes and minority interest............	(20,566)	14,945	33,246	(31,053)	(3,428)
Income taxes....................	--	426	7,356	(43)	7,739
Loss before minority interest............	(20,566)	14,519	25,890	(31,010)	(11,167)
Minority interest...............	--	--	(639)	10,038	9,399
Net loss..............	$(20,566)	14,519	26,529	(41,048)	(20,566)

</TABLE>

CONSOLIDATING STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 1996
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	PARENT	SUBSIDIARY GUARANTORS (COMBINED)	NON-GUARANTOR SUBSIDIARIES (COMBINED)	ELIMINATIONS	CONSOLIDATED
Revenues:					
Telecommunications	$ --	5,101	55,461	--	60,562
Finance lease income	--	--	1,404	--	1,404
Management fees	2,085	--	4,230	(6,315)	--
	2,085	5,101	61,095	(6,315)	61,966
Direct costs	--	2,103	19,606	--	21,709
Gross profit	2,085	2,998	41,489	(6,315)	40,257
Operating expenses:					
General and administrative	3,575	1,588	18,756	872	24,791
Depreciation	--	502	4,925	(201)	5,226
Amortization	--	4,832	59	(8)	4,883
Management fees	4,230	--	2,085	(6,315)	--
Taxes other than income taxes	11	323	2,156	--	2,490
Total operating expenses	7,816	7,245	27,981	(5,652)	37,390
Operating income/(loss)	(5,731)	(4,247)	13,508	(663)	2,867
Other income/(expense):					
Share of income/(loss) from equity investments, after amortization of licenses	861	8,443	(215)	(11,781)	(2,692)
Interest and other income	2,810	173	1,910	(34)	4,859
Interest expense	(9,463)	--	(510)	--	(9,973)
Amortization of deferred financing costs	(684)	--	--	--	(684)
Other	(254)	45	(429)	(10)	(648)
Loss before income taxes and minority interest	(12,461)	4,414	14,264	(12,488)	(6,271)
Income taxes	--	194	3,475	--	3,669
Loss before minority interest	(12,461)	4,220	10,789	(12,488)	(9,940)
Minority interest	--	--	19	2,502	2,521
Net loss	$(12,461)	4,220	10,770	(14,990)	(12,461)

CONSOLIDATING STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 1995
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	PARENT	SUBSIDIARY GUARANTORS (COMBINED)	NON-GUARANTOR SUBSIDIARIES (COMBINED)	ELIMINATIONS	CONSOLIDATED
Revenues:					
Telecommunications	$ --	--	27,686	--	27,686
Finance lease income	--	--	1,434	--	1,434

Management fees................	1,200	--	1,233	(2,433)	--
	1,200	--	30,353	(2,433)	29,120
Direct costs....................	--	--	10,382	--	10,382
Gross profit.............	1,200	--	19,971	(2,433)	18,738
Operating expenses:					
General and administrative.....	5,300	67	14,865	(2,064)	18,168
Depreciation..................	--	--	3,837	--	3,837
Amortization..................	--	4,606	53		4,659
Management fees................	3,003	--	(1,370)	(1,633)	--
Taxes other than income taxes......................	--	--	1,120	100	1,220
Total operating expenses............	8,303	4,673	18,505	(3,597)	27,884
Operating income/(loss)...	(7,103)	(4,673)	1,466	1,164	(9,146)
Other income/(expense):					
Share of income/(loss) from equity investments, after amortization of licenses....	(4,563)	(1,691)	(27)	4,726	(1,555)
Interest and other income......	435	--	1,631	--	2,066
Interest expense..............	(526)	--	(431)	--	(957)
Amortization of deferred financing costs............	--	--	--	--	--
Other.........................	(1,197)	--	(393)	232	(1,358)
Provision for amounts due from a shareholder of PeterStar..................	(2,490)	--	--	--	(2,490)
Loss before income taxes and minority interest..............	(15,444)	(6,364)	2,246	6,122	(13,440)
Income taxes....................	37	--	1,453	--	1,490
Loss before minority interest..............	(15,481)	(6,364)	793	6,122	(14,930)
Minority interest...............	--	--	58	493	551
Net loss.................	$(15,481)	(6,364)	735	5,629	(15,481)

</TABLE>

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1997
(IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	PARENT <C>	SUBSIDIARY GUARANTORS (COMBINED) <C>	NON-GUARANTOR SUBSIDIARIES (COMBINED) <C>	ELIMINATIONS <C>	CONSOLIDATED <C>
Net cash provided by/(used in) operating activities...........................	(11,731)	(11,468)	40,519	(6,527)	10,793
Cash flows from investing activities					
Escrow funds.........................	7,116	--	--	--	7,116
Capital expenditures..................	--	(750)	(40,896)	2,656	(38,990)
Proceeds on disposal of SPMMTS.........	17,180	--	--	--	17,180
Investments in subsidiaries...........	(33,211)	(7,111)	--	14,714	(25,608)
Other................................	302	--	(246)	(622)	(566)
Net cash used in investing activities......................	(8,613)	(7,861)	(41,142)	16,748	(40,868)
Cash flows from financing activities					
Short term debt borrowings/(repayments)............	--	--	(14,929)	4,000	(10,929)
Proceeds from notes...................	15,420	--	--	--	15,420
Issuance of stock.....................	1,739	--	--	--	1,739
Recapitalization of Peterstar.........	1,427	--	--	--	1,427

	PARENT	SUBSIDIARY GUARANTORS (COMBINED)	NON-GUARANTOR SUBSIDIARIES (COMBINED)	ELIMINATIONS	CONSOLIDATED
Related party advances and other.......	--	19,239	(6,018)	(14,221)	(1,000)
Net cash provided by financing activities........................	18,586	19,239	(20,947)	(10,221)	6,657
(Decrease)/increase in cash and cash equivalents......................	(1,758)	(90)	(21,570)	--	(23,418)
Cash and cash equivalents at beginning of year..................................	7,271	331	33,072	--	40,674
Cash and cash equivalents at end of year..................................	5,513	241	11,502	--	17,256

</TABLE>

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1996
(IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	PARENT <C>	SUBSIDIARY GUARANTORS (COMBINED) <C>	NON-GUARANTOR SUBSIDIARIES (COMBINED) <C>	ELIMINATIONS <C>	CONSOLIDATED <C>
Net cash provided by/(used in) operating activities...........................	(9,906)	13,322	29,802	(17,600)	15,618
Cash flows from investing activities					
Escrow funds.........................	(40,984)	--	--	--	(40,984)
Capital expenditures..................	(1,214)	(1,835)	(40,152)	--	(43,201)
Investments in subsidiaries...........	(25,536)	(11,901)	(4,999)	34,921	(7,515)
Other................................	(4,457)	--	455	7,511	3,509
Net cash used in investing activities......................	(72,191)	(13,736)	(44,696)	42,432	(88,191)
Cash flows from financing activities					
Short term debt borrowings/(repayments)............	(14,500)	--	7,950	--	(6,550)
Debt issuance, net of offering costs.............................	104,973	--	--	--	104,973
Issuance of stock.....................	991	--	20,000	(20,000)	991
Loans from shareholders..............	(1,604)	--	--	(239)	(1,843)
Related party advances and other......	--	745	3,848	(4,593)	--
Net cash provided by financing activities......................	89,860	745	31,798	(24,832)	97,571
Increase in cash and cash equivalents......................	7,763	331	16,904	--	24,998
Cash and cash equivalents at beginning of year.............................	(492)	--	16,168	--	15,676
Cash and cash equivalents at end of year..................................	7,271	331	33,072	--	40,674

</TABLE>

CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1995
(IN THOUSANDS)

<TABLE>
<CAPTION>

	PARENT	SUBSIDIARY GUARANTORS (COMBINED)	NON-GUARANTOR SUBSIDIARIES (COMBINED)	ELIMINATIONS	CONSOLIDATED

<S> <C> <C> <C> <C> <C>

Net cash provided by/(used in) operating activities	(33,422)	(90)	(10,671)	37,459	(6,724)
Cash flows from investing activities					
Capital expenditures	(13,496)	--	(18,042)	--	(31,538)
Teleport finance leases	--	--	--	(7,733)	(7,733)
Proceeds on disposal of assets/investments	--	--	2,403	(2,403)	--
Investments in subsidiaries	--	(13,881)	(2,403)	16,284	--
Other	(8,905)	--	(17)	(900)	(9,822)
Net cash used in investing activities	(22,401)	(13,881)	(18,059)	5,248	(49,093)
Cash flows from financing activities					
Short term debt borrowings/(repayments)	14,170	--	7,880	329	22,379
Issuance of stock	67	--	--	--	67
Loans from shareholders	502	--	--	(97)	405
Related party advances and other	4,819	13,971	16,081	(42,939)	(8,068)
Net cash provided by financing activities	19,558	13,971	23,961	(42,707)	14,783
Decrease in cash and cash equivalents	(36,265)	--	(4,769)	--	(41,034)
Cash and cash equivalents at beginning of year	35,773	--	20,937	--	56,710
Cash and cash equivalents at end of year	(492)	--	16,168	--	15,676

</TABLE>

NWE CAPITAL (CYPRUS) LTD.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

NWE CAPITAL (CYPRUS) LTD.

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INDEPENDENT AUDITORS' REPORT

Shareholder and Board of Directors
NWE Capital (Cyprus) Ltd.:

We have audited the accompanying consolidated balance sheets of NWE Capital (Cyprus) Ltd. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholder's equity and cash flows for each of the years in the three year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NWE Capital (Cyprus) Ltd. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1997 in conformity with generally accepted accounting principles.

