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ORIGINAL

FLORIDA PUBLIC SERVICE COMMISSION
CAPITAL CIRCLE OFFICE CENTER - 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

991280-TX

APPLICATION FORM
for

AUTHORITY TO PROVIDE ALTERNATIVE LOCAL EXCHANGE SERVICE WITHIN THE STATE OF FLORIDA

INSTRUCTIONS

1. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing alternative local exchange certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee.

2. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

3. Use a separate sheet for each answer which will not fit the allotted space.

4. If you have questions about completing the form, contact:

   Florida Public Service Commission
   Division of Communications, Certification & Compliance Section
   2540 Shumard Oak Boulevard
   Tallahassee, Florida 32399-0866
   (904) 413-6600

5. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of $250 made payable to the Florida Public Service Commission at the above address.

FORM WI PSC/CMU 8 (11/95)
Required by Chapter 364.337 F.S.

DOCUMENT NUMBER-DATE
10469 SEP-1 99
FPSC-RECORDS/REPORTING

1. This is an application for (check one):

   (X) Original authority (new company)

   ( ) Approval of transfer (to another certificated company)
   Example, a certificated company purchases an existing company and desires to retain the original certificate authority.

   ( ) Approval of assignment of existing certificate (to a non-certificated company)
   Example, a non-certificated company purchases an existing company and desires to retain the certificate of authority rather than apply for a new certificate.

   ( ) Approval for transfer of control (to another certificated company)
   Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of applicant:

   Primus Telecommunications, Inc. ("Primus")

3. Name under which the applicant will do business (d/b/a):

   Primus Telecommunications, Inc.

4. If applicable, please provide proof of fictitious name (d/b/a) registration.

   Fictitious name registration number: **Not Applicable** .

5. A. National mailing address including street name, number, post office box, city, state, zip code, and phone number.

   Primus Telecommunications, Inc.
   1700 Old Meadow Road, Third Floor
   McLean, VA 22102
   (703) 902-2800 (phone)
   (703) 902-2814 (fax)

   B. Florida mailing address including street name, number, post office box, city, state, zip code, and phone number.

   Primus does not currently have a mailing address in Florida. Primus' registered agent is:
   CSC/The United States Corporation Company
   80 State Street, 6th Floor
   Albany, NY 12207
   1-800- 833-9848

6. Structure of organization:

( ) Individual	( ) Corporation
(X) Foreign corporation	( ) Foreign Partnership
( ) General Partnership	( ) Limited Partnership
( ) Joint Venture	( ) Other, Please explain ______________

7. If applicant is an individual, partnership, or joint venture, please give name, title and address of each legal entity.

    Not Applicable.

8. State whether any of the officers, directors, or any of the ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

    None of Primus's directors, nor any of the ten largest stockholders, have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or any crime; nor are any such proceedings pending.

9. If incorporated, please provide proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

    Primus' Certificate of Authority to Transact Business in the State of Florida is included as Exhibit A to this application.

10. Please provide the name, title, address, telephone number, Internet address, and facsimile number for the person serving as ongoing liaison with the Commission, and if different, the liaison responsible for this application. **Please See Exhibit B.**

11. Please list other states in which the applicant is currently providing or has applied to provide local exchange or alternative local exchange service. **Please See Exhibit C.**

12. Has the applicant been denied certification in any other state? If so, please list the state and reason for denial.

    Primus has not been denied certification in any state.

13. Have penalties been imposed against the applicant in any other state? If so, please list the state and reason for penalty.

    No penalties have been imposed against Primus in any other state.

14. Please indicate how a customer can file a service complaint with your company.

Primus can be reached for customer complaints at 1-800-375-4884. Customers may also fax or mail any complaint directly to : Customer Care. 707 N.E. 3rd Ave., Fort Lauderdale, FL 33304

15. Please complete and file a price list in accordance with Commission Rule 25-24.825.

    Prior to providing service, Primus will file and maintain with the Commission a current price list which sets forth prices, customer connection charges, billing and payment arrangements and levels of service quality for the basic local telecommunications services it offers.

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

    A. Financial capability. **See Exhibit D.**

    Regarding the showing of financial capability, the following applies:

    The application should contain the applicant's financial statements for the most recent 3 years, including:

    1. the balance sheet
    2. income statement
    3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements.

If the applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should attest that the financial statements are true and correct.

B. Managerial capability. **See Exhibit E.**

C. Technical capability. **See Exhibit E.**

(If you will be providing local intra-exchange switched telecommunications service, then state how you will provide access to 911 emergency service. If the nature of the emergency 911 service access and funding mechanism is not equivalent to that provided by the local exchange companies in the areas to be served, described in detail the difference.)

See Exhibit F.

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange service in the State of Florida. I have read the foregoing and declare that to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

Official: ____________________ Date: August 26 1999
Signature

Title: Deputy General Counsel — 703-902-2800
Telephone number

Primus Telecommunications, Inc.

Address: 1700 Old Meadow Road, Third Floor

McLean, Virginia 22102

Sworn before me this 26th day of August 1996

Danielle O. Saunders

My Comm. Exp. 5/31, 2000

EXHIBITS

EXHIBIT A	CERTIFICATE OF AUTHORITY TO TRANSACT BUSINESS IN FLORIDA
EXHIBIT B	ONGOING LIAISON AND APPLICATION LIAISON
EXHIBIT C	CURRENT AUTHORIZATIONS
EXHIBIT D	FINANCIAL CAPABILITY
EXHIBIT E	MANAGERIAL CAPABILITY
EXHIBIT F	ACCESS TO 911

EXHIBIT A

CERTIFICATE OF AUTHORITY TO TRANSACT BUSINESS IN FLORIDA

State of Florida

Department of State

I certify the attached is a true and correct copy of the application by PRIMUS TELECOMMUNICATIONS, INC., a Delaware corporation, authorized to transact business within the State of Florida on November 23, 1994, as shown by the records of this office.

The document number of this corporation is F94000006034.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital, this the
Twenty-third day of November, 1994

Jim Smith

Jim Smith
Secretary of State

CR2EO22 (2-91)

EXHIBIT B

ONGOING LIAISON AND APPLICATION LIAISON

ONGOING LIAISON AND APPLICATION LIAISON

Ongoing liaison

David Slotkin, Esq.
Deputy General Counsel
Primus Telecommunications, Inc.
1700 Old Meadow Road, Third Floor
McLean, VA 22102
(703) 902-2800 (Tel.)
(703) 902-2814 (Fax)
DSlotkin@PRIMUSTEL.com (e-mail)

Liaison for Application:

Ronald Jarvis, Esq.
Swidler Berlin Shereff Friedman, LLP
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
(202) 424-7500 (Tel.)
(202) 424-7645 (Fax)
RJJarvis@swidlaw.com (e-mail)

EXHIBIT C

CURRENT AUTHORIZATIONS

CURRENT AUTHORIZATIONS

Primus currently has authority from the State of Florida to provide resold interexchange services in the state of Florida, pursuant to Order No. PSC-95-0587-FOF-TI, issued by the Florida Public Service Commission in Docket No. 950161-TI on May 11, 1995 and is a matter of public record.

Primus is also authorized to operate as a telecommunications carrier, either through certification or registration, in all forty eight contiguous states and the District of Columbia in the United States. Primus has not been denied the authority to provide telecommunications services in any jurisdiction.

Primus seeks authority to provide local digital subscriber line services throughout the State of Florida except in those areas served by small telecommunications as described by Florida Statutes §§ 364.051 and 364.337(1).

EXHIBIT D

FINANCIAL CAPABILITY

FINANCIAL STATEMENTS

Primus has ample financial qualifications to provide facilities-based and resold intraexchange services in Florida. Primus will rely upon its existing personnel and technological and financial resources to provide services in Florida; accordingly, no additional investment will be needed to offer the proposed services. For the period ending December 31, 1998, Primus Telecommunications Group, Incorporated, which is publicly traded, earned revenues in excess of $420 Million. A copy of the latest annual report is included in **Exhibit D.1** hereto. With access to the substantial financial resources of its parent company, Primus is financially well qualified under applicable Maryland law. **Exhibits D.2** hereto is a copy of the latest quarterly SEC Form 10-Q for Primus Telecommunications Group, Incorporated. As demonstrated by the attached financial documents, Primus is financially capable of meeting the lease and ownership obligations it undertakes in pursuit of providing local telecommunications services throughout Florida.

EXHIBIT D-1

Annual Report

Exhibit 4.1

Annual Report of Primus Telecommunications Group, Incorporated

PRIMUS

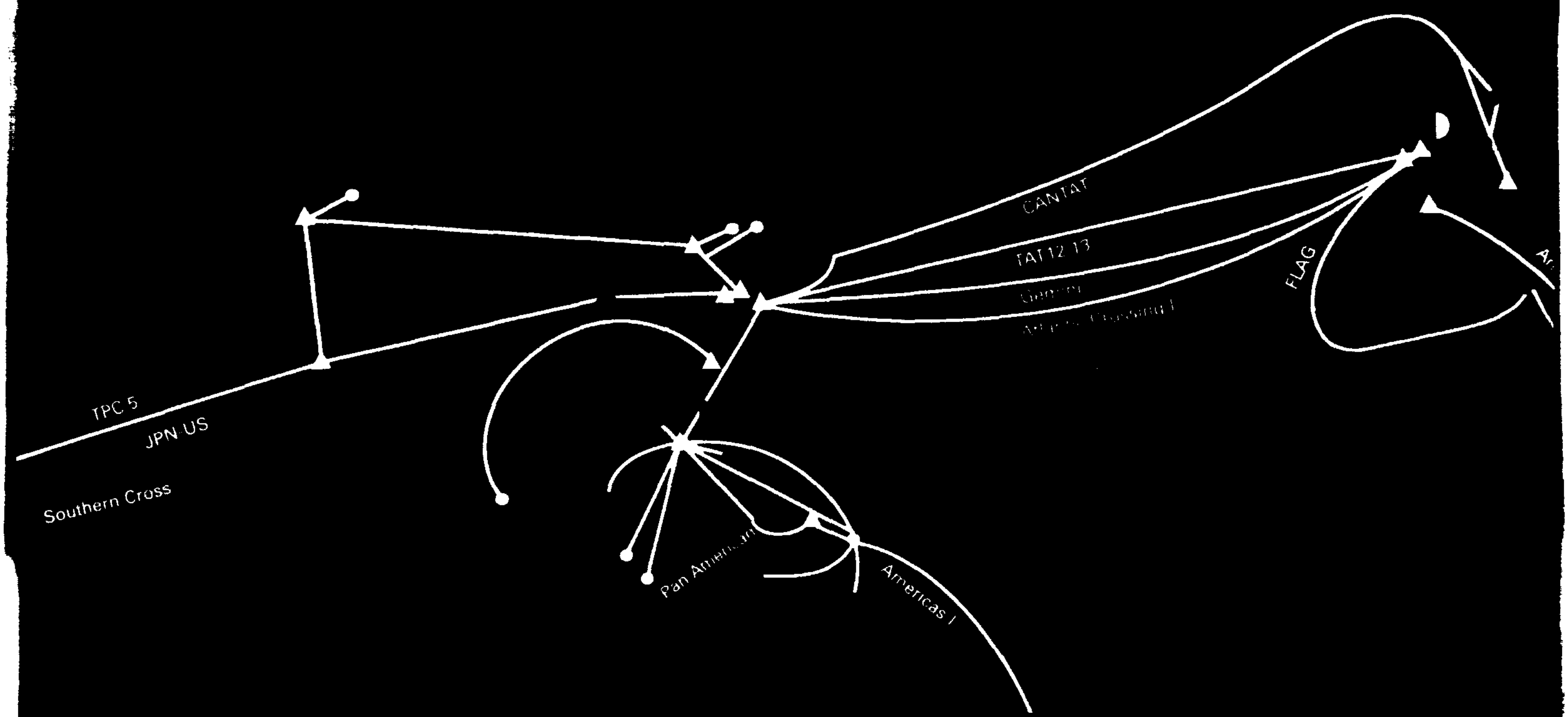
Telecommunications Group, Incorporated

A World Class Global Network

Annual Report 1998

About PRIMUS Telecommunications Group, Incorporated

PRIMUS Telecommunications Group, Incorporated is a global facilities based telecommunications company providing domestic and international long distance voice, data, Internet, private network and value added services. The Company provides services through an extensive global network of owned and leased trans mission facilities, including ownership interests in 23 undersea fiber optic cable systems, 19 international gateway and domestic switches, a satellite earth station and a variety of operating relationships that allow the Company to deliver traffic worldwide. Founded in 1994 and based in McLean, Va., the Company had at the end of its first quarter 1999 an annual revenue run rate in excess of $525 million and currently serves nearly 1.5 million corporate, small and medium sized business, residential, ISP and telecommunication carrier customers located in the North America, Europe and Asia-Pacific regions of the world.



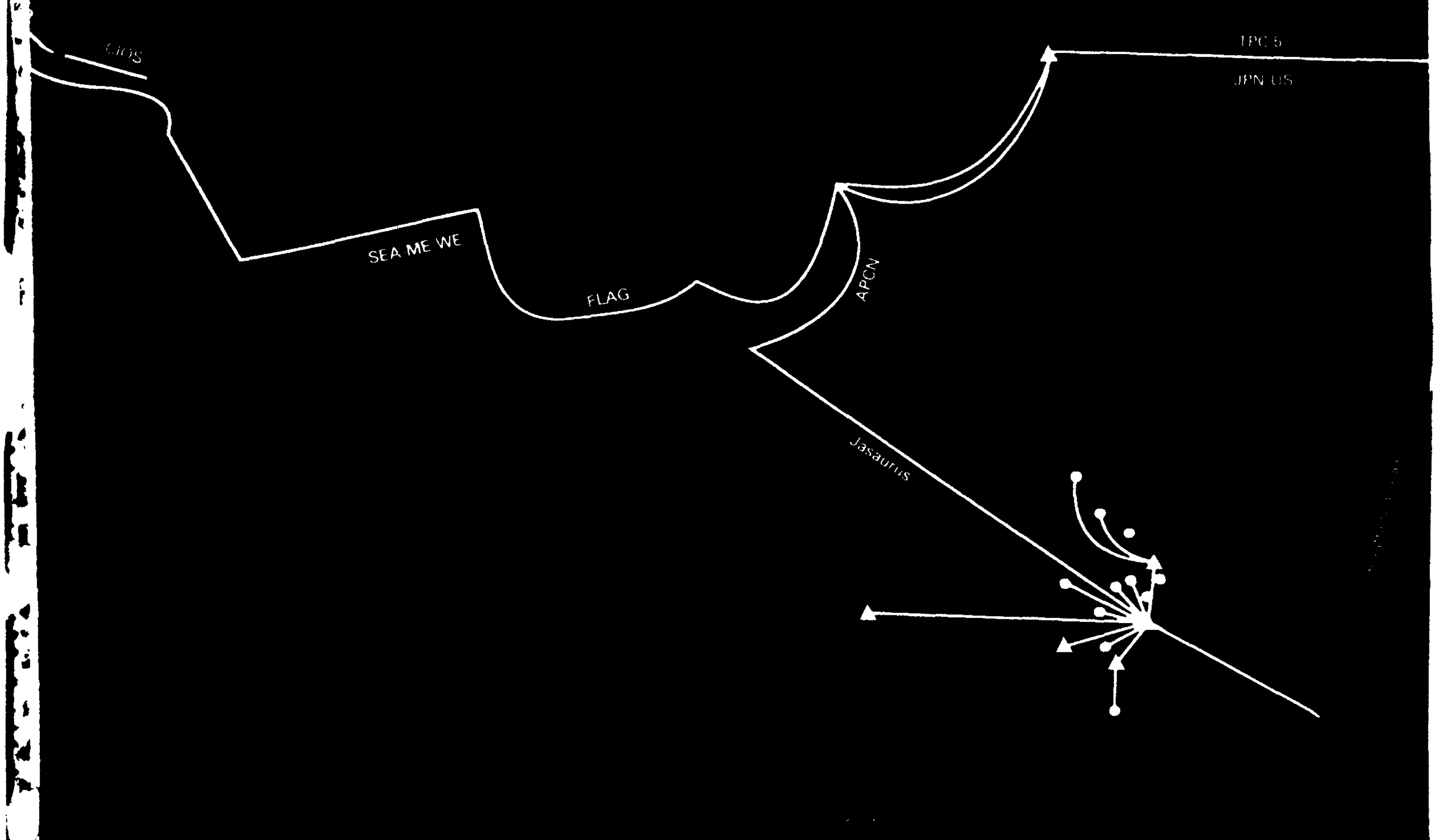
A World Class Global Network

Americas I

Selected Financial and Operational Data

(in thousands, except gross margin percentage, number of customers, and number of employees)

	1998	1997	1996	1995	1994
Net revenue	$421,628	$280,197	$172,972	$ 1,167	$ 0
Gross margin	$ 68,612	$ 27,466	$ 14,127	$ (217)	$ 0
Gross margin percentage	16.3%	9.8%	8.2%	(18.6%)	N/A
Sales, general and administrative expense	$ 79,532	$ 50,622	$ 20,114	$ 2,024	$ 557
EBITDA	$ (10,920)	$ (23,156)	$ (5,987)	$(2,241)	$(557)
Net loss	$ (63,648)	$ (36,239)	$ (8,764)	$(2,425)	$(577)
Cash, cash equivalents and restricted and short term investments	$186,819	$188,782	$ 60,599	$ 2,296	$ 221
Gross property, plant and equipment	$179,464	$ 64,572	$ 17,897	$ 1,099	$ 124
Total assets	$673,963	$355,393	$135,609	$ 5,042	$ 487
Total stockholders' equity	$114,917	$ 42,526	$ 76,440	$ 2,562	$ (71)
Total number of customers	447,000	175,000	50,000	4,000	—
Total long distance minutes of use	1,425,568	602,955	287,000	2,000	—
Total number of employees	889	504	315	26	4

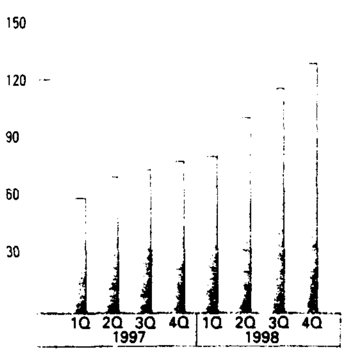


existing switch ▲ point of presence ● satellite earth station cable system

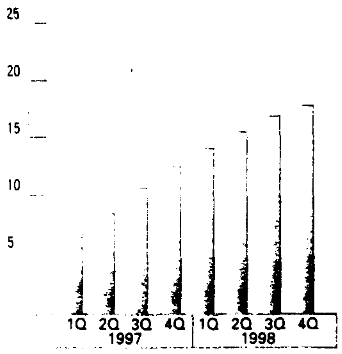
Shaded areas represent existing and planned coverage by the PRIMUS global satellite network.

