CET 21 spol. s r.o.

**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2012 AND
FOR THE YEAR THEN ENDED
IN ACCORDANCE WITH
ACCOUNTING PRINCIPLES GENERALLY
ACCEPTED IN THE UNITED STATES OF AMERICA
AND INDEPENDENT AUDITOR'S REPORT**

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INDEPENDENT AUDITOR'S REPORT

To the Owners of CET 21 spol. s r.o.

We have audited the accompanying consolidated financial statements of CET 21 spol. s r.o. and subsidiaries ("the CET Group"), which comprise the balance sheet as of 31 December 2012, and the related statement of operations and comprehensive income, statement of equity and statement of cash flows for the year ended 31 December 2012, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body of the CET Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards generally accepted in the United States of America. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the CET Group as of 31 December 2012, and of their financial performance and their cash flows for the year ended 31 December 2012 in accordance with accounting standards generally accepted in the United States of America.

Emphasis of Matter

We draw attention to Note 2 to the consolidated financial statements which describes that the consolidated financial statements have been prepared on a carve-out basis and may not necessarily be indicative of the CET Group's financial position, results of operations or cash flows had the CET Group and subsidiaries operated as a separate entity apart from Central European Media Enterprises Ltd. Our opinion is not modified in respect of this matter.

In Prague on 27 March 2013

Audit firm:

Deloitte Audit s.r.o.

Deloitte

Represented by:

Martin Tesař
Statutory Executive

CET 21 spol. s r.o.
CONSOLIDATED BALANCE SHEETS
(US$ 000's)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 54,089	$ 55,146
Accounts receivable, net (Note 7)	43,903	51,687
Program rights, net (Note 6)	38,228	24,746
Prepaid programming	9,280	9,509
Other current assets (Note 8)	8,051	8,870
Total current assets	**153,551**	**149,958**
Non-current assets		
Property, plant and equipment, net (Note 9)	72,699	79,992
Program rights, net (Note 6)	138,824	136,369
Goodwill (Note 4)	671,234	920,506
Broadcast licenses and other intangible assets, net (Note 4)	143,816	185,238
Other non-current assets (Note 8)	7,597	10,883
Total non-current assets	**1,034,170**	**1,332,988**
Total assets	**$ 1,187,721**	**$ 1,482,946**
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	$ 71,783	$ 71,365
Current debt – third parties (Note 5)	274	-
Other current liabilities (Note 11)	4,500	4,846
Total current liabilities	**76,557**	**76,211**
Non-current liabilities		
Long-term debt – related parties (Note 5)	308,424	294,250
Long-term debt – third parties (Note 5)	324,448	295,186
Other non-current liabilities (Note 11)	32,649	41,147
Total non-current liabilities	**665,521**	**630,583**
EQUITY		
Share capital	22	22
Additional paid in capital	529,684	529,684
Retained earnings	(241,963)	113,776
Accumulated other comprehensive income	158,170	132,875
Total CET 21 spol. s r.o. shareholders' equity	**445,913**	**776,357**
Noncontrolling interest	(270)	(205)
Total equity	**445,643**	**776,152**
Total liabilities and equity	**$ 1,187,721**	**$ 1,482,946**

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

CET 21 spol. s r.o.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(US$ 000's)

	For the years ended December 31,		
	2012	**2011**	**2010**
Net revenues	**$ 341,936**	**$ 399,590**	**$ 358,786**
Operating expenses:			
Operating costs	51,279	61,373	55,243
Cost of programming	152,535	156,261	155,189
Depreciation of property, plant and equipment (Note 9)	15,409	19,571	23,147
Amortization of broadcast licenses and other intangibles (Note 4)	14,436	21,824	16,393
Cost of revenues	**233,659**	**259,029**	**249,972**
Selling general and administrative expenses	35,607	39,824	38,215
Impairment charge (Note 4)	330, 224	-	-
Operating (loss) / income	**(257,554)**	**100,737**	**70,599**
Interest income	231	208	242
Interest expense (Note 13)	(59,596)	(64,072)	(57,453)
Foreign currency exchange gain / (loss), net	3,981	(7,185)	(7,466)
Change in fair value of derivatives (Note 14)	573	363	(1,058)
Other income / (expense)	33	(64)	325
(Loss) / income before provision for income taxes	**(312,332)**	**29,987**	**5,189**
Credit / (provision) for income taxes (Note 12)	405	(4,342)	(1,391)
Net (loss) / income	**(311,927)**	**25,645**	**3,798**
Net loss attributable to noncontrolling interest	7	238	-
Net (loss) / income attributable to CET 21 spol. s r.o.	**$ (311,920)**	**$ 25,883**	**$ 3,798**
Net (loss) / income	$ (311,927)	$ 25,645	$ 3,798
Currency translation adjustment	25,237	(41,773)	(21,634)
Comprehensive loss	**(286,690)**	**(16,128)**	**(17,836)**
Comprehensive loss attributable to non-controlling interests	65	210	-
Comprehensive loss attributable to CET 21 spol. s r.o.	**$ (286,625)**	**$ (15,918)**	**$ (17,836)**

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

CET 21 spol. s r.o.
CONSOLIDATED STATEMENTS OF EQUITY
(US$ 000's)

	CET 21 spol. s r.o.					
	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Noncontrolling interest	Total Equity
Balance, December 31, 2009	**$ 22**	**$ 529,699**	**$ 140,141**	**$ 196,310**	**$ -**	**$ 866,172**
Adjustment to Media Pro Pictures s.r.o. purchase accounting	-	(15)	-	-	-	(15)
Noncontrolling interest in Certova nevesta	-	-	-	-	5	5
Net income	-	-	3,798	-	-	3,798
Currency translation adjustment	-	-	-	(21,634)	-	(21,634)
Balance, December 31, 2010	**$ 22**	**$ 529,684**	**$ 143,939**	**$ 174,676**	**$ 5**	**$ 848,326**
Net income	-	-	25,883	-	(238)	25,645
Dividend distribution	-	-	(56,046)	-	-	(56,046)
Currency translation adjustment	-	-	-	(41,801)	28	(41,773)
Balance, December 31, 2011	**$ 22**	**$ 529,684**	**$ 113,776**	**$ 132,875**	**$ (205)**	**$ 776,152**
Net income	-	-	(311,920)	-	(7)	(311,927)
Dividend distribution	-	-	(43,819)	-	-	(43,819)
Currency translation adjustment	-	-	-	25,295	(58)	25,237
Balance, December 31, 2012	**$ 22**	**$ 529,684**	**$ (241,963)**	**$ 158,170**	**$ (270)**	**$ 445,643**

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

CET 21 spol. s r.o.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(US$ 000's)

