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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2013**

**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**

(State or other jurisdiction of incorporation and organization)

**98-0438382**

(IRS Employer Identification No.)

**O'Hara House, 3 Bermudiana Road, Hamilton, Bermuda**

(Address of principal executive offices)

**HM 08**

(Zip Code)

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

Indicate by check mark whether 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

<u>Class</u>	<u>Outstanding as of July 26, 2013</u>
Class A Common Stock, par value \$0.08	134,482,935

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

FORM 10-Q

For the quarterly period ended June 30, 2013

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**Part I. Financial Information**

**Item 1. Financial Statements**

**CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(US\$ 000's, except share data)  
(Unaudited)**

	<u>June 30, 2013</u>	<u>December 31, 2012</u>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 144,523	\$ 140,393
Accounts receivable, net (Note 6)	169,327	184,494
Program rights, net (Note 5)	122,435	120,023
Other current assets (Note 7)	64,136	73,641
<b>Total current assets</b>	<b>500,421</b>	<b>518,551</b>
<b>Non-current assets</b>		
Property, plant and equipment, net (Note 8)	192,879	206,706
Program rights, net (Note 5)	310,956	303,708
Goodwill (Note 3)	809,489	836,538
Broadcast licenses and other intangible assets, net (Note 3)	270,625	284,941
Other non-current assets (Note 7)	15,949	24,271
<b>Total non-current assets</b>	<b>1,599,898</b>	<b>1,656,164</b>
<b>Total assets</b>	<b>\$ 2,100,319</b>	<b>\$ 2,174,715</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 266,547	\$ 255,681
Current portion of long-term debt and other financing arrangements (Note 4)	1,799	21,918
Other current liabilities (Note 10)	33,014	13,765
<b>Total current liabilities</b>	<b>301,360</b>	<b>291,364</b>
<b>Non-current liabilities</b>		
Long-term debt and other financing arrangements (Note 4)	921,675	1,198,873
Other non-current liabilities (Note 10)	51,582	53,211
<b>Total non-current liabilities</b>	<b>973,257</b>	<b>1,252,084</b>
Commitments and contingencies (Note 19)		
<b>Temporary equity</b>		
200,000 shares of Series B Convertible Redeemable Preferred Stock of \$0.08 each (December 31, 2012 - nil) (Note 12)	200,247	—
<b>EQUITY</b>		
CME Ltd. shareholders' equity (Note 13):		
One share of Series A Preferred Stock of \$0.08 each (December 31, 2012 – one)	—	—
134,438,185 shares of Class A Common Stock of \$0.08 each (December 31, 2012 – 77,185,129)	10,755	6,174
Nil shares of Class B Common Stock of \$0.08 each (December 31, 2012 – nil)	—	—
Additional paid-in capital	1,708,050	1,556,250
Accumulated deficit	(1,134,503)	(982,513)
Accumulated other comprehensive income	37,157	46,150
<b>Total CME Ltd. shareholders' equity</b>	<b>621,459</b>	<b>626,061</b>
Noncontrolling interests	3,996	5,206
<b>Total equity</b>	<b>625,455</b>	<b>631,267</b>
<b>Total liabilities and equity</b>	<b>\$ 2,100,319</b>	<b>\$ 2,174,715</b>

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net revenues</b>	<b>\$ 180,245</b>	<b>\$ 211,222</b>	<b>\$ 317,287</b>	<b>\$ 378,655</b>
<b>Operating expenses:</b>				
Content costs	97,171	89,823	186,364	176,754
Other operating costs	35,876	37,771	70,386	67,758
Depreciation of property, plant and equipment	8,949	10,747	19,183	22,627
Amortization of broadcast licenses and other intangibles (Note 3)	3,769	12,715	7,869	25,198
<b>Cost of revenues</b>	<b>145,765</b>	<b>151,056</b>	<b>283,802</b>	<b>292,337</b>
Selling, general and administrative expenses	35,451	36,516	69,455	72,971
Restructuring costs (Note 14)	4,698	—	4,698	—
<b>Operating (loss) / income</b>	<b>(5,669)</b>	<b>23,650</b>	<b>(40,668)</b>	<b>13,347</b>
Interest income	129	171	311	385
Interest expense (Note 15)	(31,188)	(31,129)	(63,206)	(62,953)
(Loss) / gain on extinguishment of debt	(23,115)	448	(23,115)	448
Foreign currency exchange gain / (loss), net	15,117	(40,312)	(34,757)	(16,918)
Change in fair value of derivatives (Note 11)	—	47,398	104	48,325
Other (expense) / income, net	(451)	(158)	(487)	51
<b>(Loss) / income before tax</b>	<b>(45,177)</b>	<b>68</b>	<b>(161,818)</b>	<b>(17,315)</b>
Credit for income taxes	4,089	3,073	11,767	6,643
<b>Net (loss) / income</b>	<b>(41,088)</b>	<b>3,141</b>	<b>(150,051)</b>	<b>(10,672)</b>
Net loss attributable to noncontrolling interests	131	815	813	1,236
<b>Net (loss) / income attributable to CME Ltd.</b>	<b>\$ (40,957)</b>	<b>\$ 3,956</b>	<b>\$ (149,238)</b>	<b>\$ (9,436)</b>
Net (loss) / income	(41,088)	3,141	(150,051)	(10,672)
Currency translation adjustment	(11,407)	(98,552)	(8,944)	(31,462)
<b>Comprehensive loss</b>	<b>\$ (52,495)</b>	<b>\$ (95,411)</b>	<b>\$ (158,995)</b>	<b>\$ (42,134)</b>
Comprehensive loss attributable to noncontrolling interests	225	750	764	1,177
<b>Comprehensive loss attributable to CME Ltd.</b>	<b>\$ (52,270)</b>	<b>\$ (94,661)</b>	<b>\$ (158,231)</b>	<b>\$ (40,957)</b>
<b>PER SHARE DATA (Note 17):</b>				
<i>Net (loss) / income per share:</i>				
Net (loss) / income attributable to CME Ltd. – Basic	\$ (0.34)	\$ 0.06	\$ (1.42)	\$ (0.14)
Net (loss) / income attributable to CME Ltd. – Diluted	\$ (0.34)	\$ 0.06	\$ (1.42)	\$ (0.14)
<i>Weighted average common shares used in computing per share amounts (000's):</i>				
Basic	122,115	66,501	105,349	65,447
Diluted	122,115	66,532	105,349	65,447

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

**CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**  
 (US\$ 000's, except share data)  
 (Unaudited)

CME Ltd.											
	Series A Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Equity
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value					
<b>BALANCE December 31, 2012</b>	1	\$ —	77,185,129	\$ 6,174	—	\$ —	\$ 1,556,250	\$ (982,513)	\$ 46,150	\$ 5,206	\$ 631,267
Stock-based compensation	—	—	—	—	—	—	2,180	—	—	—	2,180
Share issuance, net	—	—	57,132,931	4,571	—	—	147,125	—	—	—	151,696
Reclassification of capped call options	—	—	—	—	—	—	2,752	(2,752)	—	—	—
Share issuance, stock-based compensation	—	—	120,125	10	—	—	(10)	—	—	—	—
Preferred dividend paid in-kind	—	—	—	—	—	—	(247)	—	—	—	(247)
Dividends	—	—	—	—	—	—	—	—	—	(446)	(446)
Net loss	—	—	—	—	—	—	—	(149,238)	—	(813)	(150,051)
Currency translation adjustment	—	—	—	—	—	—	—	—	(8,993)	49	(8,944)
<b>BALANCE June 30, 2013</b>	1	\$ —	134,438,185	\$10,755	—	\$ —	\$ 1,708,050	\$ (1,134,503)	\$ 37,157	\$ 3,996	\$ 625,455

CME Ltd.											
	Series A Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income / (Loss)	Noncontrolling Interest	Total Equity
	Number of shares	Par value	Number of shares	Par value	Number of shares	Par value					
<b>BALANCE December 31, 2011</b>	—	\$ —	56,892,114	\$ 4,551	7,500,936	\$ 600	\$ 1,404,648	\$ (425,702)	\$ 17,595	\$ 16,250	\$ 1,017,942
Stock-based compensation	—	—	—	—	—	—	2,091	—	—	—	2,091
Conversion of Class B shares to Class A shares	—	—	7,516,936	601	(7,516,936)	(601)	—	—	—	—	—
Share issuance, net	—	—	11,901,260	952	—	—	66,564	—	—	—	67,516
Repurchase of 2013 Convertible Notes	—	—	—	—	—	—	(868)	—	—	—	(868)
Reclassification of capped call options	—	—	—	—	—	—	21,131	(21,131)	—	—	—
Options exercised	—	—	—	—	16,000	1	32	—	—	—	33
Dividends	—	—	—	—	—	—	—	—	—	(560)	(560)
Other	—	—	—	—	—	—	(367)	—	—	—	(367)
Net loss	—	—	—	—	—	—	—	(9,436)	—	(1,236)	(10,672)
Currency translation adjustment	—	—	—	—	—	—	—	—	(31,521)	59	(31,462)
<b>BALANCE June 30, 2012</b>	—	\$ —	76,310,310	\$ 6,104	—	\$ —	\$ 1,493,231	\$ (456,269)	\$ (13,926)	\$ 14,513	\$ 1,043,653

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

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

	For the Six Months Ended June 30,	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (150,051)	\$ (10,672)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of program rights	181,015	150,233
Depreciation and other amortization	32,865	57,960
Net loss / (gain) on extinguishment of debt (Note 15)	23,115	(448)
Gain on disposal of fixed assets	(24)	(71)
Stock-based compensation (Note 16)	2,180	2,091
Change in fair value of derivatives (Note 11)	(104)	(48,325)
Foreign currency exchange loss, net	34,757	16,918
Net change in:		
Accounts receivable, net	13,181	(19,331)
Accounts payable and accrued liabilities	841	(22,937)
Program rights	(167,518)	(184,785)
Other assets	(1,681)	1,638
Accrued interest	(9,188)	(1,750)
Income taxes payable	(3,672)	784
Deferred revenue	15,742	13,451
Deferred taxes	(11,655)	(9,876)
VAT and other taxes payable	967	6,927
<b>Net cash used in operating activities</b>	<b>(39,230)</b>	<b>(48,193)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(14,808)	(11,340)
Disposal of property, plant and equipment	264	191
<b>Net cash used in investing activities</b>	<b>(14,544)</b>	<b>(11,149)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of senior debt	(310,322)	(180,087)
Debt transactions costs	(785)	(811)
Change in restricted cash (Note 7)	20,467	—
Proceeds from credit facilities	382	192,944
Payment of credit facilities and capital leases	(880)	(28,514)
Issuance of common stock	157,116	15,033
Issuance of preferred stock	200,000	—
Equity issuance costs	(4,322)	—
Proceeds from exercise of stock options	—	33
Dividends paid to holders of noncontrolling interests	(184)	(131)
<b>Net cash provided by / (used in) financing activities</b>	<b>61,472</b>	<b>(1,533)</b>
Impact of exchange rate fluctuations on cash	(3,568)	(697)
Net increase / (decrease) in cash and cash equivalents	4,130	(61,572)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>140,393</b>	<b>186,386</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 144,523</b>	<b>\$ 124,814</b>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES</b>		
Conversion of credit facility to shares of Class A common stock	\$ —	\$ 74,344

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

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

**1. ORGANIZATION AND BUSINESS**

Central European Media Enterprises Ltd., a Bermuda company limited by shares, is a media and entertainment company operating in Central and Eastern Europe. Our assets are held through a series of Dutch and Curaçao holding companies. From January 1, 2013, we manage our business on a geographical basis, with six operating segments, Bulgaria, Croatia, the Czech Republic, Romania, the Slovak Republic and Slovenia, which are also our reportable segments and our main operating countries. See Note 18, "Segment Data" for a discussion of the change in segments.

We operate a total of 35 television channels across our markets as well as a portfolio of more than 70 websites and the video-on-demand service Voyo. Each country also develops and produces content for their television channels and content is also distributed to third parties, both within our region and globally. We generate advertising revenues in our country operations primarily through entering into agreements with advertisers, advertising agencies and sponsors to place advertising on the television channels that we operate. Our main general entertainment television channels in each country are distributed on a free-to-air basis terrestrially in analog, digital or both, depending on the digitalization status in each country, and are also distributed via cable and satellite. Our other channels are generally distributed via cable and satellite. Unless otherwise indicated, we own 100% of our broadcast operating and license companies in each country.

*Bulgaria*

We operate one general entertainment channel, BTV, and five other channels, BTV CINEMA, BTV COMEDY, RING.BG, BTV ACTION and BTV LADY. We also operate several radio channels. We currently own 94.0% of CME Bulgaria B.V. ("CME Bulgaria"), the subsidiary that owns our Bulgaria operations. Top Tone Media Holdings Limited ("Top Tone Holdings"), the third party that owns the remaining interest in CME Bulgaria, has exercised its right to acquire additional equity in CME Bulgaria, however the closing of this transaction has not yet occurred because the purchaser financing is still pending. Upon consummation of the equity transfer, we will own 90.0% of our Bulgaria operations.

*Croatia*

We operate one general entertainment channel, NOVA TV (Croatia), one female-oriented channel, DOMA (Croatia), an international channel, NOVA WORLD, and a children's channel, MINI TV.

*Czech Republic*

We operate one general entertainment channel, TV NOVA (Czech Republic), and six other channels, NOVA CINEMA, NOVA SPORT, MTV CZECH, FANDA, a male-oriented channel, SMICHOV, a comedy channel and TELKA, a classic channel that was launched on February 22, 2013.

*Romania*

We operate one general entertainment channel, PRO TV, and eight other channels, ACASA, ACASA GOLD, PRO CINEMA, SPORT.RO, MTV ROMANIA, PRO TV INTERNATIONAL, an international channel, PRO TV CHISINAU, a general entertainment channel broadcasting in Moldova, and ACASA MOLDOVA.

*Slovak Republic*

We operate one general entertainment channel, TV MARKIZA, and three other channels, DOMA (Slovak Republic), a female-oriented channel, DAJTO, a male-oriented channel, and FOOOR, a comedy channel that was launched on February 25, 2013.

*Slovenia*

We operate two general entertainment channels, POP TV and KANAL A, and three other channels, KINO, BRIO, and OTO.

**2. BASIS OF PRESENTATION**

The terms the "Company", "we", "us", and "our" are used in this Form 10-Q to refer collectively to the parent company, Central European Media Enterprises Ltd. ("CME Ltd."), and the subsidiaries through which our various businesses are conducted. Unless otherwise noted, all statistical and financial information presented in this report has been converted into U.S. dollars using period-end exchange rates. All references to "US\$", "USD" or "dollars" are to U.S. dollars, all references to "BGN" are to Bulgarian leva, 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 "UAH" are to Ukrainian hryvna and all references to "Euro" or "EUR" are to the European Union Euro.

*Interim Financial Statements*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Quarterly Report on Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles in the United States of America ("US GAAP"). Amounts as of December 31, 2012 included in the unaudited condensed consolidated financial statements have been derived from audited consolidated financial statements as of that date. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission ("SEC") on February 27, 2013 and as amended on Form 10-K/A filed with the SEC on April 29, 2013. Our significant accounting policies have not changed since December 31, 2012, except as noted below.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with US GAAP for complete financial statements. The results of operations for interim periods are not necessarily indicative of the results to be expected for a full year.

*Basis of Consolidation*

The unaudited condensed consolidated financial statements include the accounts of CME Ltd. and our subsidiaries, after the elimination of intercompany accounts and transactions. 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.

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

*Change in Operating Model*

Beginning January 1, 2013, we changed our presentation of certain components of our operating expenses to better reflect how cost centers are managed under our new operating model, with no impact on consolidated operating loss / income or cash flows. We also recast all prior periods presented in Note 18, "Segment Data" to conform to the new segment presentation. In the condensed consolidated statements of cash flows, we reclassified the amortization of production costs from the net change in program rights to amortization of program rights with no impact on net cash used in operating activities.

*Reclassifications*

Certain amounts included in the accompanying condensed consolidated financial statements have been reclassified to conform to the current year presentation. During the second quarter of 2012, we separately presented the gain / loss on the extinguishment of debt in the condensed consolidated statements of operations and comprehensive income. The gain / loss on extinguishment of debt was previously presented as a component of interest expense.

*Use of Estimates*

The preparation of financial statements in conformity with US GAAP 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 periods. Actual results could differ from those estimates and assumptions.

Cash receipts were lower in the first six months of 2013 compared to the prior year due to lower revenues as a result of a decrease in the consumption of gross rating points ("GRPs") in our region, particularly in the Czech Republic, resulting from our new pricing initiatives. However, this decrease was significantly offset by a decrease in programming payments, proceeds from public and private equity offerings (see Note 12, "Convertible Redeemable Preferred Shares" and Note 13, "Equity") and improvements in working capital. We continue to take steps to conserve cash, including targeted reductions to our operating cost base through cost optimization programs, the deferral of programming commitments and capital expenditures and the deferral of development projects. We believe that we are taking appropriate actions to monitor and address the risks affecting our business, and with our current cash balances, cash generative operations, and working capital management initiatives, taken together, we believe we will have adequate cash resources to meet our debt service and other financial obligations for the next twelve months.

**Recent Accounting Pronouncements**

*Accounting Pronouncements Adopted*

On January 1, 2013, we adopted guidance that was issued in July 2012 which is intended to simplify how entities test indefinite-lived intangible assets for impairment by providing an option to first assess qualitative factors to determine whether the existence of events or circumstances indicates that it is more likely than not that the indefinite-lived asset is impaired. If an entity determines it is not more likely than not that the indefinite-lived intangible asset is impaired, then performing the two-step impairment test is not necessary. The guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance may impact how we perform our impairment testing, but not the amount of impairment recognized in the financial statements if indefinite-lived intangible assets are found to be impaired.

We also adopted guidance that was issued in February 2013 which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The guidance is effective for annual reporting periods beginning after December 15, 2012, and interim periods within those annual periods. The adoption of this guidance did not change the presentation of our condensed consolidated statements of operations and comprehensive income.

*Recent Accounting Pronouncements Issued*

There are no recent accounting pronouncements that are expected to have an impact on our condensed consolidated financial statements.

**3. GOODWILL AND INTANGIBLE ASSETS**

**Goodwill:**

Goodwill by reporting unit as at June 30, 2013 and December 31, 2012 is summarized as follows:

	<b>Gross Balance, December 31, 2012</b>	<b>Accumulated Impairment Losses</b>	<b>Balance, December 31, 2012</b>	<b>Foreign Currency</b>	<b>Balance, June 30, 2013</b>	<b>Accumulated Impairment Losses</b>	<b>Gross Balance, June 30, 2013</b>
Bulgaria	\$ 177,473	\$ (127,826)	\$ 49,647	\$ (429)	\$ 49,218	\$ (127,826)	\$ 177,044
Croatia	11,127	(10,454)	673	2	675	(10,454)	11,129
Czech Republic	902,388	(287,545)	614,843	(24,365)	590,478	(287,545)	878,023
Romania	106,028	(11,028)	95,000	(1,598)	93,402	(11,028)	104,430
Slovak Republic	57,693	—	57,693	(498)	57,195	—	57,195
Slovenia	18,682	—	18,682	(161)	18,521	—	18,521
<b>Total</b>	<b>\$ 1,273,391</b>	<b>\$ (436,853)</b>	<b>\$ 836,538</b>	<b>\$ (27,049)</b>	<b>\$ 809,489</b>	<b>\$ (436,853)</b>	<b>\$ 1,246,342</b>

Following the change in segments (see Note 18, "Segment Data"), our reporting units now correspond to our operating segments.

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**Broadcast licenses and other intangible assets:**

Changes in the net book value of our broadcast licenses and other intangible assets as at June 30, 2013 and December 31, 2012 is summarized as follows:

	<b>Amortized Intangible Assets</b>				
	<b>Trademarks</b>	<b>Broadcast Licenses</b>	<b>Customer Relationships</b>	<b>Other</b>	<b>Total</b>
<b>BALANCE, December 31, 2012</b>	<b>\$ 121,761</b>	<b>\$ 119,570</b>	<b>\$ 39,094</b>	<b>\$ 4,516</b>	<b>\$ 284,941</b>
Additions	—	—	—	558	558
Amortization	—	(4,946)	(2,246)	(677)	(7,869)
Foreign currency movements	(2,015)	(4,409)	(515)	(66)	(7,005)
<b>BALANCE June 30, 2013</b>	<b>\$ 119,746</b>	<b>\$ 110,215</b>	<b>\$ 36,333</b>	<b>\$ 4,331</b>	<b>\$ 270,625</b>

We amortize the broadcast licenses on a straight-line basis over the following periods, which are generally the remaining contractual life of the license: thirteen years in the Czech Republic and ten years in Slovenia. The license in Croatia was previously written down to a nominal value, and the licenses in Bulgaria, Romania and the Slovak Republic were fully impaired during 2012.

Customer relationships are deemed to have an economic useful life of, and are amortized on a straight-line basis over, five years to fifteen years. Trademarks have an indefinite life.

The gross value and accumulated amortization of broadcast licenses and other intangible assets was as follows as at June 30, 2013 and December 31, 2012:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Gross value	\$ 348,091	\$ 357,183
Accumulated amortization	(197,212)	(194,003)
<b>Net book value of amortized intangible assets</b>	<b>150,879</b>	<b>163,180</b>
Indefinite-lived trademarks	119,746	121,761
<b>Total broadcast licenses and other intangible assets, net</b>	<b>\$ 270,625</b>	<b>\$ 284,941</b>

**4. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS**

*Summary*

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Senior debt	\$ 916,574	\$ 1,213,423
Total credit facilities and capital leases	6,900	7,368
<b>Total long-term debt and other financing arrangements</b>	<b>923,474</b>	<b>1,220,791</b>
Less: current maturities	(1,799)	(21,918)
<b>Total non-current long-term debt and other financing arrangements</b>	<b>\$ 921,675</b>	<b>\$ 1,198,873</b>

**Senior Debt**

Our senior debt comprised the following as at June 30, 2013 and December 31, 2012:

	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>June 30, 2013</b>	<b>December 31, 2012</b>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
2013 Convertible Notes	\$ —	\$ 20,442	\$ —	\$ 20,552
2015 Convertible Notes	236,391	231,812	249,287	238,052
2016 Fixed Rate Notes	360,032	637,408	381,862	666,385
2017 Fixed Rate Notes	320,151	323,761	344,464	346,200
	<b>\$ 916,574</b>	<b>\$ 1,213,423</b>	<b>\$ 975,613</b>	<b>\$ 1,271,189</b>

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**Improvement of Maturity Profile**

In June 2013, we repurchased EUR 205.6 million (approximately US\$ 270.0 million at the transaction date) aggregate principal amount of our 11.625% Senior Notes due 2016 (the "2016 Fixed Rate Notes") for cash consideration of EUR 228.4 million (approximately US\$ 300.0 million at the transaction date), including accrued interest of EUR 6.8 million (approximately US\$ 9.0 million at the transaction date). In connection with this repurchase, we recorded a loss on extinguishment of debt of US\$ 23.1 million, including the write off of US\$ 4.5 million of unamortized debt issuance costs, which is separately presented in the condensed consolidated statement of operations and comprehensive income.

**Convertible Notes**

*2013 Convertible Notes*

The outstanding 3.5% Senior Convertible Notes due 2013 (the "2013 Convertible Notes") were repaid and extinguished at maturity on March 15, 2013 using funds irrevocably deposited in escrow on September 7, 2012 (see Note 7, "Other Assets").

*2015 Convertible Notes*

As at June 30, 2013, the principal amount of our 5.0% Senior Convertible Notes due 2015 (the "2015 Convertible Notes" and collectively with the 2013 Convertible Notes, the "Convertible Notes"), outstanding was US\$ 261.0 million. The 2015 Convertible Notes mature on November 15, 2015.

Interest is payable semi-annually in arrears on each May 15 and November 15. The fair value of the liability component of the 2015 Convertible Notes as at June 30, 2013 was calculated by multiplying the outstanding debt by the traded market price. This measurement of estimated fair value uses Level 2 inputs as described in Note 11, "Financial Instruments and Fair Value Measurements".

The 2015 Convertible 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 our wholly owned subsidiaries CME Media Enterprises N.V. ("CME NV") and CME Media Enterprises B.V. ("CME BV") and are secured by a pledge of shares of those companies.

Prior to August 15, 2015, the 2015 Convertible Notes are convertible following certain events and from that date, at any time, based on an initial conversion rate of 20 shares of our Class A common stock per US\$ 1,000 principal amount of 2015 Convertible Notes (which is equivalent to an initial conversion price of US\$ 50.00 per share). The conversion rate is subject to adjustment if we make certain distributions to the holders of shares of our Class A common stock, undergo certain corporate transactions or a fundamental change, and in other circumstances specified in the 2015 Convertible Notes. From time to time up to and including August 15, 2015, we will have the right to elect to deliver (i) shares of our Class A common stock, (ii) cash, or (iii) cash and, if applicable, shares of our Class A common stock upon conversion of the 2015 Convertible Notes. At present, we have elected to deliver cash and, if applicable, shares of our Class A common stock. As at June 30, 2013, the 2015 Convertible Notes may not be converted. In addition, the holders of the 2015 Convertible Notes have the right to put the 2015 Convertible Notes to us for cash equal to the aggregate principal amount of the 2015 Convertible Notes plus accrued but unpaid interest thereon following the occurrence of certain specified fundamental changes (including a change of control (which includes the acquisition by a person or group (as such term is defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"))) of beneficial ownership of more than 50% of the outstanding shares of our Class A common stock), certain mergers, insolvency and a delisting).

We separately account for the liability and equity components of the 2015 Convertible Notes. The embedded conversion option is not accounted for as a derivative.

	Principal Amount of Liability Component	Unamortized Discount	Net Carrying Amount	Equity Component
<b>BALANCE December 31, 2012</b>	<b>\$ 261,034</b>	<b>\$ (29,222)</b>	<b>\$ 231,812</b>	<b>\$ 11,907</b>
Amortization of debt issuance discount	—	4,579	4,579	—
<b>BALANCE June 30, 2013</b>	<b>\$ 261,034</b>	<b>\$ (24,643)</b>	<b>\$ 236,391</b>	<b>\$ 11,907</b>

The issuance discount is being amortized over the life of the 2015 Convertible Notes using the effective interest method. The effective interest rate on the liability component was 10.0%.

Certain other derivative instruments have been identified as being embedded in the 2015 Convertible Notes, but as they are considered to be clearly and closely related to the 2015 Convertible Notes they are not accounted for separately.

**Fixed Rate Notes**

*2016 Fixed Rate Notes*

Following the transaction disclosed in "Improvement of Maturity Profile" above, the principal amount of 2016 Fixed Rate Notes outstanding was EUR 273.0 million (approximately US\$ 357.0 million) as at June 30, 2013. The 2016 Fixed Rate Notes mature on September 15, 2016.

Interest on the 2016 Fixed Rate Notes is payable semi-annually in arrears on each March 15 and September 15. The fair value of the 2016 Fixed Rate Notes as at June 30, 2013 and December 31, 2012 was calculated by multiplying the outstanding debt by the traded market price. This measurement of estimated fair value uses Level 2 inputs as described in Note 11, "Financial Instruments and Fair Value Measurements".

The 2016 Fixed Rate 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 CME NV and CME BV and are secured by a pledge of shares of those subsidiaries as well as an assignment of certain contractual rights. The terms of our 2016 Fixed Rate Notes 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.

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In the event that (A) there is a change in control by which (i) any party other than certain of 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 2016 Fixed Rate 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 2016 Fixed Rate Notes at a purchase price in cash equal to 101.0% of the principal amount of the 2016 Fixed Rate Notes plus accrued and unpaid interest to the date of purchase.

The 2016 Fixed Rate Notes are redeemable at our option, in whole or in part, at the redemption prices set forth below:

<b>From</b>	<b>Fixed Rate Notes Redemption Price</b>
September 15, 2013 to September 14, 2014	105.813%
September 15, 2014 to September 14, 2015	102.906%
September 15, 2015 and thereafter	100.000%

Certain derivative instruments, including redemption call options and change of control and asset disposition put options, have been identified as being embedded in the 2016 Fixed Rate Notes but as they are considered clearly and closely related to the 2016 Fixed Rate Notes, they are not accounted for separately. We have included the net issuance premium within the carrying amount of the 2016 Fixed Rate Notes and are amortizing it through interest expense using the effective interest method.

*2017 Fixed Rate Notes*

As at June 30, 2013, the principal amount of the 9.0% Senior Secured Notes due 2017 ("the 2017 Fixed Rate Notes" and collectively with the 2016 Fixed Rate Notes, the "Senior Notes") outstanding was EUR 240.0 million (approximately US\$ 313.9 million). The 2017 Fixed Rate Notes mature on November 1, 2017.

Interest is payable semi-annually in arrears on each May 1 and November 1. The fair value of the 2017 Fixed Rate Notes as at June 30, 2013 and December 31, 2012 was calculated by multiplying the outstanding debt by the traded market price. This measurement of estimated fair value uses Level 2 inputs as described in Note 11, "Financial Instruments and Fair Value Measurements".

The 2017 Fixed Rate Notes are secured senior obligations of CET 21 spol. s r.o. ("CET 21"). The 2017 Fixed Rate Notes rank pari passu with all existing and future senior indebtedness of CET 21 and are effectively subordinated to all existing and future indebtedness of our other subsidiaries. The amounts outstanding are guaranteed by CME Ltd. and by our wholly-owned subsidiaries CME NV, CME BV, CME Investments B.V., CME Slovak Holdings B.V. ("CME SH") and MARKÍZA-SLOVAKIA, spol. s r.o. ("Markiza") and are secured by a pledge of the shares of CME NV, CME BV, CET 21 and CME SH, as well as an assignment of certain contractual rights. The terms of the 2017 Fixed Rate Notes restrict the manner in which the Company's and CET 21's 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 certain of our present shareholders becomes the beneficial owner of more than 35% 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 2017 Fixed Rate 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 2017 Fixed Rate Notes at a purchase price in cash equal to 101.0% of the principal amount of the 2017 Fixed Rate Notes plus accrued and unpaid interest to the date of purchase.

The 2017 Fixed Rate Notes are redeemable at our option, in whole or in part, at the redemption prices set forth below:

<b>From</b>	<b>Fixed Rate Notes Redemption Price</b>
November 1, 2014 to October 31, 2015	104.50%
November 1, 2015 to October 31, 2016	102.25%
November 1, 2016 and thereafter	100.00%

Prior to November 1, 2013, up to 35.0% of the original principal amount of the 2017 Fixed Rate Notes can be redeemed at a price of 109.0% of the principal amount, plus accrued and unpaid interest if certain conditions are met.

Certain derivative instruments, including redemption call options and change of control and asset disposition put options, have been identified as being embedded in the 2017 Fixed Rate Notes but as they are considered clearly and closely related to the 2017 Fixed Rate Notes, they are not accounted for separately.

**Indenture Covenants**

Under the terms of the indentures governing the 2016 Fixed Rate Notes and the 2017 Fixed Rate Notes (the "2016 Indenture" and the "2017 Indenture", respectively), we are largely restricted from raising debt at the corporate level or making certain payments or investments if the ratio of Consolidated EBITDA to Consolidated Interest Expense (as defined in the 2016 Indenture and the 2017 Indenture) (the "Coverage Ratio") is less than 2.0 times. For this purpose, the calculation includes CME Ltd. and its subsidiaries that are "Restricted Subsidiaries," as defined in the indentures. In addition, under the 2017 Indenture, CET 21 is restricted from incurring indebtedness if the ratio of Consolidated Indebtedness to Consolidated EBITDA of CET 21 (both as defined in the 2017 Indenture) and its Restricted Subsidiaries would exceed 2.25 times.

