OIL STATES INTERNATIONAL, INC
Form DEF 14A
April 03, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

OIL STATES INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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þ No fee required.
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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3) Filing Party:

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OIL STATES INTERNATIONAL, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 14, 2009

To the Stockholders of
Oil States International, Inc.:

NOTICE IS HEREBY GIVEN THAT the Annual Meeting of Stockholders of Oil States International, Inc., a Delaware corporation (the Company), will be held at the Hotel Granduca at 1080 Uptown Park Boulevard, Houston, Texas, 77056 on the 14th day of May, 2009 at 9:00 a.m. central time (the Annual Meeting), for the following purposes:

(1) To elect three (3) Class II members of the Board of Directors to serve until the 2012 Annual Meeting of Stockholders (see page 4);

(2) To ratify the appointment of Ernst & Young LLP as independent accountants for the year ended December 31, 2009 (see page 30); and,

(3) To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

The Company has fixed the close of business on March 16, 2009 as the record date for determining stockholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments thereof. Stockholders who execute proxies solicited by the Board of Directors of the Company retain the right to revoke them at any time; unless so revoked, the shares of common stock represented by such proxies will be voted at the Annual Meeting in accordance with the directions given therein. If a stockholder does not specify a choice on such stockholder s proxy, the proxy will be voted FOR the nominees for director named in the attached Proxy Statement and FOR the ratification of the appointment of the independent accountants for the Company named in such Proxy Statement. The list of stockholders of record of the Company may be examined at the offices of the Company beginning on March 17, 2009 and at the Annual Meeting.

Further information regarding the Annual Meeting is set forth in the attached Proxy Statement.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDERS MEETING TO BE HELD ON MAY 14, 2009: A COPY OF THIS PROXY STATEMENT AND THE COMPANY S 2008 ANNUAL SHAREHOLDERS REPORT ARE AVAILABLE AT HTTP://WWW.OILSTATESINTL.COM/FW/MAIN/INVESTOR RELATIONS-4.HTML.

By Order of the Board of Directors

Sincerely,

Robert W. Hampton
Corporate Secretary

Houston, Texas
April 3, 2009

YOU ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING. HOWEVER, WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, PLEASE COMPLETE, DATE, SIGN AND MAIL PROMPTLY THE ENCLOSED PROXY IN THE ENCLOSED POSTAGE PAID ENVELOPE. THE PROXY IS REVOCABLE AND WILL NOT BE USED IF YOU ARE PRESENT AT THE ANNUAL MEETING AND VOTE YOUR SHARES IN PERSON.

OIL STATES INTERNATIONAL, INC.

PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS OF
To Be Held on Thursday, May 14, 2009

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OIL STATES INTERNATIONAL, INC.

Three Allen Center
333 Clay Street, Suite 4620
Houston, Texas 77002

PROXY STATEMENT FOR THE ANNUAL MEETING OF STOCKHOLDERS

SOLICITATION

The following information is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of Oil States International, Inc., a Delaware corporation, (the Company), to be voted at the annual meeting of stockholders of the Company (the Annual Meeting), which will be held at the Hotel Granduca at 1080 Uptown Park Boulevard, Houston, Texas, 77056, on the 14th day of May, 2009, at 9:00 a.m. central time, for the following purposes:

(1) To elect three (3) Class II members of the Board of Directors to serve until the 2012 Annual Meeting of Stockholders;

(2) To ratify the appointment of Ernst & Young LLP as independent accountants for the year ended December 31, 2009; and,

(3) To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

You may revoke your proxy at any time before it is exercised by: (1) sending a written statement revoking your proxy to the Secretary of the Company; (2) submitting a properly signed proxy with a later date; or (3) voting in person at the Annual Meeting. If you return your signed proxy to us before the Annual Meeting, we will vote your shares as you direct. If you do not specify on your proxy card how you want to vote your shares, we will vote them for the election of all nominees for director as set forth under Proposal 1: Election of Directors on page 4 and for the ratification of the appointment of Ernst & Young LLP as independent accountants as set forth under Proposal 2: Ratification of Appointment of Independent Accountants on page 30. If any other business is brought before the meeting, any unspecified proxies will be voted in accordance with the judgment of the persons voting those shares.

The cost of soliciting proxies will be paid by the Company. In addition to the use of the mail, proxies may be solicited by the directors, officers and employees of the Company without additional compensation, by personal interview, telephone, telegram, or other means of electronic communication. Arrangements also may be made with brokerage firms and other custodians, dealers, banks and trustees, or their nominees who hold the voting securities of record, for sending proxy materials to beneficial owners. Upon request, the Company will reimburse the brokers, custodians, dealers, banks, or their nominees for their reasonable out-of-pocket expenses. In addition, the Company has retained Mellon Investor Services LLC to assist in the solicitation of proxies and to serve as the inspector of election for the Annual Meeting, for which the Company will pay an estimated fee of $5,500.

Oil States International, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, is being mailed with this Proxy Statement to all stockholders entitled to vote at the Annual Meeting but does not constitute a part of the proxy soliciting material.

This Proxy Statement and the enclosed form of proxy was mailed to stockholders beginning April 10, 2009.

OUTSTANDING VOTING SECURITIES AND VOTING RIGHTS

Oil States International, Inc., a Delaware corporation, (Company, Oil States, we, us, and our refer to Oil States International, Inc. and its subsidiaries), has two outstanding classes of securities that entitle holders to vote generally at meetings of the Company s stockholders: common stock, par value $.01 per share; and special preferred voting stock, par value $.01 per share. A single share (the Voting Share) of special preferred voting stock was issued to Computershare Trust Company of Canada (the Trustee) as trustee under a Voting and Exchange Trust Agreement for the benefit of holders of exchangeable shares issued by the Company s wholly-owned subsidiary, 892489 Alberta Inc., in connection with the Company s February 2001 acquisition of PTI Group, Inc. (PTI). The common stock and the Voting Share vote together as a single class on all matters except when Delaware law requires otherwise. Each share of common stock outstanding on the record date is entitled to one vote. The Voting Share is entitled to one vote for each exchangeable share outstanding on the record date. The Trustee is required to vote the Voting Share as instructed by holders of exchangeable shares, and to abstain from voting in proportion to the exchangeable shares for which the Trustee does not receive instructions. Accordingly, references to stockholders in this Proxy Statement include holders of common stock, the Trustee, and holders of exchangeable shares. In addition, unless we indicate otherwise, the number of shares outstanding, including for purposes of calculating percentage ownership, in this Proxy Statement has been calculated as if the exchangeable shares have been exchanged for shares of our common stock. The procedures for holders of exchangeable shares to instruct the Trustee about voting at the Annual Meeting are explained in the Information Statement for Holders of Exchangeable Shares of 892489 Alberta Inc. that is enclosed with this Proxy Statement only for holders of exchangeable shares.

The record date for the stockholders entitled to notice of and to vote at the Annual Meeting is the close of business on March 16, 2009. At the record date, 49,573,080 shares of common stock and one Voting Share were outstanding and entitled to be voted at the Annual Meeting. Outstanding shares include a total of 201,757 exchangeable shares which are outstanding and are entitled to give voting instructions to the Trustee.

The presence, in person or by proxy, of the holders of a majority of the votes eligible to be cast at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. If a quorum is not present, the stockholders entitled to vote who are present in person or by proxy at the Annual Meeting have the power to adjourn the Annual Meeting from time to time, without notice other than an announcement at the Annual Meeting, until a quorum is present. At any adjourned Annual Meeting at which a quorum is present, any business may be transacted that might have been transacted at the Annual Meeting as originally notified.

Directors will be elected by a plurality of the votes present and entitled to be voted at the Annual Meeting. Ratification of the selection of the Company s auditors will require the affirmative vote of the holders of a majority of the shares present and entitled to be voted at the Annual Meeting. An automated system that the Company s transfer agent administers will tabulate the votes. Brokers who hold shares in street name for customers are required to vote shares in accordance with instructions received from the beneficial owners. Brokers are permitted to vote on discretionary items if they have not received instructions from the beneficial owners, but they are not permitted to vote (a broker non-vote) on non-discretionary items absent instructions from the beneficial owner. Abstentions and broker non-votes will count in determining whether a quorum is present at the Annual Meeting. Both abstentions and broker non-votes will not have any effect on the outcome of voting on director elections. For purposes of voting on the ratification of the selection of auditors, abstentions and broker non-votes are not counted as votes with respect to the proposal. Abstentions occur when stockholders are present at the annual meeting but choose to withhold their vote for any of the matters upon which the stockholders are voting. Broker non-votes occur when nominees (such as banks and brokers) that hold shares on behalf of beneficial owners do not receive voting instructions from the beneficial owners before the meeting and do not have discretionary authority to vote those shares under the applicable rules of the New York

Stock Exchange (the NYSE).

A proxy in the accompanying form that is properly signed and returned will be voted at the Annual Meeting in accordance with the instructions on the proxy. Any properly executed proxy on which no contrary instructions have been indicated about a proposal will be voted as follows with respect to the proposal: FOR the election of the three persons named in this Proxy Statement as the Board of Directors nominees for election to the Board of Directors; FOR the ratification of the selection of Ernst & Young LLP as the Company s independent accountants; and in

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accordance with the discretion of the holders of the Proxy with respect to any other business that properly comes before the stockholders at the Annual Meeting. The Board of Directors knows of no matters, other than those previously stated, to be presented for consideration at the Annual Meeting. The persons named in the accompanying proxy may also, in their discretion, vote the proxy to adjourn the Annual Meeting from time to time.

A copy of the list of stockholders entitled to vote at the Annual Meeting has been available for inspection by qualified stockholders for proper purposes at the offices of the Company during normal business hours beginning on March 17, 2009 and at the Annual Meeting.

PROPOSAL 1:

ELECTION OF DIRECTORS

The Board of Directors is currently comprised of nine members. The nine members are divided into three classes having three members in Class I, Class II and Class III. Each class is elected for a term of three years, so that the term of one class of directors expires at each annual meeting of stockholders. The term of the three current Class II directors will expire at the Annual Meeting. The term of the Class III directors expires at the annual meeting of stockholders to be held in 2010, and the term of the Class I directors expires at the Annual Meeting of Stockholders to be held in 2011.

Nominees

Three directors are to be elected to serve as Class II directors at the Annual Meeting. Based on the recommendation of our Nominating & Corporate Governance Committee, the Board of Directors has nominated S. James Nelson, Gary L. Rosenthal and William T. Van Kleef to fill the three expiring Class II positions on the Board of Directors, to hold office for three-year terms expiring at the Annual Meeting of Stockholders in 2012, and until their respective successors have been duly elected and qualified, or until their earlier death, resignation or removal. All of the director nominees, Messrs. Nelson, Rosenthal and Van Kleef, presently serve as Class II directors. Stockholder nominations will not be accepted for filling board seats at the Annual Meeting because our bylaws require advance notice for such a nomination, the time for which has passed. Our Board of Directors has determined that each of the current nominees is independent as that term is defined by the applicable NYSE listing standards. See Director Independence below for a discussion of director independence determinations. The enclosed proxy (unless otherwise directed, revoked or suspended) will be voted FOR the election of the three nominees for director.

A plurality of votes cast is required for the election of directors. Each of the nominees has consented to serve as director if so elected. If any nominee should be unable to serve as a director, the shares represented by proxies will be voted for the election of a substitute nominated by the Board of Directors to replace such nominee.

The Board of Directors unanimously recommends that stockholders vote FOR the election of each of the nominees.

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Executive Officers and Directors

Set forth below are the names of, and certain information with respect to, the Company s executive officers and directors, including the three nominees for election to the Class II positions on the Board of Directors.

Names	Director Class	Age	Position(s)
Stephen A. Wells	III	65	Chairman of the Board
Cindy B. Taylor	I	47	Director, Chief Executive Officer and President
Bradley J. Dodson		35	Vice President, Chief Financial Officer and Treasurer
Robert W. Hampton		57	Senior Vice President, Accounting and Corporate Secretary
Christopher E. Cragg		48	Senior Vice President, Operations
Howard Hughes		66	Senior Vice President, Offshore Products and President, Oil States Industries, Inc.
Ron R. Green		59	Senior Vice President, Canadian Accommodations and President and Chief Executive Officer, PTI Group, Inc.
Martin Lambert	III	53	Director
S. James Nelson*	II	67	Director
Mark G. Papa	III	62	Director
Gary L. Rosenthal*	II	59	Director
Christopher T. Seaver	I	60	Director
Douglas E. Swanson	I	70	Director
William T. Van Kleef*	II	57	Director

* Nominee for election as Class II director at the Annual Meeting.

Stephen A. Wells has served as a director of our company since April 1996 and as Chairman since May 2006. Mr. Wells is the president of Wells Resources, Inc., a privately owned oil, gas and ranching company, and has served in that position since 1983. From April 1999 to October 1999, Mr. Wells served as a director and Chief Executive Officer of Avista Resources, Inc., an oil recycling technology company. From October 1993 to February 1996, he was a director and Chief Executive Officer of Coastwide Energy Services, Inc., a Gulf Coast marine terminal operator. From March 1992 to September 1994, he was a director and Chief Executive Officer of Grasso Corporation, an oil and gas production management services company. Mr. Wells served as a director of Pogo Producing Company (NYSE: PPP), an oil and gas exploration and production company until it was acquired in November 2007.

Cindy B. Taylor is the President and Chief Executive Officer of our company and is a member of the Company s Board of Directors as a Class I director. She has held these positions since May 2007. From May 2006 until May 2007, Mrs. Taylor served as President and Chief Operating Officer of our company. From May 2000 until May 2006, Mrs. Taylor was the Senior Vice President Chief Financial Officer and Treasurer of our company. From August 1999 to May 2000, Mrs. Taylor was the Chief Financial Officer of L.E. Simmons & Associates, Incorporated. Mrs. Taylor served as the Vice President Controller of Cliffs Drilling Company from July 1992 to August 1999 and held various management positions with Ernst & Young LLP, a public accounting firm, from January 1984 to July 1992. She received a B.B.A. degree from Texas A&M University and is a Certified Public Accountant. Mrs. Taylor is a director of Global Industries LTD (NASDQ: GLBL), which provides worldwide construction and support services to the offshore oil and gas industry and Tidewater Inc. (NYSE: TDW), which is a global provider of vessels serving the offshore energy industry.

Bradley J. Dodson is the Vice President, Chief Financial Officer and Treasurer of our company. He has held this position since May 2006. Mr. Dodson has held several positions with our company since joining in March 2001, most recently serving as Vice President, Corporate Development from March 2003 to May 2006. From June 1998 to March 2001, Mr. Dodson served in several positions for L.E. Simmons & Associates, Incorporated, a private equity firm specializing in oilfield service investments. From July 1996 to June 1998, Mr. Dodson worked in the mergers and acquisitions group of Merrill Lynch & Co. He holds a M.B.A. degree from the University of Texas at Austin and a B.A. degree in economics from Duke University.

