

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD

Form 10-Q

July 29, 2015

Index

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

o 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 T 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 T 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 T

Non-accelerated filer £

Smaller reporting company £

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

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

| Class                                  | Outstanding as of July 24, 2015 |
|--|---------------------------------|
| Class A Common Stock, par value \$0.08 | 135,802,274                     |

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CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

FORM 10-Q

For the quarterly period ended June 30, 2015

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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)

|  | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| <b>ASSETS</b>  |               |                   |
| Current assets   |               |                   |
| Cash and cash equivalents  | \$38,013      | \$34,298          |
| Accounts receivable, net (Note 7)  | 162,800       | 175,866           |
| Program rights, net (Note 6)   | 99,692        | 99,358            |
| Other current assets (Note 8)  | 38,860        | 35,481            |
| Assets held for sale (Note 3)  | 9,347         | 29,866            |
| Total current assets   | 348,712       | 374,869           |
| Non-current assets   |               |                   |
| Property, plant and equipment, net (Note 9)  | 106,342       | 114,335           |
| Program rights, net (Note 6)   | 174,716       | 207,264           |
| Goodwill (Note 4)  | 636,267       | 681,398           |
| Broadcast licenses and other intangible assets, net (Note 4)   | 163,643       | 183,378           |
| Other non-current assets (Note 8)  | 52,573        | 58,116            |
| Total non-current assets   | 1,133,541     | 1,244,491         |
| Total assets   | \$1,482,253   | \$1,619,360       |
| <b>LIABILITIES AND EQUITY</b>  |               |                   |
| Current liabilities  |               |                   |
| Accounts payable and accrued liabilities (Note 10)   | \$166,628     | \$179,224         |
| Current portion of long-term debt and other financing arrangements (Note 5)  | 258,385       | 252,859           |
| Other current liabilities (Note 11)  | 21,557        | 7,812             |
| Liabilities held for sale (Note 3)   | 4,997         | 10,632            |
| Total current liabilities  | 451,567       | 450,527           |
| Non-current liabilities  |               |                   |
| Long-term debt and other financing arrangements (Note 5)   | 620,256       | 621,240           |
| Other non-current liabilities (Note 11)  | 55,104        | 46,485            |
| Total non-current liabilities  | 675,360       | 667,725           |
| Commitments and contingencies (Note 20)  |               |                   |
| Temporary equity   |               |                   |
| 200,000 shares of Series B Convertible Redeemable Preferred Stock of \$0.08 each (December 31, 2014 - 200,000) (Note 13) | 232,330       | 223,926           |
| <b>EQUITY</b>  |               |                   |
| CME Ltd. shareholders' equity (Note 14):   |               |                   |
| One share of Series A Convertible Preferred Stock of \$0.08 each (December 31, 2014 - one)                               | —             | —                 |
| 135,801,524 shares of Class A Common Stock of \$0.08 each (December 31, 2014 - 135,335,258)                              | 10,864        | 10,827            |
| Nil shares of Class B Common Stock of \$0.08 each (December 31, 2014 - nil)  | —             | —                 |
| Additional paid-in capital   | 1,921,470     | 1,928,920         |
| Accumulated deficit  | (1,572,296)   | (1,490,344)       |
| Accumulated other comprehensive loss   | (234,640)     | (169,609)         |

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|                                     |             |             |   |
|-------------------------------------|-------------|-------------|---|
| Total CME Ltd. shareholders' equity | 125,398     | 279,794     |   |
| Noncontrolling interests            | (2,402      | ) (2,612    | ) |
| Total equity                        | 122,996     | 277,182     |   |
| Total liabilities and equity        | \$1,482,253 | \$1,619,360 |   |

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

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## 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<br>Ended June 30, |            | For the Six Months<br>Ended June 30, |             |
|--|--|------------|--------------------------------------|-------------|
|  | 2015                                   | 2014       | 2015                                 | 2014        |
| Net revenues   | \$166,834                              | \$192,811  | \$292,967                            | \$333,516   |
| Operating expenses:  |  |            |                                      |             |
| Content costs  | 73,437                                 | 93,167     | 144,727                              | 179,988     |
| Other operating costs  | 17,422                                 | 21,109     | 34,460                               | 42,580      |
| Depreciation of property, plant and equipment                          | 6,936                                  | 8,051      | 13,937                               | 16,111      |
| Amortization of broadcast licenses and other intangibles               | 3,434                                  | 3,187      | 6,933                                | 6,414       |
| Cost of revenues   | 101,229                                | 125,514    | 200,057                              | 245,093     |
| Selling, general and administrative expenses                           | 28,712                                 | 41,690     | 72,613                               | 72,170      |
| Restructuring costs (Note 15)  | 452                                    | 2,920      | 1,095                                | 8,248       |
| Operating income   | 36,441                                 | 22,687     | 19,202                               | 8,005       |
| Interest income  | 118                                    | 101        | 230                                  | 182         |
| Interest expense (Note 16)   | (41,746)                               | (39,070)   | (81,864)                             | (66,950)    |
| Loss on extinguishment of debt   | —                                      | (24,161)   | —                                    | (24,161)    |
| Foreign currency exchange gain / (loss), net                           | 2,289                                  | (337)      | (9,200)                              | (967)       |
| Change in fair value of derivatives (Note 12)                          | (2,220)                                | 2,361      | (3,230)                              | 2,311       |
| Other expense, net   | (3,091)                                | (533)      | (3,445)                              | (498)       |
| Loss before tax  | (8,209)                                | (38,952)   | (78,307)                             | (82,078)    |
| Provision for income taxes   | (3,460)                                | (2,400)    | (3,605)                              | (274)       |
| Loss from continuing operations  | (11,669)                               | (41,352)   | (81,912)                             | (82,352)    |
| Income / (loss) from discontinued operations, net of tax (Note 3)      | 2,684                                  | (11,154)   | (604)                                | (18,787)    |
| Net loss   | (8,985)                                | (52,506)   | (82,516)                             | (101,139)   |
| Net loss attributable to noncontrolling interests                      | 307                                    | 69         | 564                                  | 786         |
| Net loss attributable to CME Ltd.                                      | \$(8,678)                              | \$(52,437) | \$(81,952)                           | \$(100,353) |
| Net loss   | \$(8,985)                              | \$(52,506) | \$(82,516)                           | \$(101,139) |
| Other comprehensive income / (loss):                                   |  |            |                                      |             |
| Currency translation adjustment  | 39,581                                 | (8,309)    | (64,183)                             | (6,937)     |
| Unrealized gain / (loss) on derivative instruments (Note 12)           | 533                                    | —          | (74)                                 | —           |
| Total other comprehensive income / (loss)                              | 40,114                                 | (8,309)    | (64,257)                             | (6,937)     |
| Comprehensive income / (loss)  | 31,129                                 | (60,815)   | (146,773)                            | (108,076)   |
| Comprehensive loss / (income) attributable to noncontrolling interests | 639                                    | 5          | (210)                                | 725         |
| Comprehensive income / (loss) attributable to CME Ltd.                 | \$31,768                               | \$(60,810) | \$(146,983)                          | \$(107,351) |
| PER SHARE DATA (Note 18):  |  |            |                                      |             |
| Net (loss) / income per share:   |  |            |                                      |             |
| Continuing operations attributable to CME Ltd. - Basic                 | \$(0.11)                               | \$(0.31)   | \$(0.61)                             | \$(0.61)    |
| Continuing operations attributable to CME Ltd. - Diluted               | (0.11)                                 | (0.31)     | (0.61)                               | (0.61)      |
| Discontinued operations attributable to CME Ltd. - Basic               | 0.02                                   | (0.08)     | (0.01)                               | (0.13)      |
| Discontinued operations attributable to CME Ltd. - Diluted             | 0.02                                   | (0.08)     | (0.01)                               | (0.13)      |
| Net loss attributable to CME Ltd. - Basic                              | (0.09)                                 | (0.39)     | (0.62)                               | (0.74)      |
| Net loss attributable to CME Ltd. - Diluted                            | (0.09)                                 | (0.39)     | (0.62)                               | (0.74)      |

Weighted average common shares used in computing per share  
amounts (000's):

|         |         |         |         |         |
|---------|---------|---------|---------|---------|
| Basic   | 146,743 | 146,445 | 146,675 | 146,410 |
| Diluted | 146,743 | 146,445 | 146,675 | 146,410 |

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

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

|   | CME Ltd.<br>Series A<br>Convertible Preferred Stock |           |                  |           | Class B<br>Common Stock |           |                            |                     |                                      |                         |              |  |
|---|---|-----------|------------------|-----------|-------------------------|-----------|----------------------------|---------------------|--------------------------------------|-------------------------|--------------|--|
|   | Number of shares                                    | Par value | Number of shares | Par value | Number of shares        | Par value | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Equity |  |
| BALANCE                                   |   |           |                  |           |                         |           |                            |                     |                                      |                         |              |  |
| December 31, 2014                         | 1   | \$—       | 135,335,258      | \$10,827  | —                       | \$—       | \$1,928,920                | \$(1,490,344)       | \$ (169,609 )                        | \$ (2,612 )             | \$277,182    |  |
| Stock-based compensation                  | —   | —         | —                | —         | —                       | —         | 992                        | —                   | —                                    | —                       | 992          |  |
| Share issuance, stock-based compensation  | —   | —         | 466,266          | 37        | —                       | —         | (37 )                      | —                   | —                                    | —                       | —            |  |
| Preferred dividend paid in kind           | —   | —         | —                | —         | —                       | —         | (8,405 )                   | —                   | —                                    | —                       | (8,405 )     |  |
| Net loss                                  | —   | —         | —                | —         | —                       | —         | —                          | (81,952 )           | —                                    | (564 )                  | (82,516 )    |  |
| Unrealized loss on derivative instruments | —   | —         | —                | —         | —                       | —         | —                          | —                   | (74 )                                | —                       | (74 )        |  |
| Currency translation adjustment           | —   | —         | —                | —         | —                       | —         | —                          | —                   | (64,957 )                            | 774                     | (64,183 )    |  |
| BALANCE                                   |   |           |                  |           |                         |           |                            |                     |                                      |                         |              |  |
| June 30, 2015                             | 1   | \$—       | 135,801,524      | \$10,864  | —                       | \$—       | \$1,921,470                | \$(1,572,296)       | \$ (234,640 )                        | \$ (2,402 )             | \$122,996    |  |
|   | CME Ltd.<br>Series A<br>Convertible Preferred Stock |           |                  |           | Class B<br>Common Stock |           |                            |                     |                                      |                         |              |  |
|   | Number of shares                                    | Par value | Number of shares | Par value | Number of shares        | Par value | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Noncontrolling Interest | Total Equity |  |
| BALANCE                                   |   |           |                  |           |                         |           |                            |                     |                                      |                         |              |  |
| December 31, 2013                         | 1   | \$—       | 134,837,442      | \$10,787  | —                       | \$—       | \$1,704,066                | \$(1,262,916)       | \$ (11,829 )                         | \$ 893                  | \$441,001    |  |



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|  |   |     |             |          |   |     |             |               |              |        |             |
|--|---|-----|-------------|----------|---|-----|-------------|---------------|--------------|--------|-------------|
| Stock-based compensation                 | — | —   | —           | —        | — | —   | 581         | —             | —            | —      | 581         |
| Warrant issuance, net                    | — | —   | —           | —        | — | —   | 239,586     | —             | —            | —      | 239,586     |
| Share issuance, stock-based compensation | — | —   | 451,947     | 36       | — | —   | (36         | )—            | —            | —      | —           |
| Preferred dividend paid in kind          | — | —   | —           | —        | — | —   | (7,803      | )—            | —            | —      | (7,803 )    |
| Net loss                                 | — | —   | —           | —        | — | —   | —           | (100,353      | )—           | (786   | )(101,139 ) |
| Currency translation adjustment          | — | —   | —           | —        | — | —   | —           | —             | (6,998       | )61    | (6,937 )    |
| BALANCE June 30, 2014                    | 1 | \$— | 135,289,389 | \$10,823 | — | \$— | \$1,936,394 | \$(1,363,269) | \$ (18,827 ) | \$ 168 | \$565,289   |

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

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

|  | For the Six Months Ended June 30, |                |
|--|-----------------------------------|----------------|
|  | 2015                              | 2014           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                   |                |
| Net loss   | \$(82,516                         | ) \$(101,139 ) |
| Adjustments to reconcile net loss to net cash used in continuing operating activities: |                                   |                |
| Loss from discontinued operations, net of tax (Note 3)                                 | 604                               | 18,787         |
| Amortization of program rights   | 142,972                           | 174,728        |
| Depreciation and other amortization  | 47,044                            | 39,058         |
| Interest paid in kind  | 43,681                            | 727            |
| Loss on extinguishment of debt   | —                                 | 24,161         |
| Loss / (gain) on disposal of fixed assets  | 3,280                             | (59 )          |
| Stock-based compensation (Note 17)   | 992                               | 581            |
| Change in fair value of derivatives (Note 12)  | 2,241                             | —              |
| Foreign currency exchange loss, net  | 564                               | 3,177          |
| Net change in (net of effects of disposals of businesses):                             |                                   |                |
| Accounts receivable, net   | 2,774                             | (19,121 )      |
| Accounts payable and accrued liabilities   | (7,417                            | ) (2,008 )     |
| Program rights   | (148,217                          | ) (171,374 )   |
| Other assets   | (850                              | ) 1,651        |
| Accrued interest   | 2,367                             | (3,136 )       |
| Income taxes payable   | (263                              | ) 100          |
| Deferred revenue   | 12,948                            | 16,318         |
| Deferred taxes   | 2,996                             | 109            |
| VAT and other taxes payable  | 18,322                            | 4,881          |
| Net cash generated from / (used in) continuing operating activities                    | \$41,522                          | \$(12,559 )    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                                   |                |
| Purchase of property, plant and equipment  | \$(14,462                         | ) \$(14,044 )  |
| Disposal of property, plant and equipment  | 74                                | 81             |
| Net cash used in continuing investing activities                                       | \$(14,388                         | ) \$(13,963 )  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                                   |                |
| Issuance of Senior Debt  | \$—                               | \$221,374      |
| Repayments of Senior Debt  | —                                 | (400,673 )     |
| Debt transaction costs   | (627                              | ) (12,592 )    |
| Proceeds from credit facilities  | —                                 | 16,801         |
| Payment of credit facilities and capital leases  | (26,726                           | ) (463 )       |
| Issuance of common stock   | —                                 | 191,825        |
| Dividends paid to holders of noncontrolling interests                                  | —                                 | (46 )          |
| Net cash (used in) / provided by continuing financing activities                       | \$(27,353                         | ) \$16,226     |

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|   |          |           |   |
|---|----------|-----------|---|
| Net cash used in discontinued operations - operating activities                 | (1,630   | ) (1,684  | ) |
| Net cash provided by / (used in) discontinued operations - investing activities | 6,954    | (116      | ) |
| Net cash used in discontinued operations - financing activities                 | (56      | ) (605    | ) |
| Impact of exchange rate fluctuations on cash and cash equivalents               | (1,334   | ) (3,555  | ) |
| Net increase / (decrease) in cash and cash equivalents                          | \$3,715  | \$(16,256 | ) |
| CASH AND CASH EQUIVALENTS, beginning of period                                  | 34,298   | 102,322   |   |
| CASH AND CASH EQUIVALENTS, end of period  | \$38,013 | \$86,066  |   |

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING  
ACTIVITIES

|  |         |         |
|--|---------|---------|
| Accretion on Series B Convertible Redeemable Preferred Stock | \$8,405 | \$7,803 |
| Interest paid in kind  | 43,681  | 727     |

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

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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. 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.

We have market leading broadcast operations in six countries in Central and Eastern Europe broadcasting a total of 33 television channels. Each country also develops and produces content for their television channels. 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. We generate additional revenues by collecting fees from cable and direct-to-home ("DTH") operators for carriage of our channels. Our main general entertainment television channels in each country are distributed on a free-to-air basis terrestrially, with the exception of Romania, and are also distributed via cable and satellite. Our other channels are generally distributed terrestrially or 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 own 94.0% of CME Bulgaria B.V. ("CME Bulgaria"), the subsidiary that owns our Bulgaria operations.

Croatia

We operate one general entertainment channel, NOVA TV (Croatia), and three other channels, DOMA (Croatia), NOVA WORLD and MINI TV.

Czech Republic

We operate one general entertainment channel, TV NOVA (Czech Republic), and five other channels, NOVA CINEMA, NOVA SPORT, FANDA, SMICHOV and TELKA.

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, PRO TV CHISINAU, a general entertainment channel broadcasting in Moldova, and ACASA IN MOLDOVA.

Slovak Republic

We operate one general entertainment channel, TV MARKIZA, and two other channels, DOMA (Slovak Republic) and DAJTO.

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 koruna; all references to "RON" are to the New Romanian lei; 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, 2014 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, 2014 filed with the Securities and Exchange Commission ("SEC") on March 12, 2015. Our significant accounting policies have not changed since December 31, 2014, 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.

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CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

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.

These financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. Our 2015 Convertible Notes mature on November 15, 2015. In November 2014, we entered into a commitment letter (the "2015 Refinancing Commitment Letter") with Time Warner Inc. ("Time Warner") pursuant to which Time Warner has committed to provide or assist with arranging a replacement facility, which we have agreed will be Euro-denominated, to refinance the 2015 Convertible Notes at or immediately prior to their maturity. In connection with this, on July 2, 2015 we entered into a forward foreign exchange contract with a notional amount of US\$ 261.0 million, to reduce our exposure to USD to EUR exchange rate fluctuations until the maturity date of the 2015 Convertible Notes. Once the transaction contemplated by the 2015 Refinancing Commitment Letter has completed, we believe we will have adequate cash resources to continue operating as a going concern for the foreseeable future; however, funding of this transaction is subject to customary closing conditions (including the execution and delivery of documentation, the accuracy of representations, the absence of events of default and the absence of material adverse changes), certain of which are outside our direct control. While we believe that we will be able to complete the transaction, if the transaction contemplated by the 2015 Refinancing Commitment Letter is not completed and we are unable to secure additional financing, we will be unable to meet our repayment obligations when the 2015 Convertible Notes mature. The accompanying consolidated financial statements do not include any adjustments that might result from the resolution of these uncertainties.

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.

Recent Accounting Pronouncements

Accounting Pronouncements Adopted

On January 1, 2015, we adopted guidance issued by the Financial Accounting Standards Board (the "FASB") in April 2014 (Accounting Standards Update No. 2014-08), which changed the requirements for reporting discontinued operations. Subsequent to January 1, 2015 the disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that will have a major effect on our operations and financial results. In accordance with the adopted guidance, our operations classified as discontinued operations or held for sale prior to January 1, 2015, will continue to be accounted for under previous guidance.

Recent Accounting Pronouncements Issued

In May 2014, the FASB issued new guidance which is intended to improve the comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets. The guidance supersedes existing revenue recognition guidance and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB affirmed its proposal to defer the effective date of the new revenue standard for all entities by one year, which would extend the effective date to our fiscal year beginning January 1,

2018, pending the issuance of an Accounting Standards Update. We are currently in the process of evaluating the impact of the adoption of this guidance on our condensed consolidated financial statements.

In November 2014, the FASB issued guidance which is intended to standardize the method used in the accounting for hybrid financial instruments issued in the form of a share. The guidance requires an entity to consider all relevant terms and features in evaluating the nature of the host contract in a hybrid financial instrument, including the embedded derivative feature being evaluated for bifurcation. The guidance is effective for the fiscal year beginning January 1, 2016. We are currently in the process of evaluating the impact of the adoption of this guidance on our condensed consolidated financial statements.

In April 2015, the FASB issued guidance which is intended to simplify the balance sheet presentation of debt issuance costs. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of that liability. The guidance is effective for our fiscal year beginning January 1, 2016, with early adoption permitted. When we adopt this guidance, our presentation of debt issuance costs in our condensed consolidated balance sheets will be affected, with no impact to our condensed consolidated statements of operations and comprehensive income or condensed consolidated statements of cash flows.

### 3. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Discontinued operations and assets held for sale prior to the adoption of FASB Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In the fourth quarter of 2013, we announced our intention to focus on our core television broadcast operations and commenced a process to divest certain non-core businesses. During 2014, we sold Bontonfilm, our theatrical and home video distribution business operating in the Czech Republic and Slovak Republic, and a component of our Czech Republic reporting unit; and Pro Video Romania and Pro Video Hungary, our home video distribution businesses operating in those countries, both of which were components of our Romania reporting unit. Additionally, we classified our Romanian studios, cinema, music, radio and remaining distribution businesses as held for sale in our consolidated balance sheets and as discontinued operations in our consolidated statements of operations and comprehensive income and consolidated statements of cash flows. These impacts have been retroactively applied to all periods presented. During the first half of 2015, we sold our music, radio and remaining distribution business in Romania.

In the fourth quarter of 2014, we committed to a plan to sell our excess facility in Bulgaria. During the second quarter of 2015, we recognized a loss of approximately US\$ 3.1 million to carry the building and related land at fair value less costs to sell.

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(Unaudited)

The carrying amounts of the major classes of assets and liabilities held for sale in the condensed consolidated balance sheets at June 30, 2015 and December 31, 2014 were:

|                               | June 30, 2015 | December 31, 2014 |
|-------------------------------|---------------|-------------------|
| Assets held for sale          |               |                   |
| Cash and cash equivalents     | \$284         | \$1,742           |
| Accounts receivable, net      | 1,276         | 3,232             |
| Program rights                | 82            | 10,347            |
| Property, plant and equipment | 5,998         | 6,999             |
| Other assets                  | 1,707         | 7,546             |
| Total assets held for sale    | \$9,347       | \$29,866          |

## Liabilities held for sale

|  |         |          |
|--|---------|----------|
| Accounts payable and accrued liabilities | \$1,946 | \$6,893  |
| Other liabilities                        | 3,051   | 3,739    |
| Total liabilities held for sale          | \$4,997 | \$10,632 |

Income / (loss) from discontinued operations, net of tax, comprised the following for the three and six months ended June 30, 2015 and 2014:

|  | For the Three Months<br>Ended June 30, |             | For the Six Months<br>Ended June 30, |             |
|--|--|-------------|--------------------------------------|-------------|
|  | 2015                                   | 2014        | 2015                                 | 2014        |
| Net revenues   | \$2,621                                | \$10,246    | \$5,106                              | \$22,591    |
| Income / (loss) from discontinued operations before income taxes                       | 46                                     | (2,273 )    | (460 )                               | (2,311 )    |
| Credit for income taxes  | 114                                    | 25          | 67                                   | 16          |
| Income / (loss) from discontinued operations, net of tax, before gain / (loss) on sale | 160                                    | (2,248 )    | (393 )                               | (2,295 )    |
| Gain / (loss) on sale of divested businesses, net of tax <sup>(1)</sup>                | 2,524                                  | (8,906 )    | (211 )                               | (16,492 )   |
| Income / (loss) from discontinued operations, net of tax                               | \$2,684                                | \$(11,154 ) | \$(604 )                             | \$(18,787 ) |

Amount includes realized gains / losses on completed disposal transactions and losses related to fair value adjustments required to measure our assets held for sale at fair value less costs to sell for business classified as discontinued operations which are expected to be disposed in 2015. The fair value adjustment is a non-recurring fair value measurement based on active bids obtained from third-parties as part of the disposal process. This measurement of estimated fair value uses Level 3 inputs as described in Note 12, "Financial Instruments and Fair Value Measurements".

## 4. GOODWILL AND INTANGIBLE ASSETS

## Goodwill:

Goodwill by reporting unit as at June 30, 2015 and December 31, 2014 is summarized as follows:

|                                  | Bulgaria   | Croatia   | Czech Republic | Romania   | Slovak Republic | Slovenia  | Total       |
|----------------------------------|------------|-----------|----------------|-----------|-----------------|-----------|-------------|
| Gross Balance, December 31, 2014 | \$175,494  | \$11,065  | \$800,640      | \$94,777  | \$53,088        | \$19,400  | \$1,154,464 |
| Accumulated impairment losses    | (144,639 ) | (10,454 ) | (287,545 )     | (11,028 ) | —               | (19,400 ) | (473,066 )  |



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|                               |           |           |            |           |          |          |              |
|-------------------------------|-----------|-----------|------------|-----------|----------|----------|--------------|
| Balance, December 31, 2014    | 30,855    | 611       | 513,095    | 83,749    | 53,088   | —        | 681,398      |
| Foreign currency              | (2,462    | ) (47     | ) (31,897  | ) (6,562  | ) (4,163 | ) —      | (45,131 )    |
| Balance, June 30, 2015        | 28,393    | 564       | 481,198    | 77,187    | 48,925   | —        | 636,267      |
| Accumulated impairment losses | (144,639  | ) (10,454 | ) (287,545 | ) (11,028 | ) —      | (19,400  | ) (473,066 ) |
| Gross Balance, June 30, 2015  | \$173,032 | \$11,018  | \$768,743  | \$88,215  | \$48,925 | \$19,400 | \$1,109,333  |

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## Broadcast licenses and other intangible assets:

The gross value and accumulated amortization of broadcast licenses and other intangible assets was as follows as at June 30, 2015 and December 31, 2014:

|                        | June 30, 2015 |                             |           | December 31, 2014 |                             |           |
|------------------------|---------------|-----------------------------|-----------|-------------------|-----------------------------|-----------|
|                        | Gross         | Accumulated<br>Amortization | Net       | Gross             | Accumulated<br>Amortization | Net       |
| Indefinite-lived:      |               |                             |           |                   |                             |           |
| Trademarks             | \$85,603      | \$—                         | \$85,603  | \$98,250          | \$—                         | \$98,250  |
| Amortized:             |               |                             |           |                   |                             |           |
| Broadcast licenses     | 195,757       | (126,649 )                  | 69,108    | 209,279           | (131,750 )                  | 77,529    |
| Trademarks             | 5,629         | (2,150 )                    | 3,479     | —                 | —                           | —         |
| Customer relationships | 54,580        | (49,501 )                   | 5,079     | 59,011            | (51,858 )                   | 7,153     |
| Other                  | 3,683         | (3,309 )                    | 374       | 3,877             | (3,431 )                    | 446       |
| Total                  | \$345,252     | \$(181,609 )                | \$163,643 | \$370,417         | \$(187,039 )                | \$183,378 |

Our broadcast licenses comprise our TV NOVA license in the Czech Republic, which is amortized on a straight-line basis through the expiration date of the license in 2025. 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. As at January 1, 2015, we determined that certain of our trademarks in our Romania segment were no longer indefinite-lived and have begun amortizing them as defensive intangible assets over their remaining useful life of 18 months. All other trademarks have an indefinite life.

