CENTRAL EUROPEAN MEDIA ENTERPRISES LTD
Form 10-K
March 01, 2007

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

FORM 10-K

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

For the fiscal year ended December 31, 2006

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission File Number 0-24796

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
(Exact name of registrant as specified in its charter)

BERMUDA	**98-0438382**
(State or other jurisdiction of incorporation and organization)	(IRS Employer Identification No.)
Clarendon House, Church Street, Hamilton	**HM CX Bermuda**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 441-296-1431

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:
CLASS A COMMON STOCK, $0.08 PAR VALUE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No **x**

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 each shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **x** No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **x**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer **x** Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No **x**

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2006 (based on the closing sale price of US$ 63.19 of the registrant's Common Stock, as reported by the Nasdaq Exchange on such date) was approximately US$ 2.2 billion.

Number of shares of Class A Common Stock outstanding as of February 20, 2007 : 34,412,138
Number of shares of Class B Common Stock outstanding as of February 20, 2007 : 6,312,839

DOCUMENTS INCORPORATED BY REFERENCE

Document	**Location in Form 10-K in Which Document is Incorporated**
Registrant's Proxy Statement for the Annual General Meeting of Shareholders to be held on June 5, 2007	Part III

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

		Page
PART I		
Item 1	Business	4
Item 1A	Risk Factors	30
Item 1B	Unresolved Staff Comments	37
Item 2	Properties	38
Item 3	Legal Proceedings	39
Item 4	Submission of Matters to a Vote of Security Holders	42
PART II		
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	43
Item 6	Selected Financial Data	44
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	48
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	95
Item 8	Financial Statements and Supplementary Data	97
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	174
Item 9A	Controls and Procedures	174
Item 9B	Other Information	175
PART III		
Item 10	Directors, Executive Officers and Corporate Governance	176
Item 11	Executive Compensation	176
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	176
Item 13	Certain Relationships and Related Transactions, and Director Independence	176
Item 14	Principal Accountant Fees and Services	176
PART IV		
Item 15	Exhibits and Financial Statement Schedules	177
SIGNATURES		182

Table of Contents

PART I

ITEM 1. BUSINESS

Forward-looking Statements

This report contains forward-looking statements, including the impact of legal proceedings in Croatia and Ukraine, the results of additional investment in Croatia and Ukraine, the implementation of an advertising sales strategy in the Czech Republic and cost reductions in the Czech and Slovak Republics, our ability to develop and implement multi-channel strategies generally, the growth of television advertising in our markets, the future economic conditions in our markets, future investments in television broadcast operations, the growth potential of advertising spending in our markets, and other business strategies and commitments. For these statements and all other forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy or are otherwise beyond our control and some of which might not even be anticipated. Future events and actual results, affecting our strategic plan as well as our financial position, results of operations and cash flows, could differ materially from those described in or contemplated by the forward-looking statements. Important factors that contribute to such risks include, but are not limited to, the general regulatory environments where we operate and application of relevant laws and regulations, the renewals of broadcasting licenses, our ability to implement strategies regarding sales and multi-channel distribution, the rate of development of advertising markets in countries where we operate, our ability to acquire necessary programming and the ability to attract audiences, our ability to obtain additional frequencies and licenses, and general market and economic conditions in these countries as well as in the United States and Western Europe.

GENERAL

Central European Media Enterprises Ltd. is a Bermuda company that, together with its subsidiaries and affiliates, invests in, develops and operates national commercial television channels and stations in Central and Eastern Europe. At present, we have operations in Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine.

Our registered offices are located at Clarendon House, Church Street, Hamilton HM CX Bermuda, and our telephone number is 441-296-1431. Communications can also be sent c/o CME Development Corporation at Aldwych House, 81 Aldwych, London WC2B 4HN, United Kingdom, telephone number +44-20-7430-5430.

We make available, free of charge, on our website at http://www.cetv-net.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

Unless otherwise noted, all statistical and financial information presented in this report has been converted into US dollars using appropriate exchange rates. All references to “US$” or “dollars” are to US dollars, all references to “HRK” are to Croatian kuna, all references to “CZK” are to Czech korunas, all references to “RON” are to the New Romanian lei, all references to “SKK” are to Slovak korunas, all references to “SIT” are to Slovenian tolars, all references to “UAH” are to Ukrainian hryvna, all references to “Euro” are to the European Union Euro and all references to “GBP” are to British pounds. The exchange rates as of December 31, 2006 used in this report are 5.58 HRK/US$; 20.88 CZK/US$; 2.57 RON/US$; 26.25 SKK/US$; 181.93 SIT/US$; 5.05 UAH/US$; 0.76 Euro/US$ and 0.51 GBP/US$.

Table of Contents

CORPORATE STRUCTURE

Central European Media Enterprises Ltd. was incorporated on June 15, 1994 under the laws of Bermuda. Our assets are held through a series of Dutch and Netherlands Antilles holding companies. In each market in which we operate, we have ownership interests in license companies and operating companies. Operations are conducted either by the license companies themselves or by separate operating companies. License companies have been authorized by the relevant local regulatory authority to engage in television broadcasting in accordance with the terms of a particular license. We generate revenues primarily through acquiring programming for broadcast by the corresponding license company and entering into agreements with advertisers and advertising agencies on behalf of the license company. In Croatia, the Czech Republic, Romania and Ukraine, the license company also acts as an operating company; and since January 1, 2007, our license company in the Slovak Republic also acts as an operating company. As depicted in the table below, our share of profits in our license and operating companies corresponds with our voting interest other than in the Slovak Republic and Ukraine, where we are entitled by contract to a share of profits in those operations that does not correspond to our voting interest. Below is an overview of our operating structure at December 31, 2006, the type of affiliate and a chart entitled “Simplified Corporate Structure - Continuing Operations”.

Company Name	Effective Voting Interest	Share of Profits	Type of Affiliate	TV Channels
Croatia				
License Company:				
Nova TV d.d. (“Nova TV (Croatia)”)	100.0%	100.0%	Consolidated Subsidiary	NOVA TV (Croatia)
Czech Republic				
License Companies:				
CET 21 spol s.r.o. (“CET 21”)	100.0%	100.0%	Consolidated Subsidiary	TV NOVA (Czech Republic)
Galaxie Sport s.r.o. (“Galaxie Sport”)	100.0%	100.0%	Consolidated Subsidiary	GALAXIE SPORT
Romania				
Operating Companies:				
Media Pro International S.A. (“MPI”)	90.0%	90.0%	Consolidated Subsidiary	
Media Vision S.R.L. (“Media Vision”)	75.0%	75.0%	Consolidated Subsidiary	
License Company:				
Pro TV S.A. (“Pro TV”)	90.0%	90.0%	Consolidated Subsidiary	PRO TV, ACASA, PRO CINEMA and PRO TV INTERNATIONAL
Slovak Republic				
Operating Company:				
Slovenska televizna spolocnost s r.o. (“STS”)	89.8%	80.0%	Consolidated Subsidiary	

License Company:				
MARKIZA-SLOVAKIA s.r.o. (“Markiza”)	80.0%	0.1%	Consolidated Subsidiary	MARKIZA TV

Page 5

Table of Contents

Company Name	Effective Voting Interest	Share of Profits	Type of Affiliate	TV Channels
Slovenia				
Operating Company:				
Produkcija Plus d.o.o. (“Pro Plus”)	100.0%	100.0%	Consolidated Subsidiary	
License Companies:				
Pop TV d.o.o. (“Pop TV”)	100.0%	100.0%	Consolidated Subsidiary	POP TV
Kanal A d.o.o. (“Kanal A”)	100.0%	100.0%	Consolidated Subsidiary	KANAL A
Ukraine				
Operating Companies:				
Innova Film GmbH (“Innova”)	60.0%	60.0%	Consolidated Subsidiary	
International Media Services Ltd. (“IMS”)	60.0%	60.0%	Consolidated Subsidiary	
Foreign Enterprise “Inter-Media” (“Inter-Media”)	60.0%	60.0%	Consolidated Subsidiary	
License Company:				
Studio 1+1 LLC (“Studio 1+1”)	18.0%	60.0%	Consolidated Variable Interest Entity	STUDIO 1+1
Gravis LLC (“Gravis”)	60.4%	60.4%	Consolidated Subsidiary	KINO and CITI

Table of Contents

Table of Contents

OPERATING ENVIRONMENT

Market and Audience Share

Our television channels reach an aggregate of approximately 82 million people in six countries with a combined population of approximately 90 million people. TV NOVA in the Czech Republic was ranked first in terms of national all day audience share in 2006, as were MARKIZA TV in the Slovak Republic and POP TV, our primary channel in Slovenia. PRO TV in Romania and STUDIO 1+1 in Ukraine were ranked second in terms of national all day audience share for 2006 in competitive markets. In Croatia, NOVA TV was ranked fourth in terms of national all day audience share in 2006.

The rankings of our channels in the markets in which they broadcast are reflected below.

Country	TV Channels	Launch Date	Technical Reach (1)	2006 Audience Share (2)	Market Rank (2)
Croatia	NOVA TV (Croatia)	August 2000 (3)	90%	15%	4
Czech Republic	TV NOVA (Czech Rep)	February 1994 (4)	100%	42%	1
	GALAXIE SPORT	April 2002 (5)	35% (6)	Not Measured	Not Measured
Romania	PRO TV	December 1995	82%	16%	2
	ACASA	February 1998	73%	8%	4
	PRO CINEMA	April 2004	53%	1%	16
Slovak Republic	MARKIZA TV	August 1996	86%	34%	1
Slovenia	POP TV	December 1995	93%	29%	1
	KANAL A	October 1991 (7)	90%	9%	3
Ukraine	STUDIO 1+1	January 1997	95%	18%	2
	KINO	July 2006	41.3%	0.2%	23
	CITI	December 2006	11.7%	0.1%	32

(1) “Technical Reach” is a measurement of the percentage of a country’s population that is able to receive the signals of the indicated channels. Source: Internal estimates supplied by each country's operations. Each of our stations in the relevant country has estimated its own technical reach based on the location, power and frequency of each of its transmitters and the local population density and geography around that transmitter. The technical reach calculation is separate from the independent third party measurement that determines audience share.

(2) National all day audience share and rank. Source: Croatia: Peoplemeters AGB Media Services, Czech Republic: ATO - Mediaresearch / GFK, Romania: Peoplemeters Taylor Nelson Sofres, Slovak Republic: PMT / TNS SK, Slovenia: Peoplemeters AGB Media Services, Ukraine: Peoplemeters GFK USM. There are four stations ranked in Croatia, four in the Czech Republic, twenty eight in Romania, six in the Slovak Republic, four in Slovenia, and six significant stations ranked in Ukraine.

(3) We acquired NOVA TV (Croatia) in July 2004.

(4) We acquired TV NOVA (Czech Republic) in May 2005.

(5) We acquired GALAXIE SPORT in September 2005.

(6) 35% technical reach in the Czech Republic. In addition, GALAXIE SPORT has a technical reach of 48% in the Slovak Republic.

(7) We acquired KANAL A in October 2000.

Page 8

Table of Contents

The following table shows the population, technical reach of our primary channel, number of television households, per capita GDP and cable penetration for those countries of Central and Eastern Europe where we conduct broadcast operations.

Country	Population (in millions) (1)	Technical Reach (in millions) (2)	Television Households (in millions) (3)	Per Capita GDP 2006 US$ (4)	Cable Penetration (3)
Croatia	4.4	4.0	1.4	$ 9,318	16%
Czech Republic	10.2	10.2	3.9	$ 13,971	26%
Romania	20.9	17.1	6.9	$ 5,458	61%
Slovak Republic	5.4	4.6	1.6	$ 10,231	39%
Slovenia	2.0	1.9	0.7	$ 18,342	61%
Ukraine	46.7	44.4	18.5	$ 2,027	19%
Total	**89.6**	**82.2**	**33.0**		

(1) Source: National Statistical Office in each Country.

(2) Source: Internal estimates supplied by each country's operations. Each of our operations has estimated its own technical reach based on the location, power and frequency of each of its transmitters and the local population density and geography around that transmitter. The technical reach is separate from the independent third party measurement that determines audience shares.

(3) Source: Informa Telecoms and Media (August 2006 data), ZenithOptimedia. A Television Household is a residential dwelling with one or more television sets. Cable Penetration refers to the percentage of Television Households that subscribe to television services via cable channels.

(4) Source: ING (November 2006 data).

Regulation

In this report, we refer to broadcasting regulatory authorities or agencies in our operating countries as “The Media Council”. These authorities or bodies are as follows:

Croatia - Electronic Media Council
Czech Republic - The Council for Radio and Television Broadcasting
Romania - National Audio-Visual Council
Slovak Republic - Council of the Slovak Republic for Broadcasting and Television Transmission
Slovenia - Post and Electronic Communications Agency of the Republic of Slovenia
Ukraine - National Council for Television and Radio Broadcasting

Media Councils generally supervise broadcasters and their compliance with national broadcasting legislation. On accession to the European Union (the “EU”) of any Central or Eastern European country in which we operate, our broadcast operations in such country become subject to EU legislation, including regulations on the origin of programming content. The Czech Republic, Slovenia and the Slovak Republic acceded to the EU on May 1, 2004. Romania acceded to the EU on January 1, 2007.

The EU Television Without Frontiers directive (the “EU Directive”) sets out the legal framework for television broadcasting in the EU, which among other things, requires broadcasters, where “practicable and by appropriate means,” to reserve a majority of their broadcast time for “European works.” Such works are defined as originating from an EU member state or a signatory to the Council of Europe's Convention on Transfrontier Television, as well as written and produced mainly by residents of the EU or Council of Europe member states. In addition, the EU Directive requires that at least 10% of either broadcast time or programming budget is dedicated to programs made by European producers who are independent of broadcasters. News, sports, games, advertising, teletext services and teleshopping are excluded from the calculation of these quotas. Further, the EU Directive provides for regulations on advertising, including limits on the amount of time that may be devoted to advertising, including direct sales advertising. The adoption by Croatia, which is currently in EU accession negotiations, and by Romania of media legislation for privately owned broadcasters that is substantially in compliance with the EU Directive has had no material adverse effect on our operations.

Table of Contents

License Renewal

Regulatory bodies in each country in which we operate control access to the available frequencies through licensing regimes. Management believes that the licenses for our television license companies will be renewed prior to expiry. In Romania, the Slovak Republic, Slovenia and Ukraine local regulations contain a qualified presumption for extensions of broadcast licenses according to which a license may be renewed if the licensee has operated substantially in compliance with the relevant licensing regime. To date, all expiring licenses have been renewed; however, there can be no assurance that licenses will continue to be renewed upon expiration of their current terms. The failure of any such license to be renewed could adversely affect the results of our operations.

The licenses to operate our terrestrial broadcast operations are effective for the following periods:

Croatia	The license of NOVA TV (Croatia) expires in April 2010.
Czech Republic	The license of TV NOVA (Czech Republic) expires in January 2017. The GALAXIE SPORT license expires in March 2014.
Romania	Licenses expire on dates ranging from March 2007 to January 2016.
Slovak Republic	The license of MARKIZA TV in the Slovak Republic expires in September 2019.
Slovenia	The licenses of POP TV and KANAL A expire in August 2012.
Ukraine	The 15-hour prime time and off prime time license of STUDIO 1+1 expires in December 2016. The license to broadcast for the remaining nine hours in off prime expires in August 2014. Licenses held by Ukrpromtorg expire on dates ranging from November 2008 to July 2016.

OPERATIONS BY COUNTRY

CROATIA

General

Croatia is a parliamentary democracy with a population of approximately 4.4 million people. Per capita GDP is estimated to be US$ 9,318 in 2006 with a GDP growth rate of 4.8% for 2006. Technical coverage of Croatia is approximately 90%, and cable penetration is approximately 16%. According to our estimates, in local currency the Croatian television advertising market grew by approximately 2 - 5% in 2006 and was worth approximately US$ 120 - 130 million.

In Croatia, we operate one national television channel NOVA TV (Croatia). The two other national broadcasters are the public broadcaster HRT, which operates two channels, and privately owned broadcaster RTL.

Operating and License Companies

We own 100% of Nova TV (Croatia), which holds a national terrestrial broadcast license for Croatia and is responsible for our broadcasting operations in Croatia.

Table of Contents

Operations

NOVA TV (CROATIA)

Independent research shows that among the main television stations in Croatia, the NOVA TV (Croatia) channel had a national all day audience share of 15.3% and a national prime time audience share of 17.1% for 2006.

The chart below summarizes the national all day and prime time audience share figures for NOVA TV (Croatia):

	2002	2003	2004	2005	2006
All day	15.3%	15.6%	12.0%	13.6%	15.3%
Prime time	-	12.7%	10.9%	13.3%	17.1%

Source : 2006, 2005, 2004 and 2003 - AGB Media Services
Source : 2002 - CATI - phone recall research
No independent data is available for 2002 prime time.

Programming

NOVA TV (Croatia) broadcasts approximately 21 hours per day. Its programming strategy is to appeal to a commercial audience (target group 18-49) and to a broader 15+ audience as well through a wide range of programming. Last year NOVA TV's programming focus was local production, but it broadcasts other types of programming, such as movies, series, sitcoms, news, soap operas and sports.

Approximately 29% of NOVA TV's (Croatia) programming is locally produced, including a Croatian version of Nasa Mala Klinika (Our Little Clinic), a sitcom originally produced by Pro Plus in Slovenia; Nad lipom 35, a music entertainment show; and Kviskoteka, a Croatian quiz show.

NOVA TV (Croatia) has secured exclusive broadcast rights in Croatia to a variety of popular American and European series, films and soap operas produced by major international studios, including MGM, Paramount Pictures and Walt Disney Television International for the NOVA TV (Croatia) channel. All foreign language programming is subtitled. Foreign news reports and film footage licensed from Reuters, APTN and SNTV are integrated into news programs on the NOVA TV (Croatia) channel.

The NOVA TV (Croatia) channel is required to comply with several restrictions on programming, including regulations on the origin of programming. These include the requirement that 20% of broadcast time consists of locally produced programming and 60% of such locally produced programming be shown during prime time (between 6:00pm and 10:00 p.m.).

Advertising

Our Croatia operations derive revenues principally from the sale of commercial advertising time on the NOVA TV (Croatia) channel, sold both through independent agencies and media buying groups. The NOVA TV (Croatia) channel currently serves approximately 260 advertisers, including multinational companies such as Johnson & Johnson, L'Oreal, Procter & Gamble, Vipnet and Reckitt Benckiser. Our top ten advertising clients contributed approximately 39% to our total advertising revenues in Croatia in 2006.

Within the Croatian advertising market, television advertising accounts for approximately 50% of total advertising spending. NOVA TV (Croatia) competes for advertising revenues with other media such as print, radio, outdoor advertising and direct mail.

Table of Contents

Privately owned broadcasters are permitted to broadcast advertising for up to 12 minutes per hour but not more than 15% of their daily broadcast time, with an additional 5% of daily broadcast time that may be used for direct sales advertising. The public broadcaster, which is also financed through a compulsory television license fee, is restricted to broadcasting 9 minutes of advertising per hour. The public broadcaster is not permitted to broadcast spots for teleshopping. There are restrictions on the frequency of advertising breaks, which are different for public and privately owned broadcasters. There are also restrictions that relate to advertising content, including a ban on tobacco and alcohol advertising. Those are similar for public and private owned broadcasters.

Competition

At the beginning of 2004, NOVA TV (Croatia) and HRT, which was then operating three channels, were the only national broadcasters in Croatia. In April 2004, RTL launched a channel under a license issued by the Croatian government on the frequencies previously used by the public broadcaster HRT for a third channel which had ceased broadcasting earlier in 2004. We acquired Nova TV (Croatia) in July 2004. During 2006 NOVA TV (Croatia) achieved a national all day audience share of 15.3%, which made it the fourth ranked station nationally.

The chart below provides a comparison of our audience share and technical reach to our competitors:

Main Television Channels	Ownership	Year of first transmission	Signal distribution	Audience share (2006)	Technical reach
HRT 1	Public Television	1956	Terrestrial / satellite / cable	34.3%	99%
RTL	Bertelsmann	2004	Terrestrial / satellite / cable	24.6%	95%
HRT 2	Public Television	1972	Terrestrial / satellite / cable	17.8%	99%
NOVA TV (Croatia)	**CME**	**2000**	**Terrestrial / satellite / cable**	**15.3%**	**90%**
Others				8.0%	
				100.0%	

Source : AGB Puls and CME

During 2006 our technical reach increased from 88% to 90%. Additional competitors for audience share include cable and satellite channels.

Regulation and License Renewal

The NOVA TV (Croatia) channel operates pursuant to a license originally granted by the Telecommunications Agency of Croatia and is regulated by the Croatian Media Council pursuant to the Electronic Media Law and the Media Law. The license of NOVA TV (Croatia) is for a period of 10 years, expiring in April 2010. According to the Electronic Media Law a license can be extended. The Croatian Media Council has the authority to decide on an extension on the basis of a request for a renewal of a license filed six months before its expiration if a broadcaster has conducted its business in accordance with law and the license. The Croatian Media Council may hold a public tender in connection with a request to extend a license.

Table of Contents

CZECH REPUBLIC

General

The Czech Republic is a parliamentary democracy with a population of 10.2 million. Per capita GDP in 2006 is estimated to be US$ 13,971 with a GDP growth rate in 2006 of 5.9%. Approximately 97% of Czech Republic households have television and cable penetration is approximately 26%. According to our estimates, in local currency the Czech Republic television advertising market remained stable and was worth approximately US$ 310 - 320 million in 2006.

In the Czech Republic, we operate one national television channel, TV NOVA (Czech Republic), as well as a cable channel, GALAXIE SPORT, both of which were acquired in 2005. The other two national broadcasters are the public broadcaster CT, operating two channels, and privately owned broadcaster TV Prima.

Operating and License Companies

We own 100% of CET 21, which holds the national terrestrial broadcast license for TV NOVA (Czech Republic) which expires in 2017. The ownership of CET 21 is held through three shareholders: (i) CME Media Enterprises B.V.; (ii) Central European Media Enterprises II B.V.; and (iii) VILJA a.s. VILJA a.s. is wholly owned by CME Media Investments s.r.o., a wholly owned subsidiary of Central European Media Enterprises Ltd.

Effective December 31, 2006, CME Media Services s.r.o. (which provided services related to programming, production and advertising to CET 21) merged into CET 21.

Operations

TV NOVA (Czech Republic)

The TV NOVA (Czech Republic) channel reaches approximately 100% of the Czech Republic's television households. The TV NOVA (Czech Republic) channel had an average all day audience share for 2006 of 41.6% compared to 20.3% for its nearest commercial competitor, TV Prima.

The chart below summarizes the national all day and prime time audience share figures for TV NOVA (Czech Republic):

	2002	2003	2004	2005	2006
All day	44.2%	43.4%	42.2%	40.9%	41.6%
Prime time	48.3%	45.8%	44.9%	42.3%	44.5%

Source: ATO - Mediaresearch

Galaxie Sport

The GALAXIE SPORT channel broadcasts via cable high quality sports and sport-related programming in the Czech Republic and the Slovak Republic. The GALAXIE SPORT channel has secured valuable broadcast license rights to some of the most popular sports programming in its markets, including the National Hockey League, Premier League (British Football), the National Basketball Association, Major League Baseball, ATP Tennis tournaments, Formula One qualifications, motorcycle and automobile races, golf tournaments and other competitions. The GALAXIE

SPORT channel also produces daily sports news programs in the Czech and Slovak languages as well as studio interviews with guests prior to the start of live transmitted key competitions. The program schedule also contains many sport documentaries about the most attractive sports in the Czech Republic and Slovak Republic.

Table of Contents

The combined Czech Republic and Slovak Republic markets have a population of approximately 15.6 million people representing approximately 5.5 million television households. Cable passes approximately 1.6 million households in the combined markets. Galaxie Sport currently has carriage agreements with all of the largest cable distributors and with all Direct To Home distributors in the Czech Republic and Slovak Republic, reaching over 1 million subscribers.

Programming

The TV NOVA (Czech Republic) channel broadcasts 24 hours per day and has a programming strategy to appeal to a broad audience, especially during prime time, with news, movies, entertainment programs and sports highlights, and to target more specific demographics in off-peak broadcasting hours. Approximately 32% of the programming on TV NOVA (Czech Republic) is locally produced, including Televizni noviny (TV News), Cesko hleda SuperStar (Pop Idol), Ordinace v ruzove zahrade (an original Czech series) and Ulice (a daily soap opera). Televizni noviny, the nightly news program, achieves the highest ratings among all Czech television shows on a regular basis. Cesko hleda SuperStar (Pop Idol), Ordinace v ruzove zahrade (an original Czech series) and Ulice (a daily soap opera) are also among the top-rated shows in the Czech Republic.

The TV NOVA (Czech Republic) channel has secured exclusive broadcast rights in the Czech Republic to a variety of popular American and European series, films and telenovellas produced by major international studios, including DreamWorks/Paramount, Sony Pictures, MGM, Universal, IFD, Carsey-Werner, Twentieth Century Fox, Alliance Atlantis and Walt Disney/Buena Vista International Television. All foreign language programming is dubbed into the Czech language. Foreign news reports and film footage licensed from CNN, Reuters, APTN and SNTV are integrated into news programs on the TV NOVA (Czech Republic) channel.

The TV NOVA (Czech Republic) channel is required to comply with certain restrictions on programming, including regulations on the origin of programming. These include the requirements that broadcasters shall, where practicable, reserve half of their broadcasting time for European productions; reserve, where practicable, at least 10% of their broadcasting time or spend 10% of their programming budget on independent European productions; and ensure, where practicable, that at least 10% of broadcasting time is dedicated to productions made within the last five years.

Advertising

The TV NOVA (Czech Republic) channel derives revenues principally from the sale of commercial advertising time through media buying groups and independent agencies. Advertisers include large multinational firms such as Procter & Gamble, T-Mobile, Vodafone, Telefonica O2, Laboratoires Garnier and Reckitt Benckiser. The top ten advertisers on the TV NOVA (Czech Republic) channel contributed approximately 27% of its advertising revenues in 2006.

Within the Czech Republic advertising market, television accounts for approximately 40% of total advertising spending. The television advertising market in the Czech Republic has shown slow growth over the past several years compared to general economic growth rates. The TV NOVA (Czech Republic) channel competes for advertising revenues with other media, such as print, radio, outdoor advertising, internet and direct mail.

Privately owned broadcasters in the Czech Republic are permitted to broadcast advertising for up to 12 minutes per hour, but not more than 15% of total daily broadcast time. From January 1, 2007, the public broadcaster, which is also financed through a compulsory television license fee, is restricted to broadcasting advertising for a maximum of 0.5% of daily broadcast time (excluding teleshopping); and from January 1, 2008, the public broadcaster cannot broadcast advertising or teleshopping (except in respect of certain sporting or cultural events). There are restrictions on the frequency of advertising breaks during and between programs. There are also restrictions that relate to advertising content, including a ban on tobacco advertising and limitations on advertisements of alcoholic beverages.

Table of Contents

Competition

In addition to the TV NOVA (Czech Republic) channel, the Czech Republic is served by two national public television stations, CT1 and CT2, which dominated the ratings until the TV NOVA (Czech Republic) channel began broadcasting in 1994, and by the national privately owned broadcaster TV Prima (co-owned by Modern Times Group and local owners).

The chart below provides a comparison of our audience share and technical reach to our competitors:

Main Television Channels	Ownership	Year of first transmission	Signal distribution	Audience share (2006)	Technical reach
TV NOVA (Czech Republic)	**CME**	**1994**	**Terrestrial**	**41.6%**	**100%**
CT 1	Public Television	1953	Terrestrial	21.4%	100%
TV Prima	Modern Times Group/Local owners	1993	Terrestrial / satellite	20.3%	95%
CT 2	Public Television	1970	Terrestrial	9.4%	99%
Others				7.2%	
				100.0%	

Source: CME and Ceske radiokomunikace; ATO - Mediaresearch

The TV NOVA (Czech Republic) channel also competes for audience with additional foreign terrestrial television stations located in Austria, Germany, the Slovak Republic and Poland, where originating signals reach the Czech Republic, as well as with foreign satellite stations.

Regulation and License Renewal

The broadcast operations of the TV NOVA (Czech Republic) channel are subject to regulations imposed by (i) the Broadcasting Act 2001, (ii) the Act on Advertising and (iii) conditions contained in the license granted by the Czech Republic Media Council pursuant to the Broadcasting Act 2001.

According to the Broadcasting Act 2001, a television broadcasting license can be extended once for an additional twelve years. The Czech Republic Media Council has granted one extension of the TV NOVA (Czech Republic) license, which expires in January 2017.

The Czech Republic Media Council issued a decision dated December 21, 2006 confirming that CET 21's existing analogue license (No. 001/1993) is also valid for digital broadcasting and permits the company to broadcast the TV NOVA (Czech Republic) channel in the entire territory of the Czech Republic in any electronic communications network designated for terrestrial digital television broadcasting.

The GALAXIE SPORT license expires in March 2014.

ROMANIA

General

Romania, which acceded to the European Union on January 1, 2007, is a parliamentary democracy with a population of approximately 20.9 million people. Per capita GDP is estimated to be US$ 5,458 in 2006 with a GDP growth rate of 6.7% for 2006. Approximately 91% of Romanian households have television and cable penetration is approximately 61%. According to our estimates, the Romanian television advertising market grew by approximately 35 - 40% in 2006, and was worth approximately US$ 235 - 245 million.

Table of Contents

We operate three television channels in Romania, PRO TV, ACASA and PRO CINEMA as well as PRO TV INTERNATIONAL, a channel distributed by satellite to Romanians outside the country featuring programs rebroadcast from our Romanian channels. The two other significant national broadcasters in Romania are the public broadcaster TVR, operating two channels, and privately owned broadcaster Antena 1.

Operating and License Companies

Pro TV, which holds all broadcasting licenses for the PRO TV, ACASA and PRO CINEMA channels, is primarily responsible for broadcasting operations for the PRO TV, ACASA, PRO TV INTERNATIONAL and PRO CINEMA channels. MPI provides various broadcasting services to Pro TV. Media Vision provides production, dubbing and subtitling services to our Romanian television channels.

Operations

PRO TV, ACASA, PRO CINEMA and PRO TV INTERNATIONAL

PRO TV was launched in December 1995. PRO TV reaches approximately 82% of the Romanian population, including almost 93% of urban areas. PRO TV broadcasts from studios located in Bucharest to terrestrial broadcast facilities and to approximately 790 cable systems throughout Romania. The PRO TV channel is currently the top-rated television channel in its coverage area and had a national all day audience share of 15.6% during 2006, which made it second (of 28 ranked stations) in Romania. Advertisers, however, evaluate audience share within a channel's coverage area (18-49) and by this measure PRO TV was ranked first. On June 20, 2006 PRO TV was awarded a temporary digital license for Bucharest. PRO TV began to broadcast in High Definition in the Bucharest area on December 1, 2006 using this license and is the first television station in Central and Eastern Europe to do so.

The ACASA channel, a cable channel launched in 1998, reaches approximately 73% of Romanian television households and 85% of urban households. During 2005, ACASA had a national all day audience share of 7.7%, which made it fourth (of 28 ranked stations) in Romania. ACASA is also ranked third in terms of all day audience share in its coverage area (15-49 Female Urban Area).

PRO CINEMA, a cable channel launched in April 2004, reaches approximately 53% of Romanian television households and approximately 73% of urban households. In 2006, PRO CINEMA had a national all day audience of 1.0%, which made it 16th (of 28 ranked stations) in Romania.

Table of Contents

The chart below summarizes the national all day and prime time audience share figures for our Romanian channels:

	2002	2003	2004	2005	2006
PRO TV					
All day	14.9%	15.4%	15.8%	15.7%	15.6%
Prime time	16.3%	17.1%	17.2%	16.6%	17.0%
ACASA					
All day	6.0%	6.6%	7.4%	8.1%	7.7%
Prime time	6.8%	7.8%	7.7%	9.1%	8.1%
PRO CINEMA					
All day	-	-	0.6%	0.8%	1.0%
Prime time	-	-	0.6%	0.7%	0.9%

Source: Peoplemeters Taylor Nelson Sofres

The PRO TV INTERNATIONAL channel is a channel that rebroadcasts PRO TV and ACASA programs to cable and satellite operators in North America, Europe and in Israel, using the existing PRO TV and ACASA satellite infrastructure.

Programming

The PRO TV channel broadcasts 24 hour per day and has a programming strategy to appeal to a broad audience through a wide range of programming, including movies and series, news, sitcoms, police series, soap operas and game shows. More than 40% of PRO TV's programming is comprised of locally produced programming, including news and sports programs as well as Dancing For A Dream and La Bloc (In the Apartment Block). Dancing For A Dream and La Bloc were among the top-rated shows in 2006.

The PRO TV channel has secured exclusive broadcast rights in Romania to a variety of popular American and European programs and films produced by such companies as Warner Bros. and DreamWorks/Paramount. The PRO TV channel also licenses foreign news reports and film footage from Reuters, APTN and ENEX to integrate into its news programs. All foreign language programs and films are subtitled in Romanian.

In 2006, Pro TV was required to comply with several restrictions on programming including that 30% of all material be locally produced. Future requirements will include new regulations on the origin of programming arising from Romania’s entry into the European Union, including requirements that 50% of all programming be of European origin and that 10% of all programming be supplied by independent European producers. The Media Law stipulates that compliance with these and similar provisions are not required prior to January 1, 2008.

The ACASA channel broadcasts 24 hours per day and targets a female audience with programming including telenovellas, films and soap operas as well as news, daily local productions for women and family, talk shows and entertainment. ACASA's audience demographics are complementary to PRO TV's, providing an attractive advertising platform for advertisers across our group of channels. Approximately 31% of ACASA’s programming is locally produced, including Iubire ca in filme (Movie like Romance), Povestiri Adevarate (True Stories) and Daria, iubirea mea (Daria, my Love). Lacrimi de iubire (Tears of Love), also locally produced ,was one of the top-rated shows in 2006.

PRO CINEMA broadcasts 24 hours per day and is focused on movies, series and documentaries that would not attract sufficient audiences to air them on PRO TV but are still popular among the educated, upwardly mobile urban

population which is an attractive advertising target group.

Table of Contents

Advertising

Our Romania operations derive revenues principally from the sale of commercial advertising time on the PRO TV, ACASA and PRO CINEMA channels, sold both through independent agencies and media buying groups. The PRO TV channel currently serves approximately 200 advertisers, including multinational companies such as Unilever, L'Oreal, Nestle, Procter & Gamble, Danone and Coca Cola. Our top ten advertising clients contributed approximately 31% to our total advertising revenues in Romania in 2006.

Within the Romanian advertising market, television accounts for approximately 60% of total advertising spending. Television competes for advertising revenues with other media such as print, radio, outdoor advertising and direct mail.

Privately owned broadcasters are permitted to broadcast advertising for up to 12 minutes per hour but not more then 15% of their daily broadcast time, and an additional 5% of daily broadcast time may be used for direct sales advertising. The public broadcaster, which is also financed through a compulsory television license fee, is restricted to broadcasting advertising for 8 minutes per hour. There are also restrictions on the frequency of advertising breaks (for example, news and children's programs shorter than 30 minutes cannot be interrupted). These restrictions apply to both public and privately owned broadcasters. Further restrictions relate to advertising content, including a ban on tobacco advertising and restrictions on alcohol advertising and regulations on advertising targeted at children or during children's programming. In addition, members of the news department of PRO TV are prohibited from appearing in advertisements.

Competition

Prior to the launch of the PRO TV channel, TVR 1, a channel of the public broadcaster, was the dominant channel in Romania. During 2006, PRO TV and ACASA achieved national all day audience shares of 15.6% and 7.7% respectively, ranking them second and fourth in national all day audience share. PRO CINEMA achieved an audience share of 1% during 2006. TVR 1's continued leading national position reflects its higher technical reach, to approximately 99% of the Romanian population, including areas in which it is the only significant broadcaster, compared to a 82% technical reach for PRO TV and 73% for ACASA (as a cable channel based on relevant cable penetration). Within our coverage area, PRO TV is first and ACASA is third in terms of all day audience share for 2006. Other competitors include the second channel of the public broadcaster, TVR 2, and privately owned broadcasters Antena 1 and Prima TV.

The chart below provides a comparison of our audience share and technical reach to our main competitors:

Table of Contents

Main Television Channels	Ownership	Year of first transmission	Signal distribution	Audience share (2006)	Technical reach
TVR 1	Public Television	1956	Terrestrial / satellite / cable	16.8%	99%
PRO TV	**CME**	**1995**	**Terrestrial / satellite / cable**	**15.6%**	**82%**
Antena 1	Local owner	1993	Terrestrial / satellite / cable	13.4%	82%
ACASA	**CME**	**1998**	**Satellite / cable**	**7.7%**	**73%**
TVR 2	Public Television	1968	Terrestrial / satellite / cable	5.3%	94%
Prima TV	SBS	1994	Terrestrial / satellite / cable	4.2%	79%
PRO CINEMA	**CME**	**2004**	**Satellite / cable**	**1.0%**	**53%**
Others				36.0%	
				100.0%	

Source : Peoplemeters Taylor Nelson Sofres

Additional competitors include cable and satellite stations.

Regulation and License Renewal

PRO TV, ACASA and PRO CINEMA operate pursuant to licenses and regulations issued by the Romanian Media Council. Pro TV holds all of the local television licenses for the PRO TV channel, the licenses for the PRO TV INTERNATIONAL channel and the cable broadcasting licenses for ACASA and PRO CINEMA. To date, licenses have been renewed as they expire. The terrestrial television license for Bucharest was renewed in October 2003 for a further nine years. The remaining broadcasting licenses expire on dates ranging from March 2007 to January 2016.

Ownership

We own a 90% voting and economic interest in Pro TV; Adrian Sarbu, the general director of our Romania operations, owns the remaining 10% voting and economic interests of Pro TV. During 2006 we increased our voting and economic interest from 85% to 90% following the sale by Adrian Sarbu of a 5% interest on February 17, 2006 (for further information, see Item 8, Note 4, "Acquisitions and Disposals, Romania").

Our interest in our Romania operations is generally governed by a Co-operation Agreement entered into by Adrian Sarbu and ourselves. The articles of Pro TV replicate the governing bodies and minority shareholder protective rights that exist in the Co-operation Agreement. We have the right to appoint three of the five members of the Council of Administration that directs the affairs of Pro TV and MPI. Although we have majority voting power in Pro TV and MPI, the affirmative vote of Adrian Sarbu is required with respect to certain financial and corporate matters. The financial and corporate matters which require approval of the minority shareholder are in the nature of protective rights, which are not an impediment to consolidation for accounting purposes.

We have a 75% voting and economic interest in Media Vision. The remainder is owned by Adrian Sarbu.

We also have a put option agreement with Adrian Sarbu that grants him the right to sell us his remaining interest in Pro TV and MPI from November 12, 2009 for a twenty-year period thereafter.

Table of Contents

Media Pro

On August 11, 2006, we acquired a 10.0% interest in each of Media Pro B.V. and Media Pro Management S.A., the parent companies of the Media Pro group of companies ("Media Pro"). Substantially all of the remaining shares of Media Pro are owned directly or indirectly by Adrian Sarbu. Media Pro comprises a number of Romanian companies with operations in the fields of publishing, information, printing, cinema, entertainment and radio (for further information, see Item 8, Note 6, "Investments").

TV Sport

On December 14, 2006, we acquired a 20.0% interest in Sport Radio TV Media S.R.L. ("TV Sport"), a male sports-oriented channel focusing on local and international football, international boxing and a number of local Romanian sports. On February 20, 2007 we acquired control of TV Sport by acquiring an additional 50.0% interest and agreed to acquire the remaining 30.0% in March 2007, subject to Media Council consent. For further information, see Item 8, Note 6, "Investments" and Item 8, Note 23, "Subsequent Events".

SLOVAK REPUBLIC

General

The Slovak Republic is a parliamentary democracy with a population of approximately 5.4 million people. Per capita GDP is estimated to be US$ 10,231 in 2006 with a GDP growth rate of 7.9% in 2006. Approximately 99% of households have television and cable penetration is 39%. According to our estimates, in local currency the Slovak Republic television advertising market grew by approximately 5 - 7% in 2006 and was worth approximately US$ 105 - 115 million.

In the Slovak Republic, we operate one national television channel, MARKIZA TV. The two other significant national broadcasters are the public broadcaster STV, operating two channels, and privately owned broadcaster TV JOJ.

Operating and License Companies

Markiza holds the television broadcast license for MARKIZA TV. Markiza and our operating company, STS, had entered into a series of agreements pursuant to which STS was permitted to conduct certain television broadcast operations for MARKIZA TV in accordance with the license. Effective January 1, 2007, STS merged into Markiza to form a combined operating and license company.

Operations

MARKIZA TV was launched as a national television channel in the Slovak Republic in August 1996. The MARKIZA TV channel reaches approximately 86% of the Slovak Republic's population, including all of its major cities. The MARKIZA TV channel had an average national all day audience share for 2006 of 33.8% versus 18.4% for its nearest competitor, STV 1. In October 2004, the journal method of measuring audience share and ratings was replaced with peoplemeters (an electronic audience measurement device). The introduction of peoplemeters has resulted in lower audience share and ratings being recorded for all national broadcasters (see Item 7, "Analysis of Segment Results, Slovak Republic"). Since the introduction of peoplemeters, the national all day audience share of MARKIZA TV has fallen from 40% to 34%.

Table of Contents

The chart below summarizes national all day and prime time audience share figures for MARKIZA TV:

	2002	2003	2004	2005	2006
All day	48.2%	45.8%	39.6%	31.1%	33.8%
Prime time	47.4%	45.5%	40.0%	32.8%	35.9%

Source: TNS

Programming

The MARKIZA TV channel broadcasts 24 hours per day and has a programming strategy to appeal to a broad audience through news, movies, entertainment and sports programming, with specific groups targeted in off-peak broadcasting hours. Approximately 31% of MARKIZA TV programming is locally produced, including Televizne noviny (TV News), Sportove noviny (Sports News), Let's dance, Susedia (Neighbors), Nevesta pre milionara (Bachelor). Televizne noviny is consistently the top-ranked show in the Slovak Republic. Let's dance and Susedia were also among the most popular shows in 2006.

MARKIZA TV channel has secured exclusive broadcast rights to a variety of popular American and European series, films and telenovellas produced by major international studios including Warner Bros, NBC Universal, CBS Paramount, Dreamworks/Paramount, Grandview-Castle, and Buena Vista. All foreign language programming (other than that in the Czech language) is dubbed into the Slovak language. Foreign news reports and film footage licensed from CNN, Reuters, APTN and SNTV are integrated into news programs on the MARKIZA TV channel.

Markiza is required to comply with several restrictions on programming, including regulations on the origin of programming. These include the requirement that a minimum of 10% of programming be public interest programming (which includes news and topical shows), that a minimum of 51% of first runs of films and series be European production, and that no more than 20% of foreign programming be dubbed in the Czech language.

Advertising

The MARKIZA TV channel derives revenues principally from the sale of commercial advertising time through media buying groups and independent agencies. Advertisers include large multinational firms such as T-Com / T-Mobile, Orange, Benckiser, Procter & Gamble, L'Oreal, Unilever, Nestle and Ferrero, though no one advertiser dominates the market. Our top ten advertisers contributed approximately 33% to our total advertising revenues in the Slovak Republic in 2006.

Within the Slovak advertising market, television accounts for approximately 50% of total advertising spending. MARKIZA TV also competes for advertising revenues with other media, such as print, radio, outdoor advertising and direct mail.

Privately owned broadcasters are permitted to broadcast advertising for up to 12 minutes per hour but not more than 15% of total daily broadcast time. The public broadcaster, which is also financed through a compulsory license fee, is restricted to broadcasting 8 minutes of advertising per hour but not more than 3% of total broadcast time. There are restrictions on the frequency of advertising breaks during and between programs. These restrictions are the same for public and privately owned broadcasters. There are also restrictions that relate to advertising content, including a ban on tobacco advertising and a ban on advertisements of alcoholic beverages (excluding beer) between 6:00 am and 10:00 pm.

Competition

In addition to MARKIZA TV, the Slovak Republic is served by two national public television stations, STV1 and STV2, which dominated the ratings until the MARKIZA TV channel began broadcasting in 1996. STV1 reaches almost the entire Slovak population. MARKIZA TV also competes with the privately owned broadcaster TV JOJ.

Table of Contents

The chart below provides a comparison of our audience share and technical reach to our competitors:

Main Television Channels	Ownership	Year of first transmission	Signal distribution	Audience share (2006)	Technical reach
MARKIZA TV	**CME**	**1996**	**Terrestrial**	**33.8%**	**86%**
STV 1	Public Television	1956	Terrestrial	18.4%	99%
TV JOJ	Local owner	2002	Terrestrial	15.6%	73%
STV 2	Public Television	1969	Terrestrial	6.2%	97%
Others				26.0%	
				100.0%	

Source : Informa Telecoms and Media, Visio / MVK, PMT / TNS SK and CME

The MARKIZA TV channel also competes with additional foreign terrestrial television stations located in Austria, the Czech Republic and Hungary, where originating signals reach the Slovak Republic, and foreign satellite stations.

Regulation and License Renewal

MARKIZA TV's broadcast operations are subject to regulations imposed by (i) the Act on Broadcasting and Retransmission of September 2000, (ii) the Act on Advertising and (iii) conditions contained in the license granted by the Slovak Republic Media Council pursuant to the Act on Broadcasting and Retransmission.

The current broadcasting license for MARKIZA TV expires in September 2019.

Ownership

On January 23, 2006, we acquired control of our Slovak Republic operations and increased our economic interest from 70% to 80%. Following the merger of STS into Markiza on January 1, 2007, we now own an 80.0% voting and economic interest in Markiza (see Item 7, "Analysis by Geographic Segment, Slovak Republic").

We appoint three of the five members of the Board of Representatives, with the other two members being appointed by our partners. All significant financial and operational decisions of the Board of Representatives require a simple majority vote. Three executives, two of whom are appointed by us, conduct the affairs of Markiza.

SLOVENIA

General

Slovenia is a parliamentary democracy with a population of 2.0 million people. Per capita GDP is estimated to be US$ 18,342 in 2006, the highest per capita GDP in Central and Eastern Europe, with a GDP growth rate of 5.0% for 2006. Approximately 99% of Slovenian households have television and cable penetration is approximately 61%. According to our estimates, in local currency the Slovenian television advertising market grew by approximately 6 - 8% during 2006 and was worth approximately US$ 65 - 75 million.

Table of Contents

In Slovenia, we operate two national television channels, POP TV and KANAL A. The other significant national broadcasters are the public broadcaster, operating as SLO 1 and SLO 2.

Operating and License Companies

Pro Plus provides programming to and sells advertising for the broadcast license holders of Pop TV and Kanal A. Pop TV holds all of the licenses for the POP TV channel and Kanal A holds all the licenses for the KANAL A channel.

Operations

POP TV and KANAL A

The POP TV channel is the leading national commercial television broadcaster in Slovenia and reaches approximately 93% of the population, including the capital Ljubljana and Maribor, Slovenia's second largest city. In 2006, the POP TV channel had a national all day audience share of 28.7% the largest in Slovenia.

The KANAL A channel reaches 90% of the population, including Ljubljana and Maribor. Independent research shows that among main television stations in 2006, the KANAL A channel had an all day audience share of 9.0% making it the third most watched television channel in Slovenia.

The chart below summarizes the national all day and prime time audience share figures for POP TV and KANAL A:

	2002	2003	2004	2005	2006
POP TV					
All day	29.2%	29.5%	27.6%	27.3%	28.7%
Prime time	32.3%	34.0%	31.9%	32.2%	34.3%
KANAL A					
All day	11.0%	10.2%	8.3%	8.5%	9.0%
Prime time	11.0%	10.9%	9.4%	9.8%	9.9%

Source: AGB Nielsen Media Research

Programming

POP TV broadcasts 18 hours per day and has a programming strategy to appeal to a broad audience through a wide variety of programming including series, movies, news, variety and game shows and features. Approximately 33% of programming is locally produced, including Preverjeno! (Confirmed!), Trenja (Friction), the local series Nasa Mala Klinika (Our Little Clinic) and the reality show The Bar. KANAL A broadcasts for 16 hours per day and has a programming strategy to complement that of the POP TV channel with a mixture of locally produced programs such as Extra Magazine and E+ and acquired foreign programs, including films and series.

Pro Plus has secured exclusive program rights in Slovenia to a variety of successful American and Western European programs and films produced by studios such as Warner Bros., Twentieth Century Fox and Paramount. Pro Plus has agreements with CNN, Reuters and APTN to receive foreign news reports and film footage to integrate into news programs. All foreign language programs and films are subtitled in Slovenian with the exception of some children’s programming that is dubbed.

Table of Contents

Pop TV and Kanal A are required to comply with several restrictions on programming, including regulations on the origin of programming. These include the requirement that 20% of a station's daily programming consist of locally produced programming, of which at least 60 minutes must be broadcast between 6:00 pm and 10:00 pm. Two percent of the station's annual broadcast time must be Slovenian origin audio-visual works and this amount must increase each year until it reaches five percent of annual broadcast time. In the future a majority, increased from the current 20%, of the station's annual broadcast time will be required to be European origin programming. Furthermore, 10% of the station’s annual broadcast time should be devoted to programs made by European producers who are independent of broadcasters, and 50% of such works should have been produced in the last five years.

Advertising

Pro Plus derives revenues from the sale of commercial advertising time on the POP TV and KANAL A channels. Current multinational advertisers include firms such as Reckitt Benckiser, Procter & Gamble, Mobitel, L’Oreal, Wrigley, Henkel and Beiersdorf, although no advertiser dominates the market. Our top ten advertisers contributed approximately 33% to our total advertising revenues in Slovenia in 2006.

Within the Slovenian advertising market, television accounts for approximately 57% of total advertising spending. In addition, the POP TV and KANAL A channels compete for revenues with other media, such as print, radio, outdoor advertising, the internet and direct mail.

Privately owned broadcasters are allowed to broadcast advertising for up to 12 minutes in any hour and for up to 20% of daily broadcasting time (with 15% for advertisements only). The public broadcaster, which is also financed through a compulsory television license fee, is allowed to broadcast advertising for up to 12 minutes per hour and for up to 15% of daily broadcasting time (with 10% for advertisements only), but is only permitted up to 9 minutes per hour between the hours of 6.00pm and 11.00pm.

There are restrictions on the frequency of advertising breaks during programs. There are also restrictions that relate to advertising content, including a ban on tobacco advertising and a prohibition on the advertising of any alcoholic beverages from 7.00 am to 9.30 pm and generally for alcoholic beverages with an alcoholic content of more than 15%.

Competition

Prior to the launch of POP TV, the television market in Slovenia had been dominated by SLO 1, a channel of the public broadcaster.

The chart below provides a comparison of our audience share and technical reach to our competitors:

Main Television Channels	Ownership	Year of first transmission	Signal distribution	Audience share (2006)	Technical reach
POP TV	**CME**	**1995**	**Terrestrial / cable**	**28.7%**	**93%**
SLO 1	Public Television	1958	Terrestrial / satellite / cable	23.1%	100%
SLO 2	Public Television	1967	Terrestrial / satellite / cable	8.9%	99%
KANAL A	**CME**	**1991**	**Terrestrial / cable**	**9.0%**	**90%**
Others				30.3%	
				100.0%	

Source : Media Services AGB and CME Research

The POP TV and KANAL A channels also compete with foreign television stations, particularly Croatian, Italian, German and Austrian stations. Cable penetration is 61%, which is greater than many other countries in Central and Eastern Europe, and approximately 18% of households have satellite television.