	For the years ended December 31,		
	2012	**2011**	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) / income	**$ (311,927)**	**$ 25,645**	**$ 3,798**
Adjustments to reconcile net (loss) / income to net cash generated from operating activities:			
Amortization of program rights	101,058	106,615	108,680
Depreciation and other amortization	36,500	44,360	44,935
Impairment charge (Note 4)	330,224	-	-
Loss / (gain) on disposal of fixed assets	22	81	(68)
Foreign currency exchange (gain) / loss, net	(3,981)	7,185	7,466
Change in fair value of derivatives (Note 14)	(573)	(363)	1,058
Net change in:			
Accounts receivable	4,000	20,498	(1,467)
Program rights	(115,281)	(108,650)	(65,169)
Other assets	1,936	2,994	10,479
Accounts payable and accrued liabilities	(10,410)	(1,229)	(65,137)
Income taxes payable	(514)	4,725	(3,258)
Other current liabilities	433	(4,162)	(5,592)
Net cash generated from operating activities	**31,487**	**97,699**	**35,725**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	(10,132)	(10,375)	(18,663)
Proceeds from disposal of property, plant and equipment	231	305	77
Payment of deferred consideration	-	-	(1,291)
Net cash used in investing activities	**(9,901)**	**(10,070)**	**(19,877)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of 2017 Fixed Rate Notes	93,768	-	237,463
Debt issuance costs	(2,218)	-	(15,310)
Proceeds from credit facilities	249	92,525	150, 513
Payments made on credit facilities	(74,926)	(7,209)	(237,462)
Payments under capital leases	(681)	-	-
Proceeds of loans from related parties	1,148	-	2,880
Payments made on loans from related parties	-	(89,840)	(148,429)
Distributions paid	(43,819)	(56,046)	-
Net cash used in financing activities	**(26,479)**	**(60,570)**	**(10,345)**
Impact of exchange rate fluctuations on cash	3,836	(1,781)	(508)
Net (decrease) / increase in cash and cash equivalents	(1,057)	25,278	4,995
CASH AND CASH EQUIVALENTS, beginning of period	**55,146**	**29,868**	**24,873**
CASH AND CASH EQUIVALENTS, end of period	**$ 54,089**	**$ 55,146**	**$ 29,868**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 60, 731	$ 63,227	$ 50,529
Cash paid / (credit received) for income taxes	$ 4, 079	$ (958)	$ 9,478

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

(Tabular amounts in US$ 000's)

1. ORGANIZATION AND BUSINESS

CET 21 spol. s r.o. (including its consolidated subsidiaries, the "CET Group") is 99.996% owned by CME Media Enterprises B.V. ("CME BV") and 0.004% owned by CME Investments B.V. ("CME Investments"), which are both wholly owned subsidiaries of Central European Media Enterprises Ltd. ("CME Ltd.").

The CET Group was comprised of the following significant legal entities as at December 31, 2012:

Group Name	Effective Voting Interest	Jurisdiction of Organisation	Type of Affiliate
CET 21 spol. s r.o. ("CET 21")		Czech Republic	Parent
Media Pro Pictures s.r.o. ("MPP Praha")	100.00%	Czech Republic	Subsidiary
Čertova nevěsta, s.r.o. ("Certova nevesta")	51.00%	Czech Republic	Subsidiary
CME Slovak Holdings B.V. ("CME Slovak Holdings")	100.00%	Netherlands	Subsidiary
A.R.J., a.s.	100.00%	Slovak Republic	Subsidiary
MARKÍZA-SLOVAKIA, spol. s r.o. ("Markiza")	100.00%	Slovak Republic	Subsidiary
MediaPro Entertainment Slovakia, s. r.o. ("MPS")	100.00%	Slovak Republic	Subsidiary

CME Ltd., the ultimate parent of the CET Group, is a Bermuda corporation that was formed in June 1994 and its assets are held through a series of Dutch and Curaçao holding companies. CME Ltd. is a media and entertainment company operating leading broadcast, production and distribution, and new media, businesses in Central and Eastern Europe.

In the Czech Republic, the CET Group operates one general entertainment channel, TV NOVA (Czech Republic), and six other channels, NOVA CINEMA, NOVA SPORT, MTV CZECH, FANDA, a male-oriented channel that was launched on July 14, 2012, SMICHOV, a comedy channel that was launched on December 23, 2012 and TELKA, which was launched on February 22, 2013.

In the Slovak Republic, the CET Group operates one general entertainment channel, TV MARKIZA, and three other channels, DOMA (Slovak Republic), a female-oriented channel, DAJTO, a male-oriented channel that was launched on August 20, 2012, and FOOOR, a comedy channel that was launched on February 25, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The functional currency of the CET Group is the Czech Koruna. The consolidated financial statements are presented in US Dollars (US$).

The significant accounting policies are summarized as follows:

Basis of Presentation

The CET Group is an integrated part of CME Ltd. These consolidated financial statements have been prepared on a "carve-out" basis from the consolidated financial statements of CME Ltd. to represent the financial position and performance of the CET Group as if it had existed on a stand-alone basis as of December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010. The consolidated financial statements have been derived by extracting the assets, liabilities, revenues and expenses directly attributable to the CET Group from the assets, liabilities, revenues and expenses reflected in the accounting records of CME Ltd. on a legal entity basis. The CET Group eliminates from its financial results all intercompany transactions between entities included in the consolidated financial statements.

The consolidated financial statements included herein may not necessarily be indicative of the CET Group's financial position, results of operations, or cash flows had the CET Group operated as a separate entity during the periods presented or for future periods.

These consolidated financial statements reflect all of the assets, liabilities, revenues, expenses, and cash flows of the CET Group after the elimination of intergroup accounts and transactions. The CET Group consolidates the financial statements of entities in which it holds at least a majority voting interest and entities in which it holds less than a majority voting interest but over which it has the ability to exercise control. Entities in which the CET Group holds less than a majority voting interest but over which it exercises significant influence are accounted for using the equity method. Other investments are accounted for using the cost method. The Group's investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the investment may not be recoverable.

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

The following are the areas where we have applied the most significant assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of intangible assets and goodwill

As discussed in Note 4, 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. In developing our forecasts of future cash flows, we take into account all available external estimates in addition to considering developments in each of our markets, which provide direct evidence of the state of the market and future market development. The most significant assumptions in our estimates of future cash flows include: the discount rate applied, the total advertising market size, achievable levels of market share, forecast operating income and capital expenditure and the rate of growth into perpetuity

Valuation of program rights

As discussed further below, the program library is evaluated at least quarterly to determine if expected revenues are sufficient to cover the unamortized portion of each program. To the extent that the revenues we expect to earn from broadcasting a program are lower than the book value, the program rights are written down to their net realizable value by way of recording an additional amortization charge. Accordingly, our estimates of future advertising and other revenues, and our future broadcasting schedules have a significant impact on the value of our program rights on the consolidated balance sheet and the annual programming amortization charge recorded in the consolidated statements of operations and comprehensive income.

Revenue Recognition

Revenue is recognized when there is persuasive evidence of an arrangement, delivery of products has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. A bad debt provision is maintained for estimated losses resulting from customers' inability to make payments.

Revenues are recognized net of discounts and customer sales incentives. The CET Group's principal revenue streams and their respective accounting treatments are discussed below:

Advertising revenue

Revenues primarily result from the sale of advertising time. Television advertising revenue is recognized as the commercials are aired. In both countries where the CET Group operates, we commit to provide advertisers with certain rating levels in connection with their advertising. Revenue is recorded net of estimated shortfalls, which are usually settled by providing the advertiser additional advertising time. Discounts and agency commissions are recognized at the point when the advertising is broadcast and are reflected as a reduction to gross revenue. Display advertising on our websites is recognized as impressions are delivered. Impressions are delivered when an advertisement appears in pages viewed by users.