Robert W. Hampton is the Senior Vice President, Accounting and Corporate Secretary of our company. He has held this position since May 2006. From February 2001 until May 2006, Mr. Hampton was the Vice President Finance and Accounting and Secretary of our company. From February 1998 to February 2001, Mr. Hampton served as Vice President and Chief Financial Officer of HWC Energy Services, Inc., a predecessor of our Company (HWC). Mr. Hampton joined HWC from Tidewater Inc., an offshore service vessel operator, where he was based in Aberdeen and was Area Manager for the North Sea Operations from March 1996 to February 1998. He served as Vice President, Treasurer and Chief Financial Officer of Hornbeck Offshore, an offshore service vessel operator, from 1990 to March 1996, when it was acquired by Tidewater. Mr. Hampton worked at Price Waterhouse, a public accounting firm, from 1973 to 1986. Mr. Hampton is a Certified Public Accountant and received his B.S. degree from the Pennsylvania State University.

Christopher E. Cragg is the Senior Vice President, Operations of our company. He has held this position since May 2006. From February 2001 until May 2006, Mr. Cragg was the Vice President Tubular Services of our company. Mr. Cragg was Executive Vice President Chief Financial Officer of Sooner Inc., a predecessor of our Company (Sooner), from December 1999 to February 2001. Mr. Cragg also served as President of Sooner from October 2003 until May 2006. From April 1994 to June 1999, he was Vice President and Controller of Ocean Energy, Inc., an independent oil and gas exploration and production company, and its predecessor companies. Mr. Cragg served as Manager Internal Audit with Cooper Industries, a manufacturer of diversified products, from April 1993 to April 1994 and as a senior manager with Price Waterhouse, a public accounting firm, from August 1983 to April 1993. Mr. Cragg is a director of Powell Industries, Inc. (NASDAQ: POWL), a company that manufactures and services electrical energy systems. He received a B.B.A. degree from Southwestern University and is a Certified Public Accountant.

Howard Hughes is the Vice President Offshore Products of our company. He has held this position since February 2001. Since September 1989 Mr. Hughes also served as President of Oil States Industries, Inc., a wholly owned subsidiary of our company. From April 1976 to September 1989, Mr. Hughes served in various managerial and executive positions with Oil States Industries, Inc. He holds a B.S. degree from the University of Houston.

Ron R. Green is President and Chief Executive Officer PTI Group Inc. (PTI), a wholly owned subsidiary of our Company. He has held this position since April 2006. From December 2005 to March 2006 he was Senior Vice President and Chief Operating Officer of PTI. From November 2004 to November 2005, Mr. Green served as Vice President, Premium Camp Services for PTI. Prior to joining PTI, Mr. Green served as Vice President and General Manager of ESS Remote Site Services, a division of Compass Group PLC from October 1995 to August 2003. From 1975 to 1995, Mr. Green held various senior executive positions in the accommodations industry.

Martin Lambert has served as a director of our company since February 2001. Mr. Lambert s principal occupation is as Chief Executive Officer, Swan Hills Synfuels LP, an in-site coal gasification company, on a full time basis since November 1, 2008. Prior thereto, Mr. Lambert served as a founder and managing director of Matco Capital, Ltd., a private equity firm focused in the energy sector, since mid-2002. Mr. Lambert was a partner in the Canadian law firm Bennett Jones LLP from March 1987 to March 2007 and served as the Chief Executive Officer of that firm from 1996 to 2000. Mr. Lambert currently is a director of two other public companies: Calfrac Well Services Ltd. and Zedi, Inc.

both of which are involved in Canadian, U.S. and other international oilfield services. He received his LLB degree from the University of Alberta in 1979.

S. James Nelson has served as a Director of our company since July 2004. In 2004, he retired, after 15 years of service, from Cal Dive International, Inc. (now known as Helix Energy Solutions Group, Inc.), a marine contractor and operator of offshore oil and natural gas properties and production facilities, where he was a founding shareholder, Chief Financial Officer from 1990 to 2000, and a director and Vice Chairman from 2000 to 2004. From

1985 to 1988, Mr. Nelson was a Senior Vice President and Chief Financial Officer of Diversified Energies, Inc., a NYSE-traded company. From 1980 to 1985, Mr. Nelson served as Chief Financial Officer of Apache Corporation, an oil and gas exploration and production company. From 1966 to 1980, Mr. Nelson was employed with Arthur Andersen L.L.P., where, from 1976 to 1980, he was a partner serving on the firm s worldwide oil and gas industry team. He received a Bachelor of Science in Accounting degree from Holy Cross College and a M.B.A. degree from Harvard University. Mr. Nelson is also a Certified Public Accountant. Mr. Nelson is a director and a member of the Audit Committee of ION Geophysical Corp. (formerly Input/Output, Inc.) (NYSE: IO), a seismic services provider and W&T Offshore, Inc. (NYSE: WTI), an oil and gas exploration and production company. From 2005 until the its sale in 2008, he was also a member of the Board and Audit and Compensation Committees of Quintana Maritime Ltd. (NASDAQ: QMAR), an international provider of dry bulk cargo marine transportation services

Mark G. Papa has served as a director of our company since February 2001. Mr. Papa has served as Chairman of the Board and Chief Executive Officer of EOG Resources, Inc. (NYSE: EOG), an oil and gas exploration and production company, since August 1999. From February 1994 to August 1999, he held a number of management positions with EOG Resources, Inc. He has a petroleum engineering degree from the University of Pittsburgh and a M.B.A. degree from the University of Houston.

Gary L. Rosenthal has served as a director of our company since February 2001. Mr. Rosenthal is a partner in The Sterling Group, L.P., a private equity firm. Mr. Rosenthal served as Chairman of the Board of Hydrochem Holdings, Inc. from May 2003 until December 2004. Mr. Rosenthal has served as President of Heaney Rosenthal Inc., a private investment company, since October 1994. From August 1998 to April 2001, he served as Chief Executive Officer of AXIA Incorporated, a diversified manufacturing company. He holds J.D. and A.B. degrees from Harvard University.

Christopher T. Seaver has served as director of our Company since May 2008. Mr. Seaver served as the President and Chief Executive Officer and a director of Hydril Co. (Hydril) from February 1997 until Hydril was acquired in May 2007. From 1993 until 1997, Mr. Seaver served as President of Hydril. Mr. Seaver joined Hydril in 1985 and served as Executive Vice President in charge of Hydril s premium connection and pressure control businesses prior to February 1993. Prior to joining Hydril, Mr. Seaver was a corporate and securities attorney for Paul, Hastings, Janofsky & Walker, and was a Foreign Service Officer in the U.S. Department of State with postings in Kinshasa, Republic of Congo and Bogota, Colombia. Mr. Seaver is a director and member of the audit committee of Exterran Holdings, Inc. (NYSE: EXH), a company that operates and maintains equipment used in the oil and gas industry worldwide.

Douglas E. Swanson has served as a director of our company since February 2001 and served as our Chief Executive Officer from February 2001 until he retired in April 2007. From January 1992 to August 1999, Mr. Swanson served as President and Chief Executive Officer of Cliffs Drilling Company, a contract drilling company. He holds a B.A. degree from Cornell College and is a Certified Public Accountant. Mr. Swanson is a director of Flint Energy Services, Ltd., (Toronto: FES.TO) a Canadian integrated midstream oil and gas production services provider and of Boots and Coots International Well Control, Inc. (AMEX: WEL), an oilfield services company that provides integrated pressure control and related services worldwide.

William T. Van Kleef has served as a director of our Company since May 2006. Mr. Van Kleef has served in executive management positions at Tesoro Corporation from 1993 until 2005, most recently as Tesoro s Executive Vice President and Chief Operating Officer. During his tenure at Tesoro, Mr. Van Kleef held various positions, including President, Tesoro Refining and Marketing, and Executive Vice President and Chief Financial Officer. Before joining Tesoro, Mr. Van Kleef, a Certified Public Accountant, served in various financial and accounting positions with Damson Oil from 1982 to 1991, most recently as Senior Vice President and Chief Financial Officer. Mr. Van Kleef serves on the Board of Directors and as Chairman of the audit committee of Noble Energy (NYSE: NBL), an independent oil and gas company.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Company has adopted corporate governance guidelines entitled Corporate Governance Guidelines which are available at www.oilstatesintl.com by first clicking Corporate Governance and then Corporate Governance Guidelines. The Corporate Governance Guidelines are also available in print to any stockholder who requests them. These guidelines were adopted by the Board of Directors to best ensure that the Board is independent from management, that the Board adequately performs its function as the overseer of management and to help ensure that the interests of the Board and management align with the interest of the stockholders.

Corporate Code of Business Conduct and Ethics

All directors, officers and employees of Oil States must act ethically at all times and in accordance with the policies comprising Oil States ethics policy entitled Corporate Code of Business Conduct and Ethics. This policy is available at the Company s web site www.oilstatesintl.com by first clicking Corporate Governance and then Corporate Code of Business Conduct and Ethics. The Corporate Code of Business Conduct and Ethics is also available in print to any stockholder who requests it.

Substantially all of our employees are required to compete online training on an annual basis which includes a review of the Conduct and Ethics Code policy and an acknowledgement that the employee has read and understands the policy. The Company has a Compliance Committee composed of key employees that meets periodically to assess efforts and processes to ensure compliance with laws and regulations to which the Company is subject.

Director Resignation Policy

If a director s principal occupation or business association changes substantially during his or her tenure as a director, that director is required by our Corporate Governance Guidelines to inform the Chairman of the Nominating & Corporate Governance Committee of the change and tender his or her resignation to the Committee for consideration. Such resignation shall not be effective unless and until the Board chooses to accept the resignation in accordance with the Company s Bylaws. While not necessarily resulting in a resignation, the offer will provide the Nominating & Corporate Governance Committee the opportunity to consider the appropriateness of continued Board membership and make a recommendation to the Board as to the director s continuation. The Nominating & Corporate Governance Committee will recommend to the Board the action, if any, to be taken with respect to the resignation, and the board will consider whether the change in the director s professional responsibilities directly or indirectly impacts that person s ability to fulfill directorship obligations.

Director Independence

To qualify as independent under the NYSE listing standards, a director must meet objective criteria set forth in the NYSE listing standards, and the Board must affirmatively determine that the director has no material relationship with us (either directly or as stockholder or officer of an organization that has a relationship with us) that would interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

The Board of Directors reviews all direct or indirect business relationships between each director (including his or her immediate family) and our company, as well as each director s relationships with charitable organizations, to determine director independence as defined in the listing standards of the NYSE. The NYSE listing standards include a series of objective tests, such as that the director is not an employee of our company and has not engaged in various types of business dealings with our company. In addition, as further required by the NYSE, the Board of Directors has made a subjective determination as to each independent director that no material relationships exist which, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment in carrying out the responsibilities of a director. When assessing the materiality of a director s relationship with us, the Board of Directors considers the issue not merely from the standpoint of the director, but also from the standpoint of the person or organizations with which the director has an affiliation. The Board of Directors has determined that all of our directors, except for Douglas E. Swanson, who served as our Chief Executive Officer until

April 30, 2007 and Mrs. Cindy Taylor, our current President and Chief Executive Officer, qualify as independent in accordance NYSE listing standards.

In particular, in 2009, the Board evaluated the following relationships: (i) Gary Rosenthal s position as a principal of The Sterling Group L.P., a private equity firm that has an indirect minority investment in a company that controls BTEC Turbines, a company with which we did business in 2007 and from whom we acquired a Houston waterfront facility in February 2008 for total consideration of $22.9 million; and (ii) Mark Papa s position as Chairman and Chief Executive Officer of EOG Resources, Inc. (EOG), which purchased products and services from us in 2008 in an amount equal to approximately 1% of EOG s 2008 revenues. Our Board of Directors has determined that none of the relationships noted above are material to the independence of Messrs. Rosenthal or Papa.

Policies and Procedures with Respect to Related Party Transactions and Conflicts of Interest

We review all relationships and transactions in which we and our directors and executive officers or their immediate family members are participants to determine whether such persons have a direct or indirect material interest. Our Corporate Secretary s office is primarily responsible for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether we or a related person has a direct or indirect material interest in the transaction. As required under the SEC s rules, transactions that are determined to be directly or indirectly material to us or a related person are filed with the SEC when required, and disclosed in our proxy statement.

Our Corporate Code of Business Conduct and Ethics (Conduct & Ethics Code) prohibits conflicts of interest. Any waivers of these guidelines must be approved by the Board. Under the Conduct & Ethics Code, conflicts of interest occur when private or family interests interfere in any way, or even appear to interfere, with the interests of our Company. Our prohibition on conflicts of interest under the Conduct & Ethics Code includes related person transactions.

We have multiple processes for reporting conflicts of interests, including related person transactions. Under the Conduct & Ethics Code, all directors and employees are required to report any actual or apparent conflict of interest, or potential conflict of interest, to their supervisors. Any transaction involving related persons must be reported in writing by our regional or market executives as part of their quarterly representation letter. This information is then reviewed by disinterested members of our Nominating and Corporate Governance Committee, our Board of Directors or our independent registered public accounting firm, as deemed appropriate, and discussed with management. As part of this review, the following factors are generally considered:

- the nature of the related person s interest in the transaction;
- the material terms of the transaction, including, without limitation, the amount and type of transaction;
- the importance of the transaction to the related person;
- the importance of the transaction to us;
- whether the transaction would impair the judgment of a director or executive officer to act in the best interest of our company;
- whether the transaction might affect the status of a director as independent under the independence standards of the New York Stock Exchange; and

any other matters deemed appropriate with respect to the particular transaction.

Ultimately, all material related party transactions must be approved or ratified by the Nominating and Corporate Governance Committee of our Board. Any member of the Nominating and Corporate Governance Committee who is a related person with respect to a transaction is recused from the review of the transaction.

In addition, we annually distribute a questionnaire to our executive officers and members of our Board of Directors requesting certain information regarding, among other things, their immediate family members, employment and beneficial ownership interests. This information is then reviewed for any conflicts of interest under the Conduct & Ethics Code.

We also have other policies and procedures to prevent conflicts of interest, including related person transactions. For example, the charter of our Nominating and Governance Committee requires that the members of such committee assess the independence of the non-management directors at least annually, including a requirement that it determine whether or not any such directors have a material relationship with us, either directly or indirectly, as defined therein and as further described above under Director Independence.

To establish restrictions with regard to corporate participation in the political system as imposed by law, the following guidelines are contained in our Conduct and Ethics Code:

No funds, assets, or services of the Company will be used for political contributions, directly or indirectly, unless allowed by applicable foreign and U.S. law and approved in advance by the Board of Directors.

Company contributions to support or oppose public referenda or similar ballot issues are only permitted with advance approval of the Board of Directors.

Employees, if eligible under applicable foreign and U.S. law, may make political contributions through legally established Company sponsored and approved political support funds. Any such personal contribution is not a deductible expense for federal or other applicable income tax purposes and is not eligible for reimbursement by the Company as a business expense. To the extent permitted by law, the Company s resources may be used to establish and administer a political action committee or separate segregated fund. All proposed activities shall be submitted for the review of, and approval by, the Board of Directors prior to their implementation.