Regulation and License Renewal

The POP TV and KANAL A channels operate under licenses regulated pursuant to the Law on Media adopted in 2001 and pursuant to the Electronic Communications Act which came into effect on May 1, 2004. According to the Electronic Communications Act, the Slovenian Media Council may extend a license at the request of the broadcaster if it is in compliance with all the license conditions. In 2002 the Slovenian Media Council extended all of the licenses held by Pop TV and Kanal A until August 2012.

Ownership

We own 100% of the voting and economic interests in Pro Plus, the operating company for our Slovenia operations. Pro Plus has a 100% voting and economic interest in Pop TV, which holds the licenses for the POP TV network, and Kanal A, which holds the licenses for the KANAL A network. All such licenses expire in August 2012.

UKRAINE

General

Ukraine, the most populous market served by us, is a parliamentary democracy with a population of 46.7 million people. Per capita GDP is estimated to be US$ 2,027 in 2006, the lowest of all our markets, with a GDP growth rate in 2006 of 6.0%. Nearly 100% of Ukrainian households have television and cable penetration is approximately 19%. According to our estimates, the Ukrainian television advertising market grew by approximately 25 - 30% in 2006 and was worth approximately US$ 240 - 250 million.

In Ukraine, we operate one national television channel, STUDIO 1+1, and two local channels, KINO and CITI. The other five significant national broadcasters are the public broadcaster UT-1 as well as privately owned broadcasters Inter, Novy Kanal, ICTV and STB.

Table of Contents

Operating and License Companies

The Studio 1+1 Group is comprised of several entities involved in the broadcasting operations of Studio 1+1, the license company. Innova and TV Media Planet provide programming and production services to Studio 1+1. The sale of Studio 1+1's advertising has been outsourced to Video International Group, a Ukrainian subsidiary of a Russian advertising sales company, in which we have neither an economic nor a voting interest. CME Cyprus Holdings provides programming to KINO and CITI.

On January 11, 2006, we acquired a 65.5% interest in Ukrpromtorg 2003 LLC ("Ukrpromtorg"), which owns (i) 92.2% of Gravis LLC, which now operates the local channels, KINO (which replaced CHANNEL 7) and CITI (which replaced CHANNEL 35); (ii) 100% of Nart LLC, which holds a satellite broadcasting license; and (iii) 75% of Stimul LLC, which operates TV STIMUL. In July 2006, we launched a new entertainment channel, KINO, targeted at a younger demographic with coverage in Kiev and several regions in Ukraine, and in December 2006, we launched a new youth-oriented channel in Kiev, CITI, on the frequencies we acquired.

Operations

STUDIO 1+1

The STUDIO 1+1 channel broadcasts programming and sells advertising under two licenses granted to it by the National Council for Radio and Television Broadcasting on Ukrainian National Frequency Two ("UT-2") and reaches approximately 98% of Ukraine's population. The STUDIO 1+1 channel began broadcasting on UT-2 in 1995 under a license permitting 15 hours of broadcasting per day, primarily in prime time and off prime time. In July 2004, the station was awarded a second license allowing it to broadcast for the remaining nine hours not covered by the station's 15-hour license. STUDIO 1+1 has been broadcasting a full 24-hour schedule since early September 2004. The STUDIO 1+1 channel had a national all day audience share of 18.3% in 2006 and a 23.1% prime time audience share.

The chart below summarizes the national all day and prime time audience share figures for STUDIO 1+1:

	2002	2003	2004	2005	2006
All day	22.2%	19.1%	20.9%	20.0%	18.3%
Prime time	27.4%	25.8%	26.9%	22.2%	23.1%

Source: GFK USM

Both the KINO and CITI channels broadcast programming and sell advertising. The KINO channel holds licenses covering 8 cities for terrestrial broadcasting and a satellite license. The KINO channel was relaunched in July 2006, across a network of regional stations and cable operators, through which it reaches approximately 41.3% of the population. The KINO channel broadcasts for 24 hours per day. The CITI channel broadcasts to the city of Kiev and the Kiev region for 24 hours per day.

Programming

STUDIO 1+1 has a programming strategy to appeal to a broad audience through a wide variety of programming, including series (popular Russian police and action series in particular), movies and locally produced Ukrainian shows, features and news. In 2006, approximately 45% of programming for prime-time broadcasting hours were either in-house or out-sourced Ukranian production, which consists primarily of news broadcasts and news related programs, entertainment shows and TV series of various genres.

Table of Contents

The Studio 1+1 Group has secured exclusive territorial or local language broadcast rights in Ukraine to a variety of successful high quality Russian, American and Western European programs and films from many of the major studios, including Warner Bros., Paramount, Universal and Columbia. Studio 1+1 has agreements with Reuters for foreign news packages and other footage to be integrated into its programming. Most non-Ukrainian language programs and films (including those in the Russian language) are dubbed or subtitled in Ukrainian.

KINO is a youth-orientated channel which has a programming strategy designed to attract a target demographic of 14-35. It offers feature films, series, animation and other entertainment programming, much of which is acquired from Western sources.

CITI, which targets the inhabitants of Kiev in the 18-50 age group, broadcasts mainly own-produced shows, may of which are live. This includes local news, and programs on Kiev culture, business and community.

Studio 1+1, KINO and CITI are required to comply with certain restrictions on programming, including regulations on the origin of programming. These include the requirement that 75% of all programming must be in the Ukrainian language, dubbed or have Ukranian subtitles.

In March 2006, amendments to the Ukrainian Media Law came into force, including modifications to the regulations on the origin of programming which now require that at least 50% of programming broadcast by Studio 1+1, KINO and CITI be of Ukrainian origin.

Advertising

Within the Ukranian advertising market, television accounts for approximately 53% of total advertising spending. STUDIO 1+1, KINO and CITI also compete for advertising revenues with other media, such as print, radio, outdoor advertising and direct mail.

The Studio 1+1 Group derives revenues principally from the sale of commercial advertising time through both media buying groups and independent agencies. Video International sells advertising for the Studio 1+1 Group. Advertisers include large multinational firms such as Procter & Gamble, Kraft Foods, Unilever, Samsung, Mars, Sony, L'Oreal, Nestle and Baltic Beverage Holding. STUDIO 1+1 top ten advertising clients contributed approximately 42% to STUDIO 1+1's total advertising revenues in 2006.

KINO and CITI derived approximately half of their revenues from the sale of commercial advertising time. KINO targets smaller national advertisers and CITI aims to attract Kiev-based clients.

Within the Ukrainian advertising market, television accounts for approximately 53% of total advertising spending. STUDIO 1+1 also competes for advertising revenues with other media, such as print, radio, outdoor advertising and direct mail.

Privately owned broadcasters are allowed to broadcast advertising for 15% of their total broadcast time. The public broadcaster, which is also financed through a compulsory license fee, is subject to the same restrictions on advertising time. There are restrictions on the frequency of advertising breaks both during and between programs. There are also restrictions that relate to advertising content, including a ban on tobacco advertising and a prohibition on the advertising of alcoholic beverages before 11:00 pm.

Competition

Three national television channels serve Ukraine: the public broadcaster UT-1, STUDIO 1+1, and Inter, another privately owned broadcaster. In addition, ICTV, STB and Novy Kanal, which are all privately owned broadcasters, have used a series of regional frequencies to establish national networks. Inter is the main competitor of STUDIO 1+1.

Table of Contents

The chart below provides a comparison of STUDIO 1+1's audience share and technical reach to our competitors:

Main Television Channels	Ownership	Year of first transmission	Signal distribution	Audience share (2006)	Technical reach
Inter	Local owners	1996	Terrestrial / satellite / cable	20.4%	99%
STUDIO 1+1	**CME**	**1995**	**Terrestrial / satellite / cable**	**18.3%**	**95%**
Novy Kanal	Local owners	1998	Terrestrial	8.4%	88%
ICTV	Local owners	1992	Terrestrial	7.3%	90%
STB	Local owners	1997	Terrestrial	6.0%	89%
UT-1	Public Television	1965	Terrestrial / cable	2.1%	96%
Others				37.5%	
				100.0%	

Source : GFK USM and CME Research

KINO and CITI, both of which target a youthful market have as their main competitors ICTV, TONIS and NTN. KINO has a technical reach of approximately 41.3% of the Ukraine population and since being launched in July 2006 has achieved a national 14 - 49 prime time audience share of 0.33%, and an average share in the Kiev region of 1.87%. CITI, broadcasting to the city of Kiev and the Kiev region, has a technical reach of 11.7% of the Ukraine population. CITI began broadcasting in December 2006 and in that month achieved an average 14 - 49 prime time audience share in the Kiev region of 1.77%.

License Renewal

Licenses in Ukraine are renewed by the National Council for Radio and Television Broadcasting in accordance with the terms of the 1993 Media Law, as amended in March 2006. On December 29, 2006, the Ukrainian Media Council issued a new license to Studio 1+1 that extends its main 15-hour broadcast license, covering prime time and off prime time, until December 29, 2016. The remaining nine hours of Studio 1+1's off prime time schedule are broadcast pursuant to a 10-year broadcast license expiring in August 2014.

Ownership

The Studio 1+1 Group consists of several entities in which we hold direct or indirect interests. We hold a 60% ownership and economic interest in each of Innova, IMS and TV Media Planet. Innova owns 100% of Inter-Media, a Ukrainian company, which in turn holds a 30% interest in Studio 1+1.

Our indirect ownership interest in Studio 1+1 is 18%. On December 30, 2004, we entered into an additional agreement with Boris Fuchsmann, Alexander Rodnyansky and Studio 1+1, which re-affirms our entitlement to 60% of any distribution from Studio 1+1 to its shareholders until such time as Ukrainian legislation allows us to increase our voting and economic interest in Studio 1+1 to 60%. Following amendments to the Ukrainian Media Law in March 2006 that permit majority indirect foreign ownership, our partners entered into agreements with us to restructure the ownership of Studio 1+1 in order to permit CME to hold a 60% indirect interest in Studio 1+1 (see Item 3, "Legal Proceedings, Ukraine").

Table of Contents

CORPORATE OPERATIONS

In addition to group management and corporate administration, our central organization provides oversight and support to our television operations. The functions include treasury, internal audit, financial planning and analysis, financial control and legal services.

SEASONALITY

We, like other television operators, experience seasonality, with advertising sales tending to be lowest during the third quarter of each calendar year due to the summer holiday period (typically July and August), and highest during the fourth quarter of each calendar year. See Item 6, "Selected Financial Data" for further discussion.

EMPLOYEES

As of February 20, 2007, our operating companies had a total of approximately 3,300 employees (including freelance staff and contractors) and we had a corporate staff of 47 employees in London and Amsterdam. None of our employees or the employees of any of our subsidiaries are covered by a collective bargaining agreement. We believe that our relations with our employees are good.

FINANCIAL INFORMATION BY OPERATING SEGMENT AND BY GEOGRAPHICAL AREA

For financial information by operating segment and geographic area, see Item 8, Note 19, "Segment Data".

Table of Contents

ITEM 1A. RISK FACTORS

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties. See “Forward-looking Statements” in Item 1. Our actual results in the future could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Annual Report on Form 10-K.

Risks Relating to our Operations

Our operations are in developing markets where there is a risk of economic uncertainty, biased treatment and loss of business

Our revenue generating operations are located in Central and Eastern Europe. These markets pose different risks from those posed by investments in more developed markets and the impact in our markets of unforeseen circumstances on economic, political or social life is greater. Countries in this region have economic and political systems, legal and tax regimes, standards of corporate governance and business practices that continue to develop. Government policies may be subject to significant adjustments, especially in the event of a change in leadership, which may result in social or political instability or disruptions, potential political influence on the media, inconsistent application of tax and legal regulations, arbitrary treatment before judicial or other regulatory authorities and other general business risks. Other potential risks inherent in markets such as ours with changing economic and political environments include exchange controls, higher tariffs and other levies, as well as longer payment cycles.

The relative level of development of our markets and the influence of local parties also presents a potential for biased treatment of us before regulators or courts in our markets in the event of disputes involving our investments. If such a dispute occurs, those regulators or courts might favor local interests over our interests. Ultimately, this could lead to loss of our business operations, as occurred in the Czech Republic in 1999. We are involved in certain disputes with some of the former shareholders of our Croatia operations and some of these shareholders may also challenge a restructuring that we have undertaken in response to a request from the Croatian Media Council. The ability of certain of these shareholders to exert influence on local institutions may create a potential for biased treatment of us. An adverse outcome in the Global Communications lawsuit (see Item 3, “Legal Proceedings, Croatia”) or a successful challenge to the restructuring could have an adverse impact on our financial position, results of operations and cash flows.

Our broadcasting licenses may not be renewed and may be subject to revocation

We require broadcasting and, in some cases, other operating licenses as well as other authorizations from national regulatory authorities in our markets in order to conduct our broadcasting business. We cannot guarantee that our current licenses or other authorizations will be renewed or extended, or that they will not be subject to revocation, particularly in Ukraine, where there is relatively greater political risk as a result of less developed political and legal institutions. The failure to comply in all material respects with the terms of broadcasting licenses or other authorizations or with applications filed in respect thereto may result in such licenses or other authorizations not being renewed or otherwise being terminated. Furthermore, no assurances can be given that renewals or extensions of existing licenses will be issued on the same terms as existing licenses or that further restrictions or conditions will not be imposed in the future.

Our current broadcasting licenses expire at various times between 2007 and 2017. Any non-renewal or termination of any other broadcasting or operating licenses or other authorizations or material modification of the terms of any renewed licenses may have a material adverse effect on our financial position, results of operations and cash flows.

Table of Contents

We do not have management control of our affiliate in Ukraine

We own our operations in Ukraine jointly with our partners through subsidiaries and affiliates. In Studio 1+1, we hold only an indirect 18% ownership interest. As a result, we do not have an ownership interest that is sufficient to allow us to assert management control or unilaterally direct the strategies, operations and financial decisions of this company. Therefore, our ability to implement all financial reporting and management processes that exist in our other operations requires the active cooperation of our partners. Their consent is also required for decisions affecting the acquisition of programming, investment in production, retention and dismissal of key employees as well as other operational issues, including ensuring compliance with relevant tax and other obligations of Studio 1+1. Our inability to obtain any required consent may result in Studio 1+1 being in breach of such tax or other obligations or may result in decisions being adopted that do not fully reflect our strategic objectives, which may have an adverse impact on our financial position, results of operations and cashflows.

We may not be aware of all related party transactions; such transactions may involve risks of conflicts of interest and of concluding transactions on less favorable terms than could be obtained in arms length transactions

In Romania, the Slovak Republic and Ukraine, the local shareholders and/or general directors of our television operating companies are individuals with other business interests in those countries, including interests in television and other media related companies. Our local operating companies' transactions with the businesses, whether or not we are aware that our local shareholders and general directors have an interest therein, may present conflicts of interests that may in turn result in the conclusion of transactions on terms that are not arms length. Experience has shown that some related party receivables have been collected more slowly than unrelated third party receivables, which has resulted in slower cash flow to our operating companies to the detriment of our shareholders. It is likely that our subsidiaries will continue to enter into related party transactions in the future. As a result, there is a risk that related party transactions may be entered into on terms that are not arms length, which may result in a negative impact on earnings or cash flows. In the event there are transactions with persons who subsequently are determined to be related parties, we may be required to make additional disclosure and, if such contracts are material, may not be in compliance with certain covenants under the Senior Notes and the EBRD Loan Agreement.

We may not be able to prevent our general directors from entering into transactions that are outside their authority and not in the best interests of shareholders

The general directors of our operating companies have significant management authority on a local level, subject to the overall supervision by the corresponding company board of directors. In the past, our internal controls have detected transactions that have been concluded by a general director acting outside his authority. Internal controls are not able to prevent a general director from acting outside his authority, particularly if a related party relationship remains undisclosed to us. There is therefore a risk that a general director may act outside his authority and that our operating companies will enter into transactions that are not duly authorized. Unauthorized transactions may not be in the best interests of our shareholders and may have an adverse impact on our results of operations.

We may seek to make acquisitions of other stations, networks, content providers or other companies in the future, or may fail to identify suitable targets, acquire them on acceptable terms or successfully integrate them

Our business and operations continue to experience rapid growth, including through acquisition. The acquisition and integration of new businesses pose significant risks to our existing operations, including:

Table of Contents

- Additional demands placed on our senior management, who are also responsible for managing our existing operations;
- Increased overall operating complexity of our business, requiring greater personnel and other resources;
- Difficulties of expanding beyond our core expertise, in the event that we acquire content providers or other ancillary businesses;
- Significant initial cash expenditures to acquire and integrate new businesses; and
- In the event that debt is incurred to finance acquisitions, additional debt service costs related thereto as well as limitations that may arise under our Senior Notes and the EBRD Loan Agreement.

To effectively manage our growth and achieve pre-acquisition performance objectives, we will need to integrate any new acquisitions, implement financial and management controls and produce required financial statements in those operations. The integration of new businesses may also be difficult for a variety of reasons, including differing cultures or management styles, poor internal controls and an inability to establish control over cash flows. If any acquisition and integration is not implemented successfully, our ability to manage our growth will be impaired and we may have to make significant additional expenditures to address these issues, which could harm our financial position, results of operations and cash flows. Furthermore, even if we are successful in integrating new businesses, expected synergies and cost savings may not materialize, resulting in lower than expected profit margins.

Our operating results depend on our ability to generate advertising sales generally and, in the Czech Republic, to implement our advertising sales strategy

We generate almost all of our revenues from the sale of advertising airtime on our television channels. Our advertising revenues in general depend on the pricing of our advertising time as well as other factors, including television viewing levels, changes in audience preferences, our stations' technical reach, technological developments relating to media and broadcasting, competition from other broadcasters and other media operators, seasonal trends in the advertising market in the countries in which we operate, and shifts in population and other demographics. Advertisers generally use gross ratings points to measure television viewing levels. Our ability to generate gross ratings points depends on our offering programming which appeals to our target audiences, responding to technological developments in media, competing effectively with other broadcasters seeking to attract similar audiences and managing the impact of any seasonal trends.

In the Czech Republic we are continuing to implement an advertising sales strategy adopted during the first quarter of 2006 to capture market growth through a more sophisticated pricing policy (see Item 7, "Analysis of Segment Results, Czech Republic"). There can be no assurance that we will be successful in fully implementing this advertising sales strategy in the Czech Republic or to respond successfully to changes in other factors affecting advertising sales generally in order to maintain and increase our advertising sales. Any decline in advertising sales due to a failure to respond to such changes or to successfully implement the advertising sales strategies, particularly in the Czech Republic, could have a material adverse effect on our financial position, results of operations and cash flows.

Our operating results are dependent on the importance of television as an advertising medium

We generate almost all of our revenues from the sale of advertising airtime on television channels in our markets. In the advertising market, television competes with various other advertising media, such as print, radio, the internet and outdoor advertising. In all of the countries in which we operate, television constitutes the single largest component of all advertising spending. There can be no assurances that the television advertising market will maintain its current position among advertising media in our markets or that changes in the regulatory environment or technology will not favor other advertising media or other television broadcasters. Increases in competition among advertising media arising from the development of new forms of advertising media and distribution could result in a decline in the appeal of television as an advertising medium generally or of our channels specifically. A decline in television

advertising spending in any period or in specific markets could have an adverse effect on our results of operations and cash flows.

Table of Contents

Our operating results are dependent on general economic conditions

The results of our operations rely heavily on advertising revenue and demand for advertising is affected by prevailing general economic conditions. Adverse economic conditions generally and downturns in the economies of our operating countries specifically are likely to negatively impact the advertising industries in those countries and, consequently, the results of our operations. In addition, disasters, acts of terrorism, civil or military conflicts or general political uncertainty may create economic uncertainty that reduces advertising spending. Although recently there has been growth in the economies of our operating countries, there can be no assurance that this trend will continue or that any such improvement in general economic conditions will generate increased advertising revenue for our group. Global and local downturns in the general economic environment may cause our customers to reduce the amounts they spend on advertising, which could result in a decrease in demand for our advertising airtime. This would adversely affect our business, financial condition, results of operations and cash flow.

Our programming content may become more expensive to produce or acquire or we may not be able to develop or acquire programming content that is attractive to our audiences

Television programming is one of the most significant components of our operating costs. The commercial success of our channels depends substantially on our ability to develop, produce or acquire syndicated television programming content that matches audience tastes, attracts high audience shares and generates advertising revenues. Our programming costs or requirements may increase in response to increased competition from existing and new television broadcasting channels for such programming or related talent. The costs of acquiring programming content attractive to our viewers, such as feature films and popular television series and formats, may increase as a result of such competition. In addition, our expenditure in respect of locally produced programming content may increase due to the implementation of new laws and regulations mandating the broadcast of a greater number of locally produced programs, changes in audience tastes in our markets in favor of locally produced content, and competition for talent. In addition, we typically acquire syndicated programming rights under multi-year commitments before we can predict whether such programming will perform. In the event any such programming does not attract adequate audience share, it may be necessary to write down the value of such programming. Any such increase in programming costs or write-downs could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Our operations are subject to significant changes in technology that could adversely affect our business

Countries in which we have operations have plans to migrate from analogue terrestrial broadcasting to digital terrestrial broadcasting. Each country has independent plans with differing time frames and regulatory regimes. The specific timing and approach to implementing such plans to be employed in our markets is not fully known and we cannot predict the timing or effect of such migration on our existing operations or predict our ability to receive any additional rights or licenses to broadcast if such additional rights or licenses should be required under any relevant regulatory regime. We may be required to commit substantial financial and other resources to the implementation of new technologies. We may be required to make substantial additional capital investment in order to implement digital terrestrial broadcasting and the use of alternative distribution systems may require us to acquire additional distribution and content rights. In light of our increased leverage position following the issuance of the Senior Notes, we may not have access to resources sufficient to make such investments.

Table of Contents

The television broadcasting industry may be affected by rapid innovations in technology. The implementation of new technologies and the introduction of broadcasting distribution systems other than analogue terrestrial broadcasting, such as digital broadcasting, cable and satellite distribution systems, the internet, video-on-demand and the availability to television programming on portable digital devices, have fragmented television audiences in more developed markets and could adversely affect our businesses. In addition, compression techniques and other technological developments allow for expanded programming offerings to be offered to highly targeted audiences. Reductions in the cost of creating additional channel capacity could lower entry barriers for new channels and encourage the development of increasingly targeted niche programming on various distribution platforms. Our television broadcasting operations may be required to expend substantial financial and managerial resources on the implementation of new broadcasting technologies or distribution systems. In addition, an expansion in competition due to technological innovation may increase competition for audiences and advertising revenue as well as the competitive demand for programming. Any requirement for substantial further investment for digitalization or to address competition that arises on account of technological innovations in broadcasting may have an adverse effect on our business, financial condition, results of operations and cash flows.

Our success depends on attracting and retaining key personnel

Our success depends partly upon the efforts and abilities of our key personnel and our ability to attract and retain key personnel. Our management teams have significant experience in the media industry and have made an important contribution to our growth and success. The loss of the services of any of these individuals could have an adverse effect on our business, results of operations and cash flow. Although we have been successful in attracting and retaining such people in the past, competition for highly skilled individuals is intense. There can be no assurance that we will continue to be successful in attracting and retaining such individuals in the future.

Risks Relating to our Financial Position

Our increased debt service obligations following the issuance of the Senior Notes may adversely affect our business

Our leverage has been significantly increased with the issuance of EUR 370.0 million (US$ 487.3 million at December 31, 2006) fixed and floating Senior Notes (see Item 8, Note 7 “Senior Notes”) in connection with the acquisition of the TV Nova (Czech Republic) group. As a result, we have significant debt service obligations and we are restricted in the manner in which our business is conducted. We anticipate that our high leverage will continue for the foreseeable future. Our high leverage could have important consequences to our business and results of operations, including but not limited to the following: our vulnerability to a downturn in our business or economic and industry conditions has increased; our ability to obtain additional financing to fund future working capital, capital expenditures, business opportunities and other corporate requirements has been limited. We may have a higher level of debt than certain of our competitors, which may put us at a competitive disadvantage; a substantial portion of our cash flow from operations is required to be dedicated to the payment of principal of, and interest on, our indebtedness, which means that this cash flow is not available to fund our operations, capital expenditures or other corporate purposes; and our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry in which we operate has been limited. Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations and would therefore have potentially harmful consequences for the development of our business and strategic plan.

We may require additional external sources of capital, which may not be available on acceptable terms

The acquisition, ownership and operation of television broadcasting operations requires substantial capital investment. Our total capital requirements are based on our estimates of future operating results, which are based on a variety of assumptions that may prove to be inaccurate. If our assumptions prove to be inaccurate, if our assumptions or plans

change, or if our costs increase due to competitive pressures or other unanticipated developments, we may need to obtain additional financing. Sources of financing may include public or private debt or equity financings, proceeds from the sale of assets or other financing arrangements. Any additional equity or equity-linked financings may dilute the economic interest of the holders of our Common Stock. In addition, it is not possible to ensure that such financings will be available within the limitations on the incurrence of additional indebtedness contained in the Indenture pursuant to which our Senior Notes were issued or pursuant to the terms of the EBRD Loan Agreement (see Item 8, Note 7, “Senior Notes”, and 13 “Credit Facilities and Obligations Under Capital Leases”). Furthermore, such financings may not be available on acceptable terms, or may be subject to limits on the incurrence of indebtedness under the Indenture.

Table of Contents

Under the Senior Notes and the EBRD Loan Agreement, we have pledged shares in our subsidiaries that hold substantially all of our assets and a default on our obligations could result in our inability to continue to conduct our business

Pursuant to the terms of our Indenture and the EBRD Loan Agreement, we have pledged shares in our two principal subsidiary holding companies, which own substantially all of our interests in our operating companies, including the TV Nova (Czech Republic) group, Pro TV, STS (Markiza), Pro Plus and Studio 1+1. If we were to default on the Indenture or the EBRD Loan Agreement, the Indenture trustee or the EBRD would have the ability to sell all or a portion of all of these assets in order to pay amounts outstanding under the Indenture or the EBRD Loan Agreement.

Our cash flow and capital resources may not be sufficient for future debt service obligations

Our ability to make debt service payments under our Senior Notes and other indebtedness depends on our future operating performance and our ability to generate sufficient cash, which in turn depends in part on factors that are not within our control, including general economic, financial, competitive, market, legislative, regulatory and other factors. If our cash flow and capital resources are insufficient to fund our debt service obligations, we would face substantial liquidity problems and we may be obliged to reduce or delay capital or other material expenditures at our stations, restructure our debt, obtain additional debt or equity capital (if available on acceptable terms), or dispose of material assets or businesses to meet our debt service and other obligations. It may not be possible to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all.

We are subject to risks relating to fluctuations in exchange rates

Our reporting currency is the US dollar but a significant portion of our consolidated revenues and costs, including programming rights expenses and interest on debt, are in other currencies. Furthermore, the functional currency of our operations in Romania and Ukraine is the US dollar. This is subject to annual review and new circumstances that may be identified during these annual reviews may result in use of functional currencies in these markets that differ from our reporting currency. In addition, our Senior Notes are denominated in Euros. We have not attempted to hedge the Senior Notes; we have in the past and may therefore in the future continue to experience significant gains and losses on the translation of the Senior Notes into US dollars due to movements in exchange rates between the Euro and the US dollar.

If our goodwill or amortizable intangible assets become impaired we may be required to record a significant charge to earnings

We review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill and indefinite-lived intangible assets are required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization, future cash flows, and slower growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined resulting in a negative impact on our results of operations.

Table of Contents

Our holding company structure may limit our access to cash

We are a holding company and we conduct our operations through subsidiaries and affiliates. The primary internal source of our cash to fund our operating expenses as well as service our existing and future debt depends on debt repayments from our subsidiaries, the earnings of our operating subsidiaries, earnings generated from our equity interest in certain of our affiliates and distributions of such earnings to us. Substantially all of our assets consist of ownership of and loans to our subsidiaries and affiliates. We currently rely on the repayment of inter-company indebtedness and the declaration of dividends to receive distributions of cash from our operating subsidiaries and affiliates. The distribution of dividends is generally subject to conformity with requirements of local law, including the funding of a reserve account and, in certain instances, the affirmative vote of our partners. If our operating subsidiaries or affiliates are unable to distribute to us funds to which we are entitled, we may be unable to cover our operating expenses. Such inability would have a material adverse effect on our results of operations.

Risks Relating to Enforcement Rights

We may not be able to enforce our indemnification rights in a timely manner

Under the purchase agreement for the TV Nova (Czech Republic) group, PPF and certain of its affiliates have agreed to indemnify us for a limited period of time up to the full amount of the purchase price paid by us for the TV Nova (Czech Republic) group for a series of events and circumstances, including claims relating to taxes and claims brought by certain former shareholders of the TV Nova (Czech Republic) group. If we make an indemnification claim and we do not receive an indemnification payment or if such payment is delayed or contested, it may have a material adverse effect on our ability to make any required repayments under the terms of the Senior Notes or other indebtedness or may adversely affect our results of operations.

Enforcement of civil liabilities and judgments may be difficult

Central European Media Enterprises Ltd. is a Bermuda company, and substantially all of our assets and all of our operations are located, and all of our revenues are derived, outside the United States of America. In addition, several of our directors and officers are non-residents of the United States of America, and all or a substantial portion of the assets of such persons are or may be located outside the United States of America. As a result, investors may be unable to effect service of process within the United States of America upon such persons, or to enforce against them judgments obtained in the United States of America courts, including judgments predicated upon the civil liability provisions of the United States of America federal and state securities laws. There is uncertainty as to whether the courts of Bermuda and the countries in which we operate would enforce (i) judgments of United States of America courts obtained against us or such persons predicated upon the civil liability provisions of the United States of America federal and state securities laws or (ii) in original actions brought in such countries, as applicable, liabilities against us or such persons predicated upon the United States of America federal and state securities laws.

Risks Relating to Our Common Stock

CME Holdco L.P. is in a position to decide corporate actions that require shareholder approval and may have interests that differ from those of other shareholders

CME Holdco L.P. owns all our outstanding shares of Class B Common Stock, each of which carries 10 votes per share. Ronald Lauder, the chairman of our Board of Directors, is the majority owner of CME Holdco L.P. and, subject to certain limitations described below, is entitled to vote those shares on behalf of CME Holdco L.P. The shares over which Ronald Lauder has voting power represent 64.8% of the aggregate voting power of our Common Stock. On September 1, 2006, Adele (Guernsey) L.P., a fund affiliated with Apax Partners, acquired 49.7% of CME Holdco L.P.

Under the terms of the limited partnership agreement of CME Holdco L.P., Adele (Guernsey) L.P. has certain consent rights in respect of the voting and disposition of the shares of Class B Common Stock. CME Holdco L.P. is in a position to control the outcome of corporate actions requiring shareholder approval, such as the election of directors, including two recommended by Adele (Guernsey) L.P., and transactions involving a change of control. The interests of CME Holdco L.P. may not be the same as those of other shareholders, and such shareholders will be unable to affect the outcome of such corporate actions for so long as CME Holdco L.P. retains voting control.

Table of Contents

The price of our Class A Common Stock is likely to remain volatile

The market price of shares of our Class A Common Stock may be influenced by many factors, some of which are beyond our control, including those described above under “Risks Relating to our Business and Operations” and including the following: license renewals, general economic and business trends, variations in quarterly operating results, regulatory developments in our operating countries and the EU, the condition of the media industry in our operating countries, the volume of trading in shares of our Class A Common Stock, future issuances of shares of our Class A Common Stock, investor and securities analyst perception of us and other companies that investors or securities analysts deem comparable in the television broadcasting industry. In addition, the stock market in general has experienced extreme price and volume fluctuations that have often been unrelated to and disproportionate to the operating performance of broadcasting companies. These broad market and industry factors may materially reduce the market price of our Class A Common Stock, regardless of our operating performance.

Our share price may be adversely affected by potential future issuances and sales of our shares

As at December 31, 2006, we have a total of 1.2 million options to purchase Class A Common Stock outstanding and 0.1 million options to purchase Class B Common Stock outstanding. An affiliate of PPF holds 3,500,000 unregistered shares of Class A Common Stock and has the right to demand a registration of up to 100% of such shares in May 2007. We cannot predict what effect, if any, the issuance of shares underlying options, the registration of such unregistered shares or any future sales of our shares will have on the market price of our shares. However, if more shares are issued, the economic interest of current shareholders may be diluted and the price of our shares may be adversely affected.

The risks described here are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and / or operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

We own and lease properties in the countries in which we operate. These facilities are fully utilized for current operations, are in good condition and are adequately equipped for purposes of conducting broadcasting or such other operations. We believe that suitable additional space is available on acceptable terms in the event of an expansion of our businesses. The table below provides a brief description of our significant properties.

Location	Property	Use
Hamilton, Bermuda	Leased office	Registered Office, Corporate
Amsterdam, Netherlands	Leased office	Corporate Office, Corporate
London, United Kingdom	Leased office	Administrative Center, Corporate
Zagreb, Croatia	Owned and leased buildings	Office and studio space, NOVA TV (Croatia)
Prague, Czech Republic	Owned buildings and leased buildings	Office and studio space, TV NOVA (Czech Republic)
Bucharest and other key cities within Romania	Owned and leased buildings	Office and studio space, PRO TV
Bratislava, Slovak Republic	Owned buildings	Office and studio space, MARKIZA TV
Ljubljana, Slovenia	Owned buildings and leased buildings	Office and studio space, POP TV and KANAL A
Kiev, Ukraine	Owned and leased buildings	Office space, STUDIO 1+1. Office and studio space, KINO, CITI
Kirovograd, Ukraine	Leased buildings	Office and studio space, KINO, CITI
Surrounding suburbs of Kiev, Ukraine	Leased offices	Studio space, STUDIO 1+1
Zug, Switzerland	Leased office	Office space, IMS

For further information on using our cash resources to fund these facility-related costs, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” in Item 7.

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

General

We are, from time to time, a party to litigation that arises in the normal course of our business operations. Other than those claims discussed below, we are not presently a party to any such litigation which could reasonably be expected to have a material adverse effect on our business or operations.

We present below a summary of our more significant proceedings by country.

Croatia

Global Communications Disputes

On October 29, 2004, OK filed suit against Global Communications d.o.o. claiming approximately HRK 53.0 million (approximately US$ 9.5 million) in damages. Global Communications is a company controlled by Ivan Caleta, who had previously operated Nova TV (Croatia) through OK. Global Communications, together with GRP Media d.o.o., another company controlled by Ivan Caleta, had provided certain goods and services to OK and Nova TV (Croatia) in exchange for advertising time pursuant to an agreement dated April 10, 2001 (the “Global Agreement”). Global Communications and GRP Media were functionally managing the advertising inventory of Nova TV (Croatia). On December 31, 2003, Global Communications entered into a reconciliation agreement by which OK acknowledged that Global Communications was entitled to approximately 375,000 seconds of advertising time for goods and services previously provided. Following our acquisition of Nova TV (Croatia) and OK in July 2004, OK concluded that Global Communications had used all of its seconds by June 2004 based on a substantial discrepancy discovered between the utilization of advertising time recorded by Global Communications and that recorded by AGB Puls, an independent television audience measurement service operating in Croatia. In the course of its investigation of the usage of seconds by Global Communications, OK discovered that computer records of advertising seconds kept for OK may have been altered. OK brought a suit to recover amounts for advertising time used by Global Communications in excess of the 375,000 seconds agreed. Global Communications filed a counterclaim in January 2005 for HRK 68.0 million (approximately US$ 12.2 million), claiming that the AGB data is unreliable and that it is entitled to additional seconds under the previous agreement. The lower commercial court issued a judgment on July 12, 2006 in favor of Global Communications for the full amount of the counterclaim, and we have appealed this decision on the basis of false and inadequate disclosure, wrongful application of substantive law and procedural error. Global Communications separately brought a claim against Nova TV (Croatia), on the same basis as the OK counterclaim. Both Global Communications and Nova TV (Croatia) requested the court to join this claim with the OK counterclaim but this request was denied. The lower commercial court issued a judgment on August 1, 2006 in favor of Global Communications for the full amount of the claim, after having denied submission of evidence supporting our defense. We have also appealed this decision.

Table of Contents

On January 25, 2007, Nova TV (Croatia) filed suit against Global Communications. The facts underlying the claim are substantially the same as those of the abovementioned claims, but Nova TV (Croatia) is claiming that the Global Agreement and the two reconciliation agreements dated April 30, 2004 and June 30, 2004 (the "Reconciliation Agreements"), by which OK acknowledged the number of seconds of advertising time to which Global Communications was purportedly entitled, should be declared null and void under Article 141 of the Croatian Obligations Act. This provision is intended to protect a contractual party which has entered into unfair bargaining terms due to its dependency on the other contractual party. Global Communications, OK and Nova TV (Croatia) were all related parties (controlled by Ivan Caleta) and the contractual terms provided for the provision of 1,340,280 seconds by OK to Global Communications in exchange for certain transmitters. These seconds were valued at an aggregate of DEM 5 million (or DEM 3.73 per second; HRK 3.91 per second at the time) whereas the rate card price was DEM 97.18 or HRK 380.00 per second (i.e. a price that was 26 times higher). Other clients (unrelated parties) sampled from this period were paying between 382.50 HRK to 491.85 HRK per second. Nova TV (Croatia) is arguing for voidance of this contract because of its unconscionable terms which were detrimental to OK and Nova TV (Croatia) and beneficial solely to Global Communications (which, in its capacity as an advertising agency, on-sold these seconds to its clients at market rates, thereby reaping an extraordinary profit). Nova TV (Croatia) is further claiming restitution for advertising seconds appropriated by Global Communications under the Global Agreement. The restitution amount is HRK 586.5 million (approximately US$ 105.1 million). Given that the resolution of the issues posed by this lawsuit constitutes a preliminary question on which appellate review of the two lawsuits previously mentioned above should depend, we have requested suspension of those two reviews until this question has been finally adjudicated.

Former Shareholder Dispute

On July 21, 2005, Narval A.M. d.o.o. (a company wholly-owned by Ivan Caleta), Studio Millenium d.o.o. and Richard Anthony Sheldon, three of the former shareholders of OK, filed suit against Nova TV (Croatia) for rescission of the sale and purchase contract pursuant to which they sold 75% of OK to Nova TV (Croatia) in July 2004 (the "OK Sale Contract"). Nova TV (Croatia) acquired OK immediately prior to our acquiring Nova TV (Croatia). The provisions of the OK Sale Contract required Nova TV (Croatia) to make payment to the four shareholders of OK by September 1, 2004, upon receipt of appropriate invoices and bank account details. The fourth shareholder, Pitos d.o.o., issued an invoice that was duly received by Nova TV (Croatia) and payment was made thereunder. The other three shareholders claim that they hand-delivered a joint invoice to one of the former directors of Nova TV (Croatia), but we continue to dispute this. Under the Croatian Obligations Act, one party to a contract who has performed may unilaterally rescind a contract if the other party fails to perform after receipt of a written warning. On May 24, 2006, the lower commercial court decided in favor of the plaintiffs to rescind the OK Sale Contract and ordered the defendant to pay court costs. We have appealed the decision on the basis that evidence supporting our position was not allowed to be presented to the court and we continue to challenge the validity of the power of attorney purportedly issued by Richard Anthony Sheldon (a resident of the United Kingdom) to legal counsel representing the other plaintiffs.

On August 28, 2006, we received a lower court decision of an injunction against us (decided without a hearing) that, inter alia, prohibits a sale or encumbrance of 75% of the shares of OK. Although we appealed this decision, the appellate commercial court upheld the lower court's judgment on November 21, 2006. On November 6, 2006, we were notified of a request for a further injunction that would, inter alia, prohibit us from taking any actions to decrease the value of OK and require the management of OK to report to a delegate of the former shareholders. We have unsuccessfully sought the removal of the presiding judge, Raul Dubravec (who also presided over the Global Communications lawsuit against Nova TV (Croatia)). Mr. Dubravec ruled against us on December 18, 2006, requiring imposition of a temporary director for OK, which is not a remedy available under Croatian law under the facts of this action. Further, the temporary director who has been appointed is one of the former directors of OK who countersigned the Reconciliation Agreements and is an associate of Ivan Caleta. We have appealed this decision.

While we continue to vigorously contest all these actions in the face of serious concerns as to the impartiality of the Croatian judicial system, we do not expect our Croatia operations to suffer any significant loss or disruption as a consequence of these actions.

Czech Republic

Antimonopoly Office

The investigation of the Office for the Protection of Economic Competition of the Czech Republic was terminated in December 2006, and CET 21 received written confirmation from the Office that TV Nova's current sales contracts and conditions of advertising are in compliance with Czech antimonopoly legislation.

Romania

There are no significant outstanding legal actions that relate to our business in Romania.

Table of Contents

Slovenia

On November 20, 2002, we received notice of a claim filed by Zdenka Meglic, the founder and a former shareholder of MMTV 1 d.o.o (MMTV), against MMTV, a subsidiary of CME Media Enterprises B.V. In her claim against MMTV, Zdenka Meglic is seeking an amount equal to SIT 190 million (approximately US$ 1.0 million) for repayment of monies advanced to MMTV from 1992 to 1994 (in the amount of approximately SIT 29 million (approximately US$ 0.2 million)) plus accrued interest. On September 9, 2004, the court of first instance found against MMTV and issued a judgment requiring MMTV to pay SIT 190 million (approximately US$ 1.0 million) plus interest as well as costs. On September 24, 2004, MMTV filed an appeal against the judgment. On December 15, 2004, the appellate court vacated the judgment of the lower court and returned the case for further proceedings. We do not believe that Zdenka Meglic will prevail and will continue to defend the claim.

Slovak Republic

There are no significant outstanding legal actions that relate to our business in the Slovak Republic.

Ukraine

On October 11, 2005, Igor Kolomoisky filed a lawsuit against Alexander Rodnyansky and Studio 1+1 in a district court in Kiev. Our Ukrainian affiliate Intermedia has been joined in the proceedings as a “third party”. Igor Kolomoisky is attempting to enforce what he alleges was a binding oral agreement with Alexander Rodnyansky to purchase the latter’s 70% interest in Studio 1+1 for consideration of US$ 70.0 million and to transfer that interest to Igor Kolomoisky on receipt of a prepayment of US$ 2.0 million. The lawsuit arises from abortive negotiations among Igor Kolomoisky, Alexander Rodnyansky and Boris Fuchsmann for the acquisition by Igor Kolomoisky of the totality of interests in the Studio 1+1 Group held by Alexander Rodnyansky and Boris Fuchsmann, subject to Igor Kolomoisky assuming all of their obligations under our existing partnership arrangements. On August 16, 2006, the district court in Kiev ruled in favor of Igor Kolomoisky and found that he is entitled to the 70% interest in Studio 1+1 held by Alexander Rodnyansky. Our Ukrainian affiliate Intermedia and Alexander Rodnyansky filed appeals against this decision.

At a hearing on October 31, 2006, the appellate court overturned the decision of the court of first instance and denied Igor Kolomoisky’s claim that he is entitled to a 70% interest in Studio 1+1 held by Alexander Rodnyansky. On November 3, 2006, Igor Kolomoisky filed an appeal with the Supreme Court of Ukraine, the highest court in Ukraine. At a hearing on February 28, 2007, the Supreme Court rejected this appeal. As a result, Igor Kolomoisky no longer has a basis for claiming this ownership right in Studio 1+1 on the same grounds.

On December 23, 2005, we initiated proceedings against our partners Alexander Rodnyansky and Boris Fuchsmann in order to enforce our contractual rights and compel a restructuring of the ownership of Studio 1+1 in order to permit us to hold a 60% interest in Studio 1+1 through a subsidiary organized in Ukraine. Initiation of this proceeding followed protracted negotiations with our partners to restructure following confirmation from the Ukraine Media Council that our proposed ownership structure would not be in violation of restrictions on foreign ownership contained in the Ukraine Media Law, which restricts direct (but not indirect) investment by foreign persons in Ukrainian broadcasters to 30%. On January 12, 2006, the Ukraine parliament adopted an amended version of the Ukraine Media Law that clarifies the absence of any restriction on indirect foreign ownership of television broadcasters. This amended Ukraine Media Law came into force in March 2006. Our partners have acknowledged an obligation to restructure upon the entry into force of these amendments. On September 5, 2006, our partners entered into certain agreements to implement the restructuring. Following the completion of the transactions reflected in these agreements and the registration of the charter of Studio 1+1 amended to reflect the new ownership of Studio 1+1, we will own 60% of Studio 1+1. Upon successful completion of the restructuring, we will terminate the proceedings initiated against our

partners in December 2005.

Table of Contents

Because of ongoing ancillary litigation to enjoin transactions related to the ownership of Studio 1+1 that have been initiated by Igor Kolomoisky, by our partners and by third parties who are not direct parties in interest to legal proceedings initiated by Igor Kolomoisky against Alexander Rodnyansky, the state registrar in the district administration in Kiev where such charter amendments are registered is presently enjoined from registering any amendments to the charter of Studio 1+1. Our partners are no longer seeking to enforce the injunction filed at their initiative; we expect that this injunction will be removed once the case file in this matter has been transferred to the appellate court and the appeal filed by Igor Kolomoisky in respect of this injunction has been scheduled.

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

None.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Class A Common Stock of Central European Media Enterprises Ltd. began trading on the NASDAQ National Market on October 13, 1994 under the trading symbol "CETV".

On February 20, 2007 the last reported sales price for the Class A Common Stock was US$ 86.00.

The following table sets forth the high and low sales prices for the Class A Common Stock for each quarterly period during the last two fiscal years.

Price Period	High (US$ / Share)	Low (US$ / Share)
2006		
First Quarter	71.87	56.73
Second Quarter	71.35	52.90
Third Quarter	68.47	53.62
Fourth Quarter	77.69	67.50
2005		
First Quarter	56.08	34.90
Second Quarter	50.70	40.04
Third Quarter	55.79	47.10
Fourth Quarter	59.00	44.72

At February 20, 2007, there were 25 holders of record (including brokerage firms and other nominees) of the Class A Common Stock and 2 holders of record of the Class B Common Stock. There is no public market for the Class B Common Stock. Each share of Class B Common Stock has 10 votes.

DIVIDEND POLICY

We have not declared or paid and have no present intention to declare or pay in the foreseeable future any cash dividends in respect to any class of our Common Stock.

PURCHASE OF OWN STOCK

We did not purchase any of our own stock in 2006.

Table of Contents

PERFORMANCE GRAPH

The following performance graph is a line graph comparing the change in the cumulative shareholder return of the Class A Common Stock against the total cumulative total return of the Nasdaq Composite Index and the Dow Jones World Broadcasting Index between December 31, 2002 and December 31, 2006.

Value of US$ 100 invested at December 31, 2002 as of December 31, 2006:		
Central European Media Enterprises Ltd.	$	1,217.39
NASDAQ Composite Index	$	209.62
Dow Jones World Broadcasting Index [1]	$	180.85

[1] This index includes 69 companies, all of which are non-U.S. based. Accordingly, the Company believes that the inclusion of this index is useful in understanding the stock performance of the Company compared to companies in the television broadcast and cable industry.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED CONSOLIDATED FINANCIAL DATA

Our selected consolidated financial data should be read together with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

The following tables set forth the selected consolidated financial data for each of the years in the five-year period ended December 31, 2006. The selected consolidated financial data is qualified in its entirety and should be read in conjunction with the Consolidated Financial Statements and related notes thereto set forth in Item 8 and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. We have derived the consolidated statements of operations data for the years ended December 31, 2006, 2005 and 2004 and the consolidated balance sheet data as of December 31, 2006 and December 31, 2005 from the consolidated audited financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2003 and 2002 and the balance sheet data as of December 31, 2004, 2003 and 2002 were derived from the consolidated audited financial statements that are not included in this Annual Report on Form 10-K, as restated under SAB 108.

Table of Contents

	For the Years Ended December 31,				
	2006	**2005 (as restated) (3,4)**	**2004 (as restated) (4)**	**2003 (as restated) (4)**	**2002 (as restated) (4)**
	(US$ 000's, except per share data)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Net revenues	$ 603,115	$ 400,978	$ 182,339	$ 124,978	$ 99,143
Operating income / (loss)	140,674	52,196	18,671	(4,410)	1,466
Net income / (loss) from continuing operations	25,287	42,835	15,938	(24,201)	(25,106)
(Loss) / income on discontinued operations (1)	(4,863)	(513)	2,524	370,213	10,922
Net income / (loss)	**$ 20,424**	**$ 42,322**	**$ 18,462**	**$ 346,012**	**$ (14,184)**
PER SHARE DATA: (2)					
Net income / (loss) per common share from:					
Continuing operations - basic	$ 0.63	$ 1.24	$ 0.57	$ (0.91)	$ (0.95)
Continuing operations - diluted	0.62	1.21	0.55	(0.91)	(0.95)
Discontinued operations - basic	(0.12)	(0.01)	0.09	13.97	0.41
Discontinued operations - diluted	(0.12)	(0.01)	0.09	13.97	0.41
Net income / (loss) - basic	0.51	1.22	0.66	13.06	(0.54)
Net income / (loss) - diluted	$ 0.50	$ 1.19	$ 0.63	$ 13.06	$ (0.54)
Weighted average common shares used in computing per share amounts (000's)					
Basic	40,027	34,664	27,871	26,492	26,451
Diluted	40,600	35,430	29,100	26,492	26,451
CONSOLIDATED BALANCE SHEET DATA:					
Current assets	$ 413,616	$ 286,926	$ 265,049	$ 266,891	$ 109,558
Non-current assets	1,405,384	1,101,924	179,590	101,861	74,464
Total assets	$ **1,819,000**	$ **1,388,850**	$ **444,639**	$ **368,752**	$ **184,022**
Current liabilities	182,961	206,961	109,745	71,116	77,156
Non-current liabilities	574,084	488,099	18,965	23,118	200,723
Minority interests	26,189	13,237	4,861	994	2,019
Shareholders' equity / (deficit)	1,035,766	680,553	311,068	273,524	(95,876)
Total liabilities and shareholders' equity	**$ 1,819,000**	**$ 1,388,850**	**$ 444,639**	**$ 368,752**	**$ 184,022**

(1) In 2003 we sold our 93.2% participation interest in CNTS, our former Czech Republic operating company, to PPF. Our financial statements present our former operations in the Czech Republic as discontinued operations for all periods.

(2) All per share data has been adjusted for the two-for-one stock splits which occurred on August 22, 2002, January 10, 2003 and November 5, 2003.

(3) The Consolidated Balance Sheet and Consolidated Statements of Operations reflect the effect of our acquisition of the TV NOVA (Czech Republic) group in May 2005.

(4) Our results for the years ended December 31, 2005, 2004, 2003 and 2002 have been restated to reflect the correction of certain errors relating to our historic accounting for the issuance of stock options. See Item 8, Note 2 "Restatement".