Program distribution revenue

Program distribution revenue is recognized when the relevant agreement has been entered into, the product is available for telecast or delivery, the license period has begun, collectability of the cash is reasonably assured and all of the CET Group's contractual obligations have been satisfied. Revenues from home video sales are recognized at the later of the delivery date or the date that video units are made widely available for sale or rental by retailers based on gross sales less a provision for estimated returns. Theatrical revenues are recognized as the films are exhibited.

Subscription revenues

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

Barter transactions

We enter into barter transactions which represent advertising time or other services exchanged for non-cash goods and/or other services, such as promotional items, advertising, supplies and equipment. Revenue from barter transactions is recognized as income when the services have been provided. Expenses are recognized when goods or services are received or used. We record barter transactions at the fair value of goods or services received or advertising surrendered, whichever is more readily determinable. Barter revenue amounted to US$ 1.1 million, US$ 1.7 million and US$ 1.7 million for the years ending December 31, 2012, 2011 and 2010, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and marketable securities with original maturities of three months or less.

Program Rights

Purchased program rights

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

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

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

The costs incurred to acquire program rights are capitalized and amortized over their expected useful lives in a manner which reflects the pattern we expect to use and benefit from the programming. If the initial airing of content allowed by a license is expected to provide more value than subsequent airings, we apply an accelerated method of amortization. These accelerated methods of amortization depend on the estimated number of runs the content is expected to receive, and are determined based on a study of historical results for similar programming. For programming that is not advertising supported, each program's costs are amortized on a straight-line basis over the license period. For content that is expected to be aired only once, the entire cost is recognized as expense on the first run.

Produced program rights

Program rights that are produced by the CET Group consist of deferred film and television costs including direct costs, production overhead and development costs. The costs are stated at the lower of cost, less accumulated amortization, or fair value. The amount of capitalized production costs recognized as cost of revenues for a given production as it is exhibited in various markets is determined using the film forecast method. The proportion of costs recognized is equal to the proportion of the revenue recognized compared to the total revenue expected to be generated throughout the product's life cycle (the "ultimate revenues"). The process for evaluating ultimate revenues is tailored to the potential management believes a title has for generating multiple revenues. The majority of the CET Group's production is intended primarily for exploitation by the CET Group's own broadcasters. In such cases, the free television window is mainly considered in the calculation of ultimate revenues. For produced feature films or other projects where there is a supportable expectation of generating multiple revenue streams, estimates of ultimate revenues for each film are based on factors such as the historical performance of similar films, the star power of the actors and actresses, the rating and genre of the film, pre-release market research (including test market screenings) and the expected number of theaters in which the film will be released. These estimates are updated based on information available on the progress of the film's production and upon release, the actual results of each film.

Produced program rights are amortized on an individual production basis using the ratio of the current period's gross revenues to estimated remaining total ultimate revenues from such programs. Produced program rights are evaluated to determine if expected revenues are sufficient to cover the unamortized portion of the program. To the extent that expected revenues are insufficient, the program rights are written down to their fair value.

Property, Plant and Equipment

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

Asset category	Estimated useful life
Land	Indefinite
Buildings	25 years
Machinery, fixtures and equipment	3 – 5 years
Other equipment	3 – 5 years
Software licenses	3 years

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

Long-Lived Assets Including Intangible Assets with Finite Lives

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

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The carrying values of long-lived assets are considered impaired when the anticipated undiscounted cash flows from such assets are less than their carrying values. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value. The CET Group recorded certain impairments of long-lived assets during the year ended December 31, 2012 (see Note 4, "Goodwill and Intangible Assets").

Goodwill and Indefinite-Lived Intangible Assets

Goodwill represents the excess of the fair value of consideration paid over the fair value of net tangible and other identifiable intangible assets acquired in a business combination.

Goodwill is evaluated for impairment in the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment exists when the carrying value of a reporting unit (including its goodwill), exceeds its fair value after adjusting for any impairments of long-lived assets or indefinite-lived intangible assets.

Goodwill impairment is measured as the excess of the carrying amount of goodwill over its implied fair value, which is calculated by deducting the fair value of all assets, including recognized and unrecognized intangible assets from the fair value of the reporting unit. The CET Group includes five reporting units of CME Ltd.: Czech Republic Broadcast, Slovak Republic Broadcast, MPE Fiction and Reality and Entertainment, MPE Production Services and New Media. Each reporting unit’s fair value is determined based on estimates of future cash flows discounted at appropriate rates and on publicly available information, where appropriate. In the assessment of discounted future cash flows the following data is used: management plans for a period of at least five years, a terminal value at the end of the forecasted periods assuming an inflationary perpetual growth rate, and a discount rate selected with reference to the relevant cost of capital. The CET Group recorded certain impairments of goodwill during the year ended December 31, 2012 (see Note 4, "Goodwill and Intangible Assets").

Indefinite-lived intangible assets at December 31, 2012 consist of trademarks, which are not amortized. The CET Group evaluates indefinite-lived intangible assets for impairment in the fourth quarter of each year, or more frequently if events or changes in circumstances indicate that the asset might be impaired. An impairment loss is recognized if the carrying amount of an indefinite-lived intangible asset exceeds its fair value.

(Tabular amounts in US$ 000's)

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which the temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to amounts which are more likely than not to be realized. In evaluating the realizability of our deferred tax assets, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

The CET Group recognizes in the consolidated financial statements those tax positions determined to be "more likely than not" of being sustained upon examination, based on the technical merits of the positions and we recognize, when applicable, both accrued interest and penalties related to uncertain tax positions in income tax expense in the accompanying consolidated statements of operations and comprehensive income.

Foreign Currency

Translation of financial statements

The CET Group's functional currency is the Czech Koruna, which is the local currency of the country in which the majority of the CET Group's operations are located. The financial statements of the CET Group's operations with a functional currency other than the Czech Koruna are translated from such functional currency to the Czech Koruna at the exchange rates in effect at the balance sheet date for assets and liabilities, and at weighted average rates for the period for revenues and expenses, including gains and losses.

These consolidated financial statements are translated from the Czech Koruna to the reporting currency of US Dollars at the exchange rates in effect at the balance sheet date for assets and liabilities and at average rates for the period for revenues and expenses, including gains and losses.

Translation gains and losses are charged or credited to accumulated other comprehensive income, a component of equity.

Transactions in foreign currencies

Gains and losses from foreign currency transactions are included in foreign currency exchange gain / (loss), net in the consolidated statements of operations and comprehensive income in the period during which they arise.

Exchange Rates

The main exchange rates against the US Dollar used in the preparation of the consolidated balance sheets and consolidated statements of operations and comprehensive income are:

	Consolidated balance sheets		**Consolidated statements of operations and comprehensive income**		
	As at December 31,		**For the year ended December 31,**		
	2012	**2011**	**2012**	**2011**	**2010**
CZK / USD	19.06	19.94	19.49	17.55	19.11
EUR / USD	0.76	0.77	0.77	0.71	0.76

Leases

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

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

Operating lease costs are expensed on a straight-line basis over the term of the lease.

Financial Instruments

Fair value of financial instruments

The carrying value of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and credit facilities approximate their fair value due to the short-term nature of these items. The fair value of our long-term debt is included in Note 5, “Debt”.