KPMG

St. Petersburg, Russia
March 3, 1998

NWE CAPITAL (CYPRUS) LTD.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1996
(IN THOUSANDS OF U.S. DOLLARS)

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>
ASSETS		
Current assets:		
Cash and cash equivalents (note 7)	$ 7,849	5,185
Trade receivables, net of allowance of $3,002 and $1,913, respectively	12,725	5,893
Other receivables and prepaids	3,266	1,178
VAT receivable	2,154	626
Due from related parties	468	96
Inventory	2,566	1,698
Total current assets	29,028	14,676
Property and equipment, net (note 6)	79,002	56,613
Telecommunications licenses (note 3), net of amortization of $19,356 and $14,635, respectively	42,286	46,715
Other receivables (note 4)	3,012	--
Goodwill (note 5), net of amortization of $574 and $359, respectively	1,580	1,795
Other assets	280	369
Total assets	$155,188	120,168
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities:		
Bank indebtedness (note 8)	900	--
Accounts payable	3,064	4,502
Accrued liabilities	3,044	1,545

Advances from other group companies (note 10)	32,810	41,304
Due to related parties	818	233
Customer deposits and advances	5,978	2,694
Current portion of long term debt	3,988	1,021
Total current liabilities	50,602	51,299
Long term debt (note 9)	12,458	5,226
Due to related parties	2,144	2,144
Minority interest	19,391	2,615
Commitments and contingencies (note 16)		
Shareholder's equity (note 12):		
Common stock, par value CY (pound)1 per share. Authorized 3,246,174 shares in 1997 and 1996; issued and outstanding 1,000 shares in 1997 and 1996	7,082	7,082
Contributed surplus	63,723	63,723
Accumulated deficit	(212)	(11,921)
Total shareholder's equity	70,593	58,884
Total liabilities and shareholder's equity	$155,188	120,168

</TABLE>

See accompanying notes to consolidated financial statements.

NWE CAPITAL (CYPRUS) LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS OF U.S. DOLLARS)

<TABLE>
<CAPTION>

<S>	1997	1996	1995
Telecommunications revenue	$85,588	52,651	24,747
Direct costs	23,120	17,527	8,636
Gross profit	62,468	35,124	16,111
Operating expenses:			
General and administrative	15,742	12,396	10,378
Management fees	4,817	2,085	1,730
Depreciation	7,194	4,758	3,798
Amortization	4,936	4,884	4,659
Taxes other than income taxes	3,257	1,667	657
Total operating expenses	35,946	25,790	21,222
Operating income (loss)	26,522	9,334	(5,111)
Other income (expense):			
Interest and other income	337	370	684
Interest on long term debt	(584)	--	--
Foreign exchange loss	(676)	(740)	(233)
Loss on disposal of property and equipment	--	(9)	(123)
Settlement with minority shareholders (note 11)	5,339	--	1,711
Income (loss) before income taxes and minority interest	30,938	8,955	(3,072)
Income taxes (note 13)	6,893	3,356	1,038
Income (loss) before minority interest	24,045	5,599	(4,110)
Minority interest	12,336	2,615	--
Net income (loss)	$11,709	2,984	(4,110)

</TABLE>

See accompanying notes to consolidated financial statements.

NWE CAPITAL (CYPRUS) LTD.

CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS OF U.S. DOLLARS, EXCEPT NUMBER OF SHARES)

	COMMON STOCK				
	NUMBER OF SHARES	AMOUNT	CONTRIBUTED SURPLUS	ACCUMULATED DEFICIT	TOTAL
Balance at January 1, 1995..........	1,000	$ 2	$ --	$(10,795)	$(10,793)
Net loss for the year...............	--	--	--	(4,110)	(4,110)
Balance at December 31, 1995........	1,000	2	--	(14,905)	(14,903)
Conversion of promissory note from PLD Telekom Inc...................	928,591	2,000	18,000	--	20,000
Acquisition of WTC from PLD Telekom Inc.......................	2,316,583	5,080	45,723	--	50,803
Net income for the year............	--	--	--	2,984	2,984
Balance at December 31, 1996........	3,246,174	7,082	63,723	(11,921)	58,884
Net income for the year............	--	--	--	11,709	11,709
Balance at December 31, 1997........	3,246,174	$7,082	$63,723	$ (212)	$ 70,593

See accompanying notes to consolidated financial statements.

NWE CAPITAL (CYPRUS) LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995
(IN THOUSANDS OF U.S. DOLLARS)

	1997	1996	1995
Cash flows from operating activities:			
Net income (loss).......................................	$ 11,709	$ 2,984	$ (4,110)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.........................	12,130	9,642	8,457
Minority interest.....................................	12,336	2,615	--
Settlement with minority shareholders (note 11).......	(5,339)	--	(1,711)
Other...	133	9	--
Customer deposits and advances........................	3,284	103	2,585
Changes in working capital (note 14)..................	(10,047)	(331)	(9,167)
Net cash provided by (used in) operating activities..................................	24,206	15,022	(3,946)
Cash flows from investing activities:			
Capital expenditures....................................	(19,367)	(20,652)	(12,339)
Other assets..	89	(58)	110
Net cash used in investing activities............	(19,278)	(20,710)	(12,229)
Cash flows from financing activities:			
Bank indebtedness.......................................	900	--	--
Long term debt..	--	6,247	(4,384)
Advances from other group companies.....................	(3,591)	1,729	8,891
Recapitalisation of PeterStar...........................	1,427	--	--
Capital contributions by PLD............................	--	--	13,881
Dividends paid..	(1,000)	--	--
Net cash provided by financing activities........	(2,264)	7,976	18,388
Increase in cash and cash equivalents............	2,664	2,288	2,213
Cash and cash equivalents at beginning of year............	5,185	2,897	684

Cash and cash equivalents at end of year..................	$ 7,849	$ 5,185	$ 2,897
Supplementary disclosures:			
Non-cash investing and financing activities:			
Purchase of equipment with PLD advances and under long term contracts....................................	$ 10,641	$ 1,597	$ 9,532
Recapitalisation of PeterStar (note 4)...............	$ 4,012	$ --	$ --
Interest paid...	$ 728	$ --	$ --
Income taxes paid.......................................	$ 6,924	$ 3,999	$ 1,688

</TABLE>

See accompanying notes to consolidated financial statements.

NWE CAPITAL (CYPRUS) LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996

(1) BUSINESS AND OPERATIONS

The Company is incorporated under the laws of Cyprus. The Company is a wholly-owned subsidiary of PLD Telekom Inc. ("PLD" or the "Parent"). PLD was previously incorporated under the laws of Ontario, Canada. Effective February 28, 1997, PLD was incorporated in the United States as a Delaware corporation. Through its majority-owned and controlled subsidiaries, the Company is a provider of local, long distance and international telecommunications services in the former Soviet Union.

The Company's telecommunications businesses are at various stages of development and are growing rapidly in an emerging economy which, by its nature, has an uncertain economic, political and regulatory environment. The general risks of operating businesses in the former Soviet Union include the possibility for rapid change in government policies, economic conditions, the tax regime and foreign currency regulations.

Ultimate recoverability of the Company's investments is dependent upon its ability to achieve and maintain profitability, which is dependent to a certain extent on the stabilization of the economies of the former Soviet Union, the ability to maintain the necessary telecommunications licenses and the ability to obtain adequate financing to meet capital commitments.

The Company is in a net current liability position and will require the continued support of PLD in order to meet it's obligations as they fall due.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are summarized as follows:

(a) Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and present the financial position and results of operations of the Company and subsidiaries (the "Company") on a stand-alone basis. The Company incurs and pays its own expenses. Management assistance is provided by the Parent under the terms of negotiated management agreements and specific costs incurred by the Parent on behalf of the Company are charged thereto. All intercompany transactions and charges are disclosed in note 15, "Related Party Transactions".

Income tax expense is based upon a calculation of current tax expense and deferred tax expense in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", on a stand-alone basis. Refer to note 13, "Income Taxes".

Intercompany interest charges incurred are the result of, and are made pursuant to, intercompany loan and/or lease agreements and are not a result of allocations of interest by the Parent or its subsidiaries.

Telecommunication license amortization expense is based upon the cost of the licenses. Amortization expense is calculated on a straight-line basis over the terms of the licenses including the portion of the Parent's investment in the Company which has been allocated to telecommunication licenses and pushed down into the Company's consolidated financial statements.

There are no common costs allocated to the Company by the Parent. Direct costs incurred by the Parent on behalf of the Company are reimbursed by the Company. Services provided by the Parent are furnished under the terms of the negotiated management agreements. Refer to note 15, "Related Party Transactions". Management of the Company believes that the accompanying consolidated financial statements include all the costs incurred by the Company in its operations.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

(c) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 1997 and 1996, the Company's cash equivalents consist of term deposits, of $4.6 million and $1.4 million, respectively.

(d) Revenue Recognition

The Company records telecommunication revenues as earned, at the time services are provided with the exception of terminal sales. Terminal sales are recognised when the equipment is delivered and the supporting contract is signed.

(e) Inventory

Inventory is stated at the lower of average cost or net realizable value and is composed of telephony products held for resale to customers.

(f) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Telecommunications equipment	10 years
Buildings	10 years
Office furniture and equipment	3-5 years
Leasehold improvements	15 years

Interest costs incurred during the period of installment of telecommunications equipment is capitalised. The interest cost capitalised in 1997 amounted to $927,791.

(g) Telecommunications Licenses

Telecommunications licenses are amortized on a straight-line basis over the terms of the licenses.

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair values of the net assets acquired of C.P.Y. Yellow Pages Limited, and is being amortized on a straight-line basis over ten years.

(i) Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, trade and other receivables, amounts due from or to related parties, bank indebtedness and accounts payable approximate fair value due to their short maturities. The fair value of long term debt is based on discounted cash flow analysis.

(j) Reporting Currency and Foreign Currency Translation

The statutory accounts of the Company's consolidated subsidiaries are maintained in accordance with local accounting regulations and are stated in local currencies.

Local statements are adjusted to U.S. GAAP and then translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 (SFAS 52), "Foreign Currency Translation."

NWE CAPITAL (CYPRUS) LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Under SFAS 52, the financial statements of foreign entities in highly inflationary economies are measured in all cases using the U.S. dollar as the functional currency. U.S. dollar transactions are shown at their historical value. Monetary assets and liabilities denominated in local currencies are translated into U.S. dollars at the prevailing period-end exchange rate. All other assets and liabilities are translated at historical exchange rates. Results of operations have been translated using the monthly average exchange rates. Translation differences resulting from the use of these different rates are included in the accompanying consolidated statements of operations.

(k) Income Taxes

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period it occurs.

(l) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company adopted the provisions of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," on January 1, 1996. SFAS 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(m) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(3) BUSINESSES AND ACQUISITIONS

The Company's key interests at December 31, 1997 include a 60% equity interest in PeterStar Company Limited ("PeterStar") and a 50% indirect equity interest in BECET International ("BECET").