Table of Contents

The restatement above had the impact on our previously presented financial information as set out below. All amounts are in US$ 000's except per share data:

	As reported previously	Adjustment	As restated
Balance Sheet (as of December 31, 2002)			
Additional paid-in capital at December 31, 2002	$ 359,342	$ 6,939	$ 366,281
Accumulated deficit at December 31, 2002	(452, 011)	(6,939)	(458,950)
Balance Sheet (as of December 31, 2003)			
Additional paid-in capital at December 31, 2003	$ 372,662	$ 6,939	$ 379,601
Accumulated deficit at December 31, 2003	(105,999)	(6,939)	(112,938)
Balance Sheet (as of December 31, 2004)			
Additional paid-in capital at December 31, 2004	$ 387,305	$ 7,008	$ 394,313
Retained deficit at December 31, 2004	(87,468)	(7,008)	(94,476)
Balance Sheet (as of December 31, 2005)			
Additional paid-in capital at December 31, 2005	$ 746,880	$ 7,181	$ 754,061
Retained deficit at December 31, 2005	(44,973)	(7,181)	(52,154)
Statement of Operations (for the Year Ended December 31, 2004)			
Corporate operating costs	(29,185)	(69)	(29,254)
Operating income	18,740	(69)	18,671
Income from continuing operations	16,007	(69)	15,938
Net income	18,531	(69)	18,462
Net income from continuing operations per share - Basic	0.57	0.00	0.57
Net income per share - Basic	0.66	0.00	0.66
Statement of Operations (for the Year Ended December 31, 2005)			
Corporate operating costs	(25,374)	(173)	(25,547)
Operating income	52,369	(173)	52,196
Income from continuing operations	43,008	(173)	42,835
Net income	42,495	(173)	42,322
Net income from continuing operations per share - Basic	1.24	0.00	1.24
Net income per share - Basic	1.23	0.00	1.22

Table of Contents

The adjustment to Accumulated deficit and Additional paid in capital at December 31, 2002 represented additional stock-based compensation expense relating to the following years ended:

	Adjustment (US$ 000's)
December 31, 1994	$ 47
December 31, 1995	548
December 31, 1996	1,632
December 31, 1997	2,504
December 31, 1998	1,719
December 31, 1999	400
December 31, 2000	89
December 31, 2001	-
	6,939

Seasonality

We, like other television operators, experience seasonality, with advertising sales tending to be lowest during the third quarter of each calendar year, which includes the summer holiday period (typically July and August), and highest during the fourth quarter of each calendar year.

Table of Contents

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

The following discussion should be read in conjunction with the sections entitled “Forward-looking Statements” and “Risk Factors” in Item 1.

Contents

I. ***Executive Summary***
II. ***General Market Information***
III. ***Analysis of Segment Results***
IV. ***Analysis of the Results of Consolidated Operations***
V. ***Liquidity and Capital Resources***
VI. ***Critical Accounting Policies and Estimates***
VII. ***Related Party Matters***

I. Executive Summary

During 2006 we delivered on our previously announced strategy:

- We improved the financial performance of our core stations (Romania, Slovak Republic, Slovenia and Ukraine) by delivering an increase in Segment Net Revenues of 30% and Segment EBITDA of 39% from 2005;

The principal events since January 1, 2006 are as follows:

- On January 11, 2006, we completed the acquisition of a 65.5% interest in Ukrpromtorg 2003 LLC (“Ukrpromtorg”), which owns 92.2% of Gravis LLC, the operator of the GRAVIS channel and CHANNEL 7 in Kiev as well as two other local channels in Ukraine, for a total investment of approximately US$ 7.4 million (for further information see Item 8, Note 4, “Acquisitions and Disposals, Ukraine”);

- On January 23, 2006, we completed the acquisition of control of our Slovak Republic operations and increased our economic interest from 70.0% to 80.0% for total consideration of approximately US$ 29.8 million. As a result of this transaction, we began consolidating the results of our Slovak Republic operations from January 2006 (for further information see Item 8, Note 4, “Acquisitions and Disposals, Slovak Republic”);

- Effective February 1, 2006, Vaclav Mika was appointed General Director for the MARKIZA TV channel;

- On February 17, 2006, we purchased an additional 5% of Pro TV, MPI and Media Vision from Adrian Sarbu for consideration of US$ 27.2 million (for further information, see Item 8, Note 4, “Acquisitions and Disposals, Romania”). We now own a 90% voting and economic interest in Pro TV and MPI and a 75% voting and economic interest in Media Vision;

- On March 7, 2006, the Slovak Republic Media Council extended the broadcasting license of TV MARKIZA for an additional 12 years, until September 2019;

- On March 29, 2006, we completed the public offering of 2,530,000 shares of our Class A Common Stock and raised net proceeds of approximately US$ 168.7 million;

Table of Contents

- On July 1, 2006, we launched a new entertainment channel in Ukraine, KINO, targeted at a young demographic. In the period since being launched, KINO has secured a national 14-49 prime time audience share of approximately 0.33%, and an average share in the Kiev area of 1.87%;

- On July 19, 2006, the Ukrainian Media Council issued a decision to extend the 15-hour broadcasting license of Studio 1+1 for a ten-year period to December 29, 2016;

- On August 11, 2006, we completed the acquisition of a 10.0% stake in Media Pro, a group of Romanian companies with operations in the fields of publishing, information, printing, cinema, entertainment and radio (for further information see Item 8, Note 4, "Acquisitions and Disposals, Romania and Note 6, "Investments");

- During the third quarter 2006, we commenced a voluntary review of our stock option granting practices covering the period from 1994 to 2002. The review found certain instances of administrative and procedural deficiencies that occurred in the period between 1994 and 1998, but found no evidence from which it could be concluded that any errors were the result of deliberate or intentional misconduct. We have restated our historic financial statements to correct these errors (for further information see Item 8, Note 2 "Restatement"); and

- On December 1, 2006, we launched a new entertainment channel in Ukraine, CITI, targeted at a young demographic. In the period since being launched, CITI has secured an average 14-49 prime time audience share of approximately 1.77% in the Kiev region.

Management Changes

- On July 28, 2006, the term of Michael Garin's employment agreement to serve as Chief Executive Officer was extended from 2008 to 2010;

- On August 1, 2006, we concluded an agreement with Adrian Sarbu in connection with his appointment in February 2006 to oversee our operations in the Czech and Slovak Republics in addition to his existing responsibilities as general director of our operations in Romania;

- On August 3, 2006, Robert E. Burke announced his intention to step down as the Company's President and Chief Operating Officer effective October 1, 2006; and

- On October 5, 2006, the term of Marina Williams' agreement to serve as Executive Vice President was extended from 2008 to 2010.

Future Trends

As our markets mature, we anticipate more intense competition for audience share and advertising spending from other incumbent terrestrial broadcasters and, to a lesser extent, from local cable and satellite broadcasters. We believe we are in a solid position to manage increased competition. In the near term we intend to continue to pursue further improvements in the performance of our existing operations in order to maximize the potential for organic growth.

Our priorities in this regard include:

- Pursuing sub-regional efficiencies, especially in the area of local programming between Slovenia and Croatia and between the Czech and Slovak Republics;

·

Supporting the growth of television advertising in our markets through increased development and through the launch or acquisition of additional channels to expand our advertising inventory and target niche audiences;

Table of Contents

- Leveraging our existing brands and assets to develop new revenue opportunities, including in the creation and distribution of programming and in the new media sectors; and

- Continuing to expand our footprint into additional Central and Eastern European markets when financially prudent opportunities arise.

In particular, we are planning the following during 2007:

- Continuing the program of effectiveness improvements in our operations in the Czech Republic and the Slovak Republic which were identified in 2006.

- Continuing the development of our new Ukraine channels KINO and CITI which were launched in 2006.

- Further development of our non-broadcast activities, in particular through our New Media project which is coordinated across our markets.

- Acquisition of additional shares in our operations in Ukraine, the Slovak Republic and Romania if the opportunity arises.

- Expansion of our footprint within our existing markets or in adjacent markets if suitable acquisition opportunities materialize.

- Continuing to invest in the development of our Croatia operations.

II. General Market Information

Emerging Markets

Our revenue generating operations are located in Central and Eastern Europe, namely Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine. These emerging economies initially adopted Western style democratic forms of government within the last twenty years and have legal systems, systems of corporate governance and business practices that continue to evolve. A lower level of development and experience in these areas within our Central and Eastern European markets, by comparison with some other Central and Eastern European markets and with most Western markets, increases the relative level of business risk.

One indicator of the rate of development and the current relative level of business risk associated with economic development is Coface ratings. These are an assessment of the relative risk of payment default in different markets. The table below indicates the Coface ratings for each of the countries in which we operate. For purposes of comparison with other Central and Eastern European markets and selected Western markets, the United States and the United Kingdom were both ranked A1 in 2006, Greece and Italy were ranked A2, Hungary and Poland were ranked A3 and Russia and Turkey were ranked B.

Table of Contents

Country	2006 Rating	Detail of 2006 Rating	2005 Rating	2004 Rating	2003 Rating
Croatia	A4	An already patchy payment record could be further worsened by a deteriorating political and economic environment. Nevertheless, the probability of a default is still acceptable.	A4	A4	A4
Czech Republic	A2	Default probability is still weak even in the case when one country's political and economic environment or the payment record of companies is not as good as in A1-rated countries.	A2	A2	A3
Romania	A4	An already patchy payment record could be further worsened by a deteriorating political and economic environment. Nevertheless, the probability of a default is still acceptable.	A4	B	B
Slovak Republic	A3	Adverse political or economic circumstances may lead to a worsening payment record that is already lower than the previous categories, although the probability of a payment default is still low.	A3	A3	A3
Slovenia	A1	The steady political and economic environment has positive effects on an already good payment record of companies. Very weak default probability.	A2	A2	A2
Ukraine	C	A very unsteady political and economic environment could deteriorate an already bad payment record.	C	C	C

Source: Coface USA. Country ratings issued by the Coface Group measure the average default risk on corporate payments in a given country and indicate to what extent a company's financial commitments are affected by the local business, financial and political outlook. Coface continuously monitors 140 countries using a spectrum of indicators incorporating political factors, risk of currency shortage and devaluation, ability to meet financial commitments abroad, risk of a systemic crisis in the banking sector, cyclical risk, and payment behavior for short term transactions.

European Union Accession

The Czech Republic, the Slovak Republic and Slovenia acceded to the EU in May 2004, and Romania acceded in January 2007. Croatia is currently in accession negotiations. Accession to the EU brings certain positive developments. All countries joining the EU become subject to EU legislation and we believe that the ongoing progress towards EU entry reduces the political and economic risks of operating in the emerging markets of Central and Eastern Europe. The reduction in political risk factors may encourage increased foreign investment that will be supportive of economic growth. Accession to the EU may also bring certain negative developments. The adoption of EU compliant legislation in connection with accession may result in the introduction of new standards affecting industry and employment, and compliance with such new standards may require increased spending.

Television Advertising Markets

We derive almost all of our revenue from the sale of television advertising, most of which is sold through media houses and independent agencies. Like other television operators, we experience seasonality, with advertising sales

tending to be lowest during the third quarter of each calendar year due to the summer holiday period (July and August), and highest during the fourth quarter of each calendar year. For the year ended December 31, 2006, 90% of our total Segment Net Revenue came from television advertising.

Table of Contents

The per capita GDP in our markets is lower than that of Western markets. As a result of the lower GDP and weaker domestic consumption, total advertising expenditure spending and, consequently, television advertising spending per capita tends to be lower than in Western markets. However, as a result of television being commercialized in our markets at the same time as other media in our markets, television advertising spending tends to be higher as a proportion of total advertising spending compared to Western markets, where newspapers and magazines and radio were established as advertising media well before the advent of television advertising.

Country	Population (in millions) (1)	Per Capita GDP 2006 (2)	Total Advertising Spending per Capita 2006 (US$) (3)	Total Advertising Spending as a % of GDP 2006 (3)	TV Advertising Spending per Capita (US$) (3)	TV Advertising Spending as a % of Total Advertising Spending (3)
Croatia	4.4	$ 9,318	$ 57.0	0.61%	$ 28.6	50%
Czech Republic	10.2	$ 13,971	$ 77.5	0.55%	$ 30.9	40%
Romania	20.9	$ 5,458	$ 19.1	0.35%	$ 11.4	60%
Slovak Republic	5.4	$ 10,231	$ 40.3	0.39%	$ 20.1	50%
Slovenia	2.0	$ 18,342	$ 64.0	0.35%	$ 36.5	57%
Ukraine	46.7	$ 2,027	$ 9.9	0.49%	$ 5.3	53%

(1) Source: Global Insight Country Analysis (2006 data).

(2) Source: ING (November 2006 data).

(3) Source: CME estimates.

For purposes of comparison, the following table shows the advertising market statistics for other Central and Eastern European markets and selected Western markets.

Country	Population (in millions) (1)	Per Capita GDP 2006 (2)	Total Advertising Spending per Capita 2006 (US$) (3)	Total Advertising Spending as a % of GDP 2006 (3)	TV Advertising Spending per Capita (US$) (3)	TV Advertising Spending as a % of Total Advertising Spending (3)
Greece	11.1	$ 20,802	$ 235	1.13%	$ 73	31%
Hungary	10.1	$ 13,299	$ 133	1.00%	$ 85	64%
Italy	58.1	$ 31,534	$ 170	0.54%	$ 93	55%
Poland	38.5	$ 8,327	$ 37	0.44%	$ 19	51%
Russia	143.2	$ 8,086	$ 46	0.57%	$ 22	48%
Turkey	73.2	$ 5,522	$ 26	0.47%	$ 17	65%

UK	59.7	$ 42,629	$ 329	0.77%	$ 89	27%
USA	298.2	$ 45,970	$ 528	1.15%	$ 196	37%

(1) Source: ZenithOptimedia (December 2006)

(2) Source: ING (November 2006 data).

(3) Source: CME estimates.

Table of Contents

There is no objective source for reliable information on the size of television advertising spending in our markets. The following table sets out our current estimates of the development of television advertising spending by market (in US$ millions).

Country	2002	2003	2004	2005	2006
Croatia			110 - 120	115 - 125	120 - 130
Czech Republic			260 - 270	285 - 295	310 - 320
Romania	65 - 75	85 - 95	110 - 120	165 - 175	235 - 245
Slovak Republic	40 - 50	60 - 70	80 - 90	90 - 100	105 - 115
Slovenia	45 - 55	45 - 55	55 - 65	60 - 70	65 - 75
Ukraine	85 - 100	100 - 115	130 - 140	180 - 190	240 - 250

Market sizes are quoted at US dollar exchange rates applicable at the end of each year.

The following table sets out our current estimates of the local currency growth of television advertising spending by market.

Country	2002	2003	2004	2005	2006
Croatia				(1 - 3%)	2 - 5%
Czech Republic				3 - 5%	0 - 1%
Romania		42 - 55%	22 - 20%	28 - 34%	32 - 37%
Slovak Republic		16 - 18%	14 - 16%	8 -10%	5 - 7%
Slovenia		(11 - 13%)	8 - 11%	9 - 11%	6 - 8%
Ukraine		24 - 29%	11 - 18%	35 - 42%	28 - 31%

Television Advertising Sales

In the countries in which we operate, advertisers tend to allocate their television advertising budgets among channels based on each channel's audience share, audience demographic profile and pricing policy. We generally offer two different bases of pricing to our advertising customers. The first basis is cost per gross rating point (which we refer to as "GRP"). A GRP represents the percentage of audience (from the population over the age of four) reached by a television advertisement and the number of GRPs achieved for a defined time period is the product of the proportion of that total viewing population watching that television advertisement and the frequency that it is viewed (as measured by international measurement agencies using peoplemeters). The second basis is rate-card, which reflects the timing and duration of an advertisement. Whether advertising is sold on a GRP basis or a rate-card basis depends on the dynamics of a particular market and our relative audience share.

Cost per GRP pricing: Advertising priced on a cost per GRP basis allows an advertiser to specify the number of gross ratings points that it wants to achieve with an advertisement within a defined period of time. We schedule the timing of the airing of the advertisements during such defined period of time in a manner that enables us both to meet the advertiser's GRP target and to maximize the use and profitability of our available advertising programming time. The price per GRP package varies depending on the demographic group that the advertisement is targeting, the flexibility given to us by advertisers in scheduling their advertisements and the rebates offered by us to advertising agencies and their clients. GRP package sales generally allow for better inventory control than rate-card pricing and optimize the net price per GRP achieved.

Table of Contents

Rate-card pricing: Advertising priced on a rate-card basis is applied to advertisements scheduled at a specific time. Consistent with industry practice, we provide an incentive rebate on rate-card prices to a number of advertising agencies and their clients. We recognize our advertising revenue at the time the relevant advertisement is broadcast net of rebates.

The majority of our advertising customers commit to annual minimum spending levels. We usually schedule specific advertisements one month in advance of broadcasting them. Prices paid by advertisers, whether they purchase advertising time on a GRP package or rate-card basis, tend to be higher during peak viewing months, particularly during the fourth quarter, than during off-peak months such as July and August.

When describing relative performance against other competitors in attracting audience we refer to ratings share, which represents the number of people watching a channel as a proportion of the total population, and audience share, which represents the share attracted by a channel of the total audience watching television.

For the purposes of our management discussion and analysis, total television advertising revenue net of rebates is referred to as “spot revenues”. Non-spot revenues refers to all other revenues, including those from sponsorship, game shows, program sales, text messaging, cable subscriptions and barter transactions. The total of spot revenues and non-spot revenues is equal to Segment Net Revenues.

Occasionally, we enter into barter transactions pursuant to which we exchange advertising time for goods and services. We record barter transactions at the fair market value of the goods or services received. Barter transactions represented 1% of our Segment Net Revenues for 2006, 2% for 2005, and 3% for 2004.

Our goal is to increase revenues from advertising in local currency year-on-year in every market through disciplined management of our advertising inventory. In any given period, revenue increases can be attributable to combinations of price increases, higher inventory sales, seasonal or time-of-day incentives, target-audience delivery of specific campaigns, introductory pricing for new clients or audience movements based on our competitors’ program schedule.

III. Analysis of Segment Results

OVERVIEW

We manage our business on a country-by-country basis and review the performance of each business segment using data that reflects 100% of operating and license company results. We also consider how much of our total revenues and earnings are derived from our broadcast and non-broadcast operations. Our business segments are comprised of Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine.

We evaluate the performance of our business segments based on Segment Net Revenues and Segment EBITDA. Segment Net Revenues and Segment EBITDA include our operations in the Slovak Republic which were not consolidated prior to January 23, 2006.

We acquired our Czech Republic operations on May 2, 2005; therefore, we include only limited qualified comparisons of financial results for our Czech Republic operations for the year ended December 31, 2005.

Our key performance measure of the efficiency of our business segments is EBITDA margin. We define Segment EBITDA margin as the ratio of Segment EBITDA to Segment Net Revenues.

Table of Contents

Segment EBITDA is determined as segment net income/loss, which includes program rights amortization costs, before interest, taxes, depreciation and amortization of intangible assets. Items that are not allocated to our segments for purposes of evaluating their performance, and therefore are not included in Segment EBITDA, include:

- expenses presented as corporate operating costs in our consolidated statement of operations and comprehensive income;
- stock-based compensation charges;
- foreign currency exchange gains and losses;
- change in fair value of derivatives; and
- certain unusual or infrequent items (e.g., extraordinary gains and losses, impairments of assets or investments, gain on sale of unconsolidated affiliates).

EBITDA is not a term defined under US GAAP, and Segment EBITDA may not be comparable to similar measures reported by other companies. Non-GAAP measures should be evaluated in conjunction with, and are not a substitute for, US GAAP financial measures.

We believe Segment EBITDA is useful to investors because it provides a more meaningful representation of our performance as it excludes certain items that either do not impact our cash flows or the operating results of our stations. Segment EBITDA is also used as a component in determining management bonuses.

For a full reconciliation of our Segment Net Revenues and Segment EBITDA by operation to our consolidated results for the years ended December 31, 2006, 2005 and 2004 see Item 8, Note 19, “Segment Data”.

Table of Contents

A summary of our total Segment Net Revenues, Segment EBITDA and Segment EBITDA margin showing the relative contribution of each Segment, is as follows.

SEGMENT FINANCIAL INFORMATION
For the Years Ended December 31, (US$ 000's)

	2006	**(1)**	**2005**	**(1)**	**2004**	**(1)**
Segment Net Revenues						
Croatia (NOVA TV) (2)	$ 22,310	4%	$ 22,030	5%	$ 9,757	4%
Czech Republic (TV NOVA, GALAXIE SPORT) (3)	208,387	34%	154,010	33%	-	-%
Romania (4)	148,616	25%	103,321	22%	76,463	31%
Slovak Republic (MARKIZA TV) (5)	73,420	12%	64,266	14%	61,576	25%
Slovenia (POP TV and KANAL A)	54,534	9%	48,770	10%	45,388	18%
Ukraine (STUDIO 1+1)	96,413	16%	72,847	16%	53,351	22%
Ukraine (KINO, CITI) (7)	1,195	0%	-	-	-	-
Total Segment Net Revenues	**$ 604,875**	**100%**	**$ 465,244**	**100%**	**$ 246,535**	**100%**
Represented by:						
Broadcast operations	$ 601,885	100%	$ 463,030	100%	$ 245,970	100%
Non-broadcast operations	2,990	0%	2,214	0%	565	0%
Total Segment Net Revenues	**$ 604,875**	**100%**	**$ 465,244**	**100%**	**$ 246,535**	**100%**
Segment EBITDA						
Croatia (NOVA TV) (2)	$ (14,413)	(7)%	$ (15,866)	(10)%	$ (3,756)	(5)%
Czech Republic (TV NOVA, GALAXIE SPORT) (3)	100,488	46%	71,544	45%	-	-%
Romania (4)	65,860	30%	43,803	28%	25,198	34%
Slovak Republic (MARKIZA TV) (5)	20,805	10%	17,240	11%	18,975	25%
Slovenia (POP TV and KANAL A)	19,842	9%	19,337	12%	19,077	26%
Ukraine (STUDIO 1+1)	29,973	14%	21,803	14%	14,729	20%
Ukraine (KINO, CITI) (7)	(3,713)	(2%)	-	-	-	-
	$ 218,842	**100%**	**$ 157,861**	**100%**	**$ 74,223**	**100%**

Total Segment EBITDA								
Represented by:								
Broadcast operations	$	219,128	100%	$	157,520	100%	$	74,195	100%
Non-broadcast operations		(286)	0%		341	0%		28	0%
Total Segment EBITDA	**$**	**218,842**	**100%**	**$**	**157,861**	**100%**	**$**	**74,223**	**100%**
Segment EBITDA Margin (6)		**36%**			**34%**			**30%**	

(1) Percentage of Total Segment Net Revenue / Total Segment EBITDA

(2) We acquired our Croatia operations in July 2004

(3) We acquired our Czech Republic operations (TV NOVA) in May 2005 and GALAXIE SPORT in September 2005

(4) Romanian networks are PRO TV, PRO CINEMA, ACASA and PRO TV INTERNATIONAL for the years ended December 31, 2006 and 2005, and PRO TV, PRO CINEMA, ACASA, PRO TV INTERNATIONAL, PRO FM and INFOPRO for the year ended December 31, 2004

(5) Our Slovak Republic operations were accounted for as an equity affiliate until January 23, 2006

(6) We define Segment EBITDA margin as the ratio of Segment EBITDA to Segment Net Revenue

(7) We acquired our Ukraine (KINO, CITI) operations on January 11, 2006

Table of Contents

ANALYSIS BY GEOGRAPHIC SEGMENT

For the purposes of our management discussion and analysis, total television advertising revenue net of rebates is referred to as “spot revenues”. Non-spot revenues refers to all other revenues, including those from sponsorship, game shows, program sales, text messaging, cable subscriptions and barter transactions. The total of spot revenues and non-spot revenues is equal to Segment Net Revenues.

(A) CROATIA

Market Background: We acquired our Croatia operations on July 16, 2004. We estimate the television advertising market in Croatia has shown local currency growth of approximately 2% - 5% in 2006 and is expected to show single digit growth during 2007.

In 2006, the national all day audience share for NOVA TV (Croatia) was 15.3% compared to 13.6% for 2005. Our major competitors are the two state-owned channels HRT1 and HRT2, with all day audience shares for 2006 of 34.3% and 17.8%, respectively, and privately owned broadcaster RTL with 24.6%.

The average prime time ratings for NOVA TV (Croatia) increased from 5.8% in 2005 to 7.3% in 2006. Prime time audience share grew from 13.3% in 2005 to 17.1% in 2006. Prime time ratings for the whole market decreased from 43.8% in 2005 to 43.3% in 2006.

Performance in the fourth quarter of 2006, the peak advertising selling period, is of particular importance to our station development plan. In the three months to December 31, 2006 our prime time audience share increased to 18.4% from 12.7% for the same period in 2005 and our prime time ratings increased to 8.5% from 6.2%.

In July 2005, we initiated a multi-year investment plan to develop our transmission infrastructure and improve the quality of our programming, particularly locally produced content, in order to secure a larger audience share and increased revenues. Under this plan, we anticipated that NOVA TV (Croatia) would approach Segment EBITDA breakeven in 2007. While the performance of NOVA TV (Croatia) in terms of audience share and ratings has recently shown improvement, this has not yet translated into increased revenues in the timescales and amounts we anticipated in July 2005. As a result, we presently expect that Segment EBITDA breakeven will be delayed by at least one year against the 2005 plan.

Table of Contents

CROATIA SEGMENT FINANCIAL INFORMATION
For the Years Ended December 31, (US$ 000's)

	2006	2005	*Movement*	2005	2004 (1)	*Movement*
Spot revenues	$ 16,442	$ 15,954	*$ 488*	$ 15,954	$ 5,746	*$ 10,208*
Non-spot revenues	5,868	6,076	*(208)*	6,076	4,011	*2,065*
Segment Net Revenues	**$ 22,310**	**$ 22,030**	***$ 280***	**$ 22,030**	**$ 9,757**	***$ 12,273***
Represented by						
Broadcast operations	$ 22,298	$ 22,030	*$ 268*	$ 22,030	$ 9,757	*$ 12,273*
Non-broadcast operations	12	-	*12*	-	-	-
Segment Net Revenues	**$ 22,310**	**$ 22,030**	***$ 280***	**$ 22,030**	**$ 9,757**	***$ 12,273***
Segment EBITDA	**$ (14,413)**	**$ (15,866)**	***$ 1,453***	**$ (15,866)**	**$ (3,756)**	***$ (12,110)***
Represented by						
Broadcast operations	$ (14,302)	$ (15,866)	*$ 1,564*	$ (15,866)	$ (3,756)	*$ (12,110)*
Non-broadcast operations	(111)	-	*(111)*	-	-	-
Segment EBITDA	**$ (14,413)**	**$ (15,886)**	***$ 1,453***	**$ (15,886)**	**$ (3,756)**	***$ (12,110)***
Segment EBITDA Margin	**(65)%**	**(72)%**	***7%***	**(72)%**	**(38)%**	***(34)%***

(1) 2004 Results are presented from acquisition in July 2004

· **Segment Net Revenues** for the year ended December 31, 2006 increased by US$ 0.3 million, or 1%, compared to 2005. In local currency, Segment Net Revenues decreased by 1%. Spot revenues increased by US$ 0.5 million, or 3%, as a result of price increases which offset the impact of the lower volume of GRPs sold. The lower volume of GRPs sold was a result of competitor price reductions and the expiration of legacy deals. Non-spot revenues decreased by US$ 0.2 million, or 3%, as a result of lower levels of barter revenues as some contracts were forgone in accordance with our policy to minimize barter transactions and decreased levels of sponsorship, which were partially offset by an increase in short message service ("SMS"), teletext and telesales revenues.

Segment Net Revenues for the year ended December 31, 2005 were US$ 22.0 million compared to US$ 9.8 million for the period from acquisition on July 16, 2004 to December 31, 2004. Segment Net Revenues for the period from July 2005 fell US$ 1.0 million, or 10%, when compared to the equivalent post acquisition period in 2004. This reduction in revenue was attributable to lower barter revenues as some of these were forgone in accordance with our policy to minimize barter transactions. Spot revenues increased by 19% over the period from July to December 2005 when compared to the same period in 2004, driven principally by growth in the volume of GRPs sold.

· **Segment EBITDA** for the year ended December 31, 2006 was a loss of US$ 14.4 million, compared to a loss of US$ 15.9 million for the year ended December 31, 2005. In local currency, Segment EBITDA increased by 11%.

Table of Contents

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2006 decreased by US$ 1.2 million, or 3%, compared to 2005. Cost of programming grew by US$ 1.1 million, or 6%, due largely to the inclusion of salary-related costs of production staff within cost of programming rather than operating costs; excluding the impact of this change in classification, cost of programming decreased by US$ 2.2 million, or 11%, as a result of the decision to restrict expenditure on higher cost local productions. Other operating costs decreased by US$ 1.1 million, or 12%, primarily due to the difference in classification described above; excluding the impact of this change in classification, other operating costs increased by US$ 2.2 million, or 24%, due to the appreciation of the Kuna compared to the US dollar, increasing salary and wage costs as a result of increased headcount, and higher transmission costs as a result of an expansion in transmitter coverage. Selling, general and administrative expenses decreased by US$ 1.2 million, or 15%, primarily due to the comparative period including approximately US$ 0.9 million of one-time consultancy fees and commissions relating to program acquisitions.

Segment EBITDA for the year ended December 31, 2005 was a loss of US$ 15.9 million, which is substantially attributable to investment in programming to attract greater audience share.

Costs charged in arriving at Segment EBITDA for 2005 included US$ 20.4 million of programming costs, US$ 9.4 million of other operating costs and US$ 8.1 million of selling, general and administrative expenses.

(B) CZECH REPUBLIC

Market Background: We acquired our Czech Republic operations on May 2, 2005. We estimate that the television advertising market in the Czech Republic during 2006 remained stable in local currency. We expect the advertising market to show high single digit growth in 2007.

The national all day audience share of our channel, TV NOVA (Czech Republic), for 2006 was 41.6% compared to 40.9% for 2005. The major competitors are the two state-owned channels CT1 and CT2, with national all day audience shares for 2006 of 21.5% and 9.4% respectively, and privately owned broadcaster TV Prima with a national all day audience share of 20.3%. CT2 increased its audience share from 8.1% for 2005 primarily due to the increased ratings during the periods of broadcast of the Winter Olympics in February, World Ice Hockey Championship in May and the Soccer World Cup in June.

During the first quarter of 2006, we announced a new advertising sales strategy based on our belief that growth in the television advertising market in the Czech Republic has been impeded over the past several years due to broadcasters focusing on obtaining an increased share of revenues committed to television advertising rather than fostering market growth by focusing on maximizing value received from the sale of GRPs. The focus of the TV Nova (Czech Republic) group is now on the development of advertising revenues over the medium term by supporting and then capturing market growth through a more sophisticated pricing policy. In conjunction with this advertising strategy, the TV Nova (Czech Republic) group initiated a series of measures to reduce the costs of its operations, including the cancellation of poorly performing formats and reductions in operational costs.

As expected, the TV Nova (Czech Republic) group’s advertising revenues declined in 2006 on a comparable year-on-year basis, as the positive impact of the new pricing policy did not compensate for the expected loss in volume. However, we have seen increased revenues in the fourth quarter of 2006 compared to the fourth quarter of 2005 and expect to see accelerated growth both in the revenues of the Czech Republic operations and in the television advertising market generally over the next several years.

A fundamental component of our strategy is continued strong audience share and ratings for TV NOVA (Czech Republic), which have been maintained since the new pricing policy was implemented on April 1, 2006. Performance in the fourth quarter of 2006, the peak advertising selling period, is of particular importance to this strategy. During

the three months ended December 31, 2006, the national all day audience share of TV NOVA (Czech Republic) increased to 42.5%, from 39.0% in 2005. The national all day audience share of TV Prima fell from 25.0% to 20.2%, CT1 fell from 22.6% to 22.3%, while the national all day audience share of CT2 grew from 6.9% to 7.6%.

Table of Contents

CZECH REPUBLIC SEGMENT FINANCIAL INFORMATION

	For the Years Ended December 31, (US$ 000's)		
	2006	**2005 (1)**	***Movement***
Spot revenues	$ 181,965	$ 133,250	*$ 48,715*
Non-spot revenues	26,422	20,760	*5,662*
Segment Net Revenues	**$ 208,387**	**$ 154,010**	***$ 54,377***
Represented by			
Broadcast operations	$ 207,671	$ 153,626	*$ 54,045*
Non-broadcast operations	716	384	*332*
Segment Net Revenues	**$ 208,387**	**$ 154,010**	***$ 54,377***
Segment EBITDA	**$ 100,488**	**$ 71,544**	***$ 28,944***
Represented by			
Broadcast operations	$ 100,724	$ 71,742	*$ 28,982*
Non-broadcast operations	(236)	(198)	*(38)*
Segment EBITDA	**$ 100,488**	**$ 71,544**	***$ 28,944***
Segment EBITDA Margin	**48%**	**46%**	***2%***

(1) 2005 Results are presented from acquisition on May 2, 2005

- **Segment Net Revenues** for the year ended December 31, 2006 were US$ 208.4 million compared to US$ 154.0 million for the period from acquisition to December 31, 2005. We acquired the TV Nova (Czech Republic) group on May 2, 2005 and accordingly our results of operations for the year ended December 31, 2005 reflect our ownership from that date. Based on management estimates, we believe that Segment Net Revenues for the year ended December 31, 2005, including the period prior to our ownership from January 1, 2005 through May 1, 2005 were approximately US$ 235 million. This decrease in Segment Net Revenues can be primarily attributed to the initial reaction of advertisers to the implementation of our new sales policy, which led to a decrease in the number of GRPs sold.

Segment Net Revenues for the period from acquisition to December 31, 2005 were US$ 154.0 million. We acquired our Czech Republic operations in May 2005 and accordingly no comparative data from 2004 is available.

- **Segment EBITDA** for the year ended December 31, 2006 was US$ 100.5 million compared to US$ 71.5 million for the period from acquisition to December 31, 2005.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2006 included US$ 60.5 million of programming costs, US$ 26.1 million of other operating costs and US$ 21.3 million of selling, general and administrative expenses.

Segment EBITDA for the period from May 2, 2005 to December 31, 2005 was US$ 71.5 million resulting in an EBITDA margin of 46%.

Table of Contents

Costs charged in arriving at Segment EBITDA for the eight months ended December 31, 2005 included US$ 50.6 million of programming costs, US$ 14.9 million of other operating costs and US$ 16.9 million of selling, general and administrative expenses.

Based on management estimates, we believe that Segment EBITDA for the year ended December 31, 2005, including the period prior to our ownership from January 1, 2005 through May 1, 2005, was approximately US$ 110.8 million. Based on these management estimates for the year ended December 31, 2005, costs charged in arriving at Segment EBITDA for the year ended December 31, 2006 have decreased by US$ 16.3 million or 13%.

(C) ROMANIA

Market Background: We estimate the television advertising market grew by approximately 32% - 37% in US dollars during 2006. We expect the television advertising market to show continued growth in the range of 20% to 25% in 2007.

The combined national all day audience share of our three channels (PRO TV, ACASA, and PRO CINEMA) was 24.3% in 2006 compared to 24.6% in 2005. The major competitors are the two state-owned channels TVR1 and TVR2, with national all day audience shares for 2006 of 16.8% and 5.3%, respectively, and privately owned broadcaster Antena 1 with a national all day audience share of 13.4%.

The combined average prime time ratings of our channels for 2006 were 10.3% compared to 10.5% for 2005. The most significant prime time ratings movement for 2006 was a fall for TVR1 from 8.7% in 2005 to 7.6% in 2006, while all the other large channels remained broadly in line with the prior year. For the total market, prime time ratings for 2006 were 39.2% compared to 39.6% in 2005.

The functional currency for Romania is the US dollar.

ROMANIA SEGMENT FINANCIAL INFORMATION
For the Years Ended December 31, (US$ 000's)

	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Spot revenues	$ 140,242	$ 97,915	*$ 42,327*	$ 97,915	$ 72,895	*$ 25,020*
Non-spot revenues	8,374	5,406	*2,968*	5,406	3,568	*1,838*
Segment Net Revenues	**$ 148,616**	**$ 103,321**	***$ 45,295***	**$ 103,321**	**$ 76,463**	***$ 26,858***
Represented by						
Broadcast operations	$ 148,616	$ 103,321	*$ 45,295*	$ 103,321	$ 76,463	*$ 26,858*
Non-broadcast operations	-	-	-	-	-	-
Segment Net Revenues	**$ 148,616**	**$ 103,321**	***$ 45,295***	**$ 103.321**	**$ 76,463**	***$ 26,858***
Segment EBITDA	**$ 65,860**	**$ 43,803**	***$ 22,057***	**$ 43,803**	**$ 25,198**	***$ 18,605***
Represented by						
Broadcast operations	$ 65,976	$ 43,803	*$ 22,173*	$ 43,803	$ 25,198	*$ 18,605*
Non-broadcast operations	(116)	-	*(116)*	-	-	-
Segment EBITDA	**$ 65,860**	**$ 43,803**	***$ 22,057***	**$ 43,803**	**$ 25,198**	***$ 18,605***

Segment EBITDA Margin	**44%**	**42%**	***2%***	**42%**	**33%**	***9%***

Page 61

Table of Contents

· **Segment Net Revenues** for the year ended December 31, 2006 increased by US$ 45.3 million, or 44%, compared to the year ended December 31, 2005. Spot revenues increased by US$ 42.3 million or 43%, and non-spot revenues increased by US$ 3.0 million, or 55%.

The increase in spot revenues was driven by double-digit advertising rate growth in each of our three channels and by an increase in the number of GRPs sold across each of our channels compared to 2005. Two thirds of the total volume growth arose in PRO CINEMA and the balance was shared between PRO TV and ACASA in almost equal measures. The increase in non-spot revenues was principally due to increased cable tariff revenue.

Segment Net Revenues for the year ended December 31, 2005 increased by US$ 26.9 million, or 35%, compared to the year ended December 31, 2004. Spot revenues increased by US$ 25.0 million or 34% and non-spot revenues increased by US$ 1.9 million, or 52%, principally due to increased cable tariff revenue. Excluding RADIO PRO, which was included in our results in 2004 but excluded in 2005, Segment Net Revenues grew US$ 29.5 million, or 40%, principally due to spot revenue growth of 39%.

· **Segment EBITDA** for the year ended December 31, 2006 increased by US$ 22.1 million, or 50%, compared to the year ended December 31, 2005, resulting in an EBITDA margin of 44%, compared to 42% in 2005.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2006 increased by US$ 23.2 million, or 39%, compared to the year ended December 31, 2005. Cost of programming grew by US$ 21.8 million, or 62%, due largely to the inclusion of salary-related costs of production staff within cost of programming rather than operating costs; excluding the impact of this change in classification, cost of programming increased by US$ 15.4 million, or 44%, due to an increase in programming syndication of US$ 10.5 million and an increase in production expenses of US$ 4.9 million. Other operating costs decreased by US$ 1.2 million, or 7%, primarily due to the difference in classification described above; excluding the impact of this change in classification, other operating costs increased by US$ 5.1 million, or 31%, mainly due to an increase in salary costs arising in part from the weakening of the US dollar against the Romanian Lei, the currency in which salaries are paid. Selling, general and administrative expenses increased by US$ 2.7 million, or 34%, primarily due to increases in consultancy fees of US$ 0.8 million, office running costs of US$ 0.6 million and marketing and research costs of US$ 0.5 million.

Segment EBITDA for the year ended December 31, 2005 increased by US$ 18.6 million, or 74%, compared to the year ended December 31, 2004, resulting in an EBITDA margin of 42%, which represents a significant increase over the 33% EBITDA margin achieved in the prior year.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2005 increased by US$ 8.3 million, or 16%, compared to the year ended December 31, 2004. Cost of programming grew by US$ 5.5 million, or 19%, due to increased costs of acquired programming and increased investment in locally produced news and sport programs. Other operating costs increased by US$ 1.8 million, or 13%, due to the appreciation of the New Romanian Lei, compared to the US dollar, increasing salary and wage costs. Selling, general and administrative expenses increased by US$ 0.9 million, or 13%, primarily due to increased rent and office costs of US$ 0.8 million.

(D) SLOVAK REPUBLIC

Market Background: We estimate that the television advertising market in the Slovak Republic grew by approximately 5% - 7% in local currency in 2006. We anticipate that the television advertising market will show high single digit growth in 2007.

Table of Contents

On January 23, 2006, we acquired control of our Slovak Republic operations and increased our economic interest from 70% to 80%. We have made a number of senior management changes and are pursuing improvements in the effectiveness of our operations in the Slovak Republic and have begun implementing measures to improve programming quality and reduce operating expenses.

MARKIZA TV is the leading channel in the Slovak Republic. National all day audience share for 2006 was 33.8% compared to 31.1% in 2005. The major competitor is the state-owned channel STV1, with a national all day audience share of 18.4% in 2006. The national all day audience share of TV JOJ, the only other significant privately owned channel, was 15.6% in 2006.

The average prime time rating for MARKIZA TV for 2006 was 13.7% compared to 13.3% in 2005. Prime time ratings for the whole market fell from 40.4% in 2005 to 38.1% in 2006.

The implementation of peoplemeters to measure audience share and ratings in late 2004 had the anticipated effect of reducing the recorded share of all leading broadcasters. The all day average audience share of MARKIZA TV fell to 31.1% from 39.6% in 2004. The primary beneficiaries of this change in audience share were foreign channels with cross border reception in the Slovak Republic and small cable channels. The peoplemeter introduction also showed that fewer people watch television than had been previously been believed, with national all day ratings falling from 19.1% in 2004 to 14.3% in 2005 and prime time ratings falling from 62.8% in 2004 to 40.4% in 2005. This indicated that the amount paid for each rating point was higher than had previously been believed. All national channels showed ratings losses. For MARKIZA TV, national all day ratings declined from 7.6% in 2004 to 4.5% in 2005 and national prime time ratings fell from 25.3% in 2004 to 13.3% in 2005.

SLOVAK REPUBLIC SEGMENT FINANCIAL INFORMATION
For the Years Ended December 31, (US$ 000's)

	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Spot revenues	$ 69,336	$ 60,004	*$ 9,332*	$ 60,004	$ 57,125	*$ 2,879*
Non-spot revenues	4,084	4,262	*(178)*	4,262	4,451	*(189)*
Segment Net Revenues	**$ 73,420**	**$ 64,266**	***$ 9,154***	**$ 64,266**	**$ 61,576**	***$ 2,690***
Represented by						
Broadcast operations	$ 73,266	$ 64,266	*$ 9,000*	$ 64,266	$ 61,576	*$ 2,690*
Non-broadcast operations	154	-	*154*	-	-	-
Segment Net Revenues	**$ 73,420**	**$ 64,266**	***$ 9,154***	**$ 64,266**	**$ 61,576**	***$ 2,690***
Segment EBITDA	**$ 20,805**	**$ 17,240**	***$ 3,565***	**$ 17,240**	**$ 18,975**	***$ (1,735)***
Represented by						
Broadcast operations	$ 20,879	$ 17,240	*$ 3,639*	$ 17,240	$ 18,975	*$ (1,735)*
Non-broadcast operations	(74)	-	*(74)*	-	-	-
Segment EBITDA	**$ 20,805**	**$ 17,240**	***$ 3,565***	**$ 17,240**	**$ 18,975**	***$ (1,735)***
Segment EBITDA Margin	**28%**	**27%**	***1%***	**27%**	**31%**	***(4)%***

- **Segment Net Revenues** for the year ended December 31, 2006 increased by US$ 9.2 million, or 14%, compared to the year ended December 31, 2005, due to a combination of favorable exchange rate movements, new entrants into the market and increased advertising spending from existing clients, specifically health insurance companies and financial service providers. In local currency, Segment Net Revenues increased by 5%. The increase in Segment Net Revenues was due to an increase of US$ 9.3 million, or 16%, in spot revenues partially offset by a decline of US$ 0.2 million, or 4%, in non-spot revenues. Both the volume of advertising spots sold by MARKIZA TV and the average revenue per thirty-second spot increased compared to 2005.

Table of Contents

Non-spot revenues for the year ended December 31, 2006 fell by US$ 0.2 million, or 4%, compared to the year ended December 31, 2005, due to lower revenues from sales of Markiza magazine, following increased competition, and the impact of 2005 having enjoyed significant telephone voting sales related to the success of the reality show “Mojsejovci” that were not repeated in 2006.

Segment Net Revenues for the year ended December 31, 2005 increased by US$ 2.7 million, or 4%, compared to the year ended December 31, 2004. Spot revenues increased by US$ 2.9 million, or 5%, however, this was partially offset by a US$ 0.2 million or 4% decline in non-spot revenues as a result of reduced barter revenue. In local currency, Segment Net Revenues grew by 1% in 2005.

The volume of advertising spots sold by MARKIZA TV increased compared to 2004. The average revenue per thirty-second spot decreased in local currency, primarily as a result of the decline in measured audience share following the introduction of peoplemeters in late 2004, but also because two significant local productions did not perform as well as expected in the fourth quarter and did not achieve expected audience share against strong competition.

- **Segment EBITDA** for the year ended December 31, 2006 increased by US$ 3.6 million, or 21%, compared to 2005, and the EBITDA margin increased from 27% in 2005 to 28% in 2006. Local currency EBITDA increased by 21% in 2006 compared to 2005.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2006 increased by US$ 5.6 million, or 12%, compared to 2005. The cost of programming increased by US$ 5.1 million, or 23%, due to an increase in the volume of higher cost local productions and write-off costs for an unsuccessful show of US$ 0.4 million. Other operating costs increased by US$ 1.4 million, or 10% primarily due to increased staff costs. Selling, general and administrative expenses were lower by US$ 0.9 million, or 9%, largely due to savings in taxes of US$ 0.7 million compared to 2005.

Segment EBITDA for the year ended December 31, 2005 decreased by US$ 1.7 million, or 9%, compared to 2004, and the EBITDA margin decreased from 31% in 2004 to 27% in 2005. Local currency EBITDA decreased by 12% in 2005 compared to 2004.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2005 increased by US$ 4.4 million, or 10%, resulting in the reduction of Segment EBITDA and the corresponding Segment EBITDA Margin compared to 2004. The cost of programming increased by US$ 1.5 million, or 7%, reflecting an increase in the volume of higher cost local production and the costs of producing reality shows. Other operating costs increased by US$ 1.1 million, or 8%, due to increased staff and related costs. Selling, general and administrative expenses increased by US$ 1.8 million, or 22%, primarily as a result of the reversal of a US$ 1.1 million provision in 2004 due to resolution of a disagreement with the other shareholders that had given rise to a provision in 2003 as well as increased facilities costs resulting from operating an additional studio.

(E) SLOVENIA

Market Background: We estimate the television advertising market in Slovenia showed growth of approximately 6% - 8% in local currency during 2006. We expect the television advertising market to show low single digit growth in 2007.

Table of Contents

The combined national all day audience share of our two channels (POP TV and KANAL A) increased from 35.8% in the year ended December 31, 2005 to 37.7% in 2006. The major competitors are state-owned SLO1 and SLO2, with national all day audience shares in 2006 of 23.1% and 8.9% respectively.

The combined average prime time ratings for our channels for the year ended December 31, 2006 were 14.4% compared to 13.7% in 2005. Prime time ratings for the whole market increased from 32.4% in 2005 to 32.7% in 2006.

SLOVENIA SEGMENT FINANCIAL INFORMATION
For the Years Ended December 31, (US$ 000's)

	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Spot revenues	$ 50,682	$ 45,594	*$ 5,088*	$ 45,594	$ 43,765	*$ 1,829*
Non-spot revenues	3,852	3,176	*676*	3,176	1,623	*1,553*
Segment Net Revenues	**$ 54,534**	**$ 48,770**	***$ 5,764***	**$ 48,770**	**$ 45,388**	***$ 3,382***
Represented by						
Broadcast operations	$ 52,426	$ 46,940	*$ 5,486*	$ 46,940	$ 44,823	*$ 2,117*
Non-broadcast operations	2,108	1,830	*278*	1,830	565	*1,265*
Segment Net Revenues	**$ 54,534**	**$ 48,770**	***$ 5,764***	**$ 48,770**	**$ 45,388**	***$ 3,382***
Segment EBITDA	**$ 19,842**	**$ 19,337**	***$ 505***	**$ 19,337**	**$ 19,077**	***$ 260***
Represented by						
Broadcast operations	$ 19,518	$ 18,797	*$ 721*	$ 18,797	$ 19,049	*$ (252)*
Non-broadcast operations	324	540	*(216)*	540	28	*512*
Segment EBITDA	**$ 19,842**	**$ 19,337**	***$ 505***	**$ 19,337**	**$ 19,077**	***$ 260***
Segment EBITDA Margin	**36%**	**40%**	***(4)%***	**40%**	**42%**	***(2)%***

· **Segment Net Revenues** for the year ended December 31, 2006 increased by US$ 5.8 million, or 12%, compared to the year ended December 31, 2005. In local currency, Segment Net Revenues increased by 10%.

Spot revenues increased by US$ 5.1 million, or 11%, in the year ended December 31, 2006 compared to the year ended December 31, 2005 as our operations benefited from a stronger ratings performance which led to an increase in GRPs sold across our two channels, particularly in the off prime period. The Soccer World Cup in June 2006 contributed to US$ 0.9 million of this increase. The average revenue per thirty-second advertising spot was largely unchanged from 2005. Non-spot revenues increased by US$ 0.7 million, or 21%, in the year ended December 31, 2006 compared to 2005 due to an increase in short message service ("SMS") revenues, telesales and on-line related revenues.

Segment Net Revenues for the year ended December 31, 2005 increased by US$ 3.4 million, or 7%, compared to the year ended December 31, 2004. Net spot revenue increased by US$ 1.8 million, or 4%, as a run of successful locally produced programs led to an increase in the volume of thirty-second advertising spots sold across our two channels. The average revenue per thirty-second advertising spot was largely unchanged from 2004.

Non-spot revenues grew by US$ 1.6 million, or 96% due to increased internet and reality show driven revenue from text messaging.

Table of Contents

· **Segment EBITDA** for the year ended December 31, 2006 increased by US$ 0.5 million, or 3%, compared to the year ended December 31, 2005. In local currency, Segment EBITDA increased by 1%. EBITDA margin decreased from 40% in 2005 to 36% in 2006.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2006 increased by US$ 5.3 million, or 18%, compared to the year ended December 31, 2005. Cost of programming increased by US$ 6.8 million, or 52%. This is partly due to the inclusion of the salary-related costs of production staff within cost of programming rather than operating costs; excluding the impact of this change in classification, cost of programming increased by US$ 3.2 million, or 25%, due to the additional expense of airing more higher-cost local productions than in the prior year and the cost of showing the Soccer World Cup which took place in June 2006. Other operating costs decreased by US$ 2.0 million, or 17%, primarily due to the difference in classification described above; excluding the impact of this change in classification, other operating costs increased by US$ 1.5 million, or 13%, primarily due to higher bonus accruals and higher transmitter and associated maintenance costs. Selling, general and administrative expenses increased by US$ 0.5 million, or 11%, compared to the year ended December 31, 2005 primarily due to higher marketing and promotion costs of US$ 0.2 million and higher office running costs.

Segment EBITDA for the year ended December 31, 2005 increased by US$ 0.3, million or 1%, compared to the year ended December 31, 2004. In local currency Segment EBITDA increased by 2%. EBITDA margin decreased from 42% in 2004 to 40% in 2005.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2005 increased by US$ 3.1 million, or 12%, compared to the year ended December 31, 2004. Cost of programming increased by US$ 0.8 million, or 7%, due to an increase in local production costs from producing more reality shows. Other operating costs increased by US$ 2.2 million, or 23%, primarily as a result of increased social insurance costs for employers of US$ 1.4 million as well as the reversal of a US$ 0.4 million provision for broadcasting transmission costs in 2004 resulting in a lower than normal charge in that period. Selling, general and administrative expenses increased by US$ 0.1 million, or 2%, as a result of general overhead cost increases.