To Our Stockholders

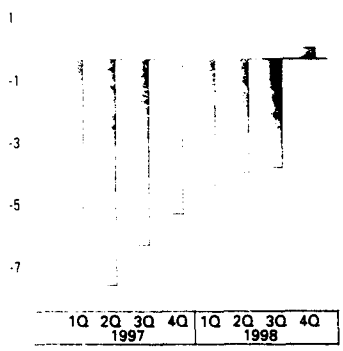
NET REVENUE ($ in millions)



GROSS MARGIN PERCENTAGE



EBITDA ($ in millions)



It has been a tremendous year. Not only have we met our goals for 1998, we have surpassed our expectations. We are well on our way to redefining the telecommunications paradigm and building a world-class global network that stands apart from the competition. Our visionary business practices, coupled with our strong leadership team, will enable us to continue our success and produce results and value to our shareholders.

Our success in 1998 is evidenced by our aggressive revenue, gross margin, and EBITDA objectives announced 18 months earlier. In mid-1997, we told investors that our objectives for the fourth quarter of 1998 included a revenue run rate of $500 million per year, continued improvement in gross margin and breakeven EBITDA. We were seen as very ambitious at that time but have met the challenge. At the end of 1998, we achieved our objectives and set an even more ambitious goal for achieving a $1 billion revenue run rate by the end of 2000.

Can we do it? Yes. We are strategically positioned to meet our goals into the new millennium. Over the past several weeks, PRIMUS has accelerated the execution of its business plan by approximately one year with the acquisition of Telegroup's retail business and AT&T Canada's residential long distance and Internet business. As a consequence, we now believe we can reach our $1 billion revenue run rate goal by the end of 1999. Considering the fact that PRIMUS ended 1995 with $1 million in revenues, our rate of growth over four years has been extraordinary.

We are positioned to become a profitable full service carrier that offers bundled voice/data/Internet/cellular services to a mix of business, residential and carrier customers in targeted major markets around the world. A fundamental component to PRIMUS's long term plan is our ability to leverage the power of our world class global network and our ability to build a strong base of retail customers to cross-sell services.

Recent acquisitions have expanded PRIMUS's customer base to nearly 1.5 million, tripling the number six months ago. Since approximately 70 percent of our revenue will be derived from higher margin retail customers, our gross margins will be positively affected. We are excited by the opportunities to offer additional services to this base of customers, attract new customers, extend and expand our network, and introduce new services.

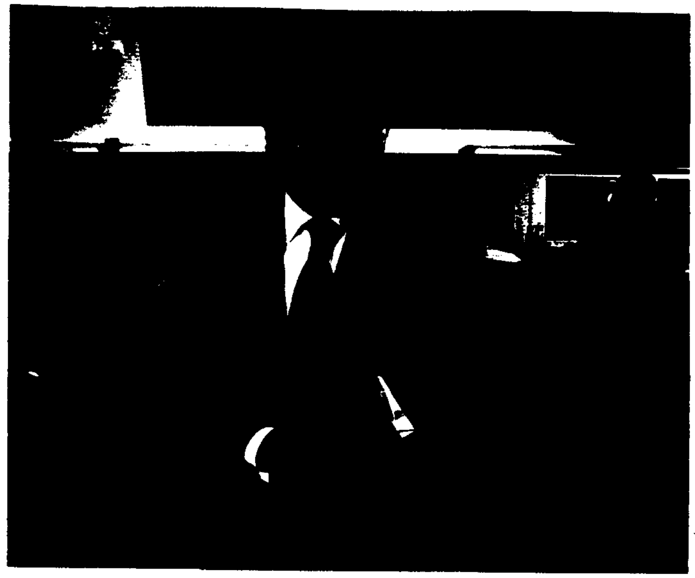
Along with increasing the number of customers we serve, a major initiative to increase revenues and profitability is the provision of higher margin data and Internet services. Accordingly, we launched iPRIMUS.com in May 1999. iPRIMUS.com is a wholly-owned operating subsidiary that will be the vehicle to pursue initiatives in this dramatically expanding market. Utilizing PRIMUS's unique fiber optic and satellite global network, iPRIMUS.com will become a major player in the market for data/Internet services. In support of this pursuit, PRIMUS continues to invest in its network to offer the best service and quality, as our recent designation as a Cisco Powered Network attests. As PRIMUS gains prominence in each of its markets as a provider of "best-of-breed" bundled services, our financial standing will continue to climb.

There's no doubt that 1998 was a rewarding year for us. Our performance measures clearly affirm the vision and direction of our business plan. Our successful financial performance for 1998 is set forth in the table on the prior page. Revenues, gross margin and EBITDA were all substantially higher than in 1997. Net revenue for 1998 was a record $421.6 million, up 50 percent. Gross margin as a percentage of net revenue improved 66 percent. We cut our EBITDA loss to $10.9 million--approximately in half.

Other performance measures, such as the number of customers, long distance minutes of use, and investment in property, plant and equipment (PP&E) likewise showed substantial improvement. They expanded by 155 percent, 136 percent and 178 percent, respectively.

Our first quarter 1999 results contain still more recent signs of our progress and capability. First quarter 1999 revenue grew 64 percent, and gross margin as a percentage of net revenue improved to a record 20.3 percent, up from 14.2 percent compared to the year ago quarter. All three of our operating regions recorded revenue increases. Our mix of retail residential and business revenue improved to 57 percent from 54 percent from the fourth quarter of 1998, while services to other carriers showed an increase in higher margin, overseas-originated traffic.

Moving forward, one measure of our success will be our overall percentage revenue growth, particularly in the retail sector--residential and business. We expect to see continued revenue growth throughout 1999 as a result of strong expansion in PRIMUS's retail customer base. We are well along the way to meet our target mix of about 70 percent retail and 30 percent carrier revenue as a long-term, "steady-state" goal.



Our gross margin has been favorably impacted by the increased retail and overseas carrier traffic which travels on our network (or "on-net') along with declining unit costs. The first quarter of 1999 marked the eighth consecutive quarter of gross margin improvement over which span we tripled our gross margin. Our target is to improve gross margin by 4 to 5 percentage points in 1999, which will rank PRIMUS near the highest in its sector.

PRIMUS will also benefit from higher margin data/Internet services now marketed through iPRIMUS.com. As a standalone or bundled product, data/Internet traffic accounted for 2 to 3 percent of our revenue in the first quarter of 1999. Leveraging the unique fiber/satellite global network that PRIMUS has built over the last four years, iPRIMUS.com's gross margins are expected to exceed the 30+ percent being targeted for voice. We anticipate this unit will contribute approximately 10 to 15 percent to our total revenue by 2002.

Our vision for 1999 and beyond is to continue rapid growth through organic measures and strategic acquisitions. We have established a solid track record of building valuable franchises in Australia and the U.K. Both operating units have turned EBITDA positive within a few short years of entering deregulating markets and establishing a diversified revenue base. We're now pursuing this same demonstrated, proven model in continental Europe, Canada and Japan.

In the first half of 1999, we made several strategic acquisitions in Canada--GlobalServe (Internet services provider), London Telecom (long distance services provider), AT&T Canada (residential customer base and Internet customers), and TelSN (Competitive Local Exchange Carrier)--that dramatically increased our scale. PRIMUS is now the second largest alternative carrier in Canada, as well as the fifth largest ISP. In Australia, our most developed market where we are now the fourth largest carrier, we rolled out data and Internet services to complement our existing voice and cellular services and have, thus, become a true "one-stop-shop" for our customers. Our European operations are exhibiting strength, with revenue increasing to $25 million in the first quarter of 1999. Due to organic growth and our Telegroup acquisition, we now project that PRIMUS will have a revenue run rate of over $220 million in Europe by year end 1999. PRIMUS will expand its operations in continental Europe by establishing a franchise in France in the third quarter of 1999, followed by entry into Italy later in the year.

Our marketplace is increasingly competitive. At the same time, we believe the opportunities for continued success are endless. Our strategy all along has been to be a global facilities-based carrier offering bundled voice, data, Internet and cellular services to business, residential and carrier customers, supported by a low-cost structure and scalable billing, provisioning and customer support services. PRIMUS is uniquely positioned to thrive in this competitive environment. An indicator that the PRIMUS paradigm is indeed working--and working well--is that our unit costs are declining more rapidly than our unit prices. Declining network costs, even as we enhance our technological platform, is another reason we expect increased financial performance and customer satisfaction improvements.

Looking back on the past year, we are proud of our accomplishments and we are setting our sights even higher for the coming year. With the continued support of our investors, our loyal customers and our dedicated employees around the world, we are poised to achieve our goals.

K Paul Singh

K. Paul Singh
Chairman, President and Chief Executive Officer

PRIMUS launched iPRIMUS.com in May 1999. iPRIMUS.com is a wholly-owned operating subsidiary that will pursue the Company's initiatives in the high growth data/Internet market. The new operating subsidiary is the next major step in executing PRIMUS's global strategy of aggressively gaining retail market share by offering "one-stop shopping" for bundled voice, data, Internet and cellular services. Key to the successful launch is that iPRIMUS.com is leveraging PRIMUS's global multi-media fiber and satellite network.

iPRIMUS.com commenced operations as a global ISP with more than 50,000 customers in Canada and Australia, and with a number of multinational corporations and organizations as data customers. With a high bandwidth operational network as its backbone, iPRIMUS.com's "running start" launch has set the course for the unit to achieve several strategic objectives as it captures a leading position in data and Internet services. The PRIMUS network architecture is unique with fiber and satellite facilities that provide unparalleled coverage and capabilities.

PRIMUS's terrestrial system of advanced switches and fiber optic land lines and undersea cable now directly connects 24 countries. Our global satellite system will allow us to access 80 more countries, enabling iPRIMUS.com to cover 80 percent of the world's telecommunications markets.

We now have set the stage for iPRIMUS.com to become a powerful and leading global ISP --the major growth segment of the telecommunications market of the next millennium. iPRIMUS.com will grow its customer base through targeted acquisitions of ISPs, and affiliations and partnerships within the global data/Internet community.

iPRIMUS.com's broad portfolio of services will include Internet connectivity, Internet roaming, IPVoice, IPFax, unified messaging, mission-critical web-hosting, web design services, digital subscriber line (DSL) access, e-commerce transaction services, virtual private networks (VPN), and other value-added products. The services will be offered by iPRIMUS.com either on a stand-alone basis or bundled with other telecommunications services offered by PRIMUS's regional subsidiaries.

iPRIMUS.com will also market its services as a global data/Internet backbone for traffic originated by overseas carriers, PTTs and ISPs that have expanding needs for broadband global transmission capability. Global Crossing, a leading provider of fiber optic bandwidth, recently became a customer through the commitment to purchase $25 million of satellite services on PRIMUS's network, validating PRIMUS's strategy to construct a global satellite network to complement its fiber network. iPRIMUS.com will offer affiliated ISPs a unique value proposition by leveraging PRIMUS's global network for direct connection to the U.S. Internet backbone--the destination of some 70 percent of all global Internet traffic. As a result, ISP affiliates can significantly reduce their transmission costs.

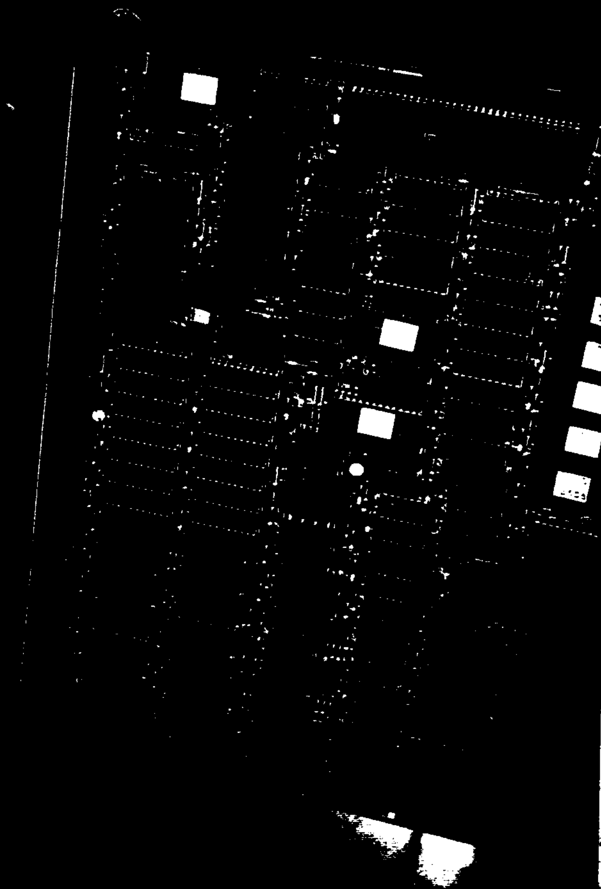
iPRIMUS.com also can enhance revenue opportunities for ISP affiliates by terminating PRIMUS network voice traffic through the affiliate's local network connection. In addition, iPRIMUS.com can expand product portfolios of foreign ISPs by offering next-generation IP Voice, IP Fax and other related services.

Data services and "value-added" ventures are two other growth areas for iPRIMUS.com. For multinational corporations, integrated fiber/satellite enterprise solutions are the answer to many management information challenges. With PRIMUS's low cost structure, iPRIMUS.com will be able to implement the highest quality of service for attractively-priced communications packages. For existing or potential customers looking to take advantage of the latest in technology, iPRIMUS.com will remain on the cutting edge.

Launching Our Data [illegible]

- Entered Australian Internet/data market with acquisitions of Hotkey and Eclipse in early 1998
- Australian network enhanced in three months to run IP services and launched Internet access services
- GlobalServe, a leading Canadian ISP, acquired in February 1999
- iPRIMUS.com launched in May 1999 with ISP operations in Canada and Australia
- Strategic transaction executed with Global Crossing for sale of satellite services
- Entered European ISP market with acquisition of Germany's TCP/IP, operator of Contrib.Net Internet backbone
- Became fifth largest ISP in Canada after adding 25,000 Internet customers acquired from AT&T Canada

Expanding the PRIMUS Global Network



NETWORK EXPANSION

- Acquired TresCom in June 1998
- $20 million contract for capacity on domestic US Qwest fiber optic cable routes
- Purchased capacity on Atlantic Crossing fiber optic cable network
- Australian network enhanced for Internet/IP services
- GlobalServe acquisition added a leading Canadian ISP network
- Extensive domestic Canadian network added through London Telecom acquisition
- Agreement with Global Crossing to add $50 million of global fiber capacity
- Purchased German Internet network with TCP/IP acquisition
- Telegroup acquisition in June 1999 added network assets
- Agreement with AT&T Canada to utilize its domestic long distance network

Network ownership is a strategic advantage for a telecommunications carrier in order to control costs and offer the highest level of service. With an investment of gross property, plant and equipment (PP&E) of $197 million at the end of the first quarter of 1999, the Company believes its unique state-of the-art voice, data and Internet network provides the broadest geographic coverage of any carrier in the world.

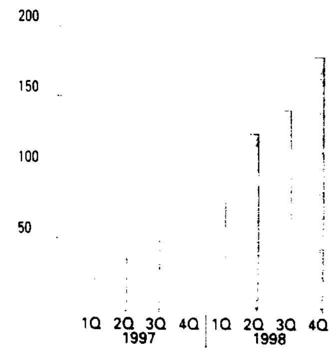
The PRIMUS global fiber optic network directly connects 24 countries, consists of 19 international gateway and domestic switches, over 100 points of presence (POPs) and Internet access nodes, and ownership interests in 23 undersea fiber-optic cable systems.