Committees and Meetings

The Board of Directors has established three standing committees: the Audit Committee, the Compensation Committee and the Nominating & Corporate Governance Committee.

Audit Committee

The Company s Audit Committee presently consists of Messrs. Van Kleef, Nelson, Rosenthal and Seaver each of whom is independent, as such term is defined in Section 10A of the Securities Exchange Act of 1934, as amended (the Exchange Act), and in the applicable NYSE listing standards. The Audit Committee operates under a written charter as amended and restated by the Board of Directors effective as of May 15, 2008. A copy of the charter is available on our website, www.oilstatesintl.com, by first clicking Corporate Governance and then Audit Committee under the Committee Charters heading on the right side of the page. The Audit Committee, which is chaired by Mr. Van Kleef, meets separately with representatives of the Company s independent auditors, the Company s internal audit personnel and with representatives of senior management in performing its functions. The Audit Committee reviews the general scope of audit coverages, the fees charged by the independent auditors, matters relating to internal control systems and other matters related to accounting and reporting functions. The Board of Directors has determined that all of the members of the Audit Committee are financially literate and that Messrs. Van Kleef and Nelson have accounting or related financial management expertise, each as required by the applicable NYSE listing standards. The Board of Directors has also determined that Messrs. Van Kleef and Nelson qualify as audit committee financial experts under the applicable rules of the Exchange Act.

Compensation Committee

The Company s Compensation Committee consists of Messrs. Rosenthal, Papa and Wells, each of whom is independent, as defined in the applicable NYSE listing standards, and is a non-employee director. The Compensation Committee operates under a written charter approved by the Board of Directors as amended and restated on May 15, 2008. A copy of the charter is available on our website, www.oilstatesintl.com, by first clicking Corporate Governance and then Compensation Committee under the Committee Charters heading on the right side of the page. The Compensation Committee, which is chaired by Mr. Rosenthal, administers the Oil States International, Inc. 2001 Equity Participation Plan (the 2001 Equity Participation Plan), and in this capacity makes a

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recommendation to the full Board concerning all option grants or stock awards to employees, including executive officers, under the plan. In addition, the Compensation Committee is responsible for (i) making recommendations to the Board with respect to the compensation of the Company s chief executive officer and its other executive officers and (ii) establishing compensation and employee benefit policies and (iii) reviewing and discussing with our management the Compensation Discussion and Analysis and related disclosure included in our annual proxy statement.

Nominating & Corporate Governance Committee

Our Nominating & Corporate Governance Committee consists of Messrs. Lambert, Papa and Wells, each of whom is independent, as such term is defined in the applicable NYSE listing standards. The Nominating & Corporate Governance Committee operates under a written charter adopted by the Board of Directors as amended and restated as of May 15, 2008. A copy of the charter is available on our website, www.oilstatesintl.com, by first clicking Corporate Governance and then Nominating and Corporate Governance Committee under the Committee Charters heading on the right side of the page. The Nominating & Corporate Governance Committee, which is chaired by Mr. Papa, makes proposals to the Board for candidates to be nominated by the Board to fill vacancies or for new directorship positions, if any, which may be created from time to time. The Nominating & Corporate Governance Committee will consider suggestions from any source, particularly from stockholders, regarding possible candidates for director. To submit a recommendation to the committee, a stockholder should send a written request to the attention of the Company s Secretary at Oil States International, Inc., Three Allen Center, 333 Clay Street, Suite 4620, Houston, Texas 77002. The written request must include the nominee s name, contact information, biographical information and qualifications, as well as the nominee s written consent to serve if elected. The request must also disclose the number of shares of common stock beneficially owned by the person or group making the request, the period of time such person or group has owned those shares and the nature of any arrangement or agreement between the stockholder making a nomination and other parties with respect to the nomination. The request must be received by the Company no later than the 120th day before the anniversary of the date of the prior year s annual meeting, or January 14, 2010, for the 2010 Annual Shareholder s Meeting. These procedures do not preclude a stockholder from making nominations in accordance with the process described below under Stockholder Proposals.

Board and Committee Meetings

During 2008, the entire Board of Directors held ten meetings, the Audit Committee held seven meetings, the Compensation Committee held five meetings and the Nominating & Corporate Governance Committee held two meetings. Each of the directors attended at least 75 percent of the meetings of the Board and the committees of the Board on which they served. All but one of our directors attended last year s annual meeting. While we understand that scheduling conflicts may arise, we expect directors to make reasonable efforts to attend the annual meeting of stockholders and meetings of the Board of Directors and the committees on which they serve.

Our Corporate Governance Guidelines provide that our non-employee directors shall meet separately in executive session at least annually. The director who presides at these sessions is the Chairman of the Board, assuming such person is a non-management director. Otherwise, the presiding director will be chosen by a vote of the non-management directors. In addition to the executive sessions of our non-management directors, our independent directors (as defined in the applicable NYSE listing standards) are required to meet in executive session at least annually. In the past year, our non-management directors met in executive session six times, and our independent directors met in executive session one time. Our Chairman of the Board presided at these sessions.

Qualifications of Directors

When identifying director nominees, the Nominating & Corporate Governance Committee will consider the following:

the person s reputation, integrity and independence;

the person s skills and business, government or other professional experience and acumen, bearing in mind the composition of the board and the current state of the Company and the oilfield services industry generally at the time of determination;

the number of other public companies for which the person serves as a director and the availability of the person s time and commitment to the Company; and

the person s knowledge of a major geographical area in which the Company operates or another area of the Company s operational environment.

In the case of current directors being considered for renomination, the Nominating & Corporate Governance Committee will also take into account the director s history of attendance at Board of Directors and committee meetings, the director s tenure as a member of the Board of Directors and the director s preparation for and participation in such meetings.

Director Nomination Process

Our director nomination process for new board members is as follows:

The Nominating & Corporate Governance Committee, the Chairman of the Board, or another board member identifies a need to add a new board member who meets specific criteria or to fill a vacancy on the Board of Directors.

The Nominating & Corporate Governance Committee initiates a search by working with staff support, seeking input from board members and senior management and hiring a search firm, if necessary.

The Nominating & Corporate Governance Committee considers recommendations for nominees for directorships submitted by stockholders.

The initial slate of candidates that will satisfy specific criteria and otherwise qualify for membership on the Board of Directors are identified and presented to the Nominating & Corporate Governance Committee, which ranks the candidates.

The Chairman of the Board and at least one member of the Nominating & Corporate Governance Committee interviews prospective candidate(s).

The full Board of Directors is kept informed of progress.

The Nominating & Corporate Governance Committee offers other board members the opportunity to interview the candidate(s) and then meets to consider and approve the final candidate(s).

The Nominating & Corporate Governance Committee seeks the endorsement of the Board of Directors of the final candidate(s).

The final candidate(s) are nominated by the Board of Directors or elected to fill a vacancy.

Communications with Directors

Stockholders or other interested parties may send communications, directly and confidentially, to the Board of Directors, to any committee of the Board of Directors, to non-management directors or any director in particular, by sending an envelope marked confidential to such person or persons c/o Oil Sates International, Inc., Three Allen Center, 333 Clay Street, Suite 4620, Houston, Texas 77002. Any such correspondence will be forwarded by the Secretary of the Company to the addressee without review by management.

Compensation Committee Interlocks and Insider Participation

During 2008, the Company s Compensation Committee consisted of Messrs. Rosenthal, Papa and Wells, each of whom is an independent, non-employee director. There were no compensation committee interlock relationships nor any insider participation in compensation arrangements for the year ended December 31, 2008.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee (the Committee) of the Board of Directors provides overall guidance to the Company s executive compensation program and administers incentive compensation plans.

The executive compensation program includes three primary elements which are generally performance oriented and, taken together, constitute a flexible and balanced method of establishing total compensation for the Company s executive officers. The three major elements consist of a) base salary, b) annual incentive plan awards, and c) long-term incentive awards. The design of this compensation program supports the Company s executive total compensation philosophy.

Executive Total Compensation Philosophy

The Company s philosophy regarding the executive compensation program has been to design a compensation package that provides competitive base salary levels and compensation incentives that (i) attract and retain individuals of outstanding ability in these key positions, (ii) recognize corporate performance relative to established goals and the performance of the Company relative to the performance of other companies of comparable size, complexity and quality and against budget goals, and (iii) support both the short-term and long-term strategic goals of the Company. The Committee believes this approach closely links the compensation of the Company s executives to the execution of the Company s strategy and the accomplishment of the Company goals that coincide with stockholder objectives.

Compensation Program Objectives:

- motivate, reward, retain and attract key employees and executive talent required to achieve corporate strategic plans;
- reinforce the relationship between strong individual performance of executives and business results; and
- align the interests of executives with the long-term interests of stockholders.

The compensation program is designed to reward executives for long-term strategic management and the enhancement of stockholder value.

Compensation Benchmarking Relative to Market

The Committee establishes executive compensation primarily based on a review of the executive s performance and compensation history and takes into account corporate performance. In the exercise of its duties, the Committee periodically benchmarks the Company s executive compensation against that of comparable companies. The Committee considers the market to consist of both the oilfield services industry and geographic markets in which the Company vies for executive talent. Benchmark data is obtained for a selected peer group approved by the Compensation Committee as well as for industry companies of comparable size. The Committee reviews the compensation programs for comparable positions at similar corporations with which the Company competes for executive talent, and also considers relative internal equity within the executive pay structure. This approach allows the Committee to respond to changing business conditions, manage salaries and incentives more evenly over an individual s career as well as minimize the potential for automatic ratcheting-up of salaries and incentives that could occur with an inflexible and more narrowly defined approach. In addition, the Committee took into account the very competitive market for highly qualified and experienced oilfield service executive talent which existed in early 2008 when the 2008 compensation decisions discussed below were made as well as related retention issues existing at that time. During 2008, the Committee engaged consultants to assist in a review of comparative compensation data. Results of the review of comparative compensation data reflected that the Company s Named Executive Officers were not compensated above median levels.

In evaluating the comparison group data for compensation purposes, the Committee neither bases its decisions on quantitative relative weights of various factors, nor follows mathematical formulas. Rather, the Committee exercises its discretion and makes its judgment after considering the factors it deems relevant.

Elements of Compensation:

Base Salary Base salary is the guaranteed element of an executive s direct compensation and is intended to provide a foundation for a competitive overall compensation opportunity for the executive. The Committee reviews each executive s base salary annually. Executive officer base salaries are based on an evaluation that considers the executive s prior experience and breadth of knowledge and which also considers benchmark data from other similarly sized companies in businesses comparable to the Company s, the Company s and the executive s performance, and any significant changes in the executive s responsibilities. The Committee considers all these factors together plus overall industry conditions and retention risks and makes a subjective determination on base salary adjustments.

Effective March 3, 2008, Mrs. Taylor s base salary was increased 6.7% to $480,000; Mr. Dodson s base salary was increased 19.1% to $250,000; Mr. Hughes base salary was increased 4.3% to $290,000; and Mr. Cragg s base salary was increased 9.6% to $285,000. Mr. Green received a 20% raise effective March 1, 2008 which increased his base salary to $339,876 (Canadian $360,000). Mrs. Taylor provides the Committee with input regarding the performance of other Company executives and makes compensation recommendations with respect to these individuals. Base salary adjustments were made in March 2008 in consideration of the Company s growth, strong performance and individual contributions and responsibilities as well as the Committee s assessment of competitive conditions and related retention issues. Benchmarking studies conducted later in 2008 confirmed that base salary levels after these adjustments for Named Executive Officers were not in excess of median levels.

Annual Cash Incentive Compensation The Company s Annual Incentive Compensation Plan (AICP) promotes a pay-for-performance philosophy by providing executives with direct financial incentives in the form of annual cash bonuses based on total Company and business unit performance. Annual incentive awards are linked to the achievement of Company-wide and business unit quantitative performance goals and are designed to place a significant portion of total compensation at risk. The purpose of the AICP is to:

create stockholder value;

provide focus on the attainment of annual goals that lead to long-term success of the Company;

provide annual performance-based cash incentive compensation;

motivate achievement of critical annual operating performance metrics; and

motivate employees to continually improve Company-wide and business unit performance.

The plan is flexible and provides the Committee the discretion to set goals and objectives with input from management that it believes are consistent with creating stockholder value and include financial measures, growth objectives, operating objectives, safety goals and other measures. Under the AICP, an incentive target is established for each executive officer based upon a review of the competitive data for that position, level of responsibility and ability to impact the Company s success. The AICP recognizes market differences in incentive award opportunities between organizational levels. Achieving results which exceed a minimum, or threshold, level of performance triggers an AICP payout. Performance results at or below the threshold (i.e. achieving 85% of the related AICP performance objective or less) will result in no AICP award. The target represents achieving 100% of an executive officer s AICP performance objective(s) as well as the targeted payout. Overachievement (i.e. achieving 120% of the related AICP performance objective) is the performance level at which incentive compensation is maximized.

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The 2008 award opportunities, expressed as a percentage of base salary, for the Named Executive Officers are outlined below:

	Threshold	Target	Overachievement
Cindy B. Taylor	0%	60%	120%
Bradley J. Dodson	0%	50%	100%
Howard Hughes	0%	50%	100%
Ron R. Green	0%	50%	100%
Christopher E. Cragg	0%	50%	100%

At the beginning of each year, the Committee is responsible for establishing the AICP performance objectives based on recommendations by the Chief Executive Officer. The Committee sets performance goals that are both measurable and achievable. At the end of each year, the Committee reviews the performance results of the Company and the incentive awards to be paid to each executive officer and to all participants in the AICP. In its discretion, the Committee will interpret the plan and has authority to make appropriate adjustments in individual, business unit or Company wide results in its discretion. The Committee did not make any discretionary changes to the 2008 incentive payouts to the Named Executive Officers.

Performance measures are selected and weighted by management and the Committee annually to give emphasis to performance for which participants have influence. The Committee has established earnings before interest, taxes, depreciation and amortization (EBITDA) as the primary corporate financial performance objective for each executive officer. In addition, a portion of the incentive potential for certain participants was based on return on investment (ROI) and, for certain of the executives other strategic goals as determined appropriate for the executives areas of responsibilities. Other strategic goals and objectives varied and included measures such as safety performance. Performance goals may be similar for all executives or may be different to reflect more appropriate measures of corporate and business unit performance.

For 2008, Mr. Dodson and Mrs. Taylor had 90% of their incentive compensation based on the Company s EBITDA and 10% of their incentive compensation based on the Company s ROI. Mr. Hughes incentive was based 80% on Offshore Products EBITDA, 10% on Offshore Products ROI and 10% on the Company s EBITDA. Mr. Green s incentive compensation was based 10% on the Company s EBITDA and the following PTI Group, Inc. metrics: 80% EBITDA and 10% ROI. Mr. Cragg s incentive compensation was based on 40% on the Company s EBITDA, 10% on Tubular Services EBITDA and 50% on U.S. Well Site Services and certain Canadian and international rental tool operations EBITDA.

At the end of each year, the Committee reviews the performance results of the Company and the total incentive awards to be paid to each executive officer based on such officer s success in achieving his AICP performance objectives.