(F) UKRAINE (STUDIO 1+1)

Market Background: We estimate that the television advertising market in Ukraine, where sales are denominated primarily in US dollars, showed growth of approximately 28% - 31%% in 2006. It is expected that the television advertising market will continue to grow between 30% and 35% during 2007.

STUDIO 1+1 had a national all day audience share of 18.3% for 2006 compared to 20.0% in 2005. Our competitors include Inter, with a national all day audience share of 20.4%, Novy Kanal with 8.4%, ICTV with 7.3%, and STB with 6.0%.

Table of Contents

The average prime time ratings for STUDIO 1+1 for 2006 were 8.4% compared to 8.1% in 2005.

UKRAINE (STUDIO 1+1) FINANCIAL INFORMATION
For the Years Ended December 31, (US$ 000's)

	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Spot revenues	$ 86,042	$ 63,911	*$ 22,131*	$ 63,911	$ 49,982	*$ 13,929*
Non-spot revenues	10,371	8,936	*1,435*	8,936	3,369	*5,567*
Segment Net Revenues	**$ 96,413**	**$ 72,847**	***$ 23,566***	**$ 72,847**	**$ 53,351**	***$ 19,496***
Represented by						
Broadcast operations	$ 96,413	$ 72,847	*$ 23,566*	$ 72,847	$ 53,351	*$ 19,496*
Non-broadcast operations	-	-	*-*	-	-	*-*
Segment Net Revenues	**$ 96,413**	**$ 72,847**	***$ 23,566***	**$ 72,847**	**$ 53,351**	***$ 19,496***
Segment EBITDA	**$ 29,973**	**$ 21,803**	***$ 8,170***	**$ 21,803**	**$ 14,729**	***$ 7,074***
Represented by						
Broadcast operations	$ 30,045	$ 21,803	*$ 8,242*	$ 21,803	$ 14,729	*$ 7,074*
Non-broadcast operations	(72)	-	*(72)*	-	-	*-*
Segment EBITDA	**$ 29,973**	**$ 21,803**	***$ 8,170***	**$ 21,803**	**$ 14,729**	***$ 7,074***
Segment EBITDA Margin	**31%**	**30%**	***1%***	**30%**	**28%**	***2%***

- **Segment Net Revenues** for the year ended December 31, 2006 increased by US$ 23.6 million, or 32%, compared to the year ended December 31, 2005. Spot revenues increased by US$ 22.1 million, or 35%, and non-spot revenues increased by US$ 1.4 million, or 16%.

The increase in spot revenues reflects the significant ongoing growth of the market. The majority of the growth reflects significantly higher average revenue per thirty-second advertising spot, partially off set by a lower volume of spots sold. Spot revenues included US$ 8.4 million of political advertising in advance of the March 26, 2006 parliamentary elections. We believe that some of this advertising replaced normal commercial activity but that the majority was incremental revenue.

Non-spot revenue has increased due to a significant rise in program sponsorship, which has increased due to more active management. Included within non-spot revenues for 2005 is a one-time sale of programming of US$ 1.8 million.

Segment Net Revenues for the year ended December 31, 2005 increased by US$ 19.5 million, or 37%, compared to the year ended December 31, 2004. Net spot revenue increased by US$ 13.9 million, or 28%, and non-spot revenue increased by US$ 5.6 million, or 165%.

Demand for advertising by multinational companies seeking to establish their brands in the Ukrainian market and by mobile telephone operators helped increase the average revenue per thirty-second advertising spot compared to 2004. The volume of spots sold increased as a result of the full year impact of the additional nine hours of broadcast time

awarded to the station from September 2004. Non-spot revenue increases were derived from sales of programming and increased management focus on generating sponsorship revenue.

Table of Contents

- **Segment EBITDA** for the year ended December 31, 2006 increased by US$ 8.2 million, or 37%, compared to the year ended December 31, 2005, resulting in an EBITDA margin of 31% compared to 30% in 2005.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2006 increased by US$ 15.4 million, or 30%, compared to the year ended December 31, 2005. Cost of programming increased by US$ 10.8 million, or 36%, due to price inflation for Russian series, which are essential to maintaining strong ratings, as well as improvements to our programming schedule. Other operating costs increased by US$ 1.5 million, or 12%, primarily due to increases in staff costs as a result of the restructuring of independent contactor arrangements. Selling, general and administrative expenses have increased by US$ 3.1 million, or 36%, including US$ 0.8 million of higher withholding tax payments on increased programming acquisitions, US$ 0.6 million of higher cost of facilities and US$ 0.5 million of additional management and professional costs compared with 2005.

Segment EBITDA for the year ended December 31, 2005 increased by US$ 7.1 million, or 48%, compared to the year ended December 31, 2004, resulting in an EBITDA margin of 30% compared to 28% in 2004.

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2005 increased by US$ 12.4 million, or 32%, compared to the year ended December 31, 2004. Cost of programming increased by US$ 5.3 million, or 22%, as a result of the full year cost of broadcasting for an additional nine hours as well as increases in the cost of popular Russian series. Another component of the increase in programming costs was due to a US$ 1.1 million cost of writing down the value of American programming that no longer generates sufficient ratings in Ukraine. Other operating costs increased by US$ 5.0 million, or 64%, primarily due to salary increases of US$ 3.0 million partially due to the restructuring of independent contractor arrangements, resulting in increased employee-related taxation costs of approximately US$ 1.1 million, and increased transmission charges of US$ 0.9 million. Transmission charges from the state transmission agency increased due to the extra cost of transmitting for the additional nine hours per day as well as due to price increases for transmission. Selling, general and administrative expenses increased by US$ 2.1 million, or 32%, due to additional facilities costs from an extra studio being operated since May 2005 to accommodate increased volumes of local production as well as local inflation.

Table of Contents

(G) UKRAINE (KINO, CITI)

On January 11, 2006, we acquired a 65.5% interest in Ukrpromtorg 2003 LLC, owner of 92.2% of Gravis LLC, which operated the local channels, CHANNEL 35 and CHANNEL 7. In July 2006, we ceased operating CHANNEL 7 and launched a new entertainment channel, KINO, targeted at a younger demographic. On December 1, 2006, we ceased operating CHANNEL 35 and launched a new youth-oriented channel, CITI, with a Kiev-wide reach.

UKRAINE (KINO, CITI) FINANCIAL INFORMATION

	For the Year Ended December 31, (US$ 000's)	
		2006
Spot revenues	$	549
Non-spot revenues		646
Segment Net Revenues	**$**	**1,195**
Represented by		
Broadcast operations	$	1,195
Non-broadcast operations		0
Segment Net Revenues	**$**	**1,195**
Segment EBITDA	**$**	**(3,713)**
Represented by		
Broadcast operations	$	(3,713)
Non-broadcast operations		-
Segment EBITDA	**$**	**(3,713)**
Segment EBITA Margin		**(311)%**

· **Segment Net Revenues** for KINO and CITI, for the period from acquisition on January 11, 2006 to December 31, 2006, were US$ 1.2 million.

Spot revenues for the period ended December 31, 2006 were US$ 0.5 million.

Non-spot revenues for the period ended December 31, 2006 were US$ 0.6 million, including game show and music clips revenue of US$ 0.2 million, production studio rent revenue of US$ 0.2 million and TV shopping revenue of US$ 0.1 million.

· **Segment EBITDA** for KINO and CITI, for the period from acquisition on January 11, 2006 to December 31, 2006, was a loss of US$ 3.7 million. Costs charged in arriving at Segment EBITDA for the period ended December 31, 2006 were US$ 4.9 million. Cost of programming was US$ 2.6 million, including US$ 1.5 million of acquired foreign programs for the KINO channel and US$ 0.9 million of production expenses for the CITI channel, mainly related to the salaries of production employees. Other operating costs were US$ 1.4 million and comprised salary costs of US$ 0.9 million and broadcast operating expenses of US$ 0.5 million. Selling, general and administrative expenses amounted to US$ 0.9 million.

Table of Contents

PROGRAMMING PAYMENTS AND PROGRAM AMORTIZATION

Our consolidated cost of programming for 2006, 2005, and 2004 was as follows:

	For the Years Ended December 31, (US$ 000's)		
	2006	2005	2004
Production expenses	$ 110,948	$ 67,366	$ 29,458
Program amortization	116,561	81,471	42,335
Cost of programming	**$ 227,509**	**$ 148,837**	**$ 71,793**

Production expenses represent the cost of in-house productions as well as locally commissioned programming, such as news, current affairs and game shows. The cost of broadcasting all other purchased programming is recorded as program amortization.

Total consolidated programming costs (including amortization of programming rights and production costs) increased by US$ 78.7 million, or 53%, in the year ended December 31, 2006 compared to 2005 due to:

- The inclusion of US$ 25.8 million of programming costs from our Slovak Republic operations, which were consolidated from January 23, 2006, having previously been accounted for as an equity affiliate;
- US$ 21.8 million of additional programming costs from our Romania operations;
- US$ 10.8 million of additional programming costs from our Ukraine (STUDIO 1+1) operations;
- US$ 9.8 million of additional programming costs from our Czech Republic operations, which are included for the entire twelve month periods rather than for the period from acquisition on May 2, 2005 in the prior year;
- US$ 6.8 million of additional programming costs from our Slovenia operations;
- US$ 2.6 million of additional programming costs from our newly acquired Ukraine (KINO, CITI) operations; and
- US$ 1.1 million of additional programming costs from our Croatia operations.

The amortization of acquired programming for each of our operations for 2006, 2005 and 2004, including our operations in the Slovak Republic (MARKIZA TV) for the period prior to January 23, 2006 when they were previously accounted for as an equity affiliate, is set out in the table below. For comparison the table also shows the cash paid for programming by each of our operations in the respective periods. The cash paid for programming by our operations in Croatia, the Czech Republic, Romania, Slovenia, Ukraine and the Slovak Republic (for the period from January 23, 2006) is reflected within net cash provided by continuing operating activities in our consolidated statement of cash flows.

Table of Contents

	For the Years Ended December 31, (US$ 000's)		
	2006	2005	2004
Program amortization:			
Croatia (NOVA TV)	$ 14,237	$ 16,373	$ 3,695
Czech Republic (TV NOVA, GALAXIE SPORT)	27,170	19,154	-
Romania (PRO TV, ACASA, PRO CINEMA and PRO TV INTERNATIONAL)	30,610	20,132	18,215
Slovak Republic (MARKIZA TV) (post-acquisition)	7,539	-	-
Slovenia (POP TV and KANAL A)	7,164	5,517	5,117
Ukraine (STUDIO 1+1)	28,354	20,295	15,308
Ukraine (KINO, CITI)	1,487	-	-
	116,561	**81,471**	**42,335**
Slovak Republic (MARKIZA TV) (pre-acquisition)	1,735	6,970	9,038
	$ 118,296	**$ 88,441**	**$ 51,373**
Cash paid for programming:			
Croatia (NOVA TV)	$ 17,165	$ 16,062	$ 3,076
Czech Republic (TV NOVA, GALAXIE SPORT)	28,237	26,027	-
Romania (PRO TV, ACASA, PRO CINEMA and PRO TV INTERNATIONAL)	48,277	40,279	22,164
Slovenia (POP TV and KANAL A)	7,067	6,200	5,177
Ukraine (STUDIO 1+1)	38,419	27,019	21,022
Ukraine (KINO, CITI)	1,096	-	-
	140,261	**115,587**	**51,439**
Slovak Republic (MARKIZA TV)	12,598	10,692	8,120
	$ 152,859	**$ 126,279**	**$ 59,559**

IV. Analysis of the Results of Consolidated Operations

OVERVIEW

We consolidate the financial statements of entities in which we hold at least a majority voting interest and also those entities which are deemed to be a Variable Interest Entity of which we are the primary beneficiary as defined by FIN 46 (R) (For further discussion, see Item 8, Note 3, “Summary of Significant Accounting Policies”). We consolidate our operations in Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine.

Entities in which we hold less than a majority voting interest but over which we have the ability to exercise significant influence are accounted for using the equity method. We accounted for our operations in the Slovak Republic and Radio Pro in Romania in this manner in 2005 and 2004. We disposed of our remaining investment in Radio Pro in August 2006 (See Item 8, Note 6, “Investments”). Following our acquisition of a controlling interest in our Slovak Republic operations on January 23, 2006, we consolidate these operations (See Item 8, Note 4, “Acquisitions and Disposals, Slovak Republic”)

Table of Contents

IV (a) Net Revenues for the years ending December 31, 2006, 2005 and 2004:

	Consolidated Net Revenues For the Years Ended December 31, (US$ 000's)					
	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Croatia	$ 22,310	$ 22,030	*$ 280*	$ 22,030	$ 9,757	*$ 12,273*
Czech Republic	208,387	154,010	*54,377*	154,010	-	*154,010*
Romania	148,616	103,321	*45,295*	103,321	73,843	*29,478*
Slovakia	71,660	-	*71,660*	-	-	-
Slovenia	54,534	48,770	*5,764*	48,770	45,388	*3,382*
Ukraine (STUDIO 1+1)	96,413	72,847	*23,566*	72,847	53,351	*19,496*
Ukraine (KINO, CITI)	1,195	-	*1,195*	-	-	-
Total Consolidated Net Revenues	**$ 603,115**	**$ 400,978**	***$ 202,137***	**$ 400,978**	**$ 182,339**	***$ 218,639***

Our consolidated net revenues increased by US$ 202.1 million, or 50%, for the year ended December 31, 2006 compared to 2005 due to:

· A US$ 0.3 million increase in the net revenues of our Croatia operations as described above in Item 7, III "Analysis of Segment Results";

· A US$ 54.4 million, or 35.3%, increase in the net revenues of our Czech Republic operations as described in Item 7, III "Analysis of Segment Results";

· A US$ 45.3 million, or 43.8%, increase in the net revenues of our Romania operations as described above in Item 7, III "Analysis of Segment Results";

· The inclusion of US$ 71.7 million of net revenues from our newly consolidated Slovak Republic operations as described in Item 7, III "Analysis of Segment Results";

· A US$ 5.8 million, or 11.8%, increase in the net revenues of our Slovenia operations as described above in Item 7, III "Analysis of Segment Results";

· A US$ 23.6 million, or 32.4%, increase in the net revenues of our Ukraine (STUDIO 1+1) operations as described above in Item 7, III "Analysis of Segment Results"; and

· The inclusion of US$ 1.2 million of net revenues from our newly consolidated Ukraine (KINO, CITI) operations as described in Item7, III "Analysis of Segment Results".

Our consolidated net revenues increased by US$ 218.6 million, or 120% during 2005 compared to 2004.

Table of Contents

IV (b) Total Operating Expenses for the years ending December 31, 2006, 2005 and 2004

	Consolidated Operating Expenses For the Years Ended December 31, (US$ 000's)					
	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Operating costs	$ 90,060	$ 65,138	*$ 24,922*	$ 65,138	$ 33,615	*$ 31,523*
Cost of programming	227,509	148,837	*78,672*	148,837	71,793	*77,044*
Station selling, general and administrative expenses	65,412	46,382	*19,030*	46,382	22,112	*24,270*
Depreciation of station property, plant and equipment	25,795	16,367	*9,428*	16,367	6,429	*9,938*
Amortization of broadcast licenses and other intangibles	18,813	11,180	*7,633*	11,180	465	*10,715*
Corporate operating costs	34,104	25,547	*8,557*	25,547	29,254	*(3,707)*
Impairment Charge	748	35,331	*(34,583)*	35,331	-	*35,331*
Total Operating Expenses	**$ 462,441**	**$ 348,782**	***$ 113,659***	**$ 348,782**	**$ 163,668**	***$ 185,114***

Total operating expenses increased by US$ 113.7 million, or 32%, in 2006 compared to 2005.

For the year ended December 31, 2005 total operating expenses increased by US$ 185.1 million, or 113%, compared to 2004.

Further detail on the change in the components of Total Operating Expenses is provided below:

Operating Costs: Total consolidated station operating costs (excluding programming costs, depreciation of station property, plant and equipment, amortization of broadcast licences and other intangibles as well as station selling, general and administrative expenses) increased by US$ 24.9 million, or 38%, in 2006 compared to 2005 primarily due to:

· A US$ 1.1 million, or 12%, decrease in the station operating costs of our Croatia operations as described in Item 7, III "Analysis of Segment Results";

· Operating costs of our Czech Republic operations increasing by US$ 11.1 million, or 74.8%, as described in Item 7, III "Analysis of Segment Results";

· Operating costs of our Romania operations decreasing by US$ 1.2 million, or 7%, as described in Item 7, III "Analysis of Segment Results";

· The inclusion of US$ 15.2 million of additional station operating costs relating to our newly consolidated Slovak Republic operations;

· Operating costs of our Slovenia operations decreasing by US$ 2.0 million, or 17%, as described in Item 7, III "Analysis of Segment Results";

· Operating costs of our Ukraine (STUDIO 1+1) operations increasing by US$ 1.5 million, or 11.9%, as described in Item 7, III “Analysis of Segment Results”; and

· The inclusion of US$ 1.4 million of additional station operating costs relating to our new Ukraine (KINO, CITI) operations.

Total consolidated station operating costs increased by US$ 31.5 million, or 94%, in 2005 compared to 2004.

Table of Contents

Cost of Programming: Total consolidated programming costs (including amortization of programming rights and production costs) increased by US$ 78.7 million or 52.9% in 2006 compared to 2005 primarily due to:

· A US$ 1.1 million, or 5%, increase in the programming costs of our Croatia operations as described in Item 7, III "Analysis of Segment Results";

· A US$ 9.9 million, or 19.6%, increase in the programming costs of our Czech Republic operations as described in Item 7, III "Analysis of Segment Results;

· A US$ 21.7 million, or 61.8%, increase in the programming costs of our Romania operations as described in Item 7, III "Analysis of Segment Results";

· The inclusion of US$ 25.8 million of additional programming costs relating to our newly consolidated Slovak Republic operations;

· A US$ 6.8 million, or 52.3%, increase in the programming costs of our Slovenia operations station operating costs and expenses of our Slovenia operations as described in Item 7, III "Analysis of Segment Results"; and

· A US$ 10.8 million, or 36.3%, increase in the programming costs of our Ukraine (STUDIO 1+1) operations as described in Item 7, III "Analysis of Segment Results"; and

· The inclusion of US$ 2.6 million of additional programming costs from our new Ukraine (KINO, CITI) operations as described in Item 7, III "Analysis of Segment Results".

Total consolidated programming costs (including amortization of programming rights and production costs) increased by US$ 77.0 million, or 107%, in 2005 compared to 2004.

Station Selling, General and Administrative Expenses: Total consolidated station selling, general and administrative expenses increased by US$ 19.0 million, or 41%, in 2006 compared to 2005 primarily due to:

· A US$ 1.2 million, or 15%, decrease in the station selling, general and administrative expenses of our Croatia operations as described in Item 7, III "Analysis of Segment Results";

· A US$ 4.4 million, or 26.3%, increase in the station selling, general and administrative expenses of our Czech Republic operations as described in Item 7, III "Analysis of Segment Results";

· A US$ 2.7 million, or 33.8%, increase in the station selling, general and administrative expenses of our Romania operations as described in Item 7, III "Analysis of Segment Results";

· The inclusion of US$ 8.5 million of station selling, general and administrative expenses from our newly consolidated Slovak Republic operations;

· A US$ 0.5 million, or 10.9%, increase in the station selling, general and administrative expenses of our Slovenia operations as described in Item 7, III "Analysis of Segment Results";

· A US$ 3.1 million, or 35.9%, increase in the station selling, general and administrative expenses of our Ukraine (STUDIO 1+1) operations as described in Item 7, III "Analysis of Segment Results"; and

·

The inclusion of US$ 0.9 million of station selling, general and administrative expenses from our new Ukraine (KINO, CITI) operation as described in Item 7, III "Analysis of Segment Results";

Total consolidated station selling, general and administrative expenses increased by US$ 24.3 million, or 110%, in 2005 compared to 2004.

Table of Contents

Depreciation of Station Property, Plant and Equipment: Total consolidated depreciation of station property, plant and equipment increased by US$ 9.4 million, or 57.6%, in 2006 compared to 2005 primarily due to:

- A US$ 2.2 million, or 38%, increase in the depreciation costs of our Czech Republic due to depreciation of newly acquired production equipment assets;

- A US$ 1.3 million, or 38%, increase in the depreciation costs of our Romania operations due to depreciation of newly acquired production equipment assets;

- The inclusion of US$ 3.2 million of additional depreciation relating to our newly consolidated Slovak Republic operations;

- A US$ 1.1 million, or 36%, increase in the depreciation costs of our Slovenia operations as a result of depreciation of newly acquired digital production and editing equipment assets;

- A US$ 1.2 million, or 76%, increase in the depreciation costs of our Ukraine (STUDIO 1+1) operations due to depreciation of newly acquired studio equipment assets; and

- The inclusion of US$ 0.4 million of additional depreciation costs of our newly acquired Ukraine (KINO, CITI) operations.

Total consolidated depreciation of station property, plant and equipment increased by US$ 9.9 million, or 154.6%, in 2005 compared to 2004.

Amortization of Broadcast Licenses and Other Intangibles: Total consolidated amortization of broadcast licenses and other intangibles increased by US$ 7.6 million in 2006 compared to 2005 primarily as a result of the amortization of the broadcast license and customer relationships of our newly consolidated Slovak Republic operations.

Total consolidated amortization of broadcast licenses and other intangibles increased from US$ 0.5 million to US$ 11.2 million in 2005 compared to 2004.

Corporate operating costs (including non-cash stock-based compensation) for the years ending December 31, 2006, 2005, and 2004 were as follows:

	For the Years Ended December 31, (US$ 000's)					
	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Corporate operating costs (excluding non-cash stock-based compensation)	$ 30,529	$ 22,420	*$ 8,109*	$ 22,420	$ 19,083	*$ 3,337*
Non-cash stock-based compensation(1)	3,575	3,127	*448*	3,127	10,171	*(7,044)*
Corporate operating costs (including non-cash stock-based compensation)	**$ 34,104**	**$ 25,547**	***$ 8,557***	**$ 25,547**	**$ 29,254**	***$ (3,707)***

(1) The amounts charged in the years ended December 31, 2005 and 2004 have been restated (for further information, see Item 8, Note 2, "Restatement").

The increase in corporate operating costs (excluding non-cash stock-based compensation) of US$ 8.1 million in 2006 compared to 2005 was principally due to:

- an increase in legal expenses in connection with our investments in Ukraine and legal proceedings in respect of our Ukraine operations;

- professional fees incurred in reviewing our historic stock option granting practices;

Table of Contents

- an increase in staff-related costs caused by an increase in corporate staff as we brought in-house, certain activities that had previously been outsourced; and

- an increase in business development expenses.

Included within corporate operating costs is a lease-exit charge of approximately US$ 1.6 million (including additional depreciation of US$ 0.3 million) incurred following relocation of our London office;

The increase in corporate costs (excluding non-cash stock-based compensation) in 2005 compared to 2004 was primarily due to:

- an increase in staff-related costs caused by an increase in corporate staff , and temporary staff costs relating to the acquisition of the TV Nova (Czech Republic) group; and

- an increase in professional fees in respect of legal, tax and press and public relations expenses relating to advice in connection with our investment in Ukraine, legal proceedings in respect of our Ukraine operations and in connection with the acquisition of our Czech Republic operations and subsequent listing on the Prague Stock Exchange together with an increase in investor relations activity;

partly off-set by:

- a decrease in business development expenses.

The increase in the charge for non-cash stock-based compensation in 2006 compared to 2005 reflects an increase in the number of stock options issued during 2006 compared to 2005 as well as an increase in the fair value of our stock options as our stock price has increased. The reduction in the charge for non-cash stock-based compensation in 2005 compared to 2004 reflects a reduction in the charge for the options accounted for under FASB interpretation 44, the last of which were exercised on December 15, 2005 (see Item 8, Note 17, “Stock-Based Compensation”).

Impairment charge: In the year ended December 31, 2006, we recognized an impairment charge of US$ 0.7 million with respect to our Croatia operations.

When we updated our medium-term forecast models at June 30, 2006, we determined that the forecast future cash flows of our Croatia operations had decreased compared to our previous forecast. We therefore reviewed the carrying value of the intangible assets with indefinite lives to determine whether the assets are impaired. As a result of our analysis, we recognized an impairment charge of US$ 0.7 million to write down the carrying value of goodwill to US$ nil.

We performed a similar review of our Croatia operations in late June 2005 and recorded an impairment charge of US$ 35.3 million at that time, of which US$ 18.6 million was attributable to the broadcast license, US$ 7.0 million to trademarks and US$ 9.7 million to goodwill. Included in the provision for income taxes for the year ended December 31, 2005 is a US$ 5.1 million credit representing a release of deferred tax relating to the impairment charge on the license and trademark.

IV (c) Operating Income for the years ending December 31, 2006, 2005 and 2004

	For the Years Ended December 31, (US$ 000’s)					
	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Operating income	$ 140,674	$ 52,196	$ *88,478*	$ 52,196	$ 18,671	$ *33,525*

Operating income increased by US$ 88.5 million, or 170%, in the year ended December 31, 2006 compared to 2005. Operating margin was 23% compared to 13% in 2005.

Table of Contents

Operating income increased by US$ 33.5 million, or 180%, in the year ended December 31, 2005 compared to 2004. Operating margin was 13% compared to 10% in 2004.

IV (d) Other expense items for the years ending December 31, 2006, 2005 and 2004

	For the Years Ended December 31, (US$ 000's)					
	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Interest income	$ 6,365	$ 4,124	*$ 2,241*	$ 4,124	$ 4,318	*$ (194)*
Interest expense	(44,228)	(29,387)	*(14,841)*	(29,387)	(1,203)	*(28,184)*
Foreign currency exchange (loss)/gain, net	(44,908)	37,968	*(82,876)*	37,968	(574)	*38,542*
Other income/(expense)	3,038	(4,705)	*7,743*	(4,705)	(698)	*(4,007)*
Change in fair value of derivatives	(12,539)	-	*(12,539)*	-	-	-
Provision for income taxes	(14,962)	(16,691)	*1,729*	(16,691)	(11,089)	*(5,602)*
Minority interest in income of consolidated subsidiaries	(13,602)	(8,908)	*(4,694)*	(8,908)	(4,106)	*(4,802)*
Equity in (loss)/income of unconsolidated affiliates	(730)	8,238	*(8,968)*	8,238	10,619	*(2,381)*
Gain on sale of unconsolidated affiliate	6,179	-	*6,179*	-	-	-
Discontinued operations	(4,863)	(513)	*(4,350)*	(513)	2,524	*(3,037)*

Interest income increased by US$ 2.2 million in 2006 compared to 2005 primarily as a result of our maintaining a higher average cash balance in 2006. Interest income decreased by US$ 0.2 million in 2005 compared to 2004 primarily as a result of our maintaining a lower average cash balance in 2005 compared to 2004 and investments in short-term securities.

Table of Contents

Interest expense increased by US$ 14.8 million in 2006 compared to 2005 primarily as a result of a full year interest charge relating to our Senior Notes issued in May 2005 (see Item 8, Note 7, "Senior Notes"). Interest expense increased by US$ 28.2 million in 2005 compared to 2004.

Foreign currency (loss)/gain: During 2006, we recognized a US$ 44.9 million loss primarily as a result of the strengthening of the Euro against the US dollar over that period. Our fixed and floating rate Senior Notes are denominated in Euros, and we incurred a transaction loss of approximately US$ 50.8 million on the Senior Notes due to movements in the spot rate between December 31, 2005 and December 31, 2006.

In 2005 we recognized a foreign currency exchange gain of US$ 38.0 million compared to a loss of US$ 0.6 million in 2004. This was primarily due to the strengthening of the US dollar between May 2005, when we issued our Senior Notes, and December 31, 2005.

Other income/(expense): We recognized income of US$ 3.0 million in 2006 following the release of provisions against certain historic tax contingencies within our Romania operations.

The expense of US$ 4.7 million in 2005 was primarily a result of a US$ 3.4 million fee incurred to secure bridge financing for our acquisition of the TV NOVA (Czech Republic) group in May 2005. We did not ultimately utilize this bridge financing.

Change in fair value of derivatives: During 2006, we incurred a US$ 12.5 million loss as a result of the change in the fair value of the currency swaps entered into on April 27, 2006. For further information, see Item 8, Note 14, "Financial Instruments".

Provision for income taxes: Provision for income taxes was US$ 15.0 million in 2006, at an effective tax rate of 30.9%, compared to US$ 16.7 million, at an effective tax rate of 27.8%, in 2005. In 2006 our stations paid income taxes at rates ranging from 16.0% in Romania to 25.0% in Slovenia and Ukraine. Our effective tax rate in 2005 benefited from a deferred tax credit of US$ 5.1 million with respect to the impairment of our Croatia operations (For further information see Item 8, Note 5, "Goodwill and Intangible Assets, Impairment"). We recorded a provision for income taxes of US$ 11.1 million in 2004. For further information on taxes, see Item 8, Note 16, "Income Taxes".

Minority interest in income of consolidated subsidiaries: Minority interest in the income of consolidated subsidiaries was US$ 13.6 million in 2006 compared to US$ 8.9 million in 2005 and US$ 4.1 million in 2004. This is as a result of higher profitability of our Romania, Slovak Republic and Ukraine operations.

Equity in (loss)/income of unconsolidated affiliates: As explained in Item 1, "Business", some of our broadcasting licenses were held by unconsolidated affiliates over which we had minority blocking rights but not majority control. These affiliates were accounted for using the equity method.

Our Slovak Republic operations ceased to be accounted for as an equity affiliate on January 23, 2006, when we acquired majority control of the license company via our acquisition of ARJ (for further information see Item 8, Note 4, "Acquisitions and Disposals, Slovak Republic"). We disposed of our Romanian equity affiliate on August 11, 2006 (for further information see Item 8, Note 6, "Investments").

	For the Years Ended December 31, (US$ 000's)					
	2006	**2005**	***Movement***	**2005**	**2004**	***Movement***
Slovak Republic operations	$ (737)	$ 8,240	*$ (8,977)*	$ 8,240	$ 10,382	*$ (2,142)*
Romania operations	7	(2)	*9*	(2)	237	*(239)*
Slovenia operations	-	-	-	-	-	-

Equity in (loss)/income of unconsolidated affiliates	**$**	**(730)**	**$**	**8,238**	***$***	***(8,968)***	**$**	**8,238**	**$**	**10,619**	***$***	***(2,381)***

Gain on sale of unconsolidated affiliate: We recognized a gain of US$ 6.2 million on the sale of our investment in Radio Pro to Media Pro, a company controlled by Adrian Sarbu on August 11, 2006. For further information, see Item 8, Note 6, “Investments”.

Discontinued operations: The amounts charged to the consolidated statements of operations in respect of discontinued operations are as follows:

	For the Years Ended December 31, (US$ 000’s)											
		2006		**2005**		***Movement***		**2005**		**2004**		***Movement***
Gain on disposal of discontinued operations	$	-	$	164	*$*	*(164)*	$	164	$	146	*$*	*18*
Tax on disposal of discontinued operations		(4,863)		(677)		*(4,186)*		(677)		2,378		*(3,055)*
Discontinued operations	**$**	**(4,863)**	**$**	**(513)**	***$***	***(4,350)***	**$**	**(513)**	**$**	**2,524**	***$***	***(3,037)***

On June 19, 2003, our Board of Directors decided to withdraw from operations in the Czech Republic. On October 23, 2003 we sold our 93.2% participation interest in CNTS, our former Czech Republic operating company, for US$ 53.2 million.

Table of Contents

The revenues and expenses of our former Czech Republic operations and the award income and related legal expenses have therefore all been treated as discontinued operations for each year. The amounts charged to discontinued operations in 2006 largely represent revised estimates of additional payments we expect to make to the Dutch tax authorities pursuant to the agreement we entered into on February 9, 2004.

For additional information, see Item 8, Note 20, "Discontinued Operations".

IV (e) Consolidated Balance Sheet as at December 31, 2006 compared to December 31, 2005

The principal components of our Consolidated Balance Sheet at December 31, 2006 have increased compared to December 31, 2005. These increases are summarized below:

Summarized Consolidated Balance Sheet (US$ 000's)	December 31, 2006	December 31, 2005	Movement
Current assets	$ 413,616	$ 286,926	$ 126,690,
Non-current assets	1,405,384	1,101,924	303,460
Current liabilities	182,961	206,961	(24,000)
Non-current liabilities	574,084	488,099	85,985
Minority interests in consolidated subsidiaries	26,189	13,237	12,952
Shareholders' equity	1,035,766	680,553	355,213

Current assets: Current assets have increased US$ 126.7 million at December 31, 2006 compared to December 31, 2005, primarily as a result of the receipt of the cash proceeds from the offering of 2,530,000 shares of Class A Common Stock completed on March 29, 2006, partially offset by the use of cash to fund acquisitions and reduce amounts drawn under credit facilities. Accounts receivable increased by US$ 55.1 million, as our operations in the Czech Republic and Romania enjoyed strong growth, and approximately US$ 22.4 million of the increase in the value of our current assets was due to consolidation of our Slovak Republic operations following our acquisition of ARJ on January 23, 2006.

Non-current assets: Non-current assets have increased US$ 303.5 million at December 31, 2006 compared to December 31, 2005, primarily as a result of the impact of the weakening US dollar on the retranslation of our Czech Crown-denominated assets in the Czech Republic, as well as the recognition of additional goodwill and other intangible assets following the acquisition of an additional 5% stake in our Romania operations. Of the increase in the value of our non-current assets, approximately US$ 40.5 million was due to the consolidation of the non-curent assets of our Slovak Republic operations following the acquisition of ARJ on January 23, 2006.

Current liabilities: Current liabilities have decreased US$ 24.0 million at December 31, 2006 compared to December 31, 2005, primarily as a result of the repayment of US$ 25.1 million of amounts due under credit facilities in the Czech Republic, and the payment of deferred consideration of US$ 24.4 million relating to the acquisition of our Czech Republic operations, partially offset by an increase of US$ 25.9 million in accounts payable and an additional US$ 13.4 million of accrued programming liabilities. Consolidation of the liabilities of our Slovak Republic operations following the acquisition of ARJ on January 23, 2006 has increased the value of our current liabilities by approximately US$ 12.7 million.

Non-current liabilities: Non-current liabilities have increased US$ 86.0 million at December 31, 2006 compared to December 31, 2005, reflecting a US$ 50.9 million increase in the value of our Senior Notes as a result of the movement in the spot rate between December 31, 2005 and December 31, 2006, as well as recognition of an additional US$ 15.9 million of deferred tax liabilities and a liability of US$ 12.5 million on the revaluation of the currency swaps entered into in April 2006.

Minority interests in consolidated subsidiaries: Minority interests in consolidated subsidiaries have increased US$ 13.0 million at December 31, 2006 compared to December 31, 2005, primarily as a result of the recognition of a minority interest in our newly consolidated Slovak Republic operations, which had previously been reported as an equity accounted affiliate, as well as improved profitability of our Romania and Ukraine operations.

Table of Contents

Shareholders' equity: Total shareholders' equity has increased US$ 355.2 million at December 31, 2006 compared to December 31, 2005, primarily as a result of the sale in a public offering of 2,530,000 shares of Class A Common Stock on March 29, 2006 for net proceeds of approximately US$ 168.7 million.

The remaining movement in shareholders' equity relates to an increase in Accumulated Other Comprehensive Income (US$ 157.5 million), proceeds from the exercise of stock options (US$ 3.7 million), stock-based compensation charge (US$ 4.9 million), and net income for the year ended December 31, 2006 of US$ 20.4 million.

V. Liquidity and Capital Resources

V (a) Summary of cash flows:

Cash and cash equivalents increased by US$ 74.2 million during the year ended December 31, 2006. The change in cash and cash equivalents is summarized as follows:

(US$ 000's)	**For the Years Ended December 31,**		
	2006	**2005**	**2004**
Net cash generated from continuing operating activities	$ 73,395	$ 3,544	$ 2,415
Net cash used in continuing investing activities	(126,955)	(298,803)	(57,009)
Net cash received from financing activities	132,400	225,359	1,886
Net cash used in discontinued operations - operating activities	(1,690)	(2,000)	(9,463)
Net cash received from discontinued operations - investing activities	-	-	20,349
Impact of exchange rate fluctuations on cash	(2,904)	(9,010)	2,144
Net increase / (decrease) in cash and cash equivalents	**$ 74,246**	**$ (80,910)**	**$ (39,678)**

Operating Activities

Cash generated from continuing operations in 2006 increased US$ 69.9 million to US$ 73.4 million. This reflects (i) the level of cash generated by our Czech Republic operations, which has been consolidated for a full year in 2006 rather than for the period from acquisition on May 2, 2005; (ii) consolidation of our Slovak Republic operations; and (iii) improved station performance in Romania, Slovenia and Ukraine (Studio 1+1), partially offset by negative cash flows of our Croatia and Ukraine (KINO, CITI) operations.

Cash generated from continuing operations was reduced in 2006 by US$ 10.0 million, and in 2005 by US$ 41.6 million, by repayment of the settlement liability of the TV Nova (Czech Republic) group, described in greater detail below. Excluding these repayments, cash generated from continuing operating activities increased by US$ 41.5 million in 2006.

Cash generated from continuing operations in 2005 increased US$ 1.1 million to US$ 3.5 million, despite having made a US$ 41.6 million partial repayment of the settlement liability of the TV Nova (Czech Republic) group. The settlement liability represented an amount owed by CET 21 under a settlement agreement among CET 21, Ceska nezavisla televizni spolecnost, spol. s.r.o. ("CNTS") and the PPF Group dated December 19, 2003. This liability was assumed as part of the TV Nova (Czech Republic) group acquisition and has been refinanced at lower interest rates using our credit facilities from Ceska Sporitelna, a.s. The income from refinancing appears within net cash received

from financing operations and the remaining US$ 10.0 million was settled in January 2006.

Table of Contents

Excluding the payment of the settlement liability, cash generated from operating activities was US$ 45.2 million. This reflects the level of cash generated by our Czech Republic operations, improved station performance in Romania and Ukraine, and an increase in dividends received from our Slovak Republic operations. These were partially offset by negative cash flows of our Croatia operations.

In 2004, net cash generated by continuing operations of US$ 2.4 million was after decreases in working capital for increased accounts receivable (US$ 9.1 million), increased investment in program rights (US$ 45.4 million) and other assets (US$ 4.6 million) and decreased accounts payable and accrued liabilities (US$ 13.6 million).

Investing Activities

Cash used in investing activities decreased US$ 171.8 million from 2005 to US$ 127.0 million in 2006. Our investing cash flows in 2006 were primarily comprised of:

- Capital expenditure of US$ 60.4 million, largely in respect of the expansion of our broadcasting facilities and equipment in Romania and the Czech Republic;
- A payment of US$ 30.1 million in connection with our acquisition of ARJ (see Item 8, Note 4, "Acquisitions and Disposals, Slovak Republic");
- A payment of US$ 27.2 million in connection with the 5% increase in our holding of our Romanian operations (see Item 8, Note 4, "Acquisitions and Disposals, Romania");
- A payment of EUR 8.0 million (approximately US$ 10.3 million) in connection with our acquisition of our 10% stake in Media Pro (see Item 8, Note 6, "Investments"); and
- A payment of a further US$ 2.0 million following completion of our acquisition of a 65.5% stake in Ukrpromtorg-2003 LLC (see Item 8, Note 4, "Acquisitions and Disposals, Ukraine").

In 2005, net cash used in investing activities of US$ 298.8 million consisted primarily of the following:

- Total cash payments of US$ 218.1 million (net of cash acquired of US$ 35.6 million) for the acquisition of the TV Nova (Czech Republic) group in May 2005 (see item 8, Note 4, "Acquisitions and Disposals, Czech Republic"). The remainder of the total purchase price of US$ 909.5 million consisted of non-cash items, including:
  - the issuance of 3.5 million shares of Class A Common Stock (US$ 120.9 million);
  - the incurrence of US$ 491.7 million of short-term indebtedness to PPF (which was repaid in cash on May 5, 2005);
  - forgiveness of a US$ 18.5 million balance categorized as "Other Receivable" in our Consolidated Balance Sheet as at December 31, 2004; and
  - the placement of US$ 24.7 million of cash into escrow as the second and final payment to Mr. Krsak;
- A payment of US$ 20.0 million in connection with the 5% increase in our holding of our Romania operations;
- A payment of US$ 2.1 million in connection with our acquisition of Galaxie Sport;
- A payment of Euro 4.7 million (approximately US$ 5.7 million) to acquire the remaining 3.15% interest in Pro Plus;

Table of Contents

- Advance payments of US$ 5.1 million with respect to our acquisition of a 65.5% interest in Ukrpromtorg 2003 LLC (see Item 8, Note 4, "Acquisitions and Disposals, Ukraine");

- Capital expenditures of approximately US$ 26.5 million, primarily related to upgrades of broadcasting facilities and production equipment; and

- A net increase in restricted cash of US$ 18.6 million, of which US$ 24.6 million was a result of the acquisition of the TV Nova (Czech Republic) group, US$ 0.7 million of other increases, and a reduction of US$ 6.7 million being the second payment for our acquisition of our Croatia operations.

In 2004, net cash used in investing activities of US$ 57.0 million was due to investments in subsidiaries and unconsolidated affiliates, primarily in Croatia and Romania, of US$ 35.8 million, investment in property, plant and equipment of US$ 10.8 million, and increased restricted cash of US$ 10.1 million relating to cash held in escrow for the acquisition of our Croatia operations.

Financing Activities

Net cash received from financing activities decreased US$ 93.0 million from 2005 to US$ 132.4 million in 2006. Net proceeds from financing activities in 2006 consisted primarily of the following:

- Receipt of approximately US$ 168.7 million (net of fees) from a public offering of 2,530,000 shares of our Class A Common Stock;

- Receipts of US$ 36.7 million from drawing on credit facilities in Czech Republic and Slovenia, largely to finance the acquisition of ARJ and the increased investment in our Romania operations; and

- Repayment of US$ 75.3 million of amounts drawn under the same credit facilities.

Net proceeds from financing activities of US$ 225.4 million in 2005 consisted primarily of the following:

- Net proceeds of approximately US$ 465.1 million from the issuance of our Senior Notes (see Item 8, Note 7, "Senior Notes"). The proceeds from this loan were used to finance part of the acquisition of the TV Nova (Czech Republic) group;

- Net proceeds from the issuance of Class A Common Stock of approximately US$ 236.5 million, of which US$ 230.6 million was raised from the issuance of 5.4 million shares of Class A Common Stock, the proceeds of which were used for our acquisition of the TV Nova (Czech Republic) group and approximately US$ 5.9 million from stock option exercises;

- Proceeds from borrowing of our Czech Republic operations (US$ 42.7 million) and our Slovenia operations (US$ 23.2 million). US$ 41.6 million of the proceeds from the borrowings of our Czech Republic operations were used to repay the settlement liability discussed in Operating Activities above;

- Repayments of indebtedness by our Czech Republic operations (US$ 8.0 million), our Slovenia operations (US$ 31.7 million) and our Croatia operations (US$ 0.3 million); and

- Repayments of short-term indebtedness to PPF for the purchase of the TV Nova (Czech Republic) group (US$ 491.7 million) and Galaxie Sport (US$ 3.0 million).

In 2004, net cash received from financing activities of US$ 1.9 million was due to the issuance of shares of Class A Common Stock of US$ 4.2 million relating to warrants and stock options being exercised, offset by net repayments under certain credit facilities and capital leases (US$ 2.3 million).

Table of Contents

Discontinued Operations

Pursuant to the agreement we entered into with the Dutch tax authorities on February 9, 2004, we paid US$ 1.7 million in 2006 compared to US$ 2.0 million during 2005.

In 2004, we paid taxes of US$ 9.0 to the Dutch tax authorities pursuant to this agreement and incurred US$ 0.5 of other expenses in connection with the disposal of our former Czech Republic operations. We also received a second payment (of US$ 20.3 million) from PPF in respect of the sale of CNTS, our former Czech Republic operating company.

V (b) Sources and Uses of Cash

We believe that our current cash resources are sufficient to allow us to continue operating for at least the next 12 months and we do not anticipate additional cash requirements in the near future subject to the matters disclosed under "Contractual Obligations, Commitments and Off-Balance Sheet Arrangements" and "Cash Outlook", below.

Our ongoing source of cash at the operating stations is primarily the receipt of payments from advertisers and advertising agencies. This may be supplemented from time to time by local borrowing. Surplus cash generated in this manner, after funding the ongoing station operations, may be remitted to us, or to other shareholders where appropriate. Surplus cash is remitted to us in the form of debt interest payments and capital repayments, dividends, and other distributions and loans from our subsidiaries.

Corporate law in the Central and Eastern European countries in which we operate stipulates generally that dividends may be declared by the partners or shareholders out of yearly profits subject to the maintenance of registered capital, required reserves and after the recovery of accumulated losses. Except as set forth below, our voting power is sufficient to compel the making of distributions.

In the case of Nova TV (Croatia), distributions may be paid from net profits subject to a reserve of 5% of annual profits until the aggregate reserves equal 5% of the registered capital of Nova TV (Croatia). In the case of CET 21, distributions may be paid from net profits subject to a reserve of 5% of net profits until the aggregate reserves equal 10% of the registered capital of CET 21. In the case of Pro TV, distributions may be paid from the profits of Pro TV subject to a reserve of 5% of annual profits until the aggregate reserves equal 20% of Pro TV's registered capital. A majority vote is required in order for Pro TV to make distributions and we have sufficient voting power to compel distributions of dividends. In the case of STS, distributions may be paid from net profits subject to an initial reserve requirement of 10% of net profits until the reserve fund equals 5% of registered capital. Subsequently, the reserve requirement is equal to 5% of net profits until the reserve fund equals 10% of registered capital. As of January 23, 2006, we had a sufficient majority to compel the distributions of dividends by STS. In the case of Pro Plus, distributions may be paid from the profits of Pro Plus, subject to a reserve equal to 10% of registered capital being established from accumulated profits. In the case of Studio 1+1, distributions may be paid from net profits subject to a reserve of 5% of net profits until the aggregate reserves equals 25% of the registered capital of Studio 1+1. We do not have a sufficient majority in Studio 1+1 to compel the distribution of dividends. In the case of Intermedia, Innova and IMS, distributions may be paid from their profits and there is no reserve requirement for these companies. Our voting power in Innova and IMS is sufficient to compel the distribution of dividends.

STS made dividend distributions to us in 2006, 2005, and 2004; Pro TV made dividend distributions to us in 2006 and 2005, and Pro Plus made dividend distributions to us in 2006 and 2004. We also received payments of loan principal and interest from our operations in the Czech Republic, Romania and Ukraine.

Table of Contents

As at December 31, 2006 and 2005 the operations had the following unsecured intercompany balances owing to their respective holding companies:

Operating segment (US$ 000's)	**December 31, 2006**	**December 31, 2005**
Croatia	$ 67,623	$ 40,166
Czech Republic	434,897	441,569
Romania	25,620	28,873
Slovak Republic	23,670	88
Slovenia	-	39
Ukraine (STUDIO 1+1)	-	10,617
Ukraine (KINO, CITI)	4,621	-
Total	**$ 556,431**	**$ 521,352**

V (c) Contractual Obligations, Commitments and Off-Balance Sheet Arrangements

Our future contractual obligations as at December 31, 2006 are as follows:

Contractual Obligations	**Payments due by period (US$ 000's)**				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-Term Debt - principal	$ 501,816	$ 12,350	$ 1,870	$ 305	$ 487,291
Long-Term Debt - interest	266,857	41,895	83,839	83,635	57,488
Capital Lease Obligations	6,735	998	1,450	864	3,423
Operating Leases	7,729	3,983	2,567	1,179	-
Unconditional Purchase Obligations	124,895	115,668	9,064	13	150
Other Long-Term Obligations	25,089	21,981	3,108	-	-
Total Contractual Obligations	**$ 933,121**	**$ 196,875**	**$ 101,898**	**$ 85,996**	**$ 548,352**

Long-Term Debt

As at December 31, 2006 we had the following debt outstanding:

		December 31, 2006 (US$ 000's)
Corporate	(1) - (2)	$ 487,291
Croatia operations	(3)	847
Czech Republic operations	(4) - (6)	11,975
Slovenia operations	(7)	-
Ukraine operations	(8)	1,703
Total		$ 501,816

(1) In May 2005, we issued Senior Notes in the aggregate principal amount of EUR 370.0 million consisting of EUR 245.0 million of 8.25% Senior Notes due May 2012 and EUR 125.0 million of floating rate Senior Notes due May 2012, which bear interest at six-month Euro Inter-Bank Offered Rate ("EURIBOR") plus 5.50% (9.23% was applicable at December 31, 2006). Interest is payable semi-annually in arrears on each May 15 and November 15.

Table of Contents

The Senior Notes are secured senior obligations and rank pari passu with all existing and future senior indebtedness and are effectively subordinated to all existing and future indebtedness of our subsidiaries. The amounts outstanding are guaranteed by certain of our subsidiaries and are secured by a pledge of shares of these subsidiaries and an assignment of certain contractual rights. The terms of our indebtedness restrict the manner in which our business is conducted, including the incurrence of additional indebtedness, the making of investments, the payment of dividends or the making of other distributions, entering into certain affiliate transactions and the sale of assets.

In the event that (A) there is a change in control by which (i) any party other than our present shareholders becomes the beneficial owner of more than 35.0% of our total voting power; (ii) we agree to sell substantially all of our operating assets; or (iii) there is a change in the composition of a majority of our Board of Directors; and (B) on the 60th day following any such change of control the rating of the Senior Notes is either withdrawn or downgraded from the rating in effect prior to the announcement of such change of control, we can be required to repurchase the Senior Notes at a purchase price in cash equal to 101.0% of the principal amount of the Senior Notes plus accrued and unpaid interest to the date of purchase.

At any time prior to May 15, 2008, we may redeem up to 35.0% of the fixed rate Senior Notes with the proceeds of any public equity offering at a price of 108.250% of the principal amount of such notes, plus accrued and unpaid interest, if any, to the redemption date. In addition, prior to May 15, 2009, we may redeem all or a part of the fixed rate Senior Notes at a redemption price equal to 100.0% of the principal amount of such notes, plus a “make-whole” premium and accrued and unpaid interest, if any, to the redemption date.

As of December 31, 2006, Standard & Poor’s senior unsecured debt rating for our Senior Notes remained unchanged from December 31, 2005 at B+, with a corporate credit rating of BB- / stable. At December 31, 2006, Moody’s Investors Service’s rating of both our corporate credit rating and our Senior Notes due 2012 was Ba3 stable.

(2) On July 21, 2006, we entered into a five-year revolving loan agreement for EUR 100.0 million (approximately US$ 131.7 million) arranged by the European Bank for Reconstruction and Development (the “Loan”). ING Bank N.V. (“ING”) and Ceska Sporitelna, a.s. (“CS”) are participating in the facility for up to EUR 50.0 million in aggregate. Initial drawings up to EUR 100.0 million will be used for certain specified projects in Central and Eastern Europe.

The Loan bears interest at a rate of three-month EURIBOR plus 2.75% on the drawn amount. The available amount of the Loan amortizes by 7.5% every six months from May 2008 to November 2009, then by 15% in May 2010 and November 2010, and by 40% in May 2011. There were no drawings under this facility as at December 31, 2006.

Covenants contained in the Loan are in line with those contained in our Senior Notes (see Item 8, Note 7, “Senior Notes"). In addition, the Loan’s covenants restrict us from making principal repayments on other debt of greater than US$ 20.0 million per year for the life of the Loan. This restriction is not applicable to our existing facilities with ING or CS or to any refinancing of our Senior Notes.