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**Credit Facilities and Capital Lease Obligations**

Credit facilities and capital lease obligations comprised the following at June 30, 2013 and December 31, 2012:

		<b>June 30, 2013</b>	<b>December 31, 2012</b>
Credit facilities	(a) – (c)	\$ 3,359	\$ 3,282
Capital leases		3,541	4,086
<b>Total credit facilities and capital leases</b>		<b>6,900</b>	<b>7,368</b>
Less: current maturities		(1,799)	(1,476)
<b>Total non-current credit facilities and capital leases</b>		<b>\$ 5,101</b>	<b>\$ 5,892</b>

(a) We have a cash pooling arrangement with Bank Mendes Gans (“BMG”), a subsidiary of ING Bank N.V. (“ING”), which enables us to receive credit across the group in respect of cash balances which our subsidiaries deposit with BMG. Cash deposited by our subsidiaries with BMG is pledged as security against the drawings of other subsidiaries up to the amount deposited.

As at June 30, 2013, we had deposits of US\$ 21.2 million in and drawings of US\$ 0.8 million on the BMG cash pool. Interest is earned on deposits at the relevant money market rate and interest is payable on all drawings at the relevant money market rate plus 2.0%. As at December 31, 2012, we had deposits of US\$ 30.3 million in and drawings of US\$ 0.5 million on the BMG cash pool.

(b) As at June 30, 2013 and December 31, 2012, there were no drawings outstanding under a CZK 830.0 million (approximately US\$ 41.8 million) factoring framework agreement with Factoring Ceska Sportelna (“FCS”). Under this facility up to CZK 830.0 million (approximately US\$ 41.8 million) may be factored on a recourse or non-recourse basis. The facility bears interest at one-month PRIBOR plus 2.5% for the period that actively assigned accounts receivable are outstanding.

(c) At June 30, 2013, our operations in Romania had an aggregate principal amount of RON 11.8 million (approximately US\$ 3.4 million) (December 31, 2012, RON 11.9 million, approximately US\$ 3.5 million based on June 30, 2013 rates) of loans outstanding with the Central National al Cinematografei (“CNC”), a Romanian governmental organization which provides financing for qualifying filmmaking projects. Upon acceptance of a particular project, the CNC awards an agreed level of funding to each project in the form of an interest-free loan. Loans from the CNC are typically advanced for a period of ten years and are repaid through the proceeds from the distribution of the film content. At June 30, 2013, we had 16 loans outstanding with the CNC with maturity dates ranging from 2014 to 2021. The carrying amounts at June 30, 2013 and December 31, 2012 are net of a fair value adjustment of US\$ 1.0 million and US\$ 1.0 million, respectively, arising on acquisition.

**Total Group**

At June 30, 2013, the maturity of our senior debt and credit facilities was as follows:

2013	\$ 667
2014	406
2015	261,291
2016	357,047
2017	313,924
2018 and thereafter	3,044
<b>Total senior debt and credit facilities</b>	<b>936,379</b>
Net discount	(16,446)
<b>Carrying amount of senior debt and credit facilities</b>	<b>\$ 919,933</b>

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*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, 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 June 30, 2013:

2013	\$	529
2014		892
2015		753
2016		511
2017		384
2018 and thereafter		846
<b>Total undiscounted payments</b>		<b>3,915</b>
Less: amount representing interest		(374)
<b>Present value of net minimum lease payments</b>	<b>\$</b>	<b>3,541</b>

**5. PROGRAM RIGHTS**

Program rights comprised the following at June 30, 2013 and December 31, 2012:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Program rights:		
Acquired program rights, net of amortization	\$ 299,615	\$ 295,051
Less: current portion of acquired program rights	(122,435)	(120,023)
<b>Total non-current acquired program rights</b>	<b>177,180</b>	<b>175,028</b>
Produced program rights – Feature Films:		
Released, net of amortization	4,930	4,601
Completed and not released	766	1,405
In production	2,449	2,297
Development and pre-production	592	552
Produced program rights – Television Programs:		
Released, net of amortization	82,855	80,830
Completed and not released	28,840	23,158
In production	8,615	11,294
Development and pre-production	4,729	4,543
<b>Total produced program rights</b>	<b>133,776</b>	<b>128,680</b>
<b>Total non-current acquired program rights and produced program rights</b>	<b>\$ 310,956</b>	<b>\$ 303,708</b>

## 6. ACCOUNTS RECEIVABLE

Accounts receivable comprised the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Unrelated customers	\$ 187,688	\$ 199,494
Less: allowance for bad debts and credit notes	(19,411)	(16,784)
Related parties	1,980	1,919
Less: allowance for bad debts and credit notes	(930)	(135)
<b>Total accounts receivable</b>	<b>\$ 169,327</b>	<b>\$ 184,494</b>

At June 30, 2013, there were CZK 166.3 million (approximately US\$ 8.4 million) (December 31, 2012: CZK 132.4 million, approximately US\$ 6.7 million based on June 30, 2013 rates) of receivables subject to the factoring framework agreement (see Note 4, "Long-term Debt and Other Financing Arrangements").

## 7. OTHER ASSETS

Other current and non-current assets comprised the following at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
<b>Current:</b>		
Prepaid acquired programming	\$ 18,977	\$ 21,122
Other prepaid expenses	9,592	7,998
Deferred tax	13,464	2,204
Capitalized debt costs	4,849	4,741
VAT recoverable	5,791	4,366
Inventory	5,933	6,194
Income taxes recoverable	982	1,428
Restricted cash	2,283	23,350
Other	2,265	2,238
<b>Total other current assets</b>	<b>\$ 64,136</b>	<b>\$ 73,641</b>

	June 30, 2013	December 31, 2012
<b>Non-current:</b>		
Capitalized debt costs	\$ 9,669	\$ 16,887
Deferred tax	4,000	5,539
Other	2,280	1,845
<b>Total other non-current assets</b>	<b>\$ 15,949</b>	<b>\$ 24,271</b>

Capitalized debt costs are being amortized over the term of the related debt instruments using either the straight-line method, which approximates the effective interest method, or the effective interest method.

The restricted cash balance at December 31, 2012 included US\$ 21.0 million deposited in escrow with the trustee of the 2013 Convertible Notes that was used to settle the aggregate principal and interest payable when the 2013 Convertible Notes matured in March 2013 (see Note 4, "Long-term Debt and Other Financing Arrangements").

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**8. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment comprised the following at June 30, 2013 and December 31, 2012:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Land and buildings	\$ 161,557	\$ 164,395
Machinery, fixtures and equipment	212,057	215,776
Other equipment	42,156	38,091
Software licenses	51,294	49,466
Construction in progress	13,008	14,954
<b>Total cost</b>	<b>480,072</b>	<b>482,682</b>
Less: Accumulated depreciation	(287,193)	(275,976)
<b>Total net book value</b>	<b>\$ 192,879</b>	<b>\$ 206,706</b>
<b>Assets held under capital leases (included in the above)</b>		
Land and buildings	\$ 4,623	\$ 6,042
Machinery, fixtures and equipment	3,367	3,792
<b>Total cost</b>	<b>7,990</b>	<b>9,834</b>
Less: Accumulated depreciation	(3,270)	(3,077)
<b>Total net book value</b>	<b>\$ 4,720</b>	<b>\$ 6,757</b>

The movement in the net book value of property, plant and equipment during the six months ended June 30, 2013 and 2012 is comprised of:

	<b>For the Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Opening balance</b>	<b>\$ 206,706</b>	<b>\$ 217,367</b>
Cash additions	14,808	11,340
Disposals	(240)	(120)
Depreciation	(19,183)	(22,627)
Foreign currency movements	(4,044)	(7,570)
Other movements	(5,168)	(78)
<b>Ending balance</b>	<b>\$ 192,879</b>	<b>\$ 198,312</b>

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**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities comprised the following at June 30, 2013 and December 31, 2012:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Accounts payable	\$ 46,958	\$ 55,422
Related party accounts payable	564	827
Programming liabilities	68,375	56,560
Related party programming liabilities	68,127	52,863
Duties and other taxes payable	14,267	11,912
Accrued staff costs	14,864	16,506
Accrued interest payable	18,636	28,255
Income taxes payable	1,055	5,089
Accrued services and other supplies	23,446	18,283
Accrued legal contingencies and professional fees	2,705	4,807
Authors' rights	5,155	3,391
Other accrued liabilities	2,395	1,766
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 266,547</b>	<b>\$ 255,681</b>

**10. OTHER LIABILITIES**

Other current and non-current liabilities comprised the following at June 30, 2013 and December 31, 2012:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>Current:</b>		
Deferred revenue	\$ 27,040	\$ 11,862
Deferred tax	924	1,366
Derivative liabilities	—	144
Restructuring provision (Note 14)	4,458	—
Other	592	393
<b>Total other current liabilities</b>	<b>\$ 33,014</b>	<b>\$ 13,765</b>
	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>Non-current:</b>		
Deferred tax	\$ 49,128	\$ 52,068
Related party programming liabilities	—	761
Programming liabilities	2,072	—
Other	382	382
<b>Total other non-current liabilities</b>	<b>\$ 51,582</b>	<b>\$ 53,211</b>

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**11. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

ASC 820, "Fair Value Measurements and Disclosure", establishes a hierarchy that prioritizes the inputs to those valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are:

Basis of Fair Value Measurement

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted instruments.
- Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

We evaluate the position of each financial instrument measured at fair value in the hierarchy individually based on the valuation methodology we apply. The carrying amount of financial instruments, including cash and cash equivalents, 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 Debt (as defined therein) is included in Note 4, "Long-Term Debt and Other Financing Arrangements".

The change in fair value of derivatives comprised the following for the three and six months ended June 30, 2013 and 2012:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Share subscription agreement	\$ —	\$ 22,836	\$ —	\$ 22,836
Company option	—	24,467	—	24,467
Interest rate swap	—	121	104	357
Currency swap	—	(26)	—	665
Change in fair value of derivatives	\$ —	\$ 47,398	\$ 104	\$ 48,325

*Interest Rate Risk*

On February 9, 2010, we entered into an interest rate swap agreement with UniCredit Bank Czech Republic, a.s. and Ceska Sporitelna, a.s. to reduce the impact of changing interest rates on our previously outstanding floating rate debt that was denominated in CZK. The interest rate swap expired on April 15, 2013, and was used to minimize interest rate risk. It was considered to be an economic hedge but was not designated as a hedging instrument, so changes in the fair value of the derivative were recorded in the consolidated statements of operations and comprehensive income and in the consolidated balance sheet in other current liabilities.

We valued the interest rate swap agreement using a valuation model which calculated the fair value on the basis of the net present value of the estimated future cash flows. The most significant input used in the valuation model was the expected PRIBOR-based yield curve. This instrument was allocated to level 2 of the fair value hierarchy because the critical inputs to this model, including current interest rates, relevant yield curves and the known contractual terms of the instrument, were readily observable.

The fair value of the interest rate swap as at April 15, 2013, the settlement date, was a US\$ 35 thousand liability. There will be no further impact on earnings from this instrument subsequent to April 15, 2013.

**12. CONVERTIBLE REDEEMABLE PREFERRED SHARES**

On June 25, 2013, we issued and sold 200,000 shares of the Company's Series B Convertible Redeemable Preferred Stock, par value US\$ 0.08 per share (the "Series B Preferred Shares"), a newly designated series of our preferred stock to Time Warner Media Holdings B.V. ("TW Investor"), an affiliate of Time Warner Inc., for an aggregate purchase price of US\$ 200.0 million.

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The initial stated value of the Series B Preferred Shares of \$1,000 per share will accrete at an annual rate of 7.5%, compounded quarterly, from (and including) the date of issuance to (but excluding) the third anniversary of the date of issuance, and at an annual rate of 3.75%, compounded quarterly, from (and including) the third anniversary of the date of issuance to (but excluding) the fifth anniversary of the date of issuance. We have the right from the third anniversary of the date of issuance to pay cash to the holder in lieu of any further accretion. From the third anniversary of the date of issuance, each Series B Preferred Share may, at the holder's option, be converted into the number of shares of our Class A common stock determined by dividing (i) the accreted stated value plus accrued but unpaid dividends, if any, in each case as of the conversion date, by (ii) the conversion price, which was US\$ 3.1625 at the date of issuance but is subject to adjustment from time to time pursuant to customary weighted-average anti-dilution provisions with respect to our issuances of equity or equity-linked securities at a price below the then-applicable conversion price (excluding any securities issued under our benefit plans at or above fair market value). We have the right to redeem the Series B Preferred Shares in whole or in part from the third anniversary of the date of issuance, upon 30 days' written notice. The redemption price of each outstanding Series B Preferred Share is equal to its accreted stated value plus accrued but unpaid dividends, if any, in each case as of the redemption date specified in the redemption notice. After receipt of a redemption notice, each holder of Series B Preferred Shares will have the right to convert, prior to the date of redemption, all or part of such Series B Preferred Shares to be redeemed by us into shares of our Class A common stock in accordance with the terms of conversion described above. Holders of the Series B Preferred Shares will have no voting rights on any matter presented to holders of any class of our capital stock, with the exception that they may vote with holders of shares of our Class A common stock (i) with respect to a change of control event or (ii) as provided by our Bye-laws or applicable Bermuda law. Holders of Series B Preferred Shares will participate in any dividends declared or paid on our Class A common stock on an as-converted basis. The Series B Preferred Shares will rank pari passu with our Series A Convertible Preferred Stock and senior to all other equity securities of the Company in respect of payment of dividends and distribution of assets upon liquidation. The Series B Preferred Shares have such other rights, powers and preferences as are set forth in the Certificate of Designation for the Series B Preferred Shares.

We concluded that the Series B Preferred Shares were not considered a liability and that the embedded conversion feature in the Series B Preferred Shares was clearly and closely related to the host contract and therefore did not need to be bifurcated. The Series B Preferred Shares are required to be classified outside of permanent equity because such shares can be redeemed for cash in certain circumstances. These shares are not currently redeemable and thus have been recorded on the condensed consolidated balance sheet based on fair value at the time of issuance. We have determined that it is probable that the Series B Preferred Shares will become redeemable and thus have accreted changes in the redemption value since issuance. For the three and six months ended June 30, 2013 we recognized US\$ 0.2 million related to accretion on the Series B Preferred Shares.

### **13. EQUITY**

#### *Preferred Stock*

5,000,000 shares of Preferred Stock were authorized as at June 30, 2013 and December 31, 2012.

One share of Series A Preferred Stock (the "Series A Preferred Share") was issued and outstanding as at June 30, 2013 and December 31, 2012. The Series A Preferred Share is expected to convert into 11,211,449 shares of Class A common stock in August 2013 following the termination on June 18, 2013 of the Irrevocable Voting Deed and Corporate Representative Appointment among TW Investor, RSL Savannah, LLC, Ronald S. Lauder and the Company, dated May 18, 2009, as amended by a Letter Agreement dated April 29, 2013 (the "Voting Agreement"). The Series A Preferred Share is entitled to one vote per each share of Class A common stock into which it is convertible and has such other rights, powers and preferences, including potential adjustments to the number of shares of Class A common stock to be issued, as are set forth in the Certificate of Designation of the Series A Preferred Share.

200,000 shares of Series B Preferred Stock were issued and outstanding as at June 30, 2013 (see Note 12, "Convertible Redeemable Preferred Shares"). Assuming conversion three years from issuance and no adjustments to the conversion price under the Certificate of Designations for the Series B Preferred Shares, TW Investor would be issued 79.0 million shares of Class A common stock.

#### *Class A and Class B Common Stock*

300,000,000 and 200,000,000 shares of Class A common stock were authorized as at June 30, 2013 and December 31, 2012, respectively, and 15,000,000 shares of Class B common stock were authorized as at June 30, 2013 and December 31, 2012. 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. Shares of Class B common stock are convertible into shares of Class A common stock on a one-for-one basis for no additional consideration. 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 holders of our common stock. Under our bye-laws, 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 May 8, 2013, we issued and sold pursuant to a public offering 54,436,582 shares of our Class A common stock at a price of US\$ 2.75 per share, including 27,163,854 shares of Class A common stock sold to TW Investor in connection with its preexisting contractual right to purchase 49.9% of the number of shares of Class A common stock sold in the public offering. On May 10, 2013, the underwriters exercised their option to purchase an additional 2,696,349 shares of Class A common stock, including 1,345,478 shares acquired by TW Investor pursuant to its preexisting contractual right. The net proceeds to the Company from these offerings were approximately US\$ 151.7 million.

There were 134.4 million and 77.2 million shares of Class A common stock outstanding at June 30, 2013 and December 31, 2012, respectively, and no shares of Class B common stock outstanding at June 30, 2013 and December 31, 2012.

TW Investor owns 45.7% of the outstanding shares of Class A common stock and has a 49.9% voting interest in the Company due to its ownership of the Series A Preferred Share.

Warrants to purchase up to 600,000 and 250,000 shares of Class A common stock for a six-year period terminating December 2015 at a price of US\$ 21.75 per share, are held by Alerria Management Company S.A. and Metrodome B.V., respectively, each of which is controlled by Adrian Sarbu, our President and Chief Executive Officer and a member of our Board of Directors.

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**14. RESTRUCTURING COSTS**

In the first quarter of 2013, the Company changed the composition of its operating segments. From January 1, 2013, the Broadcast, Media Pro Entertainment and New Media operating segments were reorganized to streamline central resources and create six new operating segments: Bulgaria, Croatia, the Czech Republic, Romania, the Slovak Republic and Slovenia. In connection with this change in segments, we have incurred restructuring costs to reorganize our businesses through these geographic segments. The restructuring charges are primarily related to employee termination benefits. We expect to incur additional restructuring charges in 2013 in connection with our organizational restructuring. Payments related to restructuring charges are expected to be substantially complete by the end of December 2013. Information relating to restructuring by type of cost is as follows:

	Employee Termination Costs		Other Exit Costs		Total
<b>BALANCE December 31, 2012</b>	\$	—	\$	—	\$ —
Costs incurred		4,549		149	4,698
Cash paid		(234)		—	(234)
Foreign currency movements		(5)		(1)	(6)
<b>BALANCE June 30, 2013</b>	\$	<b>4,310</b>	\$	<b>148</b>	\$ <b>4,458</b>

A summary of restructuring charges for the three and six months ended June 30, 2013 by operating segment is as follows:

	Employee Termination Costs		Other Exit Costs		Total
Bulgaria	\$	—	\$	—	\$ —
Croatia		—		—	—
Czech Republic		460		59	519
Romania		—		—	—
Slovak Republic		204		—	204
Slovenia		412		—	412
Corporate		3,473		90	3,563
<b>Total</b>	\$	<b>4,549</b>	\$	<b>149</b>	\$ <b>4,698</b>

**15. INTEREST EXPENSE**

Interest expense comprised the following for the three and six months ended June 30, 2013 and 2012:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Interest on Senior Notes	\$ 24,930	\$ 19,981	\$ 50,413	\$ 41,173
Interest on Convertible Notes	3,263	4,077	6,675	8,475
Interest on capital leases and other financing arrangements	162	1,716	305	3,170
	28,355	25,774	57,393	52,818
Amortization of capitalized debt issuance costs	1,146	6,945	2,290	8,167
Amortization of debt issuance discount and premium, net	1,687	(1,590)	3,523	1,968
	2,833	5,355	5,813	10,135
<b>Total interest expense</b>	\$ <b>31,188</b>	\$ <b>31,129</b>	\$ <b>63,206</b>	\$ <b>62,953</b>

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**16. STOCK-BASED COMPENSATION**

7,500,000 shares have been authorized for issuance in respect of equity awards under our Amended and Restated Stock Incentive Plan (the "Plan"). Under the Plan, awards are made to employees at the discretion of the Compensation Committee and to directors pursuant to an annual automatic grant under the Plan or at the discretion of the Board of Directors.

The charge for stock-based compensation in our consolidated statements of operations was as follows:

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Stock-based compensation charged	\$ 1,186	\$ 1,004	\$ 2,180	\$ 2,091

*Stock Options*

A summary of option activity for the six months ended June 30, 2013 is presented below:

	<b>Shares</b>	<b>Weighted Average Exercise Price per Share</b>	<b>Weighted Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value</b>
<b>Outstanding at January 1, 2013</b>	<b>2,219,625</b>	<b>\$ 31.51</b>	<b>4.06</b>	<b>\$ —</b>
Exchanged	(1,618,000)	31.54		
Forfeited	(55,875)	38.46		
Expired	(70,000)	51.45		
<b>Outstanding at June 30, 2013</b>	<b>475,750</b>	<b>\$ 27.67</b>	<b>1.93</b>	<b>\$ —</b>
Vested or expected to vest	475,750	27.67	1.93	—
<b>Exercisable at June 30, 2013</b>	<b>475,750</b>	<b>\$ 27.67</b>	<b>1.93</b>	<b>\$ —</b>

At the annual general meeting of CME Ltd. held on June 13, 2012, the shareholders approved an employee option exchange program whereby employees would be given the opportunity to exchange certain outstanding stock options for a lesser number of restricted stock units ("RSUs"). The exchange program was completed on June 25, 2013, and 1,618,000 outstanding stock options were exchanged for 545,136 RSUs pursuant to the exchange program. The unrecognized compensation expense related to the exchanged options is being recognized ratably of the requisite service period of the replacement RSUs.

The fair value of stock options is estimated on the grant date using the Black-Scholes option-pricing model and recognized ratably over the requisite service period.

The aggregate intrinsic value (the difference between the stock price on the last day of trading of the first quarter of 2013 and the exercise prices multiplied by the number of in-the-money options) represents the total intrinsic value that would have been received by the option holders had they exercised all in-the-money options as at June 30, 2013. This amount changes based on the fair value of our Class A common stock. As at June 30, 2013, there was no unrecognized compensation expense related to stock options.

*Restricted Stock Units*

Pursuant to the Plan, we may grant RSUs to our employees and non-employee directors. Each RSU represents a right to receive one share of Class A common stock of the Company for each RSU that vests in accordance with the vesting schedule, generally between one to four years from the date of grant. Upon vesting, shares of Class A common stock are issued from authorized but unissued shares. Holders of RSU awards are not entitled to receive cash dividend equivalents. The grant date fair value of RSUs is calculated as the closing price of shares of our Class A common stock on the date of grant. For certain awards with market conditions, the grant date fair value is calculated using a Monte Carlo simulation model. The Monte Carlo simulation model, requires the input of subjective assumptions, including the expected volatility of our common stock, interest rates, dividend yields and correlation coefficient between our common stock and the relevant market index.

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The following table summarizes information about unvested RSUs as at June 30, 2013:

	Number of Shares/Units	Weighted- Average Grant Date Fair Value
<b>Unvested at December 31, 2012</b>	<b>584,000</b>	<b>\$ 5.61</b>
Granted	670,500	2.60
Granted - option exchange program	545,136	3.27
Vested	(235,500)	5.48
Forfeited	(76,250)	4.81
<b>Unvested at June 30, 2013</b>	<b>1,487,886</b>	<b>\$ 3.46</b>

As at June 30, 2013, the intrinsic value of unvested RSUs was US\$ 4.9 million. Total unrecognized compensation expense related to unvested RSUs as at June 30, 2013 was US\$ 6.8 million and is expected to be recognized over a weighted-average period of 3.2 years.

**17. EARNINGS PER SHARE**

We determined that the Series B Preferred Shares are a participating security, and accordingly, our basic and diluted net income / loss per share is calculated using the two-class method. Under the two-class method, basic net income / loss per common share is computed by dividing the net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted net income / loss per share is computed by dividing the adjusted net income by the weighted-average number of dilutive shares outstanding during the period.

The components of basic and diluted earnings per share are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net (loss) / income attributable to CME Ltd.</b>				
Net (loss) / income	\$ (40,957)	\$ 3,956	\$ (149,238)	\$ (9,436)
Less: preferred dividend paid-in-kind	247	—	247	—
Net (loss) / income attributable CME Ltd. - Basic	\$ (41,204)	\$ 3,956	\$ (149,485)	\$ (9,436)
<b>Effect of dilutive securities</b>				
Preferred dividend paid-in-kind	(247)	—	(247)	—
Net (loss) / income attributable to CME Ltd. - Diluted	\$ (40,957)	\$ 3,956	\$ (149,238)	\$ (9,436)
<b>Weighted average outstanding shares of common stock - basic <sup>(1)</sup></b>	122,115	66,501	105,349	65,447
Dilutive effect of employee stock options and RSUs	—	31	—	—
<b>Weighted average outstanding shares of common stock - diluted</b>	122,115	66,532	105,349	65,447
<b>Net (loss) / income per share:</b>				
Basic	\$ (0.34)	\$ 0.06	\$ (1.42)	\$ (0.14)
Diluted	\$ (0.34)	\$ 0.06	\$ (1.42)	\$ (0.14)

(1) For the purpose of computing basic earnings per share, the 11,211,449 shares of Class A common stock underlying the Series A Preferred Share are included in the weighted average outstanding shares of common stock - basic, primarily because the holder of the Series A Preferred Share is entitled to receive any dividends payable when dividends are declared by the Board of Directors with respect to any shares of common stock.

At June 30, 2013, 3,309,603 (December 31, 2012: 3,087,087) stock options, warrants and RSUs were antidilutive to income from continuing operations and excluded from the calculation of earnings per share. These may become dilutive in the future. Shares of Class A common stock potentially issuable under our 2015 Convertible Notes may also become dilutive in the future, although they were antidilutive to income at June 30, 2013.

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**18. SEGMENT DATA**

In the first quarter of 2013, the Company changed the composition of its operating segments. From January 1, 2013, we manage our business on a geographical basis, with six operating segments: Bulgaria, Croatia, the Czech Republic, Romania, the Slovak Republic and Slovenia, which are also our reportable segments and our main operating countries. These new operating segments reflect how CME Ltd.'s operations are managed by segment managers, how operating performance within the Company is evaluated by senior management and the structure of our internal financial reporting. We have recast all prior periods presented in this Note 18 to conform to the new segment presentation. The change in composition of our operating segments had no impact on previously reported consolidated net revenues or consolidated net income / loss for the three and six months ended June 30, 2012.

Our segments generate revenues primarily from the sale of advertising and sponsorship on our channels. This is supplemented by revenues from cable and satellite television service providers to carry our channels on their platforms. The segments also generate third party revenues through the sale of broadcast and distribution rights to third parties, the sale of DVD and Blu-ray discs to wholesale and retail clients primarily in Romania and the Czech Republic, display and video advertising on our websites, and subscriptions on Voyo.

We evaluate the performance of our segments based on net revenues and OIBDA. OIBDA, which includes program rights amortization costs, is determined as operating income / loss before depreciation, amortization of intangible assets and impairments of assets. Items that are not allocated to our segments for purposes of evaluating their performance and therefore are not included in their OIBDA, include stock-based compensation and certain other items.

Our key performance measure of the efficiency of our segments is OIBDA margin. OIBDA margin is the ratio of OIBDA to net revenues.

We believe OIBDA 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 operations. OIBDA is also used as a component in determining management bonuses. Intersegment revenues and profits have been eliminated in consolidation.

OIBDA may not be comparable to similar measures reported by other companies.

Below are tables showing our net revenues, OIBDA, total assets, capital expenditures and long-lived assets by segment for the three and six months ended June 30, 2013 and 2012 for condensed consolidated statements of operations and comprehensive income data and as at June 30, 2013 and December 31, 2012 for condensed consolidated balance sheet data:

Net revenues:	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Bulgaria	\$ 24,245	\$ 22,955	\$ 40,669	\$ 42,286
Croatia	17,796	16,858	29,889	29,737
Czech Republic	45,690	76,853	82,491	135,811
Romania	54,030	51,777	96,061	95,128
Slovak Republic	22,000	24,590	38,923	43,962
Slovenia	18,724	20,903	33,200	36,427
Intersegment revenues <sup>(1)</sup>	(2,240)	(2,714)	(3,946)	(4,696)
<b>Total net revenues</b>	<b>\$ 180,245</b>	<b>\$ 211,222</b>	<b>\$ 317,287</b>	<b>\$ 378,655</b>

(1) Reflects revenues earned from the sale of content to other country segments in CME. All other revenues are third party revenues.

OIBDA:	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Bulgaria	\$ 3,931	\$ 3,376	\$ 1,504	\$ 2,155
Croatia	4,176	5,391	3,569	6,959
Czech Republic	171	31,403	(6,519)	54,667
Romania	7,959	9,476	8,918	10,628
Slovak Republic	(556)	2,371	(4,124)	1,873
Slovenia	4,235	6,083	6,072	8,853
Elimination	362	(158)	368	(636)
<b>Total operating segments</b>	<b>20,278</b>	<b>57,942</b>	<b>9,788</b>	<b>84,499</b>
Corporate	(13,229)	(10,830)	(23,404)	(23,327)
<b>Total OIBDA</b>	<b>\$ 7,049</b>	<b>\$ 47,112</b>	<b>\$ (13,616)</b>	<b>\$ 61,172</b>

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**Reconciliation to consolidated statements of operations and comprehensive income:**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Total OIBDA</b>	\$ 7,049	\$ 47,112	\$ (13,616)	\$ 61,172
Depreciation of property, plant and equipment	(8,949)	(10,747)	(19,183)	(22,627)
Amortization of intangible assets	(3,769)	(12,715)	(7,869)	(25,198)
<b>Operating (loss) / income</b>	<b>(5,669)</b>	<b>23,650</b>	<b>(40,668)</b>	<b>13,347</b>
Interest expense, net	(31,059)	(30,958)	(62,895)	(62,568)
(Loss) / gain on extinguishment of debt	(23,115)	448	(23,115)	448
Foreign currency exchange gain / (loss), net	15,117	(40,312)	(34,757)	(16,918)
Change in fair value of derivatives	—	47,398	104	48,325
Other (expense) / income	(451)	(158)	(487)	51
Credit for income taxes	4,089	3,073	11,767	6,643
<b>Net (loss) / income</b>	<b>\$ (41,088)</b>	<b>\$ 3,141</b>	<b>\$ (150,051)</b>	<b>\$ (10,672)</b>

**Total assets<sup>(1)</sup>:**

	June 30, 2013	December 31, 2012
Bulgaria	\$ 211,556	\$ 230,563
Croatia	73,664	68,205
Czech Republic	982,507	1,040,371
Romania	458,672	465,417
Slovak Republic	160,905	160,866
Slovenia	118,907	119,497
<b>Total operating segments</b>	<b>2,006,211</b>	<b>2,084,919</b>
Corporate	94,108	89,796
<b>Total assets</b>	<b>\$ 2,100,319</b>	<b>\$ 2,174,715</b>

(1) Segment assets exclude any intercompany balances.

**Capital Expenditures:**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Bulgaria	\$ 356	\$ 665	\$ 650	\$ 1,455
Croatia	232	127	734	637
Czech Republic	923	669	5,590	3,150
Romania	746	958	2,178	2,385
Slovak Republic	571	273	988	753
Slovenia	695	525	2,224	1,813
<b>Total operating segments</b>	<b>3,523</b>	<b>3,217</b>	<b>12,364</b>	<b>10,193</b>
Corporate	1,055	784	2,444	1,147
<b>Total capital expenditures</b>	<b>\$ 4,578</b>	<b>\$ 4,001</b>	<b>\$ 14,808</b>	<b>\$ 11,340</b>

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Long-lived assets <sup>(1)</sup> :	June 30, 2013	December 31, 2012
Bulgaria	\$ 12,906	\$ 13,796
Croatia	5,852	7,267
Czech Republic	47,583	51,673
Romania	79,715	84,505
Slovak Republic	19,586	21,315
Slovenia	20,549	23,146
<b>Total operating segments</b>	<b>186,191</b>	<b>201,702</b>
Corporate	6,688	5,004
<b>Total long-lived assets</b>	<b>\$ 192,879</b>	<b>\$ 206,706</b>

(1) Reflects property, plant and equipment.