The Company has further extended the reach and expanded the capacity of its network through a number of strategic arrangements. During 1998, PRIMUS invested over $100 million on network expansion and improvement and entered into a $20 million long-term contract with Qwest Communications for U.S. long distance capacity on its Internet Protocol (IP) network. In early 1999, the Company executed a multi-year agreement with Global Crossing committing to purchase $50 million of fiber capacity on systems being constructed globally. Additionally, Global Crossing committed to purchase $25 million of services on PRIMUS's satellite network.

By the end of 1999, PRIMUS expects to directly connect 30 countries via its fiber network. The 30 countries--including the world's major financial centers--represent 80 percent of the world's international calling market. By interconnecting Tokyo, Sydney, Hong Kong, Los Angeles, Toronto, New York, London, Frankfurt, Paris, Milan and many other cities, the network will be able to provide truly seamless data/voice/Internet services to multinational corporations and the international financial services industry among the many high volume users of telecommunications services.

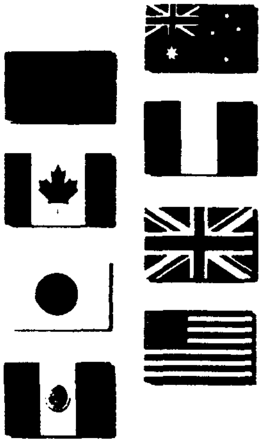
PRIMUS is complementing its fiber backbone with a broadband satellite network. The Company believes that true global Internet and data carriers will need to offer integrated fiber and satellite network solutions to be a credible player in today's market. PRIMUS's satellite services will extend to places where fiber coverage is not feasible, while providing redundant capacity and offering unique broadcast capabilities.

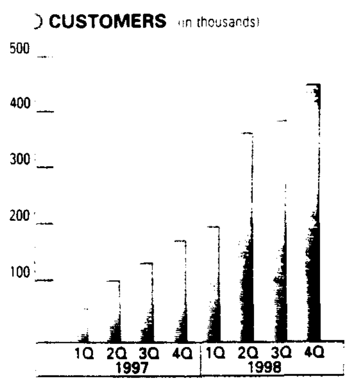
GROSS PP&E ($ in millions)



OPERATIONAL ACHIEVEMENTS

- Received Type 1 License to provide telecom services and own infrastructure in Japan
- Invested in the Japan-U.S. Cable Network
- Began commercial operations in Germany
- Intelsat Type A 16 meter satellite earth station operational in UK
- Interconnection agreements signed for access to The Netherlands, Denmark, Greece, Cyprus and Israel; additional capacity activated for Italy and Belgium
- Commissioned Global Network Management Center
- Received license/interconnect in France
- Installed international gateway switch in Paris





Composed of business and residential customers, the retail market is the most profitable segment in telecommunications. Brand recognition is an important competitive asset when seeking to attract and retain retail customers. PRIMUS's operating subsidiaries build brand awareness through marketing campaigns tailored to their specific market--and supportive of the global PRIMUS name and service mark.

The signs of an outstanding brand are instant name recognition among audiences coupled with immediate association with positive values. Increasingly, the PRIMUS brand stands for high quality, fully integrated, enhanced communication to points throughout the world, and at attractive prices.

An outstanding brand sustains its value through integrity. The PRIMUS brand can sustain its value because the Company's technology and network ownership enable it to exceed customer expectations and compete successfully against other Tier 1 carriers and alternative long distance carriers on the basis of price, quality and enhanced services. These hallmarks were deciding factors for PRIMUS UK to be named "preferred provider" for the Major Energy Users Council, an organization of more than 180 of the UK's largest businesses.

Branding builds customer commitment. PRIMUS subsidiaries around the world focus on developing a customer base composed primarily of targeted high margin, loyal businesses and consumers. The PRIMUS family is fast becoming a leading service provider in many of its markets. In the Canadian market, PRIMUS Canada is the number two alternative carrier. PRIMUS Australia is the fourth largest carrier in its market. And iPRIMUS.com is the fifth largest ISP in Canada, with burgeoning franchises in Australia and Germany. With the Company's acquisitions in early 1999 of Telegroup and AT&T Canada residential customers, PRIMUS now has nearly 1,500,000 long distance and Internet customers worldwide.

PRIMUS's brand recognition campaign is concentrated on building brand awareness among customer segments where opportunities for rapid increase in volume and profitability are greatest. Also targeted are those small to medium-sized businesses and large multinationals that make extensive use of international telecommunication services.

As PRIMUS enters new markets, such as Germany, France and Italy, it launches marketing campaigns to establish the PRIMUS subsidiary's presence. During 1998, for example, PRIMUS Canada conducted a high profile nationwide advertising campaign in major Canadian newspapers to introduce its services to potential business and residential customers throughout the country.

While the Company's local subsidiaries primarily offer voice services, iPRIMUS.com will offer Internet/data service in these markets. Services will be offered on a stand-alone basis and with PRIMUS's "one-stop-shop" strategy bundled to appeal to customers and maximize revenue per customer.

PRIMUS has made significant inroads for brand awareness and visibility. To do so, the Company has implemented aggressive advertising and public relations strategies. This includes reaching out to the media and analysts, developing collateral materials, and sponsoring events marketing and affinity groups to promote recognition of the PRIMUS brand. PRIMUS appears, for example, as a sponsor of major sporting events and sports teams. In Australia, the Company has sponsored that country's premier auto racing event, the Bathurst 1000, and the Collingwood Football Club, a leading Australian-rules football team. PRIMUS has substantially increased its media outreach and coverage in top-tier trade and financial publications. As a result, the media coverage is helping the Company deliver its message and increase brand awareness. As an example, headlines such as "PRIMUS Thinks Globally" (Telephony, May 31, 1999) have appeared, which capture the essence of the Company.

Building Brand Awareness

EuroChoice™ - A single rate for 10 European countries

Global Choice™ - Voice services for small and medium-sized businesses

Globetalk™ - For targeted ethnic markets

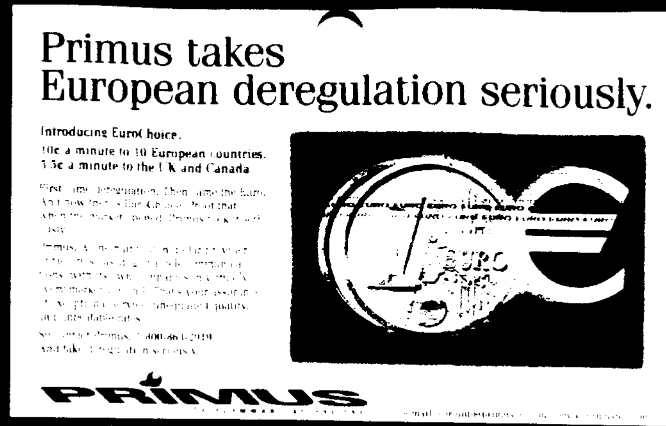
internetPRIMUS™ - For residential Internet products

iPRIMUS.com™ - PRIMUS's global unit for a full suite of data, Internet and IP-related services

Prime Link™ - International private line service for multinational corporations

PRIMUS SELECT™ - High-end voice product for large businesses

PRIMUS is capitalizing on deregulating markets...



...with a world class global network...

[illegible]

...while building a recognized global brand.

Building Brand Awareness

EuroChoice™ - A single rate for 10 European countries

Global Choice™ - Voice services for small and medium sized businesses

Globetalk™ - For targeted ethnic markets

internetPRIMUS™ - For residential Internet products

iPRIMUS.com™ - PRIMUS's global unit for a full suite of data, Internet and IP-related services

Prime Link™ - International private line service for multinational corporations

PRIMUS SELECT™ - High-end voice product for large businesses

Selected Financial Data

The following sets forth selected consolidated financial data of the Company for the years ended December 31, 1998, 1997, 1996, and 1995 and from inception to December 31, 1994 from the historical financial statements of the Company:

Statement of Operations Data:

	For the Period Ended December 31,				
	1998	1997	1996	1995	1994
	(in thousands except percentages and per share data)				
Net revenue	$421,628	$280,197	$172,972	$ 1,167	$ —
Gross margin	$ 68,612	$ 27,466	$ 14,127	$ (217)	$ —
Gross margin percentage	16.3%	9.8%	8.2%	(18.6%)	N/A
Selling, general, administrative expenses	$ 79,532	$ 50,622	$ 20,114	$ 2,024	$ 557
EBITDA	$ (10,920)	$ (23,156)	$ (5,987)	$(2,241)	$ (557)
Net loss	$ (63,648)	$ (36,239)	$ (8,764)	$(2,425)	$ (577)
Basic and diluted net loss per share	$ (2.61)	$ (1.99)	$ (0.75)	$ (0.48)	$(0.22)

Balance Sheet Data:

	As of December 31,				
	1998	1997	1996	1995	1994
	(in thousands)				
Cash, cash equivalents and restricted and short-term investments	$186,819	$188,782	$ 60,599	$ 2,296	$ 221
Gross property, plant and equipment	$179,464	$ 64,572	$ 17,897	$ 1,099	$ 124
Total assets	$673,963	$355,393	$135,609	$ 5,042	$ 487
Total long-term obligations	$420,174	$231,211	$ 17,248	$ 528	$ 13
Total stockholders' equity	$114,917	$ 42,526	$ 76,440	$ 2,562	$ (71)

Management's Discussion and Analysis of Financial Condition and Results of Operations Overview

Overview

Primus is a facilities-based global telecommunications company that offers international and domestic long distance, Internet access and data, and other telecommunications services to business, residential and carrier customers in North America and in selected markets within both the Asia-Pacific region and Europe. The Company seeks to capitalize on the increasing demand for high-quality international telecommunications services resulting from the globalization of the world's economies and the worldwide trend toward telecommunications deregulation and the growth of data and Internet traffic. Primus provides service over its Network which includes (i) 12 international gateway switches in the United States, Australia, Canada, Germany, Japan, Puerto Rico and the United Kingdom, (ii) four domestic switches in Australia, (iii) data and Internet access switches in Australia and Canada, (iv) both owned and leased transmission capacity on undersea and land-based fiber optic cable systems and (v) an international satellite earth station located in London. Utilizing this Network, along with resale arrangements and foreign carrier agreements, the Company provides service to approximately 450,000 customers.

Net revenue is earned based on the number of minutes billable by the Company and is recorded upon completion of a call, adjusted for sales allowance. The Company generally prices its services at a savings compared to the major carriers operating in each country. The Company's net revenue is derived from carrying a mix of business, residential and carrier long distance voice traffic, data and Internet traffic in Australia and Canada, and, in Australia, also from provision of local and cellular services.

Cost of revenue is primarily comprised of costs incurred from other domestic and foreign telecommunications carriers to originate, transport and terminate calls. The majority of the Company's cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the Company's most significant expense. As the Company increases the portion of traffic transmitted over its leased or owned facilities, fixed costs as a percentage of cost of revenue will proportionately increase.

Although the Company's functional currency is the United States dollar, a significant portion of the Company's net revenue is derived from its sales and operations outside the United States. In the future, the Company expects to continue to derive a significant portion of its net revenue and incur a significant portion of its operating costs outside the United States; therefore, changes in foreign currency exchange rates may have a significant effect on the Company's results of operations. The Company historically has not engaged in hedging transactions and does not currently contemplate engaging in hedging transactions.

Other Operating Data

The following information for the year ended December 31, 1998 is provided for informational purposes and should be read in conjunction with the Consolidated Financial Statements and Notes.

		Minutes of Long Distance Use		
	Net Revenue	International	Domestic	Total
		(in thousands)		
North America	$188,008	539,749	215,860	755,609
Asia-Pacific	172,757	119,727	284,654	404,381
Europe	60,863	193,866	71,712	265,578
Total	$421,628	853,342	572,226	1,425,568

Results of operations for the year ended December 31, 1998 as compared to the year ended December 31, 1997

Net revenue increased $141.4 million or 51% to $421.6 million for the year ended December 31, 1998, from $280.2 million for the year ended December 31, 1997. Of the net revenue increase, $113.7 million was associated with the Company's North American operations, which represents a growth rate of approximately 153%. The growth reflects increased traffic volumes in business and ethnic residential retail operations and in carrier operations, and includes operations of TresCom (since the June 9, 1998 acquisition), and a full year's results of the acquired Canadian operations and the acquired operations of TelePassport L.L.C./USFI, Inc. The European net revenue increased from $22.7 million for the year ended December 31, 1997 to $60.9 million for the year ended December 31, 1998, resulting from increased retail business and residential traffic and the addition of carrier services, both in the United Kingdom and Germany. The Company's Asia-Pacific net revenue decreased by $10.3 million or 5.7% to $172.8 million for the year ended December 31, 1998 from $183.1 million for the year ended December 31, 1997 primarily resulting from a 13% decrease in the Australian dollar average exchange rate. Net revenue of the Australian operations, in Australian dollar terms, grew 7% to Australian $259.5 million as a result of increased retail business and residential traffic growth and the addition of data and Internet services.

Cost of revenue increased $100.3 million, from $252.7 million, or 90.2% of net revenue, for the year ended December 31, 1997 to $353.0 million, or 83.7% of net revenue, for the year ended December 31, 1998. The increase in the cost of revenue is primarily attributable to the increased traffic volumes and associated net revenue growth. The cost of revenue as a percentage of net revenue decreased by 650 percentage points as a result of expansion of the Company's global Network, the continuing migration of existing and newly generated customer traffic onto the Company's Network, and new higher margin product offerings such as data and Internet services.

Selling, general and administrative expenses increased $28.9 million to $79.5 million for the year ended December 31, 1998 from $50.6 million for the year ended December 31, 1997. The increase is attributable to the addition of expenses from acquired operations including TresCom, Hotkey, Eclipse and the Canadian operations, the hiring of additional sales and marketing staff and network operations personnel and increased advertising and promotional expenses associated with the Company's residential marketing campaigns.

Depreciation and amortization increased from $6.7 million for the year ended December 31, 1997 to $24.2 million for the year ended December 31, 1998. The increase is associated with increased amortization expense related to intangible assets arising from the Company's acquisitions and with increased depreciation expense related to capital expenditures for fiber optic cable, switching and other network equipment being placed into service.

Interest expense increased to $40.0 million for the year ended December 31, 1998 from $12.9 million for the year ended December 31, 1997. The increase is primarily attributable to the interest expense associated with the Company's July 1997 $225 million 11¾% Senior Notes Offering, due 2004, ("1997 Senior Notes") and the Company's May 1998 $150 million 9⅞% Senior Notes Offering, due 2008, ("1998 Senior Notes") and, to a lesser extent, the Company's Bank Revolving Credit Facility and additional capital lease financing.

Interest income increased from $6.2 million for the year ended December 31, 1997 to $11.5 million for the year ended December 31, 1998. The increase is a result of the investment of the net proceeds of the Company's 1998 and 1997 Senior Notes offerings.

Results of operations for the year ended December 31, 1997 as compared to the year ended December 31, 1996

Net revenue increased $107.2 million or 62%, from $173.0 million for the year ended December 31, 1996 to $280.2 million for the year ended December 31, 1997. Of the increase, $57.8 million was associated with the Company's North American operations and reflects a growth rate in excess of 300%. The growth is a result of increased traffic volumes in carrier operations and, to a lesser extent, in ethnic residential and business customer traffic. Additionally, the purchases of the Company's Canadian operations in April 1997 and those of Telepassport/USFI in October 1997 contributed to the year-over-year net revenue growth. The Asia-Pacific operations contributed $31.9 million to the year-over-year net revenue growth, resulting in part from the residential customer marketing campaigns commenced in early 1997. The 1997 results also reflect a full year of the Australian operations as compared to ten months in 1996 as a result of the March 1, 1996 acquisition of these operations. The Asia-Pacific net revenue growth was negatively impacted by weakness in the Australian dollar during 1997 as compared to 1996. The European net revenue growth of $17.6 million, a year-over-year growth rate in excess of 300%, came from the expansion into the United Kingdom carrier marketplace during the third quarter of 1997 and continued growth in the ethnic residential and business marketplaces.

Cost of revenue increased $93.9 million, from $158.8 million, or 91.8% of net revenue, for the year ended December 31, 1996 to $252.7 million, or 90.2% of net revenue, for the year ended December 31, 1997. The increase in the cost of revenue is a direct reflection of the increase in traffic volumes. The decrease in the cost of revenue as a percentage of net revenue reflects the investments made by the Company in its global Network and the associated migration of customer traffic onto the Network, particularly in Australia with the advent of equal access in the second half of 1997.

Selling, general and administrative expenses increased $30.5 million, from $20.1 million to $50.6 million for the year ended December 31, 1997, as compared to the year ended December 31, 1996. The increase is attributable to the hiring of additional sales and marketing staff, and operations and engineering personnel to operate the Company's global Network; the addition of the Canadian and Telepassport/USFI operations; a full year of the Company's Australian operations versus ten months in the prior year; and increased advertising and promotional expenses associated with the Company's residential marketing campaigns.

Depreciation and amortization increased from $2.2 million for the year ended December 31, 1996 to $6.7 million for the year ended December 31, 1997. The majority of the increase is associated with capital expenditures for international fiber, telephone switches and related transmission equipment being placed into service. Additionally, amortization expense increased as a result of the intangible assets associated with the Company's acquisitions during 1997.

Interest expense increased from $0.9 million for the year ended December 31, 1996 to $12.9 million for the year ended

Management's Discussion and Analysis of Financial Condition and Results of Operations Overview (cont.)