The Loan is a secured senior obligation and ranks pari passu with all existing and future senior indebtedness, including the Senior Notes, and is effectively subordinated to all existing and future indebtedness of our subsidiaries. The amount drawn is guaranteed by certain of our subsidiaries and is secured by a pledge of shares of those subsidiaries and an assignment of certain contractual rights. The terms of the Loan restrict the manner in which our business is conducted, including the incurrence of additional indebtedness, the making of investments, the payment of dividends or the making of other distributions, entering into certain affiliate transactions and the sale of assets.

(3) A total of EUR 0.6 million (approximately US$ 0.8 million) was drawn down under two loan agreements our Croatia operations have with Hypo Alpe-Adria-Bank d.d. These loans bear a variable interest rate of three-month EURIBOR plus 2.50% and are repayable in quarterly instalments until April 1, 2011. As at December 31, 2006, an

aggregate rate of 6.00% applied to these loans. These loan facilities are secured by certain fixed assets of OK, which as at September 30, 2006 have a carrying amount of approximately US$ 0.1 million.

Table of Contents

(4) CET 21 has a four-year credit facility of CZK 1.2 billion (approximately US$ 57.5 million) with Ceska Sporitelna, a.s. ("CS"). The final repayment date is October 31, 2009. This facility may, at the option of CET 21, be drawn in CZK, US$ or EUR and bears interest at the three-month, six-month or twelve-month London Inter-Bank Offered Rate ("LIBOR"), EURIBOR or Prague Inter-Bank Offered Rate ("PRIBOR") rate plus 1.95%. This facility is secured by a pledge of receivables, which are also subject to a factoring arrangement with Factoring Ceska Sporitelna, a.s., a subsidiary of CS. As at December 31, 2006, there were no drawings under this facility.

(5) CET 21 has a working capital credit facility of CZK 250.0 million (approximately US$ 12.0 million) with CS, which matures on April 30, 2007. This working capital facility bears interest at the three-month PRIBOR rate plus 1.65%. A preliminary agreement has been reached to extend this facility for 12 months from maturity. This facility is secured by a pledge of receivables, which are also subject to a factoring arrangement with Factoring Ceska Sporitelna, a.s. As at December 31, 2006, the full CZK 250.0 million (approximately US$ 12.0 million) was drawn under this facility bearing interest at an aggregate 4.20% (the applicable three-month PRIBOR rate at December 31, 2006 was 2.55%).

(6) As at December 31, 2006, there were no drawings under a CZK 600.0 million (approximately US$ 28.7 million) factoring facility with Factoring Ceska Sporitelna, a.s., a subsidiary of CS. This facility is available until March 31, 2010 and bears interest at the rate of one-month PRIBOR plus 1.40% for the period that actively assigned accounts receivable are outstanding.

(7) A revolving five-year facility agreement was entered into by Pro Plus for up to EUR 37.5 million (approximately US$ 49.4 million) in aggregate principal amount with ING Bank N.V., Nova Ljubljanska Banka d.d., Ljubljana and Bank Austria Creditanstalt d.d., Ljubljana. The facility availability amortizes by 10.0% each year for four years commencing one year after signing, with 60.0% repayable after five years. This facility is secured by a pledge of the bank accounts of Pro Plus, the assignment of certain receivables, a pledge of our interest in Pro Plus and a guarantee of our wholly-owned subsidiary CME Media Enterprises B.V. Loans drawn under this facility will bear interest at a rate of EURIBOR for the period of drawing plus a margin of between 2.10% and 3.60% that varies according to the ratio of consolidated net debt to consolidated broadcasting cash flow for Pro Plus. As at December 31, 2006, there were no drawings under this revolving facility.

(8) On August 16, 2006 and November 6, 2006, our Ukraine (KINO, CITI) operations entered into US$ 0.9 million and US$ 0.6 million, three-year loans with Glavred-Media, LLC, the minority shareholder in Ukrpromtorg. These loans are unsecured and bear interest at 9.0%. Our partners have also extended short-term non-interest bearing loans to our Ukraine (KINO, CITI) operations amounting to US$ 0.2 million.

Capital Lease Obligations

Capital lease obligations include future interest payments of US$ 1.8 million. For more information on our capital lease obligations see Item 8, Note 13, "Credit Facilities and Obligations under Capital Leases"

Operating Leases

For more information on our operating lease commitments see Item 8, Note 21, "Commitments and Contingencies, Commitments".

Unconditional Purchase Obligations

Unconditional purchase obligations largely comprise future programming commitments. At December 31, 2006, we had commitments in respect of future programming of US$ 98.0 million (December 31, 2005: US$ 51.8 million). This

includes contracts signed with license periods starting after December 31, 2006. For more information on our programming commitments see Item 8, Note 21, “Commitments and Contingencies, Commitments”.

Table of Contents

Other Long-Term Obligations

Included in Other Long-Term Obligations are our commitments to the Dutch tax authorities of US$ 5.5 million (see Item 8, Note 21, “Commitments and Contingencies”).

In addition to the amounts disclosed above, Mr. Sarbu has the right to sell his remaining 10.0% shareholding in Pro TV and MPI to us under a put option agreement entered into in July 2004 at a price to be determined by an independent valuation, subject to a floor price of US$ 1.45 million for each 1.0% interest sold. A put option of 5.21% of this 10.0% shareholding is exercisable from November 12, 2009 for a twenty-year period thereafter. Mr. Sarbu’s right to put the remaining 4.79% shareholding is also exercisable from November 12, 2009, provided that we have not enforced a pledge over this 4.79% shareholding which Mr. Sarbu granted as security for our right to put our 10.0% in Media Pro. As at December 31 2006, we consider the fair value of this put option to be approximately US$ nil (2005: US$ nil).

V (d) Cash Outlook

The issuance of the EUR 370.0 million (approximately US$ 480.0 million at the time of issuance) Senior Notes for the acquisition of the TV Nova (Czech Republic) group in May 2005 increased our leverage and we have significant debt service obligations in respect of the Senior Notes. In addition, the terms of our indebtedness restrict the manner in which our business is conducted, including the incurrence of additional indebtedness, the making of investments, the payment of dividends or the making of other distributions, entering into certain affiliate transactions and the sale of assets. Net cash proceeds from the issuance of new shares of our Class A Common Stock of US$ 168.7 million in March 2006 significantly reduced our net debt and provides a useful source of funds to allow investment flexibility, including acquisitions better suited to equity rather than debt financing. On July 21, 2006, we entered into a five-year EUR 100.0 million revolving loan facility, which, once fully drawn, can be used for general corporate purposes to further increase our financing flexibility, and will reduce our average cost of debt.

Our future cash needs will depend on our overall financial performance, our ability to service the indebtedness incurred under the Senior Notes as well as other indebtedness incurred by us and any future acquisition, investment and development decisions. Our ability to raise further funds through external debt facilities depends on our satisfaction of a leverage ratio under the Senior Notes. In the short-term we are able to fund our operations from cash generated from operations, our current cash resources (US$ 145.9 million, at December 31, 2006) and available undrawn credit facilities (US$ 239.0 million, at December 31, 2006).

We expect to invest US$ 60-70 million on capital expenditure in 2007, and approximately US$ 10 million furthering the development of our non-broadcast operations.

Our Croatia operations continue to require funding to improve our ratings performance and increase our market share. We expect the funding required to support Nova TV (Croatia) to be in excess of US$ 26.0 million during 2007, and have provided US$ 7.2 million in cash funding to Nova TV (Croatia) in the three months ended December 31, 2006.

Table of Contents

V (e) Tax Inspections

Pro Plus has been the subject of an income tax inspection by the Republic of Slovenia tax authorities for the years 1995 to 1998. As a result of these inspections the Slovenian tax authorities had levied an assessment seeking unpaid income taxes, customs duties and interest charges of SIT 1,073.0 million (approximately US$ 5.3 million). The Slovenian authorities have asserted that capital contributions and loans made by us to Pro Plus in 1995 and 1996 should be extraordinary revenue to Pro Plus. On this basis, the Slovenian authorities claim that Pro Plus made a profit in 1995 and 1996 for which it owes income taxes and interest. Additionally, the Slovenian tax authorities claim that the fixed assets imported as capital contributions were subject to customs duties, which were not paid. On February 9, 2001, the Slovenian tax authorities concluded that the cash capital contributions for 1995 and 1996 were not extraordinary income. This has reduced the assessment to SIT 636.8 million (approximately US$ 3.1 million) in aggregate principal amount. Pro Plus appealed this decision to the Administrative Court in Ljubljana and requested the tax authorities to defer the demand for payment until a final judgment has been issued, and the tax authorities have so agreed. On April 18, 2005, the Administrative Court issued a decision in favor of Pro Plus and dismissed the claims of the tax authorities. The tax authorities filed an appeal with the Slovenian Supreme Court in May 2005. We do not have a provision in our financial statements in relation to this legal action.

V (f) Off-Balance Sheet Arrangements

None.

VI. Critical Accounting Policies and Estimates

Our accounting policies affecting our financial condition and results of operations are more fully described in Note 3 to our consolidated financial statements that are included in Item 8. The preparation of these financial statements requires us to make judgments in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Program Rights

Program rights consist of programming acquired from third parties and programming produced locally and forms an important component of our station broadcasting schedules. Program rights and the related liabilities are recorded at their gross value when the license period begins and the programs are available for use. Program rights are amortized on a systematic basis over their expected useful lives. Both films and series are amortized as shown with the amortization charged in respect of each airing calculated in accordance with a schedule that reflects our estimate of the relative economic value of each run. For program rights acquired under a standard two-run license, we generally amortize 65% after the first run and 35% after the second run. The program library is evaluated at least annually to determine if expected revenues are sufficient to cover the unamortized portion of each program. To the extent that the revenues we expect to earn from broadcasting a program are lower than the book value, the program rights are written down to their net realizable value by way of recording an additional amortization charge. Accordingly, our estimates of future advertising and other revenues, and our future broadcasting schedules have a significant impact on the value of our program rights on the Consolidated Balance Sheet and the annual programming amortization charge recorded

in the Consolidated Statement of Operations.

Table of Contents

Goodwill and intangible assets

In accordance with SFAS No. 141, "Business Combinations," we allocate the purchase price of our acquisitions to the tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values, with the excess purchase price over those fair values being recorded as goodwill.

The fair value assigned to identifiable intangible assets acquired is supported by valuations that involve the use of a large number of estimates and assumptions provided by management. To assist in the valuation process, we have on occasion utilized the services of independent valuation consulting firms. If we had made different estimates and assumptions, the valuations of identifiable intangible assets could have changed, and the amount of purchase price attributable to these assets could have changed, and led to a corresponding change in the value of goodwill.

The assumptions and estimates that we have applied vary according to the date, location and type of assets acquired for each of our acquisitions. For example, some of the assumptions and estimates that we have used in determining the value of acquired broadcast licenses are as follows: methodology applied in valuation, discount rate (being the weighted average cost of capital and applicable risk factor), useful life of license (definite or indefinite) and probability of renewal, audience share growth and advertising market share, power ratio and growth, revenue growth for the forecast period and then in perpetuity, operating margin growth, future capital expenditure and working capital requirements, future cost saving as a result of the switch from an analog to a digital environment, inflation, and workforce cost, among others.

All assumptions and estimates applied were based on best estimates at the respective acquisition dates.

We assess the carrying value of intangible assets with indefinite lives and goodwill on an annual basis, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Other than our annual review, factors we consider important which could trigger an impairment review are: under-performance of operating segments or changes in projected results, changes in the manner of utilization of the asset, and negative market conditions or economic trends. Therefore, our judgment as to the future prospects of each business has a significant impact on our results and financial condition. We believe that our assumptions are appropriate. If future cash flows do not materialize as expected or there is a future adverse change in market conditions, we may be unable to recover the carrying amount of an asset, resulting in future impairment losses.

Impairment tests are performed at the reporting unit level. If potential for goodwill impairment exists, the fair value of the reporting unit is subsequently measured against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the reporting unit's goodwill. Determination of a reporting unit requires judgment, and if we were to change our business structure we could change the number and nature of the reporting units we use to assess potential impairment. An impairment loss is recognized for any excess of the carrying value of the reporting unit's goodwill over the implied fair value.

The fair value of goodwill is determined using an income methodology estimating projected future cash flows related to each reporting unit, which we determine to be our business segments (Croatia, Czech Republic, Romania, Slovak Republic, Slovenia and Ukraine). These projected future cash flows are discounted back to the valuation date. Significant assumptions inherent in the methodology employed include estimates of discount rates, future revenue growth rates and a number of other factors, all of which are based on our assessment of the future prospects and the risks inherent at the respective reporting units.

A change in these assumptions resulting in an hypothetical 10% decrease to the fair values of each reporting unit would not result in any of our reporting units having a fair value that is less than the carrying value of the reporting unit on our balance sheet. If fair value were less than carrying value, we would be required to record a charge for the

impairment of goodwill related to the impaired reporting unit. We recognized impairment losses during 2006 and 2005 in our Croatia operations. There was no such impairment in any of our operations during 2004.

Table of Contents

Impairment or disposal of long-lived assets

Long-lived assets, such as property, plant and equipment and intangible assets subject to amortization, including customer relationships and certain broadcast licenses, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors that are considered important which could trigger an impairment review include the following: significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of the use of the acquired assets or the strategy for the overall business, and significant negative industry or economic trends.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the respective asset. The same estimates are also used in planning for our long- and short-range business planning and forecasting. We assess the reasonableness of the inputs and outcomes of our undiscounted cash flow analysis against available comparable market data. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value of the respective asset.

Assets to be disposed are required to be separately presented in the Consolidated Balance Sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held-for-sale are required to be presented separately in the appropriate asset and liability sections of the Consolidated Balance Sheet.

Reviewing long-lived assets for impairment requires considerable judgment. Estimating the future cash flows requires significant judgment. If future cash flows do not materialize as expected or there is a future adverse change in market conditions, we may be unable to recover the carrying amount of an asset, resulting in future impairment losses.

Revenue Recognition

Net revenues primarily comprise revenues from the sale of advertising time less discounts and agency commissions. Net revenues are recognized when the advertisement is aired as long as there is persuasive evidence that an arrangement with a customer exists, the price of the delivered advertising time is fixed or determinable, and collection of the arrangement fee is reasonably assured. Agency commissions, where applicable, are calculated based on a stated percentage applied to gross billing revenue. Advertisers remit the gross billing amount to the agency and the agency remits gross billings, less their commission, to us when the advertisement is not placed directly by the advertiser. Payments received in advance of being earned are recorded as deferred income.

We maintain a bad debt provision for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate additional allowances may be required in future periods. We periodically review the accounts receivable balances and our historical bad debt, customer concentrations and customer creditworthiness when evaluating the adequacy of our provision.

Income Taxes

The provision for income taxes includes local and foreign taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences of temporary differences between the financial statement carrying amounts and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which the temporary differences are expected to be recovered or settled. We evaluate the realizability of our deferred tax assets and establish a valuation allowance when it is more likely than not that all or a portion of deferred tax assets will not be realized.

Table of Contents

The realization of our deferred tax assets is primarily dependent on future earnings. Any reduction in estimated forecasted results may require that we record additional valuation allowances against our deferred tax assets. Once a valuation allowance has been established, it will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that such assets will be realized. An ongoing pattern of sustained profitability will generally be considered as sufficient positive evidence. If the allowance is reversed in a future period, our income tax provision will be reduced to the extent of the reversal. Accordingly, the establishment and reversal of valuation allowances has had and could continue to have a significant negative or positive impact on our future earnings.

We measure deferred tax assets and liabilities using enacted tax rates that, if changed, would result in either an increase or decrease in the provision for income taxes in the period of change.

Foreign exchange

Our reporting currency and functional currency is the US dollar but a significant portion of our consolidated revenues and costs are in other currencies, including programming rights expenses and interest on debt. In addition, our Senior Notes are denominated in Euros. Our operations in Romania and Ukraine, which account for approximately 41% of our 2006 consolidated revenues, and our corporate holding companies, have a functional currency of the US dollar however all our other operations have functional currencies other than the US dollar.

We record assets and liabilities denominated in a currency other than our functional currency using the exchange rate prevailing at each balance sheet date, with any change in value between reporting periods being recognized as a transaction gain or loss in our Consolidated Statement of Operations; we recognized a transaction gain of US$ 38.0 million in 2005 and a transaction loss of US$ 44.9 million in 2006, largely as a result of the change in the US dollar value of our EUR-denominated Senior Notes.

The financial statements of our operations whose functional currency is other than the US dollar are translated from such functional currency to US dollars at the exchange rates in effect at the balance sheet date for assets and liabilities, and at weighted average rates for the period for revenues and expenses, including gains and losses. Translational gains and losses are charged or credited to Accumulated Other Comprehensive Income/(Loss), a component of Shareholders' Equity.

Determination of the functional currency of an entity requires considerable management judgment, which is essential and paramount in this determination. This includes our assessment of a series of indicators, such as the currency in which a majority of sales transactions are negotiated, expense incurred or financing secured. If the nature of our business operations changes, such as by changing the currency in which sales transactions are denominated or by incurring significantly more expenditure in a different currency, we may be required to change the functional currency of some or all of our operations, potentially changing the amounts we report as transaction gains and losses in the Consolidated Statement of Operations as well as the Translational gains and losses charged or credited to Accumulated Other Comprehensive Income/(Loss). In establishing that policy, specific facts and circumstances should be considered carefully, and judgment should be exercised as to what types of information might be most useful to investors.

On May 2, 2005, we made a loan of US$ 465.5 million to a 100% wholly-owned subsidiary holding our operations in the Czech Republic. This loan was converted to CZK 11,425 million during the second quarter of 2005 and CZK 738 million (US$ 30.5 million at the date of conversion) of this balance was capitalized as equity on August 25, 2005. The loan has a balance of CZK 10,687 million (US$ 511.9 million) as at December 31, 2006.

During the year ended December 31, 2006, a foreign exchange adjustment of US$ 77.2 million arose on inter-company foreign currency transactions, primarily consisting of this inter-company loan. As these transactions are

long-term in nature as contemplated by FAS 52 “Foreign Currency Translation” paragraph 20(b), the foreign exchange adjustments are reported in the same manner as translation adjustments in “Other Comprehensive Income”, a separate component of equity. Foreign exchange adjustments on inter-company transactions that are not long-term in nature are included in our determination of net income, and accordingly if we determined that the loan was no longer long-term in nature we would be required to record subsequent foreign exchange adjustments as income or expense in our Consolidated Statement of Operations.

Table of Contents

Contingencies

We are currently involved in certain legal proceeding and, as required, accrue our estimate of the probable costs for the resolution for these claims. These estimates have been developed in consultation with legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. See Item 8, Note 21, “Commitments and Contingencies” for more detailed information on litigation exposure.

VII. Related party matters

Overview

There is a limited local market for many specialist television services in the countries in which we operate, many of which are provided by parties known to be connected to our local shareholders. As stated in FAS 57 “Related Party Disclosures” transactions involving related parties cannot necessarily be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. We will continue to review all of these arrangements.

We consider related parties to be those shareholders who have direct control and/or influence and other parties that can significantly influence management; a “connected” party is one in which we are aware of a family or business connection to a shareholder.

Related Party Transactions

Croatia

We contract with Concorde Media Beteiligungsgesellschaft mbH for the purchase of program rights. This is a company connected to Dr. Herbert Kloiber, a Director of Central European Media Enterprises Ltd. Our total purchases from Concorde Media Beteiligungsgesellschaft mbH during 2006 were US$ 0.3 million (2005: US$ nil, 2004: US$ nil).

Czech Republic

We have no related party transactions in the Czech Republic.

Romania

The total purchases from companies related or connected with Adrian Sarbu in 2006 were approximately US$ 23.4 million (2005: US$ 12.0 million, 2004: US$ 6.9 million). The purchases were mainly for programming rights and for various technical, production and administrative related services. The total sales to companies related or connected with Adrian Sarbu in 2006 were approximately US$ 2.5 million (2005: US$ 0.4 million, 2004: US$ 0.1 million). At December 31, 2006, companies connected to Mr. Sarbu had an outstanding balance due to us of US$ 2.1 million (2005: US$ 1.4 million). At December 31, 2006, companies related to Mr. Sarbu had an outstanding balance due to them of US$ 0.8 million (2005: US$ 0.5 million, 2004: US$ 0.6 million).

Table of Contents

In addition, we purchased land with a value of US$ 8.5 million (EUR 6.5 million) (as determined by an independent appraisal) from a company controlled by Adrian Sarbu in December 2006. The investment represents an opportunity to secure suitable accommodation for Pro TV at a time when the real estate market is experiencing significant growth. It will enable future growth in a location housing both office space and the newly built digital studios. At December 31, 2006, US$ 8.3 million was recorded as a payable to this company.

On February 17, 2006, we purchased an additional 5% of Pro TV, MPI and Media Vision from Mr. Sarbu for consideration of US$ 27.2 million (for further information, see Item 8, Note 4, “Acquisitions and Disposals, Romania”). On February 28, 2005 we acquired 2% of Pro TV and MPI from Mr. Sarbu for US$ 5.0 million and on July 29, 2005 we acquired an additional 3% of Pro TV and MPI from Mr. Sarbu for US$ 15.0 million (see Item 8, Note 4, “Acquisitions and Disposals, Romania”). Under a put option agreement with Mr. Sarbu entered into in July 2004, Mr. Sarbu has the right to sell his remaining shareholding in Pro TV and MPI to us at a price, to be determined by an independent valuation and is subject to a floor price of US$ 1.45 million for each 1% interest sold. This put is exercisable from November 12, 2009 for a twenty-year period thereafter.

On March 29, 2004, we acquired an additional 14% share in each of our consolidated subsidiaries MPI and Pro TV from a company controlled by Mr. Sarbu, for purchase consideration of US$ 20.3 million.

We now own a 90% voting and economic interest in Pro TV and MPI and a 75% voting and economic interest in Media Vision.

Until March 29, 2004, we held a 44.0% interest in Radio Pro, a radio broadcaster in Romania. In order to comply with Romanian Media Council regulations following our acquisition of an additional 14.0% interest in MPI and Pro TV, it was necessary to reduce our holding in Radio Pro to 20.0%, which we achieved by selling 24.0% of our stake to Mr. Sarbu, for consideration of US$ 0.04 million with a resulting loss on disposal of US$ 0.02 million. The consideration was determined by an independent valuation of Radio Pro.

On August 11, 2006 we acquired a 10.0% interest in Media Pro. The remaining 90.0% of Media Pro is held by Mr. Sarbu. In consideration for the purchase of this interest, we paid EUR 8.0 million (approximately US$ 10.1 million at the date of acquisition) in cash and transferred our existing 20.0% investment in Radio Pro. As a result of this transaction, we recorded a gain of US$ 6.2 million on disposal.

We have the right to put our investment in Media Pro to Mr. Sarbu for a three-month period from August 12, 2009 at a price equal to the greater of EUR 13.0 million (approximately US$ 16.5 million) and the value of our investment, as determined by an independent valuer. This put option is secured by a pledge of a 4.79% shareholding in Pro TV held by Mr. Sarbu. For more information, see Item 8, Note 4, “Acquisitions and Disposals, Romania”.

Slovenia

We have no related party transactions in Slovenia during 2006. On June 24, 2005, we acquired from Marijan Jurenec, director of our Adriatic regional operations, his remaining 3.15% interest in Pro Plus for Euro 4.7 million (approximately US$ 5.7 million at the date of acquisition).

Slovak Republic

STS, our former operating company in the Slovak Republic that was merged into Markiza on January 1, 2007, had a number of contracts with companies connected to Jan Kovacik, a shareholder in Markiza, and indirectly STS, for the provision of television programs. Many of these contracts were for the production of programs that required specialist studios and specific broadcast rights. Total purchases from these companies in 2006 amounted to US$ 0.8 million (2005: US$ 0.5 million, 2004: US$ 0.4 million).

Table of Contents

STS also purchased advertising space relating to print media from companies connected with Mr Kovacik in 2006 with a value of US$ 1.5 million during 2006.

STS also sold advertising time through an advertising agency controlled by Jan Kovacik. The total 2006 advertising sales of STS placed through Mr. Kovacik's advertising agency were US$ 0.4 million (2005: US$ 0.2 million, 2004: US$ 1.9 million), and the total amount due to STS from this agency at December 31, 2006 was US$ 0.1 million (2005: US$ nil: 2004 US$ 0.4 million).

On December 1, 2005 we repaid STS, our equity-accounted affiliate in the Slovak Republic, SKK 228 million (approximately US$ 7.1 million at the time of repayment) in settlement of the principal and interest due on a loan that had been advanced to us in 2002 and 2003. The loan bore interest at a rate of three-month Bratislava Inter-Bank Offered Rate ("BRIBOR") plus 2.2%.

Ukraine

Prior to 2006, we contracted with Contact Film Studios for the production of certain television programs. This company was connected to Boris Fuchsmann, the 40% shareholder in, and joint Managing Director of Innova, which is one of the operating companies for the Studio 1+1 group. Our total purchases from Contact Film Studios in 2006 were US$ nil (2005: US$ 0.1 million, 2004: US$ 0.1 million).

In 1998 we made a loan to Mr. Fuchsmann with a total balance outstanding at December 31, 2006 of US$ 2.2 million (2005: US$ 2.5 million). The interest rate on this loan is US$ three-month LIBOR+3%, subject to a minimum of 5%.

We contract with Vabank for the provision of banking services. This is a bank connected to Boris Fuchsmann through his presence on the bank's Supervisory Board. Our balance on the current account with the bank was US$ 9.4 million as of December 31, 2006 (2005: US$ 5.0 million). Commission and other expenses incurred by us in respect of the banking services rendered by Vabank amount to US$ 0.2 million for the twelve months ended December 31, 2006. Interest of US$ 0.4 million was earned on funds on deposit with Vabank.

Innova Marketing is a company 100% owned and managed by Boris Fuchsmann. Innova Marketing renders consulting services to Innova. The amount of such services provided in 2006 was US$ 0.1 million (2005: US$ 0.1 million).

Alexander Rodnyansky, the former general director and current Honorary President of Studio 1+1, continues as the 70% shareholder in the license company. Mr. Rodnyansky is also the general director of the Russian broadcaster CTC based in Moscow. Our total purchases from CTC in 2006 were US$ 0.1 million (2005: US$ 0.2 million, 2004: US$ 0.1 million). In addition, we recorded revenue of US$ 0.8 million during 2006 from CTC relating to production of programming.

In addition to the above, we contract with Sablock, a company connected to Mr. Rodnyansky, for license rights costs. Our total purchases during 2006 were US$ 4.0 million. At December 31, 2006, we have recorded a liability to Sablock of US$ 1.3 million.

We contract with Kino-Kolo, a magazine that is 75% owned by Alexander Rodnyansky, for advertising Studio 1+1. Purchases of services from Kino-Kolo in 2006 amounted to US$ 0.1 million. (2005: US$ 0.1).

We purchase legal and consulting services from LLC Legal Company Varlamov and Partners, a company headed by the Deputy General Director of Studio 1+1. The total amount of services rendered by the company in 2006 was US$ 0.3 million (2005: US$ 0.3 million).

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We engage in activities that expose us to various market risks, including the effects of changes in foreign currency, exchange rates and interest rates. We do not regularly engage in speculative transactions, nor do we regularly hold or issue financial instruments for trading purposes.

Foreign Currency Exchange Risk Management

We conduct business in a number of foreign currencies and our Senior Notes are denominated in Euros. As a result, we are subject to foreign currency exchange rate risk due to the effects that foreign exchange rate movements of these currencies have on our costs and on the cash flows we receive from certain subsidiaries. In limited instances, we enter into forward foreign exchange contracts to minimize foreign currency exchange rate risk.

We have not attempted to hedge the Senior Notes and therefore may continue to experience significant gains and losses on the translation of the Senior Notes into US dollars due to movements in exchange rates between the Euro and the US dollar.

On April 27, 2006, we entered into currency swap agreements with two counterparties whereby we swapped a fixed annual coupon interest rate (of 9.0%) on notional principal of CZK 10.7 billion (approximately US$ 512.6 million), payable on July 15, October 15, January 15, and April 15, to the termination date of April 15, 2012, for a fixed annual coupon interest rate (of 9.0%) on EUR 375.9 million (approximately US$ 495.1 million) receivable on July 15, October 15, January 15, and April 15, to the termination date of April 15, 2012.

The fair value of these financial instruments as at December 31, 2006 was a US$ 12.5 million liability.

These currency swap agreements reduce our exposure to movements in foreign exchange rates on a part of the CZK-denominated cash flows generated by our Czech Republic operations that is approximately equivalent in value to the EUR-denominated interest payments on our Senior Notes (see Item 8, Note 7, “Senior Notes”). They are financial instruments that are used to minimize currency risk and are considered an economic hedge of foreign exchange rates. These instruments have not been designated as hedging instruments as defined under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, and so changes in their fair value are recorded in the consolidated statement of operations and in the consolidated balance sheet in other non-current liabilities.

Interest Rate Risk Management

As at December 31, 2006, we have eight tranches of debt that provide for interest at a spread above a base rate of EURIBOR, LIBOR or PRIBOR, and two tranches of debt, which were maintained with a fixed interest rate. A significant rise in the EURIBOR, LIBOR or PRIBOR base rate would have an adverse effect on our business and results of operations.

Table of Contents

Interest Rate Table as at December 31, 2006

Expected Maturity Dates	**2007**	**2008**	**2009**	**2010**	**2011**	**Thereafter**
Total Debt in Euro (000's)						
Fixed Rate						245,000
Average Interest Rate						8.25%
Variable Rate	130	137	144	153	80	125,000
Average Interest Rate	5.50%	5.50%	5.50%	5.50%	5.50%	8.57%
Total Debt in US$ (000's)						
Fixed Rate			1,500			
Average Interest Rate			2.74%			
Total Debt in CZK (000's)						
Fixed Rate						
Average Interest Rate						
Variable Rate	250,000					
Average Interest Rate	4.20%					

Variable Interest Rate Sensitivity as at December 31, 2006

			Yearly interest charge if interest rates increase by (US$ 000s):				
Value of Debt as at December 31, 2006 (US$ 000's)	**Interest Rate as at December 31, 2006**	**Yearly Interest Charge (US$ 000's)**	**1%**	**2%**	**3%**	**4%**	**5%**
165,472 (EUR 125.6 million)	4.73% - 8.57%	15,242	16,896	18,551	20,206	21,860	23,515
11,975 (CZK 250.0 million)	4.20%	503	623	742	862	982	1,102
Total		**15,745**	**17,519**	**19,293**	**21,068**	**22,842**	**24,617**

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(Financial Statements and Supplementary data begin on the following page and end on the page immediately preceding Item 9.)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Central European Media Enterprises Ltd.

We have audited the accompanying consolidated balance sheets of Central European Media Enterprises Ltd. and subsidiaries (the “Company”) as of December 31, 2006 and 2005, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the consolidated financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Central European Media Enterprises Ltd. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2, the accompanying 2005 and 2004 consolidated financial statements have been restated for stock based compensation.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP
London, United Kingdom
February 28, 2007

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
CONSOLIDATED BALANCE SHEETS
(US$ 000's)

	December 31, 2006	December 31, 2005 (as restated, see Note 2)
ASSETS		
Current assets		
Cash and cash equivalents	$ 145,904	$ 71,658
Restricted cash (Note 8)	4,954	34,172
Accounts receivable, net (Note 9)	152,505	97,396
Income taxes receivable	3,053	9,930
Program rights	59,645	34,914
Other current assets (Note 10)	47,555	38,856
Total current assets	**413,616**	**286,926**
Non-current assets		
Investments (Note 6)	19,214	23,936
Acquisition costs (Note 4)	-	5,118
Property, plant and equipment, net (Note 11)	115,805	58,897
Program rights	76,638	33,081
Goodwill (Note 5)	905,580	746,583
Broadcast licenses, net (Note 5)	198,730	171,591
Other intangible assets, net (Note 5)	71,942	47,658
Other non-current assets (Note 10)	17,475	15,060
Total non-current assets	**1,405,384**	**1,101,924**
Total assets	**$ 1,819,000**	**$ 1,388,850**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
CONSOLIDATED BALANCE SHEETS (continued)
(US$ 000's)

	December 31, 2006	December 31, 2005 (as restated, see Note 2)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	$ 119,717	$ 84,849
Duties and other taxes payable	31,707	27,654
Income taxes payable (Note 16)	12,434	21,894
Credit facilities and obligations under capital leases (Note 13)	13,057	43,566
Deferred consideration - Croatia (Note 8)	4,010	3,591
Deferred consideration - Czech Republic (Note 4)	-	24,402
Deferred consideration - Ukraine (Note 4)	200	-
Deferred tax (Note 16)	1,836	1,005
Total current liabilities	**182,961**	**206,961**
Non-current liabilities		
Credit facilities and obligations under capital leases (Note 13)	6,359	4,740
Senior Notes (Note 7)	487,291	436,424
Income taxes payable (Note 16)	3,000	681
Deferred tax (Note 16)	58,092	42,149
Other non-current liabilities	19,342	4,105
Total non-current liabilities	**574,084**	**488,099**
Commitments and contingencies (Note 21)		
Minority interests in consolidated subsidiaries	**26,189**	**13,237**
SHAREHOLDERS' EQUITY (Note 15):		
Nil shares of Preferred Stock of $0.08 each (2005 - nil)	-	-
34,412,138 shares of Class A Common Stock of $0.08 each (2005 - 31,032,994)	2,753	2,482
6,312,839 shares of Class B Common Stock of $0.08 each (2005 - 6,966,533)	505	558
Additional paid-in capital	931,108	754,061
Accumulated deficit	(31,730)	(52,154)
Accumulated other comprehensive income / (loss)	133,130	(24,394)
Total shareholders' equity	**1,035,766**	**680,553**
Total liabilities and shareholders' equity	**$ 1,819,000**	**$ 1,388,850**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(US$ 000's, except share and per share data)

	For the Years Ended December 31,		
	2006	**2005** (as restated, see Note 2)	**2004** (as restated, see Note 2)
Net revenues	**$ 603,115**	**$ 400,978**	**$ 182,339**
Operating costs	90,060	65,138	33,615
Cost of programming	227,509	148,837	71,793
Depreciation of station property, plant & equipment	25,795	16,367	6,429
Amortization of broadcast licenses and other intangibles (Note 5)	18,813	11,180	465
Cost of revenues	**362,177**	**241,522**	**112,302**
Station selling, general and administrative expenses	65,412	46,382	22,112
Corporate operating costs	34,104	25,547	29,254
Impairment charge (Note 5)	748	35,331	-
Operating income	**140,674**	**52,196**	**18,671**
Interest income	6,365	4,124	4,318
Interest expense	(44,228)	(29,387)	(1,203)
Foreign currency exchange (loss) / gain, net	(44,908)	37,968	(574)
Change in fair value of derivatives	(12,539)	-	-
Other income / (expense)	3,038	(4,705)	(698)
Income before provision for income taxes, minority interest, equity in income of unconsolidated affiliates and discontinued operations	**48,402**	**60,196**	**20,514**
Provision for income taxes (Note 16)	(14,962)	(16,691)	(11,089)
Income before minority interest, equity in income of unconsolidated affiliates and discontinued operations	**33,440**	**43,505**	**9,425**
Minority interest in income of consolidated subsidiaries	(13,602)	(8,908)	(4,106)
Equity in (loss) / income of unconsolidated affiliates (Note 6)	(730)	8,238	10,619
Gain on sale of unconsolidated affiliate (Note 6)	6,179	-	-
Net income from continuing operations	**25,287**	**42,835**	**15,938**
Discontinued operations (Note 20):			
Pre-tax income from discontinued operations (Czech Republic)	-	164	146
Tax on disposal of discontinued operations (Czech Republic)	(4,863)	(677)	2,378
Net (loss) / income from discontinued operations	**(4,863)**	**(513)**	**2,524**
Net income	**$ 20,424**	**$ 42,322**	**$ 18,462**
Currency translation adjustment, net	157,524	(33,354)	4,228
Total comprehensive income	**$ 177,948**	**$ 8,968**	**$ 22,690**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (continued)
(US$ 000's, except share and per share data)

	For the Years Ended December 31,		
	2006	**2005** (as restated, see Note 2)	**2004** (as restated, see Note 2)
PER SHARE DATA (Note 18):			
Net income/(loss) per share:			
Continuing operations - Basic	$ 0.63	$ 1.24	$ 0.57
Continuing operations - Diluted	0.62	1.21	0.55
Discontinued operations - Basic	(0.12)	(0.01)	0.09
Discontinued operations - Diluted	(0.12)	(0.01)	0.09
Net income - Basic	0.51	1.22	0.66
Net income - Diluted	$ 0.50	$ 1.19	$ 0.63
Weighted average common shares used in computing per share amounts (000's):			
Basic	40,027	34,664	27,871
Diluted	40,600	35,430	29,100

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(US$ 000's)

	Class A Common Stock		Class B Common Stock					
	Number of shares	Par value	Number of shares	Par value	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
BALANCE, December 31, 2003 (as restated, See Note 2)	**19,269,766**	**$ 1,542**	**7,334,768**	**$ 587**	**$ 379,601**	**$ (112,938)**	**$ 4,732**	**$ 273,524**
Stock-based Compensation	-	-	-	-	10,171	-	-	10,171
Stock options exercised	1,083,634	87	-	-	2,853	-	-	2,940
Warrants exercised	696,000	55	-	-	1,688	-	-	1,743
Net income	-	-	-	-	-	18,462	-	18,462
Currency translation adjustment	-	-	-	-	-	-	4,228	4,228
BALANCE, December 31, 2004 (as restated, See Note 2)	**21,049,400**	**$ 1,684**	**7,334,768**	**$ 587**	**$ 394,313**	**$ (94,476)**	**$ 8,960**	**$ 311,068**
Stock-based Compensation	-	-	-	-	3,127	-	-	3,127
Shares issued to PPF	3,500,000	280	-	-	120,603	-	-	120,883
Shares issued, net of fees	5,405,000	432	-	-	230,172	-	-	230,604
Stock options exercised	710,359	57	-	-	5,846	-	-	5,903
Conversion of Class B to Class A Common Stock	368,235	29	(368,235)	(29)	-	-	-	-
Net income	-	-	-	-	-	42,322	-	42,322
Currency translation adjustment	-	-	-	-	-	-	(33,354)	(33,354)
BALANCE, December 31, 2005 (as restated, See Note 2)	**31,032,994**	**$ 2,482**	**6,966,533**	**$ 558**	**$ 754,061**	**$ (52,154)**	**$ (24,394)**	**$ 680,553**
Stock-based Compensation	-	-	-	-	4,898	-	-	4,898
Shares issued, net of fees	2,530,000	202	-	-	168,452	-	-	168,654

Stock options exercised	95,450	8	100,000	8	3,697	-	-	3,713
Conversion of Class B to Class A Common Stock	753,694	61	(753,694)	(61)	-	-	-	-
Net income	-	-	-	-	-	20,424	-	20,424
Currency translation adjustment	-	-	-	-	-	-	157,524	157,524
BALANCE, December 31, 2006	**34,412,138**	**$ 2,753**	**6,312,839**	**$ 505**	**$ 931,108**	**$ (31,730)**	**$ 133,130**	**$ 1,035,766**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

THIS PAGE INTENTIONALLY LEFT BLANK

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US$ 000's)

	For the Years Ended December 31,		
	2006	**2005** (as restated, see Note 2)	**2004** (as restated, see Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 20,424**	**$ 42,322**	**$ 18,462**
Adjustments to reconcile net income to net cash generated from/(used in) operating activities:			
(Income)/loss from discontinued operations (Note 20)	4, 863	513	(2,524)
Equity in income of unconsolidated affiliates, net of dividends received	730	3,454	(4,340)
Gain on sale of unconsolidated affiliate (Note 6)	(6,179)	-	-
Depreciation and amortization	164,479	110,846	49,357
Impairment charge (Note 5)	748	35,331	-
Loss on disposal of fixed assets	1,292	685	18
Stock-based compensation (Note 17)	3,575	3,127	10,171
Minority interest in income of consolidated subsidiaries	13,602	8,908	4,106
Change in fair value of derivative instruments (Note 14)	12,539	-	-
Foreign currency exchange loss / (gain), net	44,908	(37,968)	574
Net change in (net of effects of acquisitions and disposals of businesses):			
Accounts receivable	(42,270)	1,693	(9,100)
Program rights	(173,345)	(110,364)	(45,446)
Other assets	(6,417)	11,989	(4,912)
Settlement liability (Note 12)	(10,007)	(41,606)	-
Other accounts payable and accrued liabilities	26,915	(13,642)	(13,611)
Income taxes payable	(1,697)	9,597	548
Deferred taxes	9,705	(17,271)	-
VAT and other taxes payable	9,530	(4,070)	(888)
Net cash generated from continuing operating activities	**73,395**	**3,544**	**2,415**
CASH FLOWS USED IN INVESTING ACTIVITIES:			
Net change in restricted cash	5,516	(19,521)	(10,145)
Purchase of property, plant and equipment	(60,387)	(26,548)	(10,808)
Proceeds from disposal of property, plant and equipment	19	125	72
Investments in subsidiaries and unconsolidated affiliates	(72,603)	(35,305)	(35,800)
	-	(218,054)	-

Partial consideration for acquisition of TV Nova (Czech Republic) group			
Proceeds from partial disposal of investment	-	-	42
Repayment of loans and advances to related parties	500	500	400
License costs, other assets and intangible assets	-	-	(770)
Net cash used in continuing investing activities	**(126,955)**	**(298,803)**	**(57,009)**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(US$ 000's)

	For the Years Ended December 31, 2006	2005 (as restated, see Note 2)	2004 (as restated, see Note 2)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of Senior Notes	-	465,120	-
Proceeds from credit facilities	36,681	65,902	-
Payment of credit facilities and capital leases	(75,263)	(41,243)	(2,797)
Repayment of loans from unconsolidated affiliates	-	(5,827)	-
Repayment of notes for acquisition of TV Nova (Czech Republic) group	-	(491,703)	-
Repayment of liabilities on acquisition of Galaxie Sport	-	(3,000)	-
Proceeds from exercise of stock options and warrants	3,713	5,903	4,683
Issuance of Class A Common Stock	168,654	230,604	-
Dividends paid to minority shareholders	(1,385)	(397)	-
Net cash received from financing activities	**132,400**	**225,359**	**1,886**
NET CASH USED IN DISCONTINUED OPERATIONS-OPERATING	(1,690)	(2,000)	(9,463)
NET CASH RECEIVED FROM DISCONTINUED OPERATIONS-INVESTING	-	-	20,349
Impact of exchange rate fluctuations on cash	**(2,904)**	**(9,010)**	**2,144**
Net increase/(decrease) in cash and cash equivalents	74,246	(80,910)	(39,678)
CASH AND CASH EQUIVALENTS, beginning of year	**71,658**	**152,568**	**192,246**
CASH AND CASH EQUIVALENTS, end of year	**$ 145,904**	**$ 71,658**	**$ 152,568**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 41,038	$ 19,402	$ 581
Cash paid for income taxes (net of refunds)	$ 35,831	$ 10,066	$ 18,920
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:			
Exchange of 3.5 million shares of Class A Common Stock (Note 4)	$ -	$ 120,883	$ -
Notes taken out for acquisition of TV Nova (Czech Republic) group (Note 4)	$ -	$ 491,703	$ -
Exchange of Other receivable (Note 4)	$ -	$ 18,541	$ -
Purchase of Krsak interest financed with payable (Note 4)	$ 27,591	$ 24,683	$ -
Purchase of share of Romania operations through settlement of loans receivable (Note 4)	$ -	$ -	$ 3,400
	$ 702	$ 4,967	$ 333

Acquisition of property, plant and equipment under capital lease

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

1. ORGANIZATION AND BUSINESS

Central European Media Enterprises Ltd., a Bermuda corporation, was formed in June 1994. Our assets are held through a series of Dutch and Netherlands Antilles holding companies. We invest in, develop and operate national and regional commercial television stations and channels in Central and Eastern Europe. At December 31, 2006, we have operations in Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine.

Our principal subsidiaries, equity-accounted affiliates and cost investments as at December 31, 2006 were:

Company Name	Effective Voting Interest	Jurisdiction of Organization	Type of Affiliate (1)
Nova TV d.d. ("Nova TV (Croatia)")	100.0%	Croatia	Subsidiary
Operativna Kompanija d.o.o. ("OK")	100.0%	Croatia	Subsidiary
Media House d.o.o.	100.0%	Croatia	Subsidiary
CME Media Investments s.r.o.	100.0%	Czech Republic	Subsidiary
VILJA a.s. ("Vilja")	100.0%	Czech Republic	Subsidiary
CET 21 spol. s.r.o. ("CET 21")	100.0%	Czech Republic	Subsidiary
ERIKA, a.s.	100.0%	Czech Republic	Subsidiary
MEDIA CAPITOL, a.s.	100.0%	Czech Republic	Subsidiary
NOVA-V.I.P., a.s.	100.0%	Czech Republic	Subsidiary (in liquidation)
HARTIC, a.s.	100.0%	Czech Republic	Subsidiary
Galaxie Sport s.r.o. ("Galaxie Sport")	100.0%	Czech Republic	Subsidiary
Media Pro International S.A. ("MPI")	90.0%	Romania	Subsidiary
Media Vision S.R.L. ("Media Vision")	75.0%	Romania	Subsidiary
MPI Romania B.V.	90.0%	Netherlands	Subsidiary
Pro TV S.A. ("Pro TV")	90.0%	Romania	Subsidiary
Sport Radio TV Media S.R.L. ("TV Sport")	18.0%	Romania	Equity-Accounted Affiliate
Media Pro B.V	10.0%	Netherlands	Cost investment
Media Pro Management S.A.	10.0%	Romania	Cost investment
A.R.J., a.s. ("ARJ")	100.0%	Slovak Republic	Subsidiary
Slovenska televizna spolocnost, s.r.o. ("STS")	89.8%	Slovak Republic	Subsidiary
MARKIZA-SLOVAKIA, spol. s.r.o. ("Markiza")	80.0%	Slovak Republic	Subsidiary
GAMATEX, spol. s.r.o.	89.8%	Slovak Republic	Subsidiary (in liquidation)
A.D.A.M. a.s.	89.8%	Slovak Republic	Subsidiary (in liquidation)

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Company Name	Effective Voting Interest	Jurisdiction of Organization	Type of Affiliate (1)
MMTV 1 d.o.o.	100.0%	Slovenia	Subsidiary
Produkcija Plus d.o.o. ("Pro Plus")	100.0%	Slovenia	Subsidiary
POP TV d.o.o. ("Pop TV")	100.0%	Slovenia	Subsidiary
Kanal A d.o.o. ("Kanal A")	100.0%	Slovenia	Subsidiary
Euro 3 TV d.o.o	42.0%	Slovenia	Equity-Accounted Affiliate
MTC Holding d.o.o.	24.0%	Slovenia	Equity-Accounted Affiliate (in liquidation)
International Media Services Ltd. ("IMS")	60.0%	Bermuda	Subsidiary
Innova Film GmbH ("Innova")	60.0%	Germany	Subsidiary
Foreign Enterprise "Inter-Media" ("Inter-Media")	60.0%	Ukraine	Subsidiary
TV Media Planet Ltd.	60.0%	Cyprus	Subsidiary
Studio 1+1 LLC ("Studio 1+1")	18.0%	Ukraine	Consolidated Variable Interest Entity
Ukrainian Media Services LLC	99.0%	Ukraine	Subsidiary
Ukrpromtorg -2003 LLC	65.5%	Ukraine	Subsidiary
Gravis LLC	60.4%	Ukraine	Subsidiary
Delta JSC	60.4%	Ukraine	Subsidiary
Nart LLC	65.5%	Ukraine	Subsidiary
TV Stimul LLC	49.1%	Ukraine	Equity-Accounted Affiliate
CME Media Enterprises B.V.	100.0%	Netherlands	Subsidiary
CME Czech Republic II B.V.	100.0%	Netherlands	Subsidiary
CME Romania B.V.	100.0%	Netherlands	Subsidiary
Central European Media Enterprises N.V.	100.0%	Netherlands Antilles	Subsidiary
Central European Media Enterprises II B.V.	100.0%	Netherlands Antilles	Subsidiary
CME SR d.o.o.	100.0%	Serbia	Subsidiary
CME Ukraine Holding GmbH	100.0%	Austria	Subsidiary
CME Cyprus Holding Ltd.	100.0%	Cyprus	Subsidiary
CME Development Corporation	100.0%	Delaware	Subsidiary

(1) All subsidiaries have been consolidated in our Consolidated Financial Statements. All equity-accounted affiliates have been accounted for using the equity method. All cost investments have been accounted for using the cost method.

(2) For further information, see Note 3, "Summary of Significant Accounting Policies".

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

2. RESTATEMENT

Subsequent to the issuance of our financial statements as of and for the period ended June 30, 2006 we initiated a voluntary review of our historical stock option granting practices for the period from 1994 to 2002. Our Audit Committee conducted the review with the assistance of independent legal counsel and an independent accounting firm. The Audit Committee found certain instances of administrative and procedural deficiencies that resulted in incorrect accounting measurement dates and other incorrect accounting, but found no evidence from which it could be concluded that the errors were the result of deliberate or intentional misconduct. These accounting errors resulted from grants made to grantees where the list of grantees and/or shares allocated to them were not sufficiently definitive for the grant to be deemed final as of the reported measurement date as well as from a small number of grants made to employees and non-employees that had been accounted for incorrectly. Errors were discovered in the accounting for grants made in the period between 1994 and 1998; we believe the impact of these instances to be immaterial for each prior year and they neither relate to nor have an impact on the current period.

However, we concluded that correcting the error in the financial statements for the year ended December 31, 2006 would be material; therefore, in accordance with SAB 108, we have restated our historic financial statements. The restatement is immaterial to the prior years.

The restatement above had the impact on our previously presented financial information as set out below. All amounts are in US$ 000's except per share data:

	As reported previously	Adjustment	As restated
Balance Sheet (as of December 31, 2003)			
Additional paid-in capital at December 31, 2003	$ 372,662	$ 6,939	$ 379,601
Accumulated deficit at December 31, 2003	(105,999)	(6,939)	(112,938)
Balance Sheet (as of December 31, 2004)			
Additional paid-in capital at December 31, 2004	$ 387,305	$ 7,008	$ 394,313
Accumulated deficit at December 31, 2004	(87,468)	(7,008)	(94,476)
Balance Sheet (as of December 31, 2005)			
Additional paid-in capital at December 31, 2005	746,880	7,181	754,061
Accumulated deficit at December 31, 2005	(44,973)	(7,181)	(52,154)
Statement of Operations (for the Year Ended December 31, 2004)			
Corporate operating costs	(29,185)	(69)	(29,254)
Operating income	18,740	(69)	18,671
Income from continuing operations	16,007	(69)	15,938
Net income	18,531	(69)	18,462
Net income from continuing operations per share - Basic	0.57	0.00	0.57
Net income per share - Basic	0.66	0.00	0.66

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Statement of Operations (for the Year Ended December 31, 2005)	As reported previously	Adjusted	As restated
Corporate operating costs	(25,374)	(173)	(25,547)
Operating income	52,369	(173)	52,196
Income from continuing operations	43,008	(173)	42,835
Net income	42,495	(173)	42,322
Net income from continuing operations per share - Basic	1.24	0.00	1.24
Net income per share - Basic	1.23	0.00	1.22

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The significant accounting policies are summarized as follows:

Basis of Presentation

The consolidated financial statements include the accounts of Central European Media Enterprises Ltd. and our subsidiaries, after the elimination of intercompany accounts and transactions. We consolidate the financial statements of entities in which we hold at least a majority voting interest and also those entities which are deemed to be a Variable Interest Entity of which we are the primary beneficiary as defined by FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46 (R)"). Entities in which we hold less than a majority voting interest but over which we have the ability to exercise significant influence are accounted for using the equity method. Other investments are accounted for using the cost method.