Contingencies

The estimated loss from a loss contingency such as a legal proceeding or claim is recorded in the consolidated statement of operations and comprehensive income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a loss contingency is made if there is at least a reasonable possibility that a loss has been incurred.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense incurred for the years ending December 31, 2012, 2011 and 2010 totaled US$ 2.7 million, US$ 4.2 million and US$ 5.4 million, respectively.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted

On January 1, 2012, the CET Group adopted guidance issued in June 2011, which gives entities the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The CET Group's consolidated financial statements already presented the components of net income and other comprehensive income in two separate but consecutive statements. In December 2011, additional guidance was released deferring the requirement to present reclassifications out of accumulated other comprehensive income.

On January 1, 2012, the CET Group adopted guidance issued in September 2011 to simplify how entities test goodwill 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 fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not necessary. The adoption of this guidance may impact how the goodwill testing is performed in future periods, but not the amount of impairment recognized in the consolidated financial statements if goodwill is found to be impaired.

On January 1, 2012, the CET Group adopted guidance issued in May 2011, which represents clarifications of common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP. It also includes instances where a particular principle or requirement for measuring fair value has changed. The adoption of this guidance did not have a material impact on the CET Group's financial position, results of operations or cash flows, but did result in additional disclosure.

The CET Group adopted guidance issued in October 2012 that revised the impairment assessment for unamortized film costs to remove the rebuttable presumption that conditions leading to a write-off of unamortized film costs after the balance sheet date existed as of the balance sheet date. This aligns the guidance on fair value measurements in the impairment test of unamortized film costs with the guidance on fair value measurements in other instances, including in the impairment testing of other assets. The amendments in this guidance were effective for impairment assessments performed on or after December 15, 2012. The adoption of this guidance did not have a material impact on the CET Group's financial position, results of operations or cash flows, but may cause the recognition of impairment of unamortized film costs to be deferred into later periods if conditions which exist before financial statements are issued but subsequent to the measurement date would not have been considered by a market participant at the measurement date.

Recent Accounting Pronouncements Issued

Guidance 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 consolidated financial statements if indefinite-lived intangible assets are found to be impaired.

3. ACQUISITIONS AND DISPOSALS

2010 Acquisition of Mediafax

On January 11, 2010, CET 21 acquired 100.0% share in Mediafax for nominal consideration from Alleria Management Company S.A., a company beneficially owned by Adrian Sarbu, CME Ltd.'s President and Chief Executive Officer and a member of CME Ltd.'s Board of Directors.

2010 Establishment of Certova nevesta

On June 18, 2010, MPP Praha subscribed for 51% of the capital of Certova nevesta, an entity created to produce a movie *Čertova nevěsta*. The other party to the joint venture agreement is an unrelated third party, GOLEM film, s.r.o. As the CET Group owns a majority interest in Certova nevesta, it is consolidated in the CET Group's consolidated financial statements.

(Tabular amounts in US$ 000's)

4. GOODWILL AND INTANGIBLE ASSETS

Goodwill:

The movement on goodwill during the two years ended December 31, 2012 and 2011 was as follows:

Balance, December 31, 2010	**$ 977,137**
Foreign currency movement	(56,631)
Balance, December 31, 2011	**$ 920,506**
Impairment charge	(287,545)
Foreign currency movement	38,273
Balance, December 31, 2012	**$ 671,234**

No goodwill is expected to be deductible for tax purposes.

Broadcast licenses and other intangible assets:

Changes in the net book value of the CET Group's broadcast licenses and other intangible assets as at December 31, 2012 and 2011 is summarized as follows:

	Broadcast licenses	Trademarks	Customer Relationships	Other	Total
Balance, December 31, 2010	**$ 139,527**	**$ 32,821**	**$ 43,754**	**$ 340**	**$ 216,442**
Additions	-	-	-	27	27
Amortization	(11,182)	(5,829)	(4,813)	(39)	(21,863)
Foreign currency movements	(6,611)	(1,416)	(1,330)	(11)	(9,368)
Balance, December 31, 2011	**$ 121,734**	**$ 25,576**	**$ 37,611**	**$ 317**	**$ 185,238**
Additions	-	-	-	40	40
Amortization	(9,807)	-	(4,565)	(56)	(14,436)
Impairments	(5,901)	-	(28,066)	-	(33,967)
Foreign currency movements	5,239	1,109	585	-	6,941
Balance, December 31, 2012	**$ 111,265**	**$ 26,685**	**$ 5,565**	**$ 301**	**$ 143,816**

Until December 31, 2011, the broadcast licenses in the Czech Republic were determined to have an economic useful life of, and were amortized on a straight-line basis over, twenty years. The broadcast license in the Slovak Republic was determined to have an economic useful life of, and was amortized on a straight-line basis over, thirteen years.

The remaining useful life of the broadcast licenses were revised as of January 1, 2012, and now the remaining balances are amortized 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 eight years in the Slovak Republic.

Customer relationships are deemed to have an economic useful life of, and are amortized on a straight-line basis over 14 years. Trademarks have an indefinite life.

(Tabular amounts in US$ 000's)

The gross value and accumulated amortization of broadcast licenses and other intangible assets was as follows at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Gross value	$ 257,717	$ 280,520
Accumulated amortization	(140,586)	(120,858)
Net book value of amortized intangible assets	**$ 117,131**	**$ 159,662**
Indefinite-lived intangible assets	26,685	25,576
Net book value of intangible assets	**$ 143,816**	**$ 185,238**

The estimated amortization expense for CET Group's intangible assets with finite lives as of December 31, 2012, which includes the change in estimates noted above and the impairments described below, is as follows:

2013	$ 10,055
2014	10,036
2015	10,017
2016	9,998
2017	9,988

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

Process of reviewing goodwill, indefinite-lived intangible assets and long-lived assets for impairment

The CET Group reviews both goodwill and indefinite-lived intangible assets for impairment in the fourth quarter of each year. Goodwill is evaluated at the reporting unit level and each indefinite-lived intangible asset is evaluated individually. Long-lived assets are evaluated at the asset group level when there is an indication that they may be impaired.

Whenever events occur which suggest any asset in a reporting unit may be impaired, an evaluation of the goodwill and indefinite-lived intangible assets, together with the associated long-lived assets of each asset group, is performed. Outside our annual review, there are a number of factors which could trigger an impairment review, including:

- under-performance of operating segments or changes in projected results;
- changes in the manner of utilization of an asset;
- negative market conditions or economic trends; and
- specific events, such as new legislation, new market entrants, changes in technology or adverse legal judgments that we believe could have a negative impact on our business.

In testing the goodwill of each reporting unit, the fair value of the reporting unit is compared to the carrying amount of its net assets, including goodwill. If the fair value of the reporting unit is less than its carrying amount, the fair value of the reporting unit is then measured against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the reporting unit's goodwill. The fair value of each reporting unit is determined using discounted estimated future cash flow models. Our expectations of these cash flows are developed during our long- and short-range business planning processes and incorporate several variables, including, but not limited to, discounted cash flows of a typical market participant, future market revenue and long-term growth projections, estimated market share for the typical participant and estimated profit margins based on market size and operation type. The cash flow model also assumes outlays for capital expenditures, future terminal values, an effective tax rate assumption and a discount rate based on a number of factors including market interest rates, a weighted average cost of capital analysis of the media industry and includes adjustments for market risk.

An impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value. If goodwill and another asset or asset group are tested for impairment at the same time, the other assets are tested for impairment before goodwill. If the other asset or asset group is impaired, this impairment loss is recognized prior to goodwill being tested for impairment.