December 31, 1997. The increase is attributable to the interest expense associated with the Company's 1997 Senior Notes.

Interest income increased from $0.8 million for the year ended December 31, 1996 to $6.2 million for the year ended December 31, 1997. The increase is due to investment of the net proceeds from the Company's 1997 Senior Notes and the $54 million net proceeds from its November 1996 initial public equity offering.

Other income (expense) for the years ended December 31, 1997 and 1996 is the result of foreign currency transaction gains/losses on Australian dollar-denominated debt incurred by the Company for its acquisition of its Australian operations, due to the fluctuations of the Australian dollar against the United States dollar during each year. This debt was paid in full during 1997.

Income taxes were attributable to the operations of the Company's United Kingdom and Australian subsidiaries.

Liquidity and Capital Resources

The Company's liquidity requirements arise from cash used in operating activities, purchases of network equipment including switches, related transmission equipment and international and domestic fiber optic cable capacity, interest and principal payments on outstanding indebtedness, and acquisitions of businesses. The Company has financed its growth to date through public offerings and private placements of debt and equity securities, bank debt and capital lease financing.

Net cash used in operating activities was $71.3 million for the year ended December 31, 1998 as compared to net cash used in operating activities of $14.8 million for the year ended December 31, 1997. The increase in operating cash used is primarily comprised of an increase in the net loss of $27.4 million and a decrease in accounts payable of $8.2 million (as compared to an increase in accounts payable of $30.2 million in 1997), partially offset by increased non-cash operating expenses of $21.5 million.

Net cash used in investing activities was $54.2 million for the year ended December 31, 1998 compared to net cash used in investing activities of $104.2 million for the year ended December 31, 1997. Net cash used in investing activities during the year ended December 31, 1998 includes $76.0 million of capital expenditures primarily for the expansion of the Company's global Network, partially offset by $22.9 million of cash provided by the sale of restricted investments used to fund interest payments on the 1997 Senior Notes.

Net cash provided by financing activities was $146.8 million for the year ended December 31, 1998 as compared to net cash provided by financing activities of $200.1 million during the year ended December 31, 1997. Cash provided by financing activities for the year ended December 31, 1998 resulted primarily from $144.5 million of net proceeds of the 1998 Senior Notes offering.

The Company anticipates aggregate capital expenditures of approximately $125 million during 1999. Such capital expenditures will be primarily for international and domestic switches and points of presence, international and domestic fiber optic cable capacity for new and existing routes, satellite earth station facilities, other transmission equipment, and back office support systems.

On March 31, 1999 the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the "LTN Companies"), for approximately $36 million in cash (including payments made in exchange for certain non-competition agreements). In addition, on March 31, 1999, the Company entered into an agreement to purchase for $14 million in cash substantially all of the operating assets of Wintel CNC Communications, Inc. and Wintel CNT Communications, Inc. (the "Wintel Companies"), which are Canada-based long distance telecommunications providers affiliated with the LTN Companies. The purchase of the assets of the Wintel Companies is expected to close in early May 1999. If the LTN Companies and the Wintel Companies collectively achieve certain financial goals during the first half of 1999, the Company has agreed to pay up to an additional $4.6 million in cash.

On January 29, 1999 the Company completed an offering of $200 million 11¼% Senior Notes (the "1999 Senior Notes") due in 2009. The $192.5 million of net proceeds of the offering are to be used for continued expansion of the Network and other general corporate purposes.

On January 20, 1999, the Company entered into a supplemental indenture applicable to the Company's 11¾% Senior Notes in order to provide additional flexibility to incur indebtedness to fund the Company's expansion, to make permitted investments in marketing channels and complementary telecommunications services and to secure additional bank debt. The supplemental indenture substantially conformed certain covenants applicable to the 1997 Senior Notes to the corresponding provisions of the Company's other senior notes. The Company incurred fees and expenses of approximately $4.8 million in connection with securing consents to enter into the supplemental indenture.

In January 1999, the Company voluntarily repaid in full with a part of its available cash, and delivered notice of its termination of, the Revolving Bank Credit Facility (the "Facility"). The Facility, which provided for up to $25 million of revolving credit borrowings and which was due to mature on July 30, 2002, was acquired upon completion of the TresCom Merger.

The Company believes that the net proceeds from the 1999 Senior Notes, together with its existing cash and available capital lease financing (subject to the limitations in the Indentures related to the Company's senior notes) will be sufficient to fund the Company's operating losses, debt service requirements, capital expenditures, acquisition activities, including the recently announced acquisitions of the LTN Companies and the Wintel Companies, and other cash needs for its operations through the end of 2000. The semiannual interest payments due under the 1997 Senior Notes through August 1, 2000 have been pre-funded and will be paid from restricted investments. The Company is continually evaluating the expansion of its service offerings and plans to make further investments in and enhancements to its Network and distribution channels in order to expand its service offerings. In order to fund these additional cash requirements, the Company anticipates that it will be required to raise additional financing from public or private equity or debt sources. Additionally, if the Company's plans or assumptions change (including those with respect to the development of the Network, the level of its operations and its operating cash flow), if its assumptions prove inaccurate, if it consummates additional investments or acquisitions, if it experiences unexpected costs or competitive pressures, or if existing cash and any other borrowings prove insufficient, the Company may be required to seek additional capital sooner than expected. In the event that the Company is unable to obtain such additional capital or is unable to obtain such additional capital on acceptable terms, it may be required to reduce the scope of its expansion, which could adversely affect its business prospects and its ability to compete. There can be no assurance that the Company will be able to raise equity capital, obtain capital lease or bank financing or incur other borrowings on commercially reasonable terms, if at all, to fund any such expansion or otherwise.

Year 2000

General. Primus is reviewing its network elements, computer systems, software applications and other business systems in order to determine if any of these systems will not properly reflect or recognize the year 2000. Because many computer and computer applications define dates by the last two digits of the year, "00" could be interpreted to mean the year 1900, rather than the year 2000. This error could result in miscalculations or system failures. Year 2000 issues may also affect the systems and applications of Primus' customers, vendors or resellers.

Compliance Program. Beginning in 1998, Primus began a comprehensive inventory and Year 2000 assessment of its principal computer systems, network elements, software applications and other business systems. Primus expects to complete its inventory and assessment and begin repairing or replacing the most critical network elements and significant management systems that are determined not to be Year 2000 compliant during the first quarter of 1999. Primus expects to complete the repair, replacement, testing and certification of substantially all non-compliant network elements by September 30, 1999. Primus is using both internal and external resources to identify, correct or reprogram, and test its systems for Year 2000 compliance.

Suppliers. Primus is also contacting third party suppliers of major equipment, software, systems and services used by the Company to identify and, to the extent possible, to resolve issues involving Year 2000 compliance. However, the Company has limited or no control over the actions of these third party suppliers. Consequently, while Primus expects that it will be able to resolve any significant Year 2000 issues with regard to its systems and services, there can be no assurance that its suppliers will resolve any or all Year 2000 issues before the occurrence of a material disruption to the business of the Company or any of its customers.

Costs. Primus expects to incur approximately $3 to $5 million in expenditures in 1999 to complete its Year 2000 compliance program. The costs of modifying the Company's network elements, software and systems for Year 2000 compliance are being funded from existing cash resources and are being charged to expense as incurred.

Risks. Primus believes that it will complete the implementation of its Year 2000 program prior to December 31, 1999. Consequently, the Company does not believe that Year 2000 issues will have a material adverse effect on the Company's

Management's Discussion and Analysis of Financial Condition and Results of Operations Overview (cont.)

business, cash flows, or results of operations. However, if the Company does not achieve compliance prior to December 31, 1999, if it fails to identify and remedy all critical Year 2000 problems or if major suppliers or customers experience material Year 2000 problems, the Company's results of operations or financial condition could be materially and adversely affected. Primus has determined that non-compliant network elements may result in improperly routed traffic and that non-compliant, non-network systems may result in errors in customer billing and accounting records.

Contingency Plans. Primus has begun to develop appropriate contingency plans to mitigate, to the extent possible, any significant Year 2000 noncompliance. The Company expects to complete its contingency plans by September 30, 1999. If Primus is required to implement its contingency plans, the cost of Year 2000 compliance may be greater than the amount referenced above and there can be no assurance that these plans will be adequate.

Special Note Regarding Forward Looking Statements

Statements in this Annual Report on Form 10-K, including those concerning the Company's expectations of future sales, net revenue, gross profit, net income, network development, traffic development, capital expenditures, selling, general and administrative expenses, service introductions and cash requirements include certain forward-looking statements. As such, actual results may vary materially from such expectations. Factors, which could cause results to differ from expectations, include risks associated with:

Limited Operating History; Entry into Developing Markets. The Company was founded in February 1994, began generating revenue in March 1995 and acquired its most significant operating subsidiaries, Primus Australia (formerly Axicorp) and TresCom, in March 1996 and June 1998, respectively. The Company intends to enter markets where it has limited or no operating experience. The Company's prospects should be considered in light of risks, expenses, problems and delays inherent in establishing a new business in a rapidly changing industry.

Managing Rapid Growth. The Company's strategy of rapid growth has placed, and is expected to continue to place, a significant strain on the Company. In order to manage its growth effectively, the Company must continue to implement and improve its operational and financial systems and controls, purchase and utilize additional transmission facilities, and expand, train and manage its employees, all within a rapidly-changing regulatory environment. Inaccuracies in the Company's forecast of traffic could result in insufficient or excessive transmission facilities and disproportionate fixed expenses.

Substantial Indebtedness; Liquidity. The Company currently has substantial indebtedness and anticipates that it and its subsidiaries will incur additional indebtedness in the future. The level of the Company's indebtedness (i) could make it more difficult for it to make payments of interest on its outstanding debt; (ii) could limit the ability of the Company to obtain any necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (iii) requires that a substantial portion of the Company's cash flow from operations, if any, be dedicated to the payment of principal and interest on its indebtedness and other obligations and, accordingly, will not be available for use in its business; (iv) could limit its flexibility in planning for, or reacting to, changes in its business; (v) results in the Company being more highly leveraged than some of its competitors, which may place it at a competitive disadvantage; and (vi) will make it more vulnerable in the event of a downturn in its business.

Historical and Future Operating Losses; Negative EBITDA; Net Losses. Since inception, Primus had cumulative negative cash flow from operating activities and cumulative negative EBITDA. In addition, Primus incurred net losses in 1996, 1997, and 1998 and has an accumulated deficit of approximately $112 million as of December 31, 1998. The Company expects to continue to incur additional operating losses and negative cash flow as it expands its operations and continues to build-out and upgrade its Network. There can be no assurance that the Company's revenue will grow or be sustained in future periods or that it will be able to achieve or sustain profitability or positive cash flow from operations in any future period.

Acquisition and Strategic Investment Risks. Acquisitions, a key element in the Company's growth strategy, involve operational risks, including the possibility that an acquisition does not ultimately provide the benefits originally anticipated by management, while the Company continues to incur operating expenses to provide the services formerly provided by the acquired company, and financial risks including the incurrence of indebtedness by the Company in order to affect the acquisition and the consequent need to service that indebtedness. There can be no assurance that the Company will be successful in identifying attractive acquisition candidates, completing and financing additional acquisitions on favorable terms, or integrating the acquired business or assets into its own.

Intense Competition. The long distance telecommunications industry is intensely competitive and is significantly influenced by the marketing and pricing decisions of the larger industry participants. Competition in all of the Company's markets is likely to increase and, as deregulatory influences are experienced in markets outside the United States, competition in non-United States markets is likely to become similar to the intense competition in the United States. Many of the Company's competitors are significantly larger and have substantially greater financial, technical and marketing resources and larger networks than the Company, a broader portfolio of service offerings, greater control over transmission lines, stronger name recognition and customer loyalty, as well as long-standing relationships with the Company's target customers. In addition, many of the Company's competitors enjoy economies of scale that result in a lower cost structure for transmission and related costs which could cause significant pricing pressures within the industry.

Dependence on Transmission Facilities-Based Carriers. The Company's ability to maintain and expand its business is dependent upon whether the Company continues to maintain favorable relationships with the transmission facilities-based carriers to carry the Company's traffic.

International Operations. In many international markets, the existing carrier will control access to the local networks, enjoy better brand recognition and brand and customer loyalty, and have significant operational economies, including a larger backbone network and correspondent agreements. Moreover, the existing carrier may take many months to allow competitors, including the Company, to interconnect to its switches within its territory. There can be no assurance that the Company will be able to obtain the permits and operating licenses required for it to operate, obtain access to local transmission facilities or to market services in international markets. In addition, operating in international markets generally involves additional risks, including: unexpected changes in regulatory requirements, tariffs, customs, duties and other trade barriers; difficulties in staffing and managing foreign operations; problems in collecting accounts receivable; political risks; fluctuations in currency exchange rates; foreign exchange controls which restrict repatriation of funds; technology export and import restrictions; seasonal reductions in business activity.

Dependence on Effective Information Systems. The Company's management information systems must grow as the Company's business expands and are expected to change as new technological developments occur. There can be no assurance that the Company will not encounter delays or cost-overruns or suffer adverse consequences in implementing new systems when required. Any of the Company's programs that have time-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000 and are vulnerable to the Year 2000 problem which could result in a major system failure or miscalculations. There can be no assurance that the Company will be able to successfully implement upgrades to its systems to correct any Year 2000 problem. A failure of the Company's computer systems, or the failure of the Company's vendors or customers to effectively upgrade their software and systems for transition to the Year 2000, could have a material adverse effect on the Company's business and financial condition or results of operations.

Industry Changes. The international telecommunications industry is changing rapidly due to deregulation, privatization, technological improvements, expansion of infrastructure and the globalization of the world's economies. In order to compete effectively, the Company must adjust its contemplated plan of development to meet changing market conditions. The telecommunications industry is marked by the introduction of new product and service offerings and technological improvements. The Company's profitability will depend on its ability to anticipate, assess and adapt to rapid technological changes and its ability to offer, on a timely and cost-effective basis, services that meet evolving industry standards.

Network Development; Migration of Traffic. The long-term success of the Company is dependent upon its ability to design, implement, operate, manage and maintain the Network. The Company could experience delays or cost overruns in the implementation of the Network, or its ability to migrate traffic onto its Network, which could have a material adverse effect on the Company.

Dependence on Key Personnel. The loss of the services of K. Paul Singh, the Company's Chairman and Chief Executive Officer, or the services of its other key personnel, or the inability of the Company to attract and retain additional key management, technical and sales personnel (for which competition is intense in the telecommunications industry), could have a material adverse effect upon the Company.

Government Regulation. The Company's operations are subject to constantly changing regulation. There can be no assurance that future regulatory changes will not have a material adverse effect on the Company, or that regulators or third parties will not raise material issues with regard to the Company's compliance or non-compliance with applicable regulations, any of which could have a material adverse effect upon the company.

Consolidated Statement of Operations

	For the Year Ended December 31,		
	1998	1997	1996
	(in thousands, except per share amounts)		
NET REVENUE	$421,628	$280,197	$172,972
COST OF REVENUE	353,016	252,731	158,845
GROSS MARGIN	68,612	27,466	14,127
OPERATING EXPENSES			
Selling, general and administrative	79,532	50,622	20,114
Depreciation and amortization	24,185	6,733	2,164
Total operating expenses	103,717	57,355	22,278
LOSS FROM OPERATIONS	(35,105)	(29,889)	(8,151)
INTEREST EXPENSE	(40,047)	(12,914)	(857)
INTEREST INCOME	11,504	6,238	785
OTHER INCOME (EXPENSE)	—	407	(345)
LOSS BEFORE INCOME TAXES	(63,648)	(36,158)	(8,568)
INCOME TAXES	—	(81)	(196)
NET LOSS	$ (63,648)	$ (36,239)	$ (8,764)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (2.61)	$ (1.99)	$ (0.75)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,432	18,250	11,660

See notes to consolidated financial statements.