## 5. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

## Summary

|   | June 30, 2015 | December 31, 2014 |
|---|---------------|-------------------|
| Senior debt   | \$872,035     | \$867,367         |
| Other credit facilities and capital leases                        | 6,606         | 6,732             |
| Total long-term debt and other financing arrangements             | 878,641       | 874,099           |
| Less: current maturities  | (258,385 )    | (252,859 )        |
| Total non-current long-term debt and other financing arrangements | \$620,256     | \$621,240         |

## Overview

Total senior debt and credit facilities comprised the following at June 30, 2015:

|   | Principal<br>Amount of<br>Liability<br>Component | Unamortized<br>Discount | Net Carrying<br>Amount | Equity<br>Component |
|---|--|-------------------------|------------------------|---------------------|
| 2015 Convertible Notes                        | \$261,034  | \$(3,805 )              | \$257,229              | \$11,907            |
| 2017 PIK Notes <sup>(1)</sup>                 | 467,446  | (157,174 )              | 310,272                | 178,626             |
| 2017 Term Loan <sup>(2) (3)</sup>             | 35,509   | (11,595 )               | 23,914                 | 13,199              |
| 2017 Revolving Credit Facility <sup>(3)</sup> | —  | —                       | —                      | 50,596              |
| 2017 Euro Term Loan                           | 280,620  | —                       | 280,620                | —                   |
|   | 1,044,609  | (172,574 )              | 872,035                |                     |
| Other credit facilities <sup>(4)</sup>        | 3,048  | (251 )                  | 2,797                  | —                   |
| Total senior debt and credit facilities       | \$1,047,657                                      | \$(172,825 )            | \$874,832              |                     |

(1)

The principal amount presented represents the original principal amount of US\$ 400.0 million plus interest paid in kind by adding such amount to the original principal amount. The equity component above represents the fair value ascribed to the Unit Warrants (as described in Note 14, "Equity"). The fair value of the equity component is accounted for as a discount on the 2017 PIK Notes and is being amortized over the life of the 2017 PIK Notes using the effective interest method.

(2) The principal amount presented represents the original principal amount of US\$ 30.0 million plus interest paid in kind by adding such amount to the original principal amount.

(3) The equity components of the 2017 Term Loan and 2017 Revolving Credit Facility represent the fair value ascribed to the Initial Warrants (as described in Note 14, "Equity") issued in consideration for these facilities based on their relative borrowing capacities. The fair value is accounted for as a discount on the 2017 Term Loan, which is being amortized over the life of the 2017 Term Loan using the effective interest method; and as debt issuance costs for the 2017 Revolving Credit Facility, which is being amortized on a straight-line basis over the life of the 2017 Revolving Credit Facility.

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The unamortized discount on our Other credit facilities represents the fair value adjustment recorded on issuance of (4) the CNC loans (as defined and further described in item (c) under the heading 'Other Credit Facilities and Capital Lease Obligations' below).

## Senior Debt

Our senior debt comprised the following at June 30, 2015 and December 31, 2014:

|                                | Carrying Amount |                   | Fair Value    |                   |
|--------------------------------|-----------------|-------------------|---------------|-------------------|
|                                | June 30, 2015   | December 31, 2014 | June 30, 2015 | December 31, 2014 |
| 2015 Convertible Notes         | \$257,229       | \$ 251,669        | \$262,321     | \$ 260,922        |
| 2017 PIK Notes                 | 310,272         | 265,629           | 528,008       | 476,957           |
| 2017 Term Loan                 | 23,914          | 20,573            | 39,684        | 35,923            |
| 2017 Revolving Credit Facility | —               | 25,000            | —             | 25,000            |
| 2017 Euro Term Loan            | 280,620         | 304,496           | 280,620       | 304,496           |
|                                | \$872,035       | \$ 867,367        | \$1,110,633   | \$ 1,103,298      |

## Convertible Notes

## 2015 Convertible Notes

As at June 30, 2015, the principal amount of our 5.0% Senior Convertible Notes due 2015 (the "2015 Convertible Notes") outstanding was US\$ 261.0 million. The 2015 Convertible Notes mature on November 15, 2015. We intend to repay the 2015 Convertible Notes with the proceeds from a replacement facility arranged with the assistance of or provided by Time Warner pursuant to the 2015 Refinancing Commitment Letter. The 2015 Refinancing Commitment Letter contains customary closing conditions (including the execution and delivery of documentation, the accuracy of representations, the absence of events of default and the absence of material adverse changes).

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, 2015 of US\$ 262.3 million (December 31, 2014: US\$ 260.9 million) 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 12, "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 jointly and severally guaranteed by Central European 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, 2015, 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<br>Amount of<br>Liability<br>Component | Unamortized<br>Discount | Net Carrying<br>Amount | Equity<br>Component |
|--|--|-------------------------|------------------------|---------------------|
| BALANCE December 31, 2014              | \$261,034  | \$(9,365                | ) \$251,669            | \$11,907            |
| Amortization of debt issuance discount | —  | 5,560                   | 5,560                  | —                   |
| BALANCE June 30, 2015                  | \$261,034  | \$(3,805                | ) \$257,229            | \$11,907            |

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.

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2017 PIK Notes

As at June 30, 2015, the principal amount of the 15.0% Senior Secured Note due 2017 (the "2017 PIK Notes") outstanding was US\$ 467.4 million. Interest is payable semi-annually in arrears on each June 1 and December 1, which the Company must pay in kind on a semi-annual basis until November 15, 2015 by adding such accrued interest to the principal amount of the 2017 PIK Notes and thereafter may pay such accrued interest in cash or in kind. The 2017 PIK Notes mature on December 1, 2017. The fair value of the 2017 PIK Notes as at June 30, 2015 of US\$ 528.0 million was calculated using comparable instruments that trade in active markets and, where available, actual trade history of the 2017 PIK Notes in a market that is not active. This measurement of estimated fair value uses Level 2 inputs as described in Note 12, "Financial Instruments and Fair Value Measurements".

The 2017 PIK Notes are senior secured obligations of CME Ltd., and are jointly and severally guaranteed by CME NV and CME BV and are secured by a pledge over 100% of the outstanding shares of each of CME NV and CME BV. Under the terms of the indenture governing the 2017 PIK Notes, 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 of CME Ltd. and its Restricted Subsidiaries (as each is defined in the indenture) is less than 2.0 times. The terms of the 2017 PIK Notes also contain limitations on our ability to incur guarantees, grant liens, enter into certain affiliate transactions, consolidate, merge or effect a corporate reconstruction, and make certain investments.

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; (iii) there is a specified change in the composition of a majority of our Board of Directors; or (iv) the adoption by our shareholders of a plan to liquidate; and (B) on the 60th day following any such change of control the rating of the 2017 PIK 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% of the principal amount of the 2017 PIK Notes plus accrued and unpaid interest to the date of purchase.

The 2017 PIK Notes are redeemable at our option, in whole or in part, at a redemption price equal to 100% of the principal amount thereof.

Certain derivative instruments, including contingent event of default and change of control put options, have been identified as being embedded in the 2017 PIK Notes. The embedded derivatives are not considered clearly and closely related to the 2017 PIK Notes, and as such are required to be accounted for separately. The probability-weighted fair value of the embedded derivatives was not material at issuance or at June 30, 2015.

2017 Term Loan

As at June 30, 2015, the principal amount outstanding of the 15.0% term loan facility due 2017 (the "2017 Term Loan") was US\$ 35.5 million. The carrying value of the 2017 Term Loan is comprised of the original outstanding principal amount of US\$ 30.0 million less an issuance discount, plus interest for which we paid in kind. Interest is payable semi-annually in arrears on each June 30 and December 31, which the Company may pay in cash or in kind. The Company has elected to pay interest in kind since the initial drawdown. The 2017 Term Loan matures on December 1, 2017. The fair value of the 2017 Term Loan as at June 30, 2015 of US\$ 39.7 million was determined based on comparable instruments that trade in active markets. This measurement of estimated fair value uses Level 2 inputs as described in Note 12, "Financial Instruments and Fair Value Measurements".

The 2017 Term Loan is jointly and severally guaranteed by CME NV and CME BV and is secured by a pledge over 100% of the outstanding shares of each of CME NV and CME BV. The terms of the 2017 Term Loan contains limitations on our ability to incur indebtedness, incur guarantees, grant liens, pay dividends or make other distributions, enter into certain affiliate transactions, consolidate, merge or effect a corporate reconstruction, make

certain investments acquisitions and loans, and conduct certain asset sales. The 2017 Term Loan also contains maintenance covenants in respect of interest cover, cash flow cover and total leverage ratios, and has more restrictive provisions, including covenants in respect of incurring indebtedness, the provision of guarantees, making investments and disposals, granting security and certain events of defaults, than corresponding provisions contained in the indenture governing the 2017 PIK Notes.

Under the terms of the 2017 Term Loan, we are permitted to prepay the 2017 Term Loan in whole, but not in part, subject to the concurrent repayment and discharge of the 2017 PIK Notes.

Certain derivative instruments, including contingent event of default and change of control put options, have been identified as being embedded in the 2017 Term Loan. The embedded derivatives are not considered clearly and closely related to the 2017 Term Loan, and as such are required to be accounted for separately. The probability-weighted fair value of the embedded derivatives was not material at issuance or at June 30, 2015.

#### 2017 Revolving Credit Facility

Following a repayment in the amount of US\$ 26.1 million in June 2015, we had no balance outstanding under a US\$ 115.0 million revolving credit facility (the "2017 Revolving Credit Facility"), all of which was available to be drawn as at June 30, 2015. The 2017 Revolving Credit Facility matures on December 1, 2017.

The 2017 Revolving Credit Facility bears interest at a rate per annum based on, at our option, an alternative base rate plus 8.0% or an amount equal to the greater of (i) an adjusted LIBO rate and (ii) 1.0%, plus, in each case, 9.0%, which the Company may pay in cash or in kind by adding such accrued interest to the applicable principal amount drawn under the 2017 Revolving Credit Facility.

The 2017 Revolving Credit Facility is jointly and severally guaranteed by CME NV and CME BV and is secured by a pledge over 100% of the outstanding shares of each of CME NV and CME BV. The covenants and events of default are substantially the same as under the 2017 Term Loan.

Amounts outstanding under the 2017 Revolving Credit Facility are immediately due and payable on the repayments in full of the 2017 PIK Notes and 2017 Term Loan. The 2017 Revolving Credit Facility permits prepayment at our option in whole or in part without penalty.

#### 2017 Euro Term Loan

As at June 30, 2015, the principal amount of our floating rate senior unsecured term credit facility (the "2017 Euro Term Loan") outstanding was EUR 250.8 million (approximately US\$ 280.6 million). The 2017 Euro Term Loan bears interest at three-month EURIBOR (fixed pursuant to customary hedging arrangements (see Note 12, "Financial Instruments and Fair Value Measurements")) plus a margin of between 1.07% and 1.90% depending on the credit rating of Time Warner, and is payable in cash quarterly in arrears on each March 12, June 12, September 12 and December 12. As at June 30, 2015, the weighted average interest rate on amounts outstanding under the 2017 Euro Term Loan was 1.50%. The 2017 Euro Term Loan matures on November 1, 2017. The fair value of the 2017 Euro Term Loan as at June 30, 2015 approximates its carrying value. This measurement of estimated fair value uses Level 2 inputs as described in Note 12, "Financial Instruments and Fair Value Measurements".

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The 2017 Euro Term Loan is a senior unsecured obligation of CME Ltd., and is unconditionally guaranteed by Time Warner and certain of its subsidiaries. In connection with this guarantee, we entered into a reimbursement agreement (the "Reimbursement Agreement") with Time Warner which provides that we will reimburse Time Warner for any amounts paid by them under any guarantee or through any loan purchase right exercised by Time Warner. Further, the Reimbursement Agreement is jointly and severally guaranteed by CME NV and CME BV and is secured by a pledge over 100% of the outstanding shares of each of CME NV and CME BV. As consideration for the guarantee of the 2017 Euro Term Loan, we will pay a guarantee fee to Time Warner based on the amount outstanding on the 2017 Euro Term Loan calculated on a per annum basis equal to 8.5% minus the rate of interest paid by CME Ltd. under the 2017 Euro Term Loan (the "Guarantee Fee Rate"). The guarantee fee is payable semi-annually in arrears on each May 1 and November 1, which the Company may pay in cash or in kind (by adding such semi-annual guarantee fee to any such amount then outstanding). The Company has elected to pay the guarantee fee in kind to date. The guarantee fee paid in kind is presented as a component of other non-current liabilities (see Note 11, "Other Liabilities") and bears interest per annum at the Guarantee Fee Rate, payable semi-annually in arrears in cash or in kind (by adding such semi-annual guarantee fee to any such amount then outstanding) on each May 1 and November 1. The covenants and events of default under the Reimbursement Agreement are substantially the same as under the 2017 Term Loan and the 2017 Revolving Credit Facility.

The 2017 Euro Term Loan may be prepaid at our option, in whole or in part, from June 1, 2016, without premium or penalty. Additionally, Time Warner has the right to purchase any amount outstanding under the 2017 Euro Term Loan following an event of default under the 2017 Euro Term Loan or the Reimbursement Agreement.

Certain derivative instruments, including contingent event of default and change of control put options, have been identified as being embedded in the 2017 Euro Term Loan. The embedded derivatives are considered clearly and closely related to the 2017 Euro Term Loan, and as such are not required to be accounted for separately.

**Other Credit Facilities and Capital Lease Obligations**

Other credit facilities and capital lease obligations comprised the following at June 30, 2015 and December 31, 2014:

|  |           | June 30, 2015 | December 31, 2014 |
|--|-----------|---------------|-------------------|
| Credit facilities                                      | (a) – (c) | \$2,797       | \$ 3,100          |
| Capital leases   |           | 3,809         | 3,632             |
| Total credit facilities and capital leases             |           | 6,606         | 6,732             |
| Less: current maturities                               |           | (1,156)       | (1,190)           |
| Total non-current credit facilities and capital leases |           | \$5,450       | \$ 5,542          |

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, 2015, we had deposits of US\$ 11.1 million in and no drawings on the BMG cash pool. Interest is earned on deposits at the relevant money market rate. As at December 31, 2014, we had deposits of US\$ 10.5 million in and no drawings on the BMG cash pool.

As at June 30, 2015 and December 31, 2014, there were no drawings outstanding under a CZK 825.0 million (approximately US\$ 33.9 million) factoring framework agreement with Factoring Ceska Sporitelna ("FCS"). Under this facility up to CZK 825.0 million (approximately US\$ 33.9 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 receivables are factored and outstanding.

(c)



At June 30, 2015, our operations in Romania had an aggregate principal amount of RON 12.2 million (approximately US\$ 3.0 million) (December 31, 2014, RON 12.5 million, approximately US\$ 3.1 million based on June 30, 2015 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, 2015, we had 15 loans outstanding with the CNC with maturity dates ranging from 2017 to 2024. The carrying amounts at June 30, 2015 and December 31, 2014 are net of a fair value adjustment of US\$ 0.3 million and US\$ 0.3 million, respectively, arising on acquisition.

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Total Group

At June 30, 2015, the maturity of our senior debt and credit facilities, excluding any future elections to pay interest in kind, was as follows:

|  |            |
|--|------------|
| 2015 <sup>(1)</sup>                                  | \$261,034  |
| 2016   | —          |
| 2017   | 783,921    |
| 2018   | 425        |
| 2019   | 289        |
| 2020 and thereafter                                  | 1,988      |
| Total senior debt and credit facilities              | 1,047,657  |
| Net discount   | (172,825 ) |
| Carrying amount of senior debt and credit facilities | \$874,832  |

Amount includes the outstanding principal amount of the 2015 Convertible Notes due November 15, 2015. As

(1) noted above, we have entered into the 2015 Refinancing Commitment Letter to refinance the 2015 Convertible

Notes at or immediately prior to their maturity with a new facility which will mature in 2019.

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, 2015:

|   |         |
|---|---------|
| 2015  | \$640   |
| 2016  | 1,112   |
| 2017  | 992     |
| 2018  | 728     |
| 2019  | 405     |
| 2020 and thereafter                         | 75      |
| Total undiscounted payments                 | 3,952   |
| Less: amount representing interest          | (143 )  |
| Present value of net minimum lease payments | \$3,809 |

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## 6. PROGRAM RIGHTS

Program rights comprised the following at June 30, 2015 and December 31, 2014:

|   | June 30, 2015 | December 31, 2014 |
|---|---------------|-------------------|
| Program rights:   |               |                   |
| Acquired program rights, net of amortization                          | \$196,273     | \$217,183         |
| Less: current portion of acquired program rights                      | (99,692)      | (99,358)          |
| Total non-current acquired program rights                             | 96,581        | 117,825           |
| Produced program rights – Feature Films:                              |               |                   |
| Released, net of amortization   | 3,716         | 4,553             |
| Completed and not released  | —             | 558               |
| Produced program rights – Television Programs:                        |               |                   |
| Released, net of amortization   | 59,302        | 60,691            |
| Completed and not released  | 3,415         | 7,370             |
| In production   | 11,193        | 15,786            |
| Development and pre-production  | 509           | 481               |
| Total produced program rights   | 78,135        | 89,439            |
| Total non-current acquired program rights and produced program rights | \$174,716     | \$207,264         |

## 7. ACCOUNTS RECEIVABLE

Accounts receivable comprised the following at June 30, 2015 and December 31, 2014:

|  | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| Unrelated customers                            | \$173,740     | \$186,404         |
| Less: allowance for bad debts and credit notes | (10,940)      | (10,692)          |
| Related parties                                | —             | 197               |
| Less: allowance for bad debts and credit notes | —             | (43)              |
| Total accounts receivable                      | \$162,800     | \$175,866         |

## 8. OTHER ASSETS

Other current and non-current assets comprised the following at June 30, 2015 and December 31, 2014:

|                                | June 30, 2015 | December 31, 2014 |
|--------------------------------|---------------|-------------------|
| Current:                       |               |                   |
| Prepaid acquired programming   | \$19,353      | \$19,162          |
| Other prepaid expenses         | 8,514         | 5,627             |
| Deferred tax                   | 7,875         | 8,127             |
| VAT recoverable                | 1,083         | 835               |
| Income taxes recoverable       | 189           | 135               |
| Other                          | 1,846         | 1,595             |
| Total other current assets     | \$38,860      | \$35,481          |
|                                | June 30, 2015 | December 31, 2014 |
| Non-current:                   |               |                   |
| Capitalized debt costs         | \$47,914      | \$55,472          |
| Deferred tax                   | 169           | 456               |
| Other                          | 4,490         | 2,188             |
| Total other non-current assets | \$52,573      | \$58,116          |

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.

#### 9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following at June 30, 2015 and December 31, 2014:

|  | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| Land and buildings                                       | \$95,790      | \$103,248         |
| Machinery, fixtures and equipment                        | 162,359       | 172,929           |
| Other equipment  | 33,187        | 36,516            |
| Software licenses  | 54,665        | 56,176            |
| Construction in progress                                 | 4,707         | 3,325             |
| Total cost   | 350,708       | 372,194           |
| Less: Accumulated depreciation                           | (244,366      | ) (257,859        |
| Total net book value                                     | \$106,342     | \$114,335         |
| Assets held under capital leases (included in the above) |               |                   |
| Land and buildings                                       | \$3,910       | \$4,243           |
| Machinery, fixtures and equipment                        | 4,125         | 3,325             |
| Total cost   | 8,035         | 7,568             |
| Less: Accumulated depreciation                           | (3,049        | ) (2,760          |
| Total net book value                                     | \$4,986       | \$4,808           |

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The movement in the net book value of property, plant and equipment during the six months ended June 30, 2015 and 2014 is comprised of:

|                            | For the Six Months Ended June 30, |           |
|----------------------------|-----------------------------------|-----------|
|                            | 2015                              | 2014      |
| Opening balance            | \$114,335                         | \$142,907 |
| Additions                  | 14,313                            | 9,271     |
| Disposals                  | (252)                             | (22)      |
| Depreciation               | (13,937)                          | (16,111)  |
| Foreign currency movements | (8,117)                           | (780)     |
| Ending balance             | \$106,342                         | \$135,265 |

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprised the following at June 30, 2015 and December 31, 2014:

|   | June 30, 2015 | December 31, 2014 |
|---|---------------|-------------------|
| Accounts payable and accrued expenses             | \$49,417      | \$55,564          |
| Related party accounts payable                    | 98            | 43                |
| Programming liabilities                           | 36,647        | 42,828            |
| Related party programming liabilities             | 16,728        | 24,980            |
| Duties and other taxes payable                    | 40,477        | 23,341            |
| Accrued staff costs                               | 15,977        | 21,168            |
| Accrued interest payable                          | 1,923         | 1,958             |
| Related party accrued interest payable            | 101           | 173               |
| Income taxes payable                              | 220           | 460               |
| Accrued legal contingencies and professional fees | 1,347         | 3,004             |
| Authors' rights                                   | 2,486         | 4,434             |
| Other accrued liabilities                         | 1,207         | 1,271             |
| Total accounts payable and accrued liabilities    | \$166,628     | \$179,224         |

Duties and other taxes payable includes accruals for charges related to the ongoing tax audits of certain subsidiaries in Romania in the fourth quarter of 2014 and the first quarter of 2015 (see Note 20, "Commitments and Contingencies").

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## 11. OTHER LIABILITIES

Other current and non-current liabilities comprised the following at June 30, 2015 and December 31, 2014:

|   | June 30, 2015 | December 31, 2014 |
|---|---------------|-------------------|
| Current:  |               |                   |
| Deferred revenue                                    | \$17,165      | \$4,938           |
| Deferred tax  | 251           | 279               |
| Derivative liabilities                              | 2,241         | —                 |
| Restructuring provision (Note 15)                   | 947           | 1,558             |
| Legal provision                                     | 923           | 995               |
| Other   | 30            | 42                |
| Total other current liabilities                     | \$21,557      | \$7,812           |
|   | June 30, 2015 | December 31, 2014 |
| Non-current:  |               |                   |
| Deferred tax  | \$28,560      | \$27,370          |
| Programming liabilities                             | 14            | 1,699             |
| Related party programming liabilities               | —             | 316               |
| Related party commitment fee payable <sup>(1)</sup> | 9,136         | 9,136             |
| Related party guarantee fee payable <sup>(2)</sup>  | 10,726        | 1,163             |
| Accrued interest <sup>(3)</sup>                     | 909           | 846               |
| Related party accrued interest <sup>(3)</sup>       | 4,934         | 4,589             |
| Other   | 825           | 1,366             |
| Total other non-current liabilities                 | \$55,104      | \$46,485          |

Represents the commitment fee payable to Time Warner in respect of its obligation under the 2015 Refinancing Commitment Letter. The commitment fee is payable by the maturity date of the replacement facility, November 1, 2019, or earlier if the repayment of the replacement facility is accelerated. The commitment fee will bear interest at (1) 8.5% per annum commencing on the effective date of the replacement facility. Interest on the commitment fee is payable in arrears on each May 1 and November 1, beginning May 1, 2016 and may be paid in cash or in kind, at our election.

Represents the fee payable to Time Warner for Time Warner's guarantee of the 2017 Euro Term Loan. The guarantee fee is calculated as 8.5% less the interest rate per annum payable under the 2017 Euro Term Loan (fixed pursuant to the interest rate hedges entered into) (the "Guarantee Fee Rate") multiplied by the average outstanding (2) principal of the 2017 Euro Term Loan. The guarantee fee is payable, in cash or in kind on a semi-annual basis in arrears on each May 1 and November 1. The Company has elected to pay the guarantee fee in kind to date.

Amounts of the guarantee fee paid in kind bear interest at the Guarantee Fee Rate, which is payable, in cash or in kind, in arrears on each May 1 and November 1.

Represents interest on the 2017 PIK Notes, which the Company must pay in kind on a semi-annual basis in arrears (3) on each June 1 and December 1, from December 1, 2014 until November 15, 2015 by adding such accrued interest to the principal amount of the 2017 PIK Notes.

## 12. 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 5, "Long-term Debt and Other Financing Arrangements".

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## Hedging Activities

## Cash Flow Hedges of Interest Rate Risk

In the fourth quarter of 2014, we entered into two interest rate swap agreements to mitigate our exposure to interest rate fluctuations on the outstanding principal amount of our 2017 Euro Term Loan. These interest rate swaps, designated as cash flow hedges, provide us with variable-rate cash receipts in exchange for fixed-rate payments over the lives of the agreements, with no exchange of the underlying notional amount. These instruments are carried at fair value on our consolidated balance sheets, and the effective portion of changes in the fair value is recorded in accumulated other comprehensive income / loss and subsequently reclassified to interest expense when the hedged item affects earnings. The ineffective portion of changes in the fair value is recognized immediately in the change in fair value of derivatives in our consolidated statements of operations. For the three and six months ended June 30, 2015, we did not recognize any charges related to hedge ineffectiveness.