Indefinite-lived intangible assets are evaluated for impairment by comparing the fair value of the asset to its carrying amount. Any excess of the carrying amount over the fair value is recognized as an impairment charge.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to our estimate of the undiscounted future cash flows we expect that asset group will generate. If the carrying amount of an asset exceeds our estimate of its undiscounted future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount exceeds the fair value of the respective asset.

Assessing goodwill, indefinite-lived intangible assets and long-lived assets for impairment is a complex iterative process that requires significant judgment and involves a great deal of detailed quantitative and qualitative business-specific analysis and many 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. Historically, the overall cash flow growth rates achieved by our operations have not provided a good indication of future cash flows. This is largely because the markets in which we operate are relatively new and have experienced high levels of growth as advertising markets became rapidly established. Instead, we have observed over many years a strong positive correlation between the macro economic performance of our markets and the size of the television advertising market and ultimately the cash flows we generate. With this in mind, we have placed a high importance on developing our expectations for the future development of the macro economic environment in general, the advertising market and our share of it in particular. While this has involved an appreciation of historical trends, we have placed a higher emphasis on forecasting these market trends, which has involved detailed review of macro-economic data, a range of both proprietary and publicly-available estimates for future market development, and a process of on-going consultation with local management.

Some of the key assumptions underpinning these forecasts include the size of the absolute reduction in the television advertising market during the economic downturn, the point at which growth will resume and the speed with which historical levels of demand will be achieved. In developing the forecasts of future cash flows, available external estimates are taken into account in addition to considering developments in each of our markets, which provide direct evidence of the state of the market and future market development.

The table below shows the key measurements involved and the valuation methods applied:

Measurement Valuation Method

Measurement	Valuation method
Recoverability of carrying amount	Undiscounted future cash flows (Level 3 inputs*)
Fair value of broadcast licenses	Build-out method (Level 3 inputs*)
Fair value of indefinite-lived trademarks	Relief from royalty method (Level 3 inputs*)
Fair value of reporting units	Discounted cash flow model (Level 3 inputs*)

*As described in Note 14, "Financial Instruments and Fair Value Measurements"

Each method noted above involves a number of significant assumptions over an extended period of time which could materially change our decision as to whether assets are impaired. The most significant of these assumptions include: the discount rate applied, the total advertising market size, achievable levels of market share, forecast operating income and capital expenditure and the rate of growth into perpetuity, each described in more detail below:

- Cost of capital: The cost of capital reflects the return a hypothetical market participant would require for a long-term investment in an asset and can be viewed as a proxy for the risk of that asset. We calculate the cost of capital according to the Capital Asset Pricing Model using a number of assumptions, the most significant of which is a Country Risk Premium ("CRP"). The CRP reflects the excess risk to an investor of investing in markets other than the United States and generally fluctuates with expectations of changes in a country's macro-economic environment. The costs of capital that we have applied to cash flows in all reporting units at the end of 2012 were lower than those we had used in our annual impairment review at the end of 2011, which was driven primarily by a reduction in the CRP.

- Total advertising market: The size of the television advertising market effectively places an upper limit on the advertising revenue we can expect to earn in each country. Our estimate of the total advertising market is developed from a number of external sources, in combination with a process of on-going consultation with local management. In our annual impairment review performed in the fourth quarter, we decreased our short- and medium-term view of the size of the television advertising markets based on current market views regarding growth rates in the coming periods before markets recover in the long-term.

- Market share: This is a function of the audience share we expect our stations to generate, and the relative price at which we can sell advertising. Our estimate of the total advertising market is developed from a number of external sources, in combination with a process of on-going consultation with local management.

- Forecast operating income: The level of cash flow generated by each operation is ultimately governed by the extent to which we manage the relationship between revenues and costs. We forecast the level of operating costs by reference to (a) the historical absolute and relative levels of costs we have incurred in generating revenue in each reporting unit, (b) the operating strategy of each business and (c) specific forecast costs to be incurred. Our annual impairment review includes assumptions to reflect further cost control we intend to execute.

- Forecast capital expenditure: The size and phasing of capital expenditure, both recurring expenditure to replace retired assets and investments in new projects, has a significant impact on cash flows. We forecast the level of future capital expenditure based on current strategies and specific forecast costs to be incurred. In line with our ongoing efforts to protect our operating margins, the absolute levels of capital expenditure forecast remained broadly constant with the prior year impairment reviews.

- Growth rate into perpetuity: This reflects the level of economic growth in each of our markets from the last forecasted period into perpetuity and is the sum of an estimated real growth rate, which reflects our belief that macro-economic growth in our markets will eventually converge to Western European markets, and long term expectations for inflation. Our estimates of these rates are based on observable market data and have not changed since the end of 2011.

Impairment reviews and charges recognized in 2012

We anticipated that 2012 would be a challenging year for the advertising markets in the territories in which we operate, but we expected the rate of decline in advertising spending to reduce by the end of the year and particularly during the fourth quarter. There was an overall improvement in the perceived level of risk associated with investing in the Eurozone and its periphery, which led to the reduction in CRPs as at December 31, 2012 noted above; however, this did not translate into a corresponding improvement in advertising spending during the fourth quarter of 2012 that we previously expected. The fourth quarter is traditionally the most significant quarter for television advertising, and therefore this period tends to have a larger influence on developing our long- and short-range forecasts for our businesses.

(Tabular amounts in US$ 000's)

Our medium-term outlook included in forecasts used for our previous impairment review performed in 2011 anticipated a recovery in total advertising spending during 2013, which was consistent with then current internal and external projections for the television advertising markets in our territories following overall flat growth in these advertising markets during 2011. During 2012 the demand for television advertising declined across our markets and a recovery in the fourth quarter of 2012 that we expected earlier in the year did not occur because advertisers did not honor previous spending commitments. As a result, our outlook for future periods is less certain and we made significant downward revisions in our estimates of the cash flows that our operations will generate in future periods.

This decrease in estimated future cash flows during the impairment review performed during the fourth quarter of 2012 more than offset the impact of the decrease in the cost of capital, and resulted in estimated fair values for each reporting unit that were significantly lower than those calculated during the previous impairment review in 2011. Our current medium-term outlook included in forecasts used for the impairment review performed during the fourth quarter of 2012 expects continuing challenges in our markets during 2013.

Upon conclusion of this review, we determined that a charge was required to impair certain long-lived assets, broadcast licenses, customer relationships, trademarks and goodwill in certain reporting units, as presented below. The equity fair value of each reporting unit where goodwill was not impaired as of December 31, 2012 was substantially in excess of its equity carrying amount, after considering the impairments of intangible assets recorded.

The CET Group recognized impairment charges in the following reporting units in respect of goodwill, tangible and intangible assets during the year ended December 31, 2012:

	Long-lived assets	**Customer Relationships**	**Broadcast license**	**Goodwill**	**Total**
Broadcast - Czech Republic	$ 6,846	$ -	$ -	$ 287,545	$ 294,391
Broadcast - Slovak Republic	1,866	28,066	5,901	-	35,833
	$ 8,712	**$ 28,066**	**$ 5,901**	**$ 287,545**	**$ 330,224**

Goodwill and Intangible Assets

We determined that the asset groups in the Czech Republic Broadcast reporting unit were recoverable by reference to the expected cash flows to be generated, and therefore no impairment was recorded for long-lived or intangible assets, except as noted below. However, it was determined that the carrying amount of goodwill exceeded its implied fair value by US$ 287.5 million and this amount was recorded as an impairment of goodwill.