All executive officers, including Mrs. Taylor, received incentive plan payments for 2008 performance. These incentive plan payments varied based upon Company and business unit achievement of the related goals and objectives. Six of ten business groupings of the Company, for AICP calculation purposes, including the consolidated group, exceeded their 2008 objectives, and nine of the Company s 13 executive officers received bonuses for 2008 in excess of target with seven receiving bonuses below target. On a consolidated basis, the Company overachieved its targets for 2008. Each of the Named Executive Officers for the fiscal year ended December 31, 2008, received the following payments in February 2009 under the AICP for fiscal 2008 performance.

	AICP Award ($)	% of Base Salary(1)
Cindy B. Taylor	$ 569,077	120%
Bradley J. Dodson	$ 242,308	100%
Howard Hughes	$ 202,413	70%
Ron R. Green	$ 330,435	100%
Christopher E. Cragg	$ 181,230	65%

(1) Represents the percentage of actual base salary paid in 2008.

Long-term Incentives The Company makes certain stock-based awards under the 2001 Equity Participation Plan, which has been approved by stockholders, to better align the interests of executive officers with those of stockholders and to provide retention incentives. Specifically, the plan s purposes are to:

provide an additional incentive for executives to further the growth, development and financial success of the Company by personally benefiting through ownership of Company stock and/or rights which recognize growth, development and financial success; and

enable the Company to obtain and retain the services of executives considered essential to the long term success of the Company by offering them an opportunity to own stock in the Company and/or rights which will reflect the growth, development and financial success of the Company.

The 2001 Equity Participation Plan provides for the grant of any combination of:

stock options, which include both incentive stock options and nonqualified stock options;

restricted stock;

performance awards;

dividend equivalents;

deferred stock; and

stock payments.

In determining appropriate awards, the Committee periodically reviews each executive s past performance, his or her ability to contribute to the future success and growth of the Company, time in the current job and competitive market data. The Committee also takes into account the risk of losing the executive to other employment opportunities and the value and potential for appreciation in the Company s stock. The Committee believes that stock options and restricted stock grants, along with significant vesting requirements, are an effective method of reinforcing the long-term nature of the Company s business. In addition, grants of stock options and/or restricted stock reinforce alignment with stockholder interests. The Committee considers the foregoing factors together and makes a subjective determination with respect to awarding equity based compensation to its executive officers.

Under the 2001 Equity Participation Plan (Plan) the Company has only granted nonqualified stock options and time-vested restricted stock awards. The large majority of the options granted by the Committee vest at a rate of 25% per year over the first four years of a six year option term. The Company amended the Plan on March 31, 2009, to provide for minimum vesting periods on restricted stocks and similar awards of one year for performance-based awards and three years for tenure based awards, except for a small percentage of the authorized shares under the Plan. As a result of this amendment, vesting may occur earlier than the minimum vesting periods with respect to no more than 10% of shares cumulatively authorized under the Plan. Options are awarded at the NYSE s closing price of the Company s common stock on the date of the grant, or the last trading day if the award date is a date when markets are closed (NYSE Closing Price). The Committee has never granted options with an exercise price that is less than the closing price of the Company s common stock on the grant date. Restricted stock awards, which are valued at the NYSE Closing Price, generally vest over a four year period at a rate of 25% per year.

Higher-level positions will generally have a greater percentage of their total compensation based on longer-term incentives. The size of long-term incentive grants will vary from year to year and reflects a variety of factors including competitive market practices, retention priorities, total previous grants, current stock valuation, estimated future charges to earnings, and individual, business unit and company wide performance. The Committee determines the award level for executives, if any, on an annual basis usually at its February meeting each year.

The Company continues to incorporate a combination of both nonqualified stock options and restricted stock awards as the primary executive long-term incentive and retention tool. Awards are based on a number of factors, including the participant s position, experience, base compensation, stock price and opportunity for advancement as well as any retention issues. Restricted stock awards offers the additional advantages of potentially reducing overall

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company stock dilution and increasing employee stock ownership, while improving the Company s executive retention prospects in a very competitive labor market. We recognize that options alone may not have adequate retention value in an industry that has historically been cyclical in nature. The Committee weighs the cost of these grants with their potential benefit as an incentive, retention and compensation tool.

Restricted stock awards were made to Mrs. Taylor and Messrs. Dodson, Hughes and Cragg on February 18, 2008 at the then fair market value of $36.53 per restricted share. Stock option awards were made to Mrs. Taylor and Messrs. Dodson, Hughes, Green and Cragg on February 18, 2008 that had an exercise price of $36.53 per share based on the NYSE Closing Price and that had a Black Scholes fair market value on the date of grant of $12.26 per option award.

Other than Mr. Green, who only received a grant of stock options, each of the Named Executive Officers received both grants of stock options and restricted stock awards. During 2008, a total of 120,000 stock options and 38,000 shares of restricted stock awards were granted to the Named Executive Officers.

In administering the long-term incentive plan, the Committee is sensitive to the potential for dilution of future earnings per share. For this reason and because of other compensation design considerations, the Committee does not administer a broad-based stock program. Instead, the Committee focuses the long-term incentive plan on employees who will have the greatest impact on the strategic direction and long-term results of the Company by virtue of their senior roles and responsibilities.

Stock option grants and restricted stock awards are expensed to comply with Statement of Financial Accounting Standards No. 123R Share Based Payments (FASB 123R). There is no program, plan or practice to time the grant of stock options and award restricted stock to executives in coordination with material non-public information. Executive officers are prohibited from trading options or any derivative type contract related to the Company s stock.

Benefits

Employee benefits are designed to be broad based, competitive and to attract and retain employees. From time to time the Committee reviews plan updates and recommends that the Company implement certain changes to existing plans or adopt new benefit plans.

Health and Welfare Benefits

The Company offers a standard range of health and welfare benefits to all employees including executives. These benefits include: medical, prescription drug, vision and dental coverages, life insurance, accidental death and dismemberment, long-term disability insurance, flexible spending accounts, employee assistance, business travel accident and 529 college savings plans. Executive officers make the same contributions for the same type of coverage and receive the same level of benefit as any other employee for each form of coverage / benefit.

Retirement Plans

The Company does not offer a defined benefit retirement plan. The Company does offer a defined contribution 401(k) retirement plan to substantially all of its U.S. employees. Participants may contribute from 1-50% of their base and cash incentive compensation (subject to IRS limitations), and the Company makes matching contributions under this plan on the first 6% of the participant s compensation (100% match of the first 4% employee deferral and 50% match on the next 2% deferred). A similar defined contribution retirement plan is in place and available to our Canadian employees, including Ron Green.

Deferred Compensation Plan

The Company maintains a nonqualified deferred compensation plan that permits eligible employees and directors to elect to defer all or a part of their cash compensation (base and/or incentives) from the Company until the termination of their status as an employee or director. A deferral election may provide for deferring different forms of compensation (base salary and/or incentive compensation) during the year. The Committee administers the plan. Participating employees are eligible to receive from the Company a matching deferral under the nonqualified deferred compensation plan that is intended to compensate them for contributions they could not receive from the

Company under the 401(k) plan due to the various limits imposed on 401(k) plans by U.S. federal income tax laws. Directors do not receive any matching contributions.

Participants in the nonqualified deferred compensation plan are able to invest contributions made to the nonqualified deferred compensation plan in investment funds selected by a Retirement Plan Committee which also mirrors the 401(k) plan investment funds. The Retirement Plan Committee is composed of employees. The Compensation Committee has established a grantor trust to hold the amounts deferred under the plan by the Company s officers and directors. All amounts deferred under the plan remain subject to the claims of the Company s creditors.

Allocation of net income (or net loss) in each participant s account is divided into sub accounts to reflect each participant s deemed investment designation in a particular fund(s). As of each valuation date, the net income (or net loss) of each fund is allocated among the corresponding sub accounts of the participants. Each sub account is credited with (or debited for) that portion of such net income (or net loss) due to the change in the value of each corresponding sub account from the prior valuation date.

Each participant will receive, at the participant s election, a lump sum distribution or installment payments only upon termination of the participant s service with the Company and its affiliates. Any other withdrawals by the participant will be made in good faith compliance with 409A limitations.

Other Perquisites and Personal Benefits

The Company does not offer any perquisites or other personal benefits to any executive with a value over $10,000 beyond those discussed above. Some executives do have Company paid club memberships, which are used for business purposes.

Compensation Consultant

The Committee, from time to time, utilizes consultants to provide independent advice on executive compensation matters and to perform specific project-related work. The consultants report directly to the Committee, which pre-approves the scope of the work and the fees charged. The Committee indicates to the consultants the role that management has in the analysis of executive compensation, such as the verification of executive and Company information that the consultant requires.

Executive Compensation Policies

Policy Against Repricing Stock Options The Company s policy is to price awards at the market price on the date of award.

Securities Trading Policy The Company prohibits directors, officers and certain other managers from trading the Company s securities on the basis of material, non-public information or tipping others who may so trade on such information. In addition, the policy prohibits trading in the Company s securities without obtaining prior approval from the Company s Compliance Officer.

Tax Deductibility of Compensation Section 162(m) of the Internal Revenue Code, enacted in 1993, imposes a limit of $1 million, unless compensation is performance based, on the amount that a publicly held corporation may deduct in any year for the compensation paid or accrued with respect to its chief executive officer and each of its four other most highly compensated executive officers. While the Company cannot predict with certainty how the compensation of our Named Executive Officers might be affected in the future by the Section 162(m), or applicable tax regulations issued hereunder, the Company intends to preserve the tax deductibility of substantially all of executive compensation while maintaining the executive compensation program as described herein. None of the Company s executive officers currently received compensation exceeding the limits imposed by Section 162(m).

Executive Stock Ownership Guidelines Effective February 16, 2007, Executive Stock Ownership Guidelines were adopted by the Compensation Committee of the Board of Directors of the Company to further align the interests of executives with the interests of stockholders and further promote the Company s commitment to sound corporate governance.

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The Executive Stock Ownership Guidelines are based on a multiple of the executive s base salary and then converted to a fixed number of shares. Once determined, an executive s ownership guideline does not automatically change as a result of changes in his or her base salary or fluctuations in Oil States common stock price. However, the Committee may, from time to time, reevaluate and revise participants guidelines to incorporate these types of events. An executive s stock ownership guideline may also increase because of a change in title. The Committee requires that the senior executives have direct ownership of the common stock in at least the following amounts:

Stock Ownership Level

Position	**Multiple of Salary**
Chief Executive Officer	3X
Executive Officers (Section 16)	2X
Corporate Administrative Vice Presidents	1X

Stock that counts toward satisfaction of the Company s Stock Ownership Guidelines includes:

Company shares owned outright (i.e. open market purchases) by the executive or his or her immediate family members residing in the same household

Vested Company restricted stock awards that are issued as part of the executive s long-term compensation

Company shares acquired upon option exercise that the executive continues to hold

Company shares held in the Company s Nonqualified Deferred Compensation Plan

Company shares beneficially owned through a trust

Covered executives are required to achieve their Stock Ownership Guideline within four years (i.e. by March 1, 2011 for the initial requirements). Once achieved, ownership of the guideline amount must be maintained for as long as the individual is subject to Executive Stock Ownership Guidelines. None of the Named Executive Officers had attained required Stock Ownership Guidelines levels as of December 31, 2008.

Executive and Change of Control Agreements

The Company maintains Executive Agreements with six executive officers subject to Section 16 of the Securities and Exchange Commission regulations. The Executive Agreements are not considered employment agreements and the executives are employed at will by the Company. These agreements provide protection in the event of (i) a qualified termination, which is defined as an involuntary termination of the executive officer by the Company other than for Cause or (ii) either an involuntary termination or a voluntary termination by the executive for Good Reason after a corporate Change of Control (as defined in each Executive Agreement) of the Company. The triggering events were selected due to the executive not having complete control of their circumstances. Executives are exercising control over their circumstances when they resign voluntarily without Good Reason or are terminated for Cause. As a result, these events do not trigger any payments.

If a qualified termination occurs other than during the 24-month period following a corporate Change of Control, the Executive Agreements provide for payments based on the executive officer s base salary and target annual bonus amount, that all restrictions on restricted stock awards will lapse and for continued health benefits for 24 months. Any vested, non-qualified stock options would expire after 3 months of the date of termination if not exercised prior to their expiration.

The Change of Control provision in the Executive Agreement is intended to encourage continued employment by the Company of its executive officers and to allow such executive to be in a position to provide assessment and advice to the Board of Directors regarding any proposed Change of Control without concern that such executive might be unduly distracted by the uncertainties and risks created by a proposed Change of Control. Unlike single trigger plans that pay out immediately upon a change of control, the Company s agreement requires a double trigger (i.e. a change of control along with an involuntary loss of employment). If the qualified termination occurs during the 24-month period following a corporate Change of Control, the agreements provide for a lump sum payment to the executive officer based on the executive officer s base salary and target annual incentive amount. In addition, with respect to such a qualified termination, the agreements provide that all restricted stock awards will become vested, that all restrictions on such awards will lapse and that outstanding stock options will vest and, will remain exercisable for the remainder of their terms. The executive officer will also be entitled to health benefits for 36 months, vesting of all deferred compensation amounts, outplacement services and to be made whole for any excise taxes incurred with respect to severance payments that are in excess of the limits set forth under the Internal Revenue Code. See Potential Payments Under Termination or Change of Control in this Proxy Statement for additional disclosures of severance and Change of Control payments for Named Executive Officers.

The Executive Agreements have a term of three years and are extended automatically for one additional day on a daily basis for a period of three years, unless notice of non-extension is given by the Board of Directors of the Company, in which case the agreement will terminate on the third anniversary of the date notice is given. To receive benefits under the Executive Agreement, the executive officer will be required to execute a release of all claims against the Company. Certain terms of the Executive Agreements are summarized below.

Cindy B. Taylor. Under the terms of Mrs. Taylor s Executive Agreement, she will be entitled to receive a lump sum payment equal to two and a half times her base salary and target annual incentive amount if a qualified termination occurs during the 24-month period following a corporate Change of Control. If a qualified termination occurs other than during the 24-month period following a corporate Change of Control, Mrs. Taylor will be entitled to receive a lump sum payment equal to one and a half times her base salary and target annual incentive amount.

All Other Section 16 Executive Officers. Under the terms of each of their Executive Agreements, the executive officer will be entitled to receive a lump sum payment equal to two times his base salary and target annual incentive amount if a qualified termination occurs during the 24-month period following a corporate Change of Control. If a qualified termination occurs other than during the 24-month period following a Change of Control, the executive officer will be entitled to receive a lump sum payment equal to his base salary and target annual incentive amount.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis filed in this document. The Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Proxy Statement and annual report.

THE COMPENSATION COMMITTEE

Gary L. Rosenthal, Chairman
Mark G. Papa
Stephen A. Wells

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SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by the Named Executive Officers for each fiscal year in the three year period ended December 31, 2008. The Company has not entered into any employment agreements with any of the Named Executive Officers. When setting total compensation for each of the Named Executive Officers, the Committee reviews tally sheets which show the executive s current compensation, including equity and non-equity based compensation.