Revenue by type:	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Television advertising	\$ 140,758	\$ 170,157	\$ 243,150	\$ 304,356
Carriage fees and subscriptions	13,646	10,808	26,692	20,898
Other	25,841	30,257	47,445	53,401
<b>Total net revenues</b>	<b>\$ 180,245</b>	<b>\$ 211,222</b>	<b>\$ 317,287</b>	<b>\$ 378,655</b>

**19. COMMITMENTS AND CONTINGENCIES**

**Commitments**

*a) Programming Rights Agreements and Other Commitments*

At June 30, 2013, we had total commitments of US\$ 292.9 million (December 31, 2012: US\$ 356.8 million) in respect of future programming, including contracts signed with license periods starting after the balance sheet date. These are presented with future minimum operating lease payments for non-cancellable operating leases with remaining terms in excess of one year (net of amounts to be recharged to third parties) and other commitments as follows:

	Programming purchase obligations	Digital transmission obligations	Operating leases	Capital expenditures
2013	\$ 139,823	\$ 29,683	\$ 3,248	\$ 4,406
2014	78,847	20,302	4,051	1,087
2015	46,716	19,614	2,080	34
2016	22,070	10,002	1,680	—
2017	5,109	9,929	1,611	—
2018 and thereafter	300	37,576	9,639	—
<b>Total</b>	<b>\$ 292,865</b>	<b>\$ 127,106</b>	<b>\$ 22,309</b>	<b>\$ 5,527</b>

*b) Factoring of Trade Receivables*

CET21 has a CZK 830 million (approximately US\$ 41.8 million) factoring framework agreement with FCS. Under this facility up to CZK 830 million (approximately US\$ 41.8 million) may be factored on a recourse or non-recourse basis. As at June 30, 2013, there were CZK 166.3 million (approximately US\$ 8.4 million) (December 31, 2012: CZK 132.4 million, approximately US\$ 6.7 million based on June 30, 2013 rates), of receivables subject to the factoring framework agreement (see also Note 4, "Long-term Debt and Other Financing Arrangements" and Note 6, "Accounts Receivable").

*c) Other*

Top Tone Holdings has exercised its right to acquire additional equity in CME Bulgaria, however the closing of this transaction has not yet occurred because the purchaser financing is still pending. Upon consummation of the equity transfer, we will own 90.0% of our Bulgaria operations.

On February 14, 2013, CET 21 issued a guarantee to a third party supplier pursuant to which CET 21 will reimburse certain costs incurred by the third party, up to CZK 60 million (approximately US\$ 3.0 million), in the event that the contract with that third party is terminated prior to 2018. We do not expect the contract to be terminated.

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

**Contingencies**

*a) Litigation*

While we are, from time to time, a party to litigation, arbitration or regulatory proceedings arising in the normal course of our business operations, we are not presently a party to any such litigation, arbitration or regulatory proceeding which could reasonably be expected to have a material effect on our business or consolidated financial statements, including proceedings described below.

*Video International Termination*

On March 18, 2009, Video International Company Group, CGSC ("VI"), a Russian legal entity, filed a claim in the London Court of International Arbitration ("LCIA") against our wholly-owned subsidiary CME BV, which was, at the time the claim was filed, the principal holding company of our former Ukrainian operations. The claim relates to the termination of an agreement between VI and CME BV dated November 30, 2006 (the "parent agreement"), which was one of four related contracts by which VI subsidiaries, including LLC Video International-Prioritet ("Prioritet"), supplied advertising and marketing services to Studio 1+1 LLC ("Studio 1+1") and certain affiliates. Following the termination of these agreements on March 24, 2009, Studio 1+1 was required to pay a termination penalty. On June 1, 2009, Studio 1+1 paid UAH 13.5 million (approximately US\$ 1.6 million) to Prioritet and set off UAH 7.4 million (approximately US\$ 0.9 million) against amounts owing to Studio 1+1 under the advertising and marketing services agreements. In its LCIA claim, VI sought payment of a separate indemnity from CME BV under the parent agreement of US\$ 58.5 million. On September 30, 2010, a partial award was issued in the arbitration proceedings, pursuant to which VI's claim for relief in the amount of US\$ 58.5 million was dismissed. The partial award does permit VI to bring a subsequent claim against CME BV as parent guarantor in the event that VI establishes that it is entitled to certain additional compensation under the advertising and marketing services agreements with Studio 1+1 and that such compensation is not satisfied by Studio 1+1. On July 13, 2011, Prioritet filed claims against Studio 1+1 in the Commercial Court of Kiev relating to alleged violations of the advertising services agreement and marketing services agreement and sought relief of approximately UAH 201.0 million (approximately US\$ 24.5 million). On September 23, 2011, the Commercial Court of Kiev dismissed Prioritet's claims. On November 7, 2011, the Commercial Court of Appeal of Kiev dismissed an appeal by Prioritet of the lower court's decision. On December 13, 2011, the Superior Commercial Court of Ukraine dismissed an appeal of Prioritet following the decision of the appellate court. On June 5, 2012, the Superior Commercial Court of Ukraine denied Prioritet's request to appeal to the Supreme Court of Ukraine. On June 18, 2012, Prioritet filed a claim against Studio 1+1 in the Commercial Court of Kiev that alleges violations of one of the advertising and marketing services agreements and seeks relief of approximately UAH 42.3 million (approximately US\$ 5.2 million). On September 7, 2012, the Commercial Court of Kiev dismissed Prioritet's claims. On October 31, 2012, the Commercial Court of Appeal of Kiev dismissed Prioritet's appeal of the lower court's decision. On March 26, 2013, the Superior Commercial Court of Ukraine denied an appeal by Prioritet following the decision of the appellate court. In addition, on September 28, 2012, VI filed a further claim in the LCIA against CME BV, alleging CME BV owes approximately US\$ 4.0 million under the partial award as an indemnity payment VI claims Prioritet is owed from Studio 1+1 in connection with the termination of the advertising and marketing services agreements between Studio 1+1 and Prioritet. On May 15, 2013, a final award was issued in the arbitration proceedings, pursuant to which VI's claim of approximately US\$ 4.0 million was dismissed. This award is not subject to appeal.

*Slovenian Competition Proceeding*

On April 26, 2013 the Competition Protection Agency of the Republic of Slovenia ("CPA") adopted a decision finding that our wholly-owned subsidiary Produkcija Plus d.o.o. ("Pro Plus") has abused a dominant position on the Slovenian television advertising market in breach of applicable competition law, by requiring exclusivity from its advertising customers and by applying loyalty discounts in favor of its customers. Pro Plus intends vigorously to contest the decision and filed an appeal with the Slovenian Supreme Court on May 24, 2013. To date, the CPA has not imposed any fine on Pro Plus. The CPA would need to commence a separate proceeding in order to impose a fine, and any fine that may be imposed would be subject to a statutory maximum of ten percent of Pro Plus' annual turnover in the business year preceding the year in which a fine is imposed. No such proceedings have been commenced, and Pro Plus is currently unable to estimate the timing of any such proceeding. Pro Plus is also unable to estimate the size of any potential future fine.

*b) 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 5.0%) be allocated to a reserve, which reserve is capped at a proportion of the registered capital of a company (ranging from 5.0% to 25.0%). The restricted net assets of our consolidated subsidiaries and equity in earnings of investments accounted for under the equity method together are less than 25.0% of consolidated net assets.

**20. RELATED PARTY TRANSACTIONS**

**Overview**

There is a limited local market for many specialty broadcasting and production services in the countries in which we operate; many of these services are provided by parties known to be connected to our local shareholders, members of our management and board of directors or our equity investees. 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 continue to review all of these arrangements.

**Related Party Groups**

We consider our related parties to be those shareholders who have direct control and/or influence and other parties that can significantly influence management as well as our officers and directors; a "connected" party is one in relation to whom we are aware of the existence of a family or business connection to a shareholder, director or officer. We have identified transactions with individuals or entities associated with the following individuals or entities as material related party transactions: Time Warner, who is represented on our Board of Directors and holds a 49.9% voting interest in CME Ltd. as at June 30, 2013; and Adrian Sarbu, our President and Chief Executive Officer, a member of our Board of Directors and beneficial owner of approximately 1.8% of our outstanding shares of Class A common stock as at June 30, 2013.

**CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.**  
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 (Tabular amounts in US\$ 000's, except per share data)  
 (Unaudited)

**Related Party Transactions**

**Time Warner**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Purchases of programming	\$ 20,611	\$ 16,052	\$ 35,442	\$ 24,257
Sales	19	67	60	167
			<b>June 30, 2013</b>	<b>December 31, 2012</b>
Programming liabilities			\$ 68,127	\$ 52,863
Accounts receivable, gross			275	119

**Adrian Sarbu**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Purchases of services	\$ 860	\$ 872	\$ 1,830	\$ 1,962
Sales	500	240	1,000	601
			<b>June 30, 2013</b>	<b>December 31, 2012</b>
Accounts payable			\$ 564	\$ 809
Accounts receivable, gross			1,705	1,770

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

As used herein, the term "2016 Fixed Rate Notes" refers to our 11.625% senior notes due 2016; the term "2017 Fixed Rate Notes" refers to the 9.0% senior secured notes due 2017 issued by our wholly owned subsidiary, CET 21 spol. s r.o. ("CET 21"); the term "Senior Notes" refers collectively to the 2016 Fixed Rate Notes and 2017 Fixed Rate Notes; the term "2015 Convertible Notes" refers to our 5.0% senior convertible notes due 2015, the term "2013 Convertible Notes" refers to our previously outstanding 3.5% senior convertible notes due 2013 and the term "Convertible Notes" refers collectively to the 2013 Convertible Notes and the 2015 Convertible Notes. The term "Time Warner" refers to Time Warner Inc. The term "TW Investor" refers to Time Warner Media Holdings B.V.

The exchange rates used in this report are as at June 30, 2013, unless otherwise indicated.

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- IV. Liquidity and Capital Resources**
- V. Critical Accounting Policies and Estimates**

**I. Forward-looking Statements**

*This report contains forward-looking statements, including those relating to our capital needs, business strategy, expectations and intentions. Statements that use the terms "believe", "anticipate", "trend", "expect", "plan", "estimate", "forecast", "intend" and similar expressions of a future or forward-looking nature identify forward-looking statements for purposes of the U.S. federal securities laws or otherwise. 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. Forward-looking statements reflect our current views with respect to future events and because our business is subject to such risks and uncertainties, actual results, our strategic plan, our financial position, results of operations and cash flows could differ materially from those described in or contemplated by the forward-looking statements contained in this report.*

*Important factors that contribute to such risks include, but are not limited to, those factors set forth under "Risk Factors" as well as the following: the effect of the economic downturn and Eurozone instability in our markets and the extent and timing of any recovery; our success in implementing our initiatives to diversify and enhance our revenue streams; our ability to access external sources of capital in light of our current significant liquidity constraints; decreases in TV advertising spending and the rate of development of the advertising markets in the countries in which we operate; the extent to which our debt service obligations restrict our business; our ability to make cost-effective investments in television broadcast operations, including investments in programming; our ability to develop and acquire necessary programming and attract audiences; changes in the political and regulatory environments where we operate and application of relevant laws and regulations; and the timely renewal of broadcasting licenses and our ability to obtain additional frequencies and licenses. The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included in this report. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise.*

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and notes included elsewhere in this report.

## II. Overview

Central European Media Enterprises Ltd. ("CME Ltd.") is a media and entertainment company operating mainly in six countries in Central and Eastern Europe. From January 1, 2013, we manage our business on a geographical basis with six operating segments: Bulgaria, Croatia, the Czech Republic, Romania, the Slovak Republic and Slovenia. These operating segments, which are also our reportable segments, reflect how our operations are managed by segment managers, how our operating performance is evaluated by senior management and the structure of our internal financial reporting. We have changed our presentation of certain components of our operating expenses to better reflect how cost centers are managed under our new operating model, with no impact on consolidated operating loss or cash flows. The change in our reportable segments has been reflected in Item 1, Note 18, "Segment Data", as well as in the tables below, and the corresponding information for comparable periods has been recast to conform to the current period presentation. The change in composition of our operating segments had no impact on previously reported consolidated net revenues or consolidated net income / loss for the three and six months ended June 30, 2012.

We evaluate the performance of our segments based on Net Revenues and OIBDA. OIBDA, which includes program rights amortization costs, is determined as operating income / loss before depreciation, amortization of intangible assets and impairments of assets. Items that are not allocated to our segments for purposes of evaluating their performance and therefore are not included in their OIBDA, include stock-based compensation and certain other items.

Our key performance measure of the efficiency of our segments is OIBDA margin. We define OIBDA margin as the ratio of OIBDA to Net Revenues. We believe OIBDA is useful to investors because it provides a meaningful representation of our performance as it excludes certain items that either do not impact our cash flows or the operating results of our operations. OIBDA is also used as a component in determining management bonuses. Intersegment revenues and profits have been eliminated on consolidation.

OIBDA and free cash flow, as defined below, may not be comparable to similar measures reported by other companies. Non-GAAP financial measures should be evaluated in conjunction with, and are not a substitute for, US GAAP financial measures. For additional information regarding our business segments, see Item 1, Note 18, "Segment Data".

The following analysis contains references to like-for-like or constant currency percentage movements ("Lfl"). These references reflect the impact of applying the current period average exchange rates to the prior period revenues and costs. Given the significant movement of the currencies in the markets in which we operate against the dollar, we believe that it is useful to provide percentage movements based on like-for-like or constant currency percentage movements as well as actual percentage movements ("Act") (which includes the effect of foreign exchange). Unless otherwise stated, all percentage increases or decreases in the following analysis refer to year-on-year percentage changes between the three and six months ended June 30, 2013 and June 30, 2012.

### *Executive Summary*

During the three months ended June 30, 2013 we made significant progress on our four priorities for 2013: improving product performance and audience shares, achieving advertising and carriage fee price increases, reducing costs through our operating model optimization and securing additional liquidity to deleverage and support our pricing initiatives.

Our strategy to increase audience shares by investing in local content and additional channels has been successful, particularly in the Czech Republic, where our combined prime-time audience share during the second quarter increased to 43% compared to 38% for the same period in 2012. We also maintained our leading audience shares in our other countries and expect this to facilitate the implementation of our new pricing policies because we can provide the reach for advertisers that our competitors can not.

We were successful in increasing advertising prices in our markets as a first step toward reversing the trend of falling advertising spending. In five out of the six countries in which we operate, we have signed annual commitments with advertisers that provide for single digit price increases when compared to 2012 levels and the level of commitments as a percentage of annual spend signed in each of these markets is comparable to that which we agreed in the prior year. In the Czech Republic, we secured double digit increases in advertising prices on a percentage basis compared to the price levels of 2012. A majority of CET 21's client portfolio accepted these price increases by the end of the first half of 2013. However, certain advertisers and media agencies have continued to push for a decrease in their advertising spending and in our advertising prices. This contributed to a decrease in the television advertising market in the Czech Republic in the first six months of 2013 of 14% compared to the same period in 2012. Consequently, our revenues and earnings were significantly impacted during the first six months of 2013 as advertisers either redirected advertising spending to our main competitor or withheld spending altogether in an attempt to pressure us to abandon our double digit price increase. We continue to believe the response by the advertisers is temporary because advertising campaigns built on limited reach will not be successful. Further, commitments signed recently from some of our largest clients indicate that our increased prices are being accepted. Getting the right value for our products is critical because it enables us to invest more in premium quality local programming and thus provide advertisers with a better audience profile.

We were successful in convincing carriers in Bulgaria and Romania distributing our channels on their platforms, including satellite, cable and IPTV, that we should be paid higher fees due to the strength of our products. We concluded agreements in Bulgaria that doubled carriage fees there during the second quarter of 2013 compared to that of 2012. We also recently agreed new multi-year contracts in Romania with rate increases that better reflect the value those carriers are deriving from transmitting our channels. Paying us more for our channels is in the long-term interest of the carriers because it allows us to invest in higher quality local content that their subscribers want to watch.

During the second quarter we implemented the first phase of our new operating model, which will help us to improve product performance with a more efficient cost base. As a result, we incurred restructuring costs of US\$ 4.7 million in the second quarter, principally relating to employee terminations.

We completed public and private equity offerings during the second quarter of 2013 raising net proceeds of approximately US\$ 352 million to strengthen our cash reserves and enable us to continue supporting our pricing initiatives, invest in local content and deleverage. We subsequently used US\$ 300.0 million of the proceeds to repurchase in private transactions EUR 205.6 million (approximately US\$ 270.0 million at the transaction date) aggregate principal amount of our 2016 Fixed Rate Notes plus premium and accrued interest (see IV(d) Cash Outlook). Following these repurchases, EUR 273.0 million (approximately US\$ 357.0 million) aggregate principal amount of the 2016 Fixed Rate Notes remain outstanding.

### Market Information

The following table sets out our estimates of the year-on-year changes in real GDP, real private consumption and the television advertising market in our countries for the six months ended June 30, 2013:

Country	For the Six Months Ended June 30, 2013		
	Real GDP Growth	Real Private Consumption Growth	TV Ad Market Growth
Bulgaria	0.8 %	0.0 %	(5)%
Croatia	(1.5)%	(2.2)%	(5)%
Czech Republic	(2.4)%	(0.9)%	(14)%
Romania*	1.8 %	0.1 %	(4)%
Slovak Republic	0.8 %	(0.7)%	(5)%
Slovenia	(4.2)%	(4.7)%	(10)%
<b>Total CME Markets</b>	<b>(0.6)%</b>	<b>(1.0)%</b>	<b>(8)%</b>

Source: CME estimates based on market consensus for real GDP and real private consumption, and internal estimates for TV ad market growth. \*Romania market excludes Moldova.

Following a weak start driven by faltering confidence and a slowdown in exports, the economies of the countries in which we operate are projected to have stabilized in the first half of 2013. On-going fiscal consolidation will hold back economic activity in the countries in which we operate, but private consumption will pick up if consumer confidence improves.

We estimate that the TV advertising markets in our countries have decreased by 8% in the first six months of 2013 compared to the previous year. The most significant decrease is in the Czech Republic where, due to our pricing initiatives described above, the market is estimated to have decreased by 14%. The decrease in Slovenia is attributable to recent banking sector problems and political instability. The decrease in Bulgaria for the six months is largely the result of our pricing initiatives regarding carriage fees which led one carrier to switch off our channels for three weeks in January, partially offset by additional spending on political advertising during the second quarter.

### Segment Performance

Our total Net Revenues and OIBDA by segment is as follows:

	NET REVENUES			
	For the Three Months Ended June 30, (US\$ 000's)			
			Movement	
	2013	2012	% Act	% Lfl
Bulgaria	\$ 24,245	\$ 22,955	5.6 %	4.4 %
Croatia	17,796	16,858	5.6 %	4.9 %
Czech Republic	45,690	76,853	(40.5)%	(39.7)%
Romania	54,030	51,777	4.4 %	2.4 %
Slovak Republic	22,000	24,590	(10.5)%	(11.4)%
Slovenia	18,724	20,903	(10.4)%	(11.3)%
Intersegment revenues	(2,240)	(2,714)	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>
<b>Total net revenues</b>	<b>\$ 180,245</b>	<b>\$ 211,222</b>	<b>(14.7)%</b>	<b>(15.0)%</b>

	NET REVENUES			
	For the Six Months Ended June 30, (US\$ 000's)			
			Movement	
	2013	2012	% Act	% Lfl
Bulgaria	\$ 40,669	\$ 42,286	(3.8)%	(4.1)%
Croatia	29,889	29,737	0.5 %	0.6 %
Czech Republic	82,491	135,811	(39.3)%	(37.9)%
Romania	96,061	95,128	1.0 %	0.7 %
Slovak Republic	38,923	43,962	(11.5)%	(11.6)%
Slovenia	33,200	36,427	(8.9)%	(9.1)%
Intersegment revenues	(3,946)	(4,696)	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>
<b>Total net revenues</b>	<b>\$ 317,287</b>	<b>\$ 378,655</b>	<b>(16.2)%</b>	<b>(15.7)%</b>

(1) Number is not meaningful.

<b>OIBDA</b>					
<b>For the Three Months Ended June 30, (US\$ 000's)</b>					
<i>Movement</i>					
	<b>2013</b>	<b>2012</b>	<b>% Act</b>	<b>% Lfl</b>	
Bulgaria	\$ 3,931	\$ 3,376	16.4 %	12.6 %	
Croatia	4,176	5,391	(22.5)%	(22.9)%	
Czech Republic	171	31,403	(99.5)%	(99.4)%	
Romania	7,959	9,476	(16.0)%	(17.8)%	
Slovak Republic	(556)	2,371	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>	
Slovenia	4,235	6,083	(30.4)%	(31.3)%	
Eliminations	362	(158)	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>	
<b>Total operating segments</b>	<b>20,278</b>	<b>57,942</b>	<b>(65.0)%</b>	<b>(65.0)%</b>	
Corporate	(13,229)	(10,830)	(22.2)%	(23.4)%	
<b>Consolidated OIBDA</b>	<b>\$ 7,049</b>	<b>\$ 47,112</b>	<b>(85.0)%</b>	<b>(85.0)%</b>	

<b>OIBDA</b>					
<b>For the Six Months Ended June 30, (US\$ 000's)</b>					
<i>Movement</i>					
	<b>2013</b>	<b>2012</b>	<b>% Act</b>	<b>% Lfl</b>	
Bulgaria	\$ 1,504	\$ 2,155	(30.2)%	(30.3)%	
Croatia	3,569	6,959	(48.7)%	(48.5)%	
Czech Republic	(6,519)	54,667	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>	
Romania	8,918	10,628	(16.1)%	(16.3)%	
Slovak Republic	(4,124)	1,873	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>	
Slovenia	6,072	8,853	(31.4)%	(31.6)%	
Eliminations	368	(636)	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>	
<b>Total operating segments</b>	<b>9,788</b>	<b>84,499</b>	<b>(88.4)%</b>	<b>(88.2)%</b>	
Corporate	(23,404)	(23,327)	(0.3)%	(1.5)%	
<b>Consolidated OIBDA</b>	<b>\$ (13,616)</b>	<b>\$ 61,172</b>	<b>Nm <sup>(1)</sup></b>	<b>Nm <sup>(1)</sup></b>	

(1) Number is not meaningful.

Our financial results for the three and six months ended June 30, 2013 reflect the impact from the continued general lack of confidence in the growth of the economies in our region and the reduced consumption of GRPs in the Czech Republic in response to our pricing initiatives. On a constant currency basis, television advertising spending in our markets declined by 8% in the six months ended June 30, 2013, impacting our television advertising revenues.

We are committed to maintaining our leadership in audience and market shares across all of our countries, which provides us with a unique competitive advantage and is essential to achieving high operating leverage when our television advertising markets recover. To support this strategy, we launched two channels in the first three months of 2013: TELKA in the Czech Republic and FOOOR in the Slovak Republic.

Operating our businesses in a new model based on geographic segments will enable us to better execute our strategy of distributing our content on multiple distribution platforms and devices in a number of windows in each market.

### Bulgaria

Television advertising spending declined 5% in the six months ended June 30, 2013 compared to the prior year. The Bulgaria segment reported net revenues of US\$ 24.2 million and US\$ 40.7 million for the three and six months ended June 30, 2013, respectively, compared to US\$ 23.0 million and US\$ 42.3 million in the same periods in 2012, an increase of 6% and a decrease of 4%, respectively, on an actual basis. Our Bulgaria operations reported a decline in television advertising revenues in the six months ended June 30, 2013 primarily due to the impact of our negotiations with a major satellite operator in Bulgaria during the first three months of the year regarding our carriage fee revenues, which resulted in lower coverage and audience shares when transmission of our channels was suspended during these negotiations. Following the successful conclusion of the majority of our negotiations with the cable, satellite and IPTV operators in Bulgaria, our carriage fees doubled during the second quarter and more than offset the small decrease in television advertising and other revenues during the period.

Costs charged in arriving at OIBDA increased by 4% and decreased by 2% for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. On a constant currency basis, costs increased by 3% and decreased by 3% compared to the same periods in 2012 as an increase in bad debt expense during the second quarter more than offset a decrease in content costs during the first quarter.

Our Bulgaria segment reported OIBDA of US\$ 3.9 million and US\$ 1.5 million for the three and six months ended June 30, 2013, respectively compared to US\$ 3.4 million and US\$ 2.2 million in the same periods in 2012. On a constant currency basis, OIBDA increased 13% and decreased 30% compared to the same periods in 2012.

## **Croatia**

Television advertising spending declined 5% in the six months ended June 30, 2013 compared to the prior year. The Croatia segment reported net revenues of US \$ 17.8 million and US\$ 29.9 million for the three and six months ended June 30, 2013, respectively compared to US\$ 16.9 million and US\$ 29.7 million in the same periods in 2012, increases of 6% and 1% on an actual basis, or 5% and 1% on a constant currency basis, reflecting the increase in our advertising prices that more than offset a decrease in GRPs consumed.

Costs charged in arriving at OIBDA increased by 19% and 16% in the three and six months ended June 30, 2013, respectively compared to the same periods in 2012. On a constant currency basis costs increased 18% and 16% in 2013 compared to the same periods in 2012 primarily as a result of an increased investment in programming.

Our Croatia segment generated OIBDA of US\$ 4.2 million and US\$ 3.6 million for the three and six months ended June 30, 2013, respectively compared to US\$ 5.4 million and US\$ 7.0 million in the same periods in 2012, a decrease of US\$ 1.2 million and US\$ 3.4 million. On a constant currency basis, OIBDA decreased 23% and 49% compared to the same periods in 2012.

## **Czech Republic**

Our advertising pricing initiatives in the Czech Republic were met with significant resistance from certain media agencies and large multinational clients in the first half of the year. As a result of the decrease in GRPs consumed, the television advertising market in the Czech Republic is estimated to have decreased by 14% for the six months ended June 30, 2013 compared to the prior year. We believe that, based on the annual GRP consumption pattern in the Czech Republic, which has been broadly consistent over the last few years, advertisers held back some of their investments to pressure us to abandon our strategy to increase prices. Therefore, we believe the reduction in GRP consumption in the first half of this year is temporary as advertisers will look to increase the reach of their advertising campaigns during the remainder of the year, and particularly in the fall season where spending is highest. We recently concluded agreements with some of our largest advertisers in the Czech Republic and their spending commitments for the remainder of 2013 and into 2014 indicate that our new prices are being accepted.

The Czech Republic segment reported net revenues of US\$ 45.7 million and US\$ 82.5 million for the three and six months ended June 30, 2013 compared to US\$ 76.9 million and US\$ 135.8 million in the same periods in 2012, decreases of 41% and 39% on an actual basis, or 40% and 38% on a constant currency basis, reflecting resistance to the implementation of our pricing initiatives during the first half of 2013.

Costs charged in arriving at OIBDA increased for the three and six months ended June 30, 2013 by 0.2% and 10%, respectively compared to the same periods in 2012. On a constant currency basis costs increased 1% and 12% for the three and six months ended June 30, 2013, respectively compared to the same periods in 2012, reflecting the continuing investment in our audience through investment in locally-produced content and the launch of three new channels since July 2012.

Our Czech Republic segment reported OIBDA of US\$ 0.2 million and an OIBDA loss of US\$ 6.5 million for the three and six months ended June 30, 2013 compared to positive OIBDA of US\$ 31.4 million and US\$ 54.7 million in the same periods in 2012, decreases of US\$ 31.2 million and US\$ 61.2 million.

## **Romania**

Television advertising spending declined 4% in the six months ended June 30, 2013 compared to the prior year. Reported net revenues of the Romania segment were US\$ 54.0 million and US\$ 96.1 million for the three and six months ended June 30, 2013 compared to US\$ 51.8 million and US\$ 95.1 million in the same periods in 2012, an increase of 4% and 1% on an actual basis, or 2% and 1% on a constant currency basis. Our television advertising revenues were flat during the second quarter as the increases in advertising prices offset the decrease in GRPs consumed and the increase in net revenues came primarily from distribution revenues and an increase in Voyo subscribers. We successfully negotiated increases in carriage fees with the two largest cable and satellite operators in Romania so we expect carriage fees to increase during the second half of 2013.

Costs charged in arriving at OIBDA increased by 9% and 3% in the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012. On a constant currency basis costs increased 7% and 3% for the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012 primarily as a result of the increase in costs related to our distribution revenues.

Our Romania segment generated OIBDA of US\$ 8.0 million and US\$ 8.9 million for the three and six months ended June 30, 2013, respectively compared to US\$ 9.5 million and US\$ 10.6 million in the same periods in 2012. On a constant currency basis, OIBDA decreased 18% and 16% for the three and six months ended June 30, 2013, respectively.

## **Slovak Republic**

Television advertising spending declined 5% in the six months ended June 30, 2013 compared to the prior year. This decline was due in part to the benefit in the prior year of additional advertising spending ahead of the parliamentary elections in the first quarter of 2012. In addition, our advertising pricing initiatives undertaken in the Czech Republic have affected some of our clients' behavior in the Slovak Republic. This had a negative impact on our television advertising revenues, and consequently on television advertising spending in the Slovak Republic during the first half of 2013. Our Slovak Republic operations reported net revenues of US\$ 22.0 million and US\$ 38.9 million for the three and six months ended June 30, 2013, respectively, compared to US\$ 24.6 million and US\$ 44.0 million in the same periods in 2012, a decrease of 11% and 11% on an actual basis, or 11% and 12% on a constant currency basis. We believe that the adverse performance in our reported net revenues in the Slovak Republic in the first six months of 2013 is closely linked to the Czech Republic and we expect that the successful implementation of our pricing strategy in the Czech Republic will also result in a higher level of advertising spending in the Slovak Republic.

Costs charged in arriving at OIBDA increased by 2% and 2% in the three and six months ended June 30, 2013, respectively compared to the same periods in 2012. On a constant currency basis costs increased 1% and 2% in 2013 compared to the same periods in 2012 reflecting our continuing investment in our audience and the launch of a new channel, FOOOR in line with our strategy to maintain our leadership position.

Our Slovak Republic segment reported an OIBDA loss of US\$ 0.6 million and US\$ 4.1 million for the three and six months ended June 30, 2013, respectively, compared to positive OIBDA of US\$ 2.4 million and US\$ 1.9 million in the same periods in 2012, a decrease of US\$ 2.9 million and US\$ 6.0 million.

## **Slovenia**

Recent banking-sector problems and the ongoing political instability in Slovenia contributed to a significant increase of the country's sovereign risk. These political and economic challenges contributed to a decline in television advertising spending of 10% in the six months ended June 30, 2013, compared to the prior year. Our Slovenia segment reported net revenues of US\$ 18.7 million and US\$ 33.2 million for the three and six months ended June 30, 2013 compared to US\$ 20.9 million and US\$ 36.4 million in the same periods in 2012, decreases of 10% and 9% on an actual basis, or 11% and 9% on a constant currency basis, reflecting a decline in television advertising revenues in line with the decline in television advertising spending.

Costs charged in arriving at OIBDA remained flat compared to the same period in 2012.

Our Slovenia segment generated OIBDA of US\$ 4.2 million and US\$ 6.1 million for the three and six months ended June 30, 2013, respectively compared to US\$ 6.1 million and US\$ 8.9 million in the same periods in 2012, decreases of US\$ 1.8 million and US\$ 2.8 million. On a constant currency basis, OIBDA decreased 31% and 32% compared to the same periods in 2012.

#### Free Cash Flow

	For the Six Months Ended June 30, (US\$ 000's)		
	2013	2012	Movement
Net cash used in operating activities	\$ (39,230)	\$ (48,193)	18.6 %
Capital expenditures, net	(14,544)	(11,149)	(30.5)%
Free cash flow <sup>(1)</sup>	\$ (53,774)	\$ (59,342)	9.4 %

(1) Free cash flow is defined as cash flows from operating activities less purchases of property, plant and equipment, net of disposals of property, plant and equipment and is useful as a measure of our ability to generate cash.

	June 30, 2013	June 30, 2012	Movement
Cash and cash equivalents	144,523	124,814	15.8%

Our negative free cash flow in the six months ended June 30, 2013 was US\$ 53.8 million, compared to US\$ 59.3 million in the same period in 2012. Despite the decline of television advertising spending in our regions, particularly in the Czech Republic, this improvement from 2012 is due to an improvement in working capital and lower cash paid for foreign programming which may not repeat in future periods. We ended the period with cash of US\$ 144.5 million.

We continue to take steps to conserve cash, including targeted reductions to our operating cost base through cost optimization programs, the deferral of programming commitments and capital expenditures and the deferral of development projects.