We determined that the customer relationship and the broadcast license in the Slovak Republic were not recoverable, and full impairment of these assets was recorded. After adjusting the carrying amount of the Slovak Republic Broadcast reporting unit for the impairment of finite-lived intangible assets, the resulting carrying amount was substantially in excess of the estimated fair value, and therefore it was determined that goodwill was not impaired.

Long-lived Assets

We also recorded a total of US$ 8.7 million of impairment losses related to a construction project and land for development in the Czech Republic and Slovak Republic, respectively. The plans to complete these developments were not included in the latest long-term forecasts and the carrying amounts were therefore determined not to be recoverable. As a result, the carrying amounts were impaired to their fair value using significant Level 2 inputs as described in Note 14, "Financial Instruments and Fair Value Measurements", estimated as replacement cost.

(Tabular amounts in US$ 000's)

5. DEBT

The CET Group's total debt comprised the following as at December 31, 2012 and 2011:

Total debt

	Carrying Value		Fair Value	
	December 31, 2012	**December 31, 2011**	**December 31, 2012**	**December 31, 2011**
2017 Fixed Rate Notes (a)	$ 323,761	$ 219,960	$ 346,200	$ 206,765
Secured revolving credit facility (b)	-	75,226	-	75,226
Capital leases (c)	961	-	961	-
Debt to related parties (f-g)	308,424	294,250	334,989	271,895
	$ 633,146	**$ 589,436**	**$ 682,150**	**$ 553,886**

Long-term debt – third parties

	December 31, 2012	**December 31, 2011**
2017 Fixed Rate Notes (a)	$ 323,761	$ 219,960
Secured revolving credit facility (b)	-	75,226
Capital leases (c)	961	-
Total long-term debt - third parties	**$ 324,722**	**$ 295,186**
Less current maturities	(274)	-
Total non-current debt – third parties	**$ 324,448**	**$ 295,186**

2017 Fixed Rate Notes

(a) On October 21, 2010, CET 21 issued EUR 170.0 million (approximately US$ 237.5 million at the date of issuance) of 2017 Fixed Rate Notes. On August 16, 2012, CET 21 issued an additional EUR 70.0 million (approximately US$ 93.8 million at the date of issuance) of 2017 Fixed Rate Notes at an issue price of 108.25%. 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 December 31, 2012 and December 31, 2011 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 14, "Financial Instruments and Fair Value Measurements".

The 2017 Fixed Rate Notes are secured senior obligations of 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 other CME Ltd. subsidiaries. The amounts outstanding are guaranteed by CME Ltd. and by its wholly-owned subsidiaries Central European Media Enterprises N.V. ("CME NV"), CME BV, CME Investments, CME Slovak Holdings and Markiza and are secured by a pledge of the shares of CME NV, CME BV, CET 21, CME Slovak Holdings and MPP Praha, as well as an assignment of certain contractual rights. The terms of the 2017 Fixed Rate Notes restrict the manner in which 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.

(Tabular amounts in US$ 000's)

In the event that (A) there is a change in control by which (i) any party other than certain of CME Ltd.'s present shareholders becomes the beneficial owner of more than 35% of CME Ltd.'s total voting power; (ii) CME Ltd. agrees to sell all or substantially all of its operating assets; or (iii) there is a change in the composition of a majority of CME Ltd.'s 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, CET 21 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 the option of CET 21, in whole or in part, at the redemption prices set forth below:

From:	**Fixed Rate Notes Redemption Price**
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.

Credit Facilities and Capital Lease Obligations

(b) On October 21, 2010, CET 21 entered into a five-year CZK 1.5 billion (approximately US$ 78.7 million based on December 31, 2012 rates) Secured Revolving Credit Facility. CET 21 repaid amounts outstanding under and canceled the Secured Revolving Facility on August 16, 2012. Drawings on the Secured Revolving Credit Facility amounted to CZK 1.5 billion (approximately US$ 75.2 million) as at December 31, 2011. Interest under the facility was calculated at a rate per annum of 5% above Prague Interbank Offered Rate ("PRIBOR") for the relevant interest period (the applicable rate at December 31, 2011 was 5.97%).

(c) During the year ended December 31, 2012, Markiza entered into capital lease contracts for the acquisition of property, plant and equipment (see Note 9, "Property, plant and equipment").

(d) As at December 31, 2012 and December 31, 2011, there were no drawings outstanding under a CZK 830.0 million (approximately US$ 43.6 million) factoring framework agreement with Factoring Ceska Sporitelna ("FCS"). Under this facility up to CZK 830.0 million (approximately US$ 43.6 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.

BMG

(e) CME BV has a cash pooling arrangement with Bank Mendes Gans ("BMG"), a subsidiary of ING Bank N.V. ("ING"), which enables CME BV and its wholly owned subsidiaries, including members of the CET Group, to receive credit in respect of cash balances which the wholly owned subsidiaries deposit with BMG. Cash deposited by CME BV's subsidiaries with BMG is pledged as security against the drawings of other subsidiaries up to the amount deposited.

(Tabular amounts in US$ 000's)

There were cash deposits made by the CET Group in the BMG cash pool of CZK 8.9 million (US$ 0.5 million) and CZK 7.0 million (US$ 0.4 million) as at December 31, 2012 and 2011, respectively. There were no drawings as at December 31, 2012 and 2011.

Long-term debt - related parties

	December 31, 2012	December 31, 2011
Long-term debt - related parties (f-g)	$ 308,424	$ 294,250
Total long-term debt - related parties	**$ 308,424**	**$ 294,250**

(f) As of December 31, 2012 CET 21 owed CZK 5.4 billion (US$ 283.5 million) to CME Investments (December 31, 2011: CZK 5.4 billion, US$ 270.9 million). This loan matures on March 1, 2018 and interest is payable quaterly at a fixed rate of 9.25%. Interest of CZK 485.8 million (US$ 25.7 million), CZK 603.9 million (US$ 34.4 million) and CZK 731.5 million (US$ 38.3 million) was incurred on this loan in 2012, 2011 and 2010, respectively. Accrued interest of CZK nil and CZK 125.8 million (US$ 6.3 million) was included within accounts payable and accrued liabilities as at December 31, 2012 and 2011, respectively. On January 30, 2013 CET 21 repaid CZK 196.2 million (US$ 10.4 million at the date of payment) of this loan (see Note 17, "Subsequent events").

(g) As of December 31, 2012, Markiza owed EUR 18.9 million (US$ 24.9 million) to CME Investments (December 31, 2011: EUR 18.0 million, US$ 23.3 million) pursuant to a loan with a maturity date of March 1, 2018. Interest is payable quaterly at a fixed rate of 8.0%. Interest of EUR 1.4 million (US$ 1.9 million), EUR 1.6 million (US$ 2.2 million) and EUR 1.6 million (US$ 2.1 million) was incurred on this loan in 2012, 2011 and 2010, respectively. Accrued interest of EUR 0.4 million (US$ 0.5 million) and EUR 0.4 million (US$ 0.5 million) was included within accounts payable and accrued liabilities as at December 31, 2012 and 2011, respectively. This loan was repaid in full on February 28, 2013 (see Note 17, "Subsequent events").