Consolidated Balance Sheet

	December 31, 1998	December 31, 1997
	(in thousands, except share amounts)	
Assets		
CURRENT ASSETS:		
Cash and cash equivalents	$ 136,196	$115,232
Restricted investments	25,729	22,774
Accounts receivable (net of allowance for doubtful accounts of $14,976 and $5,044)	92,531	58,172
Prepaid expenses and other current assets	13,505	5,152
Total current assets	267,961	201,330
RESTRICTED INVESTMENTS	24,894	50,776
PROPERTY AND EQUIPMENT—Net	158,873	59,241
INTANGIBLES—Net	205,039	33,164
OTHER ASSETS	17,196	10,882
TOTAL ASSETS	$ 673,963	$355,393
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Accounts payable	$ 82,520	$ 56,358
Accrued expenses and other current liabilities	42,597	12,468
Accrued interest	12,867	11,016
Deferred income taxes	361	1,814
Current portion of long-term obligations	22,423	1,059
Total current liabilities	160,768	82,715
LONG TERM OBLIGATIONS	397,751	230,152
OTHER LIABILITIES	527	—
Total liabilities	559,046	312,867
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value—authorized 2,455,000 shares; none issued and outstanding	—	—
Common stock, $.01 par value—authorized, 80,000,000 and 40,000,000 shares; issued and outstanding, 28,059,063 and 19,662,233 shares	281	197
Additional paid-in capital	234,549	92,181
Accumulated deficit	(111,653)	(48,005)
Accumulated other comprehensive loss	(8,260)	(1,847)
Total stockholders' equity	114,917	42,526
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 673,963	$355,393

See notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Stockholders' Equity
	Shares	Amount	Shares	Amount				
					(in thousands)			
BALANCE, DECEMBER 31, 1995	—	$—	7,064	$ 71	$ 5,496	$ (3,002)	$ (3)	$ 2,562
Common shares sold through private placement, net of transaction costs	—	—	3,148	31	21,837	—	—	21,868
Common shares issued for services performed	—	—	279	3	987	—	—	990
Preferred shares issued for acquisition	455	5	—	—	5,455	—	—	5,460
Common shares sold, net of transaction costs	—	—	5,750	58	54,341	—	—	54,399
Conversion of preferred shares to common shares	(455)	(5)	1,538	15	(10)	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	(75)	(75)
Net loss	—	—	—	—	—	(8,764)	—	(8,764)
BALANCE, DECEMBER 31, 1996	—	—	17,779	178	88,106	(11,766)	(78)	76,440
Common shares issued upon exercise of warrants	—	—	1,843	19	1,453	—	—	1,472
Common shares issued for employer 401(k) match	—	—	5	—	45	—	—	45
Common shares issued upon exercise of employee stock options	—	—	35	—	42	—	—	42
Senior note offering—warrants	—	—	—	—	2,535	—	—	2,535
Foreign currency translation adjustment	—	—	—	—	—	—	(1,769)	(1,769)
Net loss	—	—	—	—	—	(36,239)	—	(36,239)
BALANCE, DECEMBER 31, 1997	—	—	19,662	197	92,181	(48,005)	(1,847)	42,526
Common shares issued for business acquisitions	—	—	7,864	79	137,547	—	—	137,626
Common shares issued for employer 401(k) match	—	—	9	—	119	—	—	119
Common shares issued upon exercise of employee stock options	—	—	489	5	4,334	—	—	4,339
Common shares issued for employee stock purchase plan	—	—	24	—	263	—	—	263
Common shares issued upon exercise of warrants	—	—	11	—	105	—	—	105
Foreign currency translation adjustment	—	—	—	—	—	—	(6,413)	(6,413)
Net loss	—	—	—	—	—	(63,648)	—	(63,648)
BALANCE, DECEMBER 31, 1998	—	$—	28,059	$281	$234,549	$(111,653)	$(8,260)	$114,917

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

	For the Year Ended December 31,		
	1998	1997	1996
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (63,648)	$ (36,239)	$ (8,764)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation, amortization and accretion	24,547	6,733	2,164
Sales allowance	9,431	6,185	1,960
Foreign currency transaction (gain) loss	—	(407)	345
Stock issuance—401(k) plan employer match	119	45	—
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(20,765)	(34,240)	(19,405)
(Increase) decrease in prepaid expenses and other current assets	(7,027)	(4,080)	(227)
(Increase) decrease in other assets	735	1,147	(1,621)
Increase (decrease) in accounts payable	(8,196)	30,247	11,729
Increase (decrease) in accrued expenses, other current liabilities and other liabilities	(8,073)	5,000	6,032
Increase (decrease) in accrued interest payable	1,581	10,852	847
Net cash provided by (used in) operating activities	(71,296)	(14,757)	(6,940)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(75,983)	(39,465)	(12,745)
(Purchase) sale of short-term investments	—	25,125	(25,125)
(Purchase) sale of restricted investments	22,927	(73,550)	—
Cash used for business acquisitions, net of cash acquired	(1,165)	(16,349)	(1,701)
Net cash provided by (used in) investing activities	(54,221)	(104,239)	(39,571)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on capital leases and long-term obligations	(2,373)	(16,881)	(508)
Proceeds from sale of common stock and exercise of employee stock options	4,707	1,514	77,576
Proceeds from issuance of long-term obligations	150,000	225,000	2,407
Deferred financing costs	(5,500)	(9,500)	—
Net cash provided by (used in) financing activities	146,834	200,133	79,475
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(353)	(1,379)	214
NET CHANGE IN CASH AND CASH EQUIVALENTS	20,964	79,758	33,178
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	115,232	35,474	2,296
CASH AND CASH EQUIVALENTS, END OF YEAR	$136,196	$ 115,232	$ 35,474
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	$ 38,466	$ 2,745	$ 149
Non-cash investing and financing activities:			
Common stock issued for services	$ —	$ —	$ 990
Capital leases for acquisition of equipment	$ 16,958	$ 8,228	$ 388
Notes payable for acquisition of equipment	$ —	$ —	$ 2,826

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Loss

	For the Year Ended December 31,		
	1998	1997	1996
		(in thousands)	
NET LOSS	$(63,648)	$(36,239)	$(8,764)
OTHER COMPREHENSIVE LOSS—Foreign currency translation adjustment	(6,413)	(1,769)	(75)
COMPREHENSIVE LOSS	$(70,061)	$(38,008)	$(8,339)

See notes to consolidated financial statements.

1. Organization and Business

Primus Telecommunications Group, Incorporated ("Primus" or the "Company") is a facilities-based global telecommunications company that offers international and domestic long distance, Internet and data, and other telecommunications services to business, residential and other telecommunications carrier customers primarily in North America, the Asia-Pacific and Europe. The Company, incorporated in the state of Delaware, operates as a holding company and has wholly-owned operating subsidiaries in the United States, Canada, Mexico, Australia, Japan, the United Kingdom and Germany.

2. Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Revenue Recognition—Revenues from long distance telecommunications services are recognized when the services are provided and are presented net of estimated uncollectible amounts.

Cost of Revenue—Cost of revenue includes network costs that consist of access, transport, and termination costs. Such costs are recognized when incurred in connection with the provision of telecommunications services.

Foreign Currency Translation—The assets and liabilities of the Company's foreign subsidiaries are translated at the exchange rates in effect on the reporting date, and income and expenses are translated at the average exchange rate during the period. The net effect of such translation gains and losses are reflected within accumulated other comprehensive loss in the stockholders' equity section of the balance sheet.

Cash and Cash Equivalents—The Company considers cash on hand, deposits in banks, certificates of deposit, and overnight repurchase agreements with original maturities of three months or less to be cash and cash equivalents.

Restricted Investments— Restricted investments consist of United States Federal Government-backed obligations which are recorded at amortized cost. These securities are classified as held-to-maturity and are restricted to satisfy certain interest obligations on the Company's 1997 Senior Notes.

Property and Equipment—Property and equipment, which consists of fiber optic cable and telecommunications equipment, furniture and computer equipment, leasehold improvements and software is stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed using the straight-line method over the estimated useful lives of the assets which range from three to twenty-five years, or for leasehold improvements and leased equipment, over the terms of the leases or estimated lives, whichever is shorter. Expenditures for maintenance and repairs that do not materially extend the useful lives of the assets are charged to expense.

Intangible Assets—At December 31, 1998 and 1997 intangible assets, net of accumulated amortization, consist of goodwill of $179.9 million and $27.8 million respectively, and customer lists of $25.1 million and $5.3 million respectively. Goodwill is being amortized over 30 years on a straight-line basis and customer lists over the estimated run-off of the customer bases not to exceed five years. Accumulated amortization at December 31, 1998 and 1997, was $4.7 million and $1.2 million related to goodwill and $5.9 million and $1.9 million related to customer lists, respectively. The Company periodically evaluates the realizability of intangible and other long-lived assets. In making such evaluations, the Company compares certain financial indicators such as expected undiscounted future revenues and cash flows to the carrying amount of the assets. The Company believes that no impairments exist as of December 31, 1998.

Deferred Financing Costs—Deferred financing costs incurred in connection with the 1998 Senior Notes and the 1997 Senior Notes are reflected within other assets and are being amortized over the life of the respective Senior Notes using the straight-line method which does not differ materially from the effective interest method.

Stock-Based Compensation—The Company adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), *Accounting for Stock-Based Compensation.* Under the provisions of SFAS 123, the Company continues to measure compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* and has provided in Note 10 pro forma disclosures of the effect on net loss and loss per share as if the fair value-based method prescribed by SFAS 123 had been applied in measuring compensation expense.

Notes to Consolidated Financial Statements (cont.)

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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk—Financial instruments that potentially subject the Company to concentration of credit risk principally consist of trade accounts receivable. The Company performs ongoing credit evaluations of its customers but generally does not require collateral to support customer receivables.

Income Taxes—The Company recognizes income tax expense for financial reporting purposes following the asset and liability approach for computing deferred income taxes. Under this method, the deferred tax assets and liabilities are determined based on the difference between financial reporting and tax bases of assets and liabilities based on enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Net Loss Per Share—The Company has computed basic and diluted net loss per share based on the weighted average number of shares of common stock and potential common stock outstanding during the period. Potential common stock, for purposes of determining diluted net loss per share, would include, where applicable, the effects of dilutive stock options, warrants, and convertible securities, and the effect of such potential common stock would be computed using the treasury stock method or the if-converted method. None of the Company's outstanding options and warrants are considered to be dilutive.

Comprehensive Income (Loss)—In 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 130 ("SFAS 130"), *Reporting Comprehensive Income*. As such, a consolidated statement of comprehensive loss reflecting the aggregation of net loss and foreign currency translation adjustments, the Company's principal components of other comprehensive income or loss, has been presented for each of the three years in the period ended December 31, 1998.

Operating Segments—In 1998, the Company adopted the provisions of Statement of Financial Accounting Standards No. 131 ("SFAS 131"), *Disclosures about Segments of an Enterprise and Related Information* (Note 13). SFAS 131 superceded SFAS 14 and its adoption resulted in revised and additional disclosures but had no effect on the financial position, results of operations or liquidity of the Company.

New Accounting Pronouncements—In June 1998, Statement of Financial Accounting Standards No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities* was issued. SFAS 133 established standards for the accounting and reporting of derivative instruments and hedging activities and requires that all derivative financial instruments be measured at fair value and recognized as assets or liabilities in the financial statements. The Statement will be adopted by the Company during fiscal 2000, and the Company is currently evaluating the impact of such adoption.

In April 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position ("SoP") 98-5, *Reporting on the Costs of Start-Up Activities*. SoP 98-5 provides guidance on the financial reporting of start-up and organizational costs. The effect of adopting SoP 98-5 is not expected to have a material effect on the financial position, results of operation or liquidity of the Company.

Reclassifications—Certain previous year amounts have been reclassified to conform with current year presentation.

3. Acquisitions

On June 9, 1998 the Company acquired TresCom International, Inc. ("TresCom"), a long distance telecommunications carrier focused on international long distance traffic originating in the United States and terminating in the Caribbean and Central and South America regions. As a result of the acquisition, all of the approximately 12.7 million TresCom common shares outstanding were exchanged for approximately 7.8 million shares of the Company's common stock valued at approximately $138 million. An additional $11.7 million cash purchase obligation associated with a subsidiary of TresCom is expected to be paid during 1999 and has been included in accrued expenses and other current liabilities.

In March 1998 the Company purchased a 60% controlling interest in Hotkey Internet Services Pty., Ltd. ("Hotkey"), an Australian Internet service provider, for approximately $1.3 million.

Effective March 1, 1998 the Company acquired all of the outstanding stock of Eclipse Telecommunications Pty., Ltd.

("Eclipse"), a data communications provider in Australia. The Company paid approximately $1.8 million in cash and 27,500 shares of the Company's Common Stock for Eclipse.

On October 20, 1997, the Company acquired the equity and ownership interests in Telepassport L.L.C. ("Telepassport") for a purchase price of $6.0 million. Additionally, on October 20, 1997, the Company purchased substantially all of the assets of USFI, Inc. ("USFI") for $5.5 million. Telepassport and USFI were under common control and engaged in the business of providing international and domestic telecommunication services, including long distance and reorigination services in Europe, Asia, and South Africa.

On April 8, 1997, the Company acquired the assets of Cam-Net Communications Network, Inc. and its subsidiaries, a Canadian based provider of domestic and international long distance service. The purchase price was approximately $5.0 million in cash.

On March 1, 1996, the Company acquired the outstanding capital stock of Axicorp Pty., Ltd. (subsequently renamed Primus Australia), the fourth largest telecommunications carrier in Australia. The purchase price consisted of cash, Company stock, and seller financing. The Company paid $5.7 million cash, including transaction costs, and issued 455,000 shares of its Series A Convertible Preferred Stock, which were subsequently converted to 1,538,355 common shares. The Company also issued two notes aggregating $8.1 million to the sellers, both of which were repaid in full during 1997.

The Company has accounted for all of these acquisitions using the purchase method. Accordingly, the results of operations of the acquired companies are included in the consolidated results of operations of the Company, as of the date of their respective acquisition.

Unaudited pro forma operating results for the years ended December 31, 1998 and 1997, as if the acquisitions of TresCom, Telepassport and USFI had occurred as of January 1, 1997, are as follows (in thousands, except per share amounts):

	1998	1997
Net revenue	$485,196	$448,929
Net loss	$ (75,956)	$ (63,426)
Basic and diluted net loss per share	$ (2.73)	$ (2.43)

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisitions been consummated as of the above dates, nor are they necessarily indicative of future operations.

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31,	
	1998	1997
Network equipment	$148,413	$48,246
Furniture and equipment	11,987	9,334
Leasehold improvements	2,907	1,845
Construction in progress	16,157	5,147
	179,464	64,572
Less: Accumulated depreciation and amortization	(20,591)	(5,331)
	$158,873	$59,241

Equipment under capital leases totaled $34.5 million and $9.2 million with accumulated depreciation of $4.3 million and $0.8 million at December 31, 1998 and 1997, respectively.

5. Long-term Obligations

Long-term obligations consist of the following (in thousands):

	December 31,	
	1998	1997
Obligations under capital leases	$ 28,268	$ 8,487
Revolving Credit Agreement	17,819	—
Senior Notes	372,978	222,616
Other long-term obligations	1,109	108
Subtotal	420,174	231,211
Less: Current portion of long-term obligations	(22,423)	(1,059)
	$397,751	$230,152

As a result of the acquisition of TresCom, the Company has a $25 million revolving credit and security agreement (the "Revolving Credit Agreement") with a commercial bank secured by certain of the Company's accounts receivable. In January 1999, the Company voluntarily repaid in full and terminated the Revolving Credit Agreement.

On May 19, 1998 the Company completed the sale of $150 million 9⅞% Senior Notes ("1998 Senior Notes"). The 1998 Senior Notes are due May 15, 2008 with early redemption at the option of the Company at any time after May 15, 2003. In addition, prior to May 15, 2001, the Company may redeem up to 25% of the originally issued principal amount of the 1998 Senior Notes at 109.875% of the principal amount thereof, plus accrued and unpaid interest through the redemption date. Interest is payable each May 15th and November 15th.

Notes to Consolidated Financial Statements (cont.)

On August 4, 1997 the Company completed the sale of $225 million 11¾% Senior Notes ("1997 Senior Notes") and Warrants ("the Offering") to purchase 392,654 shares of the Company's common stock. The 1997 Senior Notes are due August 1, 2004 with early redemption at the option of the Company at any time after August 1, 2001, at a premium to par value. Dividends are currently prohibited by the senior notes indenture. Interest payments are due semi-annually on February 1st and August 1st. A portion of the proceeds from the offering of the 1997 Senior Notes have been pledged to secure the first six semi-annual interest payments on the 1997 Senior Notes and are reflected on the balance sheet as restricted investments. A portion of the proceeds of the Offering, $2.535 million, was allocated to the warrants, and the resulting debt discount is being amortized over the life of the debt on the straight-line method which does not differ materially from the effective interest method.

6. Income Taxes

The differences between the tax provision calculated at the statutory federal income tax rate and the actual tax provision for each period is shown in the table below (in thousands):

	For the Year Ended December 31,		
	1998	1997	1996
Tax benefit at federal statutory rate	$(22,277)	$(12,294)	$(2,913)
State income tax, net of federal benefit	(1,387)	(2,100)	(491)
Foreign taxes	—	81	196
Unrecognized benefit of net operating losses	21,506	14,394	3,387
Other	2,158	—	17
Income taxes	$ —	$ 81	$ 196

The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	1998	1997
Deferred tax assets (non-current):		
Cash to accrual basis adjustments (U.S.)	$ 269	$ 590
Accrued expenses	5,393	936
Net operating loss carryforwards	32,606	17,856
Valuation allowance	(38,268)	(16,762)
	$ —	$ —
Deferred tax liabilities (current):		
Accrued income	$ —	$ 903
Other	—	385
Depreciation	361	526
	$ 361	$ 1,814

During the year ended December 31, 1998, the valuation allowance increased by approximately $21.5 million primarily due to the acquisition of TresCom and its related net operating losses.

At December 31, 1998, the Company had operating loss carryforwards available to reduce future federal taxable income which expire as follows (in millions):

Year	Primus	TresCom
2009	$ 6.1	$ 5.8
2010	7.1	5.4
2011	6.9	1.9
2012	33.2	10.6
2018	35.6	—
	$88.9	$23.7

Approximately $23.7 million of operating loss carryforwards relate to the acquisition of TresCom. Utilization of these operating losses is limited to the offset of future TresCom operating income. The Company's net operating loss carryforwards for state purposes are not significant and, therefore, have not been recorded as deferred tax assets.

At December 31, 1998, the Company had Australian and United Kingdom net operating loss carryforwards of $18.6 million and $2.1 million (in United States dollars), respectively, that have no expiration periods.