We value the interest rate swap agreements 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 EURIBOR-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.

|                                  | Accumulated Other<br>Comprehensive Loss |   |
|----------------------------------|---|---|
| BALANCE December 31, 2014        | \$ (581                                 | ) |
| Loss on interest rate swaps      | (297                                    | ) |
| Reclassified to interest expense | 223                                     |   |
| BALANCE June 30, 2015            | \$ (655                                 | ) |

The change in fair value of derivatives not designated as hedging instruments comprised the following for the three and six months ended June 30, 2015 and 2014:

|                            | For the Three Months<br>Ended June 30, |            | For the Six Months<br>Ended June 30, |            |
|----------------------------|--|------------|--------------------------------------|------------|
|                            | 2015                                   | 2014       | 2015                                 | 2014       |
| Currency forward contracts | \$ (2,220                              | ) \$ 2,361 | \$ (3,230                            | ) \$ 2,311 |

## Foreign Currency Risk

On March 11, 2015, we entered into two forward foreign exchange contracts, with aggregate notional amounts of approximately US\$ 76.9 million, to reduce our exposure to movements in the USD to EUR and USD to CZK exchange rates related to contractual payments under certain dollar-denominated agreements expected to be made during 2015. The forward foreign exchange contracts mature on December 21, 2015. As at June 30, 2015, we had forward foreign exchange contracts with aggregate notional amounts of US\$ 39.1 million outstanding.

These forward foreign exchange contracts are considered economic hedges, but were not designated as hedging instruments, so changes in the fair value of the derivatives were recorded in the condensed consolidated statements of operations and comprehensive income and in the condensed consolidated balance sheet in other current liabilities. We valued these contracts using an industry-standard pricing model which calculated the fair value on the basis of the net present value of the estimated future cash flows receivable or payable. These instruments were allocated to Level 2 of the fair value hierarchy because the critical inputs to this model, including foreign exchange forward rates and the known contractual terms of the instruments, were readily observable.

In connection with the refinancing of the 2015 Convertible Notes pursuant to the 2015 Refinancing Commitment Letter, we entered into a forward exchange contract on July 2, 2015 with a notional amount of US\$ 261.0 million, to



reduce our exposure to USD to EUR exchange rate fluctuations until the maturity date of the 2015 Convertible Notes. We have agreed that any such refinancing will be with a Euro-denominated facility.

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13. CONVERTIBLE REDEEMABLE PREFERRED SHARES

200,000 shares of our Series B Convertible Redeemable Preferred Stock, par value US\$ 0.08 per share (the "Series B Preferred Shares") were issued and outstanding as at June 30, 2015 and December 31, 2014. As at June 30, 2015 and December 31, 2014, the carrying value of the Series B Preferred Shares was US\$ 232.3 million and US\$ 223.9 million, respectively. The Series B Preferred Shares are held by Time Warner Media Holdings B.V. ("TW Investor"). The initial stated value of the Series B Preferred Shares of US\$ 1,000 per share accretes at an annual rate of 7.5%, compounded quarterly, from and including June 25, 2013, 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 June 25, 2016 to pay cash to the holder in lieu of any further accretion. From June 25, 2016, on the date that is 61 days after the earlier of (a) the date on which the ownership of our outstanding shares of Class A common stock by a group would not be greater than 49.9% of the outstanding shares of Class A common stock and (b) the date on which such beneficial ownership would not give to any person any right of redemption, repurchase or acceleration under any indenture or other document governing any of our indebtedness outstanding as of June 25, 2013, 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 approximately US\$ 2.42 at June 30, 2015, 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 June 25, 2016, 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, 2015 and 2014, we recognized accretion on the Series B Preferred Shares of US\$ 4.3 million and US\$ 8.4 million; and US\$ 4.0 million

and US\$ 7.8 million respectively, with corresponding decreases in additional paid-in capital.

#### 14. EQUITY

##### Preferred Stock

5,000,000 shares of Preferred Stock were authorized at June 30, 2015 and December 31, 2014.

One share of Series A Convertible Preferred Stock (the "Series A Preferred Share") was issued and outstanding as at June 30, 2015 and December 31, 2014. The Series A Preferred Share is convertible into 11,211,449 shares of Class A common stock on the date that is 61 days after the date on which the ownership of our outstanding shares of Class A common stock by a group that includes TW Investor and its affiliates would not be greater than 49.9%. 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 upon conversion, as are set forth in the Certificate of Designation for the Series A Preferred Share. 200,000 shares of Series B Preferred Shares were issued and outstanding as at June 30, 2015 and December 31, 2014 (see Note 13, "Convertible Redeemable Preferred Shares"). Assuming conversion on June 25, 2016 and no further adjustments to the conversion price under the Certificate of Designations for the Series B Preferred Shares, TW Investor would be issued 103.1 million shares of Class A common stock upon conversion.

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

440,000,000 shares of Class A common stock and 15,000,000 shares of Class B common stock were authorized as at June 30, 2015 and December 31, 2014. 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. There were 135,801,524 and 135,335,258 shares of Class A common stock outstanding at June 30, 2015 and December 31, 2014, respectively, and no shares of Class B common stock outstanding at June 30, 2015 and December 31, 2014.

As at June 30, 2015, TW Investor owns 45.2% of the outstanding shares of Class A common stock and has a 49.4% voting interest in the Company due to its ownership of the Series A Preferred Share.

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## Common Stock Warrants

As at June 30, 2015, warrants to purchase 114,000,000 shares of Class A common stock at an exercise price of US\$ 1.00 per share, generally exercisable from May 2, 2016 to May 2, 2018, were outstanding. 100,926,996 (approximately 88.5%) of these warrants are held by Time Warner and TW Investor. Time Warner also holds the right to exercise its warrants prior to May 2, 2016 at such times and in such amounts as would allow Time Warner to own up to 49.9% of the outstanding shares of the Class A common stock of the Company (including any shares attributed to it as part of a group under Section 12(d)(3) of the Exchange Act).

We utilized a Black-Scholes valuation model to determine the fair value of each warrant. The Black-Scholes valuation model uses subjective assumptions of expected volatility, risk-free interest rates, the expected term of options granted, and expected rates of dividends. Changes in these assumptions could materially affect the estimated fair value. The Company determined the volatility assumption for these stock options using historical volatilities data from its traded Class A common stock. The expected term was estimated based on management's expectation of future exercises. The risk-free rate assumed in valuing the warrants was based on the U.S. Treasury yield curve at the grant date based on the expected term. The Company assumed a dividend rate of zero based on historical experience and expected dividends to be issued over the expected term. This measurement of estimated fair value uses Level 3 inputs as described in Note 12, "Financial Instruments and Fair Value Measurements".

The warrants are classified in additional paid-in capital, a component of equity and are not subject to subsequent revaluation. The fair value of the warrants issued in the rights offering conducted by the Company in 2014 (the "Unit Warrants") is accounted for as a discount to the 2017 PIK Notes. The fair value of the warrants issued to Time Warner in certain related financing transactions (the "Initial Warrants") is accounted for as a discount on the 2017 Term Loan and as debt issuance costs for the 2017 Revolving Credit Facility (see Note 5, "Long-term Debt and Other Financing Arrangements").

As at June 30, 2015, warrants to purchase up to 850,000 shares of Class A common stock at a price of US\$ 21.75 per share were also outstanding. These warrants expire on December 9, 2015.

## 15. RESTRUCTURING COSTS

## 2014 Initiatives

During 2014, we undertook restructuring actions to optimize our cost base across a number of country operations (the "2014 Initiatives"). Actions under the 2014 Initiatives were completed as at December 31, 2014 and payments are expected to be substantially completed by December 31, 2015.

## 2015 Initiatives

During the first half of 2015, we continued to take restructuring actions to optimize our cost base across a number of departments (the "2015 Initiatives"). These actions were not contemplated under the 2014 Initiatives. We expect actions under the 2015 Initiatives to be completed by the end of 2015.

Information relating to restructuring by type of cost is as follows:

|                            | 2014 Initiatives           |                  |         | 2015 Initiatives           |                  |       |             |   |
|----------------------------|----------------------------|------------------|---------|----------------------------|------------------|-------|-------------|---|
|                            | Employee Termination Costs | Other Exit Costs | Total   | Employee Termination Costs | Other Exit Costs | Total | Grand Total |   |
| BALANCE December 31, 2014  | \$1,385                    | \$173            | \$1,558 | \$—                        | \$—              | \$—   | \$1,558     |   |
| Costs incurred             | —                          | —                | —       | 1,278                      | —                | 1,278 | 1,278       |   |
| Cash paid                  | (771)                      | (95)             | (866)   | (762)                      | —                | (762) | (1,628)     | ) |
| Accrual reversal           | (183)                      | —                | (183)   | —                          | —                | —     | (183)       | ) |
| Foreign currency movements | (29)                       | (13)             | (42)    | (36)                       | —                | (36)  | (78)        | ) |

|                       |       |      |       |       |     |       |       |
|-----------------------|-------|------|-------|-------|-----|-------|-------|
| BALANCE June 30, 2015 | \$402 | \$65 | \$467 | \$480 | \$— | \$480 | \$947 |
|-----------------------|-------|------|-------|-------|-----|-------|-------|

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A summary of restructuring charges for the three and six months ended June 30, 2015 and 2014, by operating segment is as follows:

|                           | For the Three Months Ended June 30,<br>2015 |                     |                     |       | 2014                             |                     |                     |         |
|---------------------------|---|---------------------|---------------------|-------|----------------------------------|---------------------|---------------------|---------|
|                           | Employee<br>Termination<br>Costs            | Other Exit<br>Costs | Accrual<br>Reversal | Total | Employee<br>Termination<br>Costs | Other Exit<br>Costs | Accrual<br>Reversal | Total   |
| Czech Republic            | \$—   | \$—                 | \$—                 | \$—   | \$901                            | \$—                 | \$—                 | \$901   |
| Romania                   | 452   | —                   | —                   | 452   | 1,976                            | —                   | —                   | 1,976   |
| Slovak Republic           | —   | —                   | —                   | —     | 39                               | 4                   | —                   | 43      |
| Total restructuring costs | \$452                                       | \$—                 | \$—                 | \$452 | \$2,916                          | \$4                 | \$—                 | \$2,920 |

  

|                           | For the Six Months Ended June 30,<br>2015 |                     |                     |         | 2014                             |                     |                     |         |
|---------------------------|---|---------------------|---------------------|---------|----------------------------------|---------------------|---------------------|---------|
|                           | Employee<br>Termination<br>Costs          | Other Exit<br>Costs | Accrual<br>Reversal | Total   | Employee<br>Termination<br>Costs | Other Exit<br>Costs | Accrual<br>Reversal | Total   |
| Bulgaria                  | \$—                                       | \$—                 | \$—                 | \$—     | \$3,317                          | \$42                | \$—                 | \$3,359 |
| Czech Republic            | —   | —                   | —                   | —       | 1,341                            | —                   | —                   | 1,341   |
| Romania                   | 1,278                                     | —                   | (183 )              | 1,095   | 3,685                            | —                   | —                   | 3,685   |
| Slovak Republic           | —   | —                   | —                   | —       | 400                              | 23                  | (560 )              | (137 )  |
| Total restructuring costs | \$1,278                                   | \$—                 | \$(183 )            | \$1,095 | \$8,743                          | \$65                | \$(560 )            | \$8,248 |

## 16. INTEREST EXPENSE

Interest expense comprised the following for the three and six months ended June 30, 2015 and 2014:

|  | For the Three Months<br>Ended June 30, |          | For the Six Months<br>Ended June 30, |          |
|--|--|----------|--------------------------------------|----------|
|  | 2015                                   | 2014     | 2015                                 | 2014     |
| Interest on Senior Debt and other financing arrangements | \$28,072                               | \$28,733 | \$55,690                             | \$50,417 |
| Amortization of capitalized debt issuance costs          | 3,864                                  | 5,817    | 7,701                                | 10,061   |
| Amortization of debt issuance discount and premium, net  | 9,810                                  | 4,520    | 18,473                               | 6,472    |
| Total interest expense                                   | \$41,746                               | \$39,070 | \$81,864                             | \$66,950 |

We paid cash interest of US\$ 9.3 million and US\$ 52.8 million during the six months ended June 30, 2015 and 2014, respectively.

## 17. STOCK-BASED COMPENSATION

At the Company's annual general meeting held on June 1, 2015, our shareholders voted for the approval of the 2015 Stock Incentive Plan (the "2015 Plan"). Under the 2015 Plan, 6,000,000 shares have been authorized for grants of stock options, restricted stock units ("RSUs"), restricted stock and stock appreciation rights to employees and

non-employee directors. In addition, any shares available under the Amended and Restated Stock Incentive Plan (which expired on June 1, 2015), including in respect of any awards that expire, terminate or are forfeited, will be available for awards under the 2015 Plan. Under the 2015 Plan, awards are made to employees at the discretion of the Compensation Committee and to directors pursuant to an annual automatic grant or at the discretion of the Board of Directors. Any awards previously issued under the Amended and Restated Stock Incentive Plan will continue to be governed by the terms of that plan.

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

|  | For the Three Months<br>Ended June 30, |       | For the Six Months<br>Ended June 30, |       |
|--|--|-------|--------------------------------------|-------|
|  | 2015                                   | 2014  | 2015                                 | 2014  |
| Selling, general and administrative expenses | \$584                                  | \$330 | \$992                                | \$581 |

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(Unaudited)

## Stock Options

A summary of option activity for the six months ended June 30, 2015 is presented below:

|                                | Shares    | Weighted<br>Average<br>Exercise Price<br>per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|-----------|--|---|---------------------------------|
| Outstanding at January 1, 2015 | 155,000   | \$29.88  | 0.92  | \$—                             |
| Granted                        | 1,600,000 | 2.29   |   |                                 |
| Forfeited                      | (20,000)  | ) 23.12  |   |                                 |
| Expired                        | (69,000)  | ) 28.23  |   |                                 |
| Outstanding at June 30, 2015   | 1,666,000 | \$3.53   | 9.57  | \$—                             |
| Vested and expected to vest    | 1,666,000 | 3.53   | 9.57  | —                               |
| Exercisable at June 30, 2015   | 66,000    | \$33.66  | 0.93  | \$—                             |

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 second quarter of June 30, 2015 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, 2015. This amount changes based on the fair value of our Class A common stock. As at June 30, 2015, there was US\$ 2.4 million unrecognized compensation expense related to stock options which is expected to be recognized over a weighted-average period of 3.9 years.

## Restricted Stock Units

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 and are not entitled to vote. 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 the correlation coefficient between our common stock and the relevant market index.

The following table summarizes information about unvested RSUs as at June 30, 2015:

|                               | Number of<br>Shares / Units | Weighted Average<br>Grant Date<br>Fair Value |
|-------------------------------|-----------------------------|--|
| Unvested at December 31, 2014 | 1,367,234                   | \$3.06                                       |
| Granted RSUs                  | 1,661,430                   | 2.56   |
| Vested                        | (465,136)                   | ) 3.16                                       |
| Forfeited                     | (5,272)                     | ) 3.71                                       |
| Unvested at June 30, 2015     | 2,558,256                   | \$2.72                                       |

As at June 30, 2015, the intrinsic value of unvested RSUs was US\$ 5.6 million. Total unrecognized compensation expense related to unvested RSUs as at June 30, 2015 was US\$ 4.3 million and is expected to be recognized over a weighted-average period of 3.2 years.



18. 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 after deducting contractual amounts of accretion on our Series B Preferred Shares 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.

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

|  | For the Three Months<br>Ended June 30, |             | For the Six Months<br>Ended June 30, |              |
|--|--|-------------|--------------------------------------|--------------|
|  | 2015                                   | 2014        | 2015                                 | 2014         |
| Loss from continuing operations  | \$(11,669 )                            | \$(41,352 ) | \$(81,912 )                          | \$(82,352 )  |
| Net loss attributable to noncontrolling interests  | 307                                    | 69          | 564                                  | 786          |
| Less: preferred dividend paid in kind  | (4,264 )                               | (3,959 )    | (8,405 )                             | (7,803 )     |
| Loss from continuing operations available to common shareholders, net of noncontrolling interest | (15,626 )                              | (45,242 )   | (89,753 )                            | (89,369 )    |
| Income / (loss) from discontinued operations, net of tax (Note 3)                                | 2,684                                  | (11,154 )   | (604 )                               | (18,787 )    |
| Net loss attributable to CME Ltd. available to common shareholders - Basic                       | \$(12,942 )                            | \$(56,396 ) | \$(90,357 )                          | \$(108,156 ) |
| Effect of dilutive securities  |  |             |                                      |              |
| Preferred dividend paid in kind  | —                                      | —           | —                                    | —            |
| Net loss attributable to CME Ltd. available to common shareholders - Diluted                     | \$(12,942 )                            | \$(56,396 ) | \$(90,357 )                          | \$(108,156 ) |
| Weighted average outstanding shares of common stock - Basic <sup>(1)</sup>                       | 146,743                                | 146,445     | 146,675                              | 146,410      |
| Dilutive effect of employee stock options and RSUs   | —                                      | —           | —                                    | —            |
| Weighted average outstanding shares of common stock - Diluted                                    | 146,743                                | 146,445     | 146,675                              | 146,410      |
| Net (loss) / income per share:   |  |             |                                      |              |
| Continuing operations attributable to CME Ltd. - Basic   | \$(0.11 )                              | \$(0.31 )   | \$(0.61 )                            | \$(0.61 )    |
| Continuing operations attributable to CME Ltd. - Diluted   | (0.11 )                                | (0.31 )     | (0.61 )                              | (0.61 )      |
| Discontinued operations attributable to CME Ltd. - Basic   | 0.02                                   | (0.08 )     | (0.01 )                              | (0.13 )      |
| Discontinued operations attributable to CME Ltd. - Diluted                                       | 0.02                                   | (0.08 )     | (0.01 )                              | (0.13 )      |
| Net loss attributable to CME Ltd. - Basic  | (0.09 )                                | (0.39 )     | (0.62 )                              | (0.74 )      |
| Net loss attributable to CME Ltd. - Diluted  | (0.09 )                                | (0.39 )     | (0.62 )                              | (0.74 )      |

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, 2015, 4,366,712 (December 31, 2014: 1,324,920) 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 the 2015 Convertible Notes were antidilutive to net income at June 30, 2015. Our Series B Preferred Shares were not considered for dilution as they are not convertible until June 25, 2016. As set forth in the Certificate of Designation for the Series B Preferred Shares, the holders of our Series B Preferred Shares are not contractually obligated to share in our losses.

## 19. SEGMENT DATA

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 segments reflect how CME Ltd.'s operating performance is evaluated by our chief operating decision

makers, who we have identified as our co-Chief Executive Officers; how operations are managed by segment managers; and the structure of our internal financial reporting.

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 and from revenues through the sale of distribution rights to third parties. Intersegment revenues and profits have been eliminated in consolidation.

We evaluate the performance of our segments based on net revenues and OIBDA. OIBDA, which includes amortization and impairment of program rights, is determined as operating income / loss before depreciation, amortization of intangible assets, impairments of assets and certain unusual or infrequent items that are not considered by our chief operating decision makers when evaluating our performance. 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. OIBDA may not be comparable to similar measures reported by other companies.

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Below are tables showing our net revenues, OIBDA, total assets, capital expenditures and long-lived assets for our continuing operations by segment for the three and six months ended June 30, 2015 and 2014 for condensed consolidated statements of operations and comprehensive income data and condensed consolidated statements of cash flow data; and as at June 30, 2015 and December 31, 2014 for condensed consolidated balance sheet data.

| Net revenues:                        | For the Three Months<br>Ended June 30, |           | For the Six Months<br>Ended June 30, |           |
|--------------------------------------|--|-----------|--------------------------------------|-----------|
|                                      | 2015                                   | 2014      | 2015                                 | 2014      |
| Bulgaria                             | \$19,420                               | \$23,912  | \$36,204                             | \$43,188  |
| Croatia                              | 16,242                                 | 19,470    | 28,235                               | 32,967    |
| Czech Republic                       | 52,131                                 | 59,299    | 87,096                               | 98,332    |
| Romania                              | 44,034                                 | 49,431    | 77,556                               | 86,288    |
| Slovak Republic                      | 20,236                                 | 24,211    | 37,774                               | 42,357    |
| Slovenia                             | 15,063                                 | 17,585    | 26,543                               | 31,846    |
| Intersegment revenues <sup>(1)</sup> | (292 )                                 | (1,097 )  | (441 )                               | (1,462 )  |
| Total net revenues                   | \$166,834                              | \$192,811 | \$292,967                            | \$333,516 |

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

| OIBDA:                   | For the Three Months<br>Ended June 30, |          | For the Six Months<br>Ended June 30, |           |
|--------------------------|--|----------|--------------------------------------|-----------|
|                          | 2015                                   | 2014     | 2015                                 | 2014      |
| Bulgaria                 | \$4,045                                | \$5,634  | \$6,243                              | \$2,888   |
| Croatia                  | 4,972                                  | 4,856    | 6,834                                | 5,527     |
| Czech Republic           | 24,238                                 | 20,700   | 34,329                               | 23,413    |
| Romania                  | 15,419                                 | 11,774   | 18,780                               | 16,100    |
| Slovak Republic          | 3,627                                  | 3,060    | 3,482                                | (102 )    |
| Slovenia                 | 963                                    | 2,690    | 1,323                                | 3,205     |
| Elimination              | 15                                     | (63 )    | (35 )                                | 322       |
| Total operating segments | 53,279                                 | 48,651   | 70,956                               | 51,353    |
| Corporate                | (6,468 )                               | (7,841 ) | (12,697 )                            | (13,938 ) |
| Total OIBDA              | \$46,811                               | \$40,810 | \$58,259                             | \$37,415  |

| Reconciliation to condensed consolidated statements of operations<br>and comprehensive income: | For the Three Months<br>Ended June 30, |           | For the Six Months<br>Ended June 30, |           |
|--|--|-----------|--------------------------------------|-----------|
|  | 2015                                   | 2014      | 2015                                 | 2014      |
| Total OIBDA  | \$46,811                               | \$40,810  | \$58,259                             | \$37,415  |
| Depreciation of property, plant and equipment  | (6,936 )                               | (8,051 )  | (13,937 )                            | (16,111 ) |
| Amortization of broadcast licenses and other intangibles                                       | (3,434 )                               | (3,187 )  | (6,933 )                             | (6,414 )  |
| Other items <sup>(1)</sup>   | —                                      | (6,885 )  | (18,187 )                            | (6,885 )  |
| Operating income   | 36,441                                 | 22,687    | 19,202                               | 8,005     |
| Interest income  | 118                                    | 101       | 230                                  | 182       |
| Interest expense (Note 16)   | (41,746 )                              | (39,070 ) | (81,864 )                            | (66,950 ) |
| Loss on extinguishment of debt   | —                                      | (24,161 ) | —                                    | (24,161 ) |

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|   |          |      |           |        |           |       |           |   |
|---|----------|------|-----------|--------|-----------|-------|-----------|---|
| Foreign currency exchange gain / (loss), net  | 2,289    | (337 | )         | (9,200 | )         | (967  | )         |   |
| Change in fair value of derivatives (Note 12) | (2,220   | )    | 2,361     | (3,230 | )         | 2,311 |           |   |
| Other expense, net                            | (3,091   | )    | (533      | )      | (3,445    | )     | (498      | ) |
| Loss before tax                               | \$(8,209 | )    | \$(38,952 | )      | \$(78,307 | )     | \$(82,078 | ) |

Other items for the six months ended June 30, 2015 consists solely of a charge related to the ongoing tax audit of Pro TV in Romania which was accrued in the first quarter of 2015. Following legislation enacted in July 2015 in Romania, we expect to reverse substantially all of the charges related to the tax audits during the third quarter of 2015 (see Note 20, "Commitments and Contingencies"). Other items for the three and six months ended ended June 30, 2014, is comprised of a fine the competition committee in Slovenia was seeking to impose which was subsequently overturned in the fourth quarter of 2014.

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| Total assets <sup>(1)</sup> : | June 30, 2015 | December 31, 2014 |
|-------------------------------|---------------|-------------------|
| Bulgaria                      | \$130,513     | \$ 141,055        |
| Croatia                       | 55,867        | 58,000            |
| Czech Republic                | 753,647       | 803,361           |
| Romania                       | 269,156       | 297,256           |
| Slovak Republic               | 120,036       | 134,544           |
| Slovenia                      | 72,527        | 78,403            |
| Total operating segments      | 1,401,746     | 1,512,619         |
| Corporate                     | 71,160        | 76,875            |
| Assets held for sale          | 9,347         | 29,866            |
| Total assets                  | \$1,482,253   | \$ 1,619,360      |

(1) Segment assets exclude any intercompany balances.

| Capital expenditures:              | For the Three Months<br>Ended June 30, |         | For the Six Months<br>Ended June 30, |          |
|------------------------------------|--|---------|--------------------------------------|----------|
|                                    | 2015                                   | 2014    | 2015                                 | 2014     |
| Bulgaria                           | \$764                                  | \$555   | \$1,463                              | \$1,078  |
| Croatia                            | 407                                    | 382     | 935                                  | 847      |
| Czech Republic                     | 2,080                                  | 742     | 4,576                                | 5,364    |
| Romania                            | 1,867                                  | 1,242   | 2,587                                | 2,057    |
| Slovak Republic                    | 601                                    | 137     | 1,747                                | 930      |
| Slovenia                           | 626                                    | 930     | 1,560                                | 1,714    |
| Total operating segments           | 6,345                                  | 3,988   | 12,868                               | 11,990   |
| Corporate                          | 636                                    | 1,089   | 1,594                                | 2,054    |
| Total capital expenditures         | \$6,981                                | \$5,077 | \$14,462                             | \$14,044 |
| Long-lived assets <sup>(1)</sup> : | June 30, 2015                          |         | December 31, 2014                    |          |
| Bulgaria                           | \$4,588                                |         | \$ 4,187                             |          |
| Croatia                            | 4,399                                  |         | 5,579                                |          |
| Czech Republic                     | 39,049                                 |         | 40,940                               |          |
| Romania                            | 21,479                                 |         | 22,110                               |          |
| Slovak Republic                    | 16,192                                 |         | 17,374                               |          |
| Slovenia                           | 14,518                                 |         | 16,647                               |          |
| Total operating segments           | 100,225                                |         | 106,837                              |          |
| Corporate                          | 6,117                                  |         | 7,498                                |          |
| Total long-lived assets            | \$106,342                              |         | \$ 114,335                           |          |

(1) Reflects property, plant and equipment.

| Revenue by type:                | For the Three Months<br>Ended June 30, |           | For the Six Months<br>Ended June 30, |           |
|---------------------------------|--|-----------|--------------------------------------|-----------|
|                                 | 2015                                   | 2014      | 2015                                 | 2014      |
| Television advertising          | \$141,557                              | \$161,686 | \$243,172                            | \$275,176 |
| Carriage fees and subscriptions | 18,427                                 | 21,095    | 37,205                               | 40,921    |
| Other                           | 6,850                                  | 10,030    | 12,590                               | 17,419    |
| Total net revenues              | \$166,834                              | \$192,811 | \$292,967                            | \$333,516 |



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## 20. COMMITMENTS AND CONTINGENCIES

## Commitments

## a) Programming Rights Agreements and Other Commitments

At June 30, 2015, we had total commitments of US\$ \$171.9 million (December 31, 2014: US\$ 177.8 million) in respect of future programming, including contracts signed with license periods starting after the balance sheet date. In addition, we have digital transmission obligations, 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<br>purchase<br>obligations | Other<br>commitments | Operating<br>leases | Capital<br>expenditures |
|---------------------|--|----------------------|---------------------|-------------------------|
| 2015                | \$30,121                               | \$13,033             | \$1,810             | \$6,940                 |
| 2016                | 63,932                                 | 12,129               | 2,298               | 626                     |
| 2017                | 39,325                                 | 3,962                | 1,515               | —                       |
| 2018                | 27,869                                 | 3,204                | 1,007               | —                       |
| 2019                | 10,423                                 | 10,411               | 806                 | —                       |
| 2020 and thereafter | 220                                    | 386                  | 1,511               | —                       |
| Total               | \$171,890                              | \$43,125             | \$8,947             | \$7,566                 |

## b) 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. If consummated, we would own 90.0% of our Bulgaria operations.