Name and Principal Position	Year	Salary ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Total ($)
Cindy B. Taylor	2008	474,231	391,977	556,427	569,077	44,857	2,036,569
Chief Executive Officer	2007	435,769	205,150	481,364	345,914	44,875	1,513,072
	2006	372,269	79,756	446,296	409,496	37,167	1,344,984
Bradley J. Dodson	2008	242,308	141,381	132,208	242,308	21,846	780,051
Vice President, Chief	2007	206,154	87,975	126,774	136,371	20,311	577,585
Financial Officer & Treasurer	2006	176,649	44,640	118,511	158,984	17,192	515,976
Howard Hughes	2008	287,692	90,472	183,775	202,413	31,258	795,611
President Oil States	2007	276,461	46,041	290,352	265,034	29,364	907,252
Industries, Inc	2006	267,837	13,404	198,592	267,837	26,523	774,193
Ron R. Green(2)	2008	330,435	49,494	246,707	330,435	30,233	987,304
President PTI	2007	276,796	23,521	156,165	266,389	57,977	780,848
Group, Inc.	2006	233,746	7,611	79,449	228,078	44,087	592,971
Christopher E. Cragg	2008	280,192	120,533	179,398	181,230	19,665	781,018
Senior Vice President, Operations	2007	257,115	56,259	164,261	42,699	25,542	545,876

(1) The amounts in Stock Awards and Option Awards columns reflect the dollar amount recognized as an expense for each of the named executive officers for financial statement reporting purposes for each of the fiscal years ended December 31, 2006, December 31, 2007 and December 31, 2008 in accordance with SFAS 123R for restricted stock awards and stock options, respectively, pursuant to the 2001 Equity Participation Plan and thus include amounts with respect to awards and options granted during a four year period including 2005 through 2008. Assumptions used in the calculation of this amount for fiscal years ended December 31, 2006, 2007 and 2008 are included in footnote 13 to the Company s audited financial statements, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 20, 2009. Assumptions used in the calculation of this amount for the fiscal year ended December 31, 2005 are included in

footnote 12 to Consolidated Financial Statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2005, filed with the SEC on March 2, 2006. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. These amounts reflect the Company s accounting expense for these awards and options, and do not necessarily correspond to the actual value that will be recognized by the named executive officers. All stock awards and option awards vest over a four year period at a rate of 25% each year. All options awarded were priced at the date of the award and have a life of six years.

(2) Compensation reported for Mr. Green, other than stock awards and option awards, were made in Canadian dollars and are reflected in this table in U.S. dollars using the average exchange rate for each year.

(3) Amounts of Non-Equity Incentive Plan Compensation paid to each of the Named Executive Officers were made pursuant to the Company s Annual Incentive Compensation Plan. For a description of this plan please see Annual Cash Incentive Compensation.

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(4) The amount shown in All Other Compensation column reflects the following for each Named Executive Officer:

		Retirement or Deferred Compensation Plan Match ($)(5)	Other ($)(6)	Total ($)
Cindy B. Taylor	2008	41,007	3,850	44,857
	2007	42,263	2,612	44,875
	2006	34,501	2,666	37,167
Bradley J. Dodson	2008	18,934	2,912	21,846
	2007	18,257	2,054	20,311
	2006	14,656	2,536	17,192
Howard Hughes	2008	27,636	3,622	31,258
	2007	27,215	2,149	29,364
	2006	25,731	792	26,523
Ron R. Green	2008	29,961	272	30,233
	2007	25,936	853	57,977
	2006	13,918	767	44,087
Christopher E. Cragg	2008	16,419	3,246	19,665
	2007	22,450	3,092	25,542

(5) Represents the matching contribution allocated by the Company to each of the Named Executive Officers, except Mr. Green, pursuant to the 401(K) Retirement Plan or Deferred Compensation Plan as more fully described in Compensation Discussion and Analysis Retirement Plans , included herein. Mr. Green received the matching contribution in a Canadian Retirement Savings Plan.

(6) The amounts shown in the Other column in the table above include club dues and the imputed income attributable to term life insurance program for Messrs. Dodson, Hughes and Cragg and Mrs. Taylor; and Canadian health care premiums paid on behalf of Mr. Green.

Each of the Named Executive Officers is party to an Executive Agreement, which are not considered employment agreements. For a description of these agreements, please see Executive Compensation Discussion and Analysis Executive and Change of Control Agreements. The compensation amounts described in the preceding tables were determined as described under Executive Compensation Discussion and Analysis Elements of Compensation.

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GRANTS OF PLAN BASED AWARDS

The following table provides information about equity and non-equity awards granted to Named Executive Officers in 2008: (1) the grant date; (2) the estimated future payouts under the non-equity incentive plan, which is discussed in Compensation Discussion and Analysis Annual Cash Incentive Compensation , included herein; (3) the number of restricted stock awards pursuant to the Company s 2001 Equity Participation Plan; (4) the number of stock option awards, which consist of the number of shares underlying stock options awarded, pursuant to the Company s 2001 Equity Participation Plan; (5) the exercise price of the stock option awards, which reflects the NYSE Closing Price; and (6) the fair value of each equity award computed under SFAS 123R as of the grant date.

		Estimated Payouts for 2008 Performance Under Non-Equity Incentive Plan Awards(1)						
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)(2)	All Other Options Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(3)
Cindy B. Taylotr			270,000	540,000				
	2/18/2008				19,500			712,335
	2/18/2008					52,500	36.53	643,519
Bradley J. Dodson			105,000	270,000				
	2/18/2008				6,000			219,180
	2/18/2008					10,000	36.53	122,575
Howard Hughes			139,000	278,000				
	2/18/2008				5,000			182,650
	2/18/2008					12,500	36.53	153,219
Ron R. Green(4)			141,615	283,230				
	2/18/2008					30,000		367,725
Christopher E. Cragg			130,000	260,000				
	2/18/2008				7,500			273,975
	2/18/2008					15,000	36.53	183,863

(1) The amounts shown in the column Target reflect the target level of bonus payable under the Company s Incentive Compensation Plan (see discussion in Compensation Discussion and Analysis Incentive Compensation Plan , included herein) which is based on an executive s base salary paid during the year multiplied by the executive s bonus percentage. The base salary used in this table is shown as of the date of the award which has been assumed

to be February 18, 2008; actual awards are calculated based on a participant s base salary paid in the year. The amount shown in the Maximum column represents 200% of the target amount. In years when less than 85% of performance targets established under the Incentive Compensation Plan are achieved no payments are made under the Plan.

(2) The amounts shown in All Other Stock Awards and All Other Option Awards columns reflect the number of restricted stock awards and stock options, respectively, granted in 2008 pursuant to the Company s 2001 Equity Participation Plan. See Compensation Discussion and Analysis Equity Participation Plan , included herein.

(3) This column shows the full grant date fair value of restricted stock awards and stock options under SFAS 123R granted to the Named Executive Officers during 2008, which is subject to a four year vesting schedule. Generally, the full grant date fair value is the amount that the Company would expense in its financial statements over the award or option vesting schedule.

(4) Mr. Green s non-equity incentive plan award amounts were made in Canadian dollars and are reflected in this table in U.S. dollars using the average exchange rate for 2008.

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OUTSTANDING EQUITY AWARDS AT 2008 FISCAL YEAR END

The following table provides information on the holdings of stock options and stock awards by the Named Executive Officers as of December 31, 2008. This table includes unexercised and unvested option awards and unvested stock awards. Each equity grant is shown separately for each Named Executive Officer. The vesting schedule for each grant is shown following this table, based on the option or stock award grant date or other factors, as discussed. The market value of the stock awards is based on the closing market price of the Company s common stock as of December 31, 2008, which was $18.69. For additional information about the option awards and stock awards, see the description of equity incentive compensation in Compensation Discussion and Analysis , included herein.

	Options Awards					Stock Awards			
me	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights that Have Not Vested	Eq Ince P Aw Ma o Pa Va Und Sha U o Ot Ri th H N Ve
dy B. Taylor	100,000(3)			11.49	2/25/2013				
	37,500(4)			13.70	2/26/2010				
	45,000(5)	15,000(5)		21.08	2/24/2011				
	20,000(6)	20,000(6)		34.86	2/15/2012				
	9,425(8)	28,275(8)		28.98	2/16/2013				
	3,690(10)	11,070(10)		36.99	5/17/2013				
		52,500(12)		36.53	2/18/2014				
						1,437(1)	26,858		
						3,250(7)	60,742		
						10,350(9)	193,441		
						4,055(11)	75,788		
						19,500(13)	364,455		
	12,000(2)			8.00	2/11/2012				

adley J. dson						
	10,000(3)		11.49	2/25/2013		
	5,000(4)		13.70	2/26/2010		
	3,281(5)	3,281(5)	21.08	2/24/2011		
	7,500(6)	3,750(6)	34.86	2/15/2012		
	2,500(8)	7,500(8)	28.98	2/16/2013		
		10,000(12)	36.53	2/18/2014		
					312(1)	5,831
					2,500(7)	46,725
					4,500(9)	84,105
					6,000(13)	112,140
ward Hughes	9,375(4)		13.70	2/26/2010		
	8,438(5)	2,812(5)	21.08	2/24/2011		
	6,250(6)	6,250(6)	34.86	2/15/2012		
	3,125(8)	9,375(8)	28.98	2/16/2013		
		12,500(12)	36.53	2/18/2014		
					275(1)	5,140
					500(7)	9,345
					3,750(9)	70,088
					5,000(13)	93,450
n R. Green	3,750(5)	3,750(5)	21.08	2/24/2011		
	4,375(6)	8,750(6)	34.86	2/15/2012		
	7,500(8)	22,500(8)	28.98	2/16/2013		
		30,000(12)	36.53	2/18/2014		
					500(7)	9,345
					2,033(9)	37,997
ristopher E. agg	15,000(2)		8.00	2/11/2012		
	20,000(3)		11.49	2/25/2013		
	6,250(4)		13.70	2/26/2010		
	4,687(5)	4,687(5)	21.08	2/24/2011		
	8,750(6)	8,750(6)	34.86	2/15/2012		
	3,750(8)	11,250(8)	28.98	2/16/2013		
		15,000(12)	36.53	2/18/2014		

					73.59	0.66%	$	34.76	47%
nania	21.3	$	4,460	$	12.24	0.27%	$	7.32	60%
ak Republic	5.4	$	9,312	$	35.63	0.38%	$	17.84	50%
enia	2.0	$	17,050	$	55.85	0.33%	$	33.29	59%
aine	47.4	$	1,715	$	8.35	0.49%	$	3.92	47%

(1) Source: Global Insight Country Analysis (2005 data).

(2) Source: ING (September 2005 data).

(3) Source: CME estimates.

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

Country	Population (in millions)(1)	Per capita GDP 2005(1)	Total advertising spending per capita 2005 (US$)(2)	Total advertising spending as a % of GDP 2005(2)	TV advertising spending per capita (US$)(2)	TV advertising spending as a % of total advertising spending(2)
Greece	11.1	$ 19,685	$ 213	1.09%	$ 71	33%
Hungary	10.1	$ 10,713	$ 122	1.14%	$ 81	66%
Italy	58.0	$ 29,567	$ 166	0.56%	$ 92	55%
Poland	38.6	$ 6,622	$ 28	0.42%	$ 14	51%
Russia	143.9	$ 4,279	$ 34	0.79%	$ 16	46%
Turkey	72.2	$ 4,345	$ 23	0.52%	$ 13	56%
UK	59.5	$ 37,333	$ 322	0.86%	$ 95	30%
USA	295.4	$ 42,471	$ 507	1.19%	$ 188	37%

(1)
Source: ZenithOptimedia (December 2005).

(2)
Source: CME estimates.

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

Country	2001	2002	2003	2004	2005
Croatia				110 - 120	115 - 125
Czech Republic				335 - 345	350 - 360
Romania	60 - 70	65 - 75	85 - 95	110 - 120	150 - 160
Slovak Republic	35 - 45	40 - 50	60 - 70	80 - 90	90 - 100
Slovenia	45 - 55	45 - 55	45 - 55	55 - 65	60 - 70
Ukraine	70 - 85	85 - 100	100 - 115	130 - 140	180 - 190

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

Television advertising sales

In the countries in which we operate, advertisers tend to allocate their television advertising budgets among channels based on each channel's audience share, audience demographic profile and pricing policy. We generally offer two different bases of pricing to our advertising customers. The first basis is cost per gross rating point (which we refer to as "GRP"). A GRP represents one percent of the population over the age of four. The second basis is rate-card, which reflects the timing and duration of an advertisement. Whether advertising is sold on a GRP basis or a rate-card basis depends on the dynamics of a particular market and our relative audience share.

Cost per GRP pricing: Advertising priced on a cost per GRP basis allows an advertiser to specify the number of gross ratings points that it wants to achieve with an advertisement within a defined period of time. We schedule the timing of the airing of the advertisements during such defined period of time in a manner that enables us both to meet the advertiser's GRP target and to maximize the use and profitability of our available advertising programming time. The price per GRP package varies depending on the demographic group that the advertisement is

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targeting, the flexibility given to us by advertisers in scheduling their advertisements and the rebates offered by us to advertising agencies and their clients. GRP package sales generally allow for better inventory control than rate-card pricing and optimize the net price per GRP achieved.

Rate-card pricing: Advertising priced on a rate-card basis is applied to advertisements scheduled at a specific time. Consistent with industry practice, we provide an incentive rebate on rate-card prices to a number of advertising agencies and their clients.

The majority of our advertising customers commit to annual minimum spending levels. We usually schedule specific advertisements one month in advance of broadcasting them. Prices paid by advertisers, whether they purchase advertising time on a GRP package or rate-card basis, tend to be higher during peak viewing months, particularly during the fourth quarter, than during off-peak months such as July and August. We recognize our advertising revenue at the time the relevant advertisement is broadcast. As is common in the television broadcasting industry, we provide some advertising agencies and advertisers with incentive rebates. We recognize advertising revenue net of these rebates. For the purposes of management discussion and analysis total advertising revenue net of rebates is referred to as "net spot revenue'. Non-spot revenue refers to revenue from sponsorship, game shows, program sales, text messaging, cable subscriptions as well as barter transactions.

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

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

III. Analysis of segment results

Overview

We manage our business on a country-by-country basis and review the performance of each business segment using data that reflects 100% of operating and license company results. Our business segments are comprised of Croatia, the Czech Republic, Romania, the Slovak Republic, Slovenia and Ukraine.

We evaluate the performance of our business segments based on Segment Net Revenues and Segment EBITDA. Segment Net Revenues and Segment EBITDA include STS and Markiza (our operating and license company affiliates in the Slovak Republic) for the year ended December 31, 2005 and STS, Markiza and Radio Pro in Romania for the year ended December 31, 2004. These entities are not consolidated under US GAAP.

We acquired our Croatian operations on July 16, 2004. Therefore, comparable 2004 financial information is included from the date of acquisition only. We acquired our Czech operations on May 2, 2005. Therefore, 2005 results are from the date of acquisition. We do not include any detailed year-on-year comparisons of financial results for our Croatian operations and provide only qualified limited comparisons for our Czech operations.