#### Future Trends

We are committed to our priorities for 2013 because we believe the successful execution of our strategy puts the Company back on the path to growth in 2014.

We currently expect GDP of the countries in which we operate to remain flat in 2013. Analysts project that GDP and consumer spending will improve in 2014 as austerity measures taper in our countries. We do not believe improvements in these macroeconomic trends alone will be sufficient to reverse the contraction in our advertising markets. During the last few years, advertising spending in our markets decreased mostly as a result of decreases in prices. Therefore, we have sought to increase prices in all our countries.

We will continue to invest in the local content that provides leading audience shares in the countries in which we operate. These leading audience shares provide the reach for advertisers to efficiently communicate with their customers and execute effectively on their marketing campaigns, resulting in higher advertising revenues. We will further look to maximize revenues from our content in all distribution windows that we are active in by leveraging our new operating model.

The latest developments in the Czech Republic show that our advertising pricing strategy is gaining traction. Based on the annual level of GRPs consumed by advertisers in the Czech Republic in the past few years, we continue to believe the reduction in GRP consumption in the first half of 2013 compared to the prior year is a temporary market reaction to our pricing initiatives. During the fall season, which starts later in the third quarter, we expect the consumption of GRPs by advertisers to return to levels similar to those of 2012, because we do not believe that advertising strategies built on campaigns with limited reach are sustainable over the longer term. As we continue to strengthen our audience share in the Czech Republic, we believe we are well positioned to take advantage of the anticipated increase in GRPs that will be consumed. However, if the consumption of GRPs in the Czech Republic does not increase, our revenues may not recover as we expect. We are focused on securing double digit price increases for the remainder of this year and we expect this will be reflected in improved revenues and earnings. We recently concluded negotiations with the largest advertisers in the Czech Republic and their spending commitments for the next twelve to eighteen months indicate that our new prices are being accepted. In the rest of our markets, we have signed advertising spending commitments with single digit price increases when compared to 2012 at levels of commitments as a percentage of expected revenue that is comparable to previous years. Looking forward into 2014, we expect consumption of GRPs in our countries to return to similar levels as 2012. This, combined with double digit price increases in the Czech Republic in 2014 compared to 2012, along with additional single digit price increases in our other countries, is expected to result in growth for our advertising revenues.

We will continue improving the return on our content by generating higher carriage fees from cable and satellite operators. Following the successful conclusion to negotiations in Bulgaria and Romania during the first half of 2013, we expect a 50% increase in carriage fee revenues in 2013 compared to 2012, and for carriage fee revenues to more than double in 2014 compared to 2012. We have opened negotiations for price increases in the Czech Republic and the Slovak Republic similar to what we achieved in Bulgaria and Romania and we expect these increases to be effective before the end of the year.

We have completed the first phase to streamline our operating model and reduce costs in executing our strategy of one content, multiple distribution country-by-country. Our new operating model will help reduce our cost base going forward. We incurred restructuring charges amounting to US\$ 4.7 million during the period, and expect to incur further restructuring charges amounting to approximately US\$ 5 million in the second half of 2013 to fully implement our initiatives and anticipate annual savings of up to US\$ 20 million from this restructuring when completed.

Following the completion of public and private equity offerings during the second quarter of 2013 and the subsequent repurchase of a portion of our 2016 Fixed Rate Notes with US\$ 300 million of the proceeds (see IV(d) Cash Outlook), we anticipate annualized cash interest savings of approximately US\$ 31 million, which will further improve our free cash flow in 2014 and thereafter.

We believe our business model of one content, multiple distribution, and the operating actions we are taking, including implementation of our pricing strategy, cost optimization and improved capital structure, will enable us to maintain our market leadership.

### III. Analysis of the Results of Operations and Financial Position

	For the Three Months Ended June 30, (US\$ 000's)			
			Movement	
	2013	2012	% Act	% Lft
<b>Revenue:</b>				
Television advertising	\$ 140,758	\$ 170,157	(17.3)%	(17.4)%
Carriage fees and subscriptions	13,646	10,808	26.3 %	25.0 %
Other revenue	25,841	30,257	(14.6)%	(15.7)%
<b>Net Revenues</b>	<b>180,245</b>	<b>211,222</b>	<b>(14.7)%</b>	<b>(15.0)%</b>
<b>Operating expenses:</b>				
Content costs	97,171	89,823	8.2 %	7.6 %
Other operating costs	35,876	37,771	(5.0)%	(5.7)%
Depreciation of property, plant and equipment	8,949	10,747	(16.7)%	(17.1)%
Amortization of broadcast licenses and other intangibles	3,769	12,715	(70.4)%	(70.6)%
<b>Cost of revenues</b>	<b>145,765</b>	<b>151,056</b>	<b>(3.5)%</b>	<b>(4.1)%</b>
Selling, general and administrative expenses	35,451	36,516	(2.9)%	(3.0)%
Restructuring costs	4,698	—	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>
<b>Operating (loss) / income</b>	<b>\$ (5,669)</b>	<b>\$ 23,650</b>	<b>Nm <sup>(1)</sup></b>	<b>Nm <sup>(1)</sup></b>

(1) Number is not meaningful.

	For the Six Months Ended June 30, (US\$ 000's)			
			Movement	
	2013	2012	% Act	% Lft
<b>Revenue:</b>				
Television advertising	\$ 243,150	\$ 304,356	(20.1)%	(19.5)%
Carriage fees and subscriptions	26,692	20,898	27.7 %	27.9 %
Other revenue	47,445	53,401	(11.2)%	(11.2)%
<b>Net Revenues</b>	<b>317,287</b>	<b>378,655</b>	<b>(16.2)%</b>	<b>(15.7)%</b>
<b>Operating expenses:</b>				
Content costs	186,364	176,754	5.4 %	5.9 %
Other operating costs	70,386	67,758	3.9 %	4.0 %
Depreciation of property, plant and equipment	19,183	22,627	(15.2)%	(15.1)%
Amortization of broadcast licenses and other intangibles	7,869	25,198	(68.8)%	(68.7)%
<b>Cost of revenues</b>	<b>283,802</b>	<b>292,337</b>	<b>(2.9)%</b>	<b>(2.6)%</b>
Selling, general and administrative expenses	69,455	72,971	(4.8)%	(4.4)%
Restructuring costs	4,698	—	Nm <sup>(1)</sup>	Nm <sup>(1)</sup>
<b>Operating (loss) / income</b>	<b>\$ (40,668)</b>	<b>\$ 13,347</b>	<b>Nm <sup>(1)</sup></b>	<b>Nm <sup>(1)</sup></b>

(1) Number is not meaningful.

**Television advertising revenues:** On a constant currency basis, the television advertising spending in our markets declined by 8% in the six months ended June 30, 2013, adversely impacting the television advertising revenues. We expect the consumption of GRPs by advertisers to return to levels at least similar to those of 2012 in the next 6 to 18 months. See the segment analysis above for additional information on television advertising revenues.

**Carriage fees and subscriptions:** Carriage fees and subscriptions revenue increased 26% and 28% during the three and six months ended June 30, 2013, respectively compared to the prior periods, primarily as a result of successful negotiations in Bulgaria to increase carriage fees. See "Segment Performance" above for additional information on carriage fees and subscription revenues.

**Other revenues:** Other revenues include primarily internet advertising and distribution revenues. On a constant currency basis, other revenues decreased 16% and 11% during the three and six months ended June 30, 2013, respectively compared to the same periods in 2012, primarily reflecting the termination of certain distribution agreements of Bontonfilm.

**Cost of revenues:** Our total cost of revenues decreased by US\$ 5.3 million and US\$ 8.5 million, or 4% and 3% on both an actual and constant currency basis, during the three and six months ended June 30, 2013, respectively, compared to the same periods in 2012; primarily reflecting a decrease in amortization of broadcast licenses following the impairments recorded in the fourth quarter of 2012. We have changed our presentation of certain components of our operating expenses to better reflect how cost centers are managed under our new operating model, with no impact on consolidated operating loss or cash flows.

**Content costs:** Content costs (including production costs and amortization of programming rights) increased by US\$ 7.3 million and US\$ 9.6 million, or 8% and 5%, during the three and six months ended June 30, 2013, respectively compared to the same periods in 2012. On a constant currency basis, the increases of 8% and 6% primarily reflects new channel launches. We intend to continue to invest in local programming to maintain our audience leadership and deliver the necessary output of gross rating points, in line with the demands of the markets in which we operate, without increasing our overall costs.

**Other operating costs:** Other operating costs (excluding content costs, depreciation of property, plant and equipment, amortization of broadcast licenses and other intangibles as well as, selling, general and administrative expenses) decreased by US\$ 1.9 million, or 5%, and increased by US\$ 2.6 million, or 4%, during the three and six months ended June 30, 2013 compared to the same periods in 2012. On a constant currency basis costs decreased by 6% and increased by 4%, primarily due to the cost of new channel launches.

**Depreciation of property, plant and equipment:** Total depreciation of property, plant and equipment for the three and six months ended June 30, 2013 decreased by US\$ 1.8 million and US\$ 3.4 million, or 17% and 15% compared to the same periods in 2012. On a constant currency basis, depreciation decreased 17% and 15%, reflecting a decrease in capital expenditures in recent years.

**Amortization of broadcast licenses and other intangibles:** Total amortization of broadcast licenses and other intangibles decreased US\$ 8.9 million and US\$ 17.3 million during the three and six months ended June 30, 2013, or 70% and 69%, compared to the same periods in 2012. On a constant currency basis, the decrease was 71% and 69% reflecting a decrease in amortization of broadcast licenses following the impairments recorded in the fourth quarter of 2012.

**Selling, general and administrative expenses:** Selling, general and administrative expenses decreased by US\$ 1.1 million and US\$ 3.5 million during the three and six months ended June 30, 2013, respectively compared to the same periods in 2012, primarily due to a reduction in staff-related expenses. We have changed our presentation of certain components of our operating expenses to better reflect how cost centers are managed under our new operating model, with no impact on consolidated operating loss / income or cash flows.

Central costs decreased by US\$ 1.2 million and US\$ 3.5 million, or 11% and 15% during the three and six months ended June 30, 2013 compared to the same periods in 2012, reflecting a reduction in staff-related expenses following redeployment of central headcount into operational positions and lower compensation expenses.

Central costs for the three and six months ended June 30, 2013 include a charge of US\$ 1.2 million and US\$ 2.2 million, respectively in respect of non-cash stock-based compensation, an increase of US\$ 0.2 million and US\$ 0.1 million, respectively, compared to 2012 (see Item 1, Note 16, "Stock-based Compensation").

**Restructuring costs:** Restructuring costs totaled US\$ 4.7 million during the three and six months ended June 30, 2013 as we reorganized our business to streamline central resources and reflect how our operations are managed by segment managers, how operating performance within the Company is evaluated by senior management and the structure of our internal financial reporting. We expect to incur total restructuring costs of approximately US\$ 10 million, which are expected to generate annual cost savings of approximately US\$ 20 million once completed. We expect to complete our restructuring efforts by the end of 2013.

**Operating loss:** The operating loss for the three and six months ended June 30, 2013 was US\$ 5.7 million and US\$ 40.7 million, respectively compared to an operating income of US\$ 23.7 million and US\$ 13.3 million during the same periods in 2012, as the decrease in revenues outpaced the decrease in costs.

Our operating margin was negative 3.1% and negative 12.8% during the three and six months ended June 30, 2013, compared to 11.2% and 3.5% during the same periods in 2012.

	<b>Other Income / (Expense)</b>		
	<b>For the Three Months Ended June 30, (US\$ 000's)</b>		
	<b>2013</b>	<b>2012</b>	<b>% Act</b>
Interest income	\$ 129	\$ 171	(24.6)%
Interest expense	(31,188)	(31,129)	(0.2)%
(Loss) / gain on extinguishment of debt	(23,115)	448	Nm <sup>(1)</sup>
Foreign currency exchange gain / (loss), net	15,117	(40,312)	Nm <sup>(1)</sup>
Change in fair value of derivatives	—	47,398	(100.0)%
Other expense, net	(451)	(158)	Nm <sup>(1)</sup>
Credit for income taxes	4,089	3,073	33.1 %
Net loss attributable to noncontrolling interests	131	815	(83.9)%
Currency translation adjustment, net	\$ (11,407)	\$ (98,552)	88.4 %

	<b>Other Income / (Expense)</b>		
	<b>For the Six Months Ended June 30, (US\$ 000's)</b>		
	<b>2013</b>	<b>2012</b>	<b>% Act</b>
Interest income	\$ 311	\$ 385	(19.2)%
Interest expense	(63,206)	(62,953)	0.4 %
(Loss) / gain on extinguishment of debt	(23,115)	448	Nm <sup>(1)</sup>
Foreign currency exchange loss, net	(34,757)	(16,918)	105.4 %
Change in fair value of derivatives	104	48,325	(99.8)%
Other (expense) / income, net	(487)	51	Nm <sup>(1)</sup>
Credit for income taxes	11,767	6,643	77.1 %
Net loss attributable to noncontrolling interests	813	1,236	(34.2)%
Currency translation adjustment, net	\$ (8,944)	\$ (31,462)	71.6 %

(1) Number is not meaningful.

**Interest income:** We recognized interest income of US\$ 0.1 million and US\$ 0.3 million during the three and six months ended June 30, 2013, respectively, compared to US\$ 0.2 million and US\$ 0.4 million in the six months ended June 30, 2012.

**Interest expense:** Interest expense during the three and six months ended June 30, 2013 was flat as compared to the same periods in 2012.

**(Loss) / gain on extinguishment of debt:** During the three and six months ended June 30, 2013, we recognized a loss of US\$ 23.1 million on the extinguishment of debt related to the repurchase of a portion of our 2016 Fixed Rate Notes. During the three and six months ended June 30, 2012, we recognized a net gain on extinguishment of debt related to the repurchase of a portion of both our 2013 Convertible Notes and Senior Floating Rate Notes due 2014.

**Foreign currency exchange loss, net:** We are exposed to fluctuations in foreign exchange rates on the revaluation of monetary assets and liabilities denominated in currencies other than the local functional currency of the relevant subsidiary. This includes third party receivables and payables, including our Senior Notes, which are denominated in Euros, as well as our intercompany loans. Our subsidiaries generally receive funding via loans that are denominated in currencies other than the dollar, and any change in the relevant exchange rate will require us to recognize a transaction gain or loss on revaluation.

During the six months ended June 30, 2013, we recognized a net loss of US\$ 34.8 million, comprised of transaction losses of US\$ 24.1 million relating to the revaluation of intercompany loans; a transaction loss of approximately US\$ 4.2 million on the Senior Notes due to the overall appreciation of the dollar against the Euro between January 1, 2013 and June 30, 2013, and transaction losses of US\$ 6.5 million relating to the revaluation of monetary assets and liabilities denominated in currencies other than the local functional currency of the relevant subsidiary.

During the six months ended June 30, 2012, we recognized a net loss of US\$ 16.9 million, comprised of transaction losses of US\$ 26.9 million relating to the revaluation of intercompany loans; a transaction gain of approximately US\$ 17.6 million on the Senior Notes due to the overall strengthening of the dollar against the Euro between January 1, 2012 and June 30, 2012, and transaction losses of US\$ 7.6 million relating to the revaluation of monetary assets and liabilities denominated in currencies other than the local functional currency of the relevant subsidiary.

**Change in fair value of derivatives:** During the six months ended June 30, 2013, we recognized a gain of US\$ 0.1 million as a result of the change in the fair value of the interest rate swap. The interest rate swap terminated on April 15, 2013 so there will be no further impact on earnings from this instrument.

During the six months ended June 30, 2012, we recognized a net gain of US\$ 22.8 million related to the forward sale of shares to TW Investor and US\$ 24.5 million related to an option to purchase shares of our Class A common stock granted by the Company to TW Investor. Further, we recognized a gain of US\$ 0.4 million as a result of the change in the fair value of the interest rate swap entered into on February 9, 2010. We also recognized a gain of US\$ 0.7 million as a result of the change in fair value of the currency swaps entered into on April 27, 2006.

**Other (expense) / income, net:** We recognized other expense of US\$ 0.5 million during each of the three and six months ended June 30, 2013 compared to other expense of US\$ 0.2 million and other income of US\$ 0.1 million in the three and six months ended June 30, 2012, respectively.

**Credit for income taxes:** The credit for income taxes during the three and six months ended June 30, 2013 of US\$ 4.1 million and US\$ 11.8 million, respectively, reflect the value of tax losses that we expect to utilize in future periods. It also reflects the setting up of valuation allowances where appropriate.

The credit for income taxes during the three and six months ended June 30, 2012 of US\$ 3.1 million and US\$ 6.6 million, respectively, also reflected the value of tax losses that we expected to utilize in future periods.

Our subsidiaries are subject to income taxes at statutory rates ranging from 10.0% in Bulgaria to 23.0% in Slovakia.

**Net loss attributable to noncontrolling interests:** During the three and six months ended June 30, 2013, the loss was US\$ 0.1 million and US\$ 0.8 million in respect of the noncontrolling interest in consolidated subsidiaries as compared to US\$ 0.8 million and US\$ 1.2 million for the same periods 2012, respectively. The net loss attributable to noncontrolling interests relates primarily to the noncontrolling interest share of losses in Bulgaria.

**Currency translation adjustment, net:** The underlying equity value of our investments (which are denominated in the functional currency of the relevant entity) are converted into dollars at each balance sheet date, with any change in value of the underlying assets and liabilities being recorded as a currency translation adjustment to the balance sheet rather than net income.

The dollar appreciated overall against the functional currencies of our operations the six months ended June 30, 2013. Therefore, in the six months ended June 30, 2013, we recognized other comprehensive loss of US\$ 8.9 million on the revaluation of our net investments in subsidiaries compared to other comprehensive losses of US\$ 31.5 million in the six months ended June 30, 2012.

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The following table illustrates the amount by which the exchange rate of the dollar to the functional currencies of our operations moved between January 1 and June 30, 2013 and 2012, respectively:

	For the Six Months Ended June 30,	
	2013	2012
Bulgarian Lev	1%	3%
Croatian Kuna	0%	3%
Czech Koruna	4%	2%
Euro	1%	3%
New Romanian Lei	2%	6%

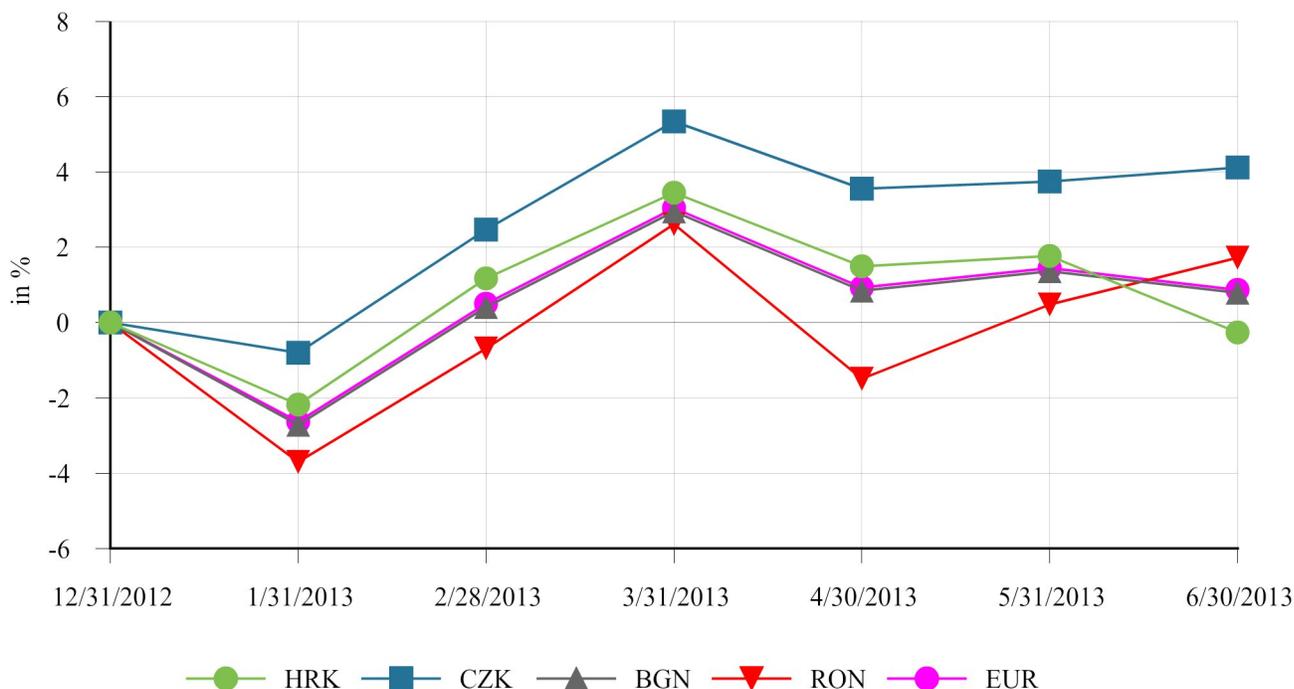
The dollar was stronger overall against the functional currencies of our operations between January 1 and June 30, 2013, but was, on average, not as strong as compared to the same period in 2012. The following table illustrates the change in the average exchange rates of the dollar to the functional currencies of our operations for the the six months ended June 30, 2013 and 2012.

	Change in Average Rates
Bulgarian Lev	(1)%
Croatian Kuna	(1)%
Czech Koruna	1 %
Euro	(1)%
New Romanian Lei	(1)%

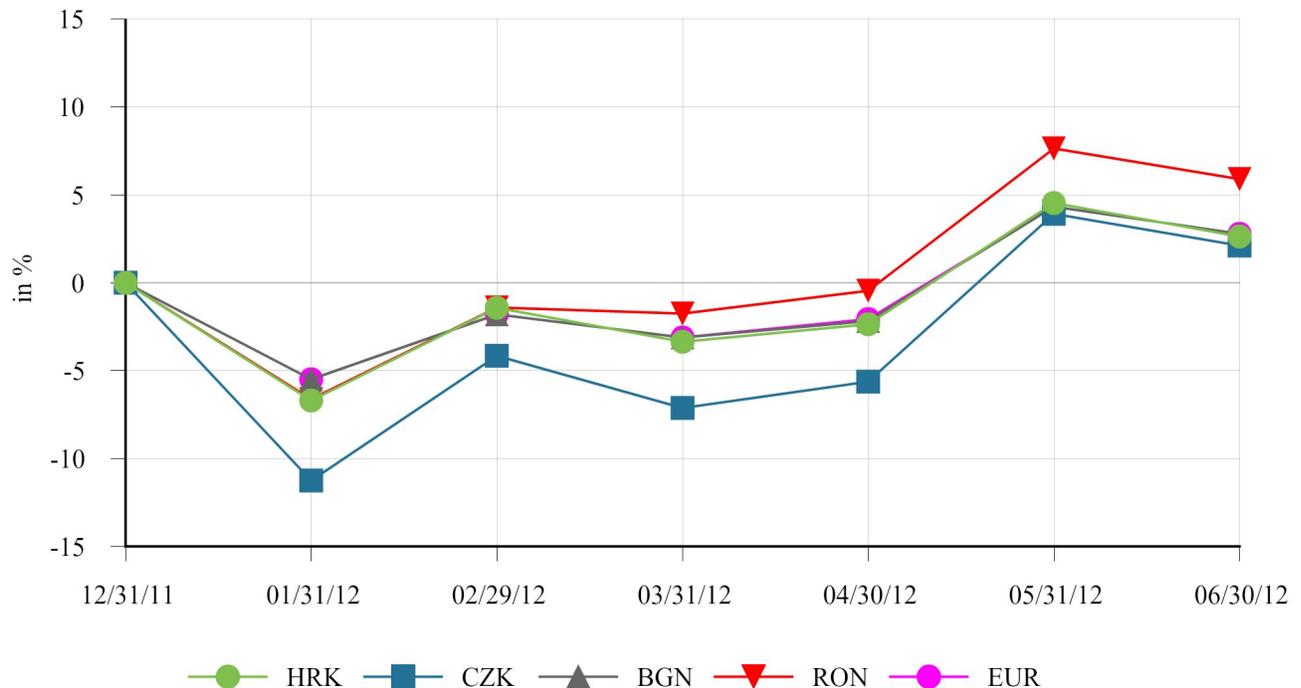
To the extent that our subsidiaries incur transaction losses in their local functional currency income statement on the revaluation of monetary assets and liabilities denominated in dollars, we recognize a gain of the same amount as a currency translation adjustment within equity when we retranslate our net investment in that subsidiary into dollars. Similarly, any exchange gain or loss arising on the retranslation of intercompany loans in the functional currency of the relevant subsidiary or the dollar will be offset by an equivalent loss or gain on consolidation.

The following charts depict the movement of the functional currencies of our operations versus the dollar, based on monthly closing rates, during the six months ended June 30, 2013 and 2012.

*Percent Change During the Six Months Ended June 30, 2013*



Percent Change During the Six Months Ended June 30, 2012



## Consolidated balance sheet as at June 30, 2013 and December 31, 2012:

	Summarized Consolidated Balance Sheet (US\$ 000's)		
	June 30, 2013	December 31, 2012	Movement
Current assets	\$ 500,421	\$ 518,551	(3.5)%
Non-current assets	1,599,898	1,656,164	(3.4)%
Current liabilities	301,360	291,364	3.4 %
Non-current liabilities	973,257	1,252,084	(22.3)%
Temporary equity	200,247	—	Nm <sup>(1)</sup>
CME Ltd. shareholders' equity	621,459	626,061	(0.7)%
Noncontrolling interests in consolidated subsidiaries	\$ 3,996	\$ 5,206	(23.2)%

(1) Number is not meaningful.

**Current assets:** Current assets at June 30, 2013 decreased by US\$ 18.1 million compared to December 31, 2012, primarily as a result of a decrease in restricted cash for the repayment of the 2013 Convertible Notes at maturity and decreased accounts receivable due to the impact of the decline in the television advertising spending and lower sales volume during the six months ended June 30, 2013.

**Non-current assets:** Non-current assets at June 30, 2013 decreased by US\$ 56.3 million compared to December 31, 2012, primarily due to the impact of currency translation adjustments on certain of our property, plant and equipment, goodwill and intangible assets.

**Current liabilities:** Current liabilities at June 30, 2013 increased by US\$ 10.0 million compared to December 31, 2012, primarily due to increased programming liabilities, higher deferred revenue as a result of prepayment requirements under our new pricing initiatives and our accrual for restructuring charges. These increases were partially offset by the repayment and extinguishment of our 2013 Convertible Notes at maturity on March 15, 2013.

**Non-current liabilities:** Non-current liabilities at June 30, 2013 decreased by US\$ 278.8 million compared to December 31, 2012, primarily as a result of the repurchase of a portion of our 2016 Fixed Rate Notes during the second quarter of 2013.

**Temporary equity:** Temporary equity at June 30, 2013 was US\$ 200.2 million, as a result of the issuance in June 2013 of our Series B Convertible Redeemable Preferred Stock to TW Investor.

**CME Ltd. shareholders' equity:** CME Ltd. shareholders' equity decreased by US\$ 4.6 million compared to December 31, 2012. This reflects the net loss of US\$ 149.2 million during the six months ended June 30, 2013. The decrease was furthered by a decrease in accumulated other comprehensive income of US\$ 9.0 million due to the overall impact of the appreciation of the dollar on our foreign currency denominated assets. We recognized stock-based compensation charges of US\$ 2.2 million during 2013. The decrease was substantially offset by the public equity offering during the second quarter of US\$ 151.7 million.

**Noncontrolling interests in consolidated subsidiaries:** Noncontrolling interests in consolidated subsidiaries at June 30, 2013 decreased US\$ 1.2 million compared to December 31, 2012, primarily due to the net loss attributable to noncontrolling interests and dividends paid.

**IV. Liquidity and Capital Resources****IV (a) Summary of Cash Flows**

Cash and cash equivalents increased by US\$ 4.1 million during the six months ended June 30, 2013. The change in cash and cash equivalents for the periods presented below is summarized as follows:

	<b>For the Six Months Ended June 30, (US\$ 000's)</b>	
	<b>2013</b>	<b>2012</b>
Net cash used in operating activities	\$ (39,230)	\$ (48,193)
Net cash used in investing activities	(14,544)	(11,149)
Net cash provided by / (used in) financing activities	61,472	(1,533)
Impact of exchange rate fluctuations on cash	(3,568)	(697)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>\$ 4,130</b>	<b>\$ (61,572)</b>

*Operating Activities*

Cash used in operations during the six months ended June 30, 2013 was US\$ 39.2 million, compared to US\$ 48.2 million during the six months ended June 30, 2012. Despite the decline of television advertising spending in our regions, particularly in the Czech Republic, which was driven by a decrease in the consumption of GRPs following the introduction of our pricing initiatives, this improvement in cash used in operating activities compared to 2012 is largely due to lower cash paid for foreign programming which may not repeat in future periods, and improvements in working capital. We paid interest of US\$ 66.0 million on our Senior Notes, 2015 Convertible Notes and credit facilities during the six months ended June 30, 2013. We paid interest of US\$ 54.6 million on our Senior Notes, Convertible Notes and credit facilities during the six months ended June 30, 2012.

*Investing Activities*

Our investing cash flows in the six months ended June 30, 2013 primarily comprised US\$ 14.8 million relating to capital expenditures. Our investing cash flows in the six months ended June 30, 2012 primarily comprised US\$ 11.3 million relating to capital expenditures.

*Financing Activities*

Cash provided by financing activities during the six months ended June 30, 2013 was US\$ 61.5 million compared to an outflow of US\$ 1.5 million during the six months ended June 30, 2012. The amount of net cash provided by financing activities in the six months ended June 30, 2013 reflected the proceeds from the public and private equity offerings offset by the repurchase of a portion of our 2016 Fixed Rate Notes during the second quarter of 2013. The amount of net cash used in the six months ended June 30, 2012 reflected proceeds from credit facilities, and to a lesser extent, the issuance of shares, more than offset by payments made for purchases of our 2013 Convertible Notes and Senior Floating Rate Notes due 2014.

**IV (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 twelve months, after considering the matters disclosed under "Contractual Obligations, Commitments and Off-Balance Sheet Arrangements" and "Cash Outlook" below.

Our ongoing source of cash is primarily the receipt of payments from advertisers, advertising agencies and sponsors, as well as carriage fees from cable and satellite operators that carry our channels. This may be supplemented from time to time by limited local borrowing. Surplus cash, after funding ongoing operations, may be remitted to us, where appropriate, by our subsidiaries. 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. The reserve requirement restriction generally provides that before dividends may be distributed, a portion of annual net profits (typically 5.0%) be allocated to a reserve, which is capped at a proportion of the registered capital of a company (ranging from 5.0% to 25.0%). The restricted net assets of our consolidated subsidiaries and equity in earnings of investments accounted for under the equity method together are less than 25.0% of consolidated net assets.

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

Our future contractual obligations as at June 30, 2013 are as follows:

	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	\$ 936,379	\$ 898	\$ 261,466	\$ 670,971	\$ 3,044
Long-Term Debt – interest	305,042	82,813	159,097	63,132	—
Unconditional Purchase Obligations	298,392	144,229	126,684	27,179	300
Operating Leases	22,309	5,443	4,726	3,251	8,889
Capital Lease Obligations	3,915	986	1,484	776	669
Other Long-Term Obligations	127,106	29,683	39,916	19,931	37,576
<b>Total Contractual Obligations</b>	<b>\$ 1,693,143</b>	<b>\$ 264,052</b>	<b>\$ 593,373</b>	<b>\$ 785,240</b>	<b>\$ 50,478</b>

##### *Long-Term Debt*

For more information on our Long-Term Debt, see Item 1, Note 4, "Long-term Debt and Other Financing Arrangements". Interest payable on our Long-Term Debt is calculated using exchange rates as at June 30, 2013.

##### *Unconditional Purchase Obligations*

Unconditional purchase obligations primarily comprise future programming commitments. At June 30, 2013, we had commitments in respect of future programming of US\$ 292.9 million. This includes contracts signed with license periods starting after June 30, 2013.