## Contingencies

## a) Litigation

We are from time to time party to legal proceedings, arbitrations and regulatory proceedings arising in the normal course of our business operations, including the proceeding described below. We evaluate, on a quarterly basis, developments in such matters and provide accruals for such matters, as appropriate. In making such decisions, we consider the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of a loss. An unfavorable outcome in any such proceedings, if material, could have an adverse effect on our business or consolidated financial statements.

## Slovenian Competition Proceeding

On April 24, 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 filed an appeal with the Slovenian Supreme Court on May 24, 2013. On December 3, 2013, the Slovenian Supreme Court affirmed the decision of the CPA. On July 21, 2014, the CPA adopted a decision to impose a fine of EUR 5.1 million. Pro Plus appealed the decision and the fine was overturned on November 3, 2014. The CPA has appealed this decision.

## 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.

c) Romanian Tax Audits

Certain of our subsidiaries in Romania are currently being audited by the Romanian tax authorities. The audit of Pro TV covers the years 2009 to 2013. The audits of Studiourile Media Pro SA ("MPS") and Media Pro Entertainment Romania SA ("MPE") cover the years 2010 to 2013 and 2009 to 2013, respectively, and are currently suspended in connection with investigations being conducted by the Romanian authorities there. (See Part II, Item 1, "MPS and MPE Investigations".) These audits are focused on a range of matters, including corporate income taxes, payroll tax liabilities and value added tax ("VAT").

In the course of their audit of Pro TV, the tax authorities are scrutinizing in particular the nature of the relationship between Pro TV and a third party services company through which a considerable number of freelance staff were engaged by Pro TV throughout the period of the audit. The tax authorities are evaluating whether such freelance staff were sufficiently independent of Pro TV. In the event the tax authorities conclude such freelance staff were dependent and should have been treated as employees, their activities would be requalified as dependent and payments made to them would be treated as salary and subject to deductions for payroll taxes. Pro TV would be liable for any unpaid payroll taxes as well as penalties and interest. The tax authorities are also reviewing whether certain activities of other individuals retained directly by Pro TV, MPS and MPE should have been classified as dependent.

In connection with these audits, we provided US\$ 12.0 million in the fourth quarter of 2014 in respect of certain individuals retained directly by Pro TV, MPS and MPE and an additional US\$ 18.2 million in the first quarter of 2015 that related to freelance staff engaged by Pro TV through the third party services company.

On July 23, 2015, legislation was enacted in Romania which, among other things, annuls potential liabilities for payroll taxes, penalties and interest for the periods prior to July 1, 2015 that would arise as a result of the requalification of activities as dependent. Regulations implementing this legislation are to be adopted by the fiscal authorities in Romania and are expected to come into force before the end of the third quarter. Following enactment of the legislation, we expect to release substantially all of the reserves related to the Romanian tax audit established in the fourth quarter of 2014 and the first quarter of 2015.

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The Pro TV audit is ongoing although it is likely that the authorities will complete this audit during the third quarter of 2015; we do not know how long the suspension of the audits of MPS and MPE will continue. Therefore, at the present time we are unable to determine when the tax authorities will complete their audits of MPS and MPE or what assessments may be issued, or estimate what the amount of such assessments may be.

**21. RELATED PARTY TRANSACTIONS**

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 Time Warner, who is represented on our Board of Directors and holds a 49.4% voting interest in CME Ltd. as at June 30, 2015, as material related party transactions.

## Time Warner

|  | For the Three Months<br>Ended June 30, |               | For the Six Months<br>Ended June 30, |        |
|--|--|---------------|--------------------------------------|--------|
|  | 2015                                   | 2014          | 2015                                 | 2014   |
| Net revenues   | \$—                                    | \$14          | \$22                                 | \$18   |
| Cost of revenues   | 9,565                                  | 3,535         | 11,864                               | 9,334  |
| Interest expense   | 30,419                                 | 18,501        | 59,585                               | 18,501 |
|  |  | June 30, 2015 | December 31, 2014                    |        |
| Programming liabilities  |  | \$16,728      | \$ 24,980                            |        |
| Other accounts payable and accrued liabilities                 |  | 42            | 150                                  |        |
| Accounts receivable, gross                                     |  | —             | 197                                  |        |
| Long-term debt and other financing arrangements <sup>(1)</sup> |  | 285,898       | 269,862                              |        |
| Accrued interest payable <sup>(2)</sup>                        |  | 5,035         | 4,763                                |        |
| Other non-current liabilities <sup>(3)</sup>                   |  | 19,862        | 10,299                               |        |

<sup>(1)</sup> Amount represents the principal amount outstanding of the 2017 PIK Notes held by Time Warner and the amounts outstanding on the 2017 Term Loan and 2017 Revolving Credit Facility, less respective issuance discounts, including interest for which we made an election to pay in kind.

<sup>(2)</sup> Amount represents the accrued interest on the principal amount of the outstanding 2017 PIK Notes held by Time Warner, which is payable in kind in arrears until November 15, 2015, and on the outstanding balance of the 2017 Term Loan and the 2017 Revolving Credit Facility.

<sup>(3)</sup> Amount represents the commitment fee payable to Time Warner in connection with its agreement to provide or assist with arranging a loan facility to refinance the 2015 Convertible Notes at or immediately prior to their maturity in November 2015, as well as the accrued fee payable to Time Warner for guaranteeing the 2017 Euro Term Loan. See Note 5, "Long-term Debt and Other Financing Arrangements".

**22. GUARANTOR AND NON-GUARANTOR FINANCIAL INFORMATION**

As discussed in Note 5, "Long-term Debt and Other Financing Arrangements", our 100% owned subsidiaries, CME NV and CME BV (collectively, the "Guarantor Subsidiaries"), have agreed to fully and unconditionally, and jointly and severally, guarantee (the "Guarantees"), the 2017 PIK Notes. The Guarantor Subsidiaries are subject to the requirements of Rule 3-10 of Regulation S-X regarding financial statements of guarantors and issuers of guaranteed securities registered or being registered with the SEC. Our remaining subsidiaries (the "Non-Guarantor Subsidiaries") are presented separately from CME Ltd. (the "Parent Issuer") and the Guarantor Subsidiaries in the condensed consolidating financial statements presented below.

The Guarantees are senior obligations of the Guarantors and rank equal in right of payment with all of the Guarantor Subsidiaries' existing and future senior indebtedness, including in respect of their guarantees of the 2015 Convertible Notes, the 2017 Term Loan and the 2017 Revolving Credit Facility. In addition, the Guarantees rank senior in right of payment to any other existing and future obligations of the Guarantor Subsidiaries expressly subordinated in right of payment to the Guarantees. The Guarantees effectively rank junior to all of the future indebtedness and other liabilities of our Non-Guarantor Subsidiaries, including with respect to their obligations in respect of the 2017 PIK Notes.

CME Ltd. and the Guarantor Subsidiaries are holding companies with no revenue-generating operations and rely on the repayment of intercompany indebtedness and the declaration of dividends to receive distributions of cash from our operating subsidiaries and affiliates. There are no significant restrictions on CME Ltd.'s ability to obtain funds from the Guarantor Subsidiaries.

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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

The following tables present condensed consolidating financial information relating to the Guarantor Subsidiaries as at June 30, 2015 and December 31, 2014, and for the three and six months ended June 30, 2015 and June 30, 2014:  
Condensed Consolidating Balance Sheets as at June 30, 2015

|   | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
|---|------------------|---------------------------|-------------------------------|---------------|--------------|
| <b>ASSETS</b>   |                  |                           |                               |               |              |
| Current assets  |                  |                           |                               |               |              |
| Cash and cash equivalents   | \$258            | \$1,376                   | \$ 36,379                     | \$—           | \$38,013     |
| Accounts receivable, net  | —                | —                         | 162,800                       | —             | 162,800      |
| Program rights, net   | —                | —                         | 99,692                        | —             | 99,692       |
| Other current assets  | 650              | 1,213                     | 36,997                        | —             | 38,860       |
| Assets held for sale  | —                | —                         | 9,347                         | —             | 9,347        |
| Intercompany current assets   | 14,615           | 3,164                     | 69,835                        | (87,614 )     | —            |
| Total current assets  | 15,523           | 5,753                     | 415,050                       | (87,614 )     | 348,712      |
| Non-current assets  |                  |                           |                               |               |              |
| Investments in subsidiaries   | 83,780           | 1,388,414                 | —                             | (1,472,194 )  | —            |
| Property, plant and equipment, net                                    | —                | —                         | 106,342                       | —             | 106,342      |
| Program rights, net   | —                | —                         | 174,716                       | —             | 174,716      |
| Goodwill  | —                | —                         | 636,267                       | —             | 636,267      |
| Broadcast licenses and other intangible<br>assets, net                | —                | —                         | 163,643                       | —             | 163,643      |
| Other non-current assets  | 47,913           | 2,771                     | 1,889                         | —             | 52,573       |
| Intercompany non-current assets                                       | 1,151,328        | 37,127                    | 289,258                       | (1,477,713 )  | —            |
| Total non-current assets  | 1,283,021        | 1,428,312                 | 1,372,115                     | (2,949,907 )  | 1,133,541    |
| Total assets  | \$1,298,544      | \$1,434,065               | \$ 1,787,165                  | \$(3,037,521) | \$1,482,253  |
| <b>LIABILITIES AND EQUITY</b>   |                  |                           |                               |               |              |
| Current liabilities   |                  |                           |                               |               |              |
| Accounts payable and accrued liabilities                              | \$2,893          | \$206                     | \$163,529                     | \$—           | \$166,628    |
| Current portion of long-term debt and other<br>financing arrangements | 257,229          | —                         | 1,156                         | —             | 258,385      |
| Other current liabilities   | 2,404            | —                         | 19,153                        | —             | 21,557       |
| Liabilities held for sale   | —                | —                         | 4,997                         | —             | 4,997        |
| Intercompany current liabilities                                      | —                | 86,361                    | 1,253                         | (87,614 )     | —            |
| Total current liabilities   | 262,526          | 86,567                    | 190,088                       | (87,614 )     | 451,567      |
| Non-current liabilities   |                  |                           |                               |               |              |
| Long-term debt and other financing<br>arrangements                    | 614,806          | —                         | 5,450                         | —             | 620,256      |
| Other non-current liabilities   | 26,356           | —                         | 28,748                        | —             | 55,104       |
| Intercompany non-current liabilities                                  | 37,128           | 1,290,296                 | 150,289                       | (1,477,713 )  | —            |
| Total non-current liabilities   | 678,290          | 1,290,296                 | 184,487                       | (1,477,713 )  | 675,360      |
| Temporary equity  | 232,330          | —                         | —                             | —             | 232,330      |
| Total CME Ltd. shareholders' equity                                   | 125,398          | 57,202                    | 1,414,992                     | (1,472,194 )  | 125,398      |
| Noncontrolling interests  | —                | —                         | (2,402 )                      | —             | (2,402 )     |

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|                              |             |             |             |               |             |
|------------------------------|-------------|-------------|-------------|---------------|-------------|
| Total equity                 | 125,398     | 57,202      | 1,412,590   | (1,472,194 )  | 122,996     |
| Total liabilities and equity | \$1,298,544 | \$1,434,065 | \$1,787,165 | \$(3,037,521) | \$1,482,253 |

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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

## Condensed Consolidating Balance Sheets as at December 31, 2014

|   | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Consolidated |
|---|------------------|---------------------------|-------------------------------|---------------|--------------|
| <b>ASSETS</b>   |                  |                           |                               |               |              |
| Current assets  |                  |                           |                               |               |              |
| Cash and cash equivalents   | \$613            | \$2,931                   | \$ 30,754                     | \$—           | \$34,298     |
| Accounts receivable, net  | —                | —                         | 175,866                       | —             | 175,866      |
| Program rights, net   | —                | —                         | 99,358                        | —             | 99,358       |
| Other current assets  | 1,007            | 346                       | 34,128                        | —             | 35,481       |
| Assets held for sale  | —                | —                         | 29,866                        | —             | 29,866       |
| Intercompany current assets   | 12,582           | 14,333                    | 17,492                        | (44,407 )     | —            |
| Total current assets  | 14,202           | 17,610                    | 387,464                       | (44,407 )     | 374,869      |
| Non-current assets  |                  |                           |                               |               |              |
| Investments in subsidiaries   | 110,186          | 1,516,707                 | —                             | (1,626,893 )  | —            |
| Property, plant and equipment, net                                    | —                | —                         | 114,335                       | —             | 114,335      |
| Program rights, net   | —                | —                         | 207,264                       | —             | 207,264      |
| Goodwill  | —                | —                         | 681,398                       | —             | 681,398      |
| Broadcast licenses and other intangible<br>assets, net                | —                | —                         | 183,378                       | —             | 183,378      |
| Other non-current assets  | 55,471           | —                         | 2,645                         | —             | 58,116       |
| Intercompany non-current assets                                       | 1,252,708        | 32,781                    | 291,589                       | (1,577,078 )  | —            |
| Total non-current assets  | 1,418,365        | 1,549,488                 | 1,480,609                     | (3,203,971 )  | 1,244,491    |
| Total assets  | \$1,432,567      | \$1,567,098               | \$ 1,868,073                  | \$(3,248,378) | \$1,619,360  |
| <b>LIABILITIES AND EQUITY</b>   |                  |                           |                               |               |              |
| Current liabilities   |                  |                           |                               |               |              |
| Accounts payable and accrued liabilities                              | \$5,109          | \$286                     | \$173,829                     | \$—           | \$179,224    |
| Current portion of long-term debt and other<br>financing arrangements | 251,669          | —                         | 1,190                         | —             | 252,859      |
| Other current liabilities   | 271              | —                         | 7,541                         | —             | 7,812        |
| Liabilities held for sale   | —                | —                         | 10,632                        | —             | 10,632       |
| Intercompany current liabilities                                      | 7,003            | 35,151                    | 2,253                         | (44,407 )     | —            |
| Total current liabilities   | 264,052          | 35,437                    | 195,445                       | (44,407 )     | 450,527      |
| Non-current liabilities   |                  |                           |                               |               |              |
| Long-term debt and other financing<br>arrangements                    | 615,698          | —                         | 5,542                         | —             | 621,240      |
| Other non-current liabilities   | 16,315           | 482                       | 29,688                        | —             | 46,485       |
| Intercompany non-current liabilities                                  | 32,782           | 1,392,535                 | 151,761                       | (1,577,078 )  | —            |
| Total non-current liabilities   | 664,795          | 1,393,017                 | 186,991                       | (1,577,078 )  | 667,725      |
| Temporary equity  | 223,926          | —                         | —                             | —             | 223,926      |
| Total CME Ltd. shareholders' equity                                   | 279,794          | 138,644                   | 1,488,249                     | (1,626,893 )  | 279,794      |
| Noncontrolling interests  | —                | —                         | (2,612 )                      | —             | (2,612 )     |
| Total equity  | 279,794          | 138,644                   | 1,485,637                     | (1,626,893 )  | 277,182      |
| Total liabilities and equity  | \$1,432,567      | \$1,567,098               | \$1,868,073                   | \$(3,248,378) | \$1,619,360  |



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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

## Condensed Consolidating Statements of Operations for the three months ended June 30, 2015

|  | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |   |
|--|------------------|---------------------------|-------------------------------|--------------|--------------|---|
| Net revenues   | \$—              | \$—                       | \$ 166,834                    | \$—          | \$ 166,834   |   |
| Cost of revenues   | —                | —                         | 101,229                       | —            | 101,229      |   |
| Selling, general and administrative expenses   | 4,186            | 46                        | 24,480                        | —            | 28,712       |   |
| Restructuring costs  | —                | —                         | 452                           | —            | 452          |   |
| Operating (loss) / income  | (4,186           | ) (46                     | ) 40,673                      | —            | 36,441       |   |
| Interest income  | 23,686           | 794                       | 6,074                         | (30,436      | ) 118        |   |
| Interest expense   | (42,407          | ) (26,666                 | ) (3,109                      | ) 30,436     | (41,746      | ) |
| Foreign currency exchange gain / (loss), net   | 1,370            | (1,870                    | ) 2,789                       | —            | 2,289        |   |
| Change in fair value of derivatives  | (2,220           | ) —                       | —                             | —            | (2,220       | ) |
| Other income / (expense), net  | —                | 301                       | (3,392                        | ) —          | (3,091       | ) |
| (Loss) / income from continuing operations before tax and income from investment in subsidiaries | (23,757          | ) (27,487                 | ) 43,035                      | —            | (8,209       | ) |
| Credit / (provision) for income taxes  | —                | 3,963                     | (7,423                        | ) —          | (3,460       | ) |
| (Loss) / income from continuing operations before income from investment in subsidiaries         | (23,757          | ) (23,524                 | ) 35,612                      | —            | (11,669      | ) |
| Income from investment in subsidiaries   | 15,079           | 36,541                    | —                             | (51,620      | ) —          |   |
| (Loss) / income from continuing operations   | (8,678           | ) 13,017                  | 35,612                        | (51,620      | ) (11,669    | ) |
| Income from discontinued operations, net of tax  | —                | 2,062                     | 622                           | —            | 2,684        |   |
| Net (loss) / income  | (8,678           | ) 15,079                  | 36,234                        | (51,620      | ) (8,985     | ) |
| Net loss attributable to noncontrolling interests  | —                | —                         | 307                           | —            | 307          |   |
| Net (loss) / income attributable to CME Ltd.   | \$(8,678         | ) \$15,079                | \$ 36,541                     | \$(51,620    | ) \$(8,678   | ) |
| Net (loss) / income  | \$(8,678         | ) \$15,079                | \$ 36,234                     | \$(51,620    | ) \$(8,985   | ) |
| Other comprehensive income   | 40,446           | 1,481                     | 59,921                        | (61,734      | ) 40,114     |   |
| Comprehensive income   | 31,768           | 16,560                    | 96,155                        | (113,354     | ) 31,129     |   |
| Comprehensive loss attributable to noncontrolling interests                                      | —                | —                         | 639                           | —            | 639          |   |
| Comprehensive income attributable to CME Ltd.  | \$31,768         | \$16,560                  | \$ 96,794                     | \$(113,354   | ) \$31,768   |   |



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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

## Condensed Consolidating Statements of Operations for the six months ended June 30, 2015

|   | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |   |
|---|------------------|---------------------------|-------------------------------|--------------|--------------|---|
| Net revenues  | \$—              | \$—                       | \$ 292,967                    | \$—          | \$ 292,967   |   |
| Cost of revenues  | —                | —                         | 200,057                       | —            | 200,057      |   |
| Selling, general and administrative expenses  | 8,532            | 215                       | 63,866                        | —            | 72,613       |   |
| Restructuring costs   | —                | —                         | 1,095                         | —            | 1,095        |   |
| Operating (loss) / income   | (8,532           | ) (215                    | ) 27,949                      | —            | 19,202       |   |
| Interest income   | 47,972           | 1,589                     | 11,986                        | (61,317      | ) 230        |   |
| Interest expense  | (83,140          | ) (53,807                 | ) (6,234                      | ) 61,317     | (81,864      | ) |
| Foreign currency exchange loss, net   | (1,017           | ) (5,012                  | ) (3,171                      | ) —          | (9,200       | ) |
| Change in fair value of derivatives   | (3,230           | ) —                       | —                             | —            | (3,230       | ) |
| Other income / (expense), net   | —                | 73                        | (3,518                        | ) —          | (3,445       | ) |
| (Loss) / income from continuing operations before tax and (loss) / income from investment in subsidiaries | (47,947          | ) (57,372                 | ) 27,012                      | —            | (78,307      | ) |
| Credit / (provision) for income taxes   | —                | 8,473                     | (12,078                       | ) —          | (3,605       | ) |
| (Loss) / income from continuing operations before (loss) / income from investment in subsidiaries         | (47,947          | ) (48,899                 | ) 14,934                      | —            | (81,912      | ) |
| (Loss) / income from investment in subsidiaries   | (34,005          | ) 10,543                  | —                             | 23,462       | —            |   |
| (Loss) / income from continuing operations  | (81,952          | ) (38,356                 | ) 14,934                      | 23,462       | (81,912      | ) |
| Income / (loss) from discontinued operations, net of tax  | —                | 4,351                     | (4,955                        | ) —          | (604         | ) |
| Net (loss) / income   | (81,952          | ) (34,005                 | ) 9,979                       | 23,462       | (82,516      | ) |
| Net loss attributable to noncontrolling interests   | —                | —                         | 564                           | —            | 564          |   |
| Net (loss) / income attributable to CME Ltd.  | \$(81,952        | ) \$(34,005               | ) \$ 10,543                   | \$23,462     | \$(81,952    | ) |
| Net (loss) / income   | \$(81,952        | ) \$(34,005               | ) \$ 9,979                    | \$23,462     | \$(82,516    | ) |
| Other comprehensive (loss) / income   | (65,031          | ) 12,842                  | (102,293                      | ) 90,225     | (64,257      | ) |
| Comprehensive loss  | (146,983         | ) (21,163                 | ) (92,314                     | ) 113,687    | (146,773     | ) |
| Comprehensive income attributable to noncontrolling interests   | —                | —                         | (210                          | ) —          | (210         | ) |
| Comprehensive loss attributable to CME Ltd.   | \$(146,983       | ) \$(21,163               | ) \$ (92,524                  | ) \$ 113,687 | \$(146,983   | ) |

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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

## Condensed Consolidating Statements of Operations for the three months ended June 30, 2014

|   | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |   |
|---|------------------|---------------------------|-------------------------------|--------------|--------------|---|
| Net revenues  | \$—              | \$—                       | \$ 192,811                    | \$—          | \$ 192,811   |   |
| Cost of revenues  | —                | —                         | 125,514                       | —            | 125,514      |   |
| Selling, general and administrative expenses  | 5,289            | 275                       | 36,126                        | —            | 41,690       |   |
| Restructuring costs   | —                | —                         | 2,920                         | —            | 2,920        |   |
| Operating (loss) / income   | (5,289           | ) (275                    | ) 28,251                      | —            | 22,687       |   |
| Interest income   | 34,537           | 7,058                     | 95                            | (41,589      | ) 101        |   |
| Interest expense  | (38,217          | ) (34,476                 | ) (7,966                      | ) 41,589     | (39,070      | ) |
| Loss on extinguishment of debt  | (24,161          | ) —                       | —                             | —            | (24,161      | ) |
| Foreign currency exchange gain / (loss), net  | 784              | (2,830                    | ) 1,709                       | —            | (337         | ) |
| Change in fair value of derivatives   | 2,361            | 426                       | (426                          | ) —          | 2,361        |   |
| Other expense, net  | —                | —                         | (533                          | ) —          | (533         | ) |
| (Loss) / income from continuing operations before tax and (loss) / income on investment in subsidiaries | (29,985          | ) (30,097                 | ) 21,130                      | —            | (38,952      | ) |
| Credit / (provision) for income taxes   | —                | 4,326                     | (6,726                        | ) —          | (2,400       | ) |
| (Loss) / income from continuing operations before (loss) / income on investment in subsidiaries         | (29,985          | ) (25,771                 | ) 14,404                      | —            | (41,352      | ) |
| (Loss) / income from investment in subsidiaries   | (22,452          | ) 3,319                   | —                             | 19,133       | —            |   |
| (Loss) / income from continuing operations  | (52,437          | ) (22,452                 | ) 14,404                      | 19,133       | (41,352      | ) |
| Loss from discontinued operations, net of tax   | —                | —                         | (11,154                       | ) —          | (11,154      | ) |
| Net (loss) / income   | (52,437          | ) (22,452                 | ) 3,250                       | 19,133       | (52,506      | ) |
| Net loss attributable to noncontrolling interests   | —                | —                         | 69                            | —            | 69           |   |
| Net (loss) / income attributable to CME Ltd.  | \$(52,437        | ) \$(22,452               | ) \$ 3,319                    | \$ 19,133    | \$(52,437    | ) |
| Net (loss) / income   | \$(52,437        | ) \$(22,452               | ) \$ 3,250                    | \$ 19,133    | \$(52,506    | ) |
| Other comprehensive (loss) / income   | (8,373           | ) 142,853                 | 155,843                       | (298,632     | ) (8,309     | ) |
| Comprehensive (loss) / income   | (60,810          | ) 120,401                 | 159,093                       | (279,499     | ) (60,815    | ) |
| Comprehensive loss attributable to noncontrolling interests   | —                | —                         | 5                             | —            | 5            |   |
| Comprehensive (loss) / income attributable to CME Ltd.  | \$(60,810        | ) \$ 120,401              | \$ 159,098                    | \$(279,499   | ) \$(60,810  | ) |