(a) PeterStar

PeterStar is a joint stock company registered in 1992 under the laws of the Russian Federation to provide international and domestic telecommunications services to St. Petersburg, Russia. In November 1994, PeterStar was granted a license to provide these services for a further ten years. The license was reissued in June 1996 and sets the maximum number of lines which PeterStar may have and requires that 74,200 lines be introduced by June 1999. At December 31, 1997, PeterStar had 114,774 lines in place.

In October 1992, PLD acquired a 50% interest in PeterStar for consideration of $20.0 million. All of the consideration was allocated to telecommunications licenses. This interest was subsequently transferred to the Company in exchange for a promissory note in the amount of $20.0 million. During 1996 the promissory note was exchanged for 928,591 shares of the Company.

In March 1994, PLD acquired 90% of the outstanding shares of PMT Ltd., a Russian company whose sole asset was a 10% interest in PeterStar, for consideration of $8.2 million. PLD acquired the remaining 10% of PMT Ltd. in April 1996 for consideration of $1.8 million. All of the consideration was allocated to telecommunications licenses. In April 1996, PLD transferred its 10% interest in PeterStar to the Company in exchange for a $10.0 million non-interest bearing promissory note payable on demand and convertible to common shares at the option of either PLD or the Company. This acquisition has been accounted for using the continuity of interests method. Accordingly, PLD's historical cost of the PeterStar telecommunications licenses is recorded in these financial statements and comparative figures have been restated to reflect the historical net book value of the PeterStar licenses and the related amortization expense.

(b) BECET

BECET provides cellular services pursuant to a 15 year license to operate a cellular and mobile telephone system in Kazakstan until February 2009. The Company's 50% interest in BECET is held by its wholly-owned subsidiary, Wireless Technology Corporations Limited ("WTC"), a company incorporated in the territory of the British Virgin Islands.

In March 1994, PLD acquired all the outstanding shares of WTC for consideration of $30.0 million. The acquisition was accounted for by the purchase method. As of the date of acquisition, BECET had not commenced operations and did not have any tangible assets or liabilities. Therefore, the entire purchase price, including acquisition costs of $0.8 million was allocated to telecommunications licenses. BECET commenced commercial operations in September 1994. During 1994 and 1995, PLD contributed additional equity of $20.0 million to WTC which in turn contributed $20.0 million of working capital and equipment to BECET in exchange for its 50% equity interest.

On January 5, 1996, PLD transferred its shares in WTC to the Company for consideration of 2,316,583 shares of the Company. This acquisition has been accounted for using the continuity of interests method. Accordingly, PLD's historical cost of the BECET license is recorded in these financial statements and comparative figures have been restated to reflect the historical net book value of the licenses and the related amortization expense.

(4) OTHER RECEIVABLES

During 1997, a $13.6 million receivable by PLD from PeterStar was assigned to the Company. This amount was subsequently repaid by PeterStar with the proceeds from a share issue. $4.0 million was advanced to a minority shareholder of PeterStar so that it could participate in the share issue. $4.0 million of the assigned amount is outstanding at year end. $1.0 million is considered current and the remainder is classified as long term although payment terms have not been finalised.

(5) GOODWILL

Effective April 26, 1995, PLD acquired all the outstanding shares of C.P.Y. Yellow Pages Limited ("Yellow Pages"), a company incorporated in the Republic of Cyprus, for consideration of $2.1 million. Yellow Pages publishes a Yellow Pages directory and owns a database of Russian and foreign businesses in St. Petersburg. The acquisition was accounted for by the purchase method and substantially all of the consideration was allocated to goodwill.

On March 1, 1996, PLD transferred the shares of Yellow Pages to the Company in exchange for a non-interest bearing promissory note in the amount of $2.1 million. The note is payable in ten years and may be converted to common shares at the option of either PLD or the Company. This transaction has been accounted for as a transfer of assets between entities under common control and, as such, the assets are reflected at PLD's historical cost.

(6) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1997 and 1996 consist of the following:

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>
	(IN THOUSANDS OF U.S. DOLLARS)	
Telecommunications equipment:		
Installed	$ 68,492	49,934
Uninstalled	11,473	3,343
Buildings	2,333	335
Office furniture and equipment	4,156	4,795
Leasehold improvements	5,277	5,705
Advances to equipment suppliers	3,917	2,117
Total property and equipment	95,648	66,229
Less accumulated depreciation	(16,646)	(9,616)
Net book value	$ 79,002	56,613

</TABLE>

Property and equipment includes telecommunications equipment with a cost of $16.5 million which has been pledged under the terms of the long term installment agreements and $6.6 million which has been acquired under capital lease (note 9).

(7) CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents at December 31, 1997 and 1996 consist of the following:

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>
	(IN THOUSANDS OF U.S. DOLLARS)	
Cash on deposit:		
In Russia and Kazakstan	$6,621	5,032
Outside Russia and Kazakstan	1,228	153
	$7,849	5,185

</TABLE>

(8) BANK INDEBTEDNESS

In December 1997, PeterStar entered into a $2.0 million, one-year loan facility with BNP Dresdner Bank for the purchase of telecommunications equipment. Interest is charged on borrowed amounts at three-month LIBOR plus 2.5% per annum. The amount borrowed on the loan facility at December 31, 1997 was $900,000. The bank indebtedness is guaranteed by PLD.

NWE CAPITAL (CYPRUS) LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) LONG TERM DEBT

The Company's long term debt at December 31, 1997 and 1996 consisted of the following:

	1997	1996
	(IN THOUSANDS OF U.S. DOLLARS)	
Obligations under capital lease	$ 4,483	5,226
Supplier financing	7,975	--
	$12,458	5,226

Obligations under Capital Lease

In September 1996, PeterStar entered into a five year capital lease for switching equipment. The lessor of the equipment, PLD Asset Leasing Limited, is a wholly-owned subsidiary of PLD.

Future minimum payments are as follows (in thousands of U.S. dollars):

1998	$3,520
1999	1,760
2000	1,760
2001	1,760
Total minimum lease payments	8,800
Amounts representing interest	2,199
Present value of net minimum payments	6,601
Interest accrued to December 31, 1997	783
	7,384
Current portion	2,901
Non-current portion	$4,483

The net book value of the related assets at December 31, 1997 and 1996 was $6.2 million.

Supplier Financing

Amounts payable under the terms of long term installment purchase agreements are as follows (in thousands of U.S. dollars):

1999	$3,214
2000	2,595
2001	1,927
2002	1,792
	9,528
Amounts representing interest	(1,553)
	$7,975

======

</TABLE>

The above amounts have been calculated using an interest rate of 8.0%.

NWE CAPITAL (CYPRUS) LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) ADVANCES FROM OTHER GROUP COMPANIES

	1997	1996
	(IN THOUSANDS OF U.S. DOLLARS)	
Current:		
PLD Telekom Inc.	$32,221	39,580
PLD Management Services Limited	589	1,724
	$32,810	41,304
Non-Current:		
PLD Telekom Inc.	$ 2,144	2,144

$12.1 million in advances from PLD Telekom Inc. arose on the acquisition of a 10% interest in PeterStar and on the acquisition of Yellow Pages (notes 3(a) and 5).

(11) SETTLEMENT WITH MINORITY SHAREHOLDERS

During 1997 and 1995, PLD and the minority shareholders of PeterStar reached settlements regarding management fees and other costs previously charged by PLD and expensed by PeterStar. As a result of the settlements, charges to PeterStar of $5.3 million and $1.7 million for 1997 and 1995, respectively, were disallowed. Such amounts were reflected by PeterStar as a reduction of expense in these periods.

(12) COMMON STOCK

At December 31, 1997 and 1996 the authorized capital stock of the Company consists of 3,246,174 common shares with par value of CY(pound)1 per share. 1,000 shares are issued at December 31, 1997 and 1996. The balance of the unissued shares have been fully subscribed for by PLD, are in the process of being issued and are reflected as outstanding in the accompanying financial statements.

(13) INCOME TAXES

BECET and PeterStar are subject to income tax at statutory rates of 30% and 33%, respectively. The provision for income taxes, which relates substantially to current income taxes in BECET and PeterStar, differs from the U.S. federal and state statutory tax rates as follows:

	1997	1996	1995
	(IN THOUSANDS OF U.S. DOLLARS)		
Provision for income taxes at statutory rates	$10,886	3,826	(85)
Add (deduct) the tax effect of:			
Non-deductible amortization of licenses and goodwill	633	626	616
Other nondeductible expenses	1,045	1,348	1,906
Concessions on capital expenditures	(3,775)	(2,292)	(1,399)
Change in valuation allowance related to deferred tax assets	(1,896)	(152)	--
Provision for income tax	$ 6,893	3,356	1,038

</TABLE>

NWE CAPITAL (CYPRUS) LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 1997 and 1996 are as follows:

	1997	1996
	(IN THOUSANDS OF U.S. DOLLARS)	
Deferred tax assets:		
Expenses not yet deducted for Russian and Kazak tax purposes	$2,190	4,086
Less valuation allowance	(2,190)	(4,086)
	$ --	--

As a result of the rapid change in the regulatory environment and uncertainty surrounding the Russian tax regime, the Company has provided a valuation allowance against deferred tax assets.

(14) CHANGES IN WORKING CAPITAL

	1997	1996	1995
	(IN THOUSANDS OF U.S. DOLLARS)		
Increase in trade receivables	$ (6,832)	(2,465)	(521)
(Increase) decrease in VAT receivable	(1,528)	281	(427)
(Increase) decrease in other receivables and prepaid	(1,088)	1,592	(3,126)
Increase in inventory	(868)	(409)	(608)
Change in amounts due from or to related parties	213	--	--
Increase (decrease) in amounts payable and accrued liabilities	56	670	(4,485)
Changes in working capital	$(10,047)	(331)	(9,167)

(15) RELATED PARTY TRANSACTIONS

(a) PeterStar has entered into a barter agreement with an indirect minority shareholder under which the two parties have exchanged services valued at $3.4 million and $3.0 million during 1997 and 1996, respectively. The amounts are recorded in the consolidated statements of operations as telecommunications revenue and direct costs.