As we are the primary beneficiary related to the rights and obligations of Studio 1+1, we consolidate Studio 1+1 in accordance with FIN 46(R). Studio 1+1 is a license and broadcasting company within our Ukraine operations and trades with the other companies within the group.

The following table summarizes Consolidated Balance Sheet and Consolidated Statement of Operations information that we consolidate with regard to Studio 1+1:

	December 31, 2006	December 31, 2005
Balance Sheet:		
Current assets	$ 22,802	$ 18,475
Non-current assets	5,126	1,315
Current liabilities	(10,534)	(9,678)
Non-current liabilities	-	(106)
Minority interest	(6,958)	(4,002)
Net Assets	**$ 10,436**	**$ 6,004**

	For the year ended		
	December 31, 2006	December 31, 2005	December 31, 2004
Statement of Operations:			
Net revenues	$ 83,759	$ 62,586	$ 43,903
Operating income	11,816	12,401	6,001
Net income	$ 4,428	$ 5,423	$ 2,985

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Revenue Recognition

Revenue is recognized when there is persuasive evidence of an arrangement, delivery of products has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

Revenues are recognized net of discounts and customer sales incentives. Our principal revenue streams and their respective accounting treatments are discussed below:

Advertising revenue

Revenues primarily result from the sale of advertising time. Television advertising revenue is recognized as the commercials are aired. In certain countries, we commit to provide advertisers with certain rating levels in connection with their advertising. Revenue is recorded net of estimated shortfalls, which are usually settled by providing the advertiser additional advertising time.
Discounts and agency commissions are recognized at the point when the advertising is broadcast and are reflected as a reduction to gross revenue.

Subscription revenues

Subscriber fees receivable from cable operators and direct-to-home broadcasters are recognized as revenue over the period for which the channels are provided and to which the fees relate. Subscriber revenue is recognized as contracted, based upon the level of subscribers.

Program distribution revenue

Program distribution revenue is recognized when the relevant agreement has been entered into, the product is available for delivery, collectibility of the cash is reasonably assured and all of our contractual obligations have been satisfied.

Barter transactions

Barter transactions represent advertising time exchanged for non-cash goods and/or services, such as promotional items, advertising, supplies, equipment and services. Revenue from barter transactions is recognized as income when advertisements are broadcast. Expenses are recognized when goods or services are received or used. We record barter transactions at the fair value of goods or services received or advertising surrendered, whichever is more readily determinable. Barter revenue amounted to US$ 8.2 million, US$ 7.0 million and US$ 5.7 million for the years ending December 31, 2006, 2005, and 2004, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less. Cash that is subject to restrictions is classified as restricted cash.

Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives assigned to each major asset category as below:

Asset category	**Estimated useful life**
Land	Indefinite
Buildings	25 years
Station machinery, fixtures and equipment	4 - 8 years
Other equipment	3 - 8 years
Software licenses	3 - 5 years

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Construction-in-progress is not depreciated until put into use. Capital leases are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. Leasehold improvements are depreciated over the shorter of the related lease term or the life of the asset. Assets to be disposed of are reported at the lower of carrying value or fair value, less costs of disposal.

Long-Lived Assets Including Intangible Assets with Finite Lives

Long-lived assets include property, plant, equipment and intangible assets with finite lives.

In accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), we review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The carrying values of long-lived assets are considered impaired when the anticipated undiscounted cash flows from such assets are less than their carrying values. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value.

No impairment has been recognized for any long-lived assets in 2006, 2005, or 2004.

Program Rights

Purchased program rights

Purchased program rights and the related liabilities are recorded at their gross value when the license period begins and the programs are available for broadcast.

Program rights are amortized on a systematic basis over their expected useful lives, according to the number of runs of the license. The amortization percentages are as follows:

Type of programming	**Amortization %**				
	Run 1	Run 2	Run 3	Run 4	Run 5
Special blockbuster	30%	25%	20%	15%	10%
Films and series, 2 runs	65%	35%	-	-	-
Films and series, 3 runs	60%	30%	10%	-	-
Concerts, documentaries, film about film, etc.	100%	-	-	-	-

A "special blockbuster" must meet specific requirements to be classified as such, while the number of runs in other films and series is generally described in the license agreement.

Program rights are evaluated to determine if expected revenues are sufficient to cover the unamortized portion of the program. To the extent that expected revenues are insufficient, the program rights are written down to their net realizable value.

Purchased program rights are classified as current or non-current assets based on anticipated usage, while the related program rights liability is classified as current or non-current according to the payment terms of the license agreement.

Produced program rights

Program rights that are produced are stated at the lower of cost less accumulated amortization or fair value. The amortization charge is based on the ratio of the current period's gross revenues to estimated remaining total gross revenues from such programs. Program rights are evaluated to determine if expected revenues are sufficient to cover the unamortized portion of the program. To the extent that expected revenues are insufficient, the program rights are written down to their net realizable value.

Produced program rights are classified as current or non-current assets based on anticipated usage.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the fair value of consideration paid over the fair value of net tangible and other identifiable intangible assets acquired in a business combination. In accordance with FAS No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"), the carrying value of goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We evaluate goodwill for impairment in the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Potential impairment is identified when the carrying value of a reporting unit (including its goodwill), exceeds its fair value. Goodwill impairment is measured as the excess of the carrying value of goodwill over its implied fair value. In accordance with FAS 142, we have determined that our reporting units are the same as our operating segments, except that we consider our Ukraine operating segment to contain two reporting units, namely Studio 1+1 and the KINO and CITI channels.

Indefinite-lived intangible assets consist of certain acquired broadcast licenses and trademarks. Broadcast licenses are assigned indefinite lives after consideration of the following conditions:

- We intend to renew the licenses into the foreseeable future;
- We have precedents of renewals, or reasonable expectation of renewals;
- We do not expect any substantial cost to be incurred as part of a future license renewal and no costs have been incurred in the renewals to date;
- We have not experienced any historical evidence of a compelling challenge to our holding these licenses; and
- We do not foresee that the technology used to exploit these licenses will undergo significant changes in the foreseeable future.

Indefinite-lived intangible assets are not amortized, but they are evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Under FAS 142, an impairment loss is recognized if the carrying value of an indefinite-lived intangible asset exceeds its fair value.

Fair value is determined based on estimates of future cash flows discounted at appropriate rates and on publicly available information, where appropriate. In the assessment of discounted future cash flows the following data is used: management plans for a period of at least five years, a terminal value at the end of this period assuming an inflationary perpetual growth rate, and a discount rate selected with reference to the relevant cost of capital.

Income Taxes

We account for income taxes under the asset and liability method as set out in FAS No. 109, "Accounting for Income Taxes" ("FAS 109"). Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized.

Foreign Currency

Translation of financial statements

Our reporting currency and functional currency is the US dollar. The financial statements of our operations whose functional currency is other than the US dollar are translated from such functional currency to US dollars at the exchange rates in effect at the balance sheet date for assets and liabilities, and at weighted average rates for the period for revenues and expenses, including gains and losses. Translational gains and losses are charged or credited to Accumulated Other Comprehensive Income/(Loss), a component of Shareholders’ Equity. Translation adjustments arising from intercompany financing that is a long-term investment in nature is accounted for in a similar manner. At December 31, 2006, a translation gain of US$ 77.3 million (December 31, 2005: a loss of US$ 17.8 million) related to intercompany financing that is a long-term investment in nature is included in Accumulated Other Comprehensive Income/(Loss).

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Transactions in foreign currencies

Gains and losses from foreign currency transactions are included in Foreign currency exchange gain/(loss), in the Consolidated Statement of Operations in the period during which they arise.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

Leases

Leases are classified as either capital or operating. Those leases that transfer substantially all benefits and risks of ownership of the property to us are accounted for as capital leases. All other leases are accounted for as operating leases.

Capital leases are accounted for as assets and are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. Commitments to repay the principal amounts arising under capital lease obligations are included in current liabilities to the extent that the amount is repayable within one year; otherwise the principal is included in non-current liabilities. The capitalized lease obligation reflects the present value of future lease payments. The financing element of the lease payments is charged to interest expense over the term of the lease.

Operating lease costs are charged to expense on a straight-line basis.

Financial Instruments

Fair value of financial instruments

The carrying value of financial instruments, including cash, accounts receivable, and accounts payable and accrued liabilities, approximate their fair value due to the short-term nature of these items. The fair value of our Senior Notes is included in Note 7, "Senior Notes".

Derivative financial instruments

We use derivative financial instruments for the purpose of mitigating currency risks, which exist as part of ongoing business operations. As a policy, we do not engage in speculative or leveraged transactions, nor do we hold or issue derivative financial instruments for trading purposes.

Forward exchange contracts and currency swaps are used to mitigate exposures to currency fluctuations on certain short-term transactions generally denominated in currencies other than our functional currency. These contracts are marked to market at the balance sheet date, and the resultant unrealized gains and losses are recorded in the Consolidated Statement of Operations, together with realized gains and losses arising on settlement of these contracts.

Put options

Put options written on the stock of a consolidated subsidiary which do not provide net settlement are accounted for in accordance with FAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” and EITF No. 00-6 “Accounting for Freestanding Derivative Financial Instruments Indexed to, and Potentially Settled in the Stock of a Consolidated Subsidiary”. Put options are recorded in the Consolidated Balance Sheet at fair value, which at December 31, 2006 is considered to be US$ nil.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Stock-Based Compensation

On January 1, 2006, we adopted FAS No. 123(R), "Share-Based Payment" ("FAS 123(R)"), which requires the recognition of stock-based compensation at fair value, using the modified prospective transition method. Under that method, we recognized compensation cost for the requisite service rendered in the year ended December 31, 2006, for (a) awards granted prior to, but not vested as of, January 1, 2006, based on the grant-date fair value of those awards as calculated for either recognition or pro forma disclosures under FAS 123, Accounting for Stock-Based Compensation ("FAS 123") and (b) awards granted after January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of FAS 123(R). We did not restate prior periods. Our adoption of FAS 123(R) did not have a material impact on our Consolidated Statements of Operations or Cash Flows because we had previously adopted the fair value recognition provisions of FAS 123 prospectively for employee stock option awards granted, modified, or settled beginning January 1, 2003, as contemplated by FAS 148, "Accounting for Stock-Based Compensation - Transition & Disclosure". Prior to January 1, 2003, we used the intrinsic method of accounting as defined in APB 25, "Accounting for Stock Issued to Employees".

Pro Forma Disclosures

Had compensation costs for employee stock option awards granted, modified or settled prior to January 1, 2003 been determined consistent with the fair value approach required by FAS 123(R) for the year ended December 31, 2006, using the Black-Scholes option pricing model with the assumptions as estimated on the date of each grant, our net income and net income per common share would change on a pro forma basis as follows:

		For the Years Ended December 31,			
			2005		**2004**
Net income	**As Reported**	**$**	**42,322**	**$**	**18,462**
Add: Stock-based compensation expense included in reported net income, net of related tax effects	As Reported		3,127		10,171
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	Pro Forma Expense		(3,196)		(10,384)
Net income	**Pro Forma**	**$**	**42,253**	**$**	**18,249**
Net income per share - Basic:	As Reported	$	1.22	$	0.66
	Pro Forma	$	1.22	$	0.65
Net income per share - Diluted:	As Reported	$	1.19	$	0.63
	Pro Forma	$	1.19	$	0.63

Contingencies

Contingencies are recorded in accordance with FAS No. 5, “Accounting for Contingencies” (“FAS 5”). The estimated loss from a loss contingency such as a legal proceeding or claim is recorded in the Consolidated Statement of Operations if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a loss contingency is made if there is at least a reasonable possibility that a loss has been incurred.

Discontinued Operations

We present our results of operations, financial position and cash flows of operations that have either been sold or that meet the criteria for “held-for-sale accounting” as discontinued operations. At the time an operation qualifies for held-for-sale accounting, the operation is evaluated to determine whether or not the carrying value exceeds its fair value less cost to sell. Any loss as a result of carrying value in excess of fair value less cost to sell is recorded in the period the operation meets held-for-sale accounting. Management judgment is required to (1) assess the criteria required to meet held-for-sale accounting, and (2) estimate fair value. Changes to the operation could cause it to no longer qualify for held-for-sale accounting and changes to fair value could result in an increase or decrease to previously recognized losses.

During 2003, we disposed of our former operations in the Czech Republic; all results of this disposal have been treated as discontinued operations (see Note 20, “Discontinued Operations”).

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense incurred for the years ending December 31, 2006, 2005 and 2004 totaled US$ 10.2 million, US$ 6.6 million and US$ 2.6 million, respectively.

Earnings Per Share

Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common and dilutive potential common shares outstanding during the period.

Recent Accounting Pronouncements

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting for Changes and Error Corrections" ("FAS 154"), which replaces APB Opinion No. 20 "Accounting Changes" ("APB 20"), and Statement of Financial Accounting Standards No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in the income statement. We adopted the provisions of FAS 154 on January 1, 2006 and it did not have a material impact on our financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. The evaluation of a tax position under FIN 48 is a two-step process. The first step is recognition: Tax positions taken or expected to be taken in a tax return should be recognized only if those positions are more likely than not to be sustained upon examination, based on the technical merits of the position. In evaluating whether a tax position has met the more likely than not recognition threshold, it should be presumed that the position will be examined by the relevant taxing authority that would have full knowledge of all relevant information. The second step is measurement: Tax positions that meet the recognition criteria are measured at the largest amount of benefit that is greater than 50 percent likely of being recognized upon ultimate settlement.

FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006 and we will adopt it in the first quarter of the year beginning January 1, 2007. We are currently assessing FIN 48 and we expect the adoption of FIN 48 to have the following impact on our financial position and results of operations:

An increase in non-current liabilities in the consolidated Balance Sheet and a corresponding reduction in retained earnings of between US$ 0.0 million and US$ 2.0 million as a result of the recognition of unrecognized tax benefits recorded following the adoption of FIN 48. In addition an increase in non-current liabilities of between US$ 0.0 million and US$ 2.0 million and a corresponding reduction in retained earnings as a result of the recognition of estimated interest and penalties recorded following the adoption of FIN 48.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 addresses the need for increased consistency in fair value measurements, defining fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes a framework for measuring fair value and expands disclosure requirements. FAS 157 is effective for us beginning January 1, 2008. We are currently evaluating the impact of the adoption of FAS 157 on our financial position and results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 Section N to Topic 1, "Considering the Effects of Prior Year Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires the evaluation of prior-year Misstatements using both the balance sheet approach and the income statement approach. In the initial year of adoption, should either approach result in quantifying an error that is material in light of quantitative and qualitative factors, SAB 108 guidance allows for a one-time cumulative-effect adjustment to opening retained earnings. In years subsequent to adoption, previously undetected misstatements deemed material shall result in the restatement of previously issued financial statements in accordance with Statement of Financial Accounting Standards No. 154 "Accounting changes and error corrections". We adopted SAB 108 in the third quarter of 2006 and concluded that there was no impact of adoption.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). FAS 159 gives entities the option to prospectively measure many financial instruments and certain other items at fair value in the balance sheet with changes in the fair value recognized in the income statement. FAS 159 is effective for fiscal years beginning after November 15, 2008, although entities electing to adopt the statement early, which is permissible for us from January 1, 2007, may designate certain items retrospectively. We are currently evaluating the impact of adoption on our financial position and results of operations.

4. ACQUISITIONS AND DISPOSALS

Czech Republic

On April 3, 2006, the Czech Republic Media Council approved the transfer of the 1.25% interest in CET 21 held by Ceska Sporitelna, a.s. to Vilja and the transfer of the 1.25% interest in CET 21 held by CEDC to PPF (Cyprus) Ltd. ("PPF"). On May 5, 2006 the Czech Republic Media Council approved the transfer of the PPF interest to Vilja and on May 16, 2006, Vilja acquired such interest after fulfillment of all conditions precedent set forth in the relevant transfer agreement. We now have a voting and economic interest in CET 21 of 100%. Both of these transactions took place for nominal consideration.

On May 26, 2006, following the registration of our subsidiary CME Media Enterprises B.V. as the owner of 16.67% of CET 21, formerly owned by Peter Krsak, we paid the final CZK 600.0 million (approximately US$ 27.3 million at the payment date) instalment of the consideration due to Mr. Krsak. This amount had been held in escrow, and disclosed in restricted cash (see Note 8 "Restricted Cash") since May 27, 2005, with a corresponding amount reported as deferred consideration.

2005 Acquisition - TV Nova

On May 2, 2005, we acquired 85% of the interest of PPF (Cyprus) Ltd ("PPF") in the TV Nova (Czech Republic) group. Consideration for this acquisition was approximately US$ 630.3 million, including the incurrence of US$ 491.7

million of interim indebtedness to PPF (which was repaid in cash on May 5, 2005), the issuance of 3.5 million unregistered shares of our Class A Common Stock (US$ 120.9 million) and forgiveness of a US$ 18.5 million balance categorized as "Other Receivable" within "Other Current Assets" in our Consolidated Balance Sheet as at December 31, 2004. The 3.5 million shares of Class A Common Stock issued were valued at US$ 34.538 per share, which was determined as the average of our share price over a reasonable period of time before and after the terms of the acquisition were agreed and announced. The final purchase price was reduced by US$ 0.7 million following a post-completion audit for changes in the level of working capital and indebtedness from the time we entered into a framework agreement with PPF on December 13, 2004 to May 2, 2005.

On May 27, 2005, we acquired from Peter Krsak his 16.67% interest in CET 21, which holds the national terrestrial broadcast license for TV NOVA in the Czech Republic, for CZK 1.2 billion (approximately US$ 49.4 million at the date of acquisition). The purchase price was payable in two installments: one half of the consideration was paid on May 27, 2005 and the second installment of CZK 0.6 billion (approximately US$ 27.6 million at the date of payment) was paid on May 26, 2006.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Following the exercise of our call option, we acquired from PPF its remaining 15% interest in the TV Nova (Czech Republic) group for cash consideration of approximately US$ 216.4 million on May 31, 2005.

We completed a fair value exercise to allocate the purchase price to the acquired assets and liabilities, and identified separately identifiable intangible assets. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

		Fair Value on Acquisition
Cash	$	35,592
Receivables		56,832
Property, plant and equipment		17,379
Program library		26,937
Intangible assets subject to amortization (1)		178,054
Intangible assets not subject to amortization (2)		17,979
Goodwill		723,503
Other assets		23,562
Liabilities		(122,249)
Deferred tax liability		(45,933)
Minority interest		(2,200)
Total purchase price (3)	**$**	**909,456**

(1) The intangible assets subject to amortization comprise approximately US$ 11.9 million in customer relationships, which are being amortized over five to fourteen years (weighted average: 12.4 years), US$ 0.6 million of customer backlog (fully amortized in 2005) and approximately US$ 165.6 million relating to the acquired television broadcast license, which is being amortized over twelve years.

(2) Intangible assets not subject to amortization relate to the 'TV NOVA' trade name.

(3) Total purchase price includes US$ 13.3 million of capitalized acquisition costs.

As of December 31, 2004 we had accrued US$ 10.8 million of acquisition costs (principally fees relating to legal and accounting diligence and mergers and acquisitions advisory services) in relation to the acquisition of the TV Nova (Czech Republic) group. As of December 31, 2005, all acquisition costs were charged to goodwill following the acquisition of the TV Nova (Czech Republic) group.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Our Consolidated Statement of Operations reflects the increased interest expense and amortization charges resulting from the acquisition of 85% of the TV Nova (Czech Republic) group on May 2, 2005, the Krsak interest on May 27, 2005 and 15% of the TV Nova (Czech Republic) group on May 31, 2005. On an unaudited pro-forma basis, assuming that these acquisitions had occurred at the beginning of 2005 or 2004, our Consolidated Statements of Operations would have been as follows:

Pro-forma (unaudited)	**For the Years Ended December 31,**			
		2005		**2004**
Net revenues	$	483,102	$	390,139
Net income from continuing operations		60,839		36,153
Net income		60,326		38,677
Per Share Data:				
Net income - Basic	$	1.60	$	1.05
Net income - Diluted	$	1.57	$	1.02

The pro-forma net income for each period presented reflects all costs relating to the Senior Notes issued to finance the acquisition of the TV Nova (Czech Republic) group and the Krsak interest. The earnings per share calculation reflects the increase in the number of shares issued relating to these acquisitions.

The primary reason for the purchase of the TV Nova (Czech Republic) group and the main factor that contributed to a purchase price that results in the recognition of goodwill was the opportunity for us to secure a significant broadcasting asset at a favorable valuation. Adding the leading broadcaster of one of the larger Central and East European markets to our portfolio of stations and channels doubled our size and substantially enhanced our cash-flows, confirming our position as the dominant broadcaster in the region. Ownership of a significant asset such as the TV Nova (Czech Republic) group creates a solid base for further expansion when opportunities arise.

2005 Acquisition - Galaxie Sport

On September 1, 2005, CP 2000 (which was subsequently merged into CME Media Services) acquired 100% of Galaxie Sport s.r.o. from PPF for consideration of CZK 49.5 million (approximately US$ 2.1 million at the time of acquisition) and the settlement of shareholder loans of CZK 69.2 million (approximately US$ 3.0 million at the time of acquisition). Galaxie Sport holds a satellite and cable broadcasting license in the Czech Republic and the Slovak Republic for the sports cable channel GALAXIE SPORT.

We completed a fair value exercise to allocate the purchase price to the acquired assets and liabilities, and identified separately identifiable intangible assets. In accordance with FAS No. 141, "Business Combinations ("FAS 141"), we allocated US$ 0.4 million of the purchase price to trademarks, which were assigned an indefinite life, and recognized a deferred tax liability arising from this asset. After allocating the purchase price to all acquired assets, liabilities and intangible assets, US$ 3.8 million of goodwill remained.

Romania

Acquisition of additional interest - Pro TV, MPI and Media Vision

On February 17, 2006, we purchased an additional 5.0% of Pro TV, MPI and Media Vision from Adrian Sarbu, the general director of our Romania operations, for consideration of US$ 27.2 million. We now own a 90.0% voting and economic interest in Pro TV and MPI and a 75.0% voting and economic interest in Media Vision. We completed a fair value exercise to allocate the purchase price to the acquired assets and liabilities and identified separately identifiable assets. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

		Fair Value on Acquisition
Intangible assets subject to amortization (1)	$	4,655
Intangible assets not subject to amortization (2)		12,947
Goodwill		11,376
Deferred tax liability		(2,816)
Minority interest		1,038
Total purchase price	**$**	**27,200**

(1) The intangible assets subject to amortization comprise customer relationships, which are being amortized over one to ten years (weighted average: 8.3 years).

(2) Intangible assets not subject to amortization comprise approximately US$ 6.5 million in trademarks and US$ 6.5 million relating to television broadcast licenses.

Mr. Sarbu has the right to sell his remaining 10.0% shareholding in Pro TV and MPI to us under a put option agreement entered into in July 2004 at a price to be determined by an independent valuation, subject to a floor price of US$ 1.45 million for each 1.0% interest sold. A put option of 5.21% of this 10.0% shareholding is exercisable from November 12, 2009 for a twenty-year period thereafter. Mr. Sarbu's right to put the remaining 4.79% shareholding is also exercisable from November 12, 2009, provided that we have not enforced a pledge over this 4.79% shareholding which Mr. Sarbu granted as security for our right to put our 10.0% in Media Pro to him. For more information, see Item 8, Note 6, "Investments". As at December 31, 2006, we consider the fair value of this put option to be approximately US$ nil.

2005 Acquisition of additional interest - MPI and Pro TV

On February 28, 2005, we acquired from Mr. Sarbu a 2% voting and economic interest in MPI and Pro TV for aggregate consideration of US$ 5.0 million. Following this transaction we owned a voting and economic interest in MPI and Pro TV of 82%. The purchase price was agreed based on a multiple of MPI and Pro TV's earnings. In accordance with FAS 141, we allocated US$ 1.2 million to broadcast licenses, US$ 0.9 million to trademarks and US$ 0.2 million to customer relationships. We recognized a corresponding deferred tax liability on the tax basis difference arising from these assets. Both trademarks and broadcast licenses were assigned an indefinite life, while customer relationships were deemed to have a remaining economic useful life of, and are being amortized on a straight-line basis over, eight years. An amount of US$ 2.9 million was recognized as goodwill.

On July 29, 2005, we acquired from Mr. Sarbu a 3% voting and economic interest in MPI and Pro TV for aggregate consideration of US$ 15.0 million. Following this transaction we held a voting and economic interest in MPI and Pro TV of 85%. The purchase price was finalized during July 2005 based on a multiple of MPI and Pro TV's future earnings. In accordance with FAS 141, we allocated US$ 3.0 million of the purchase price to broadcast licenses, US$ 2.8 million to trademarks and US$ 2.3 million to customer relationships. We recognized a corresponding deferred tax liability on the tax basis difference arising from these assets. Both trademarks and broadcast licenses were assigned an indefinite life, while customer relationships were deemed to have a remaining economic useful life of, and are amortized on a straight-line basis over, eight years. An amount of US$ 8.0 million was recognized as goodwill.

Slovak Republic

Acquisition - A.R.J., a.s.

On January 23, 2006, we completed the acquisition of a controlling interest in Markiza, the license-holding company for MARKIZA TV, by purchasing 100.0% of the share capital of ARJ. ARJ owns 46.0% of the voting rights in Markiza.

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

This acquisition consisted of our acquiring a 34.0% interest in ARJ from Pavol Rusko for total consideration of SKK 575.0 million (approximately US$ 18.5 million at the date of acquisition) of which SKK 494.0 million (US$ 15.9 million at the date of acquisition) was paid on closing and SKK 81.0 million (US$ 2.6 million at the date of acquisition) was paid on April 25, 2006. In addition, we acquired the remaining 66.0% in ARJ from Media Partners s.r.o. and Salis s.r.o. for consideration of approximately US$ 11.0 million, of which EUR 7.0 million (approximately US$ 8.5 million at the date of acquisition) was paid on closing and SKK 78.0 million (approximately US$ 2.5 million at the date of acquisition) was paid on May 2, 2006.

As of January 23, 2006, we held an 80.0% voting interest in Markiza and an 89.8% voting interest in STS and increased our economic interest in our Slovak Republic operations from 70.0% to 80.0%. The remaining minority interests in Markiza are held by our partners Jan Kovacik and Milan Fil'o through Media Invest s.r.o. Markiza and STS have been consolidated from the date of acquisition of ARJ. STS was merged into Markiza on January 1, 2007.

We completed a fair value exercise to allocate the purchase price to the acquired assets and liabilities and identified separately identifiable assets. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

		Fair Value on Acquisition
Property, plant and equipment	$	870
Program library		185
Other assets		733
Intangible assets subject to amortization (1)		8,128
Intangible assets not subject to amortization (2)		530
Goodwill		21,288
Deferred tax liability		(1,893)
Total purchase price (3)	**$**	**29,841**

(1) The intangible assets subject to amortization comprise approximately US$ 7.2 million in customer relationships, which are being amortized over three to fourteen years (weighted average: 13.8 years), and US$ 0.9 million relating to television broadcast licenses, which are being amortized over fourteen years.

(2) Intangible assets not subject to amortization comprise trademarks.

(3) Total purchase price includes US$ 0.3 million of capitalized acquisition costs.

Slovenia

2005 Acquisition of additional interest - Pro Plus

On June 24, 2005, we acquired from Marijan Jurenec, director of our Adriatic regional operations, his remaining 3.15% interest in Pro Plus for Euro 4.7 million (approximately US$ 5.7 million at the date of acquisition). The purchase price was determined with reference to the put option agreement we entered into with Mr. Jurenec in January 2003. Following this transaction we own a voting and economic interest in Pro Plus of 100%. We allocated US$ 2.5

million of the purchase price to broadcast licenses and US$ 0.5 million to trademarks. We recognized a corresponding deferred tax liability of US$ 0.7 million on the tax basis difference arising from these assets. Both trademarks and broadcast licenses were assigned an indefinite life. An amount of US$ 2.3 million was recognized as goodwill.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Ukraine

Acquisition - Ukrpromtorg-2003 LLC

On January 11, 2006, we completed the acquisition of a 65.5% interest in Ukrpromtorg-2003 LLC ("Ukrpromtorg"), which owns 92.2% of Gravis LLC, the operator of the GRAVIS television channel in Kiev, as well as two other local channels in Ukraine, for consideration of approximately US$ 7.4 million including acquisition costs. US$ 5.1 million of the consideration was paid in 2005 and reported as acquisition costs on the consolidated balance sheet as at December 31, 2005, US$ 2.0 million was paid during 2006. The remainder of the purchase price was outstanding at December 31, 2006.

We completed a fair value exercise to allocate the purchase price to the acquired assets and liabilities and identified separately identifiable assets. The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Fair Value on Acquisition	
Property, plant and equipment	$	2,615
Intangible assets subject to amortization (1)		968
Other assets		239
Goodwill		4,627
Deferred tax liability		(724)
Other liabilities		(373)
Total purchase price (2)	**$**	**7,352**

(1) The intangible assets subject to amortization comprise approximately US$ 0.6 million relating to television broadcast licenses, which are being amortized over nine years, approximately US$ 0.3 million relating to a favorable lease contract, which is being amortized over 19 years, and approximately US$ 0.1 million relating to order backlog, which was amortized during the year.

(2) Total purchase price includes US$ 0.4 million of capitalized acquisition costs.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

5. GOODWILL AND INTANGIBLE ASSETS

Our goodwill and intangible asset additions are the result of acquisitions in Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine (see Note 4, "Acquisitions and Disposals"). No goodwill is expected to be deductible for tax purposes.

Goodwill:

Goodwill by operating segment as at December 31, 2006, 2005, and 2004 is summarized as follows:

	Balance Dec 31, 2004	Additions	Allocation / Adjustment (1)	Impairment charge (2)	Foreign currency movement	Balance Dec 31, 2005
Croatia	$ **31,446**	$ -	$ (18,817)	$ (9,706)	$ (2,228)	$ **695**
Czech Republic	**-**	727,282	-	-	(20,332)	**706,950**
Romania	**8,826**	10,928	-	-	-	**19,754**
Slovakia	**-**	-	-	-	-	**-**
Slovenia	**14,724**	2,300	-	-	(1,936)	**15,088**
Ukraine (STUDIO 1+1)	**4,096**	-	-	-	-	**4,096**
Total	**$ 59,092**	**$ 740,510**	**$ (18,817)**	**$ (9,706)**	**$ (24,496)**	**$ 746,583**

	Balance Dec 31, 2005	Additions	Allocation / Adjustment (1)	Impairment charge (2)	Foreign currency movement	Balance Dec 31, 2006
Croatia	$ **695**	$ -	$ -	$ (748)	$ 53	$ **-**
Czech Republic	**706,950**	-	(7,580)	-	124,416	**823,786**
Romania	**19,754**	11,376	-	-	-	**31,130**
Slovakia	**-**	21,288	-	-	4,195	**25,483**
Slovenia	**15,088**	-	-	-	1,370	**16,458**
Ukraine (STUDIO 1+1)	**4,096**	-	-	-	-	**4,096**
Ukraine (KINO, CITI)	**-**	4,627	-	-	-	**4,627**
Total	**$ 746,583**	**$ 37,291**	**$ (7,580)**	**$ (748)**	**$ 130,034**	**$ 905,580**

(1) At the year end, we had not completed our purchase price allocation, and the excess of the purchase price over the net book value was preliminarily allocated to goodwill. After we completed our fair value exercise, part of this balance was allocated to other asset and liability accounts.

(2) When we updated our medium-term forecast models at June 30, 2006 and 2005, we determined that the forecast future cash flows of our Croatia operations had decreased compared to our previous forecast. In such circumstances, SFAS 142 "Goodwill and Other Intangible Assets" requires that the carrying value of the intangible assets with indefinite lives are compared to their fair value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured as the excess of the carrying value over the fair value. As a result of our analysis, we recognized an impairment charge of US$ 0.7 million (2005: US$ 9.7 million) relating to

goodwill. A further impairment charge relating to other Long-Lived Assets was not deemed necessary under the requirements of SFAS 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Broadcast licenses:

The net book value of our broadcast licenses as at December 31, 2006, 2005, and 2004 is summarized as follows:

	Indefinite-lived broadcast licenses	Amortized broadcast licenses	Total
Balance, December 31, 2004	**$ 13,400**	**$ 1,175**	**$ 14,575**
Additions	6,639	165,576	172,215
Allocation (1)	18,654	-	18,654
Amortization	-	(9,316)	(9,316)
Impairment charge (2)	(18,604)	-	(18,604)
Foreign currency movements	(1,153)	(4,780)	(5,933)
Balance, December 31, 2005	**$ 18,936**	**$ 152,655**	**$ 171,591**
Additions	6,475	9,033	15,508
Amortization	-	(15,758)	(15,758)
Foreign currency movements	933	26,456	27,389
Balance, December 31, 2006	**$ 26,344**	**$ 172,386**	**$ 198,730**

(1) At the year end, we had not completed our purchase price allocation, and the excess of the purchase price over the net book value was preliminarily allocated to goodwill. After we completed our fair value exercise, part of this balance was allocated to other asset and liability accounts.

(2) When we updated our medium-term forecast models at June 30, 2006 and 2005, we determined that the forecast future cash flows of our Croatia operations had decreased compared to our previous forecast. In such circumstances, SFAS 142 "Goodwill and Other Intangible Assets" requires that the carrying value of the intangible assets with indefinite lives are compared to their fair value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured as the excess of the carrying value over the fair value. As a result of our analysis, we recognized an impairment charge of US$ 18.6 million relating to broadcast licenses. A further impairment charge relating to other Long-Lived Assets was not deemed necessary under the requirements of SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

With the exception of our broadcast licenses in the Czech Republic, the Slovak Republic and Ukraine, our broadcast licenses primarily have indefinite lives and are subject to annual impairment reviews. The licenses in Ukraine have economic useful lives of, and are amortized on a straight-line basis over, between seven and ten years. The license in the Czech Republic has an economic useful life of, and is amortized on a straight-line basis over, twelve years. The license in the Slovak Republic has an economic life of, and is amortized on a straight-line basis over, thirteen years.

The gross value and accumulated amortization of amortized broadcast licenses was as follows at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005

Gross value	$	201,994	$	163,628
Accumulated amortization		(29,608)		(10,973)
Total net book value	**$**	**172,386**	**$**	**152,655**

Page 123

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Other intangible assets:

The net book value of our other intangible assets as at December 31, 2006, 2005, and 2004 is summarized as follows:

	Trademarks	Customer relationships	Other	Total
Balance, December 31, 2004	**$ 10,519**	**$ 2,237**	**$ -**	**$ 12,756**
Additions/Allocations (1)	30,015	14,921	-	44,936
Amortization	-	(1,864)	-	(1,864)
Impairment charge (2)	(7,021)	-	-	(7,021)
Foreign currency movements	(953)	(196)	-	(1,149)
Balance, December 31, 2005	**$ 32,560**	**$ 15,098**	**$ -**	**$ 47,658**
Additions	7,695	11,975	817	20,487
Amortization	-	(2,941)	(114)	(3,055)
Foreign currency movements	3,771	3,081	-	6,852
Balance, December 31, 2006	**$ 44,026**	**$ 27,213**	**$ 703**	**$ 71,942**

(1) At the year end, we had not completed our purchase price allocation, and the excess of the purchase price over the net book value was preliminarily allocated to goodwill. After we completed our fair value exercise, part of this balance was allocated to other asset and liability accounts.

(2) When we updated our medium-term forecast models at June 30, 2006 and 2005, we determined that the forecast future cash flows of our Croatia operations had decreased compared to our previous forecast. In such circumstances, SFAS 142 "Goodwill and Other Intangible Assets" requires that the carrying value of the intangible assets with indefinite lives are compared to their fair value to determine whether an impairment exists. If an asset is determined to be impaired, the loss is measured as the excess of the carrying value over the fair value. As a result of our analysis, we recognized an impairment charge of US$ 7 million relating to trademarks. A further impairment charge relating to other Long-Lived Assets was not deemed necessary under the requirements of SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

Customer relationships are deemed to have an economic useful life of and are amortized on a straight-line basis over between five and fourteen years. Trademarks have an indefinite life.

The gross value and accumulated amortization of customer relationships was as follows at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
Gross value	$ 31,852	$ 17,038
Accumulated amortization	(4,639)	(1,940)
Total net book value	**$ 27,213**	**$ 15,098**

The estimated total annual amortization expense for our existing amortized broadcast licenses and customer relationships will be approximately US$ 20 million for 2007 and for each of the years 2008 - 2011.

Impairment

In the year ended December 31, 2006, we recognized an impairment charge of US$ 0.7 million with respect to our Croatia operations.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

When we updated our medium-term forecast models at June 30, 2006, we determined that the forecast future cash flows of our Croatia operations had decreased compared to our previous forecast. We therefore reviewed the carrying value of the intangible assets with indefinite lives to determine whether the assets are impaired. As a result of our analysis, we recognized an impairment charge of US$ 0.7 million to write down the carrying value of goodwill to US$ nil.

We performed a similar review of our Croatia operations in late June 2005 and recorded an impairment charge of US$ 35.3 million at that time, of which US$ 18.6 million was attributable to the broadcast license, US$ 7.0 million to trademarks and US$ 9.7 million to goodwill. Included in the provision for income taxes for the year ended December 31, 2005 is a US$ 5.1 million credit representing a release of deferred tax relating to the impairment charge on the license and trademark.

6. INVESTMENTS

We hold the following investments in unconsolidated affiliates:

	Type of Affiliate	Effective Voting interest		December 31, 2006		December 31, 2005
STS	Equity-Accounted Affiliate	49%	$	-	$	23,886
Radio Pro	Equity-Accounted Affiliate	Various		-		50
Media Pro	Cost Method Investment	10%		16,569		-
TV Sport	Equity-Accounted Affiliate	18%		2,645		-
			$	**19,214**	**$**	**23,936**

STS

Our share of income from Unconsolidated Affiliates in respect of STS (MARKIZA TV) was US$ (0.7) million, US$ 8.2 million and US$ 10.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. In the years ended December 31, 2006, 2005 and 2004 we received dividends of US$ 11.8 million, US$ 11.7 million and US$ 6.3 million, respectively, from STS (MARKIZA TV). On January 23, 2006, we acquired control of STS through our purchase of ARJ and consequently STS is accounted for as a consolidated subsidiary from that date.

The following is a summary of significant balance sheet and income statement items of STS (MARKIZA TV) at December 31 2005, and for the years ending December 31, 2005 and 2004:

		STS (MARKIZA TV) December 31, 2005
Current assets	$	23,261
Non-current assets		18,612

Current liabilities		(12,673)
Non-current liabilities		(125)
Minority interest		(635)
Net Assets	**$**	**28,440**

	STS (MARKIZA TV)			
	For the Years Ended December 31,			
		2005		**2004**
Net revenues	$	64,266	$	61,576
Operating income		14,641		15,790
Net income		11,771		13,868
Currency translation adjustment	$	(3,226)	$	4,760

Page 125

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Radio Pro and Media Pro

Until March 29, 2004, we held a 44.0% interest in Radio Pro, a radio broadcaster in Romania. In order to comply with Romanian Media Council regulations following our acquisition of an additional 14.0% interest in MPI and Pro TV, it was necessary to reduce our holding in Radio Pro to 20.0%, which we achieved by selling 24.0% of our stake to Adrian Sarbu, the general director of our Romania operations for consideration of US$ 0.04 million with a resulting loss on disposal of US$ 0.02 million. The consideration was determined by an independent valuation of Radio Pro.

On August 11, 2006 we acquired a 10.0% interest in Media Pro which is accounted for using the cost method. The remaining 90% of Media Pro is held by Adrian Sarbu.

In consideration for the purchase of this interest, we paid EUR 8.0 million (approximately US$ 10.1 million at the date of acquisition) in cash and transferred our remaining 20.0% investment in Radio Pro. As a result of this transaction, we recorded a gain of US$ 6.2 million on disposal.

We have the right to put our investment in Media Pro to Mr. Sarbu for a three-month period from August 12, 2009 at a price equal to the greater of EUR 13.0 million (approximately US$ 16.5 million) and the value of our investment, as determined by an independent valuer. This put option is secured by a pledge of a 4.79% shareholding in Pro TV held by Mr. Sarbu. For more information, see Note 4, "Acquisitions and Disposals, Romania". On acquisition, we determined the fair value of this put option to be US$ nil.

TV Sport

On December 14, 2006 we acquired 20.0% of TV Sport from Silviu Prigoana for cash consideration of Euro 2.0 million (US$ 2.6 million). TV Sport is a male sports-oriented channel focusing on local and international football, international boxing and a number of local Romanian sports.

7. SENIOR NOTES

Our Senior Notes consist of the following:

	Carrying value		Fair value	
	December 31, 2006	**December 31, 2005**	**December 31, 2006**	**December 31, 2005**
Eur 245.0 million 8.25% Senior Notes	$ 322,666	$ 288,984	$ 353,722	$ 323,737
Eur 125.0 million floating rate Senior Notes	164,625	147,440	170,181	156,324
	$ 487,291	**$ 436,424**	**$ 523,903**	**$ 480,061**

On May 5, 2005, we issued Senior Notes in the aggregate principal amount of Eur 370.0 million consisting of Eur 245.0 million of 8.25% Senior Notes due May 2012 and Eur 125.0 million of floating rate Senior Notes due May 2012, which bear interest at six-month Euro Inter-Bank Offered Rate ("EURIBOR") plus 5.50% (9.23% at December 31, 2006). Interest is payable semi-annually in arrears on each May 15 and November 15, commencing November 15,

2005. The fair value of the Senior Notes as at December 31, 2006 and December 31, 2005 was calculated by multiplying the outstanding debt by the traded market price.

The Senior Notes are secured senior obligations and rank pari passu with all existing and future senior indebtedness and are effectively subordinated to all existing and future indebtedness of our subsidiaries. The amounts outstanding are guaranteed by certain of our subsidiaries and are secured by a pledge of shares of those subsidiaries and an assignment of certain contractual rights. The terms of our indebtedness restrict the manner in which our business is conducted, including the incurrence of additional indebtedness, the making of investments, the payment of dividends or the making of other distributions, entering into certain affiliate transactions and the sale of assets.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

In the event that (A) there is a change in control by which (i) any party other than our present shareholders becomes the beneficial owner of more than 35.0% of our total voting power; (ii) we agree to sell substantially all of our operating assets; or (iii) there is a change in the composition of a majority of our Board of Directors; and (B) on the 60th day following any such change of control the rating of the Senior Notes is either withdrawn or downgraded from the rating in effect prior to the announcement of such change of control, we can be required to repurchase the Senior Notes at a purchase price in cash equal to 101.0% of the principal amount of the Senior Notes plus accrued and unpaid interest to the date of purchase.

The Senior Notes are redeemable at our option, in whole or in part, at the redemption prices set forth below:

From:	Eur 245.0 million 8.25% Senior Notes Redemption Price	From:	Eur 125.0 million floating rate Senior Notes Redemption Price
May 15, 2009 to May 14, 2010	104.125%	May 15, 2007 to May 14, 2008	102.000%
May 15, 2010 to May 14, 2011	102.063%	May 15, 2008 to May 14, 2009	101.000%
May 15, 2011 and thereafter	100.000%	May 15, 2009 and thereafter	100.000%

In addition, at any time prior to May 15, 2008, we may redeem up to 35.0% of the fixed rate notes with the proceeds of any public equity offering at a price of 108.250% of the principal amount of such notes, plus accrued and unpaid interest, if any, to the redemption date.

In addition, prior to May 15, 2009, we may redeem all or a part of the fixed rate notes at a redemption price equal to 100.0% of the principal amount of such notes, plus a "make-whole" premium and accrued and unpaid interest to the redemption date.

Certain derivative instruments, including redemption call options and change of control and asset disposition put options, have been identified as being embedded in the Senior Notes but as they are considered clearly and closely related to the Senior Notes, they are not accounted for separately.

8. RESTRICTED CASH

Restricted cash consists of the following at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
Czech Republic	$ -	$ 24,554
Croatia	4,183	3,640
Directors' and officers' insurance	-	5,285
Other	771	693
Total restricted cash	**$ 4,954**	**$ 34,172**

The restricted cash balances in Czech Republic and Croatia at December 31, 2005 represented amounts held in escrow that are payable to certain former owners of our businesses in those countries. The amount due to one of the former owners of our Czech Republic operations was paid on May 26, 2006 and the amount due to the former owners of our Croatia operations remains payable at December 31, 2006. Directors' and officers' insurance related to a balance held in a captive insurance company to underwrite a part of our directors' and officers' insurance program that was no longer required under the program in 2006.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

9. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
Trading:		
Third-party customers	$ 156,701	$ 103,921
Less: allowance for bad debts and credit notes	(11,472)	(8,612)
Related parties	7,655	2,034
Less: allowance for bad debts and credit notes	(798)	(265)
Total trading	**$ 152,086**	**$ 97,078**
Other:		
Third-party customers	$ 359	$ 257
Less: allowance for bad debts and credit notes	(103)	(83)
Related parties	454	434
Less: allowance for bad debts and credit notes	(291)	(290)
Total other	**$ 419**	**$ 318**
Total accounts receivable	**$ 152,505**	**$ 97,396**

Bad debt expense for the years ending December 31, 2006, 2005 and 2004 was US$ 2.0 million, US$ 1.8 million and US$ 0.3 million, respectively.

At December 31, 2006, CZK 600.0 million (approximately US$ 28.7 million) (2005: CZK 516.7 million, approximately US$ 21.0 million at December 31, 2005) of receivables in the Czech Republic were pledged as collateral subject to a factoring agreement (see Note 13, "Credit Facilities and Obligations Under Capital Leases").

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

10. OTHER ASSETS

Other current and non-current assets consist of the following at December 31, 2006 and 2005:

		December 31, 2006		December 31, 2005
Current:				
Prepaid programming	$	23,072	$	17,534
Other prepaid expenses		13,177		6,009
Deferred tax (Note 16)		2,124		3,025
VAT recoverable		2,562		7,888
Loan to related party (Note 22)		600		600
Capitalized debt costs		2,908		2,250
Assets held-for-sale		-		341
Other		3,112		1,209
Total other current assets	**$**	**47,555**	**$**	**38,856**
Non-current:				
Capitalized debt costs	$	11,264	$	11,618
Loan to related party (Note 22)		1,603		1,910
Deferred tax (Note 16)		3,443		779
Other		1,165		753
Total other non-current assets	**$**	**17,475**	**$**	**15,060**

Capitalized debt costs primarily comprise the costs incurred in connection with the issuance of our Senior Notes in May 2005 (see Note 7, "Senior Notes"), and are being amortized over the term of the Senior Notes using the effective interest method. The assets held-for-sale at December 31, 2005, related to land and buildings in our Croatia operations.

11. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment consists of the following at December 31, 2006 and 2005:

		December 31, 2006		December 31, 2005
Land and buildings	$	52,212	$	17,548
Station machinery, fixtures and equipment		115,238		72,017
Other equipment		21,980		20,447
Software licenses		15,495		8,360
Construction in progress		4,070		5,180
Total cost		**212,995**		**123,552**
Less: Accumulated depreciation		(97,190)		(64,655)
Total net book value	**$**	**115,805**	**$**	**58,897**
Assets held under capital leases (included in the above)				
Land and buildings	$	5,541	$	4,980

Station machinery, fixtures and equipment		2,330		1,434
Total cost		**7,871**		**6,414**
Less: Accumulated depreciation		(1,877)		(1,167)
Net book value	**$**	**5,994**	**$**	**5,247**

For further information on capital leases, see Note 13, “Credit Facilities and Obligations under Capital Leases”.

Depreciation expense for the years ending December 31, 2006, 2005 and 2004 was US$ 26.6 million, US$ 16.7 million and US$ 6.4 million, respectively. This includes corporate depreciation expense for the years ending December 31, 2006, 2005 and 2004 of US$ 0.8 million, US$ 0.4 million and US$ 0.1 million, respectively, which are included in corporate operating costs.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at December 31, 2006 and 2005:

		December 31, 2006		December 31, 2005
Accounts payable	$	47,447	$	21,533
Programming liabilities		32,316		18,891
Deferred income		3,212		7,202
Settlement liability		-		10,007
Accrued staff costs		12,947		9,402
Accrued production costs		7,435		5,882
Accrued interest payable		5,375		4,483
Accrued legal costs		3,619		3,620
Accrued rent costs		1,163		82
Other accrued liabilities		6,203		3,747
Total accounts payable and accrued liabilities	**$**	**119,717**	**$**	**84,849**

The settlement liability represents an amount owed by CET 21 under a settlement agreement among CET 21, Ceska nezavisla televizni spolecnost ("CNTS") and the PPF Group dated December 19, 2003 following a mediation. This liability was assumed as part of the TV Nova (Czech Republic) group acquisition and was fully repaid in January 2006.

The accrued interest payable balance relates primarily to interest calculated on our Senior Notes (see Note 7, "Senior Notes").

13. CREDIT FACILITIES AND OBLIGATIONS UNDER CAPITAL LEASES

Group loan obligations and overdraft facilities consist of the following at December 31, 2006 and 2005:

			December 31, 2006		December 31, 2005
Credit facilities:					
Corporate	(a)	$	-	$	-
Croatia operations	(b)		847		1,135
Czech Republic operations	(c) - (e)		11,975		42,703
Slovenia operations	(f)		-		-
Ukraine operations	(g)		1,703		-
Total credit facilities		**$**	**14,525**	**$**	**43,838**
Capital leases:					
Croatia operations, net of interest		$	19	$	132
Czech Republic operations, net of interest			-		6
Romania operations, net of interest			495		290
Slovak Republic operations, net of interest			154		-

Slovenia operations, net of interest		4,223		4,040
Total capital leases	**$**	**4,891**	**$**	**4,468**
Total credit facilities and capital leases	**$**	**19,416**	**$**	**48,306**
Less current maturities		(13,057)		(43,566)
Total non-current maturities	**$**	**6,359**	**$**	**4,740**

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Corporate

(a) On July 21, 2006, we entered into a five-year revolving loan agreement for EUR 100.0 million (approximately US$ 131.7 million) arranged by the European Bank for Reconstruction and Development (the "Loan"). ING Bank N.V. ("ING") and Ceska Sporitelna, a.s. ("CS") are participating in the facility for up to EUR 50.0 million in aggregate. Initial drawings up to EUR 100.0 million will be used for certain specified projects in Central and Eastern Europe.

The Loan bears interest at a rate of three-month EURIBOR plus 2.75% on the drawn amount. The available amount of the Loan amortizes by 7.5% every six months from May 2008 to November 2009, then by 15% in May 2010 and November 2010, and by 40% in May 2011.

Covenants contained in the Loan are in line with those contained in our Senior Notes (see Note 7, "Senior Notes"). In addition, the Loan's covenants restrict us from making principal repayments on other debt of greater than US$ 20.0 million per year for the life of the Loan. This restriction is not applicable to our existing facilities with ING or CS or to any refinancing of our Senior Notes.