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

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

- expenses presented as corporate operating costs in our Consolidated Statement of Operations;
- foreign currency exchange gains and losses; and
- certain unusual or infrequent items (e.g., extraordinary gains and losses, impairments on assets or investments).

We use Segment EBITDA as a component in determining management bonuses.

For a full reconciliation of our Segment Net Revenues and Segment EBITDA by operation to our consolidated US GAAP results for the years ended December 31, 2005, 2004 and 2003 see Part II, Item 8, Note 17, "Segment Data" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus.

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

	For the years ended December 31, (US $000's)					
Segment financial information	**2005**	**(1)**	**2004**	**(1)**	**2003**	**(1)**
Segment Net Revenue						
Croatia (NOVA TV)	$ 22,030	5%	$ 9,757	4%	$	%
Czech Republic (TV NOVA, GALAXIE SPORT)	154,010	33%		%		%
Romania(2)	103,321	22%	76,463	31%	51,177	29%
Slovak Republic (MARKIZA TV)	64,266	14%	61,576	25%	50,814	29%
Slovenia (POP TV and KANAL A)	48,770	10%	45,388	18%	37,168	21%
Ukraine (STUDIO 1+1)	72,847	16%	53,351	22%	36,633	21%
Total Segment Net Revenue	**$ 465,244**	**100%**	**$ 246,535**	**100%**	**$ 175,792**	**100%**

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Segment EBITDA								
Croatia (NOVA TV)	$	(15,866)	(10)%	$	(3,756)	(5)%	$	%
Czech Republic (TV NOVA, GALAXIE SPORT)		71,544	45%			%		%
Romania(2)		43,803	28%		25,198	34%	12,206	27%
Slovak Republic (MARKIZA TV)		17,240	11%		18,975	25%	11,657	26%
Slovenia (POP TV and KANAL A)		19,337	12%		19,077	26%	13,173	29%
Ukraine (STUDIO 1+1)		21,803	14%		14,729	20%	7,999	18%
Total Segment EBITDA	**$**	**157,861**	**100%**	**$**	**74,223**	**100%**	**$ 45,035**	**100%**
Segment EBITDA Margin(3)		**34%**			**30%**		**26%**	

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

(2) Romanian networks are PRO TV, PRO CINEMA, ACASA and PRO TV INTERNATIONAL for the year ended December 31, 2005 and PRO TV, PRO CINEMA, ACASA, PRO TV INTERNATIONAL, PRO FM and INFOPRO for the years ended December 31, 2004 and 2003.

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

Analysis by geographic segment

(A) Croatia

	For the years ended December 31, (US $000's)		
Segment financial information	**2005**	**2004(1)**	**Movement**
Croatian Net Revenues	$ 22,030	$ 9,757	$ 12,273
Croatian EBITDA	$ (15,866)	$ (3,756)	$ (12,110)
Croatian EBITDA Margin	(72)%	(38)%	(34)%

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

Market background: We acquired our Croatian operations on July 16, 2004. We estimate the television advertising market in Croatia has shown local currency growth of approximately 4% in 2005 and is expected to show single digit growth during 2006.

National all day audience share for NOVA TV grew to 13.6% in 2005 compared to 12.0% in the previous year. Prime time audience share grew from 10.9% to 13.3%. Prime time ratings for the whole market increased from 38.4% in 2004 to 43.8% in 2005. We believe that this was due to the increased quality of the overall television offering in this market. NOVA TV prime time ratings increased from 4.1% to 5.8% in this period.

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

over the period from July to December 2005 when compared to the same period in 2004, driven principally by growth in the volume of ratings sold.

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

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

(B) Czech Republic

Segment financial information		**For the eight months ended December 31, (US $000's) 2005(1)**
Czech Republic Net Revenues	$	154,010
Czech Republic EBITDA	$	71,544
Czech Republic EBITDA Margin		46%

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

Market background: We acquired our Czech Republic operations on May 2, 2005. During 2005, we estimate the television advertising market in the Czech Republic grew by approximately 4% in local currency.

After the Office for the Protection of Economic Competition of the Czech Republic began conducting an investigation during the fourth quarter of 2005 regarding potential infringements of Czech antimonopoly legislation in respect of the sale of advertising on the TV NOVA channel from 2004, CET 21 has, without acknowledging any infringements alleged by the Antimonopoly Office, agreed to make certain undertakings in respect of the sale of advertising on TV NOVA. Upon acceptance of these undertakings by the Antimonopoly Office and subject to observance of them, the investigation will be terminated.

We have incorporated these undertakings into our new advertising sales strategy, which is designed to address the fact that the television advertising market in the Czech Republic has shown slow growth over the past several years compared to general economic growth rates. This is due in part to broadcasters focusing on obtaining an increased share of revenues committed to television advertising rather than raising advertising prices. The focus of the TV Nova (Czech Republic) group going forward will be the development of advertising revenues through price increases.

It is not possible to predict the impact of this change on the advertising revenues of the Czech Republic operations for 2006 on a full-year basis. We expect advertising revenues to decline in the early part of 2006 as the new advertising sales strategy is introduced. However, we believe that the successful implementation of this policy and continued strong audience share and ratings for TV NOVA will lead to accelerated growth both in the revenues of the Czech operations and in the television advertising market generally over the next several years.

TV NOVA (Czech Republic) is ranked first (of four channels) in the market based on its national all day audience share of 41% for 2005.

Net revenues for the period from acquisition to December 31, 2005 were US$ 154.0 million. We acquired our Czech Republic operations in May 2005 and accordingly no comparative data from 2004 is available. Galaxie Sport (acquired on September 1, 2005) contributed US$ 1.6 million to total net revenue.

Czech Republic Segment EBITDA for the period from May 2, 2005 to December 31, 2005 was US$ 71.5 million resulting in an EBITDA margin of 46%.
Costs charged in arriving at Segment EBITDA for the eight months ended December 31, 2005 included US$ 50.6 million of programming costs, US$ 14.9 million of other operating costs and US$ 16.9 million of selling, general and administrative expenses.

We do not have audited US GAAP financial statements for the TV Nova (Czech Republic) group for the four-month period immediately prior to our acquisition. Based on our estimates for this period we believe that net revenues for the twelve-month period ended December 31, 2005 amounted to approximately US$ 235 million. This represents an increase of US$ 26.9 million or 13% over the US GAAP net revenues for the TV Nova (Czech Republic) group for the year ended December 31, 2004 published in Amendment No. 2 to our Registration Statement No. 333-123822 on Form S-3 filed with the SEC on April 28, 2005. In local currency, our estimates indicate sales growth of 6%. We estimate that Segment EBITDA for the twelve-month period ended December 31, 2005, excluding one-time adjustments from fair value apportionments on acquisition, amounted to approximately US$ 110.8 million, an increase of US$ 11.4 million, or 11.5%, over our estimate of US GAAP Segment EBITDA for 2004. The local currency estimated Segment EBITDA growth was 4% and consequently year on year EBITDA margin has fallen from 48% to an estimated 47%.

(C) Romania

	For the years ended December 31, (US $000's)					
Segment financial information	**2005**	**2004**	**Movement**	**2004**	**2003**	**Movement**
Romanian Net Revenues	$ 103,321	$ 76,463	*$ 26,858*	$ 76,463	$ 51,177	*$ 25,286*
Romanian EBITDA	$ 43,803	$ 25,198	*$ 18,605*	$ 25,198	$ 12,206	*$ 12,992*
Romanian EBITDA Margin	42%	33%	*9%*	33%	24%	*9%*

Market background: Romania continues to be one of the fastest growing economies in Central and Eastern Europe. We estimate the television advertising market grew approximately 36% during 2005. We expect the advertising market to show continued growth in the range of 30% to 40% in 2006. The combined national all day audience share for our three channels grew from 23.8% in 2004 to 24.6% in 2005.

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

The increase in net spot revenues was driven by a 49% increase in the number of thirty-second advertising spots sold across our three-channel operation. Average revenues per thirty-second spot grew at a double-digit rate for all three channels. Two thirds of the volume growth arose in PRO CINEMA, which was launched in April 2004 and where average spot prices are lowest of the three channels. Most of the remaining volume growth arose in ACASA. Because the increase in the volume of spots sold occurred principally on the channels with the lowest price per spot, there was an overall 7% reduction in average revenue per thirty-second spot across the three channels.

Net Revenues for 2004 increased by 49% over 2003, reflecting the increase in advertising prices and additional advertising inventory available following the launch of PRO CINEMA in April 2004.

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

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2005 increased by US$ 8.3 million or 16% compared to 2004. The cost of programming grew by US$ 5.5 million or 19% due to increased costs of acquired programming and increased investment in locally produced news and sport programs. We estimate that a change in the programming amortization policy implemented in 2004 reduced amortization charges in 2005 by approximately US$ 2.5 million. We do not expect this benefit to continue in future periods. Other operating costs increased by US$ 1.8 million or 13% due to the appreciation of the New Romanian Lei, compared to the US dollar, increasing salary and wage costs. Selling, general and administrative expenses increased by US$ 0.9 million or 13% primarily due to increased rent and office costs of US$ 0.8 million.

Segment EBITDA for 2004 increased by US$ 13.0 million or 106% compared to 2003 as a result of the growth of the television advertising market and increases in prices for advertising. The EBITDA margin increased from 24% in 2003 to 33% in 2004.

(D) Slovak Republic

	For the years ended December 31, (US $000's)					
Segment financial information	**2005**	**2004**	**Movement**	**2004**	**2003**	**Movement**
Slovak Republic Net Revenues	$ 64,266	$ 61,576	*$ 2,690*	$ 61,576	$ 50,814	*$ 10,762*
Slovak Republic EBITDA	$ 17,240	$ 18,975	*$ (1,735)*	$ 18,975	$ 11,657	*$ 7,318*
Slovak Republic EBITDA Margin	*27%*	*31%*	*(4)%*	*31%*	*23%*	*8%*

Market background: We estimate that the television advertising market grew by approximately 4% in local currency in 2005. Measured in US dollars, the television advertising market grew by an estimated 7% in 2005 with the difference in growth rates resulting from the weakening of the US dollar in the period. We anticipate that the television advertising market will show single digit growth in 2006.

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

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

The volume of advertising spots sold by MARKIZA TV increased by approximately 22% compared to 2004. The average revenue per thirty-second spot decreased by 16% in local currency, primarily as a result of the decline in measured audience share following the move to peoplemeters, but also because two significant local productions did not perform as well as expected in the fourth quarter and did not achieve expected audience share against strong competition.

Net Revenues increased 21% in 2004 compared to 2003, largely due to a weakening US dollar but also due to the expansion of the television advertising market and increases in MARKIZA TV's prices. In local currency, revenues grew by 7% in 2004 compared to 2003, in line with the growth of the television advertising market in that period.

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

Costs charged in arriving at Segment EBITDA for the year ended December 31, 2005 increased by US$ 4.4 million or 10% resulting in the reduction of Segment EBITDA and the corresponding EBITDA margin compared to 2004. The cost of programming increased by US$ 1.5 million or 7%, reflecting an increase in the volume of higher cost local production and the costs of producing reality shows. The increase in programming costs was after allowing for an estimated US$ 2.0 million reduction in programming amortization charges arising from a change in the programming amortization policy implemented in 2004. We do not expect this benefit to continue in future periods. Other operating costs increased by US$ 1.1 million, or 8%, due to increased staff and social insurance costs. Selling, general and administrative expenses increased by US$ 1.8 million, or 22%, primarily as a result of the reversal of a US$ 1.1 million provision in 2004 due to resolution of a disagreement with the other shareholders that had given rise to a provision in 2003 as well as increased facilities costs resulting from operating an additional studio.

Segment EBITDA in 2004 increased US$ 7.3 million or 63% compared to 2003, with underlying local currency growth of 43% compared to 2003. The EBITDA margin increased from 23% in 2003 to 31% in 2004.

(E) Slovenia

	For the years ended December 31, (US $000's)					
Segment financial information	**2005**	**2004**	**Movement**	**2004**	**2003**	**Movement**
Slovenian Net Revenues	$ 48,770	$ 45,388	*$ 3,382*	$ 45,388	$ 37,168	*$ 8,220*
Slovenian EBITDA	$ 19,337	$ 19,077	*$ 260*	$ 19,077	$ 13,173	*$ 5,904*
Slovenian EBITDA Margin	40%	42%	*(2)%*	42%	35%	*7%*

Market background: We estimate the television advertising market showed growth of approximately 3% in US dollars during 2005, and 2% in local currency. We expect the television advertising market to show low single digit growth in 2006.

The combined national all day audience share of our two channels remained constant by comparison with 2004 at 35.8%.

Net revenues for the year ended December 31, 2005 increased by US$ 3.4 million, or 7%, compared to 2004. Net spot revenue increased by US$ 1.8 million, or 4%, and non-spot revenue grew by US$ 1.6 million, or 96%. In local currency, net revenues increased by 8%.

In local currency, advertising spot revenue increased by 5% as a run of successful locally produced programs led to an increase in the volume of thirty-second advertising spots sold across our two channels. The average revenue per thirty-second advertising spot was largely unchanged from 2004. Non-spot revenue grew due to increased internet and reality show driven revenue from text messaging.

Net revenues increased 22% in 2004 compared to 2003 including the impact of the weakening US dollar. In local currency, revenues increased by 14% in 2004 compared to 2003 due to higher average spot prices and increased spending by major advertisers.

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

Costs charged in arriving at Segment EBITDA for the twelve months ended December 31, 2005 increased by US$ 3.1 million, or 12%, compared to 2004. Programming costs increased by US$ 0.8 million, or 7%, due to an increase in local production costs from producing more reality shows. We estimate that the change in the programming amortization policy implemented in 2004 reduced amortization charges in 2005 by approximately US$ 1.1 million. We do not expect this benefit to

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continue in future periods. Other operating costs increased by US$ 2.2 million, or 23%, primarily as a result of increased social insurance costs for employers of US$ 1.4 million as well as the reversal of a US$ 0.4 million provision for broadcasting transmission costs in 2004 resulting in a lower than normal charge in that period. Selling, general and administrative expenses increased by US$ 0.1 million, or 2%, as a result of general overhead cost increases.

Segment EBITDA increased by US$ 5.9 million, or 45%, in 2004 compared to 2003 as a result of revenue increases and the implementation of cost control measures as well as the benefit arising from the provision reversal referred to above. The EBITDA margin increased from 35% in 2003 to 42% in 2004.

(F) Ukraine

	For the years ended December 31, (US $000's)					
Segment financial information	**2005**	**2004**	**Movement**	**2004**	**2003**	**Movement**
Ukrainian Net Revenues	$ 72,847	$ 53,351	*$ 19,496*	$ 53,351	$ 36,633	*$ 16,718*
Ukrainian EBITDA	$ 21,803	$ 14,729	*$ 7,074*	$ 14,729	$ 7,999	*$ 6,730*
Ukrainian EBITDA Margin	*30%*	*28%*	*2%*	*28%*	*22%*	*6%*

Market background: The television advertising market grew approximately 38% for 2005 and we currently anticipate that it will grow by 25% to 35% in 2006.