(b) Direct costs for the years ended December 31, 1997, 1996 and 1995 include $4.2 million, $3.3 million and $1.8 million, respectively, paid to the other shareholder of BECET in relation to carriage of traffic over the public telephone network. Balances outstanding of $0.8 million and $0.2 million as of December 31, 1997 and 1996, respectively, in relation to these charges, are included in due to related parties.

(c) PLD charged management fees of $2.0 million related to PeterStar and $1.2 million related to BECET during the year ended December 31, 1997 (1996 -- $1.2 million and $0.9 million, respectively; 1995 -- $1.2 million and $0.5 million, respectively). These amounts are recorded in the consolidated statements of operations as management fee expense.

(d) Additional charges, related to management services of $0.2 million, $26,000 and $0.8 million for the years ended December 31, 1997, 1996 and 1995 respectively, were charged to BECET by PLD and another PLD subsidiary. These amounts are recorded in the consolidated statements of operations as general and administrative expenses.

(e) PeterStar was charged $3.6 million in service fees by PLD relating to recharged expenses and capital equipment in 1997 (1996: $2.1 million, 1995: $3.9 million). These amounts have been recorded in general and

administrative expenses in the consolidated statements of operations or property and equipment in the consolidated balance sheets as appropriate.

(f) PeterStar entered into a capital lease with a wholly-owned subsidiary of PLD (see note 9).

(g) During 1996 PeterStar entered into a five year installment purchase agreement with Petersburg Telephone Network, an indirect minority shareholder, for telecommunications equipment. Total contract value was $13.7 million (note 9).

(h) PeterStar was charged management fees of $1.7 million during 1997 (1996 and 1995: nil) by OAO Telecominvest, a minority shareholder. This amount is included in management fees in the consolidated statement of operations.

(i) During 1997 PeterStar entered into five year installment purchase agreements with PLD Telekom Inc. for telecommunication equipment. Total contract value was $2.3 million.

(16) COMMITMENTS AND CONTINGENCIES

(a) Russian Taxation

PeterStar and BECET subsidiaries have accrued profits and other taxes based on interpretations of the law which may ultimately be disputed by the local taxation authorities. Management believes that the exposure to additional profits and other taxes, fines and penalties will not have a material adverse effect on the financial position or results of operations of the Company.

(b) Purchase Commitments

At December 31, 1997, PeterStar has commitments of approximately $11.4 million related to the acquisition of telecommunications equipment. The PeterStar supply contract provides for financing of the entire amount over approximately five years.

(c) Management Services

On January 1, 1995, WTC entered into a two year agreement with PLD, under which PLD would provide certain consulting, informational services, management support services and personnel expertise. The agreement was automatically renewed for 1998 and the minimum commitment for the Company in 1998 is $25,000 per month plus 3% of monthly gross revenues.

On January 1, 1995, BECET entered into a two year agreement with its other shareholder, by which the shareholder would provide certain consulting services, management support services and personnel expertise. Payments under this agreement were 300,000 tenge per month ($3,975 at the December 31, 1997 exchange rate) plus 0.15% of monthly gross revenues. This agreement was terminated as of December 31, 1997 and BECET is currently negotiating a new contract. This is anticipated to provide for fees of 300,000 tenge per month plus 1.0% of monthly gross revenues, and to be effective as of January 1, 1998, with a one year term automatically renewable for successive one year periods unless terminated by either party.

(d) Guarantee

In June 1996, PLD issued senior discount notes and convertible subordinated notes with an aggregate principal amount of $149.5 million. The Company is a guarantor of the debt under the terms of the related indentures.

(e) Line Rental

While it has not had to do so historically, PeterStar anticipates that it will have to begin paying local line rental charges to the Petersburg Telephone System in 1998. The exact fee, and the date from which charges will be levied, have yet to be determined, but the Company does not believe that such payments will have a material adverse effect on the Company's financial position or results of operations.

TECHNOCOM LIMITED AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

TECHNOCOM LIMITED

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CHARTERED ACCOUNTANTS

The Board of Directors and Shareholders
Technocom Limited:

We have audited the accompanying consolidated balance sheets of Technocom Limited and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Technocom Limited and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1997 in conformity with accounting principles generally accepted in the United States.

KPMG
Chartered Accountants

Dublin, Ireland
April 2, 1998

TECHNOCOM LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31
(THOUSANDS OF UNITED STATES DOLLARS)

<TABLE>
<CAPTION>

	1997 US$	1996 US$
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and term deposits (note 4)	4,671	27,997
Trade receivables, net of allowance of $220 (1996 -- $40)	2,942	3,961
Other receivables	2,806	1,479
Due from related parties (note 10)	5,591	4,347
TOTAL CURRENT ASSETS	16,010	37,784
Property and equipment, net (note 5)	50,656	33,322
Telecommunications licenses, net (note 3)	2,005	2,286
Due from related parties (note 10)	2,253	4,005
Other investments and assets, net (note 6)	1,307	772
TOTAL ASSETS	72,231	78,169
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank indebtedness (note 4)	--	15,829
Accounts payable (note 10)	11,410	8,306
Accrued liabilities	1,590	3,575
Due to related parties (note 10)	18,693	8,754
Deferred taxes (note 9)	549	276
TOTAL CURRENT LIABILITIES	32,242	36,740
Other liabilities	337	--
Due to related parties (note 10)	336	336
Supplier financing (note 7)	3,327	--
Commitments and contingencies (note 11)		
Minority interest	--	638
SHAREHOLDERS' EQUITY (note 8)		
Share capital	1	1
Share premium	40,390	40,390
Retained (deficit)/earnings	(4,402)	64
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	72,231	78,169

</TABLE>

See accompanying notes to the consolidated financial statements

TECHNOCOM LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31
(THOUSANDS OF UNITED STATES DOLLARS)

	1997 US$	1996 US$	1995 US$
REVENUES:			
Telecommunications	19,024	3,302	4,372
Finance lease income	1,956	1,404	--
TOTAL REVENUES	20,980	4,706	4,372
DIRECT COSTS	13,034	2,487	1,745
GROSS PROFIT	7,946	2,219	2,627
OPERATING EXPENSES:			
General and administrative	8,739	2,383	916
Depreciation	2,561	138	30
Amortization	281	10	--
Other expenses and taxes	--	125	622
TOTAL OPERATING EXPENSES	11,581	2,656	1,568
OPERATING (LOSS)/INCOME FROM CONTINUING OPERATIONS	(3,635)	(437)	1,059
OTHER INCOME/(EXPENSES):			
Share of losses of equity investments (note 3)	(677)	(359)	(27)
Interest income	607	1,233	511
Interest expenses	(1,126)	(589)	--
Other expenses	--	--	(300)
OPERATING (LOSS)/INCOME BEFORE TAXATION AND MINORITY INTEREST	(4,831)	(152)	1,243
Income taxes (note 9)	(273)	(104)	(410)
Income (loss) before minority interest	(5,104)	(256)	833
Minority interest	638	(19)	(58)
NET (LOSS)/INCOME	(4,466)	(275)	775

See accompanying notes to the consolidated financial statements

TECHNOCOM LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31
(THOUSANDS OF UNITED STATES DOLLARS)

	1997 US$	1996 US$	1995 US$
BALANCE BEGINNING OF YEAR	40,455	20,730	20,159
Premium on shares issued	--	20,000	--
Share issue cost	--	--	(204)
Net (loss)/profit	(4,466)	(275)	775
BALANCE END OF YEAR	35,989	40,455	20,730

See accompanying notes to the consolidated financial statements

TECHNOCOM LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31
(THOUSANDS OF UNITED STATES DOLLARS)

	1997	1996	1995
	US$	US$	US$
CASH PROVIDED BY CONTINUING OPERATIONS			
Net (loss)/income	(4,466)	(275)	775
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:			
Depreciation and amortization	2,842	148	30
Share of loss of equity investments	677	359	27
Minority interest	(638)	19	58
Other	337	--	--
Changes in operating assets and liabilities:			
Decrease/(increase) in trade receivables	1,019	(270)	(25)
(Increase)/decrease in other receivables	(2,263)	2,455	(1,813)
Changes in due from/to related parties	10,446	6,809	10,881
Increase/(decrease) in accounts payable	3,104	(29)	1,450
(Decrease)/increase in accrued liabilities	(1,713)	3,440	(1,098)
CASH PROVIDED BY CONTINUING OPERATIONS	9,345	12,656	10,285
CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES			
(Decrease)/increase in bank indebtedness	(15,829)	7,951	7,879
Share issuance costs	--	--	(204)
Issue of preferred shares	--	20,000	--
CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES	(15,829)	27,951	7,675
CASH USED IN INVESTMENT ACTIVITIES			
Property and equipment	(16,567)	(20,766)	(3,146)
Telecommunication licenses	--	--	(2,403)
Investment in Technopark, net of cash acquired	--	(2,866)	--
Investment in Teleport, net of cash acquired	--	(2,133)	--
Other investments and assets	(275)	491	--
CASH USED IN INVESTMENT ACTIVITIES	(16,842)	(25,274)	(5,549)
(Decrease)/increase in cash	(23,326)	15,333	12,411
Cash, beginning of year	27,997	12,664	253
Cash, end of year	4,671	27,997	12,664
SUPPLEMENTAL DISCLOSURE			
Non-cash financing activities:			
Supplier financing	3,327	--	--
Cash paid for taxes	--	238	--
Cash paid for interest	1,126	589	--

See accompanying notes to the consolidated financial statements

TECHNOCOM LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(TABULAR AMOUNTS IN THOUSANDS OF UNITED STATES DOLLARS)

1 BUSINESS OPERATIONS AND FUTURE ACTIVITIES

Technocom Limited and subsidiaries ("the Company") was incorporated under the laws of the Republic of Ireland in January 1992. The Company's principal activity is the provision of telecommunications services in Russia. The Company conducts its business activities directly and through a number of subsidiaries and other affiliates, most of which are incorporated in Russia. The Company established a registered foreign representative office in Russia in October 1995. The Company's parent is PLD Telekom Inc. ("PLD" or the "Parent"), a publicly listed company. The parent company has agreed to provide continued financial support to finance the operations of the Company. The Company is dependent on this support for continued operations.