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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

## Condensed Consolidating Statements of Operations for the six months ended June 30, 2014

|  | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |   |
|--|------------------|---------------------------|-------------------------------|--------------|--------------|---|
| Net revenues   | \$—              | \$—                       | \$ 333,516                    | \$—          | \$333,516    |   |
| Cost of revenues   | —                | —                         | 245,093                       | —            | 245,093      |   |
| Selling, general and administrative expenses   | 8,956            | 527                       | 62,687                        | —            | 72,170       |   |
| Restructuring costs  | —                | —                         | 8,248                         | —            | 8,248        |   |
| Operating (loss) / income  | (8,956           | ) (527                    | ) 17,488                      | —            | 8,005        |   |
| Interest income  | 73,728           | 14,105                    | 169                           | (87,820      | ) 182        |   |
| Interest expense   | (64,624          | ) (73,606                 | ) (16,540                     | ) 87,820     | (66,950      | ) |
| Loss on extinguishment of debt   | (24,161          | ) —                       | —                             | —            | (24,161      | ) |
| Foreign currency exchange gain / (loss), net   | 962              | (3,722                    | ) 1,793                       | —            | (967         | ) |
| Change in fair value of derivatives  | 2,311            | (2,429                    | ) 2,429                       | —            | 2,311        | ) |
| Other expense, net   | —                | —                         | (498                          | ) —          | (498         | ) |
| (Loss) / income from continuing operations before tax and loss on investment in subsidiaries | (20,740          | ) (66,179                 | ) 4,841                       | —            | (82,078      | ) |
| Credit / (provision) for income taxes  | —                | 7,929                     | (8,203                        | ) —          | (274         | ) |
| Loss from continuing operations before loss on investment in subsidiaries                    | (20,740          | ) (58,250                 | ) (3,362                      | ) —          | (82,352      | ) |
| Loss from investment in subsidiaries   | (79,613          | ) (21,363                 | ) —                           | 100,976      | —            | ) |
| Loss from continuing operations  | (100,353         | ) (79,613                 | ) (3,362                      | ) 100,976    | (82,352      | ) |
| Loss from discontinued operations, net of tax  | —                | —                         | (18,787                       | ) —          | (18,787      | ) |
| Net loss   | (100,353         | ) (79,613                 | ) (22,149                     | ) 100,976    | (101,139     | ) |
| Net loss attributable to noncontrolling interests  | —                | —                         | 786                           | —            | 786          | ) |
| Net loss attributable to CME Ltd.  | \$(100,353       | ) \$(79,613               | ) \$ (21,363                  | ) \$ 100,976 | \$(100,353   | ) |
| Net loss   | \$(100,353       | ) \$(79,613               | ) \$ (22,149                  | ) \$ 100,976 | \$(101,139   | ) |
| Other comprehensive loss   | (6,998           | ) (18,743                 | ) (5,960                      | ) 24,764     | (6,937       | ) |
| Comprehensive loss   | (107,351         | ) (98,356                 | ) (28,109                     | ) 125,740    | (108,076     | ) |
| Comprehensive loss attributable to noncontrolling interests                                  | —                | —                         | 725                           | —            | 725          | ) |
| Comprehensive loss attributable to CME Ltd.  | \$(107,351       | ) \$(98,356               | ) \$ (27,384                  | ) \$ 125,740 | \$(107,351   | ) |

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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

## Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2015

|   | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------------|---------------------------|-------------------------------|--------------|--------------|
| Net cash generated from continuing operating activities | \$16,113         | \$9,737                   | \$ 15,672                     | \$—          | \$41,522     |

CASH FLOWS FROM INVESTING  
ACTIVITIES:

|  |           |             |             |           |             |
|--|-----------|-------------|-------------|-----------|-------------|
| Purchase of property, plant and equipment                        | —         | —           | (14,462 )   | —         | (14,462 )   |
| Disposal of property, plant and equipment                        | —         | —           | 74          | —         | 74          |
| Intercompany investing receipts                                  | 19,150    | 764         | 3,013       | (22,927 ) | —           |
| Intercompany investing payments                                  | (15,896 ) | (17,482 )   | (18,653 )   | 52,031    | —           |
| Net cash provided by / (used in) continuing investing activities | \$3,254   | \$(16,718 ) | \$(30,028 ) | \$29,104  | \$(14,388 ) |

CASH FLOWS FROM FINANCING  
ACTIVITIES:

|  |             |           |           |             |             |
|--|-------------|-----------|-----------|-------------|-------------|
| Debt transaction costs   | (627 )      | —         | —         | —           | (627 )      |
| Payment of credit facilities and capital leases                  | (26,117 )   | —         | (609 )    | —           | (26,726 )   |
| Intercompany financing receipts                                  | 7,022       | 24,211    | 20,798    | (52,031 )   | —           |
| Intercompany financing payments                                  | —           | (22,163 ) | (764 )    | 22,927      | —           |
| Net cash (used in) / provided by continuing financing activities | \$(19,722 ) | \$2,048   | \$ 19,425 | \$(29,104 ) | \$(27,353 ) |

|   |   |   |          |   |          |
|---|---|---|----------|---|----------|
| Net cash used in discontinued operations - operating activities | — | — | (1,630 ) | — | (1,630 ) |
|---|---|---|----------|---|----------|

|   |   |       |       |   |       |
|---|---|-------|-------|---|-------|
| Net cash provided by discontinued operations - investing activities | — | 3,779 | 3,175 | — | 6,954 |
|---|---|-------|-------|---|-------|

|   |   |   |       |   |       |
|---|---|---|-------|---|-------|
| Net cash used in discontinued operations - financing activities | — | — | (56 ) | — | (56 ) |
|---|---|---|-------|---|-------|

|  |          |            |          |     |          |
|--|----------|------------|----------|-----|----------|
| Impact of exchange rate fluctuations on cash           | —        | (401 )     | (933 )   | —   | (1,334 ) |
| Net (decrease) / increase in cash and cash equivalents | \$(355 ) | \$(1,555 ) | \$ 5,625 | \$— | \$3,715  |

|  |     |       |        |   |        |
|--|-----|-------|--------|---|--------|
| CASH AND CASH EQUIVALENTS, beginning of period | 613 | 2,931 | 30,754 | — | 34,298 |
|--|-----|-------|--------|---|--------|

|  |       |         |           |     |          |
|--|-------|---------|-----------|-----|----------|
| CASH AND CASH EQUIVALENTS, end of period | \$258 | \$1,376 | \$ 36,379 | \$— | \$38,013 |
|--|-------|---------|-----------|-----|----------|



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## CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

## Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2014

|   | Parent<br>Issuer | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|------------------|---------------------------|-------------------------------|--------------|--------------|
| Net cash (used in) / generated from continuing operating activities | \$(16,852 )      | \$(29,208 )               | \$ 33,501                     | \$—          | \$(12,559 )  |

CASH FLOWS FROM INVESTING  
ACTIVITIES:

|  |             |           |              |            |             |
|--|-------------|-----------|--------------|------------|-------------|
| Purchase of property, plant and equipment                        | —           | —         | (14,044 )    | —          | (14,044 )   |
| Disposal of property, plant and equipment                        | —           | —         | 81           | —          | 81          |
| Intercompany investing receipts                                  | 315,249     | 41,186    | —            | (356,435 ) | —           |
| Intercompany investing payments                                  | (326,665 )  | (28,019 ) | —            | 354,684    | —           |
| Net cash (used in) / provided by continuing investing activities | \$(11,416 ) | \$13,167  | \$ (13,963 ) | \$(1,751 ) | \$(13,963 ) |

CASH FLOWS FROM FINANCING  
ACTIVITIES:

|  |            |            |              |            |             |
|--|------------|------------|--------------|------------|-------------|
| Repayments of Senior Debt  | (400,673 ) | —          | —            | —          | (400,673 )  |
| Debt transactions costs  | (10,998 )  | —          | (1,594 )     | —          | (12,592 )   |
| Issuance of Senior Notes   | 221,374    | —          | —            | —          | 221,374     |
| Proceeds from credit facilities                                  | 16,801     | —          | —            | —          | 16,801      |
| Payment of credit facilities and capital leases                  | —          | —          | (463 )       | —          | (463 )      |
| Issuance of common stock warrants                                | 191,825    | —          | —            | —          | 191,825     |
| Dividends paid to holders of noncontrolling interests            | —          | —          | (46 )        | —          | (46 )       |
| Intercompany financing receipts                                  | —          | 326,665    | 28,019       | (354,684 ) | —           |
| Intercompany financing payments                                  | —          | (315,249 ) | (41,186 )    | 356,435    | —           |
| Net cash provided by / (used in) continuing financing activities | \$18,329   | \$11,416   | \$ (15,270 ) | \$1,751    | \$16,226    |
| Net cash used in discontinued operations - operating activities  | —          | —          | (1,684 )     | —          | (1,684 )    |
| Net cash used in discontinued operations - investing activities  | —          | —          | (116 )       | —          | (116 )      |
| Net cash used in discontinued operations - financing activities  | —          | —          | (605 )       | —          | (605 )      |
| Impact of exchange rate fluctuations on cash                     | —          | 44         | (3,599 )     | —          | (3,555 )    |
| Net decrease in cash and cash equivalents                        | \$(9,939 ) | \$(4,581 ) | \$ (1,736 )  | \$—        | \$(16,256 ) |
| CASH AND CASH EQUIVALENTS, beginning of period                   | 19,461     | 5,422      | 77,439       | —          | 102,322     |
| CASH AND CASH EQUIVALENTS, end of period                         | \$9,522    | \$841      | \$ 75,703    | \$—        | \$86,066    |



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CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in US\$ 000's, except per share data)

(Unaudited)

23. SUBSEQUENT EVENTS

Romanian Tax Audits

On July 23, 2015, legislation was enacted in Romania which, among other things, annuls potential liabilities for payroll taxes, penalties and interest for the periods prior to July 1, 2015 that would arise as a result of the requalification of activities as dependent. Regulations implementing this legislation are to be adopted by the fiscal authorities in Romania and are expected to come into force before the end of the third quarter. Following enactment of the legislation, we expect to release substantially all of the reserves related to the Romanian tax audits established in the fourth quarter of 2014 and the first quarter of 2015 (see Note 20, "Commitments and Contingencies").



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### 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 redeemed and discharged 11.625% senior notes due 2016; the term "2017 Fixed Rate Notes" refers to our redeemed and discharged 9.0% senior secured notes due 2017 issued by our wholly owned subsidiary, CET 21 spol. s r.o. ("CET 21"); the term "2017 PIK Notes" refers to the 15.0% senior secured notes due 2017; the term "2015 Convertible Notes" refers to our 5.0% senior convertible notes due November 2015; the term "2017 Term Loan" refers to our 15.0% term loan due 2017; the term "2017 Revolving Credit Facility" refers to our senior secured floating rate revolving credit facility due 2017; the term "2017 Euro Term Loan" refers to our floating rate senior unsecured term loan due 2017 guaranteed by Time Warner; the term "Senior Debt" refers, as the context may require, to the 2015 Convertible Notes, 2016 Fixed Rate Notes, 2017 Fixed Rate Notes; 2017 PIK Notes; 2017 Term Loan; 2017 Revolving Credit Facility and the 2017 Euro Term Loan; the term "2015 Refinancing Commitment Letter" refers to a commitment letter executed with Time Warner whereby Time Warner agreed to provide or assist with arranging a loan facility to refinance the 2015 Convertible Notes at or immediately prior to their maturity. 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, 2015, unless otherwise indicated.

Please note that we may announce material information using SEC filings, press releases, public conference calls, webcasts and posts to the Investors section of our website, [www.cme.net](http://www.cme.net). In the future, we will continue to use these channels to communicate important information about CME Ltd. and our operations. Information that we post on our website could be deemed material. Therefore, we encourage investors, the media, our customers and others interested in CME Ltd. to review the information we post at [www.cme.net](http://www.cme.net).

## Contents

### I. Forward-looking Statements

### II. Overview

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

### 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", "should", "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 success of our efforts to increase our revenues and recapture advertising market share in the Czech Republic; levels of television advertising spending and the rate of development of the advertising markets in the countries in which we operate; the effect of global economic uncertainty and Eurozone instability in our markets and the extent, timing and duration of any recovery; the extent to which our liquidity constraints and debt service obligations restrict our business; our ability to refinance our existing indebtedness; our exposure to additional tax liabilities; our success in continuing our initiatives to diversify and enhance our revenue streams; 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.

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### 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. 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. These operating segments reflect how CME Ltd.'s operating performance is evaluated by our chief operating decision makers, who we have identified as our co-Chief Executive Officers; how our operations are managed by segment managers; and the structure of our internal financial reporting.

We evaluate the performance of our segments based on net revenues and OIBDA. OIBDA, which includes amortization and impairment of program rights, is determined as operating income / loss before depreciation, amortization of intangible assets and impairments of assets and certain unusual or infrequent items that are not considered by our chief operating decision makers when evaluating our performance. 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 do not impact either our cash flows or the operating results of our operations. OIBDA and free cash flow, as defined below, are also used as a component in determining management bonuses. Intersegment revenues and profits have been eliminated on consolidation.

Free cash flow is defined as cash flows from continuing operating activities less purchases of property, plant and equipment, net of disposals of property, plant and equipment and excludes the cash impact of certain unusual or infrequent items that are not included in costs charged in arriving at OIBDA because they are not considered by our chief operating decision makers when evaluating performance. Free cash flow is useful as a measure of our ability to generate cash. OIBDA and free cash flow 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, including a reconciliation to US GAAP financial measures, see Item 1, Note 19, "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 percentage movements as well as actual ("Act") percentage movements (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, 2015 and 2014.

#### Executive Summary

Our consolidated net revenues increased 8% at constant exchange rates during the second quarter and first half of 2015 compared to the corresponding periods in 2014. These improvements were driven primarily by an increase in our television advertising revenues due to growth in television advertising spending in the markets of the countries in which we operate, as well as increases in our share of the television advertising market in the majority of those countries. During the second quarter, television advertising spending in our three largest markets grew significantly, and our television advertising market share increased in five out of our six countries. The strengthening of the dollar more than offset the underlying improvement in our revenues, which caused our revenues at actual rates to decline by 14% during the second quarter and by 12% in the first half of 2015 compared to the corresponding periods in 2014. Costs charged in arriving at OIBDA decreased 2% at constant rates during the second quarter and by 3% during the first half of 2015 compared to the same periods in 2014. Excluding the decrease in restructuring charges, costs charged in arriving at OIBDA were broadly flat. We are focused on controlling costs and content costs decreased 2% and 1% in the respective periods, as savings from better utilization of our program library, more efficient own production, and foreign programming acquired at better prices in certain countries more than offset limited target investments in programming to counter increased competition for audience share. Costs charged in arriving at OIBDA decreased 21% at actual rates during the three and six months ended June 30, 2015 compared to the same periods in

2014.

The combination of revenue growth and lower costs resulted in a significant improvement in our OIBDA margin, which increased to 28% and 20% for the three and six months ended June 30, 2015, respectively, from 21% and 11% in the same periods in 2014. We believe our focus on better monetizing our broadcast assets while maintaining a strict cost discipline will also lead to an improvement in our full year OIBDA margin.

Costs charged in arriving at OIBDA for the six months ended June 30, 2015 exclude a charge of US\$ 18.2 million, which we recorded in the first quarter, related to an ongoing tax audit at Pro TV in Romania. Following legislation enacted in July in Romania, during the third quarter of 2015 we expect to reverse substantially all of the charges taken in the fourth quarter of 2014 and the first quarter of 2015 related to the tax audits (see Item 1, Note 20, "Commitments and Contingencies").

The spring season concluded during the second quarter and our productions consistently topped the charts in terms of audience share and ratings. Due to the success of our productions, our audience share increased in five out of six countries during the quarter while we reduced content costs overall. We intend to continue leveraging popular local content to maximize the reach we provide to advertisers, which should further improve our television advertising revenues if the forecasted economic growth in the countries in which we operate is realized.

We ended the quarter with US\$ 38.0 million of cash. Our free cash flow in the six months ended June 30, 2015 improved US\$ 53.7 million to US\$ 27.1 million, from negative free cash flow of US\$ 26.5 million in the same period in 2014. The improvement in free cash flow during the first half of 2015 reflected both the improvement in OIBDA and lower cash interest payments. Excluding items not included in OIBDA, we expect the trend of positive free cash flow to continue during the course of the year largely due to a combination of improved operating performance and our ability to pay interest in kind. During the second half of 2014 we caught up on significantly overdue payables. As a result, our levels of payments for programming are more normalized in 2015 and this will also contribute to a significant improvement in free cash flow in 2015 compared to 2014.

During the second quarter we also made two improvements to our capital structure. First, we repaid the US\$ 26.1 million principal amount outstanding under the 2017 Revolving Credit Facility. Second, we have agreed with Time Warner that the planned refinancing of the dollar-denominated 2015 Convertible Notes at maturity on November 15, 2015, pursuant to the 2015 Refinancing Commitment Letter, will be denominated in Euros to better align the currencies of our debt and operations. To that end, on July 2, 2015 we entered into a forward exchange contract with a notional amount of US\$ 261.0 million, to reduce our exposure to movements in the USD to EUR exchange rates until the maturity date of the 2015 Convertible Notes. Once this refinancing is completed, subject to customary closing conditions, more than half of our debt will be denominated in Euros.

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The strengthening of the dollar in the first half of 2015 relative to 2014 impacted our financial results and if the exchange rates from the first half persist for the remainder of 2015, we would expect revenue at actual rates to remain below 2014 levels for the rest of this year. The results caused by this translation into dollars would, however, mask an improvement in operating trends that are evident so far this year and that we believe will continue throughout 2015. We continue to expect that the television advertising markets in the countries in which we operate will grow overall for the full year, however due to the improvement of our business in the second half of 2014, the comparative period makes year-on-year growth more challenging during the course of 2015.

We completed the sale of our music and radio businesses in Romania during the second quarter and subsequently we reached an agreement to sell our studios near Bucharest and expect to complete the sale in the third quarter. These transactions further the company's strategy of focusing on its broadcast assets, including the productions that have made Pro TV a market leader.

**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, net of discounts, in our countries for the six months ended June 30, 2015:

| Country                | For the Six Months Ended June 30, 2015 |                                 |                         |
|------------------------|--|---------------------------------|-------------------------|
|                        | Real GDP Growth                        | Real Private Consumption Growth | Net TV Ad Market Growth |
| Bulgaria               | 2.2                                    | % 1.7                           | % (1) %                 |
| Croatia                | 0.2                                    | % 0.2                           | % 1 %                   |
| Czech Republic         | 3.2                                    | % 2.8                           | % 7 %                   |
| Romania*               | 3.8                                    | % 4.4                           | % 12 %                  |
| Slovak Republic        | 2.8                                    | % 2.0                           | % 12 %                  |
| Slovenia               | 2.5                                    | % 0.7                           | % 3 %                   |
| Total CME Ltd. Markets | 2.9                                    | % 2.6                           | % 7 %                   |

\*Romanian market excludes Moldova.

Source: CME Ltd. estimates based on market consensus for real GDP and real private consumption, and internal estimates for TV ad market growth at constant rates.

After adjusting for inflation, we estimate that GDP continued to grow overall during the first half of the year in the countries in which we operate. The GDP growth reported for the first quarter of 2015 has since been revised upward in several countries, and growth is forecast to remain robust in our largest countries through 2016. Recent steps taken to provide Greece with bridge financing have reduced uncertainty around the future of the Euro, however the potential exit of Greece from the European monetary union remains a risk to sustained macro-economic growth. This has not impacted growth in real private consumption, which was also positive across our six countries. Retail sales data from the Czech Republic and Romania demonstrate that domestic demand continues to be a strong driver of GDP growth. We estimate that the TV advertising markets in the countries in which we operate increased by 7% on average in the six months ended June 30, 2015 compared to the same period in 2014. In Bulgaria the market contracted in the second quarter due to lower average prices and election campaigns in 2014 that did not take place in 2015, causing growth in the first half of this year to turn negative. The market growth in Croatia was due to an increase in average market prices as advertisers continue to spend more while macro-economic conditions slowly improved. The market growth in the Czech Republic was driven by higher demand for GRPs. In Romania, macro-economic improvements have had a positive impact on the demand for advertising. In Slovakia prices rebounded in the second quarter but fewer GRPs sold led to a lower rate of growth compared to that of the first quarter of 2015. Following recent growth in private consumption in Slovenia, advertisers spent more there during the second quarter, which benefited average market prices, and increased the number of GRPs sold during the first half of 2015.

**Segment Performance**

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

**NET REVENUES**

For the Three Months Ended June 30, (US\$ 000's)

|                       | 2015       | 2014       | Movement            |       |                   |   |
|-----------------------|------------|------------|---------------------|-------|-------------------|---|
|                       |            |            | % Act               | % Lfl |                   |   |
| Bulgaria              | \$ 19,420  | \$ 23,912  | (18.8               | )%    | 0.9               | % |
| Croatia               | 16,242     | 19,470     | (16.6               | )%    | 4.1               | % |
| Czech Republic        | 52,131     | 59,299     | (12.1               | )%    | 9.0               | % |
| Romania               | 44,034     | 49,431     | (10.9               | )%    | 11.0              | % |
| Slovak Republic       | 20,236     | 24,211     | (16.4               | )%    | 3.8               | % |
| Slovenia              | 15,063     | 17,585     | (14.3               | )%    | 6.5               | % |
| Intersegment revenues | (292       | ) (1,097   | ) NM <sup>(1)</sup> |       | NM <sup>(1)</sup> |   |
| Total net revenues    | \$ 166,834 | \$ 192,811 | (13.5               | )%    | 7.5               | % |

<sup>(1)</sup> Number is not meaningful.

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## NET REVENUES

For the Six Months Ended June 30, (US\$ 000's)

|                       | 2015      | 2014      | Movement            |    | % Lfl             |   |
|-----------------------|-----------|-----------|---------------------|----|-------------------|---|
|                       |           |           | % Act               |    |                   |   |
| Bulgaria              | \$36,204  | \$43,188  | (16.2               | )% | 3.1               | % |
| Croatia               | 28,235    | 32,967    | (14.4               | )% | 5.9               | % |
| Czech Republic        | 87,096    | 98,332    | (11.4               | )% | 9.4               | % |
| Romania               | 77,556    | 86,288    | (10.1               | )% | 10.4              | % |
| Slovak Republic       | 37,774    | 42,357    | (10.8               | )% | 9.8               | % |
| Slovenia              | 26,543    | 31,846    | (16.7               | )% | 2.6               | % |
| Intersegment revenues | (441      | ) (1,462  | ) NM <sup>(1)</sup> |    | NM <sup>(1)</sup> |   |
| Total net revenues    | \$292,967 | \$333,516 | (12.2               | )% | 8.2               | % |

<sup>(1)</sup> Number is not meaningful.

## OIBDA

For the Three Months Ended June 30, (US\$ 000's)

|                          | 2015     | 2014     | Movement            |    | % Lfl             |    |
|--------------------------|----------|----------|---------------------|----|-------------------|----|
|                          |          |          | % Act               |    |                   |    |
| Bulgaria                 | \$4,045  | \$5,634  | (28.2               | )% | (10.9             | )% |
| Croatia                  | 4,972    | 4,856    | 2.4                 | %  | 27.7              | %  |
| Czech Republic           | 24,238   | 20,700   | 17.1                | %  | 45.1              | %  |
| Romania                  | 15,419   | 11,774   | 31.0                | %  | 63.2              | %  |
| Slovak Republic          | 3,627    | 3,060    | 18.5                | %  | 46.5              | %  |
| Slovenia                 | 963      | 2,690    | (64.2               | )% | (55.2             | )% |
| Eliminations             | 15       | (63      | ) NM <sup>(1)</sup> |    | NM <sup>(1)</sup> |    |
| Total operating segments | 53,279   | 48,651   | 9.5                 | %  | 35.9              | %  |
| Corporate                | (6,468   | ) (7,841 | ) 17.5              | %  | 2.7               | %  |
| Consolidated OIBDA       | \$46,811 | \$40,810 | 14.7                | %  | 43.7              | %  |

<sup>(1)</sup> Number is not meaningful.

## OIBDA

For the Six Months Ended June 30, (US\$ 000's)

|                          | 2015     | 2014      | Movement            |    | % Lfl             |    |
|--------------------------|----------|-----------|---------------------|----|-------------------|----|
|                          |          |           | % Act               |    |                   |    |
| Bulgaria                 | \$6,243  | \$2,888   | 116.2               | %  | 171.3             | %  |
| Croatia                  | 6,834    | 5,527     | 23.6                | %  | 55.1              | %  |
| Czech Republic           | 34,329   | 23,413    | 46.6                | %  | 83.3              | %  |
| Romania                  | 18,780   | 16,100    | 16.6                | %  | 45.4              | %  |
| Slovak Republic          | 3,482    | (102      | ) NM <sup>(1)</sup> |    | NM <sup>(1)</sup> |    |
| Slovenia                 | 1,323    | 3,205     | (58.7               | )% | (47.6             | )% |
| Eliminations             | (35      | ) 322     | NM <sup>(1)</sup>   |    | NM <sup>(1)</sup> |    |
| Total operating segments | 70,956   | 51,353    | 38.2                | %  | 73.5              | %  |
| Corporate                | (12,697  | ) (13,938 | ) 8.9               | %  | (8.8              | )% |
| Consolidated OIBDA       | \$58,259 | \$37,415  | 55.7                | %  | 99.4              | %  |

<sup>(1)</sup> Number is not meaningful.