##### *Other Long-Term Obligations*

Other long-term obligations include US\$ 127.1 million of digital transmission commitments.

##### *Operating Leases*

For more information on our operating lease commitments see Item 1, Note 19, "Commitments and Contingencies".

##### *Other*

Top Tone Media Holdings Limited has exercised its right to acquire additional equity in CME Bulgaria B.V. Upon consummation of the equity transfer, we will own 90.0% of our Bulgaria broadcast operations. The option strike price is the fair value of the equity in CME Bulgaria, as determined by an independent valuation. The closing of this transaction has not yet occurred because the purchaser financing is still pending.

On February 14, 2013, CET 21 issued a guarantee to a third party supplier pursuant to which CET 21 will reimburse certain costs incurred by the third party, up to CZK 60.0 million (approximately US\$ 3.0 million), in the event that the contract with that third party is terminated prior to 2018. We do not expect the contract to be terminated.

#### **IV (d) Cash Outlook**

Historically, our operations have generated cash flows sufficient, in conjunction with equity and debt financing, to fund our operations and our investing activities. During the difficult economic conditions in our markets since the end of 2008, cash flows from operating activities have declined. Cash flows used in operating activities were US\$ 39.2 million in the first six months of 2013 because of lower cash receipts due to lower revenues as a result of the decrease in the consumption of GRPs in our regions due to significant resistance to our pricing increases, particularly in the Czech Republic. This reduction in cash receipts was partly offset by a decrease in programming payments and improvements in working capital. As at June 30, 2013, we had US\$ 144.5 million of cash and cash equivalents.

During the second quarter of 2013, we raised net proceeds of approximately US\$ 352 million (see Item 1, Note 12, "Convertible Redeemable Preferred Shares" and Item 1, Note 13, "Equity") from public and private equity offerings and repurchased EUR 205.6 million (approximately US\$ 270 million at the transaction date) aggregate principal amount of our 2016 Fixed Rate Notes in private transactions for cash consideration of EUR 228.4 million (approximately US\$ 300 million at the transaction date) including accrued interest of EUR 6.8 million (approximately US\$ 9 million at the transaction date). These actions will reduce our annual interest payments by approximately US\$ 31 million in 2014 and subsequent years.

We are taking steps to improve our cash generation through our pricing initiatives and negotiation of higher carriage fees with service providers. We continue to take steps to conserve cash, including targeted reductions to our operating cost base through cost optimization programs, including our restructuring efforts; the deferral of programming commitments and capital expenditures; and the deferral of development projects. The nearest principal repayment obligation on our long-term debt is November 2015.

There can be no assurances that our overall financial performance will improve or that the steps outlined above will be successful. Under our indentures we are able to borrow only limited additional funds, either at the parent or subsidiary level. We believe that we are taking appropriate actions to monitor and address the risks affecting our business, and with our current cash balances, cash generative operations, and working capital management initiatives, taken together, we believe we will have adequate cash resources to meet our debt service and other financial obligations for the next twelve months. If there is not an improvement in our operating and financial performance or a sustained recovery in the television advertising market over the medium-term, or we are unable to renegotiate supplier credit terms, we may be unable to meet our debt service obligations and generally fund our operations some time beyond the next twelve months.

##### *Credit ratings and future debt issuances*

Our corporate credit is rated B3 with a negative outlook by Moody's and B- with a stable outlook by Standard & Poor's. Standard & Poor's indicated that retention of these ratings is dependent on maintaining an adequate liquidity profile, including maintaining at least US\$ 110.0 million of cash. We may not meet this liquidity parameter in the next twelve months if our operating and financial performance does not improve or market conditions in the territories in which we operate worsen more than expected, in which case it is possible that the rating agencies will downgrade us. The availability of additional liquidity is dependent upon our continued financial performance, operating performance and credit ratings. We are currently able to raise only a limited amount of additional debt but there are no indenture constraints on our ability to refinance existing debt.

Credit rating agencies have made liquidity and the related key ratios a particular priority. One of the key indicators used by the ratings agencies in assigning credit ratings to us is our gross leverage ratio, which was 16.5 times at June 30, 2013 and is calculated as our gross debt divided by our trailing twelve-month OIBDA (calculated in accordance with our indentures excluding stock based compensation and OIBDA of our unrestricted entities) ("LTM OIBDA"). As at June 30, 2013, our total gross debt of US\$ 939.9 million was the sum of the outstanding Senior Notes, the 2015 Convertible Notes, and other credit facilities and obligations under capital leases as disclosed in our condensed consolidated financial statements. Our LTM OIBDA was US\$ 57.0 million and the ratio of gross debt less cash to LTM OIBDA was 14.0 at June 30, 2013, which is a measure of our leverage after considering our cash balance. Another measure of our leverage, typically applied by ratings agencies, is the ratio of net debt to reported OIBDA, which is calculated as gross debt less cash divided by reported OIBDA. The ratio of net debt to reported OIBDA was 15.7 as at June 30, 2013.

##### *Credit risk of financial counterparties*

We have entered into a number of significant contracts with financial counterparties as follows:

#### **Interest Rate Swap**

On February 9, 2010, we entered into an interest rate swap agreement with UniCredit Bank Czech Republic, a.s. and Ceska Sporitelna, a.s. to reduce the impact of changing interest rates on our previously outstanding floating rate debt (see Item 1, Note 11, "Financial Instruments and Fair Value Measurements"). The interest rate swap agreement expired on April 15, 2013.

#### **Cash Deposits**

We deposit cash in the global money markets with a range of bank counterparties and review the counterparties we choose weekly. The maximum period of deposit is three months but we have more recently held amounts on deposit for shorter periods, from overnight to one month. The credit rating of a bank is a critical factor in determining the size of cash deposits and we will only deposit cash with banks of an investment grade of A or A2 or higher. In addition we also closely monitor the credit default swap spreads and other market information for each of the banks with which we consider depositing or have deposited funds.

#### **IV (e) Off-Balance Sheet Arrangements**

None.

#### **V. Critical Accounting Policies and Estimates**

Our accounting policies affecting our financial condition and results of operations are more fully described in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission ("SEC") on February 27, 2013 and as amended on Form 10-K/A filed with the SEC on April 29, 2013. 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 we believe to be reasonable. Using these estimates we make 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 our critical accounting policies are as follows: program rights, goodwill and intangible assets, impairment or disposal of long-lived assets, revenue recognition, income taxes, foreign exchange and contingencies. These critical accounting policies affect our more significant judgments and estimates used in the preparation of our condensed consolidated financial statements. See Item 1, Note 2, "Basis of Presentation" for a discussion of accounting standards and changes in accounting estimates adopted since December 31, 2012 and recently issued accounting standards not yet adopted.

*Impairment of goodwill, indefinite lived- intangible assets and long-lived assets*

We assess the carrying value of goodwill and other intangible assets with indefinite lives 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 include: under-performance of reporting units or changes in projected results, changes in the manner of utilization of the asset, a severe and sustained decline in the price of our shares 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.

During the last annual impairment review completed in the fourth quarter of 2012, we determined that the fair value of each Broadcast reporting unit (under our former segment reporting) where goodwill was not impaired as of December 31, 2012 was substantially in excess of its carrying value. Despite the continuing uncertainty in the markets in which we operate, as well as the initial significant resistance to pricing increases in the Czech Republic, we determined that no event occurred which more likely than not reduced the fair value of our reporting units below their carrying value during the six months ended June 30, 2013 because we believe that reversing the trend of falling advertising prices in our markets is adding value to each of the country operations.

Assessing goodwill, indefinite-lived intangible assets and long-lived assets requires significant judgment and involves a great deal of detailed quantitative and qualitative business-specific analysis with several individual assumptions which fluctuate with the passage of time. Our estimate of the cash flows our operations will generate in future periods forms the basis for most of the significant assumptions inherent in our impairment reviews. Our expectations of these cash flows are developed during our long- and short-range business planning processes, which are designed to address the uncertainties inherent in the forecasting process by capturing a range of possible views about key trends which govern future cash flow growth.

If the on-going macroeconomic and pricing uncertainty in our markets causes television advertising spending in our countries to contract more than we had expected when we performed the previous annual test, we may need to make downward revisions in our cash flow forecasts for one or more reporting units. This would trigger an impairment review prior to the annual goodwill impairment test that will be performed in the fourth quarter of 2013. In particular, if the continued roll-out of our initiatives to increase advertising prices in the Czech Republic and other markets are ultimately unsuccessful, it is possible that an impairment charge, which may be material, would be required following an interim goodwill impairment test if performed during 2013. The balance of goodwill in each reporting unit is presented in Item 1, Note 3, "Goodwill and Intangible Assets".

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

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

**Foreign Currency Exchange Risk Management**

Although our functional currency is the dollar, 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 our 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 dollars due to movements in exchange rates between the Euro and the dollar.

**Interest Rate Risk Management**

The interest rate swap agreement expired on April 15, 2013 (see Item 1, Note 11, "Financial Instruments and Fair Value Measurements").

*Interest Rate Table as at June 30, 2013*

<b>Expected Maturity Dates</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Thereafter</b>
<b>Total debt in Euro (000's)</b>						
Fixed rate	—	—	—	272,972	240,000	—
Average interest rate (%)	—	—	—	11.63%	9.00%	—
<b>Total debt in US\$ (000's)</b>						
Fixed rate	—	—	261,034	—	—	—
Average interest rate (%)	—	—	5.00%	—	—	—

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

We have established disclosure controls and procedures designed to ensure that information required to be disclosed in our Quarterly Report on Form 10-Q is recorded, processed, summarized and reported within the specified time periods and is designed to ensure that information required to be disclosed is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer to allow timely decisions regarding required disclosure.

Our President and Chief Executive Officer and our Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2013 and concluded that our disclosure controls and procedures were effective as of that date. There has been no change in our internal control over financial reporting during the six months ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **OTHER INFORMATION**

#### **Item 1. Legal Proceedings**

##### **General**

While we are, from time to time, a party to litigation, arbitration or regulatory proceedings arising in the normal course of our business operations, we are not presently a party to any such litigation, arbitration or regulatory proceeding which could reasonably be expected to have a material effect on our business or consolidated financial statements, including the proceeding described below.

##### *Video International termination*

On March 18, 2009, Video International Company Group, CGSC ("VI"), a Russian legal entity, filed a claim in the London Court of International Arbitration ("LCIA") against our wholly-owned subsidiary CME Media Enterprises B.V. ("CME BV"), which was, at the time the claim was filed, the principal holding company of our former Ukrainian operations. The claim relates to the termination of an agreement between VI and CME BV dated November 30, 2006 (the "parent agreement"), which was one of four related contracts by which VI subsidiaries, including LLC Video International-Prioritet ("Prioritet"), supplied advertising and marketing services to Studio 1+1 LLC ("Studio 1+1") and certain affiliates. Following the termination of these agreements on March 24, 2009, Studio 1+1 was required to pay a termination penalty. On June 1, 2009, Studio 1+1 paid UAH 13.5 million (approximately US\$ 1.6 million) to Prioritet and set off UAH 7.4 million (approximately US\$ 0.9 million) against amounts owing to Studio 1+1 under the advertising and marketing services agreements. In its LCIA claim, VI sought payment of a separate indemnity from CME BV under the parent agreement of US\$ 58.5 million. On September 30, 2010, a partial award was issued in the arbitration proceedings, pursuant to which VI's claim for relief in the amount of US\$ 58.5 million was dismissed. The partial award does permit VI to bring a subsequent claim against CME BV as parent guarantor in the event that VI establishes that it is entitled to certain additional compensation under the advertising and marketing services agreements with Studio 1+1 and that such compensation is not satisfied by Studio 1+1. On July 13, 2011, Prioritet filed claims against Studio 1+1 in the Commercial Court of Kiev relating to alleged violations of the advertising services agreement and marketing services agreement and sought relief of approximately UAH 201.0 million (approximately US\$ 24.5 million). On September 23, 2011, the Commercial Court of Kiev dismissed Prioritet's claims. On November 7, 2011, the Commercial Court of Appeal of Kiev dismissed an appeal by Prioritet of the lower court's decision. On December 13, 2011, the Superior Commercial Court of Ukraine dismissed an appeal of Prioritet following the decision of the appellate court. On June 5, 2012, the Superior Commercial Court of Ukraine denied Prioritet's request to appeal to the Supreme Court of Ukraine. On June 18, 2012, Prioritet filed a claim against Studio 1+1 in the Commercial Court of Kiev that alleges violations of one of the advertising and marketing services agreements and seeks relief of approximately UAH 42.3 million (approximately US\$ 5.2 million). On September 7, 2012, the Commercial Court of Kiev dismissed Prioritet's claims. On October 31, 2012, the Commercial Court of Appeal of Kiev dismissed Prioritet's appeal of the lower court's decision. On March 26, 2013, the Superior Commercial Court of Ukraine denied an appeal by Prioritet following the decision of the appellate court. In addition, on September 28, 2012, VI filed a further claim in the LCIA against CME BV, alleging CME BV owes approximately US\$ 4.0 million under the partial award as an indemnity payment VI claims Prioritet is owed from Studio 1+1 in connection with the termination of the advertising and marketing services agreements between Studio 1+1 and Prioritet. On May 15, 2013, a final award was issued in the arbitration proceedings, pursuant to which VI's claim of approximately US\$ 4.0 million was dismissed. This award is not subject to appeal.

##### *Slovenian Competition Proceeding*

On April 26, 2013 the Competition Protection Agency of the Republic of Slovenia ("CPA") adopted a decision finding that our wholly-owned subsidiary Produkcija Plus d.o.o. ("Pro Plus") has abused a dominant position on the Slovenian television advertising market in breach of applicable competition law, by requiring exclusivity from its advertising customers and by applying loyalty discounts in favor of its customers. Pro Plus intends vigorously to contest the decision and filed an appeal with the Slovenian Supreme Court on May 24, 2013. To date, the CPA has not imposed any fine on Pro Plus. The CPA would need to commence a separate proceeding in order to impose a fine, and any fine that may be imposed would be subject to a statutory maximum of ten percent of Pro Plus' annual turnover in the business year preceding the year in which a fine is imposed. No such proceedings have been commenced, and Pro Plus is currently unable to estimate the timing of any such proceeding. Pro Plus is also unable to estimate the size of any potential future fine.

## Item 1A. Risk Factors

This report and the following discussion of risk factors contain forward-looking statements as discussed in Part 1, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations". Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks and uncertainties described below and elsewhere in this report. These risks and uncertainties are not the only ones we may face. Additional risks and uncertainties of which we are not aware, or that we currently deem immaterial, may also become important factors that affect our financial condition, results of operations and cash flows.

### Risks relating to our financial position

*The global recession, credit crisis and concerns regarding the Eurozone have adversely affected our financial position and results of operations. We cannot predict if or when economic conditions in the countries in which we operate will recover or how long any recovery may last. A failure to achieve prompt and lasting recoveries will continue to adversely affect our results of operations.*

The results of our operations depend heavily on advertising revenue, and demand for advertising is affected by prevailing general and regional economic conditions. The economic uncertainty affecting the global financial markets and banking system since the beginning of 2009 has had an adverse impact on economic growth in our operating countries across Central and Eastern Europe, some of which are still contending with recession. There has been a widespread withdrawal of investment funding from the Central and Eastern European markets and companies with investments in them, particularly in Bulgaria and Romania. Furthermore, the economic downturn has adversely affected consumer and business spending, access to credit, liquidity, investments, asset values and employment rates. These adverse economic conditions have had a material negative impact on the advertising industries in our markets, leading our customers to continue to spend less on advertising than at the peak period in 2008 as they modify, delay or cancel plans to purchase advertising. This has negatively impacted our financial position, results of operations and cash flows since 2008. While GDP and private consumption returned to growth in 2011 in most of our operating countries, they weakened again during 2012 due to continuing concerns regarding Europe's sovereign debt crisis, the stability of the Eurozone, the sustainability of the Euro as a common currency and the growth prospects of major emerging market and developed market economies globally. As a result, the economic conditions of our operating countries remain challenging, particularly in Slovenia where recent banking-sector problems and ongoing political instability contributed to a significant increase of the country's sovereign risk. Recent economic events related to the continuing sovereign debt crisis in several European Union countries have highlighted issues relating to the strength of the banking sector in Europe and its ability to safeguard depositors' funds and the long-term stability of the Euro as a single currency. Though the European Union has created external funding and stability mechanisms to provide liquidity and financial assistance to Eurozone member states and financial institutions, there can be no assurance that the recent market disruptions in Europe related to sovereign debt and the banking sector, including the increased cost of funding for certain governments and financial institutions, will not continue, nor can there be any assurance that future assistance packages will be available or, even if provided, will be sufficient to stabilize the affected banks, countries and markets in Europe or elsewhere. Furthermore, the departure of a country from the Euro or the dissolution of the Euro by its members could negatively impact our business as well as cause significant volatility and disruption in the global economy. Any of these developments would have a significant negative effect on our financial position, results of operations and cash flows.

*We continue to face significant liquidity constraints and may require additional external sources of capital for our debt service obligations and to fund our operations, which may not be available or may not be available on acceptable terms.*

As at June 30, 2013, we had US\$ 144.5 million of cash and cash equivalents; cash used in operating activities was US\$ 39.2 million for the six months ended June 30, 2013. Our attempts to increase television advertising prices have been met with significant resistance from certain advertisers, particularly in the Czech Republic. We believe that advertisers deliberately held back their demand for GRPs due to our initiatives to increase prices, resulting in a decrease in GRPs purchased in the Czech Republic in the first half of 2013. If we continue to face resistance to our pricing initiatives, GRP consumption could remain below 2012 levels at least through the third quarter of 2013. While we believe that GRP consumption in the Czech Republic will return to levels similar to those of previous years as advertisers look to increase the reach of campaigns through the end of the year, there can be no assurances that the level of GRPs sold, and by extension our revenues, will increase as expected. (See Part I, Item 2, II "Overview - Executive Summary".) As a result, there could be continued pressure on our liquidity this year. In the absence of a sustained recovery in the television advertising markets in our region, we expect that our cash flows from operating activities will continue to be insufficient to cover operating expenses and interest payments and we will need other capital resources in the future to fund our debt service and other obligations as they become due. Under our indentures we are able to borrow only limited additional funds and therefore we continue to take actions to improve our liquidity, including targeted reductions of our operating cost base through cost optimization programs, the deferral of programming commitments (including with a related party supplier) and capital expenditures and the deferral of development projects. There can be no assurances that our overall financial performance will improve or that there will not be other unanticipated developments that have a negative impact on our liquidity. If there is not a sustained recovery in the television advertising market over the medium-term or if our actions to improve our liquidity are not successful, we may be unable to meet our debt service obligations and generally fund our operations some time beyond the next twelve months.

*Our operating results will be adversely affected if we cannot generate strong advertising sales.*

We generate most of our revenues from the sale of advertising airtime on our television channels. In addition to general economic conditions, other factors that may affect our advertising sales are the pricing of advertising time as well as audience ratings, changes in programming strategy, changes in audience preferences, our channels' technical reach, technological developments relating to media and broadcasting, competition from other broadcasters and operators of other media platforms, seasonal trends in the advertising market, increased competition for the leisure time of audiences and shifts in population and other demographics. In addition, the occurrence of disasters, acts of terrorism, civil or military conflicts or general political instability may create further economic uncertainty that reduces advertising spending. The reduction in advertising spending in our markets has had a negative effect on the prices at which we can sell television advertising because of pressure to reduce prices from advertisers and discounting by competitors. Advertising spending may also be affected by the expansion of distribution platforms and changing preferences in how and when people view content and the accompanying advertising. Our ability to maintain audience ratings and to generate GRPs, also depends on our maintaining investments in television programming and productions at a sufficient level to continue to attract audiences. Significant or sustained reductions in investments in programming that attracts such audiences or other operating costs in response to reduced advertising spending in our markets have had and may continue to have an adverse impact on our television viewing levels. Reduced advertising spending, discounting of the price of television advertising in our markets and competition for ratings from broadcasters seeking to attract similar audiences have had and may continue to have an adverse impact on our ability to maintain our advertising sales. The significant decline in advertising sales has had and could continue to have a material adverse effect on our financial position, results of operations and cash flows.

*We may not be successful in our attempts to diversify and enhance our revenues.*

We are focused on creating additional revenue streams as well as enhancing revenues generated from broadcast advertising, which is how we currently generate the substantial majority of our revenues. These include increasing subscriber fees from cable and direct-to-home ("DTH") operators for carriage of our channels and subscription revenues from our subscription television and video-on-demand ("VOD") offerings. In addition, we have implemented changes to our broadcast advertising sales policies that are designed to boost revenues and to support increases in advertising prices across our markets. Some cable and DTH operators have suspended the broadcast of our channels during the implementation of our carriage fees strategy, which affects the reach and audience shares of those operations. Our attempts to increase television advertising prices have been met with significant resistance from certain advertisers, particularly in the Czech Republic. These events have had a negative impact on our financial position in the first half of 2013, and may continue to do so as we move forward with implementing these strategies across our operating territories if clients withdraw advertising or reduce spending or operators refuse to carry our channels. If we are ineffective in diversifying our revenue streams, our profitability will continue to be dependent primarily on advertising revenues from our broadcast operations, which places additional pressures on our ability to generate advertising revenues. There can be no assurances that these initiatives will ultimately be successful and this may have an adverse impact on our results of operations and cash flows.

*Our debt service obligations may restrict our ability to fund our operations.*

We and certain of our subsidiaries have significant debt service obligations under the Senior Notes and 2015 Convertible Notes. As a result of our debt service obligations and covenants contained in the related indentures, we and our restricted subsidiaries are restricted under the Senior Notes and 2015 Convertible Notes in the manner in which our business is conducted, including but not limited to our ability to obtain additional financing to fund future working capital, capital expenditures, business opportunities and other corporate requirements. In addition, the covenants contained in the indentures governing the Senior Notes restrict the manner and extent to which we can provide financial support to certain subsidiaries. Furthermore, we may have a proportionally higher level of debt than our competitors, which may put us at a competitive disadvantage. Servicing our high level of debt may limit our flexibility in planning for, or reacting to, changes in our business, economic conditions and our industry.

*A further downgrading of our ratings may adversely affect our ability to raise additional financing.*

Our corporate credit is currently rated as B3 with a negative outlook and the 2017 Fixed Rate Notes are rated Ba3 by Moody's Investors Services. Our corporate credit is currently rated B- with a stable outlook, the 2016 Fixed Rate Notes are rated CCC+ and the 2017 Fixed Rate Notes are rated B- by Standard & Poor's. These ratings reflect each agency's opinion of our financial strength, operating performance and ability to meet our debt obligations as they become due. Credit rating agencies monitor companies very closely and have made liquidity and the key ratios associated with it, such as gross leverage ratio, a particular priority. We may not be able to operate with sufficient liquidity in the next twelve months to maintain our current ratings if market conditions in our operating territories do not improve or if we are not able to complete other measures to optimize costs. We conducted public and private equity financings in the second quarter of 2013, including our repurchase of approximately EUR 205.6 million of the 2016 Fixed Rate Notes with a portion of the proceeds, which resulted in an improvement of our balance sheet. However, we may be subject to potential downgrades in the future if we fail to maintain adequate levels of liquidity. In the event our debt or corporate credit ratings are lowered by the ratings agencies, it will be more difficult for us to refinance indebtedness or raise new indebtedness that may be permitted under our indentures and we will have to pay higher interest rates, which would have an adverse effect on our financial position, results of operations and cash flows.

*If our goodwill, indefinite-lived intangible assets and long-lived assets become impaired, we may be required to record significant charges to earnings.*

We review our long-lived assets for impairment when events or changes in circumstances indicate the carrying amount 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 amount of our goodwill, indefinite-lived intangible assets or long-lived assets may not be recoverable include slower growth rates in our markets, reduced expected future cash flows and increased country risk premium as a result of political uncertainty and a decline in stock price and market capitalization. We consider available current information when calculating our impairment charge. If there are indicators of impairment, our long-term cash flow forecasts for our operations deteriorate or discount rates increase, we may be required to recognize additional impairment charges in later periods. If the on-going economic uncertainty in our markets causes television advertising spending in our countries to contract during 2013 more than we had expected when we performed the previous annual test, we may need to make downward revisions in our cash flow forecasts for one or more reporting units. This would trigger an impairment review prior to the annual goodwill impairment test that will be performed in the fourth quarter of 2013. In particular, if our initiatives to increase advertising prices in the Czech Republic and other markets are unsuccessful, it is possible that an impairment charge, which may be material, would be required following an interim goodwill impairment test if performed during 2013. The balance of goodwill in each reporting unit is presented in Item 1, Note 3, "Goodwill and Intangible Assets."

*Changes to our business could result in future costs or charges.*

We periodically adjust our business strategy in response to particular events and circumstances, including economic conditions, industry changes and technological developments, as reflected by the change in our reporting segments starting January 1, 2013 (see Part I, Item 1, Note 18, "Segment Data"). In connection with the implementation of new strategies, we may decide to restructure certain of our operations, business or assets in order to optimize our cost structure and capture operating efficiencies. For example, we are in the process of streamlining our operating model in order to better execute our one content, multiple distribution strategy and expect to incur restructuring charges of approximately US\$ 10 million in 2013. Additional similar events could also result in restructuring and other charges and the incurrence of additional costs or may require significant management time to implement. If any such charges are material, they could have an adverse impact on our results of operations and cash flows.

*A default by us in connection with our obligations under our outstanding indebtedness could result in our inability to continue to conduct our business.*

Pursuant to the terms of the indentures governing the 2016 Fixed Rate Notes and the 2015 Convertible Notes, we pledged all of the shares in Central European Media Enterprises N.V. ("CME NV") and all of the shares of CME BV, which together own substantially all of the interests in our operating subsidiaries, as security for these notes. In addition, pursuant to the indenture governing the 2017 Fixed Rate Notes, we pledged our ownership interests in CET 21 and substantially all of CET 21's assets, including shares of CME Slovak Holdings B.V. If we or our restricted subsidiaries were to default under the terms of any of the indentures governing such notes, the secured parties under such indentures would have the ability to sell all or a portion of the assets pledged to them in order to pay amounts outstanding under such debt instruments. In addition, in the event of a default under the indenture governing the 2017 Fixed Rate Notes, the secured parties thereunder can enforce against assets that are not part of the collateral for the other Senior Notes or the 2015 Convertible Notes, including the shares and business of CET 21. Any such event would have a material adverse effect on our financial position, results of operations and cash flows.

*We may be unable to refinance our existing indebtedness and may not be able to obtain favorable refinancing terms.*

We face the risk that our indebtedness will not be able to be renewed, repaid or refinanced when due, or that the terms of any renewal or refinancing will not be as favorable as the terms of such indebtedness being refinanced. This risk is exacerbated by the current volatility in the capital markets, which has resulted in tightened lending requirements and in some cases the inability to refinance indebtedness. In the second quarter of 2013 we successfully completed private transactions to repurchase approximately EUR 205.6 million (approximately US\$ 270 million at the date of repurchase) aggregate principal amount of the 2016 Fixed Rate Notes. Nonetheless, we still have a substantial amount of indebtedness, including approximately US\$ 261.0 million of 2015 Convertible Notes that mature on November 15, 2015.

In addition, following the termination on June 18, 2013 of the Irrevocable Voting Deed and Proxy dated May 18, 2009 among an affiliate of Time Warner, Ronald Lauder and certain of his affiliates and us, as amended by a Letter Agreement dated April 29, 2013 (the "voting agreement"), Time Warner is no longer subject to an agreement not to own more than 49.9% of our voting securities. The acquisition by Time Warner (or any other person or group (as such term is defined in Section 13(d)(3) of the Exchange Act)) of more than 50% of our outstanding shares of Class A common stock would constitute a fundamental change under the indenture governing the 2015 Convertible Notes. If such a fundamental change occurs, we would need to repurchase or refinance the 2015 Convertible Notes in the event the holders thereof exercise their repurchase option under the indenture governing the 2015 Convertible Notes. If we were unable to repurchase or refinance our indebtedness on acceptable terms or at all, we might be forced to dispose of assets on disadvantageous terms or reduce or suspend operations, any of which would materially and adversely affect our financial condition, results of operations and cash flows.

*Fluctuations in exchange rates may adversely affect our results of operations.*

Our reporting currency is the dollar but our consolidated revenues and costs, including programming rights expenses and interest on debt, are divided across a range of currencies. The Senior Notes are denominated in euros. We have not attempted to hedge the foreign exchange exposure on the principal amount of these notes. Furthermore, continuing instability in the Eurozone may increase our exposure to currency fluctuations. We may continue to experience significant gains and losses on the translation of our revenues or the Senior Notes into dollars due to movements in exchange rates between the euro (which has suffered significant depreciation against the U.S. dollar in recent months), the currencies of our local operations and the U.S. dollar. We may experience significant gains and losses on the translation of our revenues or the Senior Notes into U.S. dollars due to movements in exchange rates between the euro, applicable local currency and the U.S. dollar, which may have a material adverse effect on our financial position, results of operations and cash flows.

#### **Risks relating to our operations**

*Programming content may become more expensive to produce or acquire or we may not be able to develop or acquire content that is attractive to our audiences.*

Television programming is one of the most significant components of our operating costs. The ability of programming to generate advertising revenues depends substantially on our ability to develop, produce or acquire programming that matches audience tastes and attracts high audience shares, which is difficult to predict. The commercial success of a program depends on several tangible and intangible factors, including the impact of competing programs, the availability of alternate forms of entertainment and leisure time activities, our ability to anticipate and adapt to changes in consumer tastes and behavior, and general economic conditions. Furthermore, the cost of acquiring content attractive to our viewers, such as feature films and popular television series and formats, has increased as a result of greater competition from existing and new television broadcasting channels at the same time as our revenues from advertising has declined. Our expenditures in respect of locally produced programming may also 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 well in our markets. In the event any such programming does not attract adequate audience share, it may be necessary to increase our expenditures by investing in additional programming, subject to the availability of adequate financial resources, as well as to write down the value of such underperforming programming. Any increase in content costs or write-downs could have a material adverse effect on our financial condition, results of operations and cash flows.

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

We generate most of our revenues from the sale of our advertising airtime on television channels in our markets. Television competes with various other media, such as print, radio, the internet and outdoor advertising, for advertising spending. 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. Furthermore, there can be no assurances that changes in the regulatory environment or improvements in 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 as a component of total advertising spending in any period or in specific markets would have an adverse effect on our financial position, results of operations and cash flows.

*Our businesses are vulnerable to significant changes in technology that could adversely affect us.*

The television broadcasting industry is affected by rapid innovations in technology. The implementation of new technologies and the introduction of broadcasting distribution systems other than analog terrestrial broadcasting, such as digital terrestrial television ("DTT") broadcasting, direct-to-home cable and satellite distribution systems, the internet, video-on-demand, user-generated content sites and the availability of television programming on portable digital devices, have changed consumer behavior by increasing the number of entertainment choices available to audiences and the methods for the distribution, storage and consumption of content. This has fragmented television audiences in more developed markets and could adversely affect our ability to retain audience share and attract advertisers as such technologies penetrate our markets. New business initiatives of ours to expand our distribution capabilities to adapt to changing patterns of consumption of content may not be embraced by consumers and therefore may not develop into profitable business models. New technologies that enable viewers to choose when, how, where and what content to watch, as well as to fast-forward or skip advertisements, may cause changes in consumer behavior that could impact our businesses. In addition, compression techniques and other technological developments allow for an increase in the number of channels that may be broadcast in our markets and expanded programming offerings that may be offered to highly targeted audiences. Reductions in the cost of launching additional channels 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 to ensure necessary access to 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 to address competition that arises on account of technological innovations in broadcasting may have an adverse effect on our financial position, results of operations and cash flows.