The Company operates in an emerging economy which, by its nature, has an uncertain economic, political, and regulatory environment. The general risks of operating businesses in the former Soviet Union include the possibilities of rapid change in government policies, economic conditions, the tax regime and foreign currency regulations. In addition, the satellite-based long distance network is at an early stage of its development and operation.

Ultimate recoverability of the Company's investments is dependent upon each of the subsidiaries achieving and maintaining profitability, which is dependent to a certain extent on a stabilization of the economies of the former Soviet Union, the ability to maintain the necessary telecommunications licenses and the ability to obtain adequate financing to meet capital commitments.

It is the intention of the directors of the Company to continue to develop the current activities of the Company. The financial statements have been prepared on a going concern basis as the directors do not believe, at the current time, that any of the risk factors set out above will have a material adverse impact on the Company in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's significant accounting policies are summarized as follows:

(a) Basis of Presentation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (US GAAP).

The accompanying consolidated financial statements present the financial position and results of operations of the Company on a stand-alone basis. The Company incurs and pays its own expenses. All intercompany transactions and charges are disclosed in note 10, "Related Parties".

Income tax expense is based upon a calculation of current tax expense and deferred tax expense in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", on a stand-alone basis. Refer to note 9, "Income Taxes".

Intercompany interest charges incurred are the result of, and are made pursuant to, intercompany loan and/or lease agreements and are not a result of allocations of interest by the Parent or its subsidiaries.

Telecommunication license amortization expense is based upon the cost of the licenses. Amortization expense is calculated on a straight-line basis over the terms of the licenses.

There are no common costs allocated to the Company by the Parent. Direct costs incurred by the Parent on behalf of the Company are reimbursed by the Company. Management of the Company believes that the accompanying consolidated financial statements include all the costs incurred by the Company in its operations.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation. Investments in affiliates in which the Company has significant influence, but does not exercise control, are accounted for under the equity method. Investments of the Company over which significant influence is not exercised are carried under the cost method.

(c) Cash and Term Deposits

The Company's term deposits consist of term deposits with an initial term of less than three months, and accordingly, they are considered cash equivalents for purposes of the consolidated statements of cash flows.

(d) Revenue Recognition

All the Company's revenues are earned in Russia and consist of the supply of telecommunications services and leasing of telecommunications equipment.

All revenues are recorded as earned at the time services are provided.

(e) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Costs directly related to the installation of telecommunications equipment are included in the cost of the equipment. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

<TABLE>

<S>	<C>
Telecommunications equipment..................	10 years
Buildings.....................................	28.5 years
Leasehold improvements........................	10 years
Office furniture and equipment................	3-5 years

</TABLE>

(f) Telecommunications Licenses

Telecommunications licenses represent the cost of the Company's investment in Teleport-TP. The Company's consolidated financial statements do not include the costs of its Parent's investment in the Company. Telecommunications licenses are amortized on a straight-line basis over the terms of the related licenses.

(g) Equity Investments

Equity investments are those investments in which the group has a participating interest in the equity capital and over which it is able to exercise significant influence.

The Company's share of the profits and losses of equity investments is included in the consolidated profit and loss account. The Company's interest in their net assets is included as an investment in the consolidated balance sheets at its share of the net assets at acquisition plus its share of retained profits or losses subsequent to that date. The amounts included in the financial statements in respect of equity investments are taken from their latest financial statements made up to the balance sheet date.

(h) Net Investment in Finance Leases

The total net investment in finance leases included in the balance sheet represents total lease payments receivable, net of finance charges relating to future accounting periods. Finance charges are allocated to accounting periods so as to give a constant rate of return on the net cash investment in the lease.

(i) Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and term deposits, trade and other receivables, amounts due from/to related parties, bank indebtedness and accounts payable approximate fair value due to their short maturities.

(j) Reporting Currency and Foreign Currency Translation

The statutory accounts of the Company's consolidated subsidiaries are maintained in accordance with local accounting regulations and are stated in local currencies.

Local statements are adjusted to U.S. GAAP and then translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 (SFAS 52), "Foreign Currency Translation."

Under SFAS 52, the financial statements of foreign entities in highly inflationary economies are measured in all cases using the U.S. dollar as the functional currency. U.S. dollar transactions are shown at their historical value. Monetary assets and liabilities denominated in local currencies are translated into U.S. dollars at the prevailing period-end exchange rate. All other assets and liabilities are translated at historical exchange rates. Results of operations have been translated using the monthly average exchange rates. Translation differences resulting from the use of these different rates are included in the accompanying consolidated statements of operations.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period it occurs.

(l) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(m) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company adopted the provisions of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," on January 1, 1996. SFAS 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(n) Reclassification

Certain reclassifications have made been made to the financial statements for conformity purposes.

3 TELECOMMUNICATIONS LICENSES AND SIGNIFICANT INVESTMENTS

The Company's key interests at December 31, 1997 include approximately 49% equity interests in: (a) Teleport-TP ("Teleport") (56% voting interest), and (b) MTR-Sviaz; and (c) an approximate 56% interest in J.V. Technopark Limited ("Technopark").

(a) Teleport

Teleport is a Russian joint stock company which holds four operating licenses. The first license expires in November 2004 and authorizes Teleport to provide long distance and international telecommunications services to private networks within Moscow and, to a limited extent, elsewhere in the Russian Federation. Teleport is required by the terms of the license to have at least 10,500 subscribers (which is 70% of the maximum number of subscribers permitted under the license) in place by October 1999. Under the terms of the license agreement, there are no penalties should Teleport not attain the required number of lines. The second license expires in October 2004 and permits the operation of 1,000 international leased circuits for the transmission of television and telecommunications services. The third license permits the provision of data services with interconnection to the public network. This expires in January 2002 and requires capacity for 70,000 subscribers by December 2000.

The fourth license is an overlay license which permits Teleport to offer local, long distance and international voice and data services which are interconnected to the public telephone network in 40 regions across Russia. The overlay license expires in May 2001.

The Company initially held a 42% equity interest in Teleport. In May 1996, the Company acquired an additional 3.3% indirect equity interest in Teleport for cash consideration of $2 million, substantially all of which has been allocated to Teleport's telecommunication licenses. The additional interest was acquired through a company controlled by a minority shareholder of Technocom. The acquisition of Technopark, a company incorporated in Russia, on December 20, 1996 increased Technocom's equity interest in Teleport to 49.3% and its voting interest to 56%.

As a result of this acquisition, the Company consolidated Teleport's balance sheet at December 31, 1996. The results of operations of Teleport have been included in the consolidated statements of operations from January 1, 1997.

Condensed financial information of Teleport for the years ended December 31, 1996 and 1995 is as follows:

<TABLE>
<CAPTION>

	1996	1995
	(IN THOUSANDS)	
<S>	<C>	<C>
Telecommunications revenues	$11,104	$ 7,070
Cost of sales	6,534	2,083
Gross profit	4,570	4.987
Operating expenses:		
General and administrative	2,617	1,606
Other taxes	592	--
Depreciation of assets under capital lease	1,016	570
Other depreciation and amortization	200	762
	4,425	2,938
Operating income	145	2,049
Interest on capital lease	(531)	(1,434)
Other interest and financing charges, net	251	(343)
Earnings/(loss) before income taxes	(135)	272
Income taxes	--	(335)
Net loss	$ (135)	$ (63)

</TABLE>

Teleport's revenues for the years ended December 31, 1996 and 1995, include sales to its minority shareholder of $4.6 million and $5.0 million, respectively, making Teleport to some extent economically dependent on its minority shareholder.

Teleport's cost of sales for the year ended December 31, 1996 includes costs of $2.9 million charged by a company controlled by one of the minority shareholders of Technocom.

Telecommunications Licenses

Telecommunications licenses are amortized over a period of 7 to 9 years. The balances were as follows for December 31, 1997 and 1996:

	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
As of December 31, 1997	2,296	(291)	2,005
As of December 31, 1996	2,296	(10)	2,286

(b) MTR-Sviaz

The Company has a 49% equity interest in a Russian joint stock company, MTR-Sviaz, which is a joint venture with Mosenergo, the Moscow city power utility, to modernize and commercialize a portion of Mosenergo's internal telecommunications network. MTR-Sviaz holds two operating licenses and commenced operations in late 1996. The first license authorizes MTR-Sviaz to provide local and long distance leased line services within the city and region of Moscow. Under the second license, MTR-Sviaz is authorized to provide local telephone services through interconnection (via the Mosenergo network) with the public switched telephone network within the city and region of Moscow. During 1997 and 1996, Technocom leased telecommunications equipment and access rights with a net book value of $4,700,000 and $5,205,000, respectively, to MTR-Sviaz under finance leases. The Company recorded finance lease income of $1,956,000

and $872,000 for the years ended December 31, 1997 and 1996. As of those dates, the investment in MTR-Sviaz comprises a finance lease receivable of $4,492,000 and $5,015,000, offset by the Company's share of losses of MTR-Sviaz of $1,364,000 and $427,000, respectively.

Future minimum lease payments receivable from MTR-Sviaz, by year and in the aggregate, are as follows:

	(IN THOUSANDS)
1998	$2,530
1999	2,530
2000	1,704
2001	547
2002	547
Thereafter	1,958
Total minimum lease payments	9,816
Amounts representing interest	5,324
Present value of minimum lease payments	$4,492

(c) Technopark

On December 20, 1996 the Company acquired 55.51% of the outstanding shares of Technopark, a company incorporated in Russia which holds a 7.5% equity interest in Teleport and owns office space in Moscow, for cash consideration of $3 million. The sellers were the minority shareholders of Technocom. The acquisition of Technopark has been accounted for using the purchase method and therefore its operations have been included since January 1, 1997.

The aggregate purchase price equaled fair market value as of the date of the acquisition, therefore no goodwill was recognized.

4 CASH AND TERM DEPOSITS, BANK INDEBTEDNESS

At December 31, 1996, Technocom had an overdraft balance of $6.8 million and demand bank loans of $9.0 million bearing interest at 5.8125%. The demand bank loans were secured by term deposits in the same amount held at the same bank. The Company had no overdraft or demand bank loans at December 31, 1997.