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## Bulgaria

| For the Three Months Ended June 30, (US\$ 000's) |          |          |          |    |       |    |
|--|----------|----------|----------|----|-------|----|
|  | 2015     | 2014     | Movement |    |       |    |
|  |          |          | % Act    |    | % Lfl |    |
| Television advertising                           | \$13,864 | \$17,329 | (20.0    | )% | (0.6  | )% |
| Carriage fees and subscriptions                  | 4,473    | 5,052    | (11.5    | )% | 10.0  | %  |
| Other  | 1,083    | 1,531    | (29.3    | )% | (12.1 | )% |
| Net revenues                                     | 19,420   | 23,912   | (18.8    | )% | 0.9   | %  |
| Costs charged in arriving at OIBDA               | 15,375   | 18,278   | (15.9    | )% | 4.5   | %  |
| OIBDA  | \$4,045  | \$5,634  | (28.2    | )% | (10.9 | )% |

| For the Six Months Ended June 30, (US\$ 000's) |          |          |          |    |       |    |
|--|----------|----------|----------|----|-------|----|
|  | 2015     | 2014     | Movement |    |       |    |
|  |          |          | % Act    |    | % Lfl |    |
| Television advertising                         | \$25,125 | \$30,045 | (16.4    | )% | 3.0   | %  |
| Carriage fees and subscriptions                | 8,973    | 9,996    | (10.2    | )% | 10.0  | %  |
| Other  | 2,106    | 3,147    | (33.1    | )% | (17.9 | )% |
| Net revenues                                   | 36,204   | 43,188   | (16.2    | )% | 3.1   | %  |
| Costs charged in arriving at OIBDA             | 29,961   | 40,300   | (25.7    | )% | (8.7  | )% |
| OIBDA  | \$6,243  | \$2,888  | 116.2    | %  | 171.3 | %  |

The television advertising market in Bulgaria declined an estimated 1% at constant rates in the six months ended June 30, 2015 compared to the same period in 2014. The Bulgaria segment reported net revenues of US\$ 19.4 million and US\$ 36.2 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 23.9 million and US\$ 43.2 million in the same periods in 2014, decreases of 19% and 16%, respectively, on an actual basis, but increases of 1% and 3% on a constant currency basis. Television advertising revenue during the second quarter was broadly flat as our market share increased due to more GRPs sold even though our average prices decreased, but this was not enough to offset the loss of spending on election campaigns in 2014 that did not take place in 2015. Carriage fees and subscription revenues also increased on a constant currency basis. Our television advertising revenues increased on a constant currency basis during the first half of 2015 as we improved our share of GRPs sold, and consequently our market share, when compared to 2014.

Costs charged in arriving at OIBDA for the three and six months ended June 30, 2015 decreased by 16% and 26% , respectively, compared to the same periods in 2014. On a constant currency basis, costs increased by 5% during the second quarter of 2015 due to more expensive own-produced programming and additional marketing efforts that were partially offset by better usage of our existing program library as well as lower transmission costs, as two of our niche channels are now distributed only by cable or satellite. Costs decreased by 9% during the first half of 2015 primarily due to restructuring charges incurred during 2014 as well as lower transmission costs.

Our Bulgaria segment reported OIBDA of US\$ 4.0 million and US\$ 6.2 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 5.6 million and US\$ 2.9 million in the same periods in 2014, a decrease of US\$ 1.6 million and an increase of US\$ 3.3 million.



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## Croatia

## For the Three Months Ended June 30, (US\$ 000's)

|                                    | 2015     | 2014     | Movement |       |      |    |
|------------------------------------|----------|----------|----------|-------|------|----|
|                                    |          |          | % Act    | % Lfl |      |    |
| Television advertising             | \$14,720 | \$17,977 | (18.1    | )%    | 2.2  | %  |
| Carriage fees and subscriptions    | 559      | 520      | 7.5      | %     | 34.1 | %  |
| Other                              | 963      | 973      | (1.0     | )%    | 23.5 | %  |
| Net revenues                       | 16,242   | 19,470   | (16.6    | )%    | 4.1  | %  |
| Costs charged in arriving at OIBDA | 11,270   | 14,614   | (22.9    | )%    | (3.7 | )% |
| OIBDA                              | \$4,972  | \$4,856  | 2.4      | %     | 27.7 | %  |

## For the Six Months Ended June 30, (US\$ 000's)

|                                    | 2015     | 2014     | Movement |       |      |    |
|------------------------------------|----------|----------|----------|-------|------|----|
|                                    |          |          | % Act    | % Lfl |      |    |
| Television advertising             | \$25,021 | \$29,973 | (16.5    | )%    | 3.2  | %  |
| Carriage fees and subscriptions    | 1,160    | 1,008    | 15.1     | %     | 41.5 | %  |
| Other                              | 2,054    | 1,986    | 3.4      | %     | 27.3 | %  |
| Net revenues                       | 28,235   | 32,967   | (14.4    | )%    | 5.9  | %  |
| Costs charged in arriving at OIBDA | 21,401   | 27,440   | (22.0    | )%    | (3.9 | )% |
| OIBDA                              | \$6,834  | \$5,527  | 23.6     | %     | 55.1 | %  |

The television advertising market in Croatia increased an estimated 1% at constant rates in the six months ended June 30, 2015 compared to the same period in 2014. The Croatia segment reported net revenues of US\$ 16.2 million and US\$ 28.2 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 19.5 million and US\$ 33.0 million in the same periods in 2014, decreases of 17% and 14% on an actual basis, but increases of 4% and 6% on a constant currency basis. The increase in television advertising revenues at constant rates during both the second quarter and first half of 2015 was driven primarily by an increase in average prices as advertisers continue to spend more while macro-economic conditions slowly improved.

Costs charged in arriving at OIBDA for the three and six months ended June 30, 2015 decreased by 23% and 22% compared to the same periods in 2014. On a constant currency basis costs decreased by 4% during the second quarter due primarily to lower bad debt expense. The first half of 2015 also benefited from a decrease in content costs as certain acquired foreign content was replaced with programming from independent studios at lower prices.

Our Croatia segment reported OIBDA of US\$ 5.0 million and US\$ 6.8 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 4.9 million and US\$ 5.5 million in the same periods in 2014, an increase of US\$ 0.1 million and US\$ 1.3 million.

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## Czech Republic

## For the Three Months Ended June 30, (US\$ 000's)

|                                    | 2015     | 2014     | Movement |       |       |    |
|------------------------------------|----------|----------|----------|-------|-------|----|
|                                    |          |          | % Act    | % Lfl |       |    |
| Television advertising             | \$48,097 | \$53,997 | (10.9    | )%    | 10.5  | %  |
| Carriage fees and subscriptions    | 2,005    | 2,009    | (0.2     | )%    | 23.8  | %  |
| Other                              | 2,029    | 3,293    | (38.4    | )%    | (23.6 | )% |
| Net revenues                       | 52,131   | 59,299   | (12.1    | )%    | 9.0   | %  |
| Costs charged in arriving at OIBDA | 27,893   | 38,599   | (27.7    | )%    | (10.4 | )% |
| OIBDA                              | \$24,238 | \$20,700 | 17.1     | %     | 45.1  | %  |

## For the Six Months Ended June 30, (US\$ 000's)

|                                    | 2015     | 2014     | Movement |       |       |    |
|------------------------------------|----------|----------|----------|-------|-------|----|
|                                    |          |          | % Act    | % Lfl |       |    |
| Television advertising             | \$79,545 | \$88,500 | (10.1    | )%    | 11.0  | %  |
| Carriage fees and subscriptions    | 4,024    | 4,208    | (4.4     | )%    | 17.6  | %  |
| Other                              | 3,527    | 5,624    | (37.3    | )%    | (22.6 | )% |
| Net revenues                       | 87,096   | 98,332   | (11.4    | )%    | 9.4   | %  |
| Costs charged in arriving at OIBDA | 52,767   | 74,919   | (29.6    | )%    | (13.4 | )% |
| OIBDA                              | \$34,329 | \$23,413 | 46.6     | %     | 83.3  | %  |

The television advertising market in the Czech Republic is estimated to have increased by 7% at constant rates in the six months ended June 30, 2015 compared to the same period in 2014. Net revenues from our Czech Republic segment amounted to US\$ 52.1 million and US\$ 87.1 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 59.3 million and US\$ 98.3 million in the same periods in 2014, decreases of 12% and 11% on an actual basis. On a constant currency basis, net revenues increased 9% during the three and six months ended June 30, 2015 due primarily to the increase in television advertising revenues. Our market share in the Czech Republic increased to 60% during the first half of 2015 from 58% during the same period in 2014 as the growth in the volume of our GRPs sold outpaced the market. Carriage fees and subscription revenues also increased on a constant currency basis, as high definition versions of our channels are now included in most cable and satellite platforms. Costs charged in arriving at OIBDA for the three and six months ended June 30, 2015 decreased by 28% and 30% compared to the same periods in 2014. On a constant currency basis costs decreased 10% during the second quarter, primarily reflecting lower content costs, due to better use of the program library and more cost effective formats. The first half of 2015 also benefited from more efficient own produced content, as well as lower personnel costs following restructuring efforts in 2014.

Our Czech Republic segment reported OIBDA of US\$ 24.2 million and US\$ 34.3 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 20.7 million and US\$ 23.4 million in the same periods in 2014, an increase of US\$ 3.5 million and US\$ 10.9 million.

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## Romania

| For the Three Months Ended June 30, (US\$ 000's) |          |          |          |       |       |    |
|--|----------|----------|----------|-------|-------|----|
|  | 2015     | 2014     | Movement |       |       |    |
|  |          |          | % Act    | % Lfl |       |    |
| Television advertising                           | \$32,917 | \$34,741 | (5.3     | )%    | 18.0  | %  |
| Carriage fees and subscriptions                  | 10,004   | 12,341   | (18.9    | )%    | 1.0   | %  |
| Other  | 1,113    | 2,349    | (52.6    | )%    | (41.2 | )% |
| Net revenues                                     | 44,034   | 49,431   | (10.9    | )%    | 11.0  | %  |
| Costs charged in arriving at OIBDA               | 28,615   | 37,657   | (24.0    | )%    | (5.4  | )% |
| OIBDA  | \$15,419 | \$11,774 | 31.0     | %     | 63.2  | %  |

  

| For the Six Months Ended June 30, (US\$ 000's) |          |          |          |       |       |    |
|--|----------|----------|----------|-------|-------|----|
|  | 2015     | 2014     | Movement |       |       |    |
|  |          |          | % Act    | % Lfl |       |    |
| Television advertising                         | \$55,264 | \$59,279 | (6.8     | )%    | 14.6  | %  |
| Carriage fees and subscriptions                | 20,374   | 23,083   | (11.7    | )%    | 8.2   | %  |
| Other  | 1,918    | 3,926    | (51.1    | )%    | (40.4 | )% |
| Net revenues                                   | 77,556   | 86,288   | (10.1    | )%    | 10.4  | %  |
| Costs charged in arriving at OIBDA             | 58,776   | 70,188   | (16.3    | )%    | 2.5   | %  |
| OIBDA  | \$18,780 | \$16,100 | 16.6     | %     | 45.4  | %  |

The television advertising market in Romania increased an estimated 12% at constant rates in the six months ended June 30, 2015 compared to the same period in 2014. The Romania segment reported net revenues of US\$ 44.0 million and US\$ 77.6 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 49.4 million and US\$ 86.3 million in the same periods in 2014, decreases of 11% and 10% on an actual basis, but increases of 11% and 10% on a constant currency basis. Our television advertising revenues grew significantly during the second quarter because clients in several sectors shifted their spending to purchase additional GRPs from us, which increased our sell-out rate. A portion of this spending related to rebranding campaigns that are now complete and therefore a portion of this increased spending will not persist for the remainder of the year. The increase in GRPs sold during both the first and second quarters resulted in an increase in market share during the first half of 2015 to 63% from 61% in the first half of 2014. Net revenues during the second quarter and first half of 2015 also benefited on a constant currency basis from an increase in carriage fees and subscription revenues due to an increase in the number of subscribers. Carriage fees and subscription revenues in the first half of 2015 also benefited from stronger prices as certain contracts took effect during the first quarter of 2014.

Costs charged in arriving at OIBDA for the three and six months ended June 30, 2015 decreased 24% and 16% compared to the same periods in 2014. On a constant currency basis costs decreased 5% during the second quarter due primarily to a decrease in content costs from foreign programming as well as news and current affairs programming. Costs increased by 3% at constant rates during the first half of 2015 as we aired more own produced programming in the first quarter and incurred additional professional fees for tax and legal advisors, which more than offset a decrease in restructuring charges.

Costs charged in arriving at OIBDA for the six months ended June 30, 2015 exclude a charge of US\$ 18.2 million, which we recorded in the first quarter, related to an ongoing tax audit at Pro TV in Romania. Following legislation enacted in July in Romania, during the third quarter of 2015 we expect to reverse substantially all of the charges taken in Q4 2014 and Q1 2015 related to the tax audits (see Item 1, Note 20, "Commitments and Contingencies").

Our Romania segment generated OIBDA of US\$ 15.4 million and US\$ 18.8 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 11.8 million and US\$ 16.1 million in the same periods in 2014, increases of US\$ 3.6 million and US\$ 2.7 million.

Regulation Update

The analog switch-off for the majority of broadcasters occurred in Romania on June 17, 2015, with the analog switch-off for the public broadcaster and limited other broadcasters scheduled for the end of 2016. The procedures for obtaining digital licenses were published on June 11, 2015 and no digital licenses have been issued yet. Our Romanian channels continue to broadcast on cable, satellite and IPTV pursuant to national licenses and therefore the analog switch-off has not impacted our operations.

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## Slovak Republic

| For the Three Months Ended June 30, (US\$ 000's) |          |          |          |       |       |    |
|--|----------|----------|----------|-------|-------|----|
|  | 2015     | 2014     | Movement |       |       |    |
|  |          |          | % Act    | % Lfl |       |    |
| Television advertising                           | \$18,793 | \$22,391 | (16.1    | )%    | 4.2   | %  |
| Carriage fees and subscriptions                  | 360      | 268      | 34.3     | %     | 66.7  | %  |
| Other  | 1,083    | 1,552    | (30.2    | )%    | (13.3 | )% |
| Net revenues                                     | 20,236   | 24,211   | (16.4    | )%    | 3.8   | %  |
| Costs charged in arriving at OIBDA               | 16,609   | 21,151   | (21.5    | )%    | (2.4  | )% |
| OIBDA  | \$3,627  | \$3,060  | 18.5     | %     | 46.5  | %  |

| For the Six Months Ended June 30, (US\$ 000's) |          |          |                     |       |                   |    |
|--|----------|----------|---------------------|-------|-------------------|----|
|  | 2015     | 2014     | Movement            |       |                   |    |
|  |          |          | % Act               | % Lfl |                   |    |
| Television advertising                         | \$35,099 | \$39,667 | (11.5               | )%    | 9.0               | %  |
| Carriage fees and subscriptions                | 660      | 543      | 21.5                | %     | 49.0              | %  |
| Other  | 2,015    | 2,147    | (6.1                | )%    | 15.8              | %  |
| Net revenues                                   | 37,774   | 42,357   | (10.8               | )%    | 9.8               | %  |
| Costs charged in arriving at OIBDA             | 34,292   | 42,459   | (19.2               | )%    | (1.0              | )% |
| OIBDA  | \$3,482  | \$ (102  | ) NM <sup>(1)</sup> |       | NM <sup>(1)</sup> |    |

<sup>(1)</sup> Number is not meaningful.

The television advertising market in the Slovak Republic increased an estimated 12% at constant rates in the six months ended June 30, 2015 compared to the same period in 2014. Our Slovak Republic operations reported net revenues of US\$ 20.2 million and US\$ 37.8 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 24.2 million and US\$ 42.4 million in the same periods in 2014, decreases of 16% and 11% on an actual basis, but increases of 4% and 10% on a constant currency basis. Our television advertising revenues grew on a constant currency basis during the second quarter as a result of an increase in average prices and the first half of 2015 also benefited from an increase in GRPs sold. We believe the growth of our television advertising revenues was more significant in the first quarter of 2015 than it was in the second quarter because the Easter holiday was earlier in 2015 than in 2014 and advertisers also shifted spending into the first quarter of 2015 to take advantage of prices that were lower in this period than in the second or fourth quarters. As a result, we believe the rate of growth for the second quarter is more indicative of the rate of growth expected for the full year.

Costs charged in arriving at OIBDA for the three and six months ended June 30, 2015 decreased by 22% and 19% compared to the same periods in 2014. On a constant currency basis costs decreased by 2% during the second quarter as a slight increase in content costs was more than offset by savings from lower transmission costs and bad debt expense. The first half of 2015 also benefited from lower personnel costs.

Our Slovak Republic segment reported OIBDA of US\$ 3.6 million and US\$ 3.5 million for the three and six months ended June 30, 2015, respectively, compared to OIBDA of US\$ 3.1 million and an OIBDA loss of US\$ 0.1 million in the same periods in 2014, an increase of US\$ 0.5 million and US\$ 3.6 million.

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## Slovenia

| For the Three Months Ended June 30, (US\$ 000's) |          |          |          |       |       |    |
|--|----------|----------|----------|-------|-------|----|
|  | 2015     | 2014     | Movement |       |       |    |
|  |          |          | % Act    | % Lfl |       |    |
| Television advertising                           | \$13,166 | \$15,251 | (13.7    | )%    | 7.3   | %  |
| Carriage fees and subscriptions                  | 1,026    | 905      | 13.4     | %     | 40.9  | %  |
| Other  | 871      | 1,429    | (39.0    | )%    | (24.3 | )% |
| Net revenues                                     | 15,063   | 17,585   | (14.3    | )%    | 6.5   | %  |
| Costs charged in arriving at OIBDA               | 14,100   | 14,895   | (5.3     | )%    | 17.5  | %  |
| OIBDA  | \$963    | \$2,690  | (64.2    | )%    | (55.2 | )% |

  

| For the Six Months Ended June 30, (US\$ 000's) |          |          |          |       |       |    |
|--|----------|----------|----------|-------|-------|----|
|  | 2015     | 2014     | Movement |       |       |    |
|  |          |          | % Act    | % Lfl |       |    |
| Television advertising                         | \$23,118 | \$27,712 | (16.6    | )%    | 2.7   | %  |
| Carriage fees and subscriptions                | 2,014    | 2,083    | (3.3     | )%    | 18.7  | %  |
| Other  | 1,411    | 2,051    | (31.2    | )%    | (15.3 | )% |
| Net revenues                                   | 26,543   | 31,846   | (16.7    | )%    | 2.6   | %  |
| Costs charged in arriving at OIBDA             | 25,220   | 28,641   | (11.9    | )%    | 8.0   | %  |
| OIBDA  | \$1,323  | \$3,205  | (58.7    | )%    | (47.6 | )% |

The television advertising market in Slovenia increased an estimated 3% at constant rates in the six months ended June 30, 2015 compared to the same period in 2014. Our Slovenia segment reported net revenues of US\$ 15.1 million and US\$ 26.5 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 17.6 million and US\$ 31.8 million in the same periods in 2014, decreases of 14% and 17% on an actual basis, but increases of 7% and 3% on a constant currency basis, reflecting an increase in television advertising revenues. Following recent growth in private consumption, the demand for television advertising improved during the second quarter.

Costs charged in arriving at OIBDA for the three and six months ended June 30, 2015 decreased 5% and 12% compared to the same periods in 2014. On a constant currency basis costs increased 18% during the second quarter and 8% during the first half of 2015 due primarily to an increase in content costs resulting from more own produced programming during 2015 when compared to last year as well as an earlier start to the spring schedule. This was only partially offset by savings from transmission and staff related costs.

Our Slovenia segment reported OIBDA of US\$ 1.0 million and US\$ 1.3 million for the three and six months ended June 30, 2015, respectively, compared to US\$ 2.7 million and US\$ 3.2 million in the same periods in 2014, a decrease of US\$ 1.7 million and US\$ 1.9 million.

## Free Cash Flow

| For the Six Months Ended June 30, (US\$ 000's)          |          |           |          |                   |
|---|----------|-----------|----------|-------------------|
|   | 2015     | 2014      | Movement |                   |
| Net cash generated from continuing operating activities | \$41,522 | \$(12,559 | )        | NM <sup>(1)</sup> |
| Capital expenditures, net                               | (14,388  | ) (13,963 | )        | 3.0 %             |
| Free cash flow  | \$27,134 | \$(26,522 | )        | NM <sup>(1)</sup> |

<sup>(1)</sup> Number is not meaningful.

| (US\$ 000's)              | June 30, 2015 | December 31, 2014 | Movement |   |
|---------------------------|---------------|-------------------|----------|---|
| Cash and cash equivalents | \$38,013      | \$ 34,298         | 10.8     | % |

We ended the quarter with US\$ 38.0 million of cash. Our free cash flow in the six months ended June 30, 2015 improved US\$ 53.7 million to US\$ 27.1 million, from negative free cash flow of US\$ 26.5 million in the same period in 2014. The improvement in free cash flow during the first half of 2015 reflected both the improvement in OIBDA and lower cash interest payments. Excluding items not included in OIBDA, we expect the trend of positive free cash flow to continue during the course of the year largely due to a combination of improved operating performance and

our ability to pay interest in kind. During the second half of 2014 we caught up on significantly overdue payables. As a result, our levels of payments for programming are more normalized in 2015 and this will also contribute to a significant improvement in free cash flow in 2015 compared to 2014.

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

| For the Three Months Ended June 30, (US\$ 000's)         |           |           |          |    |       |    |
|--|-----------|-----------|----------|----|-------|----|
|  | 2015      | 2014      | Movement |    |       |    |
|  |           |           | % Act    |    | % Lfl |    |
| Revenue:   |           |           |          |    |       |    |
| Television advertising                                   | \$141,557 | \$161,686 | (12.4    | )% | 8.8   | %  |
| Carriage fees and subscriptions                          | 18,427    | 21,095    | (12.6    | )% | 8.7   | %  |
| Other revenue  | 6,850     | 10,030    | (31.7    | )% | (15.2 | )% |
| Net Revenues   | 166,834   | 192,811   | (13.5    | )% | 7.5   | %  |
| Operating expenses:                                      |           |           |          |    |       |    |
| Content costs  | 73,437    | 93,167    | (21.2    | )% | (2.0  | )% |
| Other operating costs                                    | 17,422    | 21,109    | (17.5    | )% | 2.6   | %  |
| Depreciation of property, plant and equipment            | 6,936     | 8,051     | (13.8    | )% | 7.0   | %  |
| Amortization of broadcast licenses and other intangibles | 3,434     | 3,187     | 7.8      | %  | 33.7  | %  |
| Cost of revenues   | 101,229   | 125,514   | (19.3    | )% | 0.3   | %  |
| Selling, general and administrative expenses             | 28,712    | 41,690    | (31.1    | )% | (15.3 | )% |
| Restructuring costs                                      | 452       | 2,920     | (84.5    | )% | (80.8 | )% |
| Operating income   | \$36,441  | \$22,687  | 60.6     | %  | 103.3 | %  |
| For the Six Months Ended June 30, (US\$ 000's)           |           |           |          |    |       |    |
|  | 2015      | 2014      | Movement |    |       |    |
|  |           |           | % Act    |    | % Lfl |    |
| Revenue:   |           |           |          |    |       |    |
| Television advertising                                   | \$243,172 | \$275,176 | (11.6    | )% | 8.9   | %  |
| Carriage fees and subscriptions                          | 37,205    | 40,921    | (9.1     | )% | 11.5  | %  |
| Other revenue  | 12,590    | 17,419    | (27.7    | )% | (11.2 | )% |
| Net Revenues   | 292,967   | 333,516   | (12.2    | )% | 8.2   | %  |
| Operating expenses:                                      |           |           |          |    |       |    |
| Content costs  | 144,727   | 179,988   | (19.6    | )% | (1.3  | )% |
| Other operating costs                                    | 34,460    | 42,580    | (19.1    | )% | (0.8  | )% |
| Depreciation of property, plant and equipment            | 13,937    | 16,111    | (13.5    | )% | 6.1   | %  |
| Amortization of broadcast licenses and other intangibles | 6,933     | 6,414     | 8.1      | %  | 32.7  | %  |
| Cost of revenues   | 200,057   | 245,093   | (18.4    | )% | 0.2   | %  |
| Selling, general and administrative expenses             | 72,613    | 72,170    | 0.6      | %  | 22.7  | %  |
| Restructuring costs                                      | 1,095     | 8,248     | (86.7    | )% | (83.6 | )% |
| Operating income   | \$19,202  | \$8,005   | 139.9    | %  | 265.5 | %  |

Television advertising revenues: On a constant currency basis, television advertising spending in our markets grew on average by 7% in the six months ended June 30, 2015, positively impacting our television advertising revenues. See "Segment Performance" above for additional information on television advertising revenues for each of our operating countries.

Carriage fees and subscriptions: Carriage fees and subscriptions revenue increased by 9% and 12%, respectively, on a constant currency basis during the three and six months ended June 30, 2015, as compared to the same periods in 2014, primarily due to higher subscriber counts reported by the carriers and the full period benefit from certain contracts that took effect during the first quarter of 2014 in Romania. See "Segment Performance" above for additional information on carriage fees and subscription revenues.

Other revenues: Other revenues include primarily internet advertising revenues and revenues generated through the licensing of our own productions. On a constant currency basis, other revenues declined 15% and 11% during the three and six months ended June 30, 2015 as compared to the same periods in the prior year. The decreases are



primarily due to lower license and sublicense revenues due to fewer titles being licensed in the current year.