The fair value of the long-term debt to related parties as at December 31, 2012 and December 31, 2011 was calculated as the present value of the future cash flows discounted using the rate of return an investor would have required on our debt with other terms substantially similar to the long-term debt to related parties. This measurement of estimated fair value uses Level 2 inputs as described in Note 14, "Financial Instruments and Fair Value Measurements".

(Tabular amounts in US$ 000's)

At December 31, 2012, the maturity of our debt was as follows:

2013	$ 316
2014	309
2015	307
2016	112
2017	316,660
2018 and thereafter	308,424
Total long-term debt principal repayments	**$ 626,128**
Net premium	7,018
Carrying amount of long-term debt and credit facilities	**$ 633,146**

6. PROGRAM RIGHTS

Program rights comprised the following at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Program rights:		
Acquired program rights, net of amortization	$ 92,234	$ 88,454
Less: current portion of acquired program rights	(38, 228)	(24,746)
Total non-current acquired program rights	**$ 54,006**	**$ 63,708**
Produced program rights — Feature Films:		
Released, net of amortization	669	506
In production	1,418	839
Development and pre-production	179	-
Produced program rights — Television Programs:		
Released, net of amortization	53,214	55,161
Completed and not released	20,020	6,311
In production	6,911	7,309
Development and pre-production	2,407	2,536
Total produced program rights	**$ 84,818**	**$ 72,661**
Total non-current acquired program rights and produced program rights	**$ 138,824**	**$ 136,369**

7. ACCOUNTS RECEIVABLE

Accounts receivable comprised the following as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Unrelated customers	$ 44,486	$ 52,196
Less: allowance for bad debts and credit notes	(865)	(888)
Related parties	282	379
Total accounts receivable	**$ 43,903**	**$ 51,687**

Bad debt expense for the year ended December 31, 2012 and 2010 was US$ 0.4 million and US$ 0.8 million, respectively. Bad debt recoveries for the year ended December 31, 2011 was US$ 0.6 million.

(Tabular amounts in US$ 000's)

At December 31, 2012, there were CZK 132.4 million (approximately US$ 6.9 million) (December 31, 2011: CZK 545.8 million, approximately US$ 28.6 million based on December 31, 2012 rates), of receivables subject to the factoring framework agreement (see Note 5, "Debt").

8. OTHER ASSETS

Other current and non-current assets comprised the following as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Current:		
Other prepaid expenses	$ 2,210	$ 1,198
Income taxes recoverable	-	529
Deferred tax	653	1,256
VAT recoverable	616	3,593
Capitalized debt costs	3,168	2,184
Other	1,404	110
Total other current assets	**$ 8,051**	**$ 8,870**

	December 31, 2012	December 31, 2011
Non-current:		
Deferred tax	$ 114	$ 498
Capitalized debt costs	7,359	10,383
Other	124	2
Total other non-current assets	**$ 7,597**	**$ 10,883**

Capitalized debt costs primarily comprise the costs incurred in connection with the issuance of the 2017 Fixed Rate Notes (see Note 5, "Debt"), and are being amortized over the term of the 2017 Fixed Rate Notes using the effective interest method.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Land and buildings	$ 70,966	$ 68,622
Machinery, fixtures and equipment	125,101	121,973
Other equipment	6,063	6,017
Software licenses	15,299	14,861
Construction in progress	6,115	8,131
Total cost	**$ 223,544**	**$ 219,604**
Less: Accumulated depreciation	(150,845)	(139,612)
Total net book value	**$ 72,699**	**$ 79,992**

Depreciation expense for the years ended December 31, 2012, 2011 and 2010 was US$ 16.4 million, US$ 20.5 million and US$ 24.1 million, respectively. As at December 31, the gross book value of assets held under capital lease was US$ 1.2 million.

(Tabular amounts in US$ 000's)

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised the following as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Accounts payable	$ 24,025	$ 22,208
Programming liabilities	19, 275	23,256
Accrued interest payable	5,246	10,439
Accrued staff costs	6,051	9,167
Duties and other taxes payable	1,336	1,904
Accrued services and other supplies	10,612	2,542
Authors' rights	96	939
Accrued legal and professional fees	1,384	809
Income taxes payable	3,758	101
Total accounts payable and accrued liabilities	**$ 71,783**	**$ 71,365**

11. OTHER LIABILITIES

Other current and non-current liabilities comprised the following as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Current:		
Deferred revenue	$ 4,044	$ 3,530
Other	456	1,316
Total other current liabilities	**$ 4,500**	**$ 4,846**

	December 31, 2012	December 31, 2011
Non-current:		
Deferred tax	$ 32,447	$ 40,438
Other	202	709
Total other non-current liabilities	**$ 32,649**	**$ 41,147**

12. INCOME TAXES

The Czech Republic and non-Czech Republic components of income before income taxes are:

	For the years ended December 31,		
	2012	2011	2010
Domestic	$ (268,641)	$ 39,915	$ 25,340
Foreign	(43,691)	(9,928)	(20,151)
Total income before income taxes	**$ (312,332)**	**$ 29,987**	**$ 5,189**

(Tabular amounts in US$ 000's)

The Czech Republic and non-Czech Republic components of the provision for income taxes consist of:

	For the years ended December 31,		
	2012	**2011**	**2010**
Current income tax expense:			
Domestic	$ 7,377	$ 6,679	$ 5,459
Foreign	432	44	72
	$ 7,809	**$ 6,723**	**$ 5,530**
Deferred tax benefit :			
Domestic	$ (3,204)	(1,091)	(1,287)
Foreign	(5,010)	(1,290)	(2,853)
	$ (8,214)	**$ (2,381)**	**$ (4,140)**
Credit / (provision) for income taxes	**$ (405)**	**$ 4,342**	**$ 1,391**

Components of Deferred Tax Assets and Liabilities

The following table shows the significant components included in deferred income taxes as at December 31, 2012 and 2011:

Components of deferred tax assets and liabilities	**December 31, 2012**	**December 31, 2011**
Assets:		
Tax benefit of loss carry-forwards and other tax credits	$ 3,876	$ 1,168
Programming rights	2,290	760
Other	1,944	527
Gross deferred tax assets	**8,110**	**2,455**
Valuation allowance	(3,808)	(701)
Net deferred tax assets	**$ 4,302**	**$ 1,754**

	December 31, 2012	**December 31, 2011**
Liabilities:		
Broadcast licenses, trademarks and customer relationships	$ 27,025	$ 32,064
Property, plant and equipment	1,018	1,932
Other	8,228	6,442
Total deferred tax liabilities	**$ 36,271**	**$ 40,438**
Net deferred income tax liability	**$ 31,969**	**$ 38,684**

The CET Group had the following movements on valuation allowances:

Balance at December 31, 2011	**$ 701**
Increase due to losses incurred	3,670
Utilized	(426)
Decrease due to expiration of tax losses	(137)
Balance at December 31, 2012	**$ 3,808**

(Tabular amounts in US$ 000's)

As at December 31, 2012 the CET Group had operating loss carry-forwards that will expire in the following periods:

Year	2013	2014	2015	2016	2017	2018 and thereafter
Czech Republic	$ -	$ -	$ -	$ -	$ 721	$ -
Slovak Republic	-	-	-	-	9,996	6,256
Total loss carry forwards	**$ -**	**$ -**	**$ -**	**$ -**	**$ 10,717**	**$ 6,256**

The losses are subject to examination by the tax authorities and to restriction on their utilization. In particular the losses can only be utilized against profits arising in the legal entity in which they arose. The CET Group has provided valuation allowances against some of the above operating loss carry-forwards as management considers it more likely than not that the CET Group will fail to utilize some of these tax benefits.