5 PROPERTY AND EQUIPMENT

1997	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Telecommunications equipment	51,886	(5,005)	46,881
Buildings	3,100	(109)	2,991
Office furniture and equipment	1,149	(539)	610
Leasehold improvements	228	(54)	174
Total	56,363..	(5,707)	50,656

1996			
Telecommunications equipment	32,512	(2,917)	29,595
Buildings	3,100	--	3,100
Office furniture and equipment	630	(199)	431
Leasehold improvements	227	(31)	196
Total	36,469	(3,147)	33,322

6 OTHER INVESTMENTS AND ASSETS

Other investments and assets consist of debt and equity instruments which are not accounted for as equity investments. These investments, which do not have a readily determinable market value, are stated at cost less provisions for permanent diminutions in value.

7 SUPPLIER FINANCING

Payments to be made under supplier financing arrangements outstanding as of December 31, 1997 are as follows:

1999	1,402
2000	1,269
2001	868
2002	569
	4,108
Amounts representing interest	781
	3,327

The terms of the agreements generally require installment payments over the next 3-5 years at interest rates of either 8.5% or LIBOR plus 250 points. Amounts are calculated based on an 8.5% discount rate.

The Company has entered into bank guarantees under the terms of the agreements. The guaranteed amount reduces as installments are paid. The amounts outstanding under the agreements secured by bank guarantees amounted to $3,600,000 at December 31, 1997.

8 SHAREHOLDERS' EQUITY

The authorized capital stock of the Company consists of 1,000,000 ordinary shares with a par value of one Irish pound and 1,000 preferred shares with a par value of US$1. Issued shares consist of 199 ordinary shares and 1,000 preferred shares. The par value of ordinary shares is translated at the historical rate of IR(pound)1=US$1.60.

During 1996, the Company allotted 500 preferred shares with a nominal value of US$1 and a premium of US$39,999 per share in accordance with the terms of a subscription and shareholder agreement dated 28 December 1994.

PLD, the parent, committed to subscribe for preferred shares in the Company in the amount of $40,000,000, of which $20,000,000 was subscribed for on 28 December 1994 and the remaining $20,000,000 was subscribed for in June 1996. The preferred shares entitle the parent to the first $20,000,000 of the Company's dividend distributions. After receipt of such preference dividends, all the preferred shares will be converted into a single ordinary share in the Company.

9 INCOME TAXES

Income tax expense of $273,000, $104,000 and $410,000 for the years ended December 31, 1997, 1996 and 1995, respectively differs from the amounts computed by applying the U.S. federal income tax rate of 35% to pretax income from continuing operations as a result of the following:

<TABLE>
<CAPTION>

	1997	1996	1995
	US$	US$	US$
<S>	<C>	<C>	<C>
Provision for income tax at statutory rates................	(1,468)	(47)	435
Increase/(reduction) in income taxes resulting from:			
Non-deductible expenses.................................	489	205	--
Non-taxable credits.....................................	(115)	(56)	(25)
Valuation allowance.....................................	882	--	--
Other...	485	2	--
	273	104	410

</TABLE>

The tax effects of temporary differences that give rise to significant portion of the deferred tax assets and liabilities as of December 31, 1996 and 1995 are as follows:

<TABLE>
<CAPTION>

	1997	1996
<S>	<C>	<C>
DEFERRED TAX ASSETS:		
Tax on expenses not yet deducted for Russian tax purposes...	16,998	8,282
Less: valuation allowance...............................	82	454
NET DEFERRED TAX ASSETS....................................	16,916	7,828
DEFERRED TAX LIABILITIES:		
Tax on revenues not yet realized for Russian tax purposes...	17,465	8,104
NET DEFERRED TAX LIABILITIES...............................	549	276

</TABLE>

The valuation allowance for deferred tax assets as of January 1, 1997 and 1996 was $454,000 and $Nil, respectively. The net change in the total valuation allowance for the years ended December 31, 1997 and 1996 was an increase of $454,000 and a decrease of $372,000, respectively. In assessing the realizability of deferred tax assets, management determined that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

10 RELATED PARTIES

During the year, the Company paid a total of $220,833 (1996: $208,333) pursuant to two management contracts with two shareholders for provision of the services of two directors of the Company. In addition, a significant proportion of the Company's general and administrative expenses were incurred by its three shareholders on behalf of the Company.

Included in accounts payable for 1997 is approximately $3,891,000 of amounts due to companies which are not directly related to Technocom Limited and subsidiaries, but which share common directors.

TECHNOCOM LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant amounts owed to/from related parties consisted of the following:

<TABLE>
<CAPTION>

	1997	1996
	US$	US$
AMOUNTS OWED TO:		
Current:		
PLD Telekom Inc.	17,918	5,032
PLD Management Services Limited	482	252
Other current	293	3,470
Total current	18,693	8,754
Non-current:		
Other non-current	336	336

</TABLE>

<TABLE>
<CAPTION>

	1997	1996
	US$	US$
AMOUNTS OWED FROM:		
Current:		
Lanstone Enterprises Limited	2,240	2,477
MTR-Sviaz	2,459	1,096
Finance lease receivable	872	616
Others	20	158
Total current	5,591	4,347
Non-current:		
Finance lease receivable	2,253	4,005

</TABLE>

The finance lease receivable consists of a single agreement with MTR-Sviaz. The lease was entered into in August of 1996 for $5,197,000 and requires payments until July 2006.

11 COMMITMENTS AND CONTINGENCIES

Teleport currently utilizes capacity on three Intelsat satellites for the provision of its international and domestic long distance services, pursuant to a fifteen year contract signed with Intelsat in January 1993. The agreement requires quarterly payments of $616,500 for the remainder of its term.

As of December 31, 1997, the Company has commitments of approximately $0.9 million (1996: $11.3 million) related to the acquisition of telecommunications equipment.

During 1996, the Company provided guarantees to telecommunications suppliers in the form of letters of credit totalling $3,483,000 as of December 31, 1996. No similar guarantees were outstanding as of December 31, 1997.

The Company and certain of its Russian subsidiaries have accrued profits and other taxes based on interpretations of the law which may ultimately be disputed by the Russian taxation authorities. The exposure to additional profits and other taxes, fines and penalties, in the opinion of the Company's directors will not have a material adverse effect on the financial position or results of operations of the Company.

There are no material pending legal proceedings to which the Company or any of its property is subject.

WIRELESS TECHNOLOGY CORPORATION LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(WITH INDEPENDENT AUDITORS' REPORT THEREON)

WIRELESS TECHNOLOGY CORPORATIONS LIMITED

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<TABLE>

</TABLE>

INDEPENDENT AUDITORS' REPORT

To the Shareholders
Wireless Technology Corporations Limited:

We have audited the accompanying consolidated balance sheets of Wireless Technology Corporations Limited and subsidiary as of December 31, 1997 and 1996, and the related consolidated statements of operations, accumulated deficit, and cash flows for each of the years in the three year period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wireless Technology Corporations Limited and subsidiary as of December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 1997 in conformity with generally accepted accounting principles in the United States.

KPMG

Moscow, Russia
February 18, 1998

WIRELESS TECHNOLOGY CORPORATIONS LIMITED

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1997 AND 1996
(THOUSANDS OF UNITED STATES DOLLARS)

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,294	2,733
Trade receivables, net of allowance of $1,139 and $850, respectively	3,462	2,582
Due from related parties (note 6)	--	78
Inventory	1,640	913
Prepaid expenses and other current assets	798	336
Total current assets	11,194	6,642
Property and equipment, net (note 3)	23,362	22,342
Telecommunications license, net (note 4)	23,693	25,800
Total assets	$58,249	54,784
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,197	2,624
Due to related parties (note 6)	1,875	1,289
Customer deposits and advances	3,070	1,795
Income tax payable	58	165
Total current liabilities	6,200	5,873
Commitments and contingencies (note 8)		
Minority interest	4,489	1,878
Shareholders' equity:		
Share capital (note 5)	20,000	20,000
Contributed capital	30,803	30,803
Accumulated deficit	(3,243)	(3,770)
Total shareholders' equity	47,560	47,033
Total liabilities and shareholders' equity	$58,249	54,784

</TABLE>

See accompanying notes to consolidated financial statements.

WIRELESS TECHNOLOGY CORPORATIONS LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995
(THOUSANDS OF UNITED STATES DOLLARS)

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>	1995 <C>
Telecommunications revenues	$30,012	19,305	9,340
Direct costs (note 6)	6,873	5,376	3,176
Gross profit	23,139	13,929	6,164
Operating expenses:			
General and administrative (note 6)	7,501	4,387	4,918
Management fees (note 6)	1,155	885	530
Depreciation and amortization	5,325	4,133	3,188
Taxes other than income tax	379	354	150
Total operating expenses	14,360	9,759	8,786
Operating income (loss)	8,779	4,170	(2,622)
Other income (expense):			
Interest and other income	249	203	621
Foreign exchange loss	(242)	(341)	(6)
Net income (loss) before income tax and minority interest	8,786	4,032	(2,007)
Income tax (note 7)	3,648	1,547	247
Net income (loss) before minority interest	5,138	2,485	(2,254)
Minority interest	3,611	1,878	--
Net income (loss)	$ 1,527	607	(2,254)

</TABLE>

See accompanying notes to consolidated financial statements.

WIRELESS TECHNOLOGY CORPORATIONS LIMITED

CONSOLIDATED STATEMENTS OF ACCUMULATED DEFICIT
YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995
(THOUSANDS OF UNITED STATES DOLLARS)

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>	1995 <C>
Accumulated deficit at beginning of year	$(3,770)	(4,377)	(2,123)
Net income (loss)	1,527	607	(2,254)
Dividends	(1,000)	--	--
Accumulated deficit at end of year	$(3,243)	(3,770)	(4,377)

</TABLE>

See accompanying notes to consolidated financial statements.