No provision was made in 1998 for U.S. income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time or to repatriate such earnings only when tax effective to do so. It is not practicable to determine the amount of income or withholding tax that would be payable upon the remittance of those earnings.

7. Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheet for cash and cash equivalents, restricted investments, accounts receivable and accounts payable approximate fair value. The estimated fair value of the Company's 1998 and 1997 Senior Notes (carrying value of $373 million), based on quoted market prices, at December 31, 1998 was $375 million. The estimated fair value of the Company's 1997 Senior Notes (carrying value of $223 million), based on quoted market prices, at December 31, 1997 was $242 million.

8. Commitments and Contingencies

Future minimum lease payments under capital lease obligations and non-cancelable operating leases as of December 31, 1998 are as follows (in thousands):

Year Ending December 31,	Capital Leases	Operating Leases
1999	$ 7,219	$ 5,295
2000	7,604	3,502
2001	8,088	3,187
2002	8,045	2,740
2003	4,934	1,754
Thereafter	198	3,058
Total minimum lease payments	36,088	$19,536
Less: Amount representing interest	(7,820)	
	$28,268	

Rent expense under operating leases was $4.8 million, $2.6 million and $1.1 million for the years ended December 31, 1998, 1997 and 1996, respectively.

9. Stockholders' Equity

In December 1998, the Company adopted a Stockholders' Rights Plan (the "Rights Plan") under which preferred stock purchase rights have been granted to the Company's common stockholders of record at the close of business on December 31, 1998. The rights will become exercisable if a person or group becomes the beneficial owner of more than 20% of the outstanding common stock of the Company or announces an offer to become the beneficial owner of more than 20% of the outstanding common stock of the Company.

In June 1998, the Company issued 7,836,324 shares of its common stock, valued at $137.6 million, in exchange for all of the outstanding common shares of TresCom. Additionally, the Board amended the Company's Amended and Restated Certificate of Incorporation (the "Certificate") to increase the authorized Common Stock to 80,000,000 shares.

In October 1997, the Company issued 1,842,941 shares of its common stock pursuant to the exercise of certain warrants, which had been issued in connection with the Company's $16 million July 1996 private equity sale. In connection with such exercise, the Company received approximately $1.5 million.

In August 1997 the Company completed a Senior Notes and Warrants Offering. Warrants valued at $2,535,000 to purchase 392,654 shares of the Company's common stock at a price of $9.075 per share were issued.

In November 1996, the Company completed an initial public offering of 5,750,000 shares of its Common Stock. The net proceeds to the Company (after deducting underwriter discounts and offering expenses) were $54.4 million.

In connection with the Company's initial public offering, the Board approved a split of all shares of Common Stock at a ratio of 3.381 to one as of November 7, 1996 and amended the Company's Certificate to increase the authorized Common Stock to 40,000,000 shares. All share amounts presented have been restated to give effect to the November 7, 1996 stock split.

In February 1996, the Company's Certificate was amended to authorize 2,455,000 shares of Preferred Stock (nonvoting) with a par value of $0.01 per share. On March 1, 1996, 455,000 shares of Series A Convertible Preferred Stock were issued in connection with the purchase of Primus Australia. The outstanding Preferred Stock was converted to Common Stock prior to the date of the Company's initial public offering.

10. Stock-Based Compensation

In December 1998, the Company established the 1998 Restricted Stock Plan (the "Restricted Plan") to facilitate the grant of restricted stock to selected individuals who contribute to the development and success of the Company. The total number of shares of common stock that may be granted under the Restricted Plan is 750,000. As of December 31, 1998, there had not been any grants under the Restricted Plan.

The Company sponsors an Employee Stock Option Plan (the "Employee Plan"). The total number of shares of common stock authorized for issuance under the Employee Plan is 3,690,500. Under the Employee Plan, awards may be granted to key employees of the Company and its subsidiaries in the form of Incentive Stock Options or Nonqualified Stock Options. The Employee Plan allows the granting of options at an exercise price of not less than 100% of the stock's fair value at the date of grant. The options vest over a period of up to three years, and no option will be exercisable more than ten years from the date it is granted.

The Company sponsors a Director Stock Option Plan (the "Director Plan") for non-employee directors. Under the Director Plan, an option is granted to each qualifying non-employee director to purchase 15,000 shares of common stock, which vests over a two-year period. The option price per share is the fair market value of a share of common stock on the date the option is granted. No option will be exercisable more than ten years from the date of grant. An aggregate of 338,100 shares of common stock were reserved for issuance under the Director Plan.

Notes to Consolidated Financial Statements (cont.)

A summary of stock option activity during the three years ended December 31, 1998 is as follows:

	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding—Beginning of year	2,555,360	$ 6.95	1,587,894	$ 3.02	722,015	$2.64
Granted	1,298,937	16.07	1,063,750	12.59	913,552	3.35
Exercised	(488,835)	7.42	(35,724)	1.19	—	—
Forfeitures	(236,896)	17.52	(60,560)	6.27	(47,673)	3.55
Outstanding—end of year	3,128,566	$ 9.87	2,555,360	$ 6.95	1,587,894	$3.02
Eligible for exercise—end of year	1,427,041	$ 6.93	899,170	$ 3.00	511,149	$2.81

The following table summarizes information about stock options outstanding at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Option Prices	Total Outstanding	Weighted Average Remaining Life in Years	Weighted Average Exercise Price	Total Exercisable	Weighted Average Exercise Price
$ 0.01 to $ 3.55	1,176,527	2.06	$ 3.07	913,195	$ 2.99
$ 3.56 to $14.00	1,474,017	4.73	$12.24	409,307	$12.59
$14.01 to $23.87	478,022	5.39	$19.28	104,539	$19.13
	3,128,566			1,427,041	

The weighted average fair value at date of grant for options granted during 1998, 1997 and 1996 was $7.38, $5.45 and $1.38 per option, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	1998	1997	1996
Expected dividend yield	0%	0%	0%
Expected stock price volatility	97%	80%	49%
Risk-free interest rate	4.6%	5.7%	6.0%
Expected option term	4 years	4 years	4 years

If compensation cost for the Company's grants for stock-based compensation had been recorded consistent with the fair value-based method of accounting per SFAS 123, the Company's pro forma net loss, and pro forma basic and diluted net loss per share for the years ending December 31, would be as follows:

	1998	1997	1996
Net loss (amounts in thousands)			
As reported	$(63,648)	$(36,239)	$(8,764)
Pro forma	$(67,621)	$(37,111)	$(9,242)
Basic and diluted net loss per share			
As reported	$ (2.61)	$ (1.99)	$ (0.75)
Pro forma	$ (2.77)	$ (2.03)	$ (0.79)

11. Employee Benefit Plans

The Company sponsors a 401(k) employee benefit plan (the "401(k) Plan") that covers substantially all United States based employees. Employees may contribute amounts to the 401(k) Plan not to exceed statutory limitations. The 401(k) plan provides an employer matching contribution of 50% of the first 6% of employee annual salary contributions. The employer match is made in common stock of the Company and is subject to 3-year cliff vesting. The Company contributed Primus common stock valued at approximately $119,000 and $45,000 during 1998 and 1997.

Effective January 1, 1998, the Company adopted an Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees to contribute up to 15% of their compensation to be used toward purchasing the Company's common stock at 85% of the fair market value. An aggregate of 2,000,000 shares of common stock were reserved for issuance under the ESPP.

12. Related Parties

In June 1998, a subsidiary of the Company entered into a $2.1 million agreement for the design, manufacture, installation and the provision of training with respect to a satellite earth station in London. A Director of the Company is the Chairman and a stockholder of the company providing such services. During 1998, $1.2 million was paid for the above services.

13. Valuation and Qualifying Accounts

Activity in the Company's allowance accounts for the years ended December 31, 1998, 1997 and 1996 was as follows (in thousands):

Doubtful Accounts					
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other [1]	Balance at End of Period
1996	$ 132	$1,960	$ (377)	$ 870	$ 2,585
1997	$2,585	$6,185	$ (4,309)	$ 583	$ 5,044
1998	$5,044	$9,431	$(12,772)	$13,273	$14,976

Deferred Tax Asset Valuation					
Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other	Balance at End of Period
1996	$ 1,087	$ 1,641	$—	$—	$ 2,728
1997	$ 2,728	$14,034	$—	$—	$16,762
1998	$16,762	$21,506	$—	$—	$38,268

(1) Other additions represent the allowances for doubtful accounts, which were recorded in connection with business acquisitions.

14. Operating Segment and Related Information

The Company has three reportable operating segments based on management's organization of the enterprise into geographic areas—North America, Asia-Pacific and Europe. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and EBITDA. The Company defines EBITDA as net income (loss) before interest expense and interest income, income taxes, depreciation and amortization and other income (expense). Operations and assets of the North America segment include shared corporate functions and assets which the Company does not allocate to its other geographic segments for management reporting purposes. Summary information with respect to the Company's segments is as follows (in thousands):

	Year Ended December 31,		
	1998	1997	1996
Net Revenue			
North America	$188,008	$ 74,359	$ 16,573
Asia-Pacific	172,757	183,126	151,253
Europe	60,863	22,712	5,146
Total	$421,628	$280,197	$172,972
EBITDA			
North America	$ (14,420)	$ (14,709)	$ (5,965)
Asia-Pacific	1,482	(5,856)	2,207
Europe	2,018	(2,591)	(2,229)
Total	$ (10,920)	$ (23,156)	$ (5,987)
Capital Expenditures			
North America	$ 33,431	$ 12,441	$ 7,453
Asia-Pacific	24,589	16,506	4,263
Europe	17,763	10,518	1,029
Total	$ 75,983	$ 39,465	$ 12,745

	December 31,		
	1998	1997	1996
Assets			
North America	$507,356	$249,109	$ 67,575
Asia-Pacific	109,290	83,476	62,823
Europe	57,317	22,808	5,211
Total	$673,963	$355,393	$135,609

The above capital expenditures exclude assets acquired in business combinations and under terms of capital leases.

15. Quarterly Results of Operations (Unaudited)

The following is a tabulation of the unaudited quarterly results of operations for the two years ended December 31, 1998 and 1997:

	For the quarter ended			
	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
	(in thousands)			
Net Revenue	$ 80,051	$ 99,475	$116,047	$126,055
Gross Margin	$ 11,329	$ 15,349	$ 19,490	$ 22,444
Net Loss	$(12,317)	$(14,793)	$ (19,035)	$ (17,503)

	For the quarter ended			
	March 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997
	(in thousands)			
Net Revenue	$ 59,036	$ 70,045	$ 73,018	$ 78,098
Gross Margin	$ 4,002	$ 5,867	$ 7,752	$ 9,845
Net Loss	$ (4,907)	$ (8,875)	$ (10,591)	$ (11,866)

Notes to Consolidated Financial Statements (cont.)

16. Subsequent Events

On March 31, 1999 the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the "LTN Companies"), for approximately $36 million in cash (including payments made in exchange for certain non-competition agreements). In addition, on March 31, 1999, the Company entered into an agreement to purchase for $14 million in cash substantially all of the operating assets of Wintel CNC Communications, Inc. and Wintel CNT Communications, Inc. (the "Wintel Companies"), which are Canada-based long distance telecommunications providers affiliated with the LTN Companies. The purchase of the assets of the Wintel Companies is expected to close in early May 1999. If the LTN Companies and the Wintel Companies collectively achieve certain financial goals during the first half of 1999, the Company has agreed to pay up to an additional $4.6 million in cash.

In February 1999 the Company purchased the remaining 40% of Hotkey Internet Services Pty., Ltd. ("Hotkey"), a Melbourne, Australia-based Internet service provider. The remaining 40% was purchased for approximately $1.1 million comprised of $0.3 million in cash and 57,025 shares of the Company's common stock.

On February 5, 1999 the Company acquired all of the outstanding shares in the capital of GlobalServe Communications, Inc., a privately held Internet services provider ("ISP") based in Toronto, Canada. The purchase price of approximately $4.2 million was comprised of $2.1 million in cash and 142,806 shares of the Company's common stock.

On January 29, 1999 the Company completed the sale of $200 million 11¼% Senior Notes ("1999 Senior Notes") due 2009 with semi-annual interest payments. The $192.5 million in net proceeds of the 1999 Senior Notes will be used to fund capital expenditures to expand and develop the Company's global Network and other corporate purposes.

Independent Auditors' Report

To the Board of Directors and Stockholders of
Primus Telecommunications Group, Incorporated

We have audited the accompanying consolidated balance sheets of Primus Telecommunications Group, Incorporated and subsidiaries (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity, comprehensive loss and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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, such consolidated financial statements present fairly, in all material respects, the financial position of Primus Telecommunications Group, Incorporated and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Washington, D.C.

February 10, 1999, except for paragraph one
of Note 16 as to which the date is March 31, 1999

Directors and Officers

Directors

K. Paul Singh
Chairman of the Board, President and Chief Executive Officer

John F. DePodesta
Executive Vice President. Chairman of the Board of Iron Road Railways Incorporated; and Of Counsel to the law firm of Pepper Hamilton LLP.

Herman Fialkov
General Partner of PolyVentures Associates, L.P.; and consultant to Newlight Management LLC.

David E. Hershberg
Founder, President and CEO of GlobeComm Systems, Inc.

Douglas M. Karp
Managing Director of E.M. Warburg, Pincus & Co., LLC.

John G. Puente
Chairman of the Board of Telogy Networks, Inc.; and Director of MICROS Systems, Inc.

Officers

K. Paul Singh
Chairman of the Board, President and Chief Executive Officer

Neil L. Hazard
Executive Vice President and Chief Financial Officer

John F. DePodesta
Executive Vice President

David P. Slotkin
Deputy General Counsel

Yousef B. Javadi
Chief Operating Officer, PRIMUS North America

Thomas R. Kloster
Chief Financial Officer, PRIMUS North America

John Melick
Vice President of International Business Development

Jay Rosenblatt
Vice President of Global Carrier Services

Ravi Bhatia
Chief Operating Officer, PRIMUS Australia

Edmund Chislett
President, PRIMUS Canada

Kishor Patel
Managing Director, PRIMUS United Kingdom

Norbert Posch
Managing Director, PRIMUS Germany

Timothy S. Wiest
President, PRIMUS Japan

Ali Yazdanpanah
Managing Director, PRIMUS European Operations

Corporate Information

Corporate Headquarters
PRIMUS Telecommunications Group, Incorporated
1700 Old Meadow Road, Third Floor
McLean, Virginia 22102
703.902.2800
www.primustel.com

Annual Stockholder Meeting
Date: June 17, 1999
Time: 10 a.m.
Location: Hyatt Hotel, Reston, Virginia

Stock Information
Primus Telecommunications Group, Incorporated's Common Stock trades on the NASDAQ Stock Market under the symbol PRTL.