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**Content costs:** Content costs (including production costs; and amortization and impairment of program rights) decreased by US\$ 19.7 million and US\$ 35.3 million during the three and six months ended June 30, 2015 compared to the same periods in 2014. On a constant currency basis, consolidated content costs declined slightly as cost savings realized through better use of the program library and less expensive formats in the Czech Republic were partially offset by increased costs in Slovenia due to higher volumes of own produced programming.

**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\$ 3.7 million, or 17%, and US\$ 8.1 million, or 19% during the three and six months ended June 30, 2015 compared to the same periods in 2014. On a constant currency basis, costs increased by 3% during the quarter due to higher costs for music and other licenses used in our broadcasts, and decreased 1% during the first half of the year due to lower transmission costs in Bulgaria, as two of our niche cable channels are no longer also broadcast through a terrestrial signal.

**Depreciation of property, plant and equipment:** Depreciation of property, plant and equipment for the three and six months ended June 30, 2015 each decreased by 14% compared to the same periods in 2014. On a constant currency basis, total depreciation of property, plant and equipment increased by 7% and 6%, respectively, reflecting new assets put in service subsequent to the second quarter of 2014.

**Amortization of broadcast licenses and other intangibles:** Total amortization of broadcast licenses and other intangibles increased by US\$ 0.2 million and US\$ 0.5 million during the three and six months ended June 30, 2015, compared to the same periods in 2014. On a constant currency basis, the increases of 34% and 33%, respectively, are due to amortization expense for certain of our trademarks in Romania that we determined were no longer indefinite-lived and began amortizing from January 1, 2015.

**Selling, general and administrative expenses:** Selling, general and administrative expenses decreased by US\$ 13.0 million and increased by US\$ 0.4 million during the three and six months ended June 30, 2015 compared to the same periods in 2014. On a constant currency basis, selling, general and administrative expenses decreased by 15% during the three months ended June 30, 2015 as compared to the same period in the prior year primarily due to an accrual in the second quarter of 2014 related to a fine the competition committee in Slovenia was seeking to impose which was subsequently overturned in the fourth quarter of 2014. During the six months ended June 30, 2015, selling, general and administrative expenses increased by 23% on a constant currency basis, primarily due to a charge related to the ongoing tax audit at Pro TV in Romania which was accrued in the first quarter of 2015, as well as increased legal and professional fees related thereto (see Item 1, Note 20, "Commitments and Contingencies").

Selling, general and administrative expenses also includes charges of US\$ 0.6 million and US\$ 1.0 million for three and six months ended June 30, 2015 in respect of non-cash stock-based compensation, an increase of US\$ 0.3 million and US\$ 0.4 millions, respectively, compared to June 30, 2014 (see Item 1, Note 17, "Stock-based Compensation").

**Restructuring costs:** Restructuring costs totaled US\$ 0.5 million and US\$ 1.1 million during the three and six months ended June 30, 2015 as we continued to take actions to optimize our cost base across a number of departments. We expect to complete our current restructuring efforts by the end of 2015.

**Operating income:** Operating income for the three and six months ended June 30, 2015 was US\$ 36.4 million and US\$ 19.2 million, respectively, compared to US\$ 22.7 million and US\$ 8.0 million during the same periods in 2014, as revenues on a constant currency basis increased by 8% for both periods, while our total costs decreased by 5% and increased by 3%, respectively. Excluding the effect of the charge related to the ongoing tax audit at Pro TV in Romania (see Note 20, "Commitments and Contingencies") operating income for the three and six months ended June 30, 2015 was US\$ 36.4 million and US\$ 37.4 million, respectively.

Our operating margin, which is determined as operating income / loss divided by net revenues, was 22% and 7% for the three and six months ended June 30, 2015 compared to 12% and 2% for the three and six months ended June 30, 2014.

|                  | For the Three Months Ended June 30, (US\$ 000's) |           |        |    |
|------------------|--|-----------|--------|----|
|                  | 2015   | 2014      | % Act  |    |
| Interest income  | \$ 118   | \$ 101    | 16.8   | %  |
| Interest expense | (41,746  | ) (39,070 | ) (6.8 | )% |

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|  |        |         |        |                 |                 |
|--|--------|---------|--------|-----------------|-----------------|
| Loss on extinguishment of debt                         | —      | (24,161 | )      | 100.0           | %               |
| Foreign currency exchange gain / (loss), net           | 2,289  | (337    | )      | NM <sup>1</sup> |                 |
| Change in fair value of derivatives                    | (2,220 | )       | 2,361  | NM <sup>1</sup> |                 |
| Other expense, net                                     | (3,091 | )       | (533   | )               | NM <sup>1</sup> |
| Provision for income taxes                             | (3,460 | )       | (2,400 | )               | (44.2)%         |
| Gain / (loss) from discontinued operations, net of tax | 2,684  | (11,154 | )      | NM <sup>1</sup> |                 |
| Net loss attributable to noncontrolling interests      | 307    | 69      |        | NM <sup>1</sup> |                 |
| Currency translation adjustment, net                   | 39,581 | (8,309  | )      | NM <sup>1</sup> |                 |

(1) Number is not meaningful.

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|   | For the Six Months Ended June 30, (US\$ 000's) |           |                   |    |
|---|--|-----------|-------------------|----|
|   | 2015   | 2014      | % Act             |    |
| Interest income                                   | \$230  | \$182     | 26.4              | %  |
| Interest expense                                  | (81,864  | ) (66,950 | ) (22.3           | )% |
| Loss on extinguishment of debt                    | —  | (24,161   | ) 100.0           | )% |
| Foreign currency exchange loss, net               | (9,200   | ) (967    | ) NM <sup>1</sup> |    |
| Change in fair value of derivatives               | (3,230   | ) 2,311   | NM <sup>1</sup>   |    |
| Other expense, net                                | (3,445   | ) (498    | ) NM <sup>1</sup> |    |
| Provision for income taxes                        | (3,605   | ) (274    | ) NM <sup>1</sup> |    |
| Loss from discontinued operations, net of tax     | (604   | ) (18,787 | ) 96.8            | %  |
| Net loss attributable to noncontrolling interests | 564  | 786       | (28.2             | )% |
| Currency translation adjustment, net              | (64,183  | ) (6,937  | ) NM <sup>1</sup> |    |

(1) Number is not meaningful.

Interest income: We recognized interest income of US\$ 0.1 million and US\$ 0.2 million during the three and six months ended June 30, 2015, respectively, compared to US\$ 0.1 million and US\$ 0.2 million in the three and six months ended June 30, 2014, respectively .

Interest expense: Interest expense during the three and six months ended June 30, 2015 was US\$ 41.7 million and US\$ 81.9 million , respectively, compared to US\$ 39.1 million and US\$ 67.0 million, respectively, in the three and six months ended June 30, 2014. The increase in interest expense is due to the refinancing of the 2016 Fixed Rate Notes with the 2017 PIK Notes and 2017 Term Loan, both of which bear a higher interest rate per annum. The amortization of debt issuance costs and discount on issuance of the 2017 PIK Notes and 2017 Term Loan and the guarantee fee payable to Time Warner in exchange for its guarantee of the 2017 Euro Term Loan (see Item 1, Note 16, "Interest Expense") also contributed to the increase. The increases were partially offset by the refinancing of the 2017 Fixed Rate Notes with the 2017 Euro Term Loan, completed in November 2014.

Foreign currency exchange gain / (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 2017 Euro Term Loan, which is denominated in Euros, as well as certain of our intercompany loans which are not considered of a long-term investment nature. 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. Certain of our intercompany loans are classified as long-term in nature, and therefore gains or losses on revaluation are not recorded through the statement of operations and comprehensive income. See the discussion under "Currency translation adjustment, net" below.

During the six months ended June 30, 2015, we recognized a net loss of US\$ 9.2 million, comprised of transaction losses of US\$ 24.3 million relating to the revaluation of intercompany loans; a transaction gain of approximately US\$ 23.9 million on our Senior Debt, and transaction losses of US\$ 8.8 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, 2014, we recognized a net loss of US\$ 1.0 million, comprised of transaction gains of US\$ 3.4 million relating to the revaluation of intercompany loans; a transaction loss of approximately US\$ 2.7 million on our Senior Debt, and transaction losses of US\$ 1.7 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 three and six months ended June 30, 2015, we recognized losses of US\$ 2.2 million and US\$ 3.2 million, respectively, as a result of the change in the fair value of our USD/EUR and USD/CZK foreign currency forward contracts entered into on March 11, 2015. During the three and six months ended June 30, 2014, we recognized gains of US\$ 2.4 million and US\$ 2.3 million, respectively, as a result of the change in the fair value of a USD/EUR foreign currency forward contract that settled in the second quarter of 2014. See Note 12, "Financial Instruments and Fair Value Measurements".

Other expense, net: We recognized other expense of US\$ 3.1 million and US\$ 3.4 million, respectively, during the three and six months ended June 30, 2015 primarily due to the estimated loss on the sale of our building and related

land in Bulgaria recorded in the second quarter of 2015 following an active bid process. During the three and six months ended June 30, 2014, we recognized other expense of US\$ 0.5 million and US\$ 0.5 million, respectively. Provision for income taxes: The provision for income taxes for the three and six months ended June 30, 2015 of US\$ 3.5 million and US\$ 3.6 million, respectively, continues to reflect valuation allowances in respect of the tax benefit of losses and reflects tax charges on profits in the Czech Republic and Croatia.

The provision for income taxes for the three months ended June 30, 2014 was US\$ 2.4 million which principally reflected the reversal of the previous quarter's credit following a change in the mix of profits and losses between tax jurisdictions. The provision for income taxes for the six months ended June 30, 2014 was US\$ 0.3 million and was principally caused by the reversal of tax previously deferred on intercompany profit.

Our subsidiaries are subject to income taxes at statutory rates ranging from 10.0% in Bulgaria to 22.0% in the Slovak Republic.

Gain / (loss) from discontinued operations, net of tax: The net results from discontinued operations during the three and six months ended June 30, 2015 was a gain of US\$ 2.7 million and a loss of US\$ 0.6 million, respectively. The gain in the second quarter of 2015 is primarily due to the sale of our radio and music businesses, which was partially offset by estimated losses on sale of our other businesses held for sale. The losses from discontinued operations for the three and six months ended June 30, 2014 of US\$ 11.2 million and US\$ 18.8 million, respectively, are primarily due to fair value adjustments to measure assets held for sale at fair value less costs to sell.

Net loss attributable to noncontrolling interests: During the three and six months ended June 30, 2015, the net loss attributable to noncontrolling interests was US\$ 0.3 million and US\$ 0.6 million, respectively, compared to US\$ 0.1 million and US\$ 0.8 million for the same period in 2014. The net loss attributable to noncontrolling interests relates primarily to the noncontrolling interest share of losses in Bulgaria.

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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.

In the three and six months ended June 30, 2015, we recognized other comprehensive income US\$ 39.6 million and other comprehensive loss of US\$ 64.2 million, respectively, compared to other comprehensive losses of US\$ 8.3 million and US\$ 6.9 million during the three and six months ended June 30, 2014. Included in these amounts are foreign exchange gains and losses on the retranslation of certain of our intercompany loans which are considered to be of a long-term investment nature, and as such, are included in accumulated other comprehensive income, a component of shareholders' equity. For the three and six months ended June 30, 2015 and 2014, we recognized a gain of US\$ 33.1 million and a loss of US\$ 66.6 million, respectively, and losses of US\$ 12.5 million and US\$ 11.7 million, respectively, in accumulated other comprehensive income.

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, 2015 and 2014, respectively:

|                  | For the Six Months Ended June 30, |      |    |
|------------------|-----------------------------------|------|----|
|                  | 2015                              | 2014 |    |
| Bulgarian Lev    | 9                                 | % 1  | %  |
| Croatian Kuna    | 8                                 | % 0  | %  |
| Czech Koruna     | 7                                 | % 1  | %  |
| Euro             | 9                                 | % 1  | %  |
| New Romanian Lei | 8                                 | % (1 | )% |

The dollar strengthened against the functional currencies of our operations between January 1 and June 30, 2015, while remaining broadly flat for the same period in 2014. The following table illustrates the change in the average exchange rates of the dollar to the functional currencies of our operations between the six months ended June 30, 2015 and 2014.

|                  | Change in Average Rates |   |
|------------------|-------------------------|---|
| Bulgarian Lev    | 23                      | % |
| Croatian Kuna    | 23                      | % |
| Czech Koruna     | 23                      | % |
| Euro             | 23                      | % |
| New Romanian Lei | 22                      | % |

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.

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The following charts depict the movement of the dollar versus the functional currencies of our operations, based on monthly closing rates, during the six months ended June 30, 2015 and June 30, 2014.

Percent Change During the Six Months Ended June 30, 2015

Percent Change During the Six Months Months Ended June 30, 2014

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Consolidated balance sheet as at June 30, 2015 and December 31, 2014:

|   | Condensed Consolidated Balance Sheet (US\$ 000's) |                   |          |    |
|---|---|-------------------|----------|----|
|   | June 30, 2015                                     | December 31, 2014 | Movement |    |
| Current assets  | \$348,712   | \$374,869         | (7.0     | )% |
| Non-current assets                                    | 1,133,541   | 1,244,491         | (8.9     | )% |
| Current liabilities                                   | 451,567   | 450,527           | 0.2      | %  |
| Non-current liabilities                               | 675,360   | 667,725           | 1.1      | %  |
| Temporary equity                                      | 232,330   | 223,926           | 3.8      | %  |
| CME Ltd. shareholders' equity                         | 125,398   | 279,794           | (55.2    | )% |
| Noncontrolling interests in consolidated subsidiaries | (2,402  | ) (2,612          | ) 8.0    | %  |

In the first half of 2015, our functional currencies continued to weaken significantly against the U.S. dollar. The analysis below is intended to highlight the key business factors that led to the movements from December 31, 2014, excluding the impact of foreign currency translation.

Current assets: Current assets at June 30, 2015 decreased by US\$ 26.2 million compared to December 31, 2014.

Excluding the negative impact of foreign exchange, current assets increased by US\$ 1.6 million, primarily due to higher acquired program rights based on our expected broadcast schedule for the next twelve months and higher cash balances due to operating performance and cash interest savings. The increase is partially offset by a reduction in the value of assets held for sale reflecting the sale of our remaining distribution businesses in Romania during January 2015 and the sale of our radio and music businesses in the second quarter of 2015.

Non-current assets: Non-current assets at June 30, 2015 decreased by US\$ 111.0 million compared to

December 31, 2014, primarily due to a decrease in long-term acquired program rights which were reclassified to current assets based on our expected utilization and lower produced program rights as amortization for content broadcast in the period exceeded capitalized production. The decrease was also due to lower property, plant, and equipment and amortized intangible assets as depreciation and amortization expense outpaced expenditures.

Current liabilities: Current liabilities at June 30, 2015 increased by US\$ 1.0 million compared to December 31, 2014.

Excluding the impact of foreign exchange, current liabilities increased by US\$ 15.5 million, primarily due to an accrual related to the ongoing tax audit at Pro TV in Romania. During the third quarter of 2015, following legislation enacted in Romania, we expect to reverse substantially all of the charges related to the Romanian tax audits accrued during the fourth quarter of 2014 and the first quarter of 2015. The increase also reflected higher deferred revenue as customers plan their current year campaigns. The increase was partially offset by lower liabilities held for sale following the completion of certain non-core business dispositions in the first six months of 2015.

Non-current liabilities: Non-current liabilities at June 30, 2015 increased by US\$ 7.6 million compared to December 31, 2014, primarily due our election to pay in kind the guarantee fee to Time Warner as consideration for their guarantee of the 2017 Euro Term Loan.

Temporary equity: Temporary equity at June 30, 2015 increased by US\$ 8.4 million compared to December 31, 2014, due to the accretion on the Series B Convertible Redeemable Preferred Stock held by TW Investor.

CME Ltd. shareholders' equity: CME Ltd. shareholders' equity decreased by US\$ 154.4 million compared to December 31, 2014. This primarily reflects the comprehensive loss attributable to CME Ltd. of US\$ 147.0 million during the six months ended June 30, 2015 and accretion of the preferred dividend paid in kind on our Series B Preferred Shares of US\$ 8.4 million.

Noncontrolling interests in consolidated subsidiaries: Noncontrolling interests in consolidated subsidiaries at June 30, 2015 increased US\$ 0.2 million compared to December 31, 2014, primarily due to the net loss attributable to noncontrolling interests, particularly in Bulgaria.

#### IV. Liquidity and Capital Resources

##### IV (a) Summary of Cash Flows

Cash and cash equivalents increased by US\$ 3.7 million during the six months ended June 30, 2015. The change in cash and cash equivalents for the periods presented below is summarized as follows:



|   | For the Six Months Ended June 30, (US\$ 000's) |            |
|---|--|------------|
|   | 2015   | 2014       |
| Net cash generated from / (used in) continuing operating activities | \$41,522                                       | \$(12,559) |
| Net cash used in continuing investing activities                    | (14,388)                                       | ) (13,963) |
| Net cash (used in) / provided by continuing financing activities    | (27,353)                                       | ) 16,226   |
| Net cash provided by / (used in) discontinued operations            | 5,268  | (2,405)    |
| Impact of exchange rate fluctuations on cash                        | (1,334)  | ) (3,555)  |

#### Operating Activities

Cash generated from operations during the six months ended June 30, 2015 was US\$ 41.5 million compared to cash used in operations of US\$ 12.6 million for the six months ended June 30, 2014. The improvement over the prior period reflects lower cash paid for interest and better OIBDA performance. We paid cash interest of US\$ 9.3 million during the six months ended June 30, 2015 compared to US\$ 52.8 million during the six months ended June 30, 2014 as a result of refinancing cash interest debt with non-cash interest bearing debt in 2014.

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Investing Activities

Our net cash used in investing activities of US\$ 14.4 million and US\$ 14.0 million for the six months ended June 30, 2015 and 2014, respectively, related to capital expenditures.

Financing Activities

Cash used in financing activities during the six months ended June 30, 2015 was US\$ 27.4 million compared to cash provided by financing activities of US\$ 16.2 million during the six months ended June 30, 2014. The amount of net cash used in financing activities in the six months ended June 30, 2015 primarily reflected the repayment in full of the 2017 Revolving Credit Facility which was drawn in 2014. The net cash provided by financing activities in the six months ended June 30, 2014 primarily reflected the proceeds of the Rights Offering and related financing transactions concluded in the second quarter of 2014, substantially offset by the payment made to redeem and discharge the 2016 Fixed Rate Notes.

Discontinued Operations

Net cash provided by discontinued operations during the six months ended June 30, 2015 was US\$ 5.3 million compared to net cash used in discontinued operations of US\$ 2.4 million during the six months ended June 30, 2014. The net cash provided by discontinued operations for the six months ended June 30, 2015 is due to the receipt of proceeds from the divestiture of businesses, net of cash divested.

IV (b) Sources and Uses of Cash

Our ongoing source of cash is primarily the receipt of payments from advertisers, advertising agencies and distributors of our television channels. We also have available the 2017 Revolving Credit Facility (see Item 1, Note 5, "Long-term Debt and Other Financing Arrangements"). As at June 30, 2015, the undrawn aggregate principal amount available under the 2017 Revolving Credit Facility was US\$ 115.0 million. Surplus cash, after funding ongoing operations, may be remitted to us, where appropriate, by our subsidiaries 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.

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

Our future contractual obligations as at June 30, 2015 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         | \$1,047,657                         | \$261,034        | \$783,921   | \$714     | \$1,988           |
| Long-term debt – interest          | 310,676                             | 10,314           | 296,786     | 3,576     | —                 |
| Unconditional purchase obligations | 179,456                             | 60,565           | 92,242      | 26,539    | 110               |
| Operating leases                   | 8,947                               | 3,028            | 3,167       | 1,473     | 1,279             |
| Capital lease obligations          | 3,952                               | 1,230            | 1,900       | 822       | —                 |
| Other long-term obligations        | 43,125                              | 19,873           | 10,865      | 12,194    | 193               |
| Total contractual obligations      | \$1,593,813                         | \$356,044        | \$1,188,881 | \$45,318  | \$3,570           |

**Long-Term Debt**

For more information on our long-term debt, see Item 1, Note 5, "Long-term Debt and Other Financing Arrangements". Interest payable on our long-term debt is calculated using exchange rates as at June 30, 2015. For the purposes of the above table, it is assumed that interest on the 2017 PIK Notes and the 2017 Term Loan will be paid in kind at each interest payment date up to maturity on December 1, 2017.

**Unconditional Purchase Obligations**

Unconditional purchase obligations primarily comprise future programming commitments. At June 30, 2015, we had commitments in respect of future programming of US\$ 171.9 million. This includes contracts signed with license periods starting after June 30, 2015.

**Operating Leases**

For more information on our operating lease commitments see Item 1, Note 20, "Commitments and Contingencies".

**Other Long-Term Obligations**

Other long-term obligations are primarily comprised of digital transmission commitments.

**Other**

Top Tone Holdings has exercised its right to acquire additional equity in CME Bulgaria. If consummated, we would 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.

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### IV (d) Cash Outlook

Prior to the difficult economic conditions in our markets that began at the end of 2008, our operations generated cash flows sufficient, in conjunction with equity and debt financing, to fund our operations and our investing activities. Cash flows from operating activities have declined since the end of 2008, and were negative in 2012, 2013 and 2014. Because our cash flows from operating activities were insufficient to cover operating expenses and interest payments, we have sought other capital resources to fund our operations, our debt service and other obligations.

The financing transactions undertaken in 2014 significantly reduced the amount of cash interest to be paid in the coming years by refinancing cash pay indebtedness with non-cash pay indebtedness. In addition, they provide sufficient liquidity to fund our operations and relieve pressure on our working capital position.

We are continuing to take actions to conserve cash, including targeted reductions to our operating cost base through cost optimization programs. While we continue to expect to be free cash flow positive in 2015, this is largely due to cash interest savings as a result of the financing transactions noted above. We expect that our cash flows from operating activities will continue to be insufficient to cover operating expenses and debt service obligations, including the repayment of the 2015 Convertible Notes at maturity on November 15, 2015. In November 2014, we entered into the 2015 Refinancing Commitment Letter with Time Warner pursuant to which Time Warner has committed to provide or assist with arranging a replacement facility to refinance the 2015 Convertible Notes at or immediately prior to their maturity. Once the transaction contemplated under the 2015 Refinancing Commitment Letter has completed, we believe we will have adequate cash resources to continue operating as a going concern for the foreseeable future; however, funding of the transaction is subject to customary closing conditions (including the execution and delivery of documentation, the accuracy of representations, the absence of events of default and the absence of material adverse changes), certain of which are outside our direct control.

### Credit ratings and future debt issuances

Our corporate credit is rated Caa1 by Moody's Investors Service with a stable outlook and B by Standard & Poor's with negative outlook. Ratings agencies have indicated that retention of these ratings is dependent on maintaining an adequate liquidity profile. If we fail to meet this liquidity parameter, it is likely that the rating agencies will downgrade us. The availability of additional liquidity is dependent upon our continued operating performance, improved financial performance and credit ratings. We are currently able to raise only a limited amount of additional debt under our indentures for the 2017 Fixed Rate Notes and 2017 PIK Notes (other than refinancing indebtedness) or under the agreements for the 2017 Term Loan and the 2017 Revolving Credit Facility.

### Credit risk of financial counterparties

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

#### Interest Rate Swap

We are party to two interest rate swap agreements to mitigate our exposure to interest rate fluctuations on our 2017 Euro Term Loan. These interest rate swaps, designated as cash flow hedges, provide the Company with variable-rate cash receipts in exchange for fixed-rate payments over the lives of the agreements, with no exchange of the underlying notional amount.

#### Foreign Exchange Forwards

We are party to two forward foreign exchange contracts, with aggregate notional amounts of approximately US\$ 39.1 million as at June 30, 2015, to reduce our exposure to movements in the USD to EUR and USD to CZK exchange rates related to contractual payments under dollar-denominated agreements to be made during 2015.

In addition, on July 2, 2015, we entered into a forward foreign exchange contract to limit our exposure to the USD to EUR exchange rates as we have agreed with Time Warner to refinance the dollar-denominated 2015 Convertible Notes with a Euro-denominated facility at or immediately prior to the maturity date of the 2015 Convertible Notes.

#### 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 rating of A or A3 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 that have a material effect on 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, 2014 filed with the Securities and Exchange Commission ("SEC") on March 12, 2015. 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, determination of the fair value of financial instruments, contingencies and discontinued operations. 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 adopted in the period, and recently issued accounting standards not yet adopted.

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## 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.

The table below sets forth our market risk sensitive instruments as at June 30, 2015:

| Expected Maturity Dates          | 2015    | 2016 | 2017    | 2018 | 2019 | Thereafter |
|----------------------------------|---------|------|---------|------|------|------------|
| Long-term Debt (000's):          |         |      |         |      |      |            |
| Variable rate (EUR) <sup>1</sup> | —       | —    | 250,800 | —    | —    | —          |
| Average interest rate            | —       | —    | 1.50 %  | —    | —    | —          |
| Fixed rate (US\$)                | 261,034 | —    | 502,955 | —    | —    | —          |
| Average interest rate            | 5.00 %  | —    | 15.00 % | —    | —    | —          |

## Interest Rate Swaps (000's):

|                         |   |   |         |   |   |   |
|-------------------------|---|---|---------|---|---|---|
| Variable to fixed (EUR) | — | — | 250,800 | — | — | — |
| Average pay rate        | — | — | 0.21 %  | — | — | — |
| Average receive rate    | — | — | 0.00 %  | — | — | — |

As discussed in Note 5, "Long-term Debt and Other Financing Arrangements", as consideration for Time Warner's guarantee of the 2017 Euro Term Loan, we will pay a guarantee fee to Time Warner based on the amount (1) outstanding on the 2017 Euro Term Loan calculated on a per annum basis equal to 8.5% minus the rate of interest paid by CME Ltd. to the lenders under the 2017 Euro Term Loan.