WIRELESS TECHNOLOGY CORPORATIONS LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995
(THOUSANDS OF UNITED STATES DOLLARS)

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>	1995 <C>
Cash flows from operating activities:			
Net income (loss)	$ 1,527	607	(2,254)
Adjustments to reconcile net income to net cash provided (used in) operating activities:			
Depreciation and amortization	5,325	4,133	3,188
Bad debt expense	449	415	435
Minority interest	3,611	1,878	--
Changes in operating assets and liabilities:			
Increase in trade receivables	(1,329)	(1,801)	(1,365)
Increase in inventory	(727)	(255)	(651)
(Increase) decrease in prepaid expenses and other current assets	(462)	1,071	(1,389)
(Increase) decrease in prepaid income taxes	--	300	(300)
Increase (decrease) in accrued interest	--	316	(316)
(Decrease) increase in accounts payable and accrued liabilities	(1,427)	957	1,475
Increase (decrease) in due to/due from related parties, net	664	958	(42)
Increase in customer deposits and advances	1,275	1,034	544
(Decrease) increase in income taxes payable	(107)	165	--
Net cash provided by (used in) operating activities	8,799	9,778	(675)
Cash flows from investing activities:			
Prepaid equipment purchases	--	--	(9,000)
Purchases of property and equipment	(4,238)	(8,175)	(3,329)
Net cash used in investing activities	(4,238)	(8,175)	(12,329)
Cash flows from financing activities:			
Shareholder contributions	--	--	13,880
Dividends paid	(2,000)	--	--
Net cash (used in) provided by financing activities	(2,000)	--	13,880
Increase in cash and cash equivalents	2,561	1,603	876
Cash and cash equivalents at beginning of year	2,733	1,130	254
Cash and cash equivalents at end of year	$ 5,294	2,733	1,130
Supplementary disclosures:			
Interest paid	$ --	--	--
Income taxes paid	$ 3,755	1,082	546

</TABLE>

See accompanying notes to consolidated financial statements.

WIRELESS TECHNOLOGY CORPORATIONS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997 AND 1996
(TABULAR AMOUNTS IN THOUSANDS OF UNITED STATES DOLLARS)

(1) BUSINESS, OPERATIONS AND FUTURE ACTIVITIES

Wireless Technology Corporations Limited was incorporated in the British Virgin Islands as an international business company on October 27, 1993. The Company is a wholly-owned indirect subsidiary of PLD Telekom Inc. ("PLD" or the "Parent"), a company incorporated in Canada as of December 31, 1996 and incorporated in the United States as of December 31, 1997. The Company's only significant asset is a 50% controlling interest in BECET International JSC ("BECET"), which was formed on January 14, 1994 as a joint stock company under the laws of Kazakhstan.

BECET conducts business under the name "ALTEL" and was formed for the purpose of planning, developing, operating and servicing a cellular telecommunications system throughout Kazakhstan, and for the sale of related equipment to subscribers. BECET commenced operations in September 1994 and continues to develop its service network throughout Kazakhstan.

The BECET joint venture agreement required the Company to subscribe for 1,000 Class B shares in exchange for the contribution of working capital and tangible equipment with a cost of $20.0 million. The Class B shares were fully subscribed and paid as of December 31, 1995. Funding for the contribution was provided by PLD. The Company is entitled to a priority return of its $20.0 million contribution upon dissolution, liquidation or wind-up of BECET before the other shareholder receives any proceeds.

Kazaktelecom ("KT"), the other shareholder of BECET, subscribed for 1,000 Class A shares in exchange for the contribution to BECET of a fifteen year license for the use of certain cellular frequencies and the procurement of access to the public telephone network. For accounting purposes, no value was assigned to KT's contribution.

The Company's results are dependent upon BECET's ability to retain existing subscribers, to attract new subscribers, and to control operating expenses. The ability to retain and attract subscribers is dependent upon the general economic conditions of the marketplace, the demographic characteristics of its subscribers, the activities of competitors, if any, and other factors which may be outside the control of the Company.

The Company's operations are also subject to the unique economic, political, and social risks inherent in doing business in Kazakhstan. These include the policies of the Kazakh government, economic conditions, imposition of or changes to taxes or other similar charges by regulatory bodies, foreign exchange fluctuations and controls, controlling of prices by the Anti-Monopoly Commission, the potential for civil disturbance, deprivation or unenforceability of contractual rights, and the appropriation of property without fair compensation.

The Kazakh government has exercised and continues to exercise substantial influence over many aspects of the private sector. Confronted with the collapse of the planned economy, the government has been attempting to implement economic reform policies and encourage substantial private economic activity. However, these reforms have been only partially successful to date. The economy in Kazakhstan is still characterized by growing unemployment, high inflation, increasing foreign debt, a weak currency, and the possibility of widespread bankruptcies.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and are presented in United States' dollars ("U.S. dollars"). The consolidated financial statements include the accounts of the Company and its subsidiary,

BECET, which the Company effectively controls. Significant intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements present the financial position and results of operations of the Company and subsidiary (the "Company") on a stand-alone basis. The Company incurs and pays its own expenses. Management assistance is provided by the Parent under the terms of negotiated management agreements and specific costs incurred by the Parent on behalf of the Company are charged thereto. All intercompany transactions and charges are disclosed in note 6, "Related Party Transactions".

Income tax expense is based upon a calculation of current tax expense and deferred tax expense in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", on a stand-alone basis. Refer to note 7, "Income Taxes".

Intercompany interest charges incurred are the result of, and are made pursuant to, intercompany loan and/or lease agreements and are not a result of allocations of interest by the Parent or its subsidiaries.

The Parent's investment in the Company has been pushed down into the Company's consolidated financial statements and allocated to the cost of the telecommunication licenses. The cost of the telecommunication licenses is amortized on a straight-line basis over the term of the licenses.

There are no common costs allocated to the Company by the Parent. Direct costs incurred by the Parent on behalf of the Company are reimbursed by the Company. Services provided by the Parent are furnished under the terms of the negotiated management agreements. Refer to note 6, "Related Party Transactions". Management of the Company believes that the accompanying consolidated financial statements include all the costs incurred by the Company in its operations.

(b) Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of December 31, 1997 and 1996, the Company's cash equivalents consist of cash on deposit and term deposits. As of December 31, 1997 and 1996, the Company had $4,625,000 and $1,421,000, respectively, in cash equivalents.

(c) Revenue Recognition

Telecommunications revenues include airtime revenues, terminal sales, subscription fees, connection fees and other revenues. The Company records airtime revenues, subscription fees, connection fees and other revenues as earned, at the time the services are provided. Terminal sales are recognized when the equipment is delivered and the supporting contract is signed.

(d) Inventory

Inventory includes cellular telephones and accessories held for sale and is stated at the lower of average cost or net realizable value.

(e) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

<TABLE>

<S>	<C>
Base station equipment................................	10
Leasehold improvements and renovations................	15
Office equipment, computers, and software.............	3-5
Other telecommunication equipment.....................	3
Vehicles..	3-5
Residential apartments................................	5

</TABLE>

(f) Telecommunications License

The telecommunications license is amortized on a straight-line basis over 15 years, the term of the license.

(g) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company adopted the provisions of Statement of Financial Accounting Standards No. 121 (SFAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," on January 1, 1996. SFAS

121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(h) Reporting Currency and Foreign Currency Translation

The statutory accounts of BECET are maintained in accordance with Kazakh accounting rules and regulations and are stated in Kazakh tenge. The Kazakh statements are translated into U.S. dollars and then adjusted to U.S. GAAP in accordance with Statement of Financial Accounting Standards No. 52, "Accounting for Foreign Currency Translation" ("SFAS 52"). BECET's functional currency is the U.S. dollar as virtually all equipment expenditures are made in U.S. dollars and revenues are collected in U.S. dollar equivalents.

In accordance with SFAS 52, BECET has re-measured its financial statements since the functional currency is also the reporting currency and because BECET is subject to highly inflationary accounting. Accordingly, U.S. dollar transactions are re-measured at their historical value. Monetary assets and liabilities denominated in local currencies are translated into U.S. dollars at the prevailing period-end exchange rate. All other assets and liabilities are translated at historical exchange rates. Results of operations have been translated using the monthly average exchange rates. Translation differences resulting from the use of these different rates are included in the accompanying statements of operations. The tenge to U.S. dollar exchange rates used as of December 31, 1997 and 1996 were 75.5 tenge to 1 U.S. dollar and 73.3 tenge to 1 U.S. dollar, respectively.

(i) Income Tax

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period it occurs.

(j) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(k) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation.

WIRELESS TECHNOLOGY CORPORATIONS LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) PROPERTY AND EQUIPMENT

Property and equipment, at cost, as of December 31, 1997 and 1996 consists of the following:

	1997	1996
Base station equipment	$16,998	$14,040
Leasehold improvements and renovations	5,277	3,847
Office equipment, computers, and software	3,193	2,652
Other telecommunications equipment	1,092	932

Vehicles	456	398
Residential apartments	335	335
Total property and equipment	27,351	22,204
Less accumulated depreciation	(6,423)	(3,205)
Net book value of assets subject to depreciation	20,928	18,999
Uninstalled equipment	2,434	3,343
Property and equipment, net	$23,362	$22,342

</TABLE>

(4) TELECOMMUNICATIONS LICENSE

The telecommunications license as of December 31, 1997 and 1996 consists of the following:

<TABLE>
<CAPTION>

<S>	1997 <C>	1996 <C>
Costs	$31,595	$31,595
Less accumulated amortization	(7,902)	(5,795)
Telecommunications licenses net	$23,693	$25,800

</TABLE>

In March 1994, PLD acquired all of the outstanding shares of the Company for consideration of $30.0 million plus costs of acquisition of $0.8 million and $0.8 million of BECET's organization costs. The acquisition was accounted for by the purchase method of accounting. As of the date of acquisition, BECET had not commenced operations and did not have any tangible assets or liabilities. Therefore, the entire purchase price was allocated to BECET's cellular license. This purchase accounting has been "pushed down" into the Company's financial statements.

(5) SHARE CAPITAL

The authorized share capital of the Company as of December 31, 1997 and 1996 was 20,001,000 ordinary shares of $1 par value each. The shares may be divided into such number of classes and series as determined by the directors. The issued and outstanding share capital of the Company as of December 31, 1997 and 1996 consisted of 20,000,002 shares with aggregate par value of $20,000,002. Two shares were issued on incorporation on October 27, 1993 and an additional 20,000,000 shares were issued on December 20, 1995 to PLD for the contribution to purchase the Class B shares of BECET (see note 1). Total dividends declared and paid were $1,000,000, $0, and $0 for the years ended December 31, 1997, 1996, and 1995, respectively.