*Piracy of our content may decrease revenues we can earn from our content and adversely impact our business and profitability.*

Piracy of our content poses significant challenges in our markets. Technological developments, including digital copying, file compressing, the use of international proxies and the growing penetration of high bandwidth internet connections, have made it easier to create, transmit and distribute high quality unauthorized copies of content in unprotected digital formats. Furthermore, there are a growing number of video streaming sites, increasing the risk of online transmission of our content without consent. The proliferation of such sites broadcasting content pirated from us could result in a reduction of revenues that we receive from the legitimate sale and distribution of our content, including revenues generated by Voyo, our subscription VOD service and other revenue streams. Protection of our intellectual property is dependent on the manner in which applicable intellectual property laws in the countries in which we operate are construed and enforced. We seek to limit the threat of content piracy. However, detecting and policing the unauthorized use of our intellectual property is often difficult and remedies may be limited under applicable law. Steps we take may not prevent the infringement by third parties. There can be no assurance that our efforts to enforce our rights and protect our intellectual property will be successful in preventing piracy, which limits our ability to generate revenues from our content.

*We rely on network and information systems and other technology that may be subject to disruption or misuse, which could harm our business or our reputation.*

We make extensive use of network and information systems and other technologies, including those related to our internal network management as well as our new media operations. These systems are central to many of our business activities. Network and information systems-related events, such as computer hackings, computer viruses, worms or other destructive or disruptive software, process breakdowns, malicious activities or other security breaches could result in a disruption or degradation of our services, the loss of information or the improper disclosure of personal data. The occurrence of any of these events could negatively impact our business by requiring us to expend resources to remedy such a security breach or by harming our reputation. In addition, improper disclosure of personal data could subject us to liability under laws that protect personal data in the countries in which we operate. The development and maintenance of systems to prevent these events from occurring requires ongoing monitoring and updating as efforts to overcome security measures become more sophisticated. As technologies evolve, we will need to expend additional resources to protect our technology and information systems, which could have an adverse impact on our results of operations.

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

Our business and operations have grown in part through acquisitions. While we continue to explore acquisition opportunities, prospective competitors may have greater financial resources than we do, and increased competition for target broadcasters or other media businesses may reduce the number of potential acquisitions that are available on acceptable terms. If we acquire new businesses, their integration into our existing operations poses significant risks, including:

- additional demands placed on our senior management, who are also responsible for managing our existing operations;
- increased overall operating complexity of our businesses, requiring greater personnel and other resources;
- difficulties in expanding beyond our core expertise in the event that we acquire 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 the indentures governing the Senior Notes.

To manage our growth effectively and achieve pre-acquisition performance objectives, we would need to integrate new acquisitions into our existing businesses, implement financial and management controls and produce required financial statements for those operations. The integration of new businesses may also be difficult due to differing cultures, languages 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 cash flows and profit margins.

*The transition to digital television broadcasting may require substantial additional investments and the effectiveness of such investments is uncertain.*

Countries in which we have operations are migrating from analog terrestrial broadcasting to DTT broadcasting. Each country has independent plans for its digital switchover with its own timeframe, operating model and regulatory and investment regime. Croatia, the Czech Republic, the Slovak Republic and Slovenia have completed the analog switch-off. The migration to digital broadcasting in Bulgaria is expected to be completed by September 2013 and in Romania, which is in the initial stages of migration, completion is expected by 2015. We cannot predict the full effect of the migration to DTT broadcasting on existing operations or the take up of DTT broadcasting by their audiences. We also cannot predict whether all of our operations will receive rights or licenses to broadcast any existing or additional channels if additional rights or licenses to such broadcasting should be required in those countries that have not completed the digital switchover. Our operations may be required to make substantial investment and commit substantial other resources to implement DTT broadcasting and secure distribution in advance of knowing the take up of DTT broadcasting versus competing alternative distribution systems, such as direct-to-home platforms. We may not have access to resources sufficient to make such investments when required.

*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 where we must comply with various regulatory obligations related to our businesses, including in respect of broadcasting and competition. We believe that we are in compliance with all our regulatory obligations in all material respects but it is not possible to predict how regulatory authorities or courts that have been or may be asked to resolve any allegations or claims will decide such issues. Our markets pose different risks to 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. The economic and political systems, legal and tax regimes, standards of corporate governance and business practices of countries in this region continue to develop. Government policies may be subject to significant adjustments, especially in the event of a change in leadership. This 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, any of which could have a material adverse effect on our financial position, results of operations and cash flows. Other potential risks inherent in markets with evolving 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 political parties also present a potential for biased treatment of us before regulators or courts 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 the loss of one or more of our business operations. The loss of a material business would have an adverse impact on our financial position, results of operations and cash flows.

*We may not be aware of all related party transactions, which may involve risks of conflicts of interest that result in transactions being concluded on less favorable terms than could be obtained in arm's-length transactions.*

In certain of our markets, the officers, general directors or other members of the management of our operating companies have other business interests, including interests in television and other media-related companies. We may not be aware of all business interests or relationships that exist with respect to entities with which our operating companies enter into transactions. Transactions with companies, whether or not we are aware of any business relationship between our employees and third parties, may present conflicts of interest which may in turn result in the conclusion of transactions on terms that are not arm's-length. It is likely that we and our subsidiaries will continue to enter into related party transactions in the future. 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 indentures governing the Senior Notes. Any related party transaction that is entered into on terms that are not arm's-length may result in a negative 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. Our broadcasting licenses for our operations in Slovenia and the Slovak Republic are valid for indefinite time periods and our remaining broadcasting licenses expire at various times through 2028. While we expect that our material licenses and authorizations will be renewed or extended as required to continue to operate our business, we cannot guarantee that this will occur or that they will not be subject to revocation, particularly in markets 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. 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.

*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 important contributions to our growth and success. 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. The loss of the services of any of these individuals could have an adverse effect on our businesses, results of operations and cash flows.

## **Risks Relating to Enforcement Rights**

*CME Ltd. is a Bermuda company and enforcement of civil liabilities and judgments may be difficult.*

CME Ltd. is a Bermuda company. Substantially all of our assets and all of our operations are located, and all of our revenues are derived, outside the United States. In addition, several of our directors and all of our officers are non-residents of the United States, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, investors may be unable to affect service of process within the United States upon such persons, or to enforce against them judgments obtained in the United States courts, including judgments predicated upon the civil liability provisions of the United States 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 courts obtained against us or such persons predicated upon the civil liability provisions of the United States federal and state securities laws or (ii) in original actions brought in such countries, liabilities against us or such persons predicated upon the United States federal and state securities laws.

*Our bye-laws restrict shareholders from bringing legal action against our officers and directors.*

Our bye-laws contain a broad waiver by our shareholders of any claim or right of action in Bermuda, both individually and on our behalf, against any of our officers or directors. The waiver applies to any action taken or concurred in by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against our officers and directors unless the act or failure to act involves fraud or dishonesty.

### **Risks Relating to our Common Stock**

*Our share price may be adversely affected by sales of unrestricted or unregistered shares or future issuances of our shares.*

An affiliate of Time Warner holds 61,407,775 unregistered shares of Class A common stock, one share of Series A convertible preferred stock, which is expected to convert into 11,211,449 shares of Class A common stock in August 2013, and 200,000 shares of Series B convertible redeemable preferred stock. The shares of Series B convertible redeemable preferred stock are convertible into shares of Class A common stock after three years at the option of Time Warner at a current conversion price of \$3.1625. The accretion rate is 7.5% per annum, compounded quarterly, for first three years and 3.75% per annum, compounded quarterly, for the fourth and fifth years. Assuming conversion three years from issuance and no adjustments to the conversion price under the Certificate of Designations for the Series B convertible redeemable preferred stock, Time Warner would be issued 79.0 million shares of Class A common stock upon conversion. Time Warner has registration rights with respect to all its shares of Class A common stock. The 2015 Convertible Notes are convertible into shares of our Class A common stock and mature on November 15, 2015. Prior to August 15, 2015, the 2015 Convertible Notes will be convertible following certain events and from that date at any time to November 15, 2015. Furthermore, there are additional unregistered or restricted shares of our Class A common stock outstanding, as well as securities convertible into shares of Class A common stock, that may enter the market. We cannot predict what effect, if any, the entry into trading of previously issued unregistered or restricted shares of Class A common stock will have on the market price of our shares. We may also issue additional equity in the future. If more shares of common stock are issued, the economic interests of current shareholders may be diluted and the price of our shares may be adversely affected.

*The interests of our controlling shareholders may conflict with the interests of other shareholders.*

An affiliate of Time Warner holds a 49.9% economic interest in us and, following the termination of the voting agreement in June 2013, is able to exercise the full voting power of such 49.9% interest. As such, Time Warner is in a position to exercise significant influence over the outcome of corporate actions requiring shareholder approval, such as the election of directors or certain transactions. Under Bermuda law, there is no takeover code or similar legislation requiring an acquirer of a certain percentage of CME common stock to tender for the remaining publically held shares. In certain circumstances, the interests of Time Warner as controlling shareholder could be in conflict with the interests of minority shareholders.

*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 Operations” as well as the following: general economic and business trends, variations in quarterly operating results, license renewals, regulatory developments in our operating countries and the European Union, 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 and investors' and securities analysts' perception of us and other companies that investors or securities analysts deem comparable in the television broadcasting industry. In addition, stock markets in general have 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 shares of our Class A common stock, regardless of our operating performance.

**Item 6. Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.01	Bye-laws of Central European Media Enterprises Ltd., as amended and restated on June 12, 2013.
3.02	Certificate of Deposit of Memorandum of Increase of Share Capital executed by the Registrar of Companies on July 3, 2013.
4.01*	Certificate of Designation of the Series B Convertible Redeemable Preferred Stock of Central European Media Enterprises Ltd., issued on June 25, 2013 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 25, 2013).
10.01*	Subscription Agreement, dated as of April 29, 2013, by and between Central European Media Enterprises Ltd. and Time Warner Media Holdings B.V. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 29, 2013).
10.02*	Letter Agreement, dated as of April 29, 2013, by and between RSL Savannah LLC, RSL Capital LLC, RSL Investments Corporation, Ronald S. Lauder and Time Warner Media Holdings B.V. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 29, 2013).
10.03*	Underwriting Agreement dated as of May 2, 2013 between Central European Media Enterprises Ltd. and J.P.Morgan Securities LLC, as representative of the several underwriters named therein (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on May 8, 2013).
31.01	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.02	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.01	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished only).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

\* Previously filed exhibits.

**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: July 31, 2013

/s/ David Sach  
David Sach  
Executive Vice President and Chief Financial Officer

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.

**EXHIBIT INDEX**

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**BYE-LAWS**  
**OF**  
**CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.**

(first adopted pursuant to a written resolution of the sole member passed on 12th July, 1994 and amended at annual general meetings of 2nd May 1997, 14th December 1999, 25th May 2000, 15th May 2002, 3rd June, 2008, 13th June 2012 and 12th June 2013).

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## INTERPRETATION

1. In these Bye-laws, unless the context otherwise requires, the words standing in the first column of the following table shall bear the meaning set opposite them respectively in the second column.

<u>WORD</u>	<u>MEANING</u>
"Act"	The Companies Act 1981 of Bermuda, as amended from time to time.
"Auditor"	the auditor of the Company for the time being and may include any individual or partnership.
"Bye-laws"	these Bye-laws in their present form or as supplemented or amended or substituted from time to time.
"Board" or "Directors"	the Board of Directors of the Company or the Directors present at a meeting of Directors at which a quorum is present.
"capital"	the share capital from time to time of the Company.
"clear days"	in relation to the period of a notice that period excluding the day when the notice is given or deemed to be given and the day for which it is given or on which it is to take effect.
"clearing house"	a clearing house recognised by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction.
"Company"	Central European Media Enterprises Ltd.
"competent regulatory authority"	a competent regulatory authority in the territory where the shares of the Company are listed or quoted on a stock exchange in such territory.
"debenture" and "debenture holder"	include debenture stock and debenture stockholder respectively.
"Designated Stock Exchange"	a stock exchange which is an appointed stock exchange for the purposes of the Act in respect of which the shares of the Company are listed or quoted and where such appointed stock exchange deems such listing or quotation to be the primary listing or quotation of the shares of the Company.
"dollars" and "\$"	dollars, the legal currency of the United States of America.
"head office"	such office of the Company as the Directors may from time to time determine to be the principal office of the Company.
"Immediate Family"	with respect to any individual, such individual's spouse, descendants (natural or adoptive), grandparents, parents, siblings of the whole or half blood.
"Member"	a duly registered holder from time to time of the shares in the capital of the Company.
"month"	a calendar month.
"Notice"	written notice unless otherwise specifically stated and as further defined in these Bye-laws.
"Office"	the registered office of the Company for the time being.
"paid up"	paid up or credited as paid up.
"Register"	the principal register and where applicable, any branch register of Members of the Company to be kept pursuant to the provisions of the Act.
"Registration Office"	in respect of any class of share capital such place as the Board may from time to time determine to keep a branch register of Members in respect of that class of share capital and where (except in cases where the Board otherwise directs) the transfers or other documents of title for such class of share capital are to be lodged for registration and are to be registered.

"Seal"	common seal or any one or more duplicate seals of the Company (including a securities seal) for use in Bermuda or in any place outside Bermuda.
"Secretary"	any person firm or corporation appointed by the Board to perform any of the duties of secretary of the Company and includes any assistant, deputy, temporary or acting secretary.
"Statutes"	the Act and every other act of the Legislature of Bermuda for the time being in force applying to or affecting the Company, its memorandum of association and/or these Bye-laws.
"year"	a calendar year.

2. In these Bye-laws, unless there be something within the subject or context inconsistent with such construction:
  - (a) words importing the singular include the plural and vice versa;
  - (b) words importing a gender include every gender;
  - (c) words importing persons include companies, associations and bodies of persons whether corporate or not;
  - (d) the words:
    - (i) "may" shall be construed as permissive;
    - (ii) "shall" or "will" shall be construed as imperative;
  - (e) expressions referring to writing shall, unless the contrary intention appears, be construed as including printing, lithography, photography and other modes of representing words or figures in a visible form;
  - (f) references to any act, ordinance, statute or statutory provision shall be interpreted as relating to any statutory modification or re-enactment thereof for the time being in force;
  - (g) save as aforesaid words and expressions defined in the Statutes shall bear the same meanings in these Bye-laws if not inconsistent with the subject in the context;
  - (h) a resolution shall be a special resolution when it has been passed by a majority of not less than three-fourths of votes cast by such Members as, being entitled so to do, vote in person or, in the case of such Members as are corporations, by their respective duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying (without prejudice to the power contained in these Bye-laws to amend the same) the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the Members having the right to attend and vote at any such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' Notice has been given;
  - (i) a resolution shall be an ordinary resolution when it has been passed by a simple majority of votes cast by such Members as, being entitled so to do, vote in person or, in the case of any Member being a corporation, by its duly authorised representative or, where proxies are allowed, by proxy at a general meeting of which not less than fourteen (14) clear days' Notice has been duly given;
  - (j) a special resolution shall be effective for any purpose for which an ordinary resolution is expressed to be required under any provision of these Bye-laws or the Statutes.

#### SHARE CAPITAL

3. (1) The capital of the Company shall be divided into three classes of shares, namely:
  - (a) 300,000,000 Shares of Class A Common Stock, par value \$0.08 per share ("Class A Shares");
  - (b) 15,000,000 Shares of Class B Common Stock, par value \$0.08 per share ("Class B Shares"); and
  - (c) 5,000,000 Shares of Preferred Stock, par value \$0.08 per share ("Preferred Shares").

The Class A shares and the Class B Shares are together referred to as the "Common Shares".
- (2) The holders of Class A Shares shall, subject to the provisions of these Bye-laws:
  - (a) be entitled to one vote per Class A Share;
  - (b) be entitled to such dividends as the directors may from time to time declare on Class A Shares pari passu with the holders of Class B Shares; and
  - (c) in the event of a winding-up or dissolution of the Company, whether voluntary or involuntary or for a reorganisation or otherwise or upon a distribution of capital, be entitled, after the satisfaction of the rights of the holders of Preferred Shares, to all the surplus assets of the Company pari passu with the holders of Class B Shares.
- (3) The holders of Class B Shares shall, subject to the provisions of these Bye-laws:
  - (a) be entitled to ten votes per Class B Share;
  - (b) be entitled to such dividends as the directors may from time to time declare on Class B Shares, pari passu with the holders of Class A Shares; and
  - (c) in the event of a winding up or dissolution of the Company, whether voluntary or involuntary or for a re-organisation or otherwise or upon a distribution of capital, be entitled, after the satisfaction of the rights of the holders of Preferred Shares, to all the surplus assets of the Company pari passu with the holders of Class A Shares.
- (4) The Class B Shares shall be convertible into Class A Shares on a one for one basis at the option of the holder thereof. All of the issued and outstanding Class B Shares shall automatically convert into Class A Shares on a one for one basis when the number of issued and outstanding Class B Shares is less than ten per cent (10%) of the issued and outstanding Common Shares.

(5) Class B Shares may only be transferred to the following (each a "Permitted Transferee"): (i) to other holders of Class B Shares who were holders of Class B shares prior to the consummation of the Company's public offering of Class A Shares, (ii) in the case where the holder of Class B Shares is an individual, to his or her Immediate Family by gift, devise or otherwise through laws of descent or distribution, to a trust established by holders of Class B Shares the beneficiaries of which are one or more of his or her Immediate Family, to a corporation or other entity the majority of beneficial owners of which are or will be owned by holders of Class B Shares, (iii) in the case where the holder of Class B Shares is a corporation, to its shareholders, (iv) in the case where the holder of Class B Shares is a partnership to its partners, and (v) to any person who would be a Permitted Transferee through a series of permitted transfers. Any other transfer of Class B Shares is void. However, nothing in this Bye-law prevents a holder of Class B Shares from converting his Class B Shares into Class A Shares as permitted by the Bye-laws and transferring such Class A Shares as permitted by law.

(6) The transfer of more than fifty percent (50%) of the equity interest in a corporation or partnership which is a holder of Class B Shares to other than a Permitted Transferee shall cause all of the Class B Shares held by such corporation or partnership to automatically convert into Class A Shares on a one for one basis. The Company shall be entitled to seek specific enforcement of the conversion in the event the holder of the Class B Shares fails to comply with the requirements to effect such conversion, and shall be entitled to recover from the holder the court costs, reasonable attorneys' fees and other cost and expenses incurred by the Company in connection with obtaining such specific enforcement.

(7) The Preferred Shares may be issued, subject to the Act, the Company's memorandum of association and these Bye-laws as from time to time amended, from time to time in one or more series of any number of shares, and with distinctive serial designations, all as shall hereafter be stated and expressed in the resolution or resolutions providing for the issuance of such Preferred Shares from time to time adopted by the Board of Directors pursuant to authority so to do which is hereby vested in the Board of Directors. Subject to the Act, the Company's memorandum of association and these Bye-laws, each series of Preferred Shares (a) may have such voting powers, (b) may be subject to redemption at such time or times, price or prices, or rate or rates, and with such adjustments, (c) may be entitled to receive dividends (which may be cumulative or noncumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or of any other series of stock, (d) may have such rights upon the dissolution of, or upon any distribution of the assets of, the Company, (e) may be made convertible into, or exchangeable for, shares of any other class or classes or any other series of the same or any other class or classes of shares of the Company, at such price or prices or at such rate or rates of exchange, and with such adjustments, (f) may be entitled to the benefit of a sinking fund with respect to the purchase or redemption of shares of such series, and (g) may have such other preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of such preferences and/or rights, all as shall be stated in said resolution or resolutions providing for the issue of such Preferred Shares.

Subject to the Act, the Company's memorandum of association and these Bye-laws as from time to time amended, with respect to the closing of the Register or the fixing of a record date for the determination of Members entitled to vote and except as otherwise provided the Act, the Company's memorandum of association and these Bye-laws as from time to time amended or by the resolution or resolutions providing for the issue of any series of Preferred Shares, the holders of outstanding Common Shares shall exclusively have the right to vote for the election of directors and for all other purposes. Except as otherwise provided by the Act, the Company's memorandum of association and these Bye-laws as from time to time amended or by the resolution or resolutions providing for the issue of any series of Preferred Shares, the holders of Common Shares shall be entitled, to the exclusion of the holders of Preferred Shares of any and all series, to receive such dividends as from time to time may be declared by the Board of Directors. Except as otherwise provided by the Act, the Company's memorandum of association and these Bye-laws as from time to time amended or by the resolution or resolutions providing for the issue of any series of Preferred Shares, in the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, after payment shall have been made to the holders of Preferred Shares of the full amount, if any, for which they shall be entitled pursuant to the resolution or resolutions providing for the issue of any series of Preferred Shares, the holders of Common Shares shall be entitled, to the exclusion of the holders of Preferred Shares of any and all series, to share, rateably according to the number of Common Shares held by them, in all remaining assets of the Company available for distribution to its Members.

(8) Subject to the Act, the Company's memorandum of association and, where applicable, the rules of any Designated Stock Exchange and/or any competent regulatory authority, any power of the Company to purchase or otherwise acquire its own shares shall be exercisable by the Board upon such terms and subject to such conditions as it thinks fit.

(9) Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards PROVIDED that nothing in this Bye-law shall prohibit transactions permitted by the Statutes.

#### **ALTERATION OF CAPITAL**

4. The Company may from time to time by ordinary resolution passed by the holders of Common Shares in accordance with Section 45 of the Act:

- (a) increase its capital by such sum, to be divided into shares of such amounts, as the resolution shall prescribe;
- (b) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (c) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or such restrictions which in the absence of any such determination by the Company in general meeting, as the Directors may determine provided always that where the Company issues shares which do not carry voting rights, the words "non-voting" shall appear in the designation of such shares;
- (d) sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum of association (subject, nevertheless, to the Act), and may by such resolution determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred rights or be subject to any such restrictions as compared with the other or others as the Company has power to attach to unissued or new shares;
- (e) change the currency denomination of its share capital; and
- (f) cancel any shares which, at the date of the passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

5. The Board may settle as it considers expedient any difficulty which arises in relation to any consolidation and division under the last preceding Bye-law and in particular but without prejudice to the generality of the foregoing may issue certificates in respect of fractions of shares or arrange for the sale of the shares representing fractions and the distribution of the net proceeds of sale (after deduction of the expenses of such sale) in due proportion amongst the Members who would have been entitled to the fractions, and for this purpose the Board may authorise some person to transfer the shares representing fractions to their purchaser or resolve that such net proceeds be paid to the Company for the Company's benefit. Such purchaser will not be bound to see to the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

6. The Company may from time to time by special resolution passed by the holders of Class A Shares and passed by the holders of Class B Shares, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

7. Except so far as otherwise provided by the conditions of issue, or by these Bye-laws, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company, and such shares shall be subject to the provisions contained in these Bye-laws with reference to the payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise.

#### **SHARE RIGHTS**

8. Subject to any special rights conferred on the holders of any shares or class of shares, any share in the Company (whether forming part of the present capital or not) may be issued with or have attached thereto such rights or restrictions whether in regard to dividend, voting, return of capital or otherwise as the Company may by ordinary resolution determine or, if there has not been any such determination or so far as the same shall not make specific provision, as the Board may determine.

9. Subject to Sections 42 and 43 of the Act, any preference shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder if so authorised by its memorandum of association, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution of the Members determine.

9A. (1) There shall be a class vote for the holders of Class A Shares and a class vote for the holders of Class B Shares to pass a resolution to approve a going private transaction, and unless such resolution is passed by a majority of the votes cast at the meeting of each class, the resolution shall not pass.

(2) For the purposes of this bye-law, a "going private transaction" is any Rule 13e-3 transaction as such term is defined in Rule 13e-3 promulgated under the Securities Exchange Act of 1934 of the United States of America, as amended, between the Company and (i) Ronald S. Lauder (the "Principal Shareholder"), (ii) any Affiliate of the Principal Shareholder or (iii) any group consisting of the Principal Shareholder or Affiliates of the Principal Shareholder. For the purposes of this bye-law "Affiliate of the Principal Shareholder" means (i) any individual or entity who or that, directly or indirectly, controls, is controlled by, or is under common control with, the Principal Shareholder, (ii) any corporation or organisation (other than the Company or a majority-owned subsidiary of the Company) of which the Principal Shareholder is an officer or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of voting securities, or in which the Principal Shareholder has a substantial beneficial interest, (iii) any trust or other estate in which the Principal Shareholder has a substantial beneficial interest or as to which such Principal Shareholder serves as trustee or in a similar fiduciary capacity or (iv) any relative or spouse of a Principal Shareholder, or any relative of such spouse, who has the same residence as such Principal Shareholder.

#### **VARIATION OF RIGHTS**

10. Subject to the Act and without prejudice to Bye-law 8, all or any of the special rights for the time being attached to the shares or any class of shares may, unless otherwise provided by the terms of issue of the shares of that class, from time to time (whether or not the Company is being wound up) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting all the provisions of these Bye-laws relating to general meetings of the Company shall, mutatis mutandis, apply, but so that:

- (a) the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting of such holders, two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum;
- (b) every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him or in the case of Class B Shares, ten votes for every such share held by him; and
- (c) any holder of shares of the class present in person or by proxy may demand a poll.

11. The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith.

#### **SHARES**

12. (1) Subject to the Act and these Bye-laws and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, the unissued shares of the Company (whether forming part of the original or any increased capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration and upon such terms and conditions as the Board may in its absolute discretion determine but so that no shares shall be issued at a discount. Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such offer, option or shares to Members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(2) The Board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

(3) The Company may purchase its own shares for cancellation or acquire them as Treasury Shares in accordance with the Act on such terms as the Board may from time to time determine. All rights attaching to Treasury Shares shall be suspended and shall not be exercised by the Company while it holds such Treasury Shares and, except where required by the Act, all Treasury Shares shall be excluded from the calculation of any percentage or fraction of the share capital, or shares, of the Company. For the purposes of these Bye-Laws, "Treasury Share" shall mean a share of the Company that was or is treated as having been acquired and held by the Company and has been continuously held by the Company since it was so acquired and has not been cancelled.

13. The Company may in connection with the issue of any shares exercise all powers of paying commission and brokerage conferred or permitted by the Act. Subject to the Act, the commission may be satisfied by the payment of cash or by the allotment of fully or partly paid shares or partly in one and partly in the other.

14. Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or required in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or any fractional part of a share or (except only as otherwise provided by these Bye-laws or by law) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

15. Subject to the Act and these Bye-laws, the Board may at any time after the allotment of shares but before any person has been entered in the Register as the holder, recognise a renunciation thereof by the allottee in favour of some other person and may accord to any allottee of a share a right to effect such renunciation upon and subject to such terms and conditions as the Board considers fit to impose.

#### **SHARE CERTIFICATES**

16. The shares of the Company's stock may be certificated or uncertificated, as provided under the Act. Every share certificate shall be issued under the Seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine. No certificate shall be issued representing shares of more than one class. The Board may by resolution determine, either generally or in any particular case or cases, that any signatures on any such certificates (or certificates in respect of other securities) need not be autographic but may be affixed to such certificates by some mechanical means or may be printed thereon or that such certificates need not be signed by any person.

17. (1) In the case of a share held jointly by several persons, the Company shall not be bound to issue more than one certificate therefor and delivery of a certificate to one of several joint holders shall be sufficient delivery to all such holders.

(2) Where a share stands in the names of two or more persons, the person first named in the Register shall as regards service of notices and, subject to the provisions of these Bye-laws, all or any other matters connected with the Company, except the transfer of the shares, be deemed the sole holder thereof.

18. Every person whose name is entered, upon an allotment of shares, as a Member in the Register shall be entitled, without payment, to receive one certificate for all such shares of any one class or several certificates each for one or more of such shares of such class upon request in writing to the Company and upon payment for every certificate after the first of such reasonable out-of-pocket expenses as the Board from time to time determines. A shareholder who does not submit such a request in writing to the Company shall receive uncertificated shares.

19. Share certificates requested pursuant to Bye-Law 18 shall be issued in the case of an issue of shares within twenty-one (21) days (or such longer period as the terms of the issue provide) after such a request or in the case of a transfer of fully or partly paid shares within twenty-one (21) days after such a request following the lodgement of a transfer with the Company, not being a transfer which the Company is for the time being entitled to refuse to register and does not register.

20. Upon every transfer of certificated shares, the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and if requested by the transferee pursuant to Bye-Law 18 a new certificate shall be issued to the transferee in respect of the shares transferred to him. If any of the shares included in the certificate so given up shall be retained by the transferor a new certificate for the balance shall be issued to him if so requested by the transferor pursuant to Bye-law 18.

21. If a share certificate shall be damaged or defaced or alleged to have been lost, stolen or destroyed a new certificate representing the same shares may be issued to the relevant member upon request and on payment of such fee as the Designated Stock Exchange may determine to be the maximum payable or such lesser sum as the Board may determine and, subject to compliance with such terms (if any) as to evidence and indemnity and to payment of the costs and reasonable out-of-pocket expenses of the Company in investigating such evidence and preparing such indemnity as the Board may think fit and, in case of damage or defacement, on delivery of the old certificate to the Company provided always that where share warrants have been issued, no new share warrant shall be issued to replace one that has been lost unless the Directors are satisfied beyond reasonable doubt that the original has been destroyed.

#### **LIEN**

22. The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether presently payable or not) called or payable at a fixed time in respect of that share. The Company shall also have a first and paramount lien on every share (not being a fully paid share) registered in the name of a Member (whether or not jointly with other Members) for all amounts of money presently payable by such Member or his estate to the Company whether the same shall have been incurred before or after notice to the Company of any equitable or other interest of any person other than such member, and whether the period for the payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such Member or his estate and any other person, whether a Member of the Company or not. The Company's lien on a share shall extend to all dividends or other moneys payable thereon or in respect thereof. The Board may at any time, generally or in any particular case, waive any lien that has arisen or declare any share exempt in whole or in part, from the provisions of this Bye-law.

23. Subject to these Bye-laws, the Company may sell in such manner as the Board determines any share on which the Company has a lien, but no sale shall be made unless some sum in respect of which the lien exists is presently payable, or the liability or engagement in respect of which such lien exists is liable to be presently fulfilled or discharged nor until the expiration of fourteen clear days after a notice in writing, stating and demanding payment of the sum presently payable, or specifying the liability or engagement and demanding fulfilment or discharge thereof and giving notice of the intention to sell in default, has been served on the registered holder for the time being of the share or the person entitled thereto by reason of his death or bankruptcy.

24. The net proceeds of the sale shall be received by the Company and applied in or towards payment or discharge of the debt or liability in respect of which the lien exists, so far as the same is presently payable, and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the share prior to the sale) be paid to the person entitled to the share at the time of the sale. To give effect to any such sale the Board may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares so transferred and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale.

#### **CALLS ON SHARES**

25. Subject to these Bye-laws and to the terms of allotment, the Board may from time to time make calls upon the Members in respect of any moneys unpaid on their shares (whether on account of the nominal value of the shares or by way of premium), and each Member shall (subject to being given at least fourteen (14) clear days' Notice specifying the time and place of payment) pay to the Company as required by such notice the amount called on his shares. A call may be extended, postponed or revoked in whole or in part as the Board determines but no member shall be entitled to any such extension, postponement or revocation except as a matter of grace and favour.

26. A call shall be deemed to have been made at the time when the resolution of the Board authorising the call was passed and may be made payable either in one lump sum or by instalments. The Directors may make arrangements on the issue of shares for a difference between the shareholders in the amount of calls to be paid and in the times of payment.

27. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect of which the call was made. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect thereof or other moneys due in respect thereof.

28. If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the amount unpaid from the day appointed for payment thereof to the time of actual payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board may determine, but the Board may in its absolute discretion waive payment of such interest wholly or in part.

29. No Member shall be entitled to receive any dividend or bonus or to be present and vote (save as proxy for another Member) at any General Meeting either personally or by proxy, or be reckoned in a quorum, or exercise any other privilege as a Member until all calls or instalments due by him to the Company, whether alone or jointly with any other person, together with interest and expenses (if any) shall have been paid.