The Loan is a secured senior obligation and ranks pari passu with all existing and future senior indebtedness, including the Senior Notes, and is effectively subordinated to all existing and future indebtedness of our subsidiaries. The amount drawn is guaranteed by certain of our subsidiaries and is secured by a pledge of shares of those subsidiaries and an assignment of certain contractual rights. The terms of the Loan restrict the manner in which our business is conducted, including the incurrence of additional indebtedness, the making of investments, the payment of dividends or the making of other distributions, entering into certain affiliate transactions and the sale of assets.

There were no drawings under this facility as at December 31, 2006.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Croatia

(b) A total of EUR 0.6 million (approximately US$ 0.8 million) was drawn down under two agreements our Croatia operations have with Hypo Alpe-Adria-Bank d.d. These loans bear a variable interest rate of three-month EURIBOR plus 2.50% and are repayable in quarterly instalments until April 1, 2011. As at December 31, 2006, an aggregate rate of 6.00% applied to these loans. These loans are secured by certain fixed assets of OK, which as at December 31, 2006 have a carrying value of approximately US$ 0.1 million.

Czech Republic

(c) As at December 31, 2006, there were no drawings by CET 21 under a four-year credit facility of CZK 1.2 billion (approximately US$ 57.5 million) available until October 31, 2009 with Ceska Sporitelna, a.s. ("CS") This facility may, at the option of CET 21, be drawn in CZK, US$ or EUR and bears interest at the three-month, six-month or twelve-month London Inter-Bank Offered Rate ("LIBOR"), EURIBOR or Prague Inter-Bank Offered Rate ("PRIBOR") rate plus 1.95%. This facility is secured by a guarantee and a pledge of receivables, which are also subject to a factoring arrangement with Factoring Ceska Sporitelna, a.s., a subsidiary of CS.

(d) CZK 250.0 million (approximately US$ 12.0 million), the full amount of the facility, has been drawn by CET 21 under a working capital facility agreement with CS which matures on April 30, 2007 and bears interest at the three-month PRIBOR plus 1.65% (three-month PRIBOR relevant to drawings under this facility at December 31, 2006 was 2.55%). A preliminary agreement has been reached to extend this facility for 12 months from maturity. This facility is secured by a pledge of receivables, which are also subject to a factoring arrangement with Factoring Ceska Sporitelna, a.s.

(e) As at December 31, 2006, there were no drawings under a CZK 600.0 million (approximately US$ 28.7 million) factoring facility with Factoring Ceska Sporitelna, a.s. available until March 31, 2010. The facility bears interest at one-month PRIBOR plus 1.40% for the period that actively assigned accounts receivable are outstanding.

Slovenia

(f) On July 29, 2005, Pro Plus entered into a revolving facility agreement for up to EUR 37.5 million (approximately US$ 49.4 million) in aggregate principal amount with ING Bank N.V., Nova Ljubljanska Banka d.d., Ljubljana and Bank Austria Creditanstalt d.d., Ljubljana. The facility availability amortizes by 10.0% each year for four years commencing one year after signing, with 60.0% repayable after five years. This facility is secured by a pledge of the bank accounts of Pro Plus, the assignment of certain receivables, a pledge of our interest in Pro Plus and a guarantee of our wholly-owned subsidiary CME Media Enterprises B.V. Loans drawn under this facility will bear interest at a rate of EURIBOR for the period of drawing plus a margin of between 2.10% and 3.60% that varies according to the ratio of consolidated net debt to consolidated broadcasting cash flow for Pro Plus. As at December 31, 2006, there were no drawings under this revolving facility.

Ukraine

(g) On August 16, 2006 and November 6, 2006, our Ukraine (KINO, CITI) operations entered into US$ 0.9 million and US$ 0.6 million, three-year loans with Glavred-Media, LLC, the minority shareholder in Ukrpromtorg. These loans are unsecured and bear interest at 9%. Our partners have also extended short-term non-interest bearing loans to

our Ukraine (KINO, CITI) operations amounting to US$ 0.2 million.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Total Group

At December 31, 2006, the maturity of our debt (including our Senior Notes) is as follows:

2007	$	12,350
2008		180
2009		1,690
2010		305
2011 and thereafter		487,291
Total	**$**	**501,816**

Capital Lease Commitments

We lease certain of our office and broadcast facilities as well as machinery and equipment under various leasing arrangements. The future minimum lease payments from continuing operations, by year and in the aggregate, under capital leases with initial or remaining non-cancelable lease terms in excess of one year, consisted of the following at December 31, 2006:

2007	$	998
2008		806
2009		644
2010		432
2011		432
2012 and thereafter		3,423
		6,735
Less: amount representing interest		(1,844)
Present value of net minimum lease payments	**$**	**4,891**

14. FINANCIAL INSTRUMENTS

On April 27, 2006, we entered into currency swap agreements with two counterparties whereby we swapped a fixed annual coupon interest rate (of 9.0%) on notional principal of CZK 10.7 billion (approximately US$ 512.6 million), payable on July 15, October 15, January 15, and April 15, to the termination date of April 15, 2012, for a fixed annual coupon interest rate (of 9.0%) on notional principal of EUR 375.9 million (approximately US$ 495.1 million) receivable on July 15, October 15, January 15, and April 15, to the termination date of April 15, 2012.

The fair value of these financial instruments as at December 31, 2006 was a US$ 12.5 million liability.

These currency swap agreements reduce our exposure to movements in foreign exchange rates on a part of the CZK-denominated cash flows generated by our Czech Republic operations that is approximately equivalent in value to the Euro-denominated interest payments on our Senior Notes (see Note 7, "Senior Notes"). They are financial instruments that are used to minimize currency risk and are considered an economic hedge of foreign exchange rates. These instruments have not been designated as hedging instruments as defined under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and so changes in their fair value are recorded in the consolidated statement of operations and in the consolidated balance sheet in other non-current liabilities.

15. SHAREHOLDERS' EQUITY

Preferred Stock

5,000,000 shares of Preferred Stock, with a $0.08 par value, were authorized as at December 31, 2006 and 2005. None were issued and outstanding as at December 31, 2006 and 2005.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Class A and B Common Stock

100,000,000 shares of Class A Common Stock and 15,000,000 shares of Class B Common Stock were authorized as at December 31, 2006 and 2005. The rights of the holders of Class A Common Stock and Class B Common Stock are identical except for voting rights. The shares of Class A Common Stock are entitled to one vote per share and the shares of Class B Common Stock are entitled to ten votes per share. Class B Common Stock is convertible into Class A Common Stock for no additional consideration on a one-for-one basis. Holders of each class of shares are entitled to receive dividends and upon liquidation or dissolution are entitled to receive all assets available for distribution to shareholders. The holders of each class have no preemptive or other subscription rights and there are no redemption or sinking fund provisions with respect to such shares.

On March 29, 2006, we sold 2,530,000 shares of our Class A Common Stock (including 330,000 sold pursuant to an underwriters' option) and received net proceeds of approximately US$ 168.7 million.

On December 9, 2005, EL/RSLG Media Inc. converted 306,000 shares of Class B Common Stock and on December 15, 2005 Ronald Lauder converted 62,235 shares of Class B Common Stock into a total of 368,235 shares of Class A Common Stock (par value of US$ 29,459), which decreased Class B Common Stock to US$ 557,323.

On May 3, 2006, EL/RSLG Media Inc. converted 336,000 shares of Class B Common Stock, on May 9, 2006, Leonard A. Lauder converted 140,000 and LWG Family Partners L.P. converted 215,000 shares of Class B Common Stock, on May 11, 2006, EL/RSLG Media Inc. converted 4,895 shares of Class B Common Stock, and on June 23, 2006, Ronald Lauder converted 57,799 shares of Class B Common Stock into a combined total of 753,694 shares of Class A Common Stock.

On August 28, 2006, Ronald Lauder exercised options over 100,000 shares of Class B Common Stock.

16. INCOME TAXES

As our investments are predominantly owned by Dutch holding companies, the components of the provision for income taxes and of the income from continuing operations before provision for income taxes have been analyzed between their Netherlands and non-Netherlands components. Similarly the Dutch corporate income tax rate has been used in the reconciliation of income taxes.

Income before provision for income taxes, minority interest, equity in income of unconsolidated affiliates and discontinued operations:

The Netherlands and non-Netherlands components of income from continuing operations before income taxes are:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Domestic	$ (43,777)	$ (2,270)	$ 5,127
Foreign	92,179	62,466	15,387
	$ 48,402	**$ 60,196**	**$ 20,514**

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Total tax charge for the years ended December 31, 2006, 2005 and 2004 was allocated as follows:

	For the Years Ended December 31,					
		2006		2005		2004
Income tax expense from continuing operations	$	14,962	$	16,691	$	11,089
Income tax expense/(benefit) from discontinued operations		4,863		677		(2,378)
Currency translation adjustment in accumulated other comprehensive loss		22,878		(3,266)		-
Total tax charge	**$**	**42,703**	**$**	**14,102**	**$**	**8,711**

Income Tax Provision:

The Netherlands and non-Netherlands components of the provision for income taxes from continuing operations consists of:

	For the Years Ended December 31,					
		2006		2005		2004
Current Income tax expense:						
Domestic	$	(22,745)	$	186	$	2,104
Foreign		36,009		25,512		9,047
	$	**13,264**	**$**	**25,698**	**$**	**11,151**
Deferred tax expense / (benefit):						
Domestic		1,467	$	(1,467)	$	-
Foreign		231		(7,540)		(62)
	$	**1,698**	**$**	**(9,007)**	**$**	**(62)**
Provision for income taxes	**$**	**14,962**	**$**	**16,691**	**$**	**11,089**

Reconciliation of Effective Income Tax Rate:

The following is a reconciliation of income taxes, calculated at statutory Netherlands rates, to the income tax provision included in the accompanying Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004:

	For the Years Ended December 31,					
		2006		2005		2004
Income taxes at Netherlands rates (2006: 29.6%, 2005: 31.5%; 2004: 34.5%)	$	14,326	$	18,961	$	7,078
Jurisdictional differences in tax rates		(10,432)		(15,685)		393
Tax effect of Croatian goodwill impairment		149		1,983		-
Effect of change in tax law relating to investment allowances claimed in previous years		(2,065)		-		-
Interest expense disallowed under thin capitalisation provisions		6,508		-		-
Tax effect of other permanent differences		(656)		4,921		6,209

Effect of change in tax rates	89	620	(858)
Change in valuation allowance	6,107	5,115	(1,366)
Other	936	776	(367)
Provision for income taxes	**$ 14,962**	**$ 16,691**	**$ 11,089**

The amount included in 2005 for jurisdictional differences in tax rates includes US$ 13.1 million relating to profits arising in Bermuda, which are not subject to tax.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Components of Deferred Tax Assets and Liabilities:

The following table shows the significant components included in deferred income taxes as at December 31, 2006 and 2005:

	December 31, 2006	December 31, 2005
Assets:		
Tax benefit of loss carry-forwards and other tax credits	$ 16,880	$ 17,748
Programming rights	4,098	1,220
Property, plant and equipment	995	527
Accrued expense	4,205	2,807
Other	691	722
Gross deferred tax assets	**26,869**	**23,024**
Valuation allowance	(16,574)	(11,934)
Net deferred tax assets	**$ 10,295**	**$ 11,090**
Liabilities:		
Broadcast licenses, trademarks and customer relationships	$ (57,036)	$ (42,674)
Property, plant and equipment	(2,936)	(4,057)
Undistributed reserves not permanently reinvested	-	(1,944)
Temporary difference due to timing	(4,684)	(1,765)
Total deferred tax liabilities	**$ (64,656)**	**$ (50,440)**
Net deferred income tax liability	**$ (54,361)**	**$ (39,350)**

Deferred tax is recognized on the Consolidated Balance Sheet as follows:

	December 31, 2006	December 31, 2005
Current deferred tax assets	$ 2,124	$ 3,025
Non-current deferred tax assets	3,443	779
	$ 5,567	$ 3,804
Current deferred tax liabilities	(1,836)	(1,005)
Non-current deferred tax liabilities	(58,092)	(42,149)
	$ (59,928)	$ (43,154)
Net deferred income tax liability	**$ (54,361)**	**$ (39,350)**

We provided a valuation allowance against potential deferred tax assets of US$ 16.6 million and US$ 11.9 million as at December 31, 2006 and 2005, respectively, since it has been determined by management based on the weight of all available evidence that it is more likely than not that the benefits associated with these assets will not be realized. Of the valuation allowance recorded at December 31, 2006, US$ 0.8 million would reverse through goodwill.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

During 2006, we had the following movements on valuation allowances:

Balance at December 31, 2005	**$ 11,934**
Charged to costs and expenses	6,107
Credited to other accounts	(1,168)
Foreign exchange	(299)
Balance at December 31, 2006	**$ 16,574**

As of December 31, 2006 we have operating loss carry-forwards that will expire in the following periods:

Year	Total	Austria	Croatia	Czech Republic	Netherlands	Slovenia	UK	Cyprus	Ukraine
2007	9,716					9,716			
2008	1,064			21		1,043			
2009	1,594		13	1,434		147			
2010	3,729		440	3,289					
2011	8,861		8,822	39					
Indefinite	15,125	11,491					198	96	3,340

The losses are subject to examination by the tax authorities and to restriction on their utilization. In particular the losses can only be utilized against profits arising in the legal entity in which the losses arose. We have provided 100% valuation allowances against the operating loss carry-forwards arising in Austria, Croatia, Czech Republic, Netherlands, Slovenia, Cyprus and Ukraine as we consider it more likely than not that we will fail to utilize these losses.

In addition there is a ruling deficit in the Netherlands of US$ 30.4 million which is available to offset future taxable profits in excess of the minimum amounts agreed with the Netherlands tax authorities. The ruling deficit is subject to a nine year statute of limitations.

We have not provided income taxes or withholding taxes on US$ 227.0 million (2005: US$ 119.0 million) of cumulative undistributed earnings of our subsidiaries and affiliates as these earnings are either permanently reinvested in the companies concerned or can be recovered tax-free. It is not practicable to estimate the amount of taxes that might be payable on the distribution of these earnings.

17. STOCK-BASED COMPENSATION

4,500,000 shares are available for the issuance of shares in respect of equity awards under a stock based compensation plan ("the plan"). Under the plan, awards ("options") are made to employees at the discretion of the Compensation Committee and to directors pursuant to an annual automatic grant under the plan. Grants of options allow the holders to purchase CME stock at an exercise price, which is generally the market price prevailing at the date of the grant with vesting over three, four or five years.

When options are vested, holders may exercise them at any time up to the maximum contractual life of the instrument which is specified in the option agreement. The fair value of options vesting during 2006 was US$ 3.5 million (2005: US$ 3.2 million, 2004: 2.1 million). At December 2006, the maximum contractual life of options issued was 10 years. Upon providing the appropriate written notification, holders pay the exercise price and receive the stock. Stock delivered under the option plan comes from the issuance of new shares. For the year ended December 31, 2006, US$

3.7 million was received on exercise of options under the plan. The intrinsic value of awards exercised during 2006 was US$ 8.2 million (2005: US$ 24.7 million, 2004: US$ 12.2 million).

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

The charge for stock-based compensation in our Consolidated Statements of Operations is as follows:

	For the Years Ended December 31,		
	2006	**2005**	**2004**
Stock-based compensation charged under FIN 44	$ -	$ 918	$ 9,046
Stock-based compensation charged under FAS 123(R) (2005 and 2004: FAS 123)	3,575	2,209	1,125
Total stock-based compensation	**$ 3,575**	**$ 3,127**	**$ 10,171**

The charge for stock based compensation cost related to awards that are not yet exercisable, and which have not yet been recognized in our Consolidated Statements of Operations at December 31, 2006 was US$ 14.8 million and the weighted average period over which it will be recognized is 4.15 years.

Stock-based compensation under FIN 44

For certain options issued in 1998 and 2000, our stock-based compensation charge was calculated according to FASB Interpretation 44, "Accounting for Certain Transactions involving Stock Compensation" ("FIN 44"). This requires that compensation costs for modified or variable awards are adjusted for increases and decreases in the intrinsic value in subsequent periods until that award is exercised, forfeited or expires unexercised, subject to a minimum of the original intrinsic value at the original measurement date. The last of these options were exercised on December 15, 2005. The amounts charged have been presented following the conclusion of our review of historic stock option grants (for further information see Note 3, "Summary of Significant Accounting Polices").

Stock-based compensation under FAS 123(R)

Under the provisions of FAS 123(R), the fair value of stock options that are expected to vest is estimated on the grant date using the Black-Scholes option-pricing model and recognized ratably over the requisite servicing period. The calculation of compensation cost requires the use of several significant assumptions which are calculated as follows:

- *Expected forfeitures.* FAS 123(R) requires that compensation cost only be calculated on those instruments that are expected to vest in the future. The number of options that actually vest will usually differ from the total number issued because employees forfeit options when they do not meet the service conditions stipulated in the agreement. Since all forfeitures result from failure to meet service conditions, we have calculated the forfeiture rate by reference to the historical employee turnover rate.
- *Expected volatility.* Expected volatility has been calculated based on an analysis of the historical stock price volatility of the company and its peers for the preceeding 6.5 years.
- *Expected term.* The expected term of options granted has been calculated following the "shortcut" method as outlined in section D 2, question 6 of SEC Staff Accounting Bulletin No. 107 "Share Based Compensation" because our options meet the definition of "plain vanilla" therein.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

The weighted average assumptions used in the Black-Scholes model for grants made in the years ending December 31, 2006, 2005 and 2004 were as follows:

	For the Years Ended December 31, 2006	2005	2004
Risk-free interest rate	4.76%	4.00%	3.50%
Expected term (years)	5.89	6.25	6.00
Expected volatility	43.44%	50.56%	51.50%
Dividend yield	0%	0%	0%
Weighted-average fair value	$ 31.67	$ 26.29	$ 12.51

The following table summarizes information about stock option activity during 2006, 2005, and 2004:

	2006		2005		2004	
	Shares	Weighted Average Exercise Price (US$)	Shares	Weighted Average Exercise Price (US$)	Shares	Weighted Average Exercise Price (US$)
Outstanding at beginning of year	**1,118,275**	**$ 22.23**	**1,705,017**	**$ 12.89**	**2,527,717**	**$ 7.10**
Awards granted	388,500	65.19	194,500	49.23	419,500	23.84
Awards exercised	(195,450)	18.54	(685,359)	8.08	(1,083,634)	2.74
Awards forfeited	(22,750)	40.38	(95,883)	11.90	(158,566)	19.11
Outstanding at end of year	**1,288,575**	**$ 35.51**	**1,118,275**	**$ 22.23**	**1,705,017**	**$ 12.89**

In addition to the amounts shown above, 25,000 options for shares of Class A Common Stock granted to a former director in August 1995 outside of our stock option plans were exercised in 2005.
The following table summarizes information about stock options outstanding at December 31, 2006:

	Options outstanding			
Range of exercise prices	Shares	Average remaining contractual life (years)	Aggregate intrinsic value (US$)	Weighted average exercise price (US$)
$1.00-9.99	153,800	5.20	$ 10,471	$ 1.92
$10.00-19.99	345,400	6.80	18,842	15.45
$20.00-29.99	138,000	6.45	6,518	22.76
$30.00-39.99	75,375	7.89	2,793	32.94
$40.00-49.99	122,000	8.42	3,098	44.61
$50.00-59.99	179,500	9.22	2,219	57.64
$60.00-69.99	98,500	5.27	863	61.24
$70.00-79.99	176,000	9.95	(361)	72.05
Total	**1,288,575**	**7.45**	**$ 44,443**	**$ 35.51**

Expected to vest	**699,623**	**8.08**	**$**	**15,562**	**$**	**47.76**

Page 139

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

The following table summarizes information about stock options exercisable at December 31, 2006:

	Options exercisable					
Range of exercise prices	Shares	Average remaining contractual life (years)		Aggregate intrinsic value (US$)		Weighted average exercise price (US$)
$1.00-9.99	141,000	5.19	$	9,599	$	1.92
$10.00-19.99	223,400	6.73		12,401		14.49
$20.00-29.99	78,667	5.71		3,703		22.94
$30.00-39.99	38,958	7.89		1,444		32.92
$40.00-49.99	30,500	8.42		774		44.61
$50.00-59.99	16,375	8.97		213		57.00
$60.00-69.99	-	-		-		-
$70.00-79.99	-	-		-		-
Total	**528,900**	**6.42**	**$**	**28,134**	**$**	**16.81**

The impact of adopting FAS 123(R) for the first time on January 1, 2006 was not material to our Consolidated Statements of Operations because we had already been recognizing compensation cost under FAS 123.

18. EARNINGS PER SHARE

The components of basic and diluted earnings per share are as follows:

	For the Years Ended December 31,					
		2006		2005		2004
Net income available for common shareholders	**$**	**20,424**	**$**	**42,322**	**$**	**18,462**
Weighted average outstanding shares of common stock (000's)		**40,027**		**34,664**		**27,871**
Dilutive effect of employee stock options (000's)		573		766		1,229
Common stock and common stock equivalents	**$**	**40,600**	**$**	**35,430**	**$**	**29,100**
Earnings per share:						
Basic	$	0.51	$	1.22	$	0.66
Diluted	$	0.50	$	1.19	$	0.63

At December 31, 2006, 319,435 (2005: 194,500, 2004: 60,543) stock options were antidilutive to income from continuing operations and excluded from the calculation of earnings per share. These may become dilutive in the future.

19. SEGMENT DATA

We manage our business on a country-by-country basis and review the performance of each business segment using data that reflects 100% of operating and license company results. Our business segments are comprised of Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine.

We evaluate the performance of our business segments based on Segment Net Revenues and Segment EBITDA. Segment Net Revenues and Segment EBITDA for each year include our operations in the Slovak Republic which were not consolidated prior to January 23, 2006. Segment Net Revenues and Segment EBITDA for the year ended December 31, 2004 also include Radio Pro in Romania, which was not consolidated.

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

We acquired our Croatia operations on July 16, 2004; therefore, comparable 2004 financial information is included from the date of acquisition only. We acquired our Czech Republic operations on May 2, 2005; therefore, 2005 results are from the date of acquisition.

Our key performance measure of the efficiency of our business segments is EBITDA margin. We define Segment EBITDA margin as the ratio of Segment EBITDA to Segment Net Revenue.

Segment EBITDA is determined as segment net income/loss, which includes program rights amortization costs, before interest, taxes, depreciation and amortization of intangible assets. Items that are not allocated to our business segments for purposes of evaluating their performance and therefore are not included in Segment EBITDA, include:

- expenses presented as corporate operating costs in our consolidated statements of operations and comprehensive income;
- stock-based compensation charges;
- foreign currency exchange gains and losses;
- change in fair value of derivatives; and
- certain unusual or infrequent items (e.g., extraordinary gains and losses, impairments on assets or investments, gain on sale of unconsolidated affiliates).

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Below are tables showing our Segment Net Revenues, Segment EBITDA, segment depreciation and segment asset information by operation, including a reconciliation of these amounts to our consolidated results for the years ending December 31, 2006, 2005 and 2004 for consolidated statement of operations data and as at December 31, 2006 and 2005 for balance sheet data:

	SEGMENT FINANCIAL INFORMATION For the Years Ended December 31,					
	Segment Net Revenues (1)			**Segment EBITDA**		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Country						
Croatia (NOVA TV) (2)	$ 22,310	$ 22,030	$ 9,757	$ (14,413)	$ (15,866)	$ (3,756)
Czech Republic (TV NOVA, GALAXIE SPORT) (3)	208,387	154,010	-	100,488	71,544	-
Romania (4)	148,616	103,321	76,463	65,860	43,803	25,198
Slovak Republic (MARKIZA TV)	73,420	64,266	61,576	20,805	17,240	18,975
Slovenia (POP TV and KANAL A)	54,534	48,770	45,388	19,842	19,337	19,077
Ukraine (STUDIO 1+1)	96,413	72,847	53,351	29,973	21,803	14,729
Ukraine (KINO, CITI) (5)	1,195	-	-	(3,713)	-	-
Total Segment Data	**$ 604,875**	**$ 465,244**	**$ 246,535**	**$ 218,842**	**$ 157,861**	**$ 74,223**
Reconciliation to Consolidated Statement of Operations and Comprehensive Income:						
Consolidated Net Revenues / Income before provision for income taxes, minority interest, equity in income of unconsolidated affiliates and discontinued operations	**$ 603,115**	**$ 400,978**	**$ 182,339**	**$ 48,402**	**$ 60,196**	**$ 20,514**
Corporate operating costs	-	-	-	34,104	25,547	29,254
Impairment charge	-	-	-	748	35,331	-
Unconsolidated equity affiliates (6)	1,760	64,266	64,196	(1,292)	17,240	19,404
Depreciation of station property, plant & equipment	-	-	-	25,795	16,367	6,429
Amortization of broadcast licenses and	-			18,813	11,180	465

other intangibles						
Interest income	-	-	-	(6,365)	(4,124)	(4,318)
Interest expense	-	-	-	44,228	29,387	1,203
Change in fair value of derivatives	-	-	-	12,539	-	-
Foreign currency exchange loss / (gain), net	-	-	-	44,908	(37,968)	574
Other (income) / expense	-	-	-	(3,038)	4,705	698
Total Segment Data	**$ 604,875**	**$ 465,244**	**$ 246,535**	**$ 218,842**	**$ 157,861**	**$ 74,223**

(1) All net revenues are derived from external customers. There are no inter-segmental revenues.

(2) We acquired our Croatia operations in July 2004.

(3) We acquired our TV NOVA (Czech Republic) operations in May 2005 and GALAXIE SPORT in September 2005.

(4) Romanian networks are PRO TV, PRO CINEMA, ACASA and PRO TV INTERNATIONAL for the years ended December 31, 2006 and 2005 and PRO TV, PRO CINEMA, ACASA, PRO TV INTERNATIONAL, PRO FM and INFOPRO for the year ended December 31, 2004.

(5) We acquired our Ukraine (KINO, CITI) operations in January 2006.

(6) Unconsolidated equity affiliates are STS and Markiza in the Slovak Republic and Radio Pro in Romania.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

	For the Years Ended December 31,		
Depreciation of station property, plant & equipment and amortization of broadcast licenses and other intangibles:	**2006**	**2005**	**2004**
Croatia	$ 2,920	$ 2,951	$ 1,173
Czech Republic	24,274	15,960	-
Romania	5,811	3,829	2,843
Slovak Republic	4,070	2,599	1,735
Slovenia	4,004	2,947	1,654
Ukraine (STUDIO 1+1)	3,216	1,860	1,224
Ukraine (KINO, CITI)	490	-	-
Total	**$ 44,785**	**$ 30,146**	**$ 8,629**
Reconciliation to Consolidated Statement of Operations:			
Unconsolidated equity affiliates	(177)	(2,599)	(1,735)
Total consolidated depreciation and amortization	**44,608**	**27,547**	**6,894**
Represented as follows:			
Depreciation of station property, plant & equipment	25,795	16,367	6,429
Amortization of broadcast licenses and other intangibles	18,813	11,180	465

	As at December 31,		
Total assets (1):	**2006**	**2005**	**2004**
Croatia	$ 30,394	$ 25,017	$ 52,905
Czech Republic	1,200,894	1,018,253	-
Romania	206,850	123,699	79,622
Slovak Republic	86,872	41,873	42,467
Slovenia	67,919	62,926	64,044
Ukraine (STUDIO 1+1)	75,020	49,438	32,706
Ukraine (KINO, CITI)	13,293	-	-
Total segment assets	**$ 1,681,242**	**$ 1,321,206**	**$ 271,744**
Reconciliation to Consolidated Balance Sheet:			
Unconsolidated equity affiliates	-	(41,873)	(42,467)
Corporate	137,758	109,517	215,362
Total assets	**$ 1,819,000**	**$ 1,388,850**	**$ 444,639**

(1) Segment assets exclude any inter-company investments, loans, payables and receivables.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Long-lived assets (1):	As at December 31, 2006	2005	2004
Croatia	$ 6,804	$ 6,264	$ 6,775
Czech Republic	28,002	16,027	-
Romania	32,312	13,154	9,081
Slovak Republic	19,498	14,245	12,818
Slovenia	15,595	15,523	11,834
Ukraine (STUDIO 1+1)	7,965	7,127	3,153
Ukraine (KINO, CITI)	3,674	-	-
Total long-lived assets	**$ 113,850**	**$ 72,340**	**$ 43,661**
Reconciliation to Consolidated Balance Sheet:			
Unconsolidated equity affiliates	-	(14,245)	(12,818)
Corporate	1,955	802	705
Total Long-lived assets	**$ 115,805**	**$ 58,897**	**$ 31,548**

(1) Reflects property, plant and equipment

We do not rely on any single major customer or group of major customers. No customer accounts for more than 10% of revenue.

20. DISCONTINUED OPERATIONS

	For the Years Ended December 31, 2006	2005	2004
Arbitration related costs	$ -	$ 164	$ 146
Income on disposal of discontinued operations	**-**	**164**	**146**
Tax on disposal of discontinued operations	(4,863)	(677)	2,378
Net income/(loss) from discontinued operations	**$ (4,863)**	**$ (513)**	**$ 2,524**

On May 19, 2003, we received US$ 358.6 million from the Czech Republic in final settlement of our UNCITRAL arbitration in respect of our former operations in the Czech Republic.

On June 19, 2003, our Board of Directors decided to withdraw from operations in the Czech Republic. The revenues and expenses of our former Czech Republic operations and the award income and related legal expenses have therefore all been accounted for as discontinued operations for all periods presented.

On October 23, 2003 we sold our 93.2% participation interest in CNTS, our former Czech Republic operating company, to PPF for US$ 53.2 million.

The first installment of US$ 7.5 million was received on October 8, 2003, the second US$ 7.5 million installment was received on October 23, 2003 and the third US$ 20.3 million installment was received on July 14, 2004. The remainder of the sales price was offset against our payment obligations to PPF in connection with the acquisition of the TV Nova (Czech Republic) group.

On February 9, 2004, we entered into an agreement with the Dutch tax authorities to settle all tax liabilities outstanding for the years up to and including 2003, including receipts in respect of our 2003 award in the arbitration against the Czech Republic, for a payment of US$ 9.0 million. We expected to continue to pay tax in the Netherlands of between US$ 1.0 and US$ 2.5 million for the foreseeable future and therefore agreed to a minimum payment of US$ 2.0 million per year for the years 2004 - 2008 and US$ 1.0 million for 2009.

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

We have re-evaluated our forecasts of the amount of taxable income we expect to earn in the Netherlands in the period to 2009. As the tax payable on this income is lower than the minimum amounts agreed with the Dutch tax authorities we have provided for the shortfall. In our consolidated statement of operations, we recognized a charge of US$ 4.9 million through discontinued operations for the year ended December 31, 2006 (2005: US$ 0.7 million, 2004: a benefit of US$ 2.4 million).

The settlement with the Dutch tax authorities also provides that if any decision is issued at any time prior to December 31, 2008 exempting awards under Bilateral Investment Treaties from taxation in the Netherlands, we will be allowed to use any resulting losses, which could be up to US$ 195.0 million, to offset other income within the applicable carry forward rules. This would not reduce the minimum amount of tax agreed payable under the settlement agreement. At this time there is no indication that the Dutch tax authorities will issue such a decision.

The settlement with the Dutch tax authorities has also resulted in a deductible temporary difference in the form of a ruling deficit against which a full valuation allowance has been recorded.

21. COMMITMENTS AND CONTINGENCIES

Commitments

a) Station Programming Rights Agreements

At December 31, 2006, we had the following commitments in respect of future programming, including contracts signed with license periods starting after the balance sheet date:

		December 31, 2006
Croatia	$	9,916
Czech Republic		34,657
Romania		19,426
Slovak Republic		10,427
Slovenia		5,589
Ukraine (STUDIO 1+1)		16,859
Ukraine (KINO, CITI)		1,094
Total	**$**	**97,968**

Of the US$ 98.0 million in the table above, US$ 89.6 million is payable within one year.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

b) Operating Lease Commitments

For the fiscal years ended December 31, 2006, 2005, and 2004 we incurred aggregate rent on all facilities of US$ 9.7 million, US$ 5.9 million and US$ 1.6 million. Future minimum operating lease payments at December 31, 2006 for non-cancelable operating leases with remaining terms in excess of one year (net of amounts to be recharged to third parties) are payable as follows:

		December 31, 2006
2007	$	3,983
2008		1,427
2009		1,140
2010		785
2011		394
2012 and thereafter		-
Total	**$**	**7,729**

c) Acquisition of minority shareholdings

Mr. Sarbu has the right to sell his 10.0% shareholding in Pro TV and MPI to us under a put option agreement entered into in July 2004 at a price to be determined by an independent valuation, subject to a floor price of US$ 1.45 million for each 1.0% interest sold. A put option of 5.21% of this 10.0% shareholding is exercisable from November 12, 2009 for a twenty-year period thereafter. Mr. Sarbu's right to put the remaining 4.79% is also exercisable from November 12, 2009, provided that we have not enforced a pledge over this 4.79% shareholding which Mr. Sarbu granted as security for our right to put our 10.0% in Media Pro. As at December 31, 2006, we consider the fair value of this put option to be approximately US$ nil.

d) Other

Dutch tax

On February 9, 2004 we entered into an agreement with the Dutch tax authorities to settle all tax liabilities outstanding for the period through 2003, including receipts in respect of our 2003 award in the arbitration against the Czech Republic, for a payment of US$ 9.0 million. We expected to continue to pay tax in the Netherlands of between US$ 1.0 and US$ 2.5 million for the foreseeable future and therefore also agreed to a minimum tax payable of US$ 2.0 million per year for the years 2004 - 2008 and US$ 1.0 million for 2009. Should the Dutch Ministry of Finance rule that arbitration awards such as the one we received are not taxable, we will be entitled to claim a tax loss, which can be offset against other taxable income but will not reduce our minimum payment commitments.

As at December 31, 2006 we provided US$ 5.5 million (US$ 3.0 million in non-current liabilities and US$ 2.5 million in current liabilities) and as at December 31, 2005 we provided US$ 2.1 million (US$ 0.7 million in non-current liabilities and US$ 1.4 million in current liabilities) of tax in the Netherlands as the difference between our obligation under this agreement and our estimate of tax in the Netherlands that may fall due over this period from business operations, based on current business structures and economic conditions, and recognized a charge of US$ 4.9 million (2005: US$ 0.7 million, 2004: a benefit of US$ 2.4 million) through discontinued operations in our Consolidated

Statement of Operations for the year ended December 31, 2006.

Czech Republic - Factoring of Trade Receivables

CET 21 has a working capital credit facility of CZK 250 million (approximately US$ 12.0 million) with Ceska Sporitelna, a.s. This facility is secured by a pledge of receivables under the factoring agreement with Factoring Ceska Sporitelna.

The transfer of the receivables is accounted for as a secured borrowing under FASB Statement No. 140, *'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities',* with the proceeds received recorded in the Consolidated Balance Sheet as a liability and included in current credit facilities and obligations under capital leases. The corresponding receivables are a part of accounts receivable, as we retain the risks of ownership.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Contingencies

a) Litigation

We are, from time to time, a party to litigation that arises in the normal course of our business operations. Other than those claims discussed below, we are not presently a party to any such litigation which could reasonably be expected to have a material adverse effect on our business or operations. Unless otherwise disclosed, no provision has been made against any potential losses that could arise.

We present below a summary of our more significant proceedings by country.

Croatia

Global Communications Disputes

On October 29, 2004, OK filed suit against Global Communications d.o.o. claiming approximately HRK 53.0 million (approximately US$ 9.5 million) in damages. Global Communications is a company controlled by Ivan Caleta, who had previously operated Nova TV (Croatia) through OK. Global Communications, together with GRP Media d.o.o., another company controlled by Mr. Caleta, had provided certain goods and services to OK and Nova TV (Croatia) in exchange for advertising time pursuant to an agreement dated April 10, 2001 (the "Global Agreement"). Global Communications and GRP Media were functionally managing the advertising inventory of Nova TV (Croatia). On December 31, 2003, Global Communications entered into a reconciliation agreement by which OK acknowledged that Global Communications was entitled to approximately 375,000 seconds of advertising time for goods and services previously provided. Following our acquisition of Nova TV (Croatia) and OK in July 2004, OK concluded that Global Communications had used all of its seconds by June 2004 based on a substantial discrepancy discovered between the utilization of advertising time recorded by Global Communications and that recorded by AGB Puls, an independent television audience measurement service operating in Croatia. In the course of its investigation of the usage of seconds by Global Communications, OK discovered that computer records of advertising seconds kept for OK may have been altered. OK brought a suit to recover amounts for advertising time used by Global Communications in excess of the 375,000 seconds agreed. Global Communications filed a counterclaim in January 2005 for HRK 68.0 million (approximately US$ 12.2 million), claiming that the AGB data is unreliable and that it is entitled to additional seconds under the previous agreement. The lower commercial court issued a judgment on July 12, 2006 in favor of Global Communications for the full amount of the counterclaim, and we have appealed this decision on the basis of false and inadequate disclosure, wrongful application of substantive law and procedural error. Global Communications separately brought a claim against Nova TV (Croatia), on the same basis as the OK counterclaim. Both Global Communications and Nova TV (Croatia) requested the court to join this claim with the OK counterclaim but this request was denied. The lower commercial court issued a judgment on August 1, 2006 in favor of Global Communications for the full amount of the claim, after having denied submission of evidence supporting our defense. We have also appealed this decision.

On January 25, 2007, Nova TV (Croatia) filed suit against Global Communications. The facts underlying the claim are substantially the same as those of the abovementioned claims, but Nova TV (Croatia) is claiming that the Global Agreement and the two reconciliation agreements dated April 30, 2004 and June 30, 2004 (the "Reconciliation Agreements"), by which OK acknowledged the number of seconds of advertising time to which Global Communications was purportedly entitled, should be declared null and void under Article 141 of the Croatian

Obligations Act. This provision is intended to protect a contractual party which has entered into unfair bargaining terms due to its dependency on the other contractual party. Global Communications, OK and Nova TV (Croatia) were all related parties (controlled by Ivan Caleta) and the contractual terms provided for the provision of 1,340,280 seconds by OK to Global Communications in exchange for certain transmitters. These seconds were valued at an aggregate of DEM 5 million (or DEM 3.73 per second; HRK 3.91 per second at the time) whereas the rate card price was DEM 97.18 or HRK 380.00 per second (i.e. a price that was 26 times higher). Other clients (unrelated parties) sampled from this period were paying between 382.50 HRK to 491.85 HRK per second. Nova TV (Croatia) is arguing for voidance of this contract because of its unconscionable terms which were detrimental to OK and Nova TV (Croatia) and beneficial solely to Global Communications (which, in its capacity as an advertising agency, on-sold these seconds to its clients at market rates, thereby reaping an extraordinary profit). Nova TV (Croatia) is further claiming restitution for advertising seconds appropriated by Global Communications under the Global Agreement. The restitution amount is HRK 586.5 million (approximately US$ 105.1 million). Given that the resolution of the issues posed by this lawsuit constitutes a preliminary question on which appellate review of the two lawsuits previously mentioned above should depend, we have requested suspension of those two reviews until this question has been finally adjudicated.

Page 147

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Former Shareholder Dispute

On July 21, 2005, Narval A.M. d.o.o. (a company wholly-owned by Ivan Caleta), Studio Millenium d.o.o. and Richard Anthony Sheldon, three of the former shareholders of OK, filed suit against Nova TV (Croatia) for rescission of the sale and purchase contract pursuant to which they sold 75% of OK to Nova TV (Croatia) in July 2004 (the "OK Sale Contract"). Nova TV (Croatia) acquired OK immediately prior to our acquiring Nova TV (Croatia). The provisions of the OK Sale Contract required Nova TV (Croatia) to make payment to the four shareholders of OK by September 1, 2004, upon receipt of appropriate invoices and bank account details. The fourth shareholder, Pitos d.o.o., issued an invoice that was duly received by Nova TV (Croatia) and payment was made thereunder. The other three shareholders claim that they hand-delivered a joint invoice to one of the former directors of Nova TV (Croatia), but we continue to dispute this. Under the Croatian Obligations Act, one party to a contract who has performed may unilaterally rescind a contract if the other party fails to perform after receipt of a written warning. On May 24, 2006, the lower commercial court decided in favor of the plaintiffs to rescind the OK Sale Contract and ordered the defendant to pay court costs. We have appealed the decision on the basis that evidence supporting our position was not allowed to be presented to the court and we continue to challenge the validity of the power of attorney purportedly issued by Richard Anthony Sheldon (a resident of the United Kingdom) to legal counsel representing the other plaintiffs.

On August 28, 2006, we received a lower court decision of an injunction against us (decided without a hearing) that, inter alia, prohibits a sale or encumbrance of 75% of the shares of OK. Although we appealed this decision, the appellate commercial court upheld the lower court's judgment on November 21, 2006. On November 6, 2006, we were notified of a request for a further injunction that would, inter alia, prohibit us from taking any actions to decrease the value of OK and require the management of OK to report to a delegate of the former shareholders. We have unsuccessfully sought the removal of the presiding judge, Raul Dubravec (who also presided over the Global Communications lawsuit against Nova TV (Croatia)). Mr. Dubravec ruled against us on December 18, 2006, requiring imposition of a temporary director for OK, which is not a remedy available under Croatian law under the facts of this action. Further, the temporary director who has been appointed is one of the former directors of OK who countersigned the Reconciliation Agreements and is an associate of Ivan Caleta. We have appealed this decision. While we continue to vigorously contest all these actions in the face of serious concerns as to the impartiality of the Croatian judicial system, we do not expect our Croatia operations to suffer any significant loss or disruption as a consequence of these actions.

Czech Republic

Antimonopoly Office

The investigation of the Office for the Protection of Economic Competition of the Czech Republic was terminated in December 2006, and CET 21 received written confirmation from the Office that TV Nova's current sales contracts and conditions of advertising are in compliance with Czech antimonopoly legislation.

Romania

There are no significant outstanding legal actions that relate to our business in Romania.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Slovenia

On November 20, 2002, we received notice of a claim filed by Mrs. Zdenka Meglic, the founder and a former shareholder of MMTV 1 d.o.o (MMTV), against MMTV, a subsidiary of CME Media Enterprises B.V. In her claim against MMTV, Mrs. Meglic is seeking an amount equal to SIT 190.0 million (approximately US$ 1.0 million) for repayment of monies advanced to MMTV from 1992 to 1994 (in the amount of approximately SIT 29.0 million (approximately US$ 0.2 million)) plus accrued interest. On September 9, 2004, the court of first instance found against MMTV and issued a judgment requiring MMTV to pay SIT 190.0 million (approximately US$ 1.0 million) plus interest as well as costs. On September 24, 2004, MMTV filed an appeal against the judgment. On December 15, 2004, the appellate court vacated the judgment of the lower court and returned the case for further proceedings. We do not believe that Mrs. Meglic will prevail and will continue to defend the claim.

Slovak Republic

There are no significant outstanding legal actions that relate to our business in the Slovak Republic.

Ukraine

On October 11, 2005, Igor Kolomoisky filed a lawsuit against Alexander Rodnyansky and Studio 1+1 in a district court in Kiev. Our Ukrainian affiliate Intermedia has been joined in the proceedings as a "third party". Igor Kolomoisky is attempting to enforce what he alleges was a binding oral agreement with Alexander Rodnyansky to purchase the latter's 70.0% interest in Studio 1+1 for consideration of US$ 70.0 million and to transfer that interest to Igor Kolomoisky on receipt of a prepayment of US$ 2.0 million. The lawsuit arises from abortive negotiations among Igor Kolomoisky, Alexander Rodnyansky and Boris Fuchsmann for the acquisition by Igor Kolomoisky of the totality of interests in the Studio 1+1 Group held by Alexander Rodnyansky and Boris Fuchsmann, subject to Igor Kolomoisky assuming all of their obligations under our existing partnership arrangements. On August 16, 2006, the district court in Kiev ruled in favor of Igor Kolomoisky and found that he is entitled to the 70% interest in Studio 1+1 held by Alexander Rodnyansky. Our Ukrainian affiliate Intermedia and Alexander Rodnyansky filed appeals against this decision.

At a hearing on October 31, 2006, the appellate court overturned the decision of the court of first instance and denied Igor Kolomoisky's claim that he is entitled to a 70% interest in Studio 1+1 held by Alexander Rodnyansky. On November 3, 2006, Igor Kolomoisky filed an appeal with the Supreme Court of Ukraine, the highest court in Ukraine. At a hearing on February 28, 2007, the Supreme Court rejected this appeal. As a result, Igor Kolomoisky no longer has a basis for claiming this ownership right in Studio 1+1 on the same grounds.

On December 23, 2005, we initiated proceedings against our partners Alexander Rodnyansky and Boris Fuchsmann in order to enforce our contractual rights and compel a restructuring of the ownership of Studio 1+1 in order to permit us to hold a 60% interest in Studio 1+1 through a subsidiary organized in Ukraine. Initiation of this proceeding followed protracted negotiations with our partners to restructure following confirmation from the Ukraine Media Council that our proposed ownership structure would not be in violation of restrictions on foreign ownership contained in the Ukraine Media Law, which restricts direct (but not indirect) investment by foreign persons in Ukrainian broadcasters to 30%. On January 12, 2006, the Ukraine parliament adopted an amended version of the Ukraine Media Law that clarifies the absence of any restriction on indirect foreign ownership of television broadcasters. This amended Ukraine Media Law came into force in March 2006. Our partners have acknowledged an obligation to restructure upon the

entry into force of these amendments. On September 5, 2006, our partners entered into certain agreements to implement the restructuring. Following the completion of the transactions reflected in these agreements and the registration of the charter of Studio 1+1 amended to reflect the new ownership of Studio 1+1, we will own 60% of Studio 1+1. Upon successful completion of the restructuring, we will terminate the proceedings initiated against our partners in December 2005.

Because of ongoing ancillary litigation to enjoin transactions related to the ownership of Studio 1+1 that have been initiated by Igor Kolomoisky, by our partners and by third parties who are not direct parties in interest to legal proceedings initiated by Igor Kolomoisky against Alexander Rodnyansky, the state registrar in the district administration in Kiev where such charter amendments are registered is presently enjoined from registering any amendments to the charter of Studio 1+1. Our partners are no longer seeking to enforce the injunction filed at their initiative; we expect that this injunction will be removed once the case file in this matter has been transferred to the appellate court and the appeal filed by Igor Kolomoisky in respect of this injunction has been scheduled.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

b) Licenses

Regulatory bodies in each country in which we operate control access to available frequencies through licensing regimes. We believe that the licenses for our license companies will be renewed prior to expiry. In Romania, the Slovak Republic, Slovenia and Ukraine local regulations contain a qualified presumption for extensions of broadcast licenses, according to which a broadcast license may be renewed if the licensee has operated substantially in compliance with the relevant licensing regime. To date, all expiring licenses; however, there can be no assurance that any of the licenses will be renewed upon expiration of their current terms. The failure of any such license to be renewed could adversely affect the results of our operations.

The following summarizes the expiry dates of our licenses:

Croatia	The license of NOVA TV (Croatia) expires in April 2010.
Czech Republic	The license of TV NOVA (Czech Republic) expires in January 2017. The GALAXIE SPORT license expires in March 2014.
Romania	Licenses expire on dates ranging from March 2007 to February 2016.
Slovak Republic	The license of MARKIZA TV in the Slovak Republic expires in September 2019.
Slovenia	The licenses of POP TV and KANAL A expire in August 2012.
Ukraine	The 15-hour prime time and off prime time license of STUDIO 1+1 expires in December 2016. The license to broadcast for the remaining nine hours in off prime expires in August 2014. Licenses held by Ukrpromtorg expire on dates ranging from November 2008 to July 2016.

c) Restrictions on dividends from Consolidated Subsidiaries and Unconsolidated Affiliates

Corporate law in the Central and Eastern European countries in which we have operations stipulates generally that dividends may be declared by shareholders, out of yearly profits, subject to the maintenance of registered capital and required reserves after the recovery of accumulated losses. The reserve requirement restriction generally provides that before dividends may be distributed, a portion of annual net profits (typically 5%) be allocated to a reserve, which reserve is capped at a proportion of the registered capital of a company (ranging from 5% to 25%). The restricted net assets of our consolidated subsidiaries and equity in earnings of investments accounted for under the equity method together are less than 25% of consolidated net assets as at December 31, 2006.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

22. RELATED PARTY TRANSACTIONS

Overview

There is a limited local market for many specialist television services in the countries in which we operate, many of which are provided by parties known to be connected to our local shareholders. As stated in FAS No. 57 "Related Party Disclosures" ("FAS 57") transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. We will continue to review all of these arrangements.

We consider related parties to be those shareholders who have direct control and/or influence and other parties that can significantly influence management; a "connected" party is one in which we are aware of a family or business connection to a shareholder.

Related Party Transactions

Croatia

We contract with Concorde Media Beteiligungsgesellschaft mbH for the purchase of program rights. This is a company connected to Dr. Herbert Kloiber, a Director of Central European Media Enterprises Ltd. Our total purchases from Concorde Media Beteiligungsgesellschaft mbH during 2006 were US$ 0.3 million (2005: US$ nil, 2004: US$ nil).

Czech Republic

We have no related party transactions in the Czech Republic.

Romania

The total purchases from companies related or connected with Adrian Sarbu in 2006 were approximately US$ 23.4 million (2005: US$ 12.0 million, 2004: US$ 6.9 million). The purchases were mainly for programming rights and for various technical, production and administrative related services. The total sales to companies related or connected with Adrian Sarbu in 2006 were approximately US$ 2.5 million (2005: US$ 0.4 million, 2004: US$ 0.1 million). At December 31, 2006, companies connected to Mr. Sarbu had an outstanding balance due to us of US$ 2.1 million (2005: US$ 1.4 million). At December 31, 2006, companies related to Mr. Sarbu had an outstanding balance due to them of US$ 0.8 million (2005: US$ 0.5 million, 2004: US$ 0.6 million).

In addition, we have purchased land with a value of US$ 8.5 million (as determined by an independent appraisal) (EUR 6.5 million) from a company controlled by Adrian Sarbu in December 2006. The investment represents an opportunity to secure suitable accommodation for Pro TV at a time when the real estate market is experiencing significant growth. It will enable future growth in a location housing both office space and the newly built digital studios. At December 31, 2006, US$ 8.3 million was recorded as a payable to this company.

On February 17, 2006, we purchased an additional 5% of Pro TV, MPI and Media Vision from Mr. Sarbu for consideration of US$ 27.2 million (for further information, see Item 8, Note 4, "Acquisitions and Disposals, Romania").

On February 28, 2005 we acquired 2% of Pro TV and MPI from Mr. Sarbu for US$ 5.0 million and on July 29, 2005 we acquired an additional 3% of Pro TV and MPI from Mr. Sarbu for US$ 15.0 million (see Item 8, Note 4, "Acquisitions and Disposals, Romania"). Under a put option agreement with Mr. Sarbu entered into in July 2004, Mr. Sarbu has the right to sell his remaining shareholding in Pro TV and MPI to us at a price, to be determined by an independent valuation and is subject to a floor price of US$ 1.45 million for each 1% interest sold. This put is exercisable from November 12, 2009 for a twenty-year period thereafter.

On March 29, 2004, we acquired an additional 14% share in each of our consolidated subsidiaries MPI and Pro TV from a company controlled by Mr. Sarbu, for purchase consideration of US$ 20.3 million.

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

We now own a 90% voting and economic interest in Pro TV and MPI and a 75% voting and economic interest in Media Vision.