Transfer Agent
StockTrans, Inc.
7 E. Lancaster Avenue
Ardmore, Pennsylvania 19003
610.649.7300

Company Information
To obtain additional information about the Company or to acquire a copy of the Company's annual report on Form 10-K to the Securities and Exchange Commission, contact: Investor Relations, PRIMUS Telecommunications Group, Incorporated, 1212 Avenue of the Americas, 12th Floor, New York, New York 10036, or call 212.703.0100

Independent Auditors
Deloitte & Touche LLP
1750 Tysons Boulevard
McLean, Virginia 22102

Common Stock Trading Summary

Period	High	Low
1997		
1st Quarter	$17.000	$ 7.375
2nd Quarter	$11.125	$ 7.125
3rd Quarter	$10.625	$ 7.625
4th Quarter	$16.625	$10.000
1998		
1st Quarter	$31.250	$14.750
2nd Quarter	$30.875	$14.625
3rd Quarter	$28.000	$ 5.375
4th Quarter	$16.750	$ 5.250

PRIMUS

Telecommunications Group, Incorporated

Corporate Headquarters

PRIMUS Telecommunications Group, Incorporated
1700 Old Meadow Road, [illegible]
McLean, Virginia 22102
703 902 2800
www.primustel.com

PRIMUS Telecommunications Group, Incorporated--Global Locations

Australia

[illegible]

Canada
PRIMUS Canada
730 635 Dunsmuir Street
Vancouver, British Columbia V6C 1N5
Canada

Sales Offices:
Mississauga, Ontario
Montreal, Quebec
[illegible], Ontario

The [illegible] Telecom Group, Inc.
[illegible] Suite 100
[illegible]

[illegible]

Denmark

PRIMUS Telecommunications A S
[illegible]gade 149
1620 Copenhagen V
Denmark

Sales Office:
Aarhus

France

PRIMUS Telecommunications SA
15 Rue des Sorins
92000 Nanterre
France

Germany

PRIMUS Telecommunications Deutschland GmbH
Garmischer Strasse 35
81377 Munich
Germany

Sales Offices:
Berlin
Frankfurt
Hamburg

Japan

PRIMUS Telecommunications KK
Ferrare Building
7th Floor
1-24-15 Ebisu
Shibuya-ku, Tokyo 150 0013 Japan

Mexico

PRIMUS Telecommunicaciones de Mexico S.A. de C.V.
World Trade Center
Avenida de Las Naciones 1
Piso 14 Oficina 23
[illegible]

United Kingdom

PRIMUS Telecommunications Ltd
NIOC House
4 Victoria Street
London SW1H One
United Kingdom

United States

PRIMUS Telecommunications, Inc
1700 Old Meadow Road
McLean, Virginia 22102

Sales Offices:
Fort Lauderdale, Florida
Hollywood, Florida
New York, New York
Tampa, Florida
San Juan, Puerto Rico
St. John, United States Virgin Islands

Telegroup Operations
2098 Nutmeg Avenue
Fairfield, Iowa 52556

EXHIBIT D-2

SEC Form 10-Q for the Quarter Ending March 31, 1999

Exhibit 4.2

Primus Telecommunications Group, Incorporated
SEC Form 10-Q for the Quarter Ending March 31, 1999

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 0-29-092

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	54-1708481 (I.R.S. Employer Identification No.)
1700 Old Meadow Road, Suite 300, McLean, VA (Address of principal executive offices)	22102 (Zip Code)

(703) 902-2800
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 30, 1999
Common Stock , $.01 par value	28,439,746

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

INDEX TO FORM 10-Q

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands, except per share amounts)

	Three Months Ended March 31,	
	1999	1998
NET REVENUE	$ 131,228	$ 80,051
COST OF REVENUE	104,596	68,722
GROSS MARGIN	26,632	11,329
OPERATING EXPENSES		
Selling, general and administrative	29,296	15,377
Depreciation and amortization	8,976	3,478
Total operating expenses	38,272	18,855
LOSS FROM OPERATIONS	(11,640)	(7,526)
INTEREST EXPENSE	(16,770)	(7,175)
INTEREST INCOME	3,255	2,384
LOSS BEFORE INCOME TAXES	(25,155)	(12,317)
INCOME TAXES	-	-
NET LOSS	$ (25,155)	$ (12,317)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.89)	$ (0.62)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	28,317	19,717

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED BALANCE SHEET
(in thousands, except share amounts)

	March 31, 1999	December 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 268,530	$ 136,196
Restricted investments	27,464	25,729
Accounts receivable (net of allowance for doubtful accounts of $13,564 and $14,976)	102,510	92,531
Prepaid expenses and other current assets	20,876	13,505
Total current assets	419,380	267,961
RESTRICTED INVESTMENTS	10,546	24,894
PROPERTY AND EQUIPMENT - Net	171,013	158,873
INTANGIBLES - Net	214,347	205,039
OTHER ASSETS	27,508	17,196
TOTAL ASSETS	$ 842,794	$ 673,963
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 89,045	$ 82,520
Accrued expenses and other current liabilities	42,658	42,958
Accrued interest	14,288	12,867
Current portion of long-term obligations	5,204	22,423
Total current liabilities	151,195	160,768
LONG TERM OBLIGATIONS	596,505	397,751
OTHER LIABILITIES	25	527
Total liabilities	747,725	559,046
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.01 par value - authorized 2,455,000 shares; none issued and outstanding	-	-
Common stock, $.01 par value - authorized 80,000,000 shares; issued and outstanding, 28,404,934 and 28,059,063 shares	284	281
Additional paid-in capital	238,569	234,549
Accumulated deficit	(136,808)	(111,653)
Accumulated other comprehensive loss	(6,976)	(8,260)
Total stockholders' equity	95,069	114,917
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 842,794	$ 673,963

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)

	Three Months Ended March 31, 1999	Three Months Ended March 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (25,155)	$ (12,317)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and accretion	9,067	3,567
Sales allowance	2,833	1,724
Stock issuance - 401(k) plan employer match	62	20
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(12,342)	(11,020)
(Increase) decrease in prepaid expenses and other current assets	(7,118)	(1,576)
(Increase) decrease in other assets	(2,272)	(325)
Increase (decrease) in accounts payable	5,512	9,876
Increase (decrease) in accrued expenses, other current liabilities and other liabilities	(2,179)	(413)
Increase (decrease) in accrued interest payable	1,419	(6,609)
Net cash provided by (used in) operating activities	(30,173)	(17,073)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(16,391)	(11,369)
(Purchase) sale of restricted investments	12,612	12,072
Cash used for business acquisitions, net of cash acquired	(7,825)	(1,627)
Net cash provided by (used in) investing activities	(11,604)	(924)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital leases and long-term obligations	(18,961)	(316)
Proceeds from sale of common stock and exercise of employee stock options	203	496
Proceeds from issuance of long-term obligations	200,000	(114)
Deferred financing costs	(7,500)	-
Net cash provided by (used in) financing activities	173,742	66
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	369	80
NET CHANGE IN CASH AND CASH EQUIVALENTS	132,334	(17,851)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	136,196	115,232
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 268,530	$ 97,381

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(in thousands)

	Three Months Ended March 31,	
	1999	1998
NET LOSS	$ (25,155)	$ (12,317)
OTHER COMPREHENSIVE GAIN (LOSS) -		
Foreign currency translation adjustment	1,284	1,103
COMPREHENSIVE LOSS	$ (23,871)	$ (11,214)

See notes to consolidated financial statements.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The accompanying unaudited consolidated financial statements of Primus Telecommunications Group, Incorporated (the "Company" or "Primus") have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (of a normal and recurring nature) which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive loss for the interim periods. The results for the three months ended March 31, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999.

The financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's most recently filed Form 10-K.

(2) Acquisitions

On March 31, 1999 the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the "LTN Companies"), for approximately $36 million in cash, including payments made in exchange for certain non-competition agreements. The acquisition of the LTN Companies will be reflected in the Company's financial statements beginning on April 1, 1999. In addition, on May 3, 1999 the Company purchased for approximately $15 million in cash substantially all of the operating assets of Wintel CNC Communications, Inc. and Wintel CNT Communications, Inc. (the "Wintel Companies"), which are Canadian-based long distance telecommunications providers affiliated with the LTN Companies. If the LTN Companies and the Wintel Companies collectively achieve certain financial goals during the first half of 1999, the Company has agreed to pay an additional amount of up to approximately $5 million in cash.

In February 1999 the Company purchased the remaining non-Company owned 40% of Hotkey Internet Services Pty., Ltd. ("Hotkey"), a Melbourne, Australia-based Internet service provider ("ISP"). The purchase price for the additional 40% ownership of Hotkey was approximately $1.1 million comprised of $0.3 million in cash and 57,025 shares of the Company's common stock.

In February 1999 the Company acquired all of the outstanding shares of GlobalServe Communications, Inc., a privately held ISP based in Toronto, Canada. The purchase price of approximately $4.4 million was comprised of $2.2 million in cash and 142,806 shares of the Company's common stock.

On June 9, 1998 the Company completed its acquisition of TresCom International, Inc. ("TresCom"), a long distance telecommunications carrier focused on international long distance traffic originating in the United States and terminating in the Caribbean and Central and South America. As a result of the acquisition, all of the approximately 12.7 million TresCom common shares outstanding were exchanged for approximately 7.8 million shares of the Company's common stock valued at approximately $138 million.

The Company has accounted for all of these acquisitions using the purchase method. Accordingly, the results of operations of the acquired entities are included in the consolidated results of operations of the Company as of the date of their respective acquisitions.

(3) Long Term Obligations

Long-term obligations consist of the following (in thousands):

	March 31, 1999 (Unaudited)		December 31, 1998	
Obligations under capital leases	$	28,237	$	28,268
Revolving Credit Agreement		-		17,819
Senior Notes		573,069		372,978
Other long-term obligations		403		1,109
Subtotal		601,709		420,174
Less: Current portion of long term obligations		(5,204)		(22,423)
	$	596,505	$	397,751

On January 29, 1999 the Company completed the sale of $200 million 11 1/4% Senior Notes (the "1999 Senior Notes") due 2009 with semi-annual interest payments.

In January 1999, the Company voluntarily repaid in full and subsequently terminated the Trescom senior secured revolving credit facility (the "Revolving Credit Agreement").

(4) Operating Segment and Related Information

The Company has three reportable operating segments based on management's organization of the enterprise into geographic areas – North America, Asia-Pacific and Europe. The Company evaluates the performance of its segments and allocates resources to them based upon net revenue and income/(loss) from operations. Operations of the North America segment include shared corporate functions and assets that the Company does not allocate to its other geographic segments for management reporting purposes. Summary information with respect to the Company's segments is as follows (in thousands):

	Three Months Ended March 31,			
	1999		1998	
Net Revenue				
North America	$	62,186	$	26,310
Asia-Pacific		44,410		44,659
Europe		24,632		9,082
Total	$	131,228	$	80,051
Income/(Loss) from Operations				
North America	$	(8,289)	$	(5,320)
Asia-Pacific		(2,860)		(1,559)
Europe		(491)		(647)
Total	$	(11,640)	$	(7,526)

(5) New Accounting Pronouncements

In June 1998, Statement of Financial Accounting Standards No. 133 ("SFAS 133"), *Accounting for Derivative Instruments and Hedging Activities* was issued. SFAS 133 established standards for the accounting and reporting of derivative instruments and hedging activities and require that all derivative financial instruments be measured at fair value and recognized as assets or liabilities in the financial statements. The Statement will be adopted by the Company during fiscal 2000, and the Company is currently evaluating the impact of such adoption.

In April 1998, the American Institute of Certified Public Accountants (the "AICPA") issued Statement of Position ("SoP") 98-5, *Reporting on the Costs of Start-Up Activities.* SoP 98-5 provides guidance on the financial reporting of start-up and organizational costs. The effect of adopting SoP 98-5 is not expected to have a material effect on the financial position, results of operation or liquidity of the Company.

(6) Reclassifications

Certain previous year amounts have been reclassified to conform to the current year presentation.

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

Overview

Primus is a facilities-based global telecommunications company that offers international and domestic long distance, Internet access and data, and other telecommunications services to business, residential and carrier customers in North America and in selected markets within both the Asia-Pacific region and Europe. The Company seeks to capitalize on the increasing demand for high-quality international telecommunications services resulting from the globalization of the world's economies and the worldwide trend toward telecommunications deregulation and the growth of data and Internet traffic. Primus provides service over its network which includes (i) 12 international gateway switches in the Unites States, Australia, Canada, Germany, Japan, Puerto Rico and the United Kingdom, (ii) four domestic switches in Australia, (iii) data and Internet access switches in Australia and Canada, (iv) both owned and leased transmission capacity on undersea and land-based fiber optic cable systems and (v) an international satellite earth station located in London. Utilizing this network, along with resale arrangements and foreign carrier agreements, the Company provides service to over 650,000 customers.

Net revenue is earned based on the number of minutes billable by the Company and is recorded upon completion of a call, adjusted for sales allowance. The Company generally prices its services at a savings compared to the major carriers operating in each country. The Company's net revenue is derived from carrying a mix of business, residential and carrier long distance voice traffic, data and Internet traffic in Australia and Canada, and, in Australia, also from provision of local and cellular services.

Cost of revenue is primarily comprised of costs incurred from other domestic and foreign telecommunications carriers to originate, transport and terminate calls. The majority of the Company's cost of revenue is variable, based upon the number of minutes of use, with transmission and termination costs being the Company's most significant expense. As the Company increases the portion of traffic transmitted over its leased or owned facilities, fixed costs as a percentage of cost of revenue will proportionately increase.

Although the Company's functional currency is the United States dollar, a significant portion of the Company's net revenue is derived from its sales and operations outside the United States. In the future, the Company expects to continue to derive a significant portion of its net revenue and incur a significant portion of its operating costs outside the United States; therefore, changes in foreign currency exchange rates may have a significant effect on the Company's results of operations. The Company historically has not engaged in hedging transactions and does not currently contemplate engaging in hedging transactions.

Other Operating Data

The following information for the three months ended March 31, 1999 and 1998 is provided for informational purposes and should be read in conjunction with the unaudited Consolidated Financial Statements and Notes provided herein and the Consolidated Financial Statements presented with the Company's most recently filed Form 10-K.

	Three Months Ended March 31, 1999			
	Net Revenue	Minutes of Long Distance Use		
		International	Domestic	Total
North America	$ 62,186	205,194	67,958	273,152
Asia-Pacific	44,410	35,113	85,054	120,167
Europe	24,632	97,133	21,516	118,649
Total	$ 131,228	337,440	174,528	511,968

	Three Months Ended March 31, 1998			
	Net Revenue	Minutes of Long Distance Use		
		International	Domestic	Total
North America	$ 26,310	78,950	20,138	99,088
Asia-Pacific	44,659	24,596	61,151	85,747
Europe	9,082	22,944	11,462	34,406
Total	$ 80,051	126,490	92,751	219,241

Results of operations for the three months ended March 31, 1999 as compared to the three months ended March 31, 1998

Net revenue increased $51.1 million or 64%, from $80.1 million for the three months ended March 31, 1998 to $131.2 million for the three months ended March 31, 1999. Of the increase, $35.9 million was associated with the North American operations, which represents a growth rate of 136%. The growth reflects increased traffic volumes in business and ethnic residential retail operations and in carrier operations, and includes operations of TresCom in the 1999 results. The European net revenue increased $15.5 million from $9.1 million for the three months ended March 31, 1998 to $24.6 million for the three months ended March 31, 1999, a growth rate of 171%. The European net revenue increase is attributable to increased traffic volumes in business and residential retail traffic operations, the addition of carrier operations in the United Kingdom and the addition of carrier and retail operations in Germany. The Company's Asia-Pacific net revenue decreased slightly from $44.7 million for the three months ended March 31, 1998 to $44.4 million for the three months ended March 31, 1999. The Asia-Pacific net revenue decrease in United States dollar terms is a result of a 7% decrease in the Australian dollar's average exchange rate period over period. Net revenue of the Australian operations, in Australian dollar terms, grew as a result of increased traffic from retail residential and business customers and from the addition of data and Internet services.

Cost of revenue increased $35.9 million, from $68.7 million, or 85.8% of net revenue, for the three months ended March 31, 1998 to $104.6 million, or 79.7% of net revenue, for the three months ended March 31, 1999. The increase in the cost of revenue is attributable to the increase in traffic volumes and associated net revenue growth. The cost of revenue as a percentage of net revenue decreased by 610 basis points as a result of the continuing expansion of the Company's global network, a greater mix of retail versus carrier traffic and the continuing migration of existing and newly generated customer traffic onto the Company's network and new higher margin product offerings such as data and Internet services.

Selling, general and administrative expenses increased $13.9 million, from $15.4 million for the three months ended March 31, 1998, to $29.3 million for the three months ended March 31, 1999. The increase is attributable to the addition of expense from acquired operations including TresCom and GlobalServe and increased advertising and promotional expenses associated with the Company's retail marketing campaigns.

Depreciation and amortization expense increased from $3.5 million for the three months ended March 31, 1998 to $9.0 million for the three months ended March 31, 1999. The increase is associated with increased amortization expense related to intangible assets arising from the Company's acquisitions of TresCom, GlobalServe and Hotkey and increased depreciation expense related to capital expenditures for fiber optic cable, switching and other network equipment being placed into service.

Interest expense increased from $7.2 million for the three months ended March 31, 1998 to $16.8 million for the three months ended March 31, 1999. The increase is primarily due to the additional debt incurred pursuant to the 11 ¼% Senior Notes due 2009 (the "1999 Senior Notes") and, to a lesser extent, additional capital lease financings.

Interest income increased from $2.4 million for the three months ended March 31, 1998 to $3.3 million for the three months ended March 31, 1999. The increase is a result of the investment of the net proceeds from the Company's 1999 Senior Notes offering.

Liquidity and Capital Resources

The Company's liquidity requirements arise from cash used in operating activities, purchases of network equipment including switches, related transmission equipment, and fiber optic cable transmission capacity, interest and principal payments on outstanding indebtedness, and acquisitions of and strategic investments in businesses. The Company has financed its growth to date through public offerings and private placements of debt and equity securities and capital lease financing.

Net cash used in operating activities was $30.2 million for the three months ended March 31, 1999 as compared to net cash used in operating activities of $17.1 million for the three months ended March 31, 1998. The increase in operating cash used is primarily comprised of an increase in the net loss of $12.8 million.

Net cash used in investing activities was $11.6 million for the three months ended March 31, 1999 compared to net cash used in investing activities of $0.9 million for the three months ended March 31, 1998. Net cash used in investing activities during the three months ended March 31, 1999 includes $16.4 million of capital expenditures primarily for the expansion of the Company's global network, $7.8 million for business acquisition, partially offset by $12.6 million of cash provided by the sale of restricted investments used to fund interest payments on the 11 ¾% Senior Notes due 2007 (the "1997 Senior Notes").

Net cash provided by financing activities was $173.7 million for the three months ended March 31, 1999 as compared to net cash provided by financing activities of $0.1 million during the three months ended March 31, 1998. Cash provided by financing activities in the three months ended March 31, 1999 resulted primarily from $192.5 million of net proceeds of the 1999 Senior Notes offering, offset by the $17.8 million net repayment of the Revolving Credit Agreement.

The Company anticipates aggregate capital expenditures of approximately $100 million during the remainder of 1999. Such capital expenditures will be primarily for international and domestic switches and points of presence, international and domestic fiber optic cable capacity for new and existing routes, satellite earth station facilities, other transmission equipment, and back office support systems.