30. On the trial or hearing of any action or other proceedings for the recovery of any money due for any call, it shall be sufficient to prove that the name of the Member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such debt accrued, that the resolution making the call is duly recorded in the minute book, and that notice of such call was duly given to the Member sued, in pursuance of these Bye-laws; and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.

31. Any amount payable in respect of a share upon allotment or at any fixed date, whether in respect of nominal value or premium or as an instalment of a call, shall be deemed to be a call duly made and payable on the date fixed for payment and if it is not paid the provisions of these Bye-laws shall apply as if that amount had become due and payable by virtue of a call duly made and notified.

32. On the issue of shares the Board may differentiate between the allottees or holders as to the amount of calls to be paid and the times of payment.

33. The Board may, if it thinks fit, receive from any Member willing to advance the same, and either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any shares held by him and upon all or any of the moneys so advanced (until the same would, but for such advance, become presently payable) pay interest at such rate (if any) as the Board may decide. The Board may at any time repay the amount so advanced upon giving to such Member not less than one month's notice in writing of its intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the shares in respect of which it was advanced. Such payment in advance shall not entitle the holder of such share or shares to participate in respect thereof in a dividend subsequently declared.

#### **FORFEITURE OF SHARES**

34. (1) If a call remains unpaid after it has become due and payable the Board may give to the person from whom it is due not less than fourteen (14) clear days' notice:

- (a) requiring payment of the amount unpaid together with any interest which may have accrued and which may still accrue up to the date of actual payment; and
- (b) stating that if the notice is not complied with the shares on which the call was made will be liable to be forfeited.

(2) If the requirements of any such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls and interest due in respect thereof has been made, be forfeited by a resolution of the Board to that effect, and such forfeiture shall include all dividends and bonuses declared in respect of the forfeited share but not actually paid before the forfeiture.

35. When any share has been forfeited, notice of the forfeiture shall be served upon the person who was before forfeiture the holder of the share. No forfeiture shall be invalidated by any omission or neglect to give such notice.

36. The Board may accept the surrender of any share liable to be forfeited hereunder and, in such case, references in these Bye-laws to forfeiture will include surrender.

37. Until cancelled in accordance with the requirements of the Act, a forfeited share shall be the property of the Company and may be sold, re-allotted or otherwise disposed of to such person, upon such terms and in such manner as the Board determines, and at any time before a sale, re-allotment or disposition the forfeiture may be annulled by the Board on such terms as the Board determines.

38. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares but nevertheless shall remain liable to pay the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares, with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate (not exceeding twenty per cent. (20%) per annum) as the Board determines. The Board may enforce payment thereof if it thinks fit, and without any deduction or allowance for the value of the forfeited shares, at the date of forfeiture, but his liability shall cease if and when the Company shall have received payment in full of all such moneys in respect of the shares. For the purposes of this Bye-law any sum which, by the terms of issue of a share, is payable thereon at a fixed time which is subsequent to the date of forfeiture, whether on account of the nominal value of the share or by way of premium, shall notwithstanding that time has not yet arrived be deemed to be payable at the date of forfeiture, and the same shall become due and payable immediately upon the forfeiture, but interest thereon shall only be payable in respect of any period between the said fixed time and the date of actual payment.

39. A declaration by a Director or the Secretary that a share has been forfeited on a specified date shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the share, and such declaration shall (subject to the execution of an instrument of transfer by the Company if necessary) constitute a good title to the share, and the person to whom the share is disposed of shall be registered as the holder of the share and shall not be bound to see to the application of the consideration (if any), nor shall his title to the share be affected by any irregularity in or invalidity of the proceedings in reference to the forfeiture, sale or disposal of the share. When any share shall have been forfeited, notice of the declaration shall be given to the member in whose name it stood immediately prior to the forfeiture, and an entry of the forfeiture, with the date thereof, shall forthwith be made in the register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or make any such entry.

40. Notwithstanding any such forfeiture as aforesaid the Board may at any time, before any shares so forfeited shall have been sold, re-allotted or otherwise disposed of, permit the shares forfeited to be bought back upon the terms of payment of all calls and interest due upon and expenses incurred in respect of the share, and upon such further terms (if any) as it thinks fit.

41. The forfeiture of a share shall not prejudice the right of the Company to any call already made or instalment payable thereon.

42. The provisions of these Bye-laws as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

#### **REGISTER OF MEMBERS**

43. (1) The Company shall keep in one or more books a Register of its Members and shall enter therein the following particulars, that is to say:

- (a) the name and address of each Member, the number and class of shares held by him and the amount paid or agreed to be considered as paid on such shares;
- (b) the date on which each person was entered in the Register; and
- (c) the date on which any person ceased to be a Member.

(2) Subject to the Act, the Company may keep an overseas or local or other branch register of Members resident in any place, and the Board may make and vary such regulations as it determines in respect of the keeping of any such register and maintaining a Registration Office in connection therewith.

44. The Register and branch register of Members, as the case may be, shall be open to inspection between 10 a.m. and 12 noon on every business day by Members without charge or by any other person, upon a maximum payment of five Bermuda dollars, at the Office or such other place in Bermuda at which the Register is kept in accordance with the Act or, if appropriate, upon a maximum payment of ten dollars at the Registration Office. The Register including any overseas or local or other branch register of Members may, after notice has been given by advertisement in an appointed newspaper and where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Board may determine and either generally or in respect of any class of shares.

#### **RECORD DATES**

45. Notwithstanding any other provision of these Bye-laws the Company or the Directors may fix any date as the record date for:

- (a) determining the Members entitled to receive any dividend, distribution, allotment or issue and such record date may be on, or at any time not more than 30 days before or after, any date on which such dividend, distribution, allotment or issue is declared, paid or made;
- (b) determining the Members entitled to receive notice of and to vote at any general meeting of the Company.

#### **TRANSFER OF SHARES**

46. Subject to these Bye-laws, any Member may transfer all or any of his shares by an instrument of transfer in the usual or common form or in any other form approved by the Board and may be under hand only.

47. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. The Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register in respect thereof. Nothing in these Bye-laws shall preclude the Board from recognising a renunciation of the allotment or provisional allotment of any share by the allottee in favour of some other person.

48. (1) The Board may, in its absolute discretion, and without giving any reason therefor, refuse to register a transfer of any share issued under any share scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register a transfer of any share to more than four (4) joint holders. Nothing in these Bye-laws shall impair the settlement of transactions entered into through the facilities of the National Association of Security Dealers Automated Quotations System or other Designate Stock Exchange except as provided by such exchanges.

(2) No transfer shall be made to an infant or to a person of unsound mind or under other legal disability.

(3) The Board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the Register to any branch register or any share on any branch register to the Register or any other branch register. In the event of any such transfer, the shareholder requesting such transfer shall bear the cost of effecting the transfer unless the Board otherwise determines.

(4) Unless the Board otherwise agrees (which agreement may be on such terms and subject to such conditions as the Board in its absolute discretion may from time to time determine, and which agreement it shall, without giving any reason therefor, be entitled in its absolute discretion to give or withhold), no shares upon the Register shall be transferred to any branch register nor shall shares on any branch register be transferred to the Register or any other branch register and all transfers and other documents of title shall be lodged for registration, and registered, in the case of any shares on a branch register, at the relevant Registration Office, and, in the case of any shares on the Register, at the Office or such other place in Bermuda at which the Register is kept in accordance with the Act.

49. Without limiting the generality of the last preceding Bye-law, the Board may decline to recognise any instrument of transfer unless:-

- (a) the instrument of transfer is in respect of only one class of share;
- (b) the instrument of transfer is lodged at the Office or such other place in Bermuda at which the Register is kept in accordance with the Act or the Registration Office (as the case may be) accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and, if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do); and
- (c) if applicable, the instrument of transfer is duly and properly stamped.

50. If the Board refuses to register a transfer of any share in accordance with Bye-law 48, it shall, within two (2) months after the date on which the transfer was lodged with the Company, send to each of the transferor and transferee notice of the refusal.

51. The registration of transfers of shares or of any class of shares may, after notice has been given by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange to that effect be suspended at such times and for such periods (not exceeding thirty (30) days in any year) as the Board may determine.

#### **TRANSMISSION OF SHARES**

52. If a Member dies, the survivor or survivors where the deceased was a joint holder, and his legal personal representatives where he was a sole or only surviving holder, will be the only persons recognised by the Company as having any title to his interest in the shares; but nothing in this Bye-law will release the estate of a deceased Member (whether sole or joint) from any liability in respect of any share which had been solely or jointly held by him.

53. Subject to Section 52 of the Act, any person becoming entitled to a share in consequence of the death or bankruptcy or winding-up of a Member may, upon such evidence as to his title being produced as may be required by the Board, elect either to become the holder of the share or to have some person nominated by him registered as the transferee thereof. If he elects to become the holder he shall notify the Company in writing either at the Registration Office or Office, as the case may be, to that effect. If he elects to have another person registered he shall execute a transfer of the share in favour of that person. The provisions of these Bye-laws relating to the transfer and registration of transfers of shares shall apply to such notice or transfer as aforesaid as if the death or bankruptcy of the Member had not occurred and the notice or transfer were a transfer signed by such Member.

54. A person becoming entitled to a share by reason of the death or bankruptcy or winding-up of a Member shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share. However, the Board may, if it thinks fit, withhold the payment of any dividend payable or other advantages in respect of such share until such person shall become the registered holder of the share or shall have effectually transferred such share, but, subject to the requirements of Bye-law 75(2) being met, such a person may vote at meetings.

#### **UNTRACEABLE MEMBERS**

55. (1) Without prejudice to the rights of the Company under paragraph (2) of this Bye-law, the Company may cease sending cheque for dividend entitlements or dividend warrants by post if such cheque or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheque for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

(2) The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a Member who is untraceable, but no such sale shall be made unless:

- (a) all cheque or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period in the manner authorised by the Bye-laws of the Company have remained uncashed;
- (b) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and

- (c) the Company, if so required by the rules governing the listing of shares on the Designated Stock Exchange, has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Designated Stock Exchange to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three (3) months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.

For the purpose of the foregoing, the "relevant period" means the period commencing twelve years before the date of publication of the advertisement referred to in paragraph (c) of this Bye-law and ending at the expiry of the period referred to in that paragraph.

(3) To give effect to any such sale the Board may authorise some person to transfer the said shares and an instrument of transfer signed or otherwise executed by or on behalf of such person shall be as effective as if it had been executed by the registered holder or the person entitled by transmission to such shares, and the purchaser shall not be bound to see to the application of the purchase money nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale. The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former Member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any sale under this Bye-law shall be valid and effective notwithstanding that the Member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

#### **GENERAL MEETINGS**

56. An annual general meeting of the Company shall be held in each year other than the year of incorporation at such time and place as may be determined by the Board.

57. Each general meeting, other than an annual general meeting, shall be called a special general meeting. General meetings may be held in any part of the world as may be determined by the Board.

58. (1) The Board may whenever it thinks fit call special general meetings, and Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Act.

(2) A Member may raise business, including the nomination of a candidate for election as a Director, to be considered at annual and special general meetings of the Company, provided, however, that in order to be brought before a general meeting Member proposals must (i) be a proper matter for Member action under the Act and the rules and regulations promulgated by the U.S. Securities and Exchange Commission (the "Rules and Regulations"), (ii) comply with the requirements of this Bye-law 58 and (iii) with respect to Director nominees, the Member submitting such proposal shall have beneficially owned at least five percent of any class of the Company's outstanding stock for a period of at least one year. Where a Member proposal is to be considered at an annual general meeting, notice of such Member proposal must be received by the Secretary not less than 120 days prior to the anniversary date of the prior year's annual general meeting proxy statement. Where a Member proposal is to be considered at a special general meeting, such notice must be received not later than five (5) days following the earlier of the date on which notice of the special general meeting was given to Members in accordance with these Bye-laws or the date on which public disclosure of the date of the special general meeting was made. Any notice of a Member proposal shall contain (i) the name, address and relationship to the Company of the proposing Member and, with respect to director nominations, the proposed nominee, (ii) with respect to director nominations, a statement to the effect that the proposed nominee has no direct or indirect business conflict of interest with the Company, (iii) with respect to director nominations, a statement to the effect that the proposed nominee meets the Company's published minimum criteria for consideration as a nominee for director of the Company, (iv) the form of resolution to be included in the proxy statement, (v) a brief description as to why the passing of the resolution is beneficial to the Company and (vi) any such other information as would be required under the rules and regulations of the U.S. Securities and Exchange Commission to be included in the Company's proxy statement if such proposal were to be included therein. Notwithstanding the foregoing, in order to include information with respect to a Member proposal in the Company's proxy statement and form of proxy for a general meeting, such Member must provide notice as required by, and otherwise comply with, the Act and the Rules and Regulations. The Company may exclude a Member's proposal from the Company's proxy statement and form of proxy in accordance with the Act and the Rules and Regulations.

#### **NOTICE OF GENERAL MEETINGS**

59. (1) An annual general meeting and any special general meeting shall be called by not less than fourteen (14) clear days' Notice but a general meeting may be called by shorter notice if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all the Members entitled to attend and vote thereat; and
- (b) in the case of any other meeting, by a majority in number of the Members having the right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the issued shares giving that right.

(2) The period of notice shall be exclusive of the day on which it is served or deemed to be served and exclusive of the day on which the meeting is to be held, and the notice shall specify the time and place of the meeting and, in case of special business, the general nature of the business. The notice convening an annual general meeting shall specify the meeting as such. Notice of every general meeting shall be given to all Members other than to such Members as, under the provisions of these Bye-laws or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, to all persons entitled to a share in consequence of the death or bankruptcy or winding-up of a Member and to each of the Directors and the Auditors.

60. The accidental omission to give Notice of a meeting or (in cases where instruments of proxy are sent out with the Notice) to send such instrument of proxy to, or the non-receipt of such Notice or such instrument of proxy by, any person entitled to receive such Notice shall not invalidate any resolution passed or the proceedings at that meeting.

## PROCEEDINGS AT GENERAL MEETINGS

61. (1) All business shall be deemed special that is transacted at a special general meeting, and also all business that is transacted at an annual general meeting, with the exception of sanctioning dividends, the reading, considering and adopting of the accounts and balance sheet and the reports of the Directors and Auditors and other documents required to be annexed to the balance sheet, the election of Directors and appointment of Auditors and other officers in the place of those retiring, the fixing of the remuneration of the Auditors, and the voting of remuneration or extra remuneration to the Directors.

(2) No business other than the appointment of a chairman of a meeting shall be transacted at any general meeting unless a quorum is present at the commencement of the business. Such number of Members holding a majority of the votes of the Company and present in person or by proxy or (in the case of a member being a corporation) by its duly authorised representative shall form a quorum for all purposes.

62. If within thirty (30) minutes (or such longer time not exceeding one hour as the chairman of the meeting may determine to wait) after the time appointed for the meeting a quorum is not present, the meeting, if convened on the requisition of Members, shall be dissolved. In any other case it shall stand adjourned to the same day in the next week at the same time and place or to such time and place as the Board may determine. If at such adjourned meeting a quorum is not present within half an hour from the time appointed for holding the meeting, the meeting shall be dissolved.

63. The President of the Company or the Chairman shall preside as chairman at every general meeting. If at any meeting the President or the Chairman, as the case may be, is not present within fifteen (15) minutes after the time appointed for holding the meeting, or if neither of them is willing to act as chairman, the Directors present shall choose one of their number to act, or if one Director only is present he shall preside as chairman if willing to act. If no Director is present, or if each of the Directors present declines to take the chair, or if the Chairman chosen shall retire from the chair, the Members present in person or by proxy and entitled to vote shall elect one of their number to be chairman.

64. The Chairman may, with the consent of any meeting at which a quorum is present (and shall if so directed by the meeting), adjourn the meeting from time to time and from place to place as the meeting shall determine, but no business shall be transacted at any adjourned meeting other than business which might lawfully have been transacted at the meeting had the adjournment not taken place. When a meeting is adjourned for fourteen (14) days or more, at least seven (7) clear days' notice of the adjourned meeting shall be given specifying the time and place of the adjourned meeting but it shall not be necessary to specify in such notice the nature of the business to be transacted at the adjourned meeting and the general nature of the business to be transacted. Save as aforesaid, it shall be unnecessary to give notice of an adjournment. No business shall be transacted at any such adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

65. If an amendment is proposed to any resolution under consideration but is in good faith ruled out of order by the chairman of the meeting, the proceedings on the substantive resolution shall not be invalidated by any error in such ruling. In the case of a resolution duly proposed as a special resolution, no amendment thereto (other than a mere clerical amendment to correct a patent error) may in any event be considered or voted upon.

## VOTING

66. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Bye-laws, at any general meeting on a show of hands every Member present in person or by proxy or (being a corporation) is present by a representative duly authorised under Section 78 of the Act shall have one vote and on a poll every Member present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy shall have such number of votes as are attached to every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
- (d) by a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.

67. Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or not carried by a particular majority, or lost, and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution.

68. If a poll is duly demanded the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. There shall be no requirement for the chairman to disclose the voting figures on a poll.

69. A poll demanded on the election of a chairman, or on a question of adjournment, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (being not later than thirty (30) days after the date of the demand) and place as the Chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.

70. The demand for a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded, and, with the consent of the chairman, it may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

71. On a poll votes may be given either personally or by proxy.
72. A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.
73. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of such meeting shall be entitled to a second or casting vote in addition to any other vote he may have.
74. Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register in respect of the joint holding. Several executors or administrators of a deceased Member in whose name any share stands shall for the purposes of this Bye-law be deemed joint holders thereof.
75. (1) A Member who is a patient for any purpose relating to mental health or in respect of whom an order has been made by any court having jurisdiction for the protection or management of the affairs of persons incapable of managing their own affairs may vote, whether on a show of hands or on a poll, by his receiver, committee, curator bonis or other person in the nature of a receiver, committee or curator bonis appointed by such court, and such receiver, committee, curator bonis or other person may vote on a poll by proxy, and may otherwise act and be treated as if he were the registered holder of such shares for the purposes of general meetings, provided that such evidence as the Board may require of the authority of the person claiming to vote shall have been deposited at the Office, head office or Registration Office, as appropriate, not less than forty-eight (48) hours before the time appointed for holding the meeting, or adjourned meeting or poll, as the case may be.
- (2) Any person entitled under Bye-law 53 to be registered as the holder of any shares may vote at any general meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty-eight (48) hours at least before the time of the holding of the meeting or adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of his entitlement to such shares, or the Board shall have previously admitted his right to vote at such meeting in respect thereof.
76. No Member shall, unless the Board otherwise determines, be entitled to attend and vote and to be reckoned in a quorum at any General Meeting unless he is duly registered and all calls or other sums presently payable by him in respect of shares in the Company have been paid.
77. If:
- (a) any objection shall be raised to the qualification of any voter; or
  - (b) any votes have been counted which ought not to have been counted or which might have been rejected; or
  - (c) any votes are not counted which ought to have been counted;

the objection or error shall not vitiate the decision of the meeting or adjourned meeting on any resolution unless the same is raised or pointed out at the meeting or, as the case may be, the adjourned meeting at which the vote objected to is given or tendered or at which the error occurs. Any objection or error shall be referred to the Chairman of the meeting and shall only vitiate the decision of the meeting on any resolution if the Chairman decides that the same may have affected the decision of the meeting. The decision of the Chairman on such matters shall be final and conclusive.

#### PROXIES

78. Any Member entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Member may appoint a proxy in respect of part only of his holding of shares in the Company. A proxy need not be a Member of the Company.
79. If an instrument appointing a proxy is in writing, it shall be under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same. In the case of an instrument of proxy in writing purporting to be signed on behalf of a corporation by an officer thereof it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.
80. Subject to the Act, the instrument appointing a proxy, whether in writing or in any other form as may be approved by the Board, and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered or otherwise submitted or communicated to the Company in such form and manner or to such place or one of such places (if any) as may be specified for that purpose in or by way of note to or in any document accompanying the notice convening the meeting (or, if no place is so specified for instruments in writing, at the Registration Office or the Office, as may be appropriate) not less than forty-eight (48) hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than twenty-four (24) hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of twelve (12) months from the date named in it as the date of its execution, if such instrument is in writing, or the date it is submitted or communicated to the Company, if such instrument is in a form other than in writing, except at an adjourned meeting or on a poll demanded at a meeting or an adjourned meeting in cases where the meeting was originally held within twelve (12) months from such date. Delivery, submission or communication, as the case may be, of an instrument appointing a proxy shall not preclude a Member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
81. Instruments of proxy shall be in any common form or in such other form as the Board may approve (provided that this shall not preclude the use of the two-way form) and the Board may, if it thinks fit, send out or provide access to with the notice of any meeting forms of instrument of proxy for use at the meeting. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates.
82. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal, or revocation of the instrument of proxy or of the authority under which it was executed, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company at the Office or the Registration Office (or such other place as may be specified for the delivery of instruments of proxy in the notice convening the meeting or other document sent therewith) two (2) hours at least before the commencement of the meeting or adjourned meeting, or the taking of the poll, at which the instrument of proxy is used.

83. Anything which under these Bye-laws a Member may do by proxy he may likewise do by his duly appointed attorney and the provisions of these Bye-laws relating to proxies and instruments appointing proxies shall apply mutatis mutandis in relation to any such attorney and the instrument under which such attorney is appointed.

#### **CORPORATIONS ACTING BY REPRESENTATIVES**

84. (1) Any corporation which is a Member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or any class of Members of the Company. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual Member of the Company and such corporation shall for the purposes of these Bye-laws be deemed to be present in person at any such meeting if a person so authorised is present thereat. Any reference in these Bye-laws to a duly authorised representative of a Member being a corporation shall mean a representative authorised under the provisions of this Bye-law.

(2) If a clearing house is a Member, it may authorise such person or persons as it thinks fit to act as its representative or representatives at any meeting of the Company or at any meeting of any class of Members provided that, if more than one person is so authorised, the authorization shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised under the provisions of this Bye-law shall be entitled to exercise the same powers on behalf of the clearing house (or its nominee) which he represents as that clearing house (or its nominee) could exercise if it were an individual Member.

#### **WRITTEN RESOLUTIONS OF MEMBERS**

85. (1) Subject to the Act, a resolution in writing signed (in such manner as to indicate, expressly or impliedly, unconditional approval) by or on behalf of all persons for the time being entitled to receive notice of and to attend and vote at general meetings of the Company shall, for the purposes of these Bye-laws, be treated as a resolution duly passed at a general meeting of the Company and, where relevant, as a special resolution so passed. Any such resolution shall be deemed to have been passed at a meeting held on the date on which it was signed by the last Member to sign, and where the resolution states a date as being the date of his signature thereof by any Member the statement shall be prima facie evidence that it was signed by him on that date. Such a resolution may consist of several documents in the like form, each signed by one or more relevant Members.

(2) Notwithstanding any provisions contained in these Bye-laws, a resolution in writing shall not be passed for the purpose of removing a Director before the expiration of his term of office under Bye-law 86(4) or for the purposes set out in Bye-law 154(3) relating to the removal and appointment of the Auditor.

#### **BOARD OF DIRECTORS**

86. (1) Unless otherwise determined by the Board of Directors, the number of Directors shall not be less than three (3). At all times, at least two (2) Directors shall be independent directors. The Directors shall be elected or appointed by ordinary resolution in the first place at the statutory meeting of Members and thereafter at each annual general meeting of the Company subject to Bye-law 87 and shall hold office until the next appointment of Directors or until their successors are elected or appointed.

(2) The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the Board of Directors. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

(3) Neither a Director nor an alternate Director shall be required to hold any shares of the Company by way of qualification and a Director or alternate Director (as the case may be) who is not a Member shall be entitled to receive notice of and to attend and speak at any general meeting of the Company and of all classes of shares of the Company.

(4) Subject to any provision to the contrary in these Bye-laws the Members may, at any general meeting convened and held in accordance with these Bye-laws, by special resolution remove a Director at any time before the expiration of his period of office notwithstanding anything in these Bye-laws or in any agreement between the Company and such Director (but without prejudice to any claim for damages under any such agreement) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention so to do and be served on such Director fourteen (14) days before the meeting and at such meeting such Director shall be entitled to be heard on the motion for his removal.

(5) A vacancy on the Board created by the removal of a Director under the provisions of subparagraph (4) above may be filled by the election or appointment by the Members at the meeting at which such Director is removed to hold office until the next appointment of Directors or until their successors are elected or appointed or, in the absence of such election or appointment the Board of Directors may fill any vacancy in the number left unfilled.

(6) The Board of Directors may from time to time increase or reduce the number of Directors but so that the number of Directors shall never be less than two (2).

#### **RETIREMENT OF DIRECTORS**

87. (1) At each annual general meeting all of the Directors for the time being shall retire from office.

(2) A retiring Director shall be eligible for re-election.

88. No person other than a Director retiring at the meeting shall, unless recommended by the Directors for election or nominated by a Member pursuant to Bye-Law 58(2), be eligible for election as a Director at any general meeting.

#### **DISQUALIFICATION OF DIRECTORS**

89. The office of a Director shall be vacated if the Director:

- (1) resigns his office by notice in writing delivered to the Company at the Office or tendered at a meeting of the Board whereupon the Board resolves to accept such resignation;
- (2) becomes of unsound mind or dies;
- (3) without special leave of absence from the Board, is absent from meetings of the Board for six consecutive months, and his alternate Director, if any, shall not during such period have attended in his stead and the Board resolves that his office be vacated; or
- (4) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (5) is prohibited by law from being a Director; or
- (6) ceases to be a Director by virtue of any provision of the Statutes or is removed from office pursuant to these Bye-laws.

#### **EXECUTIVE DIRECTORS AND COMMITTEES**

90. The Board may from time to time appoint any one or more of its body to be a Managing Director, Joint Managing Director or Deputy Managing Director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director. A Director appointed to an office under this Bye-law shall be subject to the same provisions as to removal as the other Directors of the Company, and he shall (subject to the provisions of any contract between him and the Company) ipso facto and immediately cease to hold such office if he shall cease to hold the office of Director for any cause.

91. Notwithstanding Bye-laws 96, 97, 98 and 99, an executive Director appointed to an office under Bye-law 90 hereof shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time determine, and either in addition to or in lieu of his remuneration as a Director.

91A. The Board may delegate any of its powers to a committee appointed by the Board and every such committee shall conform to such directions as the Board shall impose on them. The Board shall maintain an audit committee, a majority of the members of which shall be independent directors.

#### **ALTERNATE DIRECTORS**

92. Any Director may at any time by Notice delivered to the Office or head office or at a meeting of the Directors appoint any person to be his alternate Director. Any person so appointed shall have all the rights and powers of the Director or Directors for whom such person is appointed in the alternative provided that such person shall not be counted more than once in determining whether or not a quorum is present. An alternate Director may be removed at any time by the body which appointed him and, subject thereto, the office of alternate Director shall continue until the next annual election of Directors or, if earlier, the date on which the relevant Director ceases to be a Director. Any appointment or removal of an alternate Director shall be effected by Notice signed by the appointor and delivered to the Office or head office or tendered at a meeting of the Board. An alternate Director may also be a Director in his own right and may act as alternate to more than one Director. An alternate Director shall, if his appointor so requests, be entitled to receive notices of meetings of the Board or of committees of the Board to the same extent as, but in lieu of, the Director appointing him and shall be entitled to such extent to attend and vote as a Director at any such meeting at which the Director appointing him is not personally present and generally at such meeting to exercise and discharge all the functions, powers and duties of his appointor as a Director and for the purposes of the proceedings at such meeting the provisions of these Bye-laws shall apply as if he were a Director save that as an alternate for more than one Director his voting rights shall be cumulative.

93. An alternate Director shall only be a Director for the purposes of the Act and shall only be subject to the provisions of the Act insofar as they relate to the duties and obligations of a Director when performing the functions of the Director for whom he is appointed in the alternative and shall alone be responsible to the Company for his acts and defaults and shall not be deemed to be the agent of or for the Director appointing him. An alternate Director shall be entitled to contract and be interested in and benefit from contracts or arrangements or transactions and to be repaid expenses and to be indemnified by the Company to the same extent mutatis mutandis as if he were a Director but he shall not be entitled to receive from the Company any fee in his capacity as an alternate Director except only such part, if any, of the remuneration otherwise payable to his appointor as such appointor may by notice in writing to the Company from time to time direct.

94. Every person acting as an alternate Director shall have one vote for each Director for whom he acts as alternate (in addition to his own vote if he is also a Director). If his appointor is for the time being absent from Hong Kong or otherwise not available or unable to act, the signature of an alternate Director to any resolution in writing of the Board or a committee of the Board of which his appointor is a member shall, unless the notice of his appointment provides to the contrary, be as effective as the signature of his appointor.

95. An alternate Director shall ipso facto cease to be an alternate Director if his appointor ceases for any reason to be a Director, however, such alternate Director or any other person may be re-appointed by the Directors to serve as an alternate Director PROVIDED always that, if at any meeting any Director retires but is re-elected at the same meeting, any appointment of such alternate Director pursuant to these Bye-laws which was in force immediately before his retirement shall remain in force as though he had not retired.

#### **DIRECTORS' FEES AND EXPENSES**

96. The remuneration of the Directors shall from time to time be determined by the Directors and reported to the Members on an annual basis. Such remuneration shall be deemed to accrue from day to day.

97. Each Director shall be entitled to be repaid or prepaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by him in attending meetings of the Board or committees of the Board or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of his duties as a Director.

98. Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law.

99. The Board shall obtain the approval of the Company in general meeting before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

#### **DIRECTORS' AND OFFICERS' INTERESTS**

100. A Director may:

- (a) hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of Director for such period and, subject to the relevant provisions of the Act, upon such terms as the Board may determine. Any remuneration (whether by way of salary, commission, participation in profits or otherwise) paid to any Director in respect of any such other office or place of profit shall be in addition to any remuneration provided for by or pursuant to any other Bye-law;
- (b) act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm may be remunerated for professional services as if he were not a Director;
- (c) continue to be or become a director, managing director, joint managing Director, deputy managing director, executive director, manager or other officer or member of any other company promoted by the Company or in which the Company may be interested as a vendor, shareholder or otherwise and (unless otherwise agreed) no such Director shall be accountable for any remuneration, profits or other benefits received by him as a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer or member of or from his interests in any such other company. Subject as otherwise provided by these Bye-laws the Directors may exercise or cause to be exercised the voting powers conferred by the shares in any other company held or owned by the Company, or exercisable by them as Directors of such other company in such manner in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, managers or other officers of such company) or voting or providing for the payment of remuneration to the director, managing director, joint managing director, deputy managing director, executive director, manager or other officers of such other company and any Director may vote in favour of the exercise of such voting rights in manner aforesaid notwithstanding that he may be, or about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in manner aforesaid.

101. Subject to the Act and to these Bye-laws, no Director or officer or proposed or intending Director or officer shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or any other contract or arrangement in which any Director or officer is in any way interested be liable to be avoided, nor shall any Director or officer so contracting or being so interested be liable to account to the Company or the Members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director or officer holding that office or of the fiduciary relationship thereby established provided that such Director or officer shall disclose the nature of his interest in any contract or arrangement in which he is interested in accordance with Bye-law 102 herein.

102. A Director or officer who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of this Bye-law, a general notice to the Board by a Director to the effect that:

- (a) he is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm; or
- (b) he is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him;

shall be deemed to be a sufficient declaration of interest under this Bye-law in relation to any such contract or arrangement, provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Director or officer takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or any other proposal in which he is to his knowledge materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for giving to such Director any security or indemnity in respect of money lent by him or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which he is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

- (v) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of the Designated Stock Exchange) is beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest is derived); or
- (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director owns five (5) per cent. or more if and so long as (but only if and so long as) he and his associates (as defined by the rules, where applicable, of the Designated Stock Exchange), (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director as bare or custodian trustee and in which he has no beneficial interest, any shares comprised in a trust in which the Director's interest is in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director is interested only as a unit holder.

(3) Where a company in which a Director together with his associates (as defined by the rules, where applicable, of the Designated Stock Exchange) holds five (5) per cent. or more is materially interested in a transaction, then that Director shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.