The CET Group's subsidiaries file income tax returns in the Czech Republic, the Slovak Republic and The Netherlands. As at December 31, 2012, the CET Group's subsidiaries are generally no longer subject to income tax examinations for years before:

Country	Year
Czech Republic	2008
Slovak Republic	2007
The Netherlands	2009

13. INTEREST EXPENSE

Interest expense comprised the following for the years ended December 31, 2012, 2011 and 2010:

	For the years ended December 31,		
	2012	2011	2010
Interest on long-term debt - related parties	$ 27,543	$ 37,128	$ 40,518
Interest on 2017 Fixed rate notes	22,789	21,434	3,881
Interest on credit facilities - third parties	3,636	3,439	7,701
	$ 53,968	**$ 62,001**	**$ 52,100**
Loss on extinguishment of debt	-	-	3,853
Amortization of capitalized debt costs and premium, net	5,628	2,071	1,500
	$ 5,628	**2,071**	**5,353**
Total interest expense	**$ 59,596**	**$ 64,072**	**$ 57,453**

14. 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:

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.

At December 31, 2012, the CET Group had the following interest rate swap agreement carried at fair value, using significant level 2 inputs:

Interest Rate Swap

On February 9, 2010, CET 21 entered into an interest rate swap agreement with UniCredit Bank Czech Republic, a.s. ("UniCredit") and Ceska Sporitelna, a.s. ("CSAS"), expiring in April 2013, to reduce the impact of changing interest rates on its previously outstanding floating rate debt that was denominated in CZK. The interest rate swap is a financial instrument that is used to minimize interest rate risk and is considered an economic hedge. The interest rate swap has not been designated as a hedging instrument so changes in the fair value of the derivative are recorded in the consolidated statements of operations and other comprehensive income and in the consolidated balance sheet in other current liabilities.

The interest rate swap agreement is valued using a valuation model which calculates 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 is the expected PRIBOR-based yield curve. This instrument is 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, are readily observable.

The fair value of the interest rate swap as at December 31, 2012, was a US$ 0.1 million liability, which represented a net decrease of US$ 0.6 million from the US$ 0.7 million liability as at December 31, 2011, and was recognized as a derivative gain in the consolidated statement of operations and other comprehensive income amounting to US$ 0.6 million.

15. COMMITMENTS AND CONTINGENCIES

Commitments

a) Programming Rights Agreements and Other Commitments

At December 31, 2012, the CET Group had total commitments of US$ 72.2 million (December 31, 2011: US$ 104.4 million) for 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:

(Tabular amounts in US$ 000's)

Commitments	**Programming purchase obligations**	**Digital transmission obligations**	**Operating leases**	**Capital expenditures**
2013	$ 45,283	$ 23,363	$ 2,362	$ 5,192
2014	11,574	7,884	1,152	919
2015	6,353	7,884	859	-
2016	4,537	1,934	610	-
2017	4,537	1,934	610	-
2018 and thereafter	-	-	1,724	-
Total	**$ 72,284**	**$ 42,999**	**$ 7,317**	**$ 6,111**

For the years ended December 31, 2012, 2011 and 2010 the CET Group incurred aggregate rent on all facilities of US$ 7.0 million, US$ 3.2 million and US$ 3.7 million, respectively.

b) Factoring of Trade Receivables

CET 21 has a CZK 830 million (approximately US$ 43.6 million) factoring framework agreement with FCS. Under this facility up to CZK 830 million (approximately US$ 43.6 million) may be factored on a recourse or non-recourse basis. As at December 31, 2012, there were CZK 132.4 million (approximately US$ 6.9 million) (December 31, 2011: CZK 545.8 million, approximately US$ 28.6 million based on December 31, 2012 rates), of receivables subject to the factoring framework agreement (see also Note 5, "Debt" and Note 7, "Accounts Receivable").

Contingencies

While the CET Group is, from time to time, a party to litigation, arbitration or regulatory proceedings arising in the normal course of our business operations, it is not presently a party to any such litigation, arbitration or regulatory proceeding which could reasonably be expected to have a material effect on its business or consolidated financial statements.

16. RELATED PARTY TRANSACTIONS

CME Ltd. and subsidiaries

In the normal course of business the CET Group enters into transactions with other subsidiaries of CME Ltd. described as follows:

Debt

The CET Group has entered into a variety of loan agreements with other companies owned by CME Ltd. These agreements (as well as outstanding balances under the agreements) are described in Note 5, "Debt".

Sales and Purchases

The CET Group purchased programming and services from other subsidiaries of CME Ltd. with a value of approximately US$ 9.6 million, US$ 9.1 million and US$ 8.3 million in 2012, 2011 and 2010, respectively. The total amount payable for these purchases was US$ 2.0 million and US$ 3.7 million at December 31, 2012 and 2011, respectively.

The CET Group provided services to other subsidiaries of CME Ltd. with a value of approximately US$ 2.8 million, US$ 1.8 million and US$ 1.1 million in 2012, 2011 and 2010, respectively. The total amount receivable for these services was US$ 0.3 million and US$ 0.4 million at December 31, 2012 and 2011, respectively.

Other Related Parties

The CET 21 Group has entered into transactions with various organizations and individuals that are considered to be related parties: Adrian Sarbu, CME Ltd.'s President and Chief Executive Officer, a member of CME Ltd.'s Board of Directors and beneficial owner of approximately 3.2% of CME Ltd.'s outstanding shares of Class A common stock; and Time Warner Inc. ("Time Warner"), who is represented on CME Ltd.'s Board of Directors and holds a 49.9% economic interest in CME Ltd. at Decemebr 31, 2012.

Adrian Sarbu

The CET Group has not purchased any programming from companies related to or connected with Mr. Sarbu in 2012, 2011 and 2010. There were no amounts payable as at December 31, 2012 and 2011.

On January 11, 2010, CET 21 acquired Mediafax s.r.o. from Alerria Management Company S.A., a company beneficially owned by Adrian Sarbu.

Time Warner

The CET Group purchased programming from companies related to or connected with Time Warner with a value of approximately US$ 8.5 million, US$ 9.1 million and US$ 1.6 million in 2012, 2011 and 2010, respectively. The total amount payable for these purchases was US$ 5.3 million and US$ 10.6 million at December 31, 2012 and 2011, respectively.

17. SUBSEQUENT EVENTS

On January 30, 2013 CET 21 repaid CZK 196.2 million (US$ 10.4 million at the date of repayment) of the related party debt to CME Investments.

On Feburary 14, 2013, CET 21 issued a guarantee to a third party in the amount of CZK 60 million (US$ 3.1 million).

On February 28, 2013, CME BV made a contribution of EUR 19.5 million into the CET Group's equity. On the same date, the CET Group used the proceeds to repay a portion of its related party debt, plus outstanding interest thereon (see Note 5, "Debt").

The CET Group has evaluated subsequent events through March 27, 2013, the date on which the CET Group's consolidated financial statements were available to be issued and has determined there were no additional events requiring consideration as adjustments to, or disclosure in, the consolidated financial statements as of December 31, 2012.