STUDIO 1+1's prime time audience share decreased from 26.9% in 2004 to 22.2% in 2005. This was partially as a result of two very successful series generating significant audience share in the first six months of 2004 as well as STUDIO 1+1's main competitor Inter broadcasting two successful series in the first half of 2005. STUDIO 1+1 successfully introduced two co-produced Russian Ukrainian series in the second half of 2005 to recoup prime time audience share in the important fourth quarter. On a national all day basis the decline in STUDIO 1+1's audience share was lower, falling from 20.9% in 2004 to 20.0% in 2005.

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

Demand for advertising by multinational companies seeking to establish their brands in the Ukrainian market and by mobile telephone operators helped increase the average revenue per thirty-second advertising spot by 18% compared to 2004. The volume of spots sold increased by 8% as a result of the full year impact of the additional nine hours of broadcast time awarded to the station from September 2004. Non-spot revenue increases were derived from sales of programming and increased management focus on generating sponsorship revenue.

Net revenues for 2004 increased by 46% compared to 2003 primarily due to television advertising market growth and increased audience share.

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

Costs charged in arriving at Segment EBITDA for the twelve months ended December 31, 2005 increased by US$ 12.4 million, or 32%. Programming costs increased by US$ 5.3 million, or 22%, as a result of the full year cost of broadcasting for an additional nine hours as well as increases in the cost of popular Russian series. Another component of the increase in programming costs was due to a US$ 1.1 million cost of writing down the value of American programming that no longer generates sufficient ratings in Ukraine. We estimate that a change in the programming amortization policy implemented in 2004 reduced amortization charges in 2005 by approximately US$ 5.0 million. We do not expect this benefit to continue in future periods. Other operating costs increased by US$ 5.0 million, or 64%, primarily due to salary increases of US$ 3.0 million partially due to the restructuring of independent contractor arrangements, resulting in increased employee-related taxation costs of approximately US$ 1.1 million, and increased transmission charges of US$ 0.9 million. We estimate that the full year impact of the increased employee-related taxation costs will add approximately US$ 3.6 million to the cost base in 2006. Transmission charges from the state transmission agency increased due to the extra cost of transmitting for the additional nine hours per day as well as due to price increases for transmission. Selling, general and administrative expenses increased by US$ 2.1 million, or 32%, due to additional facilities costs from an extra studio being operated since May 2005 to accommodate increased volumes of local production as well as local inflation.

Segment EBITDA for 2004 increased by US$ 6.7 million, or 84%, compared to 2003 as a result of audience share increases and the growth of the television advertising market. EBITDA margin increased from 22% in 2003 to 28% in 2004.

Programming payments and program amortization

Our consolidated cost of programming for 2005, 2004, and 2003 were as follows:

	For the Years Ended December 31,		
(US$ 000's)	**2005**	**2004**	**2003**
Production expenses	$ 67,366	$ 29,458	$ 20,657
Program amortization	81,471	42,335	30,090
Cost of programming	**$ 148,837**	**$ 71,793**	**$ 50,747**

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

The amortization of acquired programming for each of our consolidated operations and for our operations in the Slovak Republic (MARKIZA TV) for 2005, 2004, and 2003 is set out in the table below. For comparison the table also shows the cash paid for programming by each of our operations in the respective periods. The cash paid for programming by our operations in

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Croatia, Czech Republic, Romania, Slovenia and Ukraine is reflected within net cash provided by/(used in) continuing operating activities in our consolidated statement of cash flows.

	For the Years Ended December 31,		
(US$ 000's)	**2005**	**2004**	**2003**
Program amortization:			
Croatia (NOVA TV)	$ 16,373	$ 3,695	$
Czech Republic (TV NOVA, GALAXIE SPORT)	19,154		
Romania (PRO TV, ACASA, PRO CINEMA and PRO TV INTERNATIONAL)	20,132	18,215	12,413
Slovenia (POP TV and KANAL A)	5,517	5,117	5,326
Ukraine (STUDIO 1+1)	20,295	15,308	12,351
Total consolidated program amortization	**81,471**	**42,335**	**30,090**
Slovak Republic (MARKIZA TV)	6,970	9,038	9,392
	$ 88,441	**$ 51,373**	**$ 39,482**
Cash paid for programming:			
Croatia (NOVA TV)	$ 16,062	$ 3,076	$
Czech Republic (TV NOVA, GALAXIE SPORT)	26,027		
Romania (PRO TV, ACASA, PRO CINEMA and PRO TV INTERNATIONAL)	40,279	22,164	14,876
Slovenia (POP TV and KANAL A)	6,200	5,177	5,587
Ukraine (STUDIO 1+1)	27,019	21,022	11,534
	115,587	**51,439**	**31,997**
Slovak Republic (MARKIZA TV)	10,692	8,120	9,088
	$ 126,279	**$ 59,559**	**$ 41,085**

IV. Analysis of the results of consolidated operations

Overview

We consolidate the financial statements of entities in which we hold at least a majority voting interest and also those entities which are deemed to be a Variable Interest Entity of which we are the primary beneficiary as defined by FIN 46 (R) (For further discussion, see Part II, Item 8, Note 2, "Summary of Significant Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus). We consolidate our operations in Croatia, the Czech Republic, Romania (with the exception of Radio Pro), Slovenia and Ukraine.

Entities in which we hold less than a majority voting interest but over which we have the ability to exercise significant influence are accounted for using the equity method. We currently account for our operations in the Slovak Republic and Radio Pro in Romania in this manner. Following our acquisition of a controlling interest in the Slovak Republic operations on January 23, 2006, we will be consolidating these operations (See Part II, Item 8, Note 21, "Subsequent Events" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus).

IV (a) Net revenues for the years ending December 31, 2005, 2004 and 2003:

	For the years ended December 31, (US $000's)					
Consolidated net revenues	**2005**	**2004**	***Movement***	**2004**	**2003**	***Movement***
Croatia	$ 22,030	$ **9,757**	*$ 12,273*	$ 9,757	$	*$ 9,757*
Czech Republic	154,010		*154,010*			
Romania	103,321	**73,843**	*29,478*	73,843	51,177	*22,666*
Slovenia	48,770	**45,388**	*3,382*	45,388	37,168	*8,220*
Ukraine	72,847	**53,351**	*19,496*	53,351	36,633	*16,718*
Total Consolidated Net Revenues	**$ 400,978**	**$ 182,339**	***$ 218,639***	**$ 182,339**	$ 124,978	***$ 57,361***

Our consolidated net revenues increased by US$ 218.6 million, or 120%, for the year ended December 31, 2005 compared to 2004 due to:

The inclusion of US$ 154.0 million of net revenues from our newly acquired Czech Republic operations as described in "Analysis of Segment Results" above;

The inclusion of a full twelve months of revenue from our Croatian operations in 2005 following the acquisition in July 2004 described in "Analysis of Segment Results" above, which contributed an additional US$ 12.3 million to net revenues in 2005;

A US$ 29.5 million, or 40%, increase in the net revenues of our Romanian operations as described in "Analysis of Segment Results" above;

A US$ 3.4 million, or 7%, increase in the net revenues of Slovenian operations as described above in described in "Analysis of Segment Results" above; and

A US$ 19.5 million, or 37%, increase in the net revenues of our Ukrainian operations as described in "Analysis of Segment Results" above.

Our consolidated net revenues increased by US$ 57.4 million, or 46%, during 2004 compared to 2003.

IV (b) Total operating expenses for the years ending December 31, 2005, 2004 and 2003

	For the years ended December 31, (US $000's)					
Consolidated operating expenses	**2005**	**2004**	***Movement***	**2004**	**2003**	***Movement***
Operating costs	$ 65,138	**$ 33,615**	*$ 31,523*	$ 33,615	$ 26,608	*$ 7,007*
Cost of programming	148,837	**71,793**	*77,044*	71,793	50,747	*21,046*
Station selling, general and administrative expenses	46,382	**22,112**	*24,270*	22,112	14,245	*7,867*
Depreciation of station property, plant and equipment	16,367	**6,429**	*9,938*	6,429	5,276	*1,153*
Amortization of broadcast licenses and other intangibles	11,180	**465**	*10,715*	465		*465*
Corporate operating costs	25,374	**29,185**	*(3,811)*	29,185	32,512	*(3,327)*
Impairment Charge	35,331		*35,331*			
Total Operating Expenses	**$ 348,609**	**$ 163,599**	***$ 185,010***	**$ 163,599**	$ 129,388	***$ 34,211***

Total operating expenses increased by US$ 185.0 million, or 113%, in 2005 compared to 2004.

For the year ended December 31, 2004 total operating expenses increased by US$ 34.2 million, or 26%, compared to 2003.

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

Operating costs: Total consolidated station operating costs (excluding programming costs, depreciation of station property, plant and equipment, amortization of other intangibles as well as station selling, general and administrative expenses) increased by US$ 31.5 million, or 94%, in 2005 compared to 2004 primarily due to:

- The inclusion of US$ 14.9 million of additional station operating costs relating to our newly acquired Czech Republic operations;
- A US$ 6.5 million increase in the station operating costs of our Croatian operations, primarily as a result of the inclusion of expenses in 2004 only from the acquisition in July 2004;
- Operating costs of our Romanian operations increasing by US$ 3.0 million, or 22%, due to the appreciation of the New Romanian Lei, compared to the US dollar, as well as increased salary and wage costs as described in "Analysis of Segment Results" above;
- Operating costs of our Slovenian operations increasing by US$ 2.2 million, or 23%, as described in "Analysis of Segment Results" above; and
- Operating costs of our Ukrainian operations increasing by US$ 5.0 million, or 64%, as described in "Analysis of Segment Results" above.

Total consolidated station operating costs increased by US$ 7.0 million, or 26%, in 2004 compared to 2003.

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

- The inclusion of US$ 50.6 million of additional programming costs relating to our newly acquired Czech Republic operations;
- A US$ 14.4 million increase in the programming costs of our Croatian operations primarily as a result of the inclusion of expenses in 2004 only from the acquisition in July 2004;
- A US$ 5.9 million, or 20%, increase in the programming costs of our Romanian operations as described in "Analysis of Segment Results" above;
- A US$ 0.8 million, or 7%, increase in the programming costs of our Slovenian operations station operating costs and expenses of our Slovenian operations as described in "Analysis of Segment Results" above; and
- A US$ 5.3 million, or 22%, increase in the programming costs of our Ukrainian operations as described in "Analysis of Segment Results" above.

Total consolidated programming costs (including amortization of programming rights and production costs) increased by US$ 21.0 million, or 41%, in 2004 compared to 2003.

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

- The inclusion of US$ 16.9 million of station selling, general and administrative expenses from our newly acquired Czech Republic operations;
- A US$ 3.6 million, or 79%, increase in the station selling, general and administrative expenses of our Croatian operations, for which expenses were included in 2004 only from its acquisition in July 2004;
- A US$ 1.6 million, or 24%, increase in the station selling, general and administrative expenses of our Romanian operations as described in "Analysis of Segment Results" above;
- A US$ 0.1 million, or 2%, increase in the station selling, general and administrative expenses of our Slovenian operations as described in "Analysis of Segment Results" above and
- A US$ 2.1 million, or 32%, increase in the station selling, general and administrative expenses of our Ukrainian operations as described in "Analysis of Segment Results" above.

Total consolidated station selling, general and administrative expenses increased by US$ 7.9 million, or 55%, in 2004 compared to 2003.

Depreciation of station property, plant and equipment: Total consolidated depreciation of station property, plant and equipment increased by US$ 9.9 million, or 155%, in 2005 compared to 2004 primarily due to:

- The inclusion of US$ 5.5 million of additional depreciation relating to our newly acquired Czech Republic operations;
- A US$ 1.9 million increase in the depreciation costs of our Croatian operations primarily as a result of the inclusion of expenses in 2004 only from the acquisition in July 2004;
- A US$ 1.2 million, or 52%, increase in the depreciation costs of our Romanian operations due to depreciation of newly acquired production equipment assets;
- A US$ 1.5 million, or 103%, increase in the depreciation costs of our Slovenian operations as a result of depreciation of newly acquired digital production and editing equipment assets; and
- A US$ 0.6 million, or 59%, increase in the depreciation costs of our Ukrainian due to depreciation of newly acquired studio equipment assets.

Total consolidated depreciation of station property, plant and equipment increased by US$ 1.2 million, or 22%, in 2004 compared to 2003.

Amortization of broadcast licenses and other intangibles: Total consolidated amortization of broadcast licenses and other intangibles increased by US$ 10.7 million in 2005 compared to 2004 primarily as a result of the amortization of the broadcast license and customer relationships of our newly acquired Czech Republic operations.

Total consolidated amortization of broadcast licenses and other intangibles increased from nil to US$ 0.5 million in 2004 compared to 2003.

Corporate operating costs (including non-cash stock-based compensation) for the years ending December 31, 2005, 2004, and 2003 were as follows:

	For the years ended December 31, (US $000's)					
	2005	**2004**	***Movement***	**2004**	**2003**	***Movement***
Corporate operating costs (excluding non-cash stock-based compensation)	$ 22,420	**$ 19,083**	*3,337*	$ 19,083	$ 19,303	*(220)*
Non-cash stock-based compensation	2,954	**10,102**	*(7,148)*	10,102	13,209	*(3,107)*
Corporate operating costs (including non-cash stock-based compensation)	**$ 25,374**	**$ 29,185**	***(3,811)***	**$ 29,185**	$ 32,512	***(3,327)***

The increase in corporate costs (excluding non-cash stock-based compensation) of US$ 3.3 million in 2005 compared to 2004 was principally due to:

- an increase in staff-related costs caused by an increase in corporate staff from 27 to 41, and temporary staff costs relating to the acquisition of the TV Nova (Czech Republic) group; and;

- an increase in professional fees in respect of legal, tax and press and public relations expenses relating to advice in connection with our investment in Ukraine, legal proceedings in our Ukrainian operations (for further information see Part II, Item 8, Note 19, "Commitments and Contingencies" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus) and in connection with the acquisition of our Czech Republic operations and subsequent listing on the Prague Stock Exchange together with an increase in investor relations activity;

partly off-set by

- a decrease in business development expenses.

The decrease in corporate costs (excluding non-cash stock-based compensation) in 2004 compared to 2003 was primarily due to a charge of US$ 3.3 million having been recognized in 2003 relating to the termination of our remaining corporate satellite contracts. No such charge was recognized in 2004. This decrease was partially offset by an increase in corporate operating costs of US$ 3.1 million principally due to:

- an increase in staff-related costs caused in part by an increase in corporate staff from 20 to 27 (including three staff primarily focused on internal audit work related to Sarbanes-Oxley requirements);

- an increase in travel expenses as a result of implementation of Sarbanes-Oxley certification requirements in respect of internal controls and travel related to business development and station visits;

- an increase in press and public relations expenses due to the acquisition of our Croatian operations and the preparation for the TV Nova (Czech Republic) group acquisition as well as costs associated with our celebration of the 10th anniversary of our listing on NASDAQ; and

- increased business development expenses incurred in researching potential acquisition targets;

The reduction in the charge for non-cash stock-based compensation in 2005 compared to 2004 relates primarily to a decline in the charge for certain options issued in 2000 accounted for under FASB interpretation 44, the last of which were exercised on May 11, 2005. The reduction in the charge for non-cash stock-based compensation in 2004 compared to 2003 also relates primarily to a reduction in the charge for the options accounted for under FASB interpretation 44 and was principally due to the exercise of some of these options during the period as well as different movements in the price of our stock in the two periods (see Part II, Item 8, Note 15, "Stock-Based Compensation" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus).