#### **GENERAL POWERS OF THE DIRECTORS**

104. (1) The business of the Company shall be managed and conducted by the Board, which may pay all expenses incurred in forming and registering the Company and may exercise all powers of the Company (whether relating to the management of the business of the Company or otherwise) which are not by the Statutes or by these Bye-laws required to be exercised by the Company in general meeting, subject nevertheless to the provisions of the Statutes and of these Bye-laws and to such regulations being not inconsistent with such provisions, as may be prescribed by the Company in general meeting, but no regulations made by the Company in general meeting shall invalidate any prior act of the Board which would have been valid if such regulations had not been made. The general powers given by this Bye-law shall not be limited or restricted by any special authority or power given to the Board by any other Bye-law.

(2) Without prejudice to the general powers conferred by these Bye-laws it is hereby expressly declared that the Board shall have the following powers:

- (a) To give to any person the right or option of requiring at a future date that an allotment shall be made to him of any share at par or at such premium as may be agreed.
- (b) To give to any Directors, officers or servants of the Company an interest in any particular business or transaction or participation in the profits thereof or in the general profits of the Company either in addition to or in substitution for a salary or other remuneration.
- (c) To resolve that the Company be discontinued in Bermuda and continued in a named country or jurisdiction outside Bermuda subject to the provisions of the Act.

105. [Deleted]

106. The Board may by power of attorney appoint under the Seal any company, firm or person or any fluctuating body of persons, whether nominated directly or indirectly by the Board, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Board under these Bye-laws) and for such period and subject to such conditions as it may think fit, and any such power of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Board may think fit, and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretions vested in him. Such attorney or attorneys may, if so authorised under the Seal of the Company, execute any deed or instrument under their personal seal with the same effect as the affixation of the Company's Seal.

107. Except as specified in Bye-law 130 or unless expressly authorized by the Board in accordance with these Bye-laws, no Director or Officer may (a) enter into any contract or deed or other agreement pursuant to which the Company is obliged to make payment over such term or such amount as the Board may from time to time determine, or (b) issue or agree to issue any share of the Company. The Board may entrust to and confer upon any officer such powers, with such terms, conditions and restrictions, as the Board in its discretion deems appropriate.

108. All cheque, promissory notes, drafts, bills of exchange and other instruments, whether negotiable or transferable or not, and all receipts for moneys paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed, as the case may be, in such manner as the Board shall from time to time by resolution determine. The Company's banking accounts shall be kept with such banker or bankers as the Board shall from time to time determine.

109. (1) The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's moneys to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit under the Company or any of its subsidiary companies) and ex-employees of the Company and their dependents or any class or classes of such person.

(2) The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as mentioned in the last preceding paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of or upon or at any time after his actual retirement.

#### **BORROWING POWERS**

110. The Board may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Act, to issue debentures, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

111. Debentures, bonds and other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.

112. Any debentures, bonds or other securities may be issued at a discount (other than shares), premium or otherwise and with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.

113. (1) Where any uncalled capital of the Company is charged, all persons taking any subsequent charge thereon shall take the same subject to such prior charge, and shall not be entitled, by notice to the members or otherwise, to obtain priority over such prior charge.

(2) The Board shall cause a proper register to be kept, in accordance with the provisions of the Act, of all charges specifically affecting the property of the Company and of any series of debentures issued by the Company and shall duly comply with the requirements of the Act in regard to the registration of charges and debentures therein specified and otherwise.

#### **PROCEEDINGS OF THE DIRECTORS**

114. The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. A majority of the meetings of the Board of Directors of the Company that are held in any given fiscal year of the Company shall be held outside the United States.

115. A meeting of the Board may be convened by the Secretary on request of a Director or by any Director. The Secretary shall convene a meeting of the Board of which notice may be given in writing or by telephone or in such other manner as the Board may from time to time determine whenever he shall be required so to do by the President or Chairman, as the case may be, or any Director. Any Director may waive notice of any meeting either prospectively or retrospectively.

116. (1) The quorum necessary for the transaction of the business of the Board may be fixed by the Board and, unless so fixed at any other number, shall be two (2). An alternate Director shall be counted in a quorum in the case of the absence of a Director for whom he is the alternate provided that he shall not be counted more than once for the purpose of determining whether or not a quorum is present.

(2) Directors may participate in any meeting of the Board by means of a conference telephone or other communications equipment through which all persons participating in the meeting can communicate with each other simultaneously and instantaneously and, for the purpose of counting a quorum, such participation shall constitute presence at a Meeting as if those participating were present in person.

(3) Any Director who ceases to be a Director at a Board meeting may continue to be present and to act as a Director and be counted in the quorum until the termination of such Board meeting if no other Director objects and if otherwise a quorum of Directors would not be present.

117. The continuing Directors or a sole continuing Director may act notwithstanding any vacancy in the Board but, if and so long as the number of Directors is reduced below the minimum number fixed by or in accordance with these Bye-laws, the continuing Directors or Director, notwithstanding that the number of Directors is below the number fixed by or in accordance with these Bye-laws as the quorum or that there is only one continuing Director, may act for the purpose of filling vacancies in the Board or of summoning general meetings of the Company but not for any other purpose.

118. The Board may elect a chairman and one or more deputy chairman of its meetings and determine the period for which they are respectively to hold such office. If no chairman or deputy chairman is elected, or if at any meeting neither the chairman nor any deputy chairman is present within five (5) minutes after the time appointed for holding the same, the Directors present may choose one of their number to be chairman of the meeting.

119. A meeting of the Board at which a quorum is present shall be competent to exercise all the powers, authorities and discretions for the time being vested in or exercisable by the Board.

120. (1) The Board may delegate any of its powers, authorities and discretions to committees, consisting of such Director, officer, Directors or officers as it thinks fit, and they may, from time to time, revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board.

(2) All acts done by any such committee in conformity with such regulations, and in fulfilment of the purposes for which it was appointed, but not otherwise, shall have like force and effect as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any such committee, and charge such remuneration to the current expenses of the Company.

121. The meetings and proceedings of any committee consisting of two or more members shall be governed by the provisions contained in these Bye-laws for regulating the meetings and proceedings of the Board so far as the same are applicable and are not superseded by any regulations imposed by the Board under the last preceding Bye-law.

122. A resolution in writing signed by all the Directors except such as are temporarily unable to act through ill-health or disability, and all the alternate Directors, if appropriate, whose appointors are temporarily unable to act as aforesaid shall (provided that such number is sufficient to constitute a quorum and further provided that a copy of such resolution has been given or the contents thereof communicated to all the Directors for the time being entitled to receive notices of Board meetings in the same manner as notices of meetings are required to be given by these Bye-laws) be as valid and effectual as if a resolution had been passed at a meeting of the Board duly convened and held. Such resolution may be contained in one document or in several documents in like form each signed by one or more of the Directors or alternate Directors and for this purpose a facsimile signature of a Director or an alternate Director shall be treated as valid.

123. All acts bona fide done by the Board or by any committee or by any person acting as a Director or members of a committee, shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any member or the Board or such committee or person acting as aforesaid or that they or any of them were disqualified or had vacated office, be as valid as if every such person had been duly appointed and was qualified and had continued to be a Director or member of such committee.

#### **MANAGERS**

124. The Board may from time to time appoint a General Manager, a Manager or Managers of the Company and may fix his or their remuneration either by way of salary or commission or by conferring the right to participation in the profits of the Company or by a combination of two or more of these modes and pay the working expenses of any of the staff of the General Manager, Manager or Managers who may be employed by him or them upon the business of the Company.

125. The appointment of such General Manager, Manager or Managers may be for such period as the Board may decide, and the Board may confer upon him or them all or any of the powers of the Board as they may think fit.

126. The Board may enter into such agreement or agreements with any such General Manager, Manager or Managers upon such terms and conditions in all respects as the Board may in their absolute discretion think fit, including a power for such General Manager, Manager or Managers to appoint an Assistant Manager or Managers or other employees whatsoever under them for the purpose of carrying on the business of the Company.

#### **OFFICERS**

127. (1) The officers of the Company shall consist of the president, vice-president, and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Act and these Bye-laws as well as solely for the purposes of the Act, the chairman, deputy chairman and Directors.

(2) The Directors shall, as soon as may be after each appointment or election of Directors, elect amongst the Directors a president and a vice-president or a chairman and a deputy chairman; and if more than one (1) Director is proposed for either of these offices, the election to such office shall take place in such manner as the Directors may determine.

(3) The officers shall receive such remuneration as the Directors may from time to time determine.

(4) Where the Company does not have a quorum of Directors ordinarily resident in Bermuda, the Company shall in accordance with the Act appoint and maintain a resident representative ordinarily resident in Bermuda and the resident representative shall maintain an office in Bermuda and comply with the provisions of the Act.

The Company shall provide the resident representative with such documents and information as the resident representative may require in order to be able to comply with the provisions of the Act.

The resident representative shall be entitled to have notice of, attend and be heard at any Directors' meetings or general meeting of the Company.

128. (1) The Secretary and additional officers, if any, shall be appointed by the Board and shall hold office on such terms and for such period as the Board may determine. If thought fit, two (2) or more persons may be appointed as joint Secretaries. The Board may also appoint from time to time on such terms as it thinks fit one or more assistant or deputy Secretaries.

(2) The Secretary shall attend all meetings of the Members and shall keep correct minutes of such meetings and enter the same in the proper books provided for the purpose. He shall perform such other duties as are prescribed by the Act or these Bye-laws or as may be prescribed by the Board.

129. The President or the Chairman, as the case may be, shall act as chairman at all meetings of the Members and of the Directors at which he is present. In his absence a chairman shall be appointed or elected by those present at the meeting.

130. The officers of the Company shall have such powers and perform such duties in the management, business and affairs of the Company as may be delegated to them by the Directors from time to time. In addition, the President of the Company shall have the power and is expressly authorized to enter into any contract, deed or other agreement that obliges the Company to make payments (or provide services or goods) in an amount (or having a fair value) not exceeding US\$250,000 or, of such obligations is contemplated by and within the limits established by an Annual Budget and Operating Plan approved by the Board, obligates the Company to make payments (or provide services or goods) in an amount (or having a fair value) not exceeding US\$1,000,000.

131. A provision of the Act or of these Bye-laws requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done by or to the same person acting both as Director and as or in place of the Secretary.

#### **REGISTER OF DIRECTORS AND OFFICERS**

132. (1) The Board shall cause to be kept in one or more books at its Office a Register of Directors and officers and shall enter therein the following particulars with respect to each Director and officer, that is to say:

- (a) his or her first name and surname; and
  - (b) his or her address.
- (2) The Board shall within a period of fourteen (14) days from the occurrence of -
- (a) any change among its Directors and officers; or
  - (b) any change in the particulars contained in the Register of Directors and officers, cause to be entered on the Register of Directors and officers the particulars of such change and of the date on which it occurred.
- (3) The Register of Directors and officers shall be open to inspection by members of the public without charge at the Office between 10:00 a.m. and 12:00 noon on every business day.
- (4) In this Bye-law "officer" has the meaning ascribed to it in Section 92A(7) of the Act.

#### MINUTES

133. The Board shall cause Minutes to be duly entered in books provided for the purpose:
- (a) of all elections and appointments of Directors and officers;
  - (b) of the names of the Directors present at each meeting of the Directors and of any committee of the Directors;
  - (c) of all resolutions and proceedings of each general meeting of the Members, meetings of the Board and meetings of committees of the Board.

#### SEAL

134. (1) The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company, the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the words "Securities Seal" on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Bye-laws, any instrument to which a Seal is affixed shall be signed autographically by one Director and the Secretary or by two Directors or by such other person (including a Director) or persons as the Board may appoint, either generally or in any particular case, save that as regards any certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature. Every instrument executed in manner provided by this Bye-law shall be deemed to be sealed and executed with the authority of the Board previously given.

(2) Where the Company has a Seal for use abroad, the Board may by writing under the Seal appoint any agent or committee abroad to be the duly authorised agent of the Company for the purpose of affixing and using such Seal and the Board may impose restrictions on the use thereof as may be thought fit. Wherever in these Bye-laws reference is made to the Seal, the reference shall, when and so far as may be applicable, be deemed to include any such other Seal as aforesaid.

#### AUTHENTICATION OF DOCUMENTS

135. Any Director or the Secretary or any person appointed by the Board for the purpose may authenticate any documents affecting the constitution of the Company and any resolution passed by the Company or the Board or any committee, and any books, records, documents and accounts relating to the business of the Company, and to certify copies thereof or extracts there from as true copies or extracts, and if any books, records, documents or accounts are elsewhere than at the Office or the head office the local manager or other officer of the Company having the custody thereof shall be deemed to be a person so appointed by the Board. A document purporting to be a copy of a resolution, or an extract from the minutes of a meeting, of the Company or of the Board or any committee which is so certified shall be conclusive evidence in favour of all persons dealing with the Company upon the faith thereof that such resolution has been duly passed or, as the case may be, that such minutes or extract is a true and accurate record of proceedings at a duly constituted meeting.

#### DESTRUCTION OF DOCUMENTS

136. The Company shall be entitled to destroy the following documents at the following times:
- (a) any share certificate which has been cancelled at any time after the expiry of one (1) year from the date of such cancellation;
  - (b) any dividend mandate or any variation or cancellation thereof or any notification of change of name or address at any time after the expiry of two (2) years from the date such mandate variation cancellation or notification was recorded by the Company;
  - (c) any instrument of transfer of shares which has been registered at any time after the expiry of seven (7) years from the date of registration;
  - (d) any allotment letters after the expiry of seven (7) years from the date of issue thereof; and
  - (e) copies of powers of attorney, grants of probate and letters of administration at any time after the expiry of seven (7) years after the account to which the relevant power of attorney, grant of probate or letters of administration related has been closed;

and it shall conclusively be presumed in favour of the Company that every entry in the Register purporting to be made on the basis of any such documents so destroyed was duly and properly made and every share certificate so destroyed was a valid certificate duly and properly cancelled and that every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered and that every other document destroyed hereunder was a valid and effective document in accordance with the recorded particulars thereof in the books or records of the Company. Provided always that: (1) the foregoing provisions of this Bye-law shall apply only to the destruction of a document in good faith and without express notice to the Company that the preservation of such document was relevant to a claim; (2) nothing contained in this Bye-law shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any case where the conditions of proviso (1) above are not fulfilled; and (3) references in this Bye-law to the destruction of any document include references to its disposal in any manner.

#### **DIVIDENDS AND OTHER PAYMENTS**

137. Subject to the Act, the Company in General Meeting may from time to time declare dividends in any currency to be paid to the Members but no dividend shall be declared in excess of the amount recommended by the Board. The Company in general meeting may also make a distribution to the Members out of any contributed surplus (as ascertained in accordance with the Act).

138. No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium accounts.

139. Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this Bye-law as paid up on the share; and
- (b) all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

140. The Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular (but without prejudice to the generality of the foregoing) if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and provided that the Board acts bona fide the Board shall not incur any responsibility to the holders of shares conferring any preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferential rights and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.

141. The Board may deduct from any dividend or other moneys payable to a Member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

142. No dividend or other moneys payable by the Company on or in respect of any share shall bear interest against the Company.

143. Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first in the Register in respect of the shares at his address as appearing in the Register or addressed to such person and at such address as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

144. All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividend or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Board of any unclaimed dividend or other sums payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

145. Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind and in particular of paid up shares, debentures or warrants to subscribe securities of the Company or any other company, or in any one or more of such ways, and where any difficulty arises in regard to the distribution the Board may settle the same as it thinks expedient, and in particular may issue certificates in respect of fractions of shares, disregard fractional entitlements or round the same up or down, and may fix the value for distribution of such specific assets, or any part thereof, and may determine that cash payments shall be made to any members upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Board and may appoint any person to sign any requisite instruments of transfer and other documents on behalf of the persons entitled to the dividend, and such appointment shall be effective and binding on the Members. The Board may resolve that no such assets shall be made available to Members with registered addresses in any particular territory or territories where, in the absence of a registration statement or other special formalities, such distribution of assets would or might, in the opinion of the Board, be unlawful or impracticable and in such event the only entitlement of the Members aforesaid shall be to receive cash payments as aforesaid. Members affected as a result of the foregoing sentence shall not be or be deemed to be a separate class of Members for any purpose whatsoever.

146. Intentionally Deleted

## RESERVES

147. Before recommending any dividend, the Board may set aside out of the profits of the Company such sums as it determines as reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied and pending such application may, also at such discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit and so that it shall not be necessary to keep any investments constituting the reserve or reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute.

## CAPITALISATION

148 (1) The Board may resolve to capitalise any part of the amount for the time being standing to the credit of any of the Company's share premium or other reserve accounts or to the credit of the profit and loss account or otherwise available for dividend or distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares pro rata to the Members.

(2) The Board may resolve to capitalise any sum standing to the credit of a reserve account or sums otherwise available for dividend or distribution by applying such amounts in paying up in full partly paid shares of those Members who would have been entitled to such sums if they were distributed by way of dividend or distribution.

149. The Board may settle, as it considers appropriate, any difficulty arising in regard to any distribution under the last preceding Bye-law and in particular may issue certificates in respect of fractions of shares or authorise any person to sell and transfer any fractions or may resolve that the distribution should be as nearly as may be practicable in the correct proportion but not exactly so or may ignore fractions altogether, and may determine that cash payments shall be made to any Members in order to adjust the rights of all parties, as may seem expedient to the Board. The Board may appoint any person to sign on behalf of the persons entitled to participate in the distribution any contract necessary or desirable for giving effect thereto and such appointment shall be effective and binding upon the Members.

## SUBSCRIPTION RIGHTS RESERVE

150. The following provisions shall have effect to the extent that they are not prohibited by and are in compliance with the Act:

(1) If, so long as any of the rights attached to any warrants issued by the Company to subscribe for shares of the Company shall remain exercisable, the Company does any act or engages in any transaction which, as a result of any adjustments to the subscription price in accordance with the provisions of the conditions of the warrants, would reduce the subscription price to below the par value of a share, then the following provisions shall apply:

- (a) as from the date of such act or transaction the Company shall establish and thereafter (subject as provided in this Bye-law) maintain in accordance with the provisions of this Bye-law a reserve (the "Subscription Rights Reserve") the amount of which shall at no time be less than the sum which for the time being would be required to be capitalised and applied in paying up in full the nominal amount of the additional shares required to be issued and allotted credited as fully paid pursuant to sub-paragraph (c) below on the exercise in full of all the subscription rights outstanding and shall apply the Subscription Rights Reserve in paying up such additional shares in full as and when the same are allotted;
- (b) the Subscription Rights Reserve shall not be used for any purpose other than that specified above unless all other reserves of the Company (other than share premium account) have been extinguished and will then only be used to make good losses of the Company if and so far as is required by law;
- (c) upon the exercise of all or any of the subscription rights represented by any warrant, the relevant subscription rights shall be exercisable in respect of a nominal amount of shares equal to the amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be the relevant portion thereof in the event of a partial exercise of the subscription rights) and, in addition, there shall be allotted in respect of such subscription rights to the exercising warrant holder, credited as fully paid, such additional nominal amount of shares as is equal to the difference between:
  - (i) the said amount in cash which the holder of such warrant is required to pay on exercise of the subscription rights represented thereby (or, as the case may be, the relevant portion thereof in the event of a partial exercise of the subscription rights); and
  - (ii) the nominal amount of shares in respect of which such subscription rights would have been exercisable having regard to the provisions of the conditions of the warrants, had it been possible for such subscription rights to represent the right to subscribe for shares at less than par

and immediately upon such exercise so much of the sum standing to the credit of the Subscription Rights Reserve as is required to pay up in full such additional nominal amount of shares shall be capitalised and applied in paying up in full such additional nominal amount of shares which shall forthwith be allotted credited as fully paid to the exercising warrant holders; and

- (d) if, upon the exercise of the subscription rights represented by any warrant, the amount standing to the credit of the Subscription Rights Reserve is not sufficient to pay up in full such additional nominal amount of shares equal to such difference as aforesaid to which the exercising warrant holder is entitled, the Board shall apply any profits or reserves then or thereafter becoming available (including, to the extent permitted by law, share premium account) for such purpose until such additional nominal amount of shares is paid up and allotted as aforesaid and until then no dividend or other distribution shall be paid or made on the fully paid shares of the Company then in issue. Pending such payment and allotment, the exercising warrant holder shall be issued by the Company with a certificate evidencing his right to the allotment of such additional nominal amount of shares. The rights represented by any such certificate shall be in registered form and shall be transferable in whole or in part in units of one share in the like manner as the shares for the time being are transferable, and the Company shall make such arrangements in relation to the maintenance of a register therefor and other matters in relation thereto as the Board may think fit and adequate particulars thereof shall be made known to each relevant exercising warrant holder upon the issue of such certificate.

(2) Shares allotted pursuant to the provisions of this Bye-law shall rank pari passu in all respects with the other shares allotted on the relevant exercise of the subscription rights represented by the warrant concerned. Notwithstanding anything contained in paragraph (1) of this Bye-law, no fraction of any share shall be allotted on exercise of the subscription rights.

(3) The provision of this Bye-law as to the establishment and maintenance of the Subscription Rights Reserve shall not be altered or added to in any way which would vary or abrogate, or which would have the effect of varying or abrogating the provisions for the benefit of any warrant holder or class of warrant holders under this Bye-law without the sanction of a special resolution of such warrant holders or class of warrant holders.

(4) A certificate or report by the auditors for the time being of the Company as to whether or not the Subscription Rights Reserve is required to be established and maintained and if so the amount thereof so required to be established and maintained, as to the purposes for which the Subscription Rights Reserve has been used, as to the extent to which it has been used to make good losses of the Company, as to the additional nominal amount of shares required to be allotted to exercising warrant holders credited as fully paid, and as to any other matter concerning the Subscription Rights Reserve shall (in the absence of manifest error) be conclusive and binding upon the Company and all warrant holders and shareholders.

#### **ACCOUNTING RECORDS**

151. The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

152. The accounting records shall be kept at the Office or, subject to the Act, at such other place or places as the Board decides and shall always be open to inspection by the Directors of the Company. No Member (other than a Director of the Company) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting.

153. Subject to Section 88 of the Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the Auditors' report, shall be sent to each person entitled thereto at least twenty-one (21) days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Act provided that this Bye-law shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

#### **AUDIT**

154. (1) Subject to Section 88 of the Act, at the annual general meeting or at a subsequent special general meeting in each year, the Members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the Members appoint another auditor. Such auditor may be a Member but no Director or officer or employee of the Company shall, during his continuance in office, be eligible to act as an auditor of the Company.

(2) Subject to Section 89 of the Act, a person, other than a retiring Auditor, shall not be capable of being appointed Auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of Auditor has been given not less than fourteen (14) days before the annual general meeting and furthermore, the Company shall send a copy of any such notice to the retiring Auditor.

(3) The Members may, at any general meeting convened and held in accordance with these Bye-laws, by special resolution remove the Auditor at any time before the expiration of his term of office and shall by ordinary resolution at that meeting appoint another Auditor in his stead for the remainder of his term.

155. Subject to Section 88 of the Act the accounts of the Company shall be audited at least once in every year.

156. The remuneration of the Auditor shall be fixed by the Company in general meeting or in such manner as the Members may determine.

157. If the office of auditor becomes vacant by the resignation or death of the Auditor, or by his becoming incapable of acting by reason of illness, other disability or other circumstances at a time when his services are required, the Directors may fill the vacancy.

158. The Auditor shall at all reasonable times have access to all books kept by the Company and to all accounts and vouchers relating thereto; and he may call on the Directors or officers of the Company for any information in their possession relating to the books or affairs of the Company.

159. The statement of income and expenditure and the balance sheet provided for by these Bye-Laws shall be examined by the Auditor and compared by him with the books, accounts and vouchers relating thereto; and he shall make a written report thereon stating whether such statement and balance sheet are drawn up so as to present fairly the financial position of the Company and the results of its operations for the period under review and, in case information shall have been called for from Directors or officers of the Company, whether the same has been furnished and has been satisfactory. The financial statements of the Company shall be audited by the Auditor in accordance with generally accepted auditing standards. The Auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the Auditor shall be submitted to the Members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If so, the financial statements and the report of the Auditor should disclose this fact and name such country or jurisdiction.

#### **NOTICES**

160. (1) Any Notice from the Company to a Member may be given:

- (a) by delivering it to such Member in person; or
- (b) by sending it by letter mail or courier to such Member's address in the Register of Members; or

- (c) if consented to by the Member to whom such notice is given, by transmitting it by electronic means (including facsimile and electronic mail, but not telephone) in accordance with such directions as may be given by such Member to the Company for such purpose; or
- (d) if consented to by the Member to whom such notice is given, by posting on an electronic network together with a separate notice to the Member of the specific posting; or
- (e) if consented to by the Member to whom such notice is given, by any other form of electronic transmission.

(2) Any consent given by a Member with respect to a method of notice set forth in Bye-laws 160 (1)(c)-(e) above may be given by letter mail, courier, or any form of electronic transmission and shall be revocable by the Member by notice to the Company given by letter mail, courier, or any form of electronic transmission. Any such consent shall be deemed revoked if the Company is unable to deliver three consecutive notices in accordance with such consent or when such inability to deliver notice becomes known to the Company's secretary or transfer agent or other person responsible for the giving of notice.

(3) Any Notice from a Member to the Company may be given in accordance with such directions as may be given by the Company for such purpose on its website or otherwise.

161. (1) Any notice delivered in accordance with Bye-laws 160(1)(a) or 160(1)(b) shall be deemed to have been served at the time when the same would be delivered in the ordinary course of transmission and, in proving such service, it shall be sufficient to prove that the notice was properly addressed and prepaid, if posted, and the time when it was posted or delivered to the courier.

(2) Any notice delivered in accordance with Bye-law 160(1)(c) shall be deemed to have been served when directed to a number or an electronic mail address at which the Member has consented to receive notice.

(3) Any notice delivered in accordance with Bye-laws 160(1)(d) or 160(1)(e) shall be deemed to have been served upon the later of (i) the notification of the Member in accordance with such Bye-law; and (ii) the publication of the information or document on the electronic network.

162. Any notice required to be given to a Member shall, with respect to any shares held jointly by two or more persons, be given to whichever of such persons is named first in the Register of Members and notice so given shall be sufficient notice to all the holders of such shares.

#### **SIGNATURES**

163. For the purposes of these Bye-laws, a cable or telex or facsimile transmission message purporting to come from a holder of shares or, as the case may be, a Director or alternate Director, or, in the case of a corporation which is a holder of shares from a director or the secretary thereof or a duly appointed attorney or duly authorised representative thereof for it and on its behalf, shall in the absence of express evidence to the contrary available to the person relying thereon at the relevant time be deemed to be a document or instrument in writing signed by such holder or Director or alternate Director in the terms in which it is received.

#### **WINDING UP**

164. (1) The Board shall have power in the name and on behalf of the Company to present a petition to the court for the Company to be wound up.

(2) A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

165. If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Act, divide among the Members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of properties of one kind or shall consist of properties to be divided as aforesaid of different kinds, and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of the Members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

#### **INDEMNITY**

166. (1) The Directors, Secretary and other officers (such term to include, for the purposes of this Bye-law 166 any person appointed to any committee by the Board) for the time being and each such person who is or was or had agreed to become a Director or officer of the Company and each such person who is or was serving or who had agreed to serve as an employee or agent of the Company or as a Director, officer, employee or agent of another company, corporation, partnership, joint venture, trust or other enterprise in which the Company is or was engaged acting in relation to any of the affairs of the Company and the liquidator or trustees (if any) for the time being acting in relation to any of the affairs of the Company and every one of them, and their heirs, executors and administrators, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, purported to be done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts, or on behalf of the Company or purportedly on behalf of the Company, and none of them shall be answerable for the acts, receipts, neglects or defaults of the others of them or for joining in any receipts for the sake of conformity, or for any bankers or other persons with whom any moneys or effects belonging to the Company shall or may be lodged or deposited for safe custody, or for insufficiency or deficiency of any security upon which any moneys of or belonging to the Company shall be placed out on or invested, or for any other loss, misfortune or damage which may happen in the execution of their respective offices or trusts, or in relation thereto, PROVIDED THAT this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of said persons. Subject to the provisions of the Act and without limiting the generality or the effect of the foregoing, the Company may enter into one or more agreements with any person which provide for indemnification greater or different than that provided in this Bye-law.

(2) Each Member agrees to waive and release any claim or right of action such Member might have, whether individually or by or in the right of the Company, against any Director or officer on account of any act done, purported to be done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts by such Director or officer, or the failure of such Director or officer to take any action in the performance of his duties with or for the Company, PROVIDED THAT such waiver shall not extend to any matter in respect of any fraud or dishonesty which may attach to such Director or officer.

(3) The indemnity provided by Bye-law 166(1) above shall extend, as a matter of contract between each Member and each former Director and officer of the Company and their heirs, executors and administrators, to any act done, purported to be done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts by the former Directors and officers of the Company. The waiver of claims or right of action by each Member provided by Bye-law 166(2) above shall extend, as a matter of contract between each Member and each former Director and officer of the Company and their heirs, executors and administrators, to any act done, purported to be done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trusts by the former Directors and officers of the Company.

(4) Any repeal or modification of this Bye-law 166 shall not adversely affect any right or protection existing under this Bye-law 166 immediately prior to such repeal or modification.

(5) The Company may advance moneys to an individual who is indemnified pursuant to Bye-law 166(1) above for the costs, charges and expenses incurred by such individual in defending any civil or criminal proceedings against them, on condition that such individual shall repay the advance if any allegation of fraud or dishonesty is proved against them.

#### **ALTERATION OF BYE - LAWS & AMENDMENT TO MEMORANDUM OF ASSOCIATION**

167. No Bye - Law shall be rescinded, altered or amended and no new Bye - Law shall be made until the same has been approved by a resolution of the Directors and confirmed by an ordinary resolution of the holders of Common Shares.

#### **INFORMATION**

168. No Member shall be entitled to require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret or secret process which may relate to the conduct of the business of the Company and which in the opinion of the Directors it will be inexpedient in the interests of the members of the Company to communicate to the public.

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FORM NO. 7a

Registration No. 19574



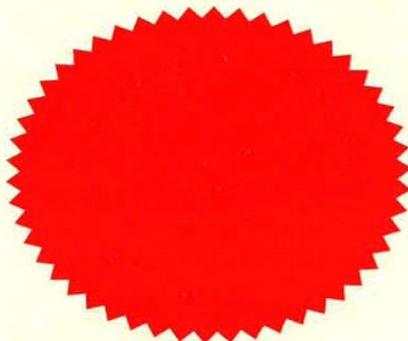
BERMUDA

**CERTIFICATE OF DEPOSIT OF  
MEMORANDUM OF INCREASE OF SHARE CAPITAL**

**THIS IS TO CERTIFY** that a Memorandum of Increase of Share Capital  
of

**Central European Media Enterprises Ltd.**

was delivered to the Registrar of Companies on the **25th** day of **June 2013** in  
accordance with section 45(3) of *the Companies Act 1981* ("the Act").



Given under my hand and Seal of the  
REGISTRAR OF COMPANIES this  
**3rd** day of **July 2013**

for **Registrar of Companies**

Capital prior to increase: US\$ 17,600,000.00

Amount of increase: US\$ 8,000,000.00

Present Capital: US\$ 25,600,000.00

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Adrian Sarbu, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Central European Media Enterprises Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Adrian Sarbu

Adrian Sarbu

President and Chief Executive Officer

July 31, 2013

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, David Sach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Central European Media Enterprises Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report), that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David Sach

David Sach

Chief Financial Officer

July 31, 2013

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Central European Media Enterprises Ltd. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Adrian Sarbu, President and Chief Executive Officer of the Company, and David Sach, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1 the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of the dates and for the periods explained in the Report.

/s/ Adrian Sarbu

Adrian Sarbu

President and Chief Executive Officer

(Principal Executive Officer)

July 31, 2013

/s/ David Sach

David Sach

Chief Financial Officer

(Principal Financial Officer)

July 31, 2013