On March 31, 1999 the Company purchased the common stock of London Telecom Network, Inc. and certain related entities that provide long distance telecommunications services in Canada (the "LTN Companies"), for approximately $36 million in cash, including payments made in exchange for certain non-competition agreements. The acquisition of the LTN Companies will be reflected in the Company's financial statements beginning on April 1, 1999. In addition, on May 3, 1999 the Company purchased for approximately $15 million in cash substantially all of the operating assets of

Wintel CNC Communications, Inc. and Wintel CNT Communications, Inc. (the "Wintel Companies"), which are Canadian-based long distance telecommunications providers affiliated with the LTN Companies. If the LTN Companies and the Wintel Companies collectively achieve certain financial goals during the first half of 1999, the Company has agreed to pay an additional amount of up to approximately $5 million in cash.

The Company believes that its cash, cash equivalents, and restricted investments along with available capital lease financing (subject to the limitations in the Indentures related to the Company's Senior Notes) will be sufficient to fund the Company's operating losses, debt service requirements, capital expenditures, and other cash needs for its operations for at least until the end of 2000. The semi-annual interest payments due under the 1997 Senior Notes through August 1, 2000 have been pre-funded and will be paid from restricted investments. The Company is continually evaluating the expansion of its service offerings and plans to make further investments in and enhancements to its Network and distribution channels (including the acquisitions) in order to expand its service offerings. In order to fund these additional cash requirements, the Company anticipates that it will be required to raise additional financing from public or private equity or debt sources. Additionally, if the Company's plans or assumptions change (including those with respect to the development of the network, the level of its operations and its operating cash flow), if its assumptions prove inaccurate, if it consummates additional investments or acquisitions, if it experiences unexpected costs or competitive pressures, or if existing cash and any other borrowings prove insufficient, the Company may be required to seek additional capital sooner than expected. In the event that the Company is unable to obtain such additional capital or is unable to obtain such additional capital on acceptable terms, it may be required to reduce the scope of its expansion, which could adversely affect its business prospects and its ability to compete. There can be no assurance that the Company will be able to raise equity capital, obtain capital lease or bank financing or incur other borrowings on commercially reasonable terms, if at all, to fund any such expansion or otherwise.

Year 2000

General. Primus is reviewing its network elements, computer systems, software applications and other business systems in order to determine if any of these systems will not properly reflect or recognize the year 2000. Because many computer and computer applications define dates by the last two digits of the year, "00" could be interpreted to mean the year 1900, rather than the year 2000. This error could result in miscalculations or system failures. Year 2000 issues may also affect the systems and applications of Primus' customers, vendors or resellers.

Compliance Program. Beginning in 1998, Primus began a comprehensive inventory and Year 2000 assessment of its principal computer systems, network elements, software applications and other business systems. Primus expects to complete its inventory and assessment by June 30, 1999 and has begun repairing or replacing the most critical network elements and significant management systems that are determined not to be Year 2000 compliant. Primus expects to complete the repair, replacement, testing and certification of substantially all non-compliant network elements by September 30, 1999. Primus is using both internal and external resources to identify, correct or reprogram, and test its systems for Year 2000 compliance.

Suppliers. Primus is also contacting third party suppliers of major equipment, software, systems and services used by the Company to identify and, to the extent possible, to resolve issues involving Year 2000 compliance. However, the Company has limited or no control over the actions of these third party suppliers. Consequently, while Primus expects that it will be able to resolve any significant Year 2000 issues with regard to its systems and services, there can be no assurance that its suppliers will resolve any or all Year 2000 issues before the occurrence of a material disruption to the business of the Company or any of its customers.

Costs. Primus expects to incur approximately $3 to $5 million in expenditures in 1999 to complete its Year 2000 compliance program. The costs of modifying the Company's network elements, software and systems for Year 2000 compliance are being funded from existing cash resources and are being charged as expenses as incurred.

Risks. Primus believes that it will complete the implementation of its Year 2000 program prior to December 31, 1999. Consequently, the Company does not believe that Year 2000 issues will have a material adverse effect on the Company's business, cash flows, or results of operations. However, if the Company does not achieve compliance prior to December 31, 1999, if it fails to identify and remedy all critical Year 2000 problems or if major suppliers or customers experience material Year 2000 problems, the Company's results of operations or financial condition could be materially and adversely affected. Primus has determined that non-compliant network elements may result in improperly routed traffic and that non-compliant, non-network systems may result in errors in customer billing and accounting records.

Contingency Plans. Primus has begun to develop appropriate contingency plans to mitigate, to the extent possible, any significant Year 2000 noncompliance. The Company expects to complete its contingency plans by September 30, 1999. If Primus is required to implement its contingency plans, the cost of Year 2000 compliance may be greater than the amount referenced above and there can be no assurance that these plans will be adequate.

Special Note Regarding Forward Looking Statements

Statements in this Form 10-Q, including those concerning the Company's expectations of future sales, net revenue, gross profit, net income, network development, traffic development, capital expenditures, selling, general and administrative expenses, service introductions and cash requirements include certain forward-looking statements. As such, actual results may vary materially from such expectations. Factors, which could cause results to differ from expectations, include risks associated with Primus's limited operating history; entry into developing markets; managing rapid growth; substantial indebtedness; liquidity; historical and future operating losses; acquisition and strategic investment risks; intense competition; dependence on transmission facilities-based carriers; international operations; dependence on effective information systems; industry changes; network development; dependence on key personnel and government regulations. These factors are discussed more fully in the Company's 1998 Form 10-K and the Prospectus dated May 7, 1999 filed with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposures relate to changes in foreign currency exchange rates and to changes in interest rates.

Foreign currency - Although the Company's functional currency is the United States dollar, a significant portion of the Company's net revenue is derived from its sales and operations outside the United States. In the future, the Company expects to continue to derive a significant portion of its net revenue and incur a significant portion of its operating costs outside the United States, and changes in foreign currency exchange rates may have a significant effect on the Company's results of operations. The operations of affiliates and subsidiaries in foreign countries have been funded with investments and other advances. Due to the long-term nature of such investments and advances, the Company accounts for any adjustments resulting from translation as a charge or credit to "accumulated other comprehensive loss" within the stockholders' equity section of the consolidated balance sheet. The Company historically has not engaged in hedging transactions.

Interest rates - The Company's financial instruments that are sensitive to changes in interest rates are its 1997, 1998 and 1999 Senior Notes. The aggregate fair value of the 1997, 1998 and 1999 Senior Notes approximates their face value.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(a) On January 20, 1999, the Company amended the indenture relating to the 1997 Senior Notes to modify exceptions to the debt incurrence covenant, an exception to the restricted payments covenant, and the definitions of "permitted investments" and "permitted liens", in each case to conform such provisions substantially to the corresponding provisions of the 1998 and 1999 Senior Notes.

(b) On February 2, 1999, the Company acquired the shares of Hotkey that it did not already own for $0.3 million in cash and 57,025 shares of the Company's common stock. On February 9, 1999, the Company acquired all of the outstanding equity of GlobalServe for $2.2 million in cash and 142,806 shares of the Company's common stock. The Company issued these shares in reliance on the exemption from registrations provided by Section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits (see index on page 15)

(b) Reports on Form 8-K

Not applicable.

SIGNATURE

Pursuant to the requirements 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.

PRIMUS TELECOMMUNICATIONS GROUP, INCORPORATED

Date May 14, 1999 By: */s/ Neil L. Hazard*

Neil L. Hazard
(*Executive Vice President and Chief Financial Officer)*

Date May 14, 1999 By: */s/ Thomas R. Kloster*

Thomas R. Kloster
(*Vice President, Corporate Controller and Chief Accounting Officer)*

EXHIBIT E

MANAGERIAL CAPABILITY

MANAGERIAL AND TECHNICAL QUALIFICATIONS

Applicant is a new entrant, but its key personnel have significant experience in the telecommunications industry. As evidenced by their biographies attached hereto, many of Primus 's key employees have extensive experience in network design, xDSL technologies, engineering, and development of financial plans necessary to implementing xDSL and other services.

The following individuals are members of Primus's executive team:

K. Paul Singh	President and Chief Executive Officer, Director
Neil L. Hazard	Executive Vice President and CFO
John F. DePodesta	Executive Vice President, Director
Yousef Javadi	Chief Operating Officer, Primus North America
John Melick	Vice President, International Business Development

The foregoing personnel can be reached at:

Primus Telecommunications, Inc.
1700 Old Meadow Road, Third Floor
McLean, VA 22102
(703) 902-2800 (Tel.)
(703) 902-2814 (Fax)

A brief description of Primus' management team follows:

K. Paul Singh, Founder, President and CEO

Mr. K. Paul Singh is the founder, President and Chief Executive Officer of PRIMUS, and is a successful entrepreneur and telecommunications business executive with a proven track record in managing and growing telecommunications businesses.

Prior to joining MCI as Vice President of Global Marketing in 1991, Mr. Singh served as founder, chairman and CEO of Overseas Telecommunications, Inc. (OTI) - which was privately funded by venture capital and corporate partners. In this capacity, Mr. Singh pioneered the introduction of International Business Services (IBS), and expanded these services to over 26 countries globally. OTI was listed by Inc. Magazine as the 80th fastest growing private company in the United States in 1990.

In 1991, OTI was purchased by MCI Telecommunications Corporation and integrated into the MCI international network of products and services. Mr. Singh served as Vice President of Global Product Marketing at MCI between 1991 and 1994, and was responsible for the development, management, and marketing of MCI's international products and services for switched and non-switched private network services with more than $1 Billion annual revenues. Mr. Singh led MCI to the number one (#1) position in market share of all United States carriers in global network services, and turned around MCI's international business to a profitability level consistent with MCI's switched international service business.

Prior to funding OTI, Mr. Singh founded Cygnus Satellite Corporation that was a pioneer in getting a license to launch private satellites for domestic and international use in competition with the monopoly of INTELSAT. The company was acquired by Panamsat generating profits for the shareholders.

Mr. Singh also serviced as Vice President of Strategic Planning at M/A-Com Corporation and served at COMSAT and RCA Global Communications in various engineering and management positions. Mr. Singh holds an MBA from Harvard Business School and an MSEE from State University of New York.

Mr. Singh lives in Great Falls Virginia with his wife Ginger and their two children.

Neil L. Hazard, Executive Vice-President and CFO

Mr. Neil L. Hazard is Executive Vice President of PRIMUS and also serves as the company's Chief Financial Officer. Mr. Hazard has over 15 years experience in various executive positions in the telecommunications industry.

Prior to joining PRIMUS, he was Director of Corporate Accounting and Financial Reporting for MCI Communications Corporation, responsible for consolidation of MCI's financial results, external reporting to shareholders and Securities and Exchange Commission, management reporting of financial results to the Board of Directors, and operation of the company's general ledger and related accounting systems. Additionally, Mr. Hazard was acting Controller of MCI for a six-month period, and previously served as Director of Global Product Marketing for MCI.

Mr. Hazard previously was Chief Financial Officer of OTI, reporting to Mr. Singh, where he was in charge of all the company's financial, accounting, treasury, business analysis, procurement, and human resources functions. He also managed the company's international video services business.

Prior to OTI, Mr. Hazard was Assistant Vice President–Finance for Hughes Network Systems. He holds an MBA degree from Harvard Business School, and MS degree in Computer Systems from the University of Maryland, and an undergraduate engineering degree from Johns Hopkins University.

John F. Podesta, Executive Vice-President and Director

Mr. John F. DePodesta, a co-founder of PRIMUS, currently serves as a member of the Board of Directors and as Executive Vice President of PRIMUS.

Mr. DePodesta has had significant involvement in the deregulation and privatization of regulated entities in the United States and abroad. As General Counsel responsible for developing the reorganization strategies for Penn Central Transportation Company and later as General Counsel for Consolidated Rail Corporation, Mr. DePodesta was actively engaged in efforts that resulted in deregulation of the rail industry. Thereafter, while in private law practice, he developed the framework for Conrail's privatization, which resulted in the then largest IPO in U.S. history. Mr. DePodesta has also advised the World Bank and governments on railroad privatization in Mexico and Poland.

Mr. DePodesta's involvement in the telecommunications industry began with his participation in the development of recommendations advocating the divestiture of AT&T. He has been instrumental in organizing the formation and capitalization of, and assisting in obtaining regulatory authority for, several telecommunications entities over the past fifteen years, including Primus, Cygnus Satellite Corporation and Overseas Telecommunications, Inc.

Mr. DePodesta is a co-founder and Chairman of Iron Road Railways Incorporation, a privately owned holding company which owns and operates freight railroads in the United States and Canada. He is also of Counsel in the Washington, D.C., office of Pepper Hamilton LLP.

Mr. DePodesta holds a J.D. from the University of Pennsylvania and a B.A. from Harvard College (1966).

Yousef Javadi, Chief Operating Officer, Primus North America

Mr. Yousef B. Javadi, is currently Chief Operating Officer and President of North America for PRIMUS.

Mr. Javadi currently manages PRIMUS businesses in the United States; Canada; and Mexico. Prior to joining PRIMUS, he was Vice President of Business Development at GE Americom (a GE Capital Company). In this role, Mr. Javadi let the formulation and creation of a new business entity for GE Capital. Prior to GE Mr. Javadi was Director of Global Services at MCI. At MCI, Mr. Javadi managed the sales organization selling the company's international services to the commercial customer base. Additionally, Mr. Javadi managed the global outsourcing program at MCI. In this role Mr. Javadi secured several large contracts from Fortune 50 clients. Prior to MCI, Mr. Javadi was Vice President of Sale Sand Marketing at OTI, and reported to Mr. Singh. In this role, Mr. Javadi managed OTI's national sales and marketing activities.

Prior to OTI, Mr. Javadi was a product manager for voice and satellite equipment at Hughes Network Systems.

Mr. Javadi holds an MBA from Harvard Business School and a B.S. and M.S. in Engineering from MIT.

John Melick, Vice President of International Business Development

Mr. John Melick is Vice President of International Business Development and is responsible for all sales activities in the U.S.

Prior to joining PRIMUS, Mr. Melick managed the development of OTI's service expansion into Mexico and Latin America. Upon MCI's acquisition of OTI, he became the executive responsible for the day-to-day management of MCI's global product portfolio in the Americas and the Caribbean. Mr. Melick was responsible for introducing the first digital satellite services for private corporate networks in more than ten Latin American countries including Mexico.

He holds a B.A. from the University of Maryland and an M.S. from The George Washington University.

EXHIBIT F

ACCESS TO 911

ACCESS TO 911

Primus plans to offer certain local exchange services to business and residential customers located in the State of Florida. Exchange services may include, but will not necessarily be limited to digital subscriber line ("DSL") services over a second or additional local line to the customer's premises. Primus does not intend to provide basic local telecommunications services as defined at Florida Statutes §364.02(2) at this time. Rather, Primus will focus on providing DSL services to small and medium sized business and residential customers, which augment existing local line capabilities. Primus's customers will access 911 and relay services directly through their basic local line service provided by the incumbent local exchange company ("ILEC") or alternative local exchange company ("ALEC"). Primus's customers, therefore, will not require supplementary access to 911 and/or relay services already provided to them by their ILEC or ALEC. Provision of resold local exchange access to 911 will be provided via the underlying carrier, Sprint, to line service provided by the ILEC.

Primus's customers through their local exchange service providers, will have also paid the 911 tax applicable to each subscribed local line. Any additional collection of the 911 tax as described in Florida Statutes §365.171(13) duplicates taxes already collected on such lines. Any 911 and relay service access funding will be handled by the ILEC or ALEC for any line over which Primus provides its services and additional collection of the 911 tax, therefore, would be redundant.

Should Primus decide to provide basic local exchange services at some point in the future, Primus will, prior to any such provision, ensure that its customers have high quality access to 911 and relay services and will collect and remit the appropriate taxes.

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

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FACSIMILE (202) 424-7647

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919 THIRD AVENUE
NEW YORK, NY 10022-9998
TELEPHONE (212) 758-9500
FACSIMILE (212) 758-9526

August 31, 1999

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check:

VIA OVERNIGHT DELIVERY

Blanco S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application of Primus Telecommunications, Inc. for Authority to Provide Alternative Local Exchange Service Within the State of Florida

Dear Director Bayo:

Enclosed for filing are an original and six (6) copies of the Application of Primus Telecommunications, Inc. for Authority to Provide Alternative Local Exchange Service Within the State of Florida. Also enclosed is a check in the amount of $250.00 to cover the filing fee.

Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed stamped envelope provided. Should you have any questions on this matter please do not hesitate to contact the undersigned.

Very truly yours,

Robin Cohn
Ronald J. Jarvis

Counsel for Primus Telecommunications, Inc.

Enclosures
cc: Danielle Saunders

ORIGINAL

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

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TELEPHONE (212) 758-9500
FACSIMILE (212) 758-9526

August 31, 1999

VIA OVERNIGHT DELIVERY

DEPOSIT D192 DATE SEP 01 1999

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Counsel for Primus Telecommunications, Inc.

Enclosures
cc: Danielle Saunders

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SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

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August 31, 1999

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SWIDLER BERLIN SHEREFF FRIEDMAN, LLP
3000 K STREET, N.W., SUITE 300
WASHINGTON, DC 20007

FIRST UNION NATIONAL BANK
15-122/540

0111563
NO 111563

EXACTLY*****250*DOLLARS AND*00*CENTS

DATE 08/31/99
AMOUNT $$$$$250.00

PAY TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISSION

GENERAL ACCOUNT
TWO SIGNATURES REQUIRED ABOVE $10,000

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