We expect to relocate our London corporate offices during 2006 and that this will give rise to a one-time expense of US$ 1.5 million, including US$ 0.4 million accelerated amortization of leasehold improvements in our current premises.

Impairment charge: In the year ended December 31, 2005, we recognized an impairment charge of US$ 35.3 million with respect to our Croatian operations. This impairment arose as a result of the on-going review of our Croatian operations and following a strategic assessment of the performance of Nova TV (Croatia) in late June 2005. At the end of the second quarter of 2005, we performed an analysis of our Croatian business to determine if it was impaired, given that the new strategy would result in cash flows that differ significantly from those previously forecast. As a result of our analysis, we recognized an impairment charge of US$ 35.3 million in total, of which, US$ 18.6 million was attributable to the broadcast license, US$ 7.0 million to trademarks and US$ 9.7 million to goodwill. Included in provision for income taxes is a US$ 5.1 million credit representing a release of deferred tax relating to the impairment charge on the license and trademark.

IV (c) Operating income / (loss) for the years ending December 31, 2005, 2004 and 2003

	For the years ended December 31, (US $000's)					
	2005	**2004**	***Movement***	**2004**	**2003**	***Movement***
Operating income/(loss)	52,369	**18,740**	*33,629*	18,740	(4,410)	*23,150*

Total consolidated operating income / (loss) increased by US$ 33.6 million or 179% in the year ended December 31, 2005 compared to 2004. Operating margin was 13% compared to 10% in 2004.

Operating income / (loss) improved from a loss of US$ 4.4 million in 2003 to operating income of US$ 18.7 million in 2004.

IV (d) Other expense items for the years ending December 31, 2005, 2004 and 2003

	For the years ended December 31, (US $000's)					
	2005	**2004**	***Movement***	**2004**	**2003**	***Movement***
Interest income	4,124	**4,318**	*(194)*	4,318	5,507	*(1,189)*
Interest expense	(29,387)	**(1,203)**	*(28,184)*	(1,203)	(12,010)	*10,807*
Foreign currency exchange gain/(loss), net	37,968	**(574)**	*38,542*	(574)	(10,023)	*9,449*
Other income/(expense)	(4,705)	**(698)**	*(4,007)*	(698)	(2,458)	*1,760*
Provision for income taxes	(16,691)	**(11,089)**	*(5,602)*	(11,089)	(3,760)	*(7,329)*
Minority interest in income of consolidated subsidiaries	(8,908)	**(4,106)**	*(4,802)*	(4,106)	(676)	*(3,430)*
Equity in income of unconsolidated affiliates	8,238	**10,619**	*(2,381)*	10,619	3,629	*6,990*
Discontinued operations	(513)	**2,524**	*(3,037)*	2,524	370,213	*(367,689)*

Interest income decreased by US$ 0.2 million in 2005 compared to 2004. Interest income decreased by US$ 1.2 million in 2004 compared to 2003 primarily as a result of a higher average cash balance in 2003 compared to 2004 and investments in short-term securities.

Interest expense increased by US$ 28.2 million in 2005 compared to 2004 primarily as a result of the issuance of our Senior Notes (see Part II, Item 8, Note 5, "Senior Notes" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus). Interest expense decreased by US$ 10.8 million in 2004 compared to 2003.

Foreign currency gain/(loss): The foreign currency exchange gain of US$ 37.9 million compared to a loss of US$ 0.6 million in 2004. The gain arose primarily as a result of the translation of the Euro-denominated Senior Notes into US dollars at December 31, 2005.

The foreign currency exchange loss in 2004 was US$ 0.6 million compared to US$ 10.0 million in 2003. The reduction was primarily due to the fact that we had retired in August 2003 the Euro-denominated portion of the senior notes we had issued in 1997.

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

Provision for income taxes: Provision for income taxes was US$ 16.7 million in 2005, US$ 11.1 million in 2004 and US$ 3.8 million in 2003. The increase in 2005 and 2004 is, in both cases, primarily due to our operations having higher taxable profits. In addition, the 2005 charge includes a deferred tax credit of US$ 5.1 million with respect to the impairment of our Croatian operations (For further information see Part II, Item 8, Note 4, "Goodwill and Intangible Assets, Impairment" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus) offset by a provision for income taxes of US$ 8.0 million in respect of our newly acquired Czech Republic operations. For further information on taxes, see Part II, Item 8, Note 14, "Income Taxes" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus.

Minority interest in income of consolidated subsidiaries: Minority interest in the income of consolidated subsidiaries was US$ 8.9 million in 2005 compared to US$ 4.1 million in 2004 and US$ 0.7 million in 2003. This is as a result of higher profitability of our Romanian and Ukrainian operations.

Equity in income of unconsolidated affiliates: As explained in "Business" above, some of our broadcasting licenses are held by unconsolidated affiliates which we account for using the equity method.

Equity in income of unconsolidated affiliates was US$ 8.2 million for 2005 compared to US$ 10.6 million for 2004 and US$ 3.6 million for 2003 as detailed below:

	For the years ended December 31, (US $000's)					
	2005	**2004**	***Movement***	**2004**	**2003**	***Movement***
Slovak Republic operations	$ 8,240	**$ 10,382**	*$ (2,142)*	$ 10,382	$ 4,521	*$ 5,861*
Romanian operations	(2)	**237**	*(239)*	237	(215)	*452*
Slovenian operations					(677)	*677*
Equity in income of unconsolidated affiliates	**$ 8,238**	**$ 10,619**	***$ (2,381)***	**$ 10,619**	$ 3,629	***$ 6,990***

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

	For the years ended December 31, (US $000's)					
	2005	**2004**	**Movement**	**2004**	**2003**	**Movement**
Gain on disposal of discontinued operations	$ 164	**$ 146**	*18*	$ 146	$ 384,213	*(384,067)*
Tax on disposal of discontinued operations	(677)	**2,378**	*(3,055)*	2,378	(14,000)	*16,378*
Discontinued operations	**$ (513)**	**$ 2,524**	***(3,037)***	**$ 2,524**	$ 370,213	***(367,689)***

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

The revenues and expenses of our former Czech operations and the award income and related legal expenses have therefore all been treated as discontinued operations for each year.

The amounts charged to discontinued operations in 2005 largely represent additional payments we expect to make to the Dutch tax authorities pursuant to the agreement we entered into on February 9, 2004.

For additional information, see Part II, Item 8, Note 18, "Discontinued Operations" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus.

IV (e) Consolidated balance sheet as at December 31, 2005 compared to December 31, 2004

Following the acquisition of the TV Nova (Czech Republic) group, the principal components of our Consolidated Balance Sheet at December 31, 2005 have increased compared to December 31, 2004. These increases are summarized below:

Summarized consolidated balance sheet (US$ '000's)		December 31, 2005		December 31, 2004		Movement
Current assets	$	286,926	$	265,049	$	21,877
Non-current assets		1,101,924		179,590		922,334
Current liabilities		206,961		109,745		97,216
Non-current liabilities		488,099		18,965		469,134
Minority interests in consolidated subsidiaries		13,237		4,861		8,376
Shareholders' equity	$	680,553	$	311,068	$	369,485

Current assets: Our current assets increased US$ 21.9 million at December 31, 2005 compared to December 31, 2004, primarily a result of the acquisition of the TV Nova (Czech Republic) group. Total current assets of the TV Nova (Czech Republic) group were US$ 102.7 million at December 31, 2005.

The effect of the addition of the TV Nova (Czech Republic) group was partially offset by a US$ 80.9 million decrease in cash and cash equivalents, a result of the acquisition of the TV Nova (Czech Republic) group and other acquisitions during 2005.

Non-current assets: Our non-current assets increased US$ 922.3 million at December 31, 2005 compared to December 31, 2004, primarily a result of the acquisition of the TV Nova (Czech Republic) group, whose total non-current assets were US$ 915.0 million at December 31, 2005, including US$ 707.6 million of goodwill.

Current liabilities: Total current liabilities increased US$ 97.2 million at December 31, 2005 compared to December 31, 2004, primarily a result of the acquisition of the TV Nova (Czech Republic) group, whose total current liabilities were US$ 96.1 million at December 31, 2005.

Non-current liabilities: Total non-current liabilities have increased US$ 469.1 million at December 31, 2005 compared to December 31, 2004, a result of additional borrowings in 2005 and the acquisition of the TV Nova (Czech Republic) group. As part of the financing of the acquisition of the TV Nova (Czech Republic) group, we issued Senior Notes in the aggregate principal amount of Euro 370.0 million (US$ 436.4 million at December 31, 2005). Additionally, total non-current liabilities of the TV Nova (Czech Republic) group were US$ 33.8 million at December 31, 2005.

Minority interests in consolidated subsidiaries: Minority interests in consolidated subsidiaries at December 31, 2005 increased US$ 8.4 million compared to December 31, 2004, primarily as a result of increased profitability of our Romanian and Ukrainian operations.

Shareholders' Equity: Total shareholders' equity increased US$ 369.5 million compared to December 31, 2004, primarily a result of shares issued as partial consideration for and to finance the acquisition of the TV Nova (Czech Republic) group. As part of the consideration for the acquisition of the TV Nova (Czech Republic) group, we issued 3.5 million shares of our Class A Common Stock, valued at US$ 120.9 million. We also issued an additional 5.4 million shares of our Class A Common Stock for US$ 230.6 million to raise cash used for the acquisition.

The remaining movement in shareholders' equity relates to proceeds from the exercise of stock options (US$ 5.9 million), movement in accumulated other comprehensive income and net income for the year.

V. Liquidity and capital resources

V (a) Summary of cash flows:

Cash and cash equivalents decreased by US$ 80.9 million during the year ended December 31, 2005. The change in cash and cash equivalents is summarized as follows:

	For the years ended December 31,		
(US$ '000s)	**2005**	**2004**	**2003**
Net cash generated from/(used in) continuing operating activities	$ 3,544	$ 2,415	$ (7,450)
Net cash used in continuing investing activities	(298,803)	(57,009)	(12,110)
Net cash received from/(used in) financing activities	225,359	1,886	(199,471)
Net cash (used in)/received from discontinued operations operating activities	(2,000)	(9,463)	343,358
Net cash received from discontinued operations investing activities		20,349	15,000
Impact of exchange rate fluctuations on cash	(9,010)	2,144	1,146
Net (decrease) / increase in cash and cash equivalents	$ (80,910)	$ (39,678)	$ 140,473

Operating activities

Cash generated from continuing operations increased US$ 1.1 million, or 47%, to US$ 3.5 million in 2005, after having made a US$ 41.6 million partial repayment of the settlement liability of the TV Nova (Czech Republic) group. The settlement liability represents an amount owed by CET 21 under a settlement agreement among CET 21, Ceska nezavisla televizni spolecnost, spol. s.r.o. ("CNTS") and the PPF Group dated December 19, 2003. This liability was assumed as part of the TV Nova (Czech Republic) group acquisition and has been refinanced at lower interest rates using our credit facilities from Ceska Sporitelna, a.s. US$ 10.0 million remained payable at December 31, 2005 and has been settled in January 2006.

Excluding the payment of the settlement liability, cash generated from operating activities was US$ 45.2 million. This reflects the level of cash generated by our Czech operations, improved station performance in Romania and Ukraine, and an increase in dividends received from our unconsolidated affiliate STS. These have been offset by negative cash flows of our Croatian operations.

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

In 2003, net cash used in continuing operations of US$ 7.5 million was after decreases in working capital for increased accounts receivable (US$ 3.5 million), increased investment in program rights (US$ 33.0 million) decreased accounts payable and accrued liabilities (US$ 7.6 million), and decreased income and other taxes payable (US$ 1.6 million), offset by decreased other assets (US$ 1.2 million).

Investing activities

Cash used in investing activities increased US$ 241.8 million, or 424%, to US$ 298.8 million in 2005. Cash flows from investing activities consist primarily of the following in 2005:

- Total cash payments of US$ 218.1 million (net of cash acquired of US$ 35.6 million) for the acquisition of the TV Nova (Czech Republic) group in May 2005. The remainder of the total purchase price of US$ 909.5 million consisted of non-cash items, including:
  - the issuance of 3.5 million shares of Class A Common Stock (US$ 120.9 million);
  - the incurrence of US$ 491.7 million of short-term indebtedness to PPF (which was repaid in cash on May 5, 2005);
  - forgiveness of a US$ 18.5 million balance categorized as "Other Receivable" in our Consolidated Balance Sheet as at December 31, 2004; and
  - the placement of US$ 24.7 million of cash into escrow as the second and final payment to Mr. Krsak (see Part II, Item 8, Note 3, "Acquisitions and Disposals, Czech Republic" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus);
- A payment of US$ 20.0 million in connection with the 5% increase in our holding of our Romanian operations (for further information, see Part II, Item 8, Note 3, "Acquisitions and Disposals, Romania" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus);
- A payment of US$ 2.1 million in connection with our acquisition of Galaxie Sport (for further information, see Part II, Item 8, Note 3, "Acquisitions and Disposals, Czech Republic" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus);
- A payment of Euro 4.7 million (approximately US$ 5.7 million) to acquire the remaining 3.15% interest in Pro Plus (for further information, see Part II, Item 8, Note 3, "Acquisitions and Disposals, Slovenia" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the

Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus);

Advance payments of US$ 5.1 million with respect to our acquisition of a 65.5% interest in Ukrpromtorg 2003 LLC (for further information, see Part II, Item 8, Note 21, "Subsequent Events" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus);

Capital expenditures of approximately US$ 26.5 million. Capital expenditures during 2005 primarily related to upgrades of broadcasting facilities and production equipment; and

A net increase in restricted cash of $18.6 million, of which $24.6 million was a result of the acquisition of the TV Nova (Czech Republic) group, $0.7 million of other increases, and a reduction of $6.7 million being the second payment for our acquisition of our Croatian operations (for further information, see Part II, Item 8, Note 3, "Acquisitions and Disposals" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus).

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

In 2003, net cash used in investing activities of US$ 12.1 million was due to investment in property, plant and equipment of US$ 7.8 million, investment in Slovenian intangible assets of US$ 6.0 million, offset by a decrease in restricted cash of US$ 1.8 million.

Financing activities

Net cash received from financing activities was US$ 225.4 million in 2005 compared to US$ 1.9 million in 2004. Net proceeds from financing activities consist primarily of the following:

Net proceeds of approximately US$ 465.1 million from the issuance of Senior Notes in the aggregate principal amount of Euro 370.0 million, consisting of Euro 245.0 million of 8.25% Senior Notes due May 2012