(6) RELATED PARTY TRANSACTIONS

(a) Management fees of $1,155,000, $885,000, and $530,000 for the years ended December 31, 1997, 1996, and 1995, respectively, were charged by PLD for management services (see note 8). Balances outstanding of $129,000 and $265,000 as of December 31, 1997 and 1996, respectively, in relation to these charges, are included in due to related parties.

(b) Additional charges, related to management services, of $191,000, $26,000, and $841,000 for the years ended December 31, 1997, 1996, and 1995, respectively, were charged to BECET by PLD and another PLD subsidiary. These amounts are included in general and administrative expenses. Balances outstanding of $929,000 and $791,000 as of December 31, 1997 and 1996, respectively, in relation to these charges, are included in due to related parties.

(c) Direct costs included costs of $4,163,000, $3,291,000, and $1,788,000 for the years ended December 31, 1997, 1996, and 1995, respectively, were charged by KT to BECET. Balances outstanding of $817,000 and $233,000 as of

December 31, 1997 and 1996, respectively, in relation to these charges, are included in due to related parties.

(d) Consulting fees of $88,000, $81,000 and $107,000 for the years ended December 31, 1997, 1996, and 1995, respectively, were paid to KT by BECET (see note 8). These amounts are included in general and administrative expenses. There was no balance outstanding as of December 31, 1997 and 1996 in relation to these charges.

(e) The unpaid balance of a non-interest bearing advance from BECET to KT in the amount of $78,000, as of December 31, 1996, is included in due from related parties.

(f) Lease payments for the office premises in Almaty and other premises of $91,000 for each of the years ended December 31, 1997, 1996, and 1995 were paid by BECET to KT. There was no balance outstanding in relation to these leases as of December 31, 1997 and 1996.

(7) INCOME TAX

The provision for income tax expense for the years ended December 31, 1997, 1996, and 1995 consists solely of current tax due to the government of Kazakhstan. The statutory Kazakh income tax rate for the years ended December 31, 1997, 1996, and 1995 was 30%. The effective tax rates on income as calculated under U.S. GAAP differ from the statutory rates due to differences between taxable income under the tax laws of Kazakhstan and net income before income tax and minority interest for U.S. GAAP purposes. These differences are as follows:

	1997	1996	1995
Provision (benefit) for income taxes at statutory rate....	$2,636	1,200	(603)
Add (deduct) the tax effect of:			
Non-deductible amortization of license.................	633	626	617
Depreciation expense from Kazakh revaluation of property and equipment......................................	(149)	(45)	(24)
Amortization of intangible asset not recorded in U.S. GAAP financial statements...........................	(46)	(48)	(49)
Foreign currency loss..................................	73	102	2
Other..	501	(288)	304
Provision for income tax...........................	$3,648	1,547	247

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 1997 and 1996 are as follows:

	1997	1996
Deferred tax assets:		
Allowance for doubtful accounts..........................	$342	255
Accumulated depreciation and amortization................	267	205
Accounts payable and accrued liabilities.................	45	2
Due to related parties...................................	278	260
Other..	8	--
	940	722
Less valuation allowance..................................	(235)	(286)

Net deferred tax asset	705	436
Deferred tax liabilities:		
Inventory	--	(225)
Other	(705)	(211)
	$ --	--

</TABLE>

As a result of the rapid change in regulatory environment and uncertainty surrounding the Kazakh tax regime, the Company has provided a valuation allowance against deferred tax assets.

The net change in the valuation allowance for the years ended December 31, 1997 and 1996, was a decrease of $51,000 and $692,000, respectively.

(8) COMMITMENTS AND CONTINGENCIES

(a) Leases

As of December 31, 1997, BECET had long-term operating leases primarily involving business facilities and equipment. The leases have varying terms and contain renewal options. Future minimum lease payments under non-cancelable operating leases consist of the following as of December 31, 1997:

<TABLE>

<S>	<C>
1998	$ 414
1999	383
2000	275
2001	60
2002	20
Thereafter	63
Total future minimum lease payments	$1,215

</TABLE>

Rent expense for the years ending December 31, 1997, 1996, and 1995 was $541,000, $422,000, and $375,000, respectively.

(b) PLD

On January 1, 1995, the Company entered into a 2 year agreement with PLD, under which PLD would provide certain consulting, informational services, management support services, and personnel expertise. The agreement can be automatically renewed for successive 12 month periods unless terminated by either party with at least 3 months written notice. Payments under this agreement are $25,000 per month plus 3% of

monthly gross revenues. The agreement was automatically renewed for 1998 and the minimum commitment for the Company in 1998 is $300,000 plus 3% of gross revenues.

(c) KT

On January 1, 1995, BECET entered into a 2 year agreement with KT, under which KT would provide certain consulting services, management support services, and personnel expertise. Payments under this agreement were 300,000 tenge per month ($3,975 at the December 31, 1997 exchange rate) plus 0.15% of monthly gross revenues. This agreement was terminated as of December 31, 1997 and BECET is currently negotiating a new consulting agreement with KT. The new agreement is anticipated to provide for fees of 300,000 tenge per month plus 1.0% of monthly gross revenues, and to be effective as of January 1, 1998, with a one year term automatically renewable for successive one year periods unless terminated by either party.

(d) Guarantee

In June 1996, PLD issued senior discount notes and convertible subordinated notes with an aggregate principal amount of $149.5 million. The Company, along with other PLD subsidiaries, is a guarantor of the debt under the terms of the related indentures.

EXHIBIT INDEX

<TABLE>
<S> <C>

23.1	Consent of KPMG Peat Marwick LLP.
23.2	Consent of KPMG.
23.3	Consent of KPMG.
23.4	Consent of KPMG.
23.5	Consent of KPMG.

</TABLE>

Exhibit 23.1

The Board of Directors
PLD Telekom Inc.:

We consent to incorporation by reference in the registration statement (no. 333-35139) on Form S-8, in the Post-Effective Amendment No. 1 to Form S-4 Registration Statement on Form S-8 (no. 333-18713), in the registration statement (no. 333-5396) on Form S-3, in the registration statement (no. 333-5400) on Form S-3, and in the registration statement (no. 333-5398) on Form S-4 of PLD Telekom Inc. of our report dated March 23, 1998, relating to the consolidated balance sheet of PLD Telekom Inc. and subsidiaries as of December 31, 1997, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended, which report appears in the Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 1997 of PLD Telekom Inc.

KPMG PEAT MARWICK LLP

New York, New York
July 22, 1998

Exhibit 23.2

The Board of Directors
PLD Telekom Inc.:

We consent to incorporation by reference in the registration statement (no. 333-35139) on Form S-8, in the Post-Effective Amendment No. 1 to Form S-4 Registration Statement on Form S-8 (no. 333-18713), in the registration statement (no. 333-5396) on Form S-3, in the registration statement (no. 333-5400) on Form S-3, and in the registration statement (no. 333-5398) on Form S-4 of PLD Telekom Inc. of our report dated March 21, 1997, relating to the consolidated balance sheet of PLD Telekom Inc. and subsidiaries as of December 31, 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 1996, which report appears in the Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 1997 of PLD Telekom Inc.

KPMG
Chartered Accountants

Calgary, Canada
July 22, 1998

Exhibit 23.3

The Board of Directors
NWE Capital (Cyprus) Ltd.:

We consent to incorporation by reference in the registration statement (no. 333-35139) on Form S-8, in the Post-Effective Amendment No. 1 to Form S-4 Registration Statement on Form S-8 (no. 333-18713), in the registration statement (no. 333-5396) on Form S-3, in the registration statement (no. 333-5400) on Form S-3, and in the registration statement (no. 333-5398) on Form S-4 of PLD Telekom Inc. of our report dated March 3, 1998, relating to the consolidated balance sheets of NWE Capital (Cyprus) Ltd. and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholder's equity, and cash flows for each of the years in the three year period ended December 31, 1997, which report appears in the Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 1997 of PLD Telekom Inc.

KPMG

St. Petersburg, Russia
July 22, 1998

Exhibit 23.4

The Board of Directors
Technocom Limited:

We consent to incorporation by reference in the registration statement (no. 333-35139) on Form S-8, in the Post-Effective Amendment No. 1 to Form S-4 Registration Statement on Form S-8 (no. 333-18713), in the registration statement (no. 333-5396) on Form S-3, in the registration statement (no. 333-5400) on Form S-3, and in the registration statement (no. 333-5398) on Form S-4 of PLD Telekom Inc. of our report dated April 2, 1998, relating to the consolidated balance sheets of Technocom Limited and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended December 31, 1997, which report appears in the Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 1997 of PLD Telekom Inc.

KPMG
Chartered Accountants

Dublin, Ireland
July 22, 1998

Exhibit 23.5

The Board of Directors
Wireless Technology Corporations Limited:

We consent to incorporation by reference in the registration statement (no. 333-35139) on Form S-8, in the Post-Effective Amendment No. 1 to Form S-4 Registration Statement on Form S-8 (no. 333-18713), in the registration statement (no. 333-5396) on Form S-3, in the registration statement (no. 333-5400) on Form S-3, and in the registration statement (no. 333-5398) on Form S-4 of PLD Telekom Inc. of our report dated February 18, 1998, relating to the consolidated balance sheets of Wireless Technology Corporations Limited and subsidiary as of December 31, 1997 and 1996, and the related consolidated statements of operations, accumulated deficit, and cash flows for each of the years in the three year period ended December 31, 1997, which report appears in the Annual Report on Form 10-K/A (Amendment No. 2) for the year ended December 31, 1997 of PLD Telekom Inc.

KPMG

Moscow, Russia
July 22, 1998

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM PLD TELEKOM INC.'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BE REFERENCE TO SUCH FORM 10-K AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR PLD TELEKOM INC. AT AND FOR THE YEAR ENDED DECEMBER 31, 1997 CONTAINED THEREIN.

</LEGEND>

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<INTEREST-EXPENSE>	17,846
<INCOME-PRETAX>	(3,428)
<INCOME-TAX>	7,739
<INCOME-CONTINUING>	(20,566)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(20,566)

<EPS-PRIMARY>	.64
<EPS-DILUTED>	.64

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