## Foreign Currency Exchange Risk Management

We conduct business in a number of currencies other than our functional currencies and our 2017 Euro Term Loan is 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, including the transaction noted below, we enter into forward foreign exchange contracts to minimize foreign currency exchange rate risk.

We have not attempted to hedge the foreign currency exchange risk on the 2017 Euro Term Loan and therefore may continue to experience significant gains and losses on the translation of the 2017 Euro Term Loan into dollars due to movements in exchange rates between the Euro and the dollar.

On March 11, 2015, we entered into two forward foreign exchange contracts to reduce our exposure to movements in the USD to EUR and USD to CZK exchange rates related to contractual payments under dollar-denominated agreements to be made during 2015. At June 30, 2015, forward foreign exchange contracts with aggregate notional amount of approximately US\$ 39.1 million were outstanding.

On July 2, 2015, we entered into a USD to EUR forward exchange contract with a notional amount of US\$ 261.0 million, to reduce our exposure to USD to EUR exchange rate fluctuations in connection with the refinancing of the dollar-denominated 2015 Convertible Notes at maturity on November 15, 2015, which we intend to do with a Euro-denominated facility pursuant to the 2015 Refinancing Commitment Letter.

## Interest Rate Risk Management

Our 2017 Euro Term Loan bears interest at a variable rate based on EURIBOR plus an applicable margin. We are party to interest rate swap agreements intended to reduce our exposure to interest rate movements (see Note 12, "Financial Instruments and Fair Value Measurements").

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### 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 co-Principal Executive Officers and the Principal Financial Officer, to allow timely decisions regarding required disclosure.

Our co-Principal Executive Officers and our Principal Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2015 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 three months ended June 30, 2015 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

We are from time to time party to legal proceedings, arbitrations and regulatory proceedings arising in the normal course of our business operations, including the proceedings described below. We evaluate, on a quarterly basis, developments in such matters and provide accruals for such matters, as appropriate. In making such decisions, we consider the degree of probability of an unfavorable outcome and our ability to make a reasonable estimate of the amount of a loss. An unfavorable outcome in any such proceedings, if material, could have an adverse effect on our business or consolidated financial statements.

#### MPS and MPE Investigations

The prosecutors' office with the Bucharest Tribunal is investigating certain suppliers of the Company's subsidiaries SC Mediapro Studiorile SA ("MPS") and SC Media Pro Entertainment Romania SA ("MPE") as well as certain current and former employees of MPS on suspicion of tax evasion and related charges. In connection with those investigations, the division of the Bucharest police responsible for economic crimes, acting under the instruction of the prosecutors' office with the Bucharest Tribunal, conducted searches of the premises of MPS and MPE and the private residences of a number of members of the senior management of MPS as well as certain other current and former employees of MPS and MPE in December 2014. These searches followed more limited searches conducted earlier in 2014. In addition, certain members of senior management of MPS (including its then general director, finance director, chief operating officer, operational manager and head of human resources) as well as certain of its current and former employees were arrested in December or were detained under preventive arrest measures. All of them other than the two former general directors of MPS have been released from detention although they remain subject to restrictions on their freedom of movement and communication. Although the investigation is ongoing and no formal charges have been brought, we understand the Bucharest public prosecutor's office is investigating approximately 22 companies purportedly supplying services to MPS on suspicion of invoicing MPS for services that were not provided and using the funds for settling such invoices to allegedly make payments to members of the management of MPS, other employees of MPS or others involved in the administration of this scheme. It is also alleged that certain employees of MPS were involved in the ownership or management of some of these companies.

At this stage, neither MPS nor MPE is currently a subject of the investigation or a party to the proceedings and no formal charges against or indictment of any of the persons who have been detained or are under investigation has been made. MPS is cooperating with the authorities in its investigation and CME Ltd. has launched its own internal investigation. Because the investigations are ongoing, we cannot predict when they will be completed or what the outcome will be, including whether MPS or MPE will be joined to the proceedings either as a defendant or a civilly liable party (which would result in joint and several liability with individual defendants for damages caused) or whether any fines, penalties, damages or other measures will be imposed on MPS or MPE in that event. On July 28, 2015, we entered into an agreement to sell MPS and MPE on an as-is basis. Upon completion the buyer will assume all liabilities associated with the companies.

#### Slovenian Competition Proceeding

On April 24, 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 filed an appeal with the Slovenian Supreme Court on May 24, 2013. On December 3, 2013, the Slovenian Supreme Court affirmed the decision of the CPA. On July 21, 2014, the CPA adopted a decision to impose a fine of EUR 5.1 million. Pro Plus appealed the decision and the fine was overturned on November 3, 2014. The CPA has appealed this decision.



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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

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. The reduction in advertising spending in our markets following the onset of the global financial crisis at the beginning of 2009 had a negative effect on television advertising prices because of pressure to reduce prices from advertisers and discounting by competitors. We attempted to combat this fall in prices by implementing a new pricing strategy in 2013. There was an adverse reaction to this strategy from agencies and advertisers, particularly in the Czech Republic, which resulted in a significant decrease in revenues in 2013 compared to 2012. While we made significant progress last year regaining advertising market share lost in 2013 and anticipate revenues will increase in local currency in 2015, we do not expect to reach 2012 levels during the year.

In addition to general economic conditions (described below), other factors that may affect our advertising sales are the pricing of advertising time as well as competition from other broadcasters and operators of other distribution platforms, audience ratings, changes in programming strategy, changes in audience preferences, our channels' technical reach, technological developments relating to media and broadcasting, seasonal trends in the advertising market, changing preferences in how and when people view content and the accompanying advertising, increased competition for the leisure time of audiences and shifts in population and other demographics. Accordingly, our advertising revenues also depend on our ability to maintain audience ratings and to generate GRPs, which requires 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, resistance to price increases and discounting of television advertising prices in our markets as well as 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. Failure to maintain and increase advertising sales could have a material adverse effect on our financial position, results of operations and cash flows.

Global or regional economic conditions, including 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 fully recover or how long any recovery may last. A failure to achieve 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 general economic conditions in the region and globally. 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. There has been a widespread withdrawal of investment funding from the Central and Eastern European markets and companies with investments in them. 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 spending in our markets, leading our customers to continue to spend less on advertising than at the peak period in 2008. This has negatively impacted our financial position, results of operations and cash flows since 2008. While real GDP is estimated to have improved in our markets in 2014 and in the first half of 2015, we cannot predict if this represents the start of a sustained recovery or how long it will last.

Continued softness in the Eurozone, including a slow down in the growth of consumer prices, has prompted the European Central Bank to embark upon quantitative easing. Economic events related to the sovereign debt crisis in several European Union countries have also highlighted issues relating to the strength of the banking sector in Europe. 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 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 affected banks, countries and markets in Europe or elsewhere. Recent steps taken to provide Greece with bridge financing have reduced uncertainty around the future of the Euro, however the potential exit of a Greece or another country from the European monetary union remains a risk to sustained macro-economic growth. Furthermore, the departure of a country from the Euro or the dissolution of the Euro could negatively impact our business and would cause significant volatility and disruption in the global economy. During 2014, countries in the European Union and around the world authorized economic sanctions against individuals and entities in Russia in response to events that transpired in Ukraine. If these sanctions result in a negative impact on the economies of the European Union, the countries in which we operate may be significantly impacted given the export-oriented nature of their economies. In addition, the occurrence of disasters, acts of terrorism, civil or military conflicts or general political instability and responses to it, such as the imposition of economic sanctions against Russia, may also cause a deterioration in general economic conditions that may reduce advertising spending. Any of these developments would have a significant negative effect on our financial position, results of operations and cash flows.

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Our liquidity constraints and debt service obligations may restrict our ability to fund our operations. We have significant debt service obligations under the 2015 Convertible Notes, the 2017 PIK Notes, the 2017 Term Loan, the 2017 Euro Term Loan and when drawn the 2017 Revolving Credit Facility. We expect that our cash flows from operating activities will continue to be insufficient to cover operating expenses and our debt service obligations. Although interest on the 2017 PIK Notes is initially non-cash pay and on the 2017 Term Loan is non-cash pay at our option, reducing our cash interest costs in the near term, each of the 2017 PIK Notes and the 2017 Term Loan accrue interest at 15% per year, and such interest is required to be repaid in cash by their maturity dates. Furthermore, we must pay a fee to Time Warner as consideration for its guarantee of the 2017 Euro Term Loan (the "TW Guarantee"). Although the guarantee fee is non-cash pay at our option, accruing such fee will further increase the amounts to be repaid at the maturity date of the 2017 Euro Term Loan. Accordingly, the payment of interest expense in kind will increase our already significant leverage. As a result of our debt service obligations and covenants contained in the related indentures and loan agreements, we are restricted under the 2015 Convertible Notes, the 2017 PIK Notes, the 2017 Term Loan, the 2017 Revolving Credit Facility (when drawn) and the Reimbursement Agreement in the manner in which our business is conducted, including but not limited to our ability to obtain additional debt financing to refinance existing indebtedness or to fund future working capital, capital expenditures, business opportunities, other corporate requirements. We may have a proportionally higher level of debt than our competitors, which may put us at a competitive disadvantage by limiting our flexibility in planning for, or reacting to, changes in our business, economic conditions and our industry. For additional information regarding the Reimbursement Agreement and the TW Guarantee, see Part I, Item I, Note 5, "Long-term Debt and Other Financing Arrangements".

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 expenses and debt interest obligations, are divided across a range of currencies. The strengthening of the dollar had a negative impact on reported revenues in the first half of 2015 and while we expect our revenues will increase in 2015 in our functional currencies, a strong dollar may continue to have an impact on our reported revenues for the remainder of 2015. In addition, a significant portion of our programming content is purchased pursuant to dollar-denominated agreements. If the dollar appreciates against our functional currencies, the cost of acquiring such content may be adversely affected. Furthermore, the 2017 Euro Term Loan is denominated in Euros. We have not attempted to hedge the foreign exchange exposure on the principal amount of this loan and therefore may experience significant gains and losses on the translation of the 2017 Euro Term Loan and related interest payments into dollars. General market conditions or the global macroeconomic environment may increase our exposure to currency fluctuations, which may 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 we will not be able to renew, repay or refinance our indebtedness when due, or that the terms of any renewal or refinancing will not be on better terms than those of such indebtedness being refinanced. Following the financing transactions concluded in 2014, including the issuance of the 2017 PIK Notes, the drawdown of the 2017 Term Loan and the drawdown of the 2017 Euro Term Loan, we have a substantial amount of indebtedness, including approximately US\$ \$261.0 million of 2015 Convertible Notes that mature on November 15, 2015. Pursuant to the 2015 Refinancing Commitment Letter, Time Warner has committed to provide or assist with arranging a loan facility to refinance the 2015 Convertible Notes at or immediately prior to their maturity, subject to customary closing conditions (including the execution and delivery of documentation, the accuracy of representations, the absence of events of default and the absence of material adverse changes). Under the 2017 Term Loan Agreement, the 2017 Revolving Credit Facility (when drawn), and the Reimbursement Agreement, we can incur only limited amounts of additional indebtedness, which includes indebtedness incurred to refinance existing indebtedness. In addition, 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. As a result, we may not be able to repurchase or refinance our indebtedness on acceptable terms or at all. In the event we are not able to refinance our indebtedness, 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.

We may be subject to changes in tax rates and exposure to additional tax liabilities.

We are subject to taxes in a number of foreign jurisdictions. We are subject to regular review and audit by tax authorities, and in the ordinary course of our business there are many transactions and calculations where the ultimate tax determination is uncertain. In that regard, Pro TV and our production services companies MPS, which is classified as a discontinued operation in our financial statements, and MPE, which has limited trading, are being audited by the Romanian tax authorities, although the tax audits of MPS and MPE have been suspended. In connection with these audits, we provided US\$ 12.0 million in the fourth quarter of 2014 and an additional US\$ 18.2 million in the first quarter of 2015 relating to the characterization of activities of freelance staff and other individuals. In July 2015, legislation annulling tax liabilities relating to this issue was enacted in Romania and following its implementation we expect to release substantially all of these reserves in the third quarter of 2015. For additional information see Part I, Item I, Note 20, "Commitments and Contingencies". Following the enactment of the legislation, we believe it is likely that the authorities will complete their audit of Pro TV during the third quarter of 2015. While we do not expect the tax authorities to impose any material liabilities on Pro TV on the conclusion of the audit, the final determination of tax audits and any related proceedings could be materially different from our historical tax provisions and accruals. Furthermore, once the suspensions are lifted, the audits of MPS and MPE may result in additional taxes, fines, interest and other penalties. Significant judgment is required in determining our provision for taxes. Economic and political pressures to increase receipts in various jurisdictions may make taxation and tax rates subject to significant change and the satisfactory resolution of any tax disputes more difficult. The occurrence of any of these events could have a material adverse effect on our financial position, results of operations and cash flows.

There is uncertainty regarding our ability to continue as a going concern.

We expect that our cash flows from operating activities will continue to be insufficient to cover operating expenses and debt service obligations. Our 2015 Convertible Notes mature on November 15, 2015. We have entered into the 2015 Refinancing Commitment Letter with Time Warner pursuant to which Time Warner has committed to provide or assist with arranging a replacement facility to refinance the 2015 Convertible Notes at or immediately prior to their maturity. Once the transaction contemplated under the 2015 Refinancing Commitment Letter has completed, we believe we will have adequate cash resources to continue operating as a going concern for the foreseeable future, however funding of the transaction is subject to customary closing conditions (including the execution and delivery of documentation, the accuracy of representations, the absence of events of default and the absence of material adverse changes), certain of which are outside our direct control. As a result, the report of our independent registered public accounting firm for the year ended December 31, 2014 contained an explanatory paragraph relating to our ability to continue as a going concern. If the financing arrangements set forth in the 2015 Refinancing Commitment Letter are not completed and we are unable to secure additional financing, we will be unable to meet our repayment obligation when the 2015 Convertible Notes mature.

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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 2015 Convertible Notes and the 2017 PIK Notes and the agreements governing the 2017 Term Loan, the 2017 Revolving Credit Facility (if drawn) and the Reimbursement Agreement, we pledged all of the shares of CME NV and of CME BV, which together own substantially all of the interests in our operating subsidiaries, as security for this indebtedness. If we or our restricted subsidiaries were to default under the terms of any of the relevant indentures or agreements, the secured parties under such indentures and agreements 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. Such an event could result in our inability to conduct our business.

The investigation by the Romanian authorities into conduct by employees of MPS and MPE may result in the imposition of material fines.

The prosecutors' office of the Bucharest Tribunal is investigating certain suppliers of MPS and MPE as well as certain current and former employees of MPS on suspicion of tax evasion and related charges. For additional information, see Part II, Item 1 "Legal Proceedings". While neither MPS nor MPE is currently a subject of the investigation or a party to the proceedings and no formal charges against or indictment of any of the persons who have been detained or are under investigation has been made, the prosecuting authorities in Romania may take action against MPS or MPE in the future. These actions could include criminal and civil fines, penalties, damages, seizure of bank accounts or other assets, a temporary suspension of activity, or other actions or restrictions. Depending on the development of these investigations, we may be required to accrue significant amounts, including, among others, for fines, penalties, or other damages that may be imposed by the Romanian authorities. MPS and MPE are cooperating with the Bucharest public prosecutor's office in its investigations of these matters. At this point, these investigations are incomplete and, as a result, we cannot predict when they will be completed or what their outcome will be, including whether MPS or MPE will be joined to the proceedings either as a defendant or a civilly liable party or whether any fines, penalties, or other damages will be imposed on MPS or MPE in that event or the amount of such fines, penalties or other damages. On July 28, 2015, we entered into an agreement to sell MPS and MPE on an as-is basis. Upon completion the buyer will assume all liabilities associated with the companies. In the event the sale does not complete and material fines, penalties, or other damages are imposed on MPS or MPE, they would experience difficulties continuing to operate and may need to cease operations entirely if necessary third party financing cannot be secured. If we continue to own MPS and MPE, any such material fines, penalties, or other damages imposed on them may have an adverse effect on our financial condition or results of operations. Furthermore, responding to the requests of governmental authorities and cooperating with their investigation will continue to divert our management's attention and resources, which could harm our business.

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

We are focused on creating additional revenue streams from our broadcast operations as well as enhancing revenues generated from broadcast advertising, which is how we generate most of our revenues. Our main efforts with respect to this strategy are on increasing carriage fees from cable and satellite operators for carriage of our channels as well as continuing to seek improvements in advertising pricing. During prior negotiations to implement our carriage fees strategy, some cable and satellite operators suspended the broadcast of our channels, which affects the reach and audience shares of those operations and as a result, advertising revenues. There is a risk that operators may refuse to carry our channels while carriage fee negotiations are ongoing or that clients withdraw advertising from our channels or reduce spending as a result of reduced coverage, or that going forward we will not be successful in renewing carriage fee agreements on the same or better terms, which may have an adverse impact on our results of operations and cash flows. If we are ineffective in achieving further carriage fee increases, our profitability will continue to be dependent primarily on television advertising revenues, which increases the importance placed on our ability to improve advertising pricing and generate advertising revenues. There can be no assurances that these initiatives will ultimately be successful, and if unsuccessful, this may have an adverse impact on our results of operations and cash flows.

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

Moody's Investors Service rates our corporate credit as Caa1 with a stable outlook. Standard & Poor's rates our corporate credit B with a negative outlook. 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 view liquidity and the key ratios associated with it, such as gross leverage ratio, a particular priority. Our 2014 refinancing of the 2016 Fixed Rate Notes and the 2017 Fixed Rate Notes reduced our cash interest costs, however, we may be subject to downgrades 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 our existing indebtedness or raise new indebtedness that may be permitted under our indentures or the 2017 Term Loan Agreement, the 2017 Revolving Credit Facility (if drawn), and the Reimbursement Agreement, 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, other 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 assessed 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, 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. See Part I, Item I, Note 4, "Goodwill and Intangible Assets" for the carrying amounts of goodwill in each of our reporting units.

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. 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 incurred charges of approximately US\$ 9.9 million related to restructuring in 2014 and US\$ 18.5 million in 2013 and total severance costs of approximately US\$ 7.1 million during 2013. We are pursuing limited restructuring initiatives in 2015 and have incurred related restructuring charges. Similar events in the future 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.

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### 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. While our content costs continue to decrease compared to prior periods, the cost of acquiring content attractive to our viewers, such as feature films and popular television series and formats, may increase in the future. Our expenditures in respect of locally produced programming may also increase due to competition for talent and other necessary resources and changes in audience tastes in our markets as well as from the implementation of any new laws and regulations mandating the broadcast of a greater number of locally produced programs. 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 any underperforming programming, as was the case in certain of our operating segments in 2013 and 2014. Any material increase in content costs 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. Furthermore, substantial investment and the commitment of other resources has been required 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 receive an adequate return on such investment if the take up of DTT broadcasting is lower than expected. Business initiatives to expand our distribution capabilities to adapt to changing patterns of consumption of content 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 distribution of our content, including through video-on-demand and other services. Protection of our intellectual property is in large part 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 broadcasting 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.



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Our operations are in developing markets where there are additional risks, including political and 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 laws and other regulatory obligations related to our businesses. Compliance with foreign as well as applicable U.S. laws and regulations, such as broadcasting content and advertising regulations, competition regulations, tax laws, employment laws, data protection requirements, and anti-corruption laws, increases the costs of doing business in these jurisdictions. Although the Company has implemented policies and procedures to comply with these laws and regulations, a violation by the Company's employees, contractors, or agents could nevertheless occur. The Company may also be significantly affected by other risks that may be different to those posed by investments in more developed markets, including, but not limited to, social and political instability, inconsistent regulatory or judicial practice, and increased taxes and other costs. The economic and political systems, legal and tax regimes, regulatory practices, standards of corporate governance and business practices of countries in this region continue to develop. Policies and practices may be subject to significant adjustments, including following changes in political leadership. This may result in social or political instability or disruptions and the potential for political influence on the media as well as inconsistent application of tax and legal regulations, arbitrary treatment before regulatory or judicial authorities and other general business risks. As a result, there may be legal and regulatory proceedings or developments in respect of our compliance with, or changes in the interpretation or application of, existing laws or regulations, that require us to incur substantial costs, cause us to change our business practices, or expose us to unanticipated civil or criminal liability, including fines and other penalties that may be substantial, which would have a material adverse effect on our business financial position, results of operations and cash flows.

Other potential risks inherent in markets with evolving economic and political environments include exchange controls, higher taxes, tariffs and other levies as well as longer payment cycles. The relative level of development of our markets and the influence of local politics 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 a material 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 and result in transactions being concluded on less favorable terms than could be obtained in arm's-length transactions. In our markets, the officers, general directors, other members of the management or employees of our operating companies may 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 and may 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 or affiliates, we may be required to make additional disclosure and, if such contracts are material, may not be in compliance with certain covenants under the indenture governing the 2017 PIK Notes, the 2017 Term Loan Agreement, the 2017 Revolving Credit Facility (if drawn) or the Reimbursement Agreement. 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 other broadcasting licenses expire at various times through 2026. 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

We are a Bermuda company and enforcement of civil liabilities and judgments may be difficult.

We are 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 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 effect 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 (a) 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 (b) 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.

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### Risks Relating to our Common Stock

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

Time Warner is the largest holder of shares of our Class A common stock, holding 61,407,775 unregistered shares of Class A common stock, one share of Series A preferred stock, 200,000 shares of Series B preferred stock and warrants to acquire 100,926,996 shares of our Class A common stock (the "TW Warrants"). The share of Series A preferred stock is convertible into 11,211,449 shares of Class A common stock. The shares of Series B preferred stock are convertible into shares of Class A common stock from June 25, 2016 at the option of Time Warner (subject to certain exceptions). As of June 30, 2015, the 200,000 shares of Series B preferred stock were convertible into 95,830,154 shares of Class A common stock. The TW Warrants are convertible into shares of Class A common stock from May 2, 2016 until May 2, 2018, subject to the right of Time Warner to exercise such warrants prior to May 2, 2016 in certain circumstances. Time Warner has registration rights with respect to all its shares of Class A common stock now held or hereafter acquired. Furthermore, there are additional unregistered shares of our Class A common stock outstanding and shares of Class A common stock underlying other warrants that may enter into trading. For additional information on the Series A preferred stock, Series B preferred stock and TW Warrants, see Part I, Item I, Note 13, "Convertible Redeemable Preferred Shares" and Note 14, "Equity".

We cannot predict what effect, if any, the entry into trading of previously issued unregistered shares of Class A common stock will have on the market price of our shares. We may also issue additional shares of Class A common stock or securities convertible into our equity in the future. If more shares of our Class A common stock (or securities convertible into or exchangeable for shares of our Class A common stock) are issued to Time Warner, the economic interests of current shareholders may be diluted and the price of our shares may be adversely affected.

The interests of Time Warner may conflict with the interests of other investors.

Time Warner is able to exercise voting power in us with respect to 49.4% of our outstanding shares of Class A common stock. 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. Following the issuance of the TW Warrants, the aggregate economic interest of Time Warner in us is approximately 75.5%, (without giving effect to the accretion of the Series B Preferred Stock after June 30, 2015). Furthermore, following the series of financing transactions conducted in 2014, Time Warner has the right to appoint one less than the number required to constitute a majority of our board of directors, provided that Time Warner continues to own not less than 40% of the voting power of the Company. In addition, we are party to an amended investor rights agreement with Time Warner and the other parties thereto under which, among other things, Time Warner was granted a contractual preemptive right (subject to certain exclusions) with respect to issuances of the Company's equity securities, which permits it to maintain its pro rata economic interest. Under Bermuda law, there is no takeover code or similar legislation requiring an acquirer of a certain percentage of our Class A common stock to tender for the remaining publically held shares. In certain circumstances, the interests of Time Warner as our largest shareholder could be in conflict with the interests of minority shareholders.

Furthermore, following the issuance of the 2017 PIK Notes, the drawdown of the 2017 Term Loan and the issuance of the TW Guarantee in respect of the 2017 Euro Term Loan, in addition to being our largest shareholder Time Warner is our largest secured creditor, as it holds or guarantees 68% of our outstanding indebtedness as at June 30, 2015.

Subject to certain exceptions under the indenture for the 2017 PIK Notes that limit Time Warner's voting rights as an affiliate holding the 2017 PIK Notes, Time Warner will be entitled to vote or otherwise make decisions in its capacity as a holder of the 2017 PIK Notes, as a lender under the 2017 Term Loan and the 2017 Revolving Credit Facility or as a guarantor under the Reimbursement Agreement. The 2017 Term Loan, the 2017 Revolving Credit Facility (if drawn) and the Reimbursement Agreement contain maintenance covenants in respect of interest cover, cash flow cover and total leverage ratios and have more restrictive provisions than equivalent provisions contained in the indenture governing the 2017 PIK Notes, including covenants in respect of the incurrence of indebtedness (including refinancing indebtedness), the provision of guarantees, making investments and granting security and certain events of default. As such, Time Warner may be in a position to determine whether to permit transactions, waive defaults or accelerate such indebtedness or take other steps in its capacity as a secured creditor in a manner that might not be consistent with the interests of the holders of our Class A common stock or other holders of our indebtedness.

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.

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Item 6. Exhibits

| Exhibit<br>Number  | Description  |
|--|--|
| 10.01+   | Central European Media Enterprises Ltd. 2015 Stock Incentive Plan.   |
| 10.02+   | Form of Restricted Stock Unit Award Agreement (Directors' Version) (for use from June 2015).   |
| 10.03+   | Form of Employee Non-Qualified Stock Option Agreement (for use from June 2015).  |
| 10.04+   | Form of Restricted Stock Unit Award Agreement (time-based vesting) (for use from March 2015).  |
| 31.02  | Certification of Co-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.                                |
| 31.03  | 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 co-Principal Executive Officers 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   |
| + Exhibit is a management contract or compensatory plan. |  |

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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.

/s/ David Sturgeon

David Sturgeon

Executive Vice President and Chief Financial  
Officer

Principal Financial Officer and Principal  
Accounting Officer

Date: July 29, 2015

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