Until March 29, 2004, we held a 44.0% interest in Radio Pro, a radio broadcaster in Romania. In order to comply with Romanian Media Council regulations following our acquisition of an additional 14.0% interest in MPI and Pro TV, it was necessary to reduce our holding in Radio Pro to 20.0%, which we achieved by selling 24.0% of our stake to Mr. Sarbu for consideration of US$ 0.04 million with a resulting loss on disposal of US$ 0.02 million. The consideration was determined by an independent valuation of Radio Pro.

On August 11, 2006 we acquired a 10.0% interest in Media Pro. The remaining 90.0% of Media Pro is held by Mr. Sarbu. In consideration for the purchase of this interest, we paid EUR 8.0 million (approximately US$ 10.1 million at the date of acquisition) in cash and transferred our existing 20.0% investment in Radio Pro. As a result of this transaction, we recorded a gain of US$ 6.2 million on disposal.

We have the right to put our investment in Media Pro to Mr. Sarbu for a three-month period from August 12, 2009 at a price equal to the greater of EUR 13.0 million (approximately US$ 16.5 million) and the value of our investment, as determined by an independent valuer. This put option is secured by a pledge of a 4.79% shareholding in Pro TV held by Mr. Sarbu. For more information, see Item 8, Note 4, "Acquisitions and Disposals, Romania".

We received contractual management fees from Radio Pro. The value of these fees was US$ 0.2 million in 2006 and US$ 0.2 million in each of 2005 and 2004.

Slovenia

We have no related party transactions in Slovenia during 2006. On June 24, 2005, we acquired from Marijan Jurenec, director of our Adriatic regional operations, his remaining 3.15% interest in Pro Plus for Euro 4.7 million (approximately US$ 5.7 million at the date of acquisition).

Slovak Republic

STS, our former operating company in the Slovak Republic that was merged into Markiza on January 1, 2007, had a number of contracts with companies connected to Jan Kovacik, a shareholder in Markiza, and indirectly STS, for the provision of television programs. Many of these contracts were for the production of programs that required specialist studios and specific broadcast rights. Total purchases from these companies in 2006 amounted to US$ 0.8 million (2005: US$ 0.5 million, 2004: US$ 0.4 million).

STS also purchased advertising space relating to print media from companies connected with Mr Kovacik in 2006 with a value of US$ 1.5 million during 2006.

STS also sold advertising time through an advertising agency controlled by Jan Kovacik. The total 2006 advertising sales of STS placed through Mr. Kovacik's advertising agency were US$ 0.4 million (2005: US$ 0.2 million, 2004: US$ 1.9 million), and the total amount due to STS from this agency at December 31, 2006 was US$ 0.1 million (2005: US$ nil, 2004: US$ 0.4 million).

On December 1, 2005 we repaid STS, our equity-accounted affiliate in the Slovak Republic, SKK 228 million (approximately US$ 7.1 million at the time of repayment) in settlement of the principal and interest due on a loan that

had been advanced to us in 2002 and 2003. The loan bore interest at a rate of three-month Bratislava Inter-Bank Offered Rate ("BRIBOR") plus 2.2%.

Page 152

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Ukraine

Prior to 2006, we contracted with Contact Film Studios for the production of certain television programs. This company was connected to Boris Fuchsmann, the 40% shareholder in and joint Managing Director of Innova, which is one of the operating companies for the Studio 1+1 group. Our total purchases from Contact Film Studios in 2006 were US$ nil (2005: US$ 0.1 million, 2004: US$ 0.1 million).

We contract with Vabank for the provision of banking services. This is a bank connected to Boris Fuchsmann through his presence on the bank's Supervisory Board. Our balance on the current account with the bank was US$ 9.4million as of December 31, 2006 (2005: US$ 5.0 million). Commission and other expenses incurred by us in respect of the banking services rendered by Vabank amount to US$ 0.2 million for the twelve months ended December 31, 2006. Interest of US$ 0.4 million was earned on funds on deposit with Vabank.

Innova Marketing is a company 100% owned and headed by Boris Fuchsmann. Innova Marketing renders consulting services to Innova. The amount of such services provided in 2006 was US$ 0.1 million (2005: US$ 0.1 million).

In 1998 we made a loan to Mr. Fuchsmann with a total balance outstanding at December 31, 2006 of US$ 2.2 million (2005: US$ 2.5 million). The interest rate on this loan is US$ three-month LIBOR+3%, subject to a minimum of 5%.

Alexander Rodnyansky, the former general director and current Honorary President of Studio 1+1, continues as the 70% shareholder in the license company. Mr. Rodnyansky is also the general director of the Russian broadcaster CTC based in Moscow. Our total purchases from CTC in 2006 were US$ 0.1 million (2005: US$ 0.2 million, 2004: US$ 0.1 million). In addition, we recorded revenue of US$ 0.8 million during 2006 from CTC relating to production of programming.

In addition to the above, we contract with Sablock, a company connected to Mr. Rodnyansky, for license rights costs. Our total purchases during 2006 were US$ 4.0 million. At December 31, 2006, we have recorded a liability to Sablock of US$ 1.3 million.

We contract with Kino-Kolo, a magazine that is 75% owned by Alexander Rodnyansky, for advertising Studio 1+1. Purchases of services from Kino-Kolo in 2006 amounted to US$ 0.1 million (2005: US$ 0.1).

We purchase legal and consulting services from LLC Legal Company Varlamov and Partners, a company headed by the Deputy General Director of Studio 1+1. The total amount of services rendered by the company in 2006 was US$ 0.3 million (2005: US$ 0.3 million).

23. SUBSEQUENT EVENTS

On February 20, 2007 we acquired control of TV Sport by acquiring an additional 50.0 % interest from Nolsom Limited for cash consideration of Euro 4.2 million (approximately US$ 5.5 million) . We have also agreed to acquire the remaining 30.0 % of TV Sport from Nolsom Limited in March 2007 for cash consideration of Euro 2.5 million (approximately US$ 3.3 million), subject to Media Council consent. For further information, see Note 6, "Investments".

Table of Contents

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

24. QUARTERLY FINANCIAL DATA

The unaudited quarterly results presented below reflect the restatement of our previously issued consolidated financial statements as discussed above in Note 2. As a result, the quarterly data presented herein does not agree to previously issued quarterly statements. Selected quarterly financial data for the years ended December 31, 2006 and 2005 is as follows:

	For the Year ended December 31, 2006 (US$ 000's, except per share data)			
	First Quarter (Unaudited)	Second Quarter (Unaudited)	Third Quarter (Unaudited)	Fourth Quarter (Unaudited)
Consolidated Statement of Operations data:				
Net revenues	$ 119,754	$ 156,589	$ 112,482	$ 214,290
Cost of revenue	81,424	89,571	81,088	110,094
Operating income / (loss)	16,183	44,033	6,571	73,887
Net income / (loss)	(18,264)	8,522	3,934	26,232
Net income / (loss) per share:				
Basic EPS	$ (0.48)	$ 0.21	$ 0.09	$ 0.64
Effect of dilutive securities	-	-	-	-
Diluted EPS	$ (0.48)	$ 0.21	$ 0.09	$ 0.64

	For the Year ended December 31, 2005 (1) (US$ 000's, except per share data)			
	First Quarter (Unaudited, as restated)	Second Quarter (Unaudited, as restated)	Third Quarter (Unaudited, as restated)	Fourth Quarter (Unaudited, as restated)
Consolidated Statement of Operations data:				
Net revenues	$ 48,304	$ 113,109	$ 87,067	$ 152,498
Cost of revenue	35,897	54,903	64,709	86,013
Operating income / (loss)	(2,353)	6,877	4,752	42,920
Net income / (loss)	(8,050)	25,474	(9,654)	34,552
Net income / (loss) per share:				
Basic EPS	$ (0.28)	$ 0.74	$ (0.25)	$ 0.91
Effect of dilutive securities	-	(0.02)	-	(0.01)
Diluted EPS	$ (0.28)	$ 0.72	$ (0.25)	$ 0.90

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

The restatement above had the impact on our previously presented financial information as set out below. All amounts are in US$ 000's:

	As reported previously	Adjustment	As restated
Statement of Operations (for the Three Months Ended March 31, 2005)			
Operating loss	(2,252)	(101)	(2,353)
Net loss	(7,949)	(101)	(8,050)
Statement of Operations (for the Three Months Ended June 30, 2005)			
Operating income	6,862	15	6,877
Net income	25,459	15	25,474
Statement of Operations (for the Three Months Ended September 30, 2005)			
Operating income	4,792	(40)	4,752
Net loss	(9,614)	(40)	(9,654)
Statement of Operations (for the Three Months Ended December 31, 2005)			
Operating income	42,967	(47)	42,920
Net income	34,599	(47)	34,552

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Markiza- SLOVAKIA, spol. s r.o. (legal successor to Slovenska televizna spolocnost, s.r.o.)
Bratislava, Slovak Republic

We have audited the accompanying consolidated balance sheets of Slovenska televizna spolocnost, s.r.o., and subsidiaries (the “Company”) as of December 31, 2005 and 2004 and the related consolidated statements of operations and comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2005. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Slovenska televizna spolocnost, s.r.o. and its subsidiaries as of December 31, 2005, and 2004 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Deloitte Audit s. r.o.
Bratislava, Slovak Republic
23 February 2006, except for Note 1, as to which the date is 7 February 2007

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST S.R.O.
CONSOLIDATED BALANCE SHEETS
(US$ 000's)

	December 31, 2005	December 31, 2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,253	$ 4,601
Accounts receivable (Note 4)	9,452	18,043
Program rights	5,509	1,815
Other current assets (Note 4)	3,047	1,089
Total current assets	**23,261**	**25,548**
Non-current assets		
Investments	4	4
Property, plant and equipment (Note 5)	14,245	12,818
Program rights	4,156	2,722
Intangible assets (Note 6)	46	132
Deferred income tax, non-current (Note 9)	161	1,243
Total non-current assets	**18,612**	**16,919**
Total assets	**$ 41,873**	**$ 42,467**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST S.R.O.
CONSOLIDATED BALANCE SHEETS (continued)
(US$ 000's)

	December 31, 2005	December 31, 2004
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (Note 7)	$ 11,481	$ 10,874
Duties and other taxes payable	412	515
Income taxes payable	-	917
Credit facilities and obligations under capital leases (Note 8)	71	2,878
Other current liabilities	709	261
Total current liabilities	**12,673**	**15,445**
Non-current liabilities		
Credit facilities and obligations under capital leases (Note 8)	125	149
Total non-current liabilities	**125**	**149**
Commitments and contingencies (Note 10)		
Minority interests in consolidated subsidiaries	**635**	**371**
SHAREHOLDERS' EQUITY:		
Registered capital	6	6
Additional paid-in capital	24,242	24,242
Shareholder loans (Note 11)	-	(11,061)
Retained earnings	4,414	10,311
Accumulated other comprehensive income/ (loss)	(222)	3,004
Total shareholders' equity	**28,440**	**26,502**
Total liabilities and shareholders' equity	**$ 41,873**	**$ 42,467**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST S.R.O.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(US$ 000's, except share and per share data)

	For the Years Ended December 31,		
	2005	**2004**	**2003**
Net revenues	**$ 64,266**	**$ 61,576**	**$ 50,814**
Operating costs	7,090	6,824	5,828
Cost of programming	22,445	20,902	19,276
Depreciation and amortization	2,599	1,735	1,805
Selling, general and administrative expenses	17,491	16,325	13,326
Total operating expenses	**49,625**	**45,786**	**40,235**
Operating income	**14,641**	**15,790**	**10,579**
Interest income	588	836	731
Interest expense	(134)	(200)	(285)
Foreign currency exchange gain/(loss), net	(258)	571	932
Other income	245	405	436
Income before provision for income taxes, and minority interest	**15,082**	**17,402**	**12,393**
Provision for income taxes (Note 9)	(3,276)	(3,511)	(3,870)
Income before minority interest	**11,806**	**13,891**	**8,523**
Minority interest in income of consolidated subsidiaries	(35)	(23)	-
Net income	**11,771**	**13,868**	**8,523**
Currency translation adjustment, net	(3,226)	4,760	5,315
Total comprehensive income	**$ 8,545**	**$ 18,628**	**$ 13,838**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(US$ 000's)

	Registered Capital	Additional Paid-In Capital	Shareholders' loans	Retained Earnings / (Accumulated Deficit)	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
BALANCE, December 31, 2002	**$ 6**	**$ 39,326**	**$ (4,694)**	**$ (12,080)**	**$ (7,071)**	**$ 15,487**
Shareholders' loans granted	-	-	(4,298)	-	-	(4,298)
Dividend distribution	-	(4,678)	-	-	-	(4,678)
Net income	-	-	-	8,523	-	8,523
Currency translation adjustment	-	-	-	-	5,315	5,315
BALANCE, December 31, 2003	**$ 6**	**$ 34,648**	**$ (8,992)**	**$ (3,557)**	**$ (1,756)**	**$ 20,349**
Shareholders' loans granted	-	-	(2,069)	-	-	(2,069)
Dividend distribution	-	(10,406)	-	-	-	(10,406)
Net income	-	-	-	13,868	-	13,868
Currency translation adjustment	-	-	-	-	4,760	4,760
BALANCE, December 31, 2004	**$ 6**	**$ 24,242**	**$ (11,061)**	**$ 10,311**	**$ 3,004**	**$ 26,502**
Shareholders' loans repaid	-	-	11,061	-	-	11,061
Dividend distribution	-	-	-	(17,668)	-	(17,668)
Net income	-	-	-	11,771	-	11,771
Currency translation adjustment	-	-	-	-	(3,226)	(3,226)
BALANCE, December 31, 2005	**$ 6**	**$ 24,242**	**$ -**	**$ 4,414**	**$ (222)**	**$ 28,440**

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US$ 000's)

	For the Years Ended December 31, 2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 11,771**	**$ 13,868**	**$ 8,523**
Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation and amortization	9,584	10,834	11,454
Receivables write-off and provision for doubtful accounts receivable	101	77	(35)
(Gain)/loss on disposal of fixed assets	(40)	(87)	2
Deferred income taxes	769	336	945
Net change in:			
Accounts receivable	6,790	(1,080)	(1,969)
Other assets	(1,131)	(3)	198
Program rights	(11,779)	(9,129)	(10,124)
Accounts payable and accrued liabilities	913	109	(1,773)
Income and other taxes payable	(1,751)	(1,744)	2,329
Other current liabilities	440	(17)	277
Net cash generated from operating activities	**15,667**	**13,164**	**9,827**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(5,283)	(2,110)	(942)
Proceeds from disposal of property, plant and equipment	54	257	27
Investments in subsidiaries and unconsolidated affiliates	-	-	(3)
Purchase of other assets and intangibles	(154)	(26)	(212)
Net cash used in investing activities	**(5,383)**	**(1,879)**	**(1,130)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from credit facilities	-	105	-
Payment of credit facilities and capital leases	(2,565)	(600)	(973)
Repayment of loans and advances to shareholders	10,104	-	-
Loans and advances to shareholders	-	(596)	(2,955)
Dividends paid	(16,647)	(10,329)	(4,205)
Net cash used in financing activities	**(9,108)**	**(11,420)**	**(8,133)**
Impact of exchange rate fluctuations on cash	**(524)**	**657**	**628**
Net increase in cash and cash equivalents	652	522	1,192
CASH AND CASH EQUIVALENTS, beginning of year	**4,601**	**4,079**	**2,887**
CASH AND CASH EQUIVALENTS, end of year	**$ 5,253**	**$ 4,601**	**$ 4,079**
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			

Cash paid for interest	$	131	$	200	$	212
Cash paid for income taxes (net of refunds)	$	4,108	$	6,448	$	847

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

1. ORGANIZATION AND BUSINESS

Slovenska televizna spolocnost, s.r.o. (STS) is a Slovak limited liability partnership (without shares), having its legal seat in Okružná 18/10, 900 82 Blatné, Slovak Republic. It was founded on September 28, 1995 and incorporated into the Commercial Register on October 9, 1995. The main activities of STS are:

- The broadcasting of programming (both own production and acquired); and
- The sale of advertising.

License renewal

STS operates in conjunction with Markiza-Slovakia, spol. s.r.o., the license holder, based on an Exclusivity agreement.

The Slovak Republic Media Council granted the license to operate the MARKIZA TV network to Markiza-Slovakia, spol. s.r.o. for a period of 12 years, expiring in September 2007. According to the Act on Broadcasting and Retransmission, a license can be extended once, for an additional 12 years by the Slovak Republic Media Council. Approval from the Slovak Republic Media Council granting extension of our license for an additional 12 years was delivered to STS on March 22, 2006.

We filed for an extension of the license on February 3, 2006 and were informed on March 10, 2006 by the Media Council that they had extended the license for an additional 12 years. We expect to receive the final official communication of the extension in the near future.

Our principal subsidiaries at December 31, 2005 were:

Company Name	Voting Interest	Jurisdiction of Organization	Subsidiary (1)
ADAM a.s.	100%	Slovakia	Subsidiary
Gamatex, spol. s.r.o.	100%	Slovakia	Subsidiary
Markiza-Slovakia, spol. s.r.o. ("Markiza")	-%	Slovakia	Consolidated Variable-Interest Entity (2)

(1) All subsidiaries have been consolidated in our Financial Statements.
(2) For further information, see Note 2, "Summary of Significant Accounting Policies".

Subsequent events

During 2006, Markiza acquired 100% ownership and control of STS. Effective 1 January 2007 all assets, liabilities and operations of STS were transferred to Markiza. At the same time, STS was wound up without liquidation and its legal existence ceased. These transactions have no material impact on the accompanying financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The significant accounting policies are summarized as follows:

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Basis of Presentation

The accompanying consolidated financial statements include the accounts of STS and its subsidiaries, after the elimination of inter-company accounts and transactions.

We consolidate the financial statements of entities in which we hold a majority voting interest and also those entities which are deemed to be a Variable Interest Entity of which we are the primary beneficiary as defined by FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46(R)"). Entities in which we hold less than a majority voting interest but over which we have the ability to exercise significant influence are accounted for using the equity method. Other investments are accounted for using the cost method.

In accordance with FIN 46(R), we consolidate Markiza, a license holding company. This is due to the fact that Markiza's activity is in the interest of STS and an obligation exists via an Exclusivity Agreement for STS to fund Markiza through a cost plus margin reimbursement arrangement. Markiza has little activity with any third parties.

The following table summarizes balance sheet and income statement information that we consolidate with regard to Markiza. Minority interest represents the amount of statutory equity of Markiza including a part of 2004 dividend income from STS which is to be distributed 99.9% to the Slovak shareholders.

Consolidated Balance Sheet Financial Statement Caption	**As at December 31, 2005**		
	Balance prior to adjustment	**Impact of FIN 46 (R)**	**Adjusted Balance**
		(US$ 000's)	
Total current assets	$ 22,682	$ 579	$ 23,261
Total assets	41,291	582	41,873
Total current liabilities	12,726	(53)	12,673
Total non-current liabilities	125	-	125
Minority interest	-	635	635
Total shareholders' equity	**$ 28,440**	**$ -**	**$ 28,440**

Consolidated Statement of Operations Financial Statement Caption	**For the Twelve Months ended December 31, 2005**		
	Balance prior to adjustment	**Impact of FIN 46 (R)**	**Adjusted Balance**
		(US$ 000's)	
Net revenues	$ 64,266	$ -	$ 64,266
Total operating expenses	49,664	(39)	49,625
Operating income	14,602	39	14,641
Income before minority interest	11,771	35	11,806
Net income	**$ 11,771**	**$ -**	**$ 11,771**

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Revenue Recognition

Revenue is recognized when there is persuasive evidence of an arrangement, delivery of products has occurred or services have been rendered, the seller's price to the buyer is fixed or determinable and collectibility is reasonably assured.

Revenues are recognized net of discounts and customer sales incentives. Our principal revenue streams and their respective accounting treatments are discussed below:

Advertising revenues

Revenues primarily result from the sale of advertising time. Television advertising revenue is recognized as the commercials are aired. In certain instances, we commit to provide advertisers with certain rating levels in connection with their advertising. Revenue is recorded net of estimated shortfalls, which are usually settled by providing the advertiser additional advertising time.

Discounts and agency commissions are recognized at the point when the advertising is broadcast and are reflected as a reduction to gross revenue.

Program distribution revenue

Program distribution revenue is recognized when the relevant agreement has been entered into, the product is available for delivery, collectibility of the cash is reasonably assured and all of our contractual obligations have been satisfied.

Barter transactions

Barter transactions represent advertising time exchanged for non-cash goods and/or services, such as promotional items, advertising, supplies, equipment and services. Revenue from barter transactions is recognized as income when advertisements are broadcasted. Expenses are recognized when goods or services are received or used. We record barter transactions at the fair value of goods or services received or advertising surrendered, whichever is more readily determinable. Barter revenue amounted to US$ 1.6 million, US$ 1.9 million, and US$ 1.7 million for the years ending December 31, 2005, 2004, and 2003, respectively.

We do not rely on any single major customer or group of customers. No customer accounts for more than 10% of revenue.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less. Cash that is restricted for use is classified as restricted cash.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives assigned to each major asset category as below:

Asset category	**Estimated useful life**
Land	Indefinite
Buildings	25 years
Station machinery, fixtures and equipment	4 - 8 years
Other equipment	3 - 8 years
Software licenses	3 - 5 years

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Construction-in-progress is not depreciated until put into use. Capital leases are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. Leasehold improvements are depreciated over the shorter of the related lease term or the life of the asset. Assets to be disposed of are reported at the lower of carrying value or fair value, less costs of disposal.

Certain assets, such as stages and scenes, are built for specific programs or shows. The depreciation expense for the year ended December 31, 2005 related to these assets of US$ 0.7 million (2004: US$ nil, 2003: US$ nil) is included in Depreciation and amortization in the Consolidated Statement of Operations.

Long-lived Assets Including Intangible Assets with Finite Lives

Long-lived assets include property, plant, equipment and intangible assets with finite lives.

In accordance with FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), we review for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The carrying values of long-lived assets are considered impaired when the anticipated undiscounted cash flows from such assets are less than their carrying values. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value.

Fair value is determined by reference to the higher of recoverable value and the discounted future cash flows that are expected to be generated based upon management's expectations of future economic and operating conditions. Recoverable value is the higher of the net selling price and value in use.

No impairment has been recognized for any long-lived assets in 2005, 2004, or 2003.

Program Rights

Purchased program rights

Purchased program rights and the related liabilities are recorded at their gross value when the license period begins and the programs are available for broadcast. Program rights are amortized on a systematic basis over their expected useful lives, according to the number of runs of the license. The amortization percentages are as follows:

	Amortization %				
Type of programming	***Run 1***	***Run 2***	***Run 3***	***Run 4***	***Run 5***
Films and series, 2 runs	65%	35%	-	-	-
Concerts, documentaries, film about film, etc.	100%	-	-	-	-

Program rights are evaluated to determine if expected revenues are sufficient to cover the unamortized portion of the program. To the extent that expected revenues are insufficient, the program rights are written down to their net realizable value. An impairment reserve of US$ nil at December 31, 2005 (2004: US$ 1.0 million) was recorded against program rights.

Purchased program rights are classified as current or non-current assets based on anticipated usage in the following year, while the related program rights liability is classified as current or non-current according to the payment terms of the license agreement.

Future program rights of US$ 4.6 million (2004: US$ 9.1 million), which were acquired in 2005 but whose license period starts after December 31, 2005, are not included in Program rights on the Consolidated Balance Sheet at December 31, 2005 (see Note 10, “Commitments and Contingencies”).

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Produced program rights

Program rights that are produced are stated at the lower of cost less accumulated amortization or fair value. The amortization charge is based on the ratio of the current period's gross revenues to estimated remaining total gross revenues from such programs. Program rights are evaluated to determine if expected revenues are sufficient to cover the unamortized portion of the program. To the extent that expected revenues are insufficient, the program rights are written down to their net realizable value.

Produced program rights are classified as current or non-current assets based on anticipated usage in the following year.

Intangible Assets

Intangible assets are stated at cost less accumulated amortization. Amortization is provided using the straight-line method over the estimated useful lives of the assets, which are between one and three years.

Income Taxes

We account for income taxes under the asset and liability method as set out in FAS No. 109, "Accounting for Income Taxes". Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized.

Foreign Currency

Translation of Financial Statements

Our reporting currency is the US dollar and our functional currency is the Slovak Crown (SKK). All assets and liabilities are translated into the reporting currency at the exchange rates in effect at the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Net exchange gains or losses resulting from such translation are included in Other Comprehensive Income, a component of Shareholders' Equity.

Transactions in Foreign Currencies

Gains and losses from foreign currency transactions are included in Foreign currency exchange gain/(loss), in the Consolidated Statements of Operations in the period during which they arise.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Main estimates include bad debts provision, amortization and creation of reserve for program rights, depreciation of assets and creation of reserve for legal claims.

Leases

Leases are classified as either capital or operating. Those leases that transfer substantially all benefits and risks of ownership of the property to us are accounted for as capital leases. All other leases are accounted for as operating leases.

Capital leases are accounted for as assets and are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. Commitments to repay the principal amounts arising under capital lease obligations are included in current liabilities to the extent that the amount is repayable within one year, otherwise the principal is included in non-current liabilities. The capitalized lease obligation reflects the present value of future lease payments. The financing element of the lease payments is charged to interest expense over the term of the lease.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

Operating lease costs are charged to expense on a straight-line basis.

Contingencies

Contingencies are recorded in accordance with FAS No. 5, "Accounting for Contingencies" ("FAS 5"). The estimated loss from a loss contingency such as a legal proceeding or claim is recorded in the Statement of Operations and Comprehensive Income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a loss contingency is made if there is at least a reasonable possibility that a loss has been incurred.

Financial Instruments

The carrying value of financial instruments, including cash, accounts receivable, and accounts payable and accrued liabilities, approximate their fair value due to the short-term nature of these items.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense incurred for the years ending December 31, 2005, 2004, and 2003 totaled US$ 1.6 million, US$ 1.6 million, and US$ 0.8 million, respectively.

Reclassifications

Certain minor reclassifications were made to the prior period balance sheet to conform to current period classifications.

3. ACCOUNTS RECEIVABLE:

Accounts receivable consist of the following at December 31, 2005 and 2004:

		December 31, 2005		**December 31, 2004**
Trading:				
Third-party customers	$	10,936	$	19,497
Less: allowance for bad debts and credit notes		(1,540)		(1,902)
Related parties		56		448
Total	**$**	**9,452**	**$**	**18,043**

Bad debt expense/(benefit) for the years ending December 31, 2005, 2004 and 2003 was US$ (0.1) million, US$ (0.1) million, and US$ 0.04 million, respectively.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

4. OTHER ASSETS:

Other current and non-current assets consist of the following at December 31, 2005 and 2004:

		December 31, 2005		December 31, 2004
Current:				
Prepaid expenses and advances	$	621	$	590
Income tax receivable		1,084		216
VAT and other taxes receivable		854		-
Deferred income taxes		267		79
Other receivables		221		204
Total	**$**	**3,047**	**$**	**1,089**
Non-current:				
Deferred income taxes	$	161	$	1,243
Total	**$**	**161**	**$**	**1,243**

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following

	December 31, 2005	December 31, 2004
Land and buildings	$ 11,771	$ 12,910
Machinery, fixtures and equipment	19,734	17,945
Other equipment	6,963	7,186
Software	1,431	1,435
Construction in progress	111	76
Total cost	**40,010**	**39,552**
Less: Accumulated depreciation	(25,765)	(26,734)
Total net book value	**$ 14,245**	**$ 12,818**
Assets held under capital lease (included in the above):		
Other equipment	$ 429	$ 418
Total costs	**429**	**418**
Less: Accumulated depreciation	(154)	(114)
Net book value	**$ 275**	**$ 304**

For further information on capital leases, see Note 8, "Credit Facilities and Obligations under Capital Leases"

Depreciation expense for the years ending December 31, 2005, 2004 and 2003 was US$ 2.6 million US$ 1.7 million, and US$ 1.8 million, respectively.

6. INTANGIBLE ASSETS

The gross value and accumulated amortization of other intangible assets, which mainly include jingles was as follows at December 31, 2005 and 2004:

	December 31, 2005	December 31, 2004
Gross value	$ 577	$ 700
Accumulated amortization	(531)	(568)
Total net book value	**$ 46**	**$ 132**

Amortization expense for the years ending December 31, 2005, 2004 and 2003 was US$ 0.02 million, US$ 0.03 million, and US$ 0.02 million, respectively.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

		December 31, 2005		**December 31, 2004**
Accounts payable	$	3,312	$	2,650
Programming liabilities		3,623		3,028
Other accrued liabilities		4,546		5,196
	$	**11,481**	**$**	**10,874**

8. CREDIT FACILITIES AND OBLIGATIONS UNDER CAPITAL LEASES

Group loan obligations and overdraft facilities consist of the following:

			December 31, 2005		**December 31, 2004**
Long-term loans	(a)	$	-	$	2,807
Capital leases			196		220
Total			**196**		**3,027**
Less current maturities			(71)		(2,878)
Total non-current maturities		**$**	**125**	**$**	**149**

(a) On 24 July 2002 we obtained from Vseobecna uverova banka, a.s. a mid-term facility of SKK 100.0 million (US$ 3.5 million at December 31, 2004). Interest on this facility was 3-month BRIBOR+1.7%. The interest rate as at 31 December 2004 was 5.98%. The balance on this facility was repaid in 2005.

Capital Lease Commitments

Assets held under capital leases represent vehicles. The future minimum lease payments from continuing operations, by year and in the aggregate, under capital leases with initial or remaining non-cancellable lease terms in excess of one year, consisted of the following at December 31, 2005:

2006	$	90
2007		81
2008		49
2009		-
2010		-
2011 and thereafter		-
Total		220
Less: amount representing interest		(24)
Present value of net minimum lease payments	**$**	**196**

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

9. INCOME TAXES

Income Tax Provision:

The provision for income tax consists of:

	For the Years Ended December 31,		
	2005	**2004**	**2003**
Current income tax expense	$ 2,507	$ 3,175	$ 2,925
Deferred tax provision	769	336	945
Provision for income taxes	**$ 3,276**	**$ 3,511**	**$ 3,870**

Reconciliation of Effective Income Tax Rate:

The following is a reconciliation of income taxes, calculated at statutory rates in the Slovak Republic, to the income tax provision included in the accompanying Consolidated Statements of Operations for the years ended December 31, 2005, 2004 and 2003:

	For the Years Ended December 31,		
	2005	**2004**	**2003**
Income taxes at statutory rates (2005, 2004: 19.0%; 2003: 25.0%)	$ 2,866	$ 3,295	$ 3,098
Effect of change in tax rate	-	-	531
Tax effect of permanent differences	410	216	377
Change in valuation allowance	-	-	(136)
Provision for income taxes	**$ 3,276**	**$ 3,511**	**$ 3,870**

Components of Deferred Tax Assets and Liabilities:

The following table shows the significant components included in deferred income taxes as at December 31, 2005 and 2004:

	December 31, 2005	**December 31, 2004**
Assets:		
Property, plant and equipment	$ 40	$ 185
Programs rights	281	996
Accounts receivable	113	233
Gross deferred tax assets	**434**	**1,414**
Valuation allowance	-	-
Net deferred tax assets	**$ 434**	**$ 1,414**
Liabilities:		
Unrealized foreign exchange, net	(6)	(83)
Other	-	(9)

Total deferred tax liabilities	**$**	**(6)**	**$**	**(92)**
Net deferred income tax assets	**$**	**428**	**$**	**1,322**

Page 171

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

10. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

For the fiscal years ended December 31, 2005, 2004, and 2003 we incurred aggregate rent on all facilities of US$ 0.6 million, US$ 0.7 million, and US$ 0.7 million. Future minimum operating lease payments at December 31, 2005 for non-cancellable operating leases with remaining terms in excess of one year (net of amounts to be recharged to third parties) are payable as follows:

2006	$	521
2007		335
2008		-
2009		-
2010		-
2011 and thereafter		-
Total	**$**	**856**

Future Contractual Obligations

We have the following future contractual obligations:

					Payments due by period					
		Total		**Less than 1 year**		**2 years**		**3 years**		**More than 3 years**
Unconditional purchase obligations	$	13,170	$	13,170	$	-	$	-	$	-
Station program rights		4,629		2,267		2,362		-		-
Other long-term obligations		5,446		5,446		-		-		-
Total	**$**	**23,245**	**$**	**20,883**	**$**	**2,362**	**$**	**-**	**$**	**-**

Unconditional purchase obligations relates to production expenses and overall operating expenses, such as utilities, legal and other consultancy etc.

Station program rights - We have commitments for US$ 4.6 million in respect of future programming. This includes all contracts signed in 2005 with license periods starting after December 31, 2005.

Other long-term obligations include broadcast telecommunication charges, author's rights, and certain other related charges.

Legal claims

STS and Markiza Slovakia are in the normal course of business involved in litigation. The following summarizes cases where we have made a provision for contingent losses based on our assessment of each case.

The Media Council has fined us for violations during a broadcast of a reality show and a late-night series. In response to these fines, we have accrued a total of US$ 0.6 million, which represents our best estimate of the cost to settle these fines.

A remaining provision of US$ 0.3 million has been established in response to claims relating to our public affairs and news programs.

Table of Contents

SLOVENSKA TELEVIZNA SPOLOCNOST, S.R.O.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in US$ 000's, except share data)

11. RELATED PARTY TRANSACTIONS

There is a limited local market for many specialist television services in the country in which we operate, many of which are provided by parties known to be connected to some of our shareholders. As stated in FAS No. 57 "Related Party Disclosures" ("FAS 57") transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist. We will continue to review all of these arrangements.

CME

We loaned to CME, one of our shareholders, a total of SKK 187 million (approximately US$ 6.6 million at December 31, 2004). The loan had an interest rate of 3-month BRIBOR+2.2 %, a rate which we believe was comparable to independently negotiated third-party rates. This loan and related interest was repaid in full in December 2005.

We also pay CME contractual management fees. These fees totalled US$ 0.4 million for each of the years ended December 31, 2005, 2004 and 2003.

Media Invest

We loaned to Media Invest, one of our indirect shareholders, a total of SKK 80 million (approximately US$ 2.8 million at December 31, 2004). The loan had an interest rate of 3-month BRIBOR+2.2 %, a rate which we believe was comparable to independently negotiated third-party rates. This loan and related interest was repaid in December 2005.

Forza Group

Markiza purchases several shows from the companies of the Forza Group, which are owned by one of our shareholders. Total production costs related to these shows were US$ 0.5 million, US$ 0.4 million, and US$ nil for the years ended December 31, 2005, 2004 and 2003, respectively.

We also lease technical equipment and sell advertising spots to the Forza Group. Total revenues from the Forza Group amounted to US$ 0.1 million, US$ 0.1 million, and US$ nil for the years ended December 31, 2005, 2004, and 2003.

12. RESTRICTION ON DIVIDEND DISTRIBUTION

The laws under which we are organized provide generally that dividends may be declared by the partners or shareholders out of yearly profits subject to the maintenance of registered capital, required reserves and after the recovery of accumulated losses. In the case of STS, distributions may be paid from net profits subject to an initial reserve requirement of 10% of net profits until the reserve fund equals 5% of registered capital. Subsequently, the reserve requirement is equal to 5% of net profits until the reserve fund equals 10% of registered capital. Distribution of dividends must be approved by the General Assembly.

In the Statutory accounts our equity comprises of basic capital, capital funds and profit for the year. Other capital funds represent CME investment into STS and are netted by the losses generated. All of the above funds may not be readily distributable because they are not created from profits. In the case of ultimate liquidation, if CME has not received by way of distributed profits an amount equivalent to its total capital contribution increased cumulatively by

6% for each year of operation, it shall receive such amount less the total of distributed profits received by CME.

Table of Contents

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that information required to be disclosed in our Annual Report on Form 10-K is recorded, processed, summarized and reported within the allowable time periods and to ensure that information required to be disclosed is accumulated and communicated to the issuer's management, including the Chief Executive Officer and Chief Financial Officer to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2006 and concluded that our disclosure controls and procedures are effective as of that date.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. We have performed an assessment of the design and operating effectiveness of our internal control over financial reporting as of December 31, 2006. This assessment was performed under the direction and supervision of our Chief Executive Officer and Chief Financial Officer, and utilized the framework established in “Internal Control - Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on that evaluation, we concluded that as of December 31, 2006, our internal control over financial reporting was effective. Our independent registered public accounting firm, Deloitte & Touche LLP, has audited our financial statements and issued an attestation report on our assessment of our internal control over financial reporting, which is included herein.

Changes in Internal Controls

There were no changes in our internal controls over financial reporting during the three month period ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Central European Media Enterprises Ltd.

We have audited management's assessment, included in the accompanying Management’s Report on Internal Control over Financial Reporting, that Central European Media Enterprises Ltd. and subsidiaries (the “Company”) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over

financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

Table of Contents

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2006 of the Company and our report dated February 28, 2007, expressed an unqualified opinion on those financial statements and financial statement schedules and included an explanatory paragraph regarding the restatement for stock based compensation described in Note 2.

DELOITTE & TOUCHE LLP
London, United Kingdom
February 28, 2007

ITEM 9B. OTHER INFORMATION

None

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated herein by reference to the section entitled "Election of Directors and Executive Officers" and "Committees of the Board" in our Proxy Statement for the 2007 Annual General Meeting of Shareholders.

We have adopted a Code of Conduct and Ethics applicable to all employees and Board members.

The Code of Conduct and Ethics is posted on our website, www.cetv-net.com. In order to access this portion of our website, click on the "About CME" tab, then select "Company Policies and Charters" from the available options. Any amendments to, or waivers of, the Code of Conduct and Ethics will be disclosed on our website promptly following the date of such amendment or waiver. Copies of our Code of Conduct and Ethics are available free of charge by e-mailing a request to postmaster@cme-net.com.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the sections entitled "Executive Compensation", "Compensation Discussion and Analysis", "Compensation Committee Report" and "Director Compensation" in our Proxy Statement for the 2007 Annual General Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated herein by reference to the sections entitled "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our Proxy Statement for the 2007 Annual General Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated herein by reference to the section entitled "Certain Relationships and Related Transactions" and "Director Independence" in our Proxy Statement for the 2007 Annual General Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated herein by reference to the section entitled "Principal Accountant Fees and Services" in our Proxy Statement for the 2007 Annual General Meeting of Shareholders.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) The following Financial Statements of Central European Media Enterprises Ltd. are included in Part II, Item 8 of this Report:

Report of Independent Registered Public Accountants

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2006, 2005 and 2004

Consolidated Statement of Shareholders' Equity for the years ended December 31, 2006, 2005 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004

Notes to Consolidated Financial Statements

The following Financial Statements of Slovenska televizna spolocnost, s.r.o. are included in Part II, Item 8 of this Report:

Report of Independent Registered Public Accountants

Consolidated Balance Sheets as of December 31, 2005 and 2004

Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statement of Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules (included at pages S-1 to S-3 of this Annual Report on Form 10-K)

(a)(3) The following exhibits are included in this report:

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
3.01*	Memorandum of Association (incorporated by reference to Exhibit 3.01 to the Company's Registration Statement No. 33-80344 on Form S-1, filed June 17, 1994).
3.02*	Bye-Laws of Central European Media Enterprises Ltd., as amended, dated as of May 25, 2000 (incorporated by reference to Exhibit 3.02 to the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2000).
3.03*	Memorandum of Increase of Share Capital (incorporated by reference to Exhibit 3.03 to Amendment No. 1 to the Company's Registration Statement No. 33-80344 on Form S-1, filed August 19, 1994).
3.04*	Memorandum of Reduction of Share Capital (incorporated by reference to Exhibit 3.04 to Amendment No. 2 to the Company's Registration Statement No. 33-80344 on Form S-1, filed September 14, 1994).
3.05*	Certificate of Deposit of Memorandum of Increase of Share Capital executed by Registrar of Companies on May 20, 1997 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1997).
4.01*	Specimen Class A Common Stock Certificate (incorporated by reference to Exhibit 4.01 to Amendment No. 1 to the Company's Registration Statement No. 33-80344 on Form S-1, filed August 19, 1994).
10.01A+*	Central European Media Enterprises Ltd. 1995 Stock Incentive Plan, as amended and restated to April 11, 2004 (incorporated by reference to Exhibit A to the Company's Proxy Statement dated May 9, 2005).
10.02*	Cooperation Agreement among CME Media Enterprises B.V., Ion Tiriac and Adrian Sarbu (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement No.33 - 96900 on Form S-1 filed September 13, 1995).
10.8*	Agreement by and between International Media Services Ltd and Innova Film GmbH, dated January 23, 1997 (incorporated by reference to Exhibit 10.65 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.10*	Amended and Restated Charter of the Broadcasting Company 'Studio 1+1', dated January 23, 1997 (incorporated by reference to Exhibit 10.67 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.11*	Amended and Restated Foundation Agreement on the Establishment and Operation of the Broadcasting Company 'Studio 1+1,' dated January 23, 1997 (incorporated by reference to Exhibit 10.68 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.12*	Protocol of the Participants' Assembly of the Broadcasting Company 'Studio 1+1,' dated January 23, 1997 (incorporated by reference to Exhibit 10.69 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.13*	Marketing, Advertising and Sales Agreement by and between International Media Services Ltd and Innova Film GmbH, dated January 23, 1997 (incorporated by reference to Exhibit 10.70 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996).
10.13A*	Amendment Agreement to Marketing, Advertising and Sales Agreement between Innova Film GmbH and International Media Services Limited, dated May 7, 1997 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1997).
10.16*	Advertising Sales Agency Agreement between Studio 1+1 and Servland Continental S.A. dated March 14, 2001 (incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2000).
10.18*+	Employment Agreement between CME Development Corporation and Robert E. Burke dated July 6, 2001 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001).
10.19*	

Exclusive Contract of Providing and Broadcasting of Television Signal between Markiza-Slovakia s.r.o. and Slovenska Televizna Spolocnost s.r.o. dated August 30, 1996 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001).

Page 178

10.20*	Exclusive Rights Transfer Agreement between Markiza-Slovakia s.r.o and Slovenska Televizna Spolocnost s.r.o. dated October 3, 2001 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001).
10.21*	Key Agreement Boris Fuchsmann, Alexander Rodniansky, Studio 1+1 Ltd, Innova Film GmbH, International Media Services Ltd, Ukraine Advertising Holding, CME Ukraine GmbH and CME Ukraine B.V entered into as of December 23, 1998 (incorporated by reference to Exhibit 10.43 to the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2001).
10.22*	Memorandum of Association of Slovenska televizna spolocnost s.r.o (incorporated by reference to Exhibit 10.44 to the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2001).
10.23*	Articles of Association of Slovenska televizna spolocnost s.r.o (incorporated by reference to Exhibit 10.45 to the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2001).
10.24*	Amended Memorandum of Association Markiza - Slovakia spol. s.r.o (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the fiscal year ending December 31, 2001).
10.25*	Loan arrangement between Vseobecna userova banka a.s and S.T.S. s.r.o,, dated July 24, 2002 (incorporated by reference to Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002).
10.26*+	Employment Agreement between CME Development Corporation and Wallace Macmillan dated March 17, 2003 (incorporated by reference to Exhibit 10.63 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2003).
10.27*+	Employment Agreement between Central European Media Enterprises Ltd and Fred T. Klinkhammer dated October 21, 2003 (incorporated by reference to Exhibit 10.63 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003).
10.28*+	Employment Agreement between CME Development Corporation and Michael Garin dated March 30, 2004 (incorporated by reference to Exhibit 10.63 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2004).
10.29*	Agreement between CME Media Enterprises BV and the Tax and Customs Administration of the Netherlands dated March 24, 2004 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004).
10.30*	CME Romania BV - Adrian Sarbu Funding and Share Sale Agreement, dated March 12, 2004 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004).
10.31*	Share sale and purchase agreement of Nova TV d.d. (Croatia), dated July 7, 2004. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004).
10.32*	Pro TV SA put-option between CME Romania BV, Adrian Sarbu and Rootland Trading Ltd (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004).
10.33*	MPI SA put-option between CME Romania BV, Adrian Sarbu and Rootland Trading Ltd (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004).
10.34*+	Employee Stock Option Form (a management contract) (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004).
10.35*+	Employment Agreement between CME Development Corporation and Marina Williams dated November 22, 2004.
10.36*	Framework Agreement CME Media Enterprises BV, Central European Media Enterprises Ltd. and PPF (Cyprus) Ltd. dated December 13, 2004. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2004).

10.37*	Agreement on Settlement of Disputes and Transfer of Ownership Interest, dated February 24, 2005. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2004).

Table of Contents

10.38*	Subscription Agreement between Central European Media Enterprises Ltd. and PPF (Cyprus) Ltd. dated May 2, 2005. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2005).
10.39*	Registration Rights Agreement between Central European Media Enterprises Ltd. and PPF (Cyprus) Ltd. dated May 2, 2005. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2005).
10.40*	Deed of Guarantee among PPF a.s., Central European Media Enterprises Ltd. and CME Media Enterprises B.V. dated May 2, 2005. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2005).
10.41*	PPF Group Guarantee among PPF Group N.V., Central European Media Enterprises Ltd. and CME Media Enterprises B.V. dated May 2, 2005. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2005).
10.42*	Indenture among Central European Media Enterprises Ltd., Central European Media Enterprises N.V., and CME Media Enterprises B.V. J.P. Morgan Chase Bank N.A., London Branch and J.P. Morgan Bank Luxembourg S.A. dated May 5, 2005. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 2005).
10.43*	Euro 37.5 million facility agreement, dated July 29, 2005, between Produkcija Plus Storitveno Podjetje d.o.o. and ING Bank N.V., Nova Ljubljanska banka d.d., and Bank Austria Creditanstalt d.d. (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005).
10.44*	Credit line agreement No. 2644/05/LCD between Ceska Sporitelna a.s. and CET 21 spol. s r.o. dated October 27, 2005. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2005).
10.45*	Agreement for the sale of shares in A.R.J., a.s. between PhDr. Pavol Rusko and CME Media Enterprises B.V. dated October 28, 2005. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2005).
10.46*	Agreement for the sale of shares in A.R.J., a.s. among Media Partner, spol. s r.o.,, Salis, s.r.o., CME Media Enterprises B.V., Ing. Milan Fil'o and Mr. Jan Kovacik dated October 31, 2005. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2005).
10.47*	Sale-Purchase Contract for Shares of Media Pro International S.A. between CME Romania B.V. and Adrian Sarbu dated February 17, 2006. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2005).
10.48*	Sale-Purchase Contract for Shares of Pro TV S.A. between CME Romania B.V. and Adrian Sarbu dated February 17, 2006. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2005).
10.49*	Sale-Purchase Contract for Shares of Media Vision SRL between CME Romania B.V. and Media Pro Pictures S.A. dated February 17, 2006. (incorporated by reference to the Company's Annual Report on Form 10-K for the period ended December 31, 2005).
10.50*	Underwriting Agreement, dated March 23, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006).
10.51*	Loan Agreement between Central European Media Enterprises Ltd. and European Bank for Reconstruction and Development, dated July 21, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.52*	Pledge Agreement on Shares in Central European Media Enterprises N.V. among Central European Media Enterprises Ltd., European Bank for Reconstruction and Development and Central European Media Enterprises N.V., dated July 21, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.53*	Pledge of Shares in CME Media Enterprises B.V. among Central European Media Enterprises N.V., European Bank for Reconstruction and Development and CME Media Enterprises B.V., dated July 21,

2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).

Page 180

Table of Contents

10.54*	Deed of Guarantee and Indemnity between Central European Media Enterprises N.V. and European Bank for Reconstruction and Development, dated July 21, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.55*	Deed of Guarantee and Indemnity between CME Media Enterprises B.V. and European Bank for Reconstruction and Development, dated July 21, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.56*	Contract Assignment between CME Media Enterprises B.V., Central European Media Enterprises Ltd. and European Bank for Reconstruction and Development, dated July 21, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.57*+	Amendment of Employment Agreement (dated March 30, 2004) between Michael Garin and CME Development Corporation, dated July 28, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.58*+	Contract for the Performance of the Office between CET 21 s.r.o. and Adrian Sarbu, dated August 1, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.59*+	Letter Agreement between Central European Media Enterprises Ltd. and Adrian Sarbu, dated August 1, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006).
10.60*+	Amended and Restated Contract of Employment between Marina Williams, Executive Vice President, and CME Development Corporation, dated October 5, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006).
10.61*+	Amended and Restated Contract of Employment between Wallace Macmillan, Chief Financial Officer, and CME Development Corporation, dated October 6, 2006 (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2006).
10.62	Agreement to Provide Advertising Services between Video International-Prioritet LLC and Broadcasting Company “Studio 1+1” LLC dated November 30, 2006.
21.01	List of subsidiaries
23.01	Consents of Deloitte & Touche LLP and Deloitte Audit s.r.o.
24.01	Power of Attorney, dated as of February 24, 2007
31.01	Sarbanes-Oxley Certification s.302 CEO, dated March 1, 2007
31.02	Sarbanes-Oxley Certification s.302 CFO, dated March 1, 2007
32.01	Sarbanes-Oxley Certification - CEO and CFO, dated March 1, 2007 (furnished only)
*	Previously filed exhibits
+	Exhibit is a management contract or compensatory plan
b)	Exhibits: See (a)(3) above for a listing of the exhibits included as part of this report.
c)	Report of Independent Registered Public Accountants on Schedule II — Schedule of Valuation Allowances. (See pages S-1 to S-3 of this Form 10-K).

Table of Contents

SIGNATURES

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

Date: March 1, 2007	/s/ Michael Garin Michael Garin Chief Executive Officer (Duly Authorized Officer)
Date: March 1, 2007	/s/ Wallace Macmillan Wallace Macmillan Vice President - Finance (Principal Financial Officer and Accounting Officer)

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
* Ronald S. Lauder	Chairman of the Board of Directors	March 1, 2007
* Herbert A. Granath	Vice-Chairman of the Board of Directors	March 1, 2007
/s/ Michael Garin Michael Garin	Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
/s/ Wallace Macmillan Wallace Macmillan	Vice President - Finance (Principal Financial Officer and Principal Accounting Officer)	March 1, 2007
* Frank Ehmer	Director	March 1, 2007
* Charles Frank	Director	March 1, 2007
* Herbert Kloiber	Director	March 1, 2007
* Alfred W. Langer	Director	March 1, 2007
* Bruce Maggin	Director	March 1, 2007
* Ann Mather	Director	March 1, 2007
* Christian Stahl	Director	March 1, 2007
* Eric Zinterhofer	Director	March 1, 2007
	* By /s/ Wallace Macmillan Wallace Macmillan Attorney-in-fact	

Table of Contents

INDEX TO SCHEDULES

Schedule II : Schedule of Valuation Allowances S-3

Schedule II

Schedule of Valuation Allowances
(US$ 000's)

	Bad debt and credit note provision	**Deferred tax allowance**
Balance at December 31, 2003	**5,625**	**11,846**
Charged to costs and expenses	250	(1,366)
Charged to other accounts [(1)]	(203)	-
Foreign exchange	468	(2,469)
Balance at December 31, 2004	**6,140**	**8,011**
Charged to costs and expenses	1,750	5,115
Charged to other accounts [(1)]	1,532	(185)
Foreign exchange	(172)	(1,007)
Balance at December 31, 2005	**9,250**	**11,934**
Charged to costs and expenses	1,989	6,107
Charged to other accounts [(1)]	1,540	(1,168)
Foreign exchange	(115)	(299)
Balance at December 31, 2006	**12,664**	**16,574**

[(1)] Charged to other accounts for the bad debt and credit note provision consist primarily of accounts receivable written off and opening balances of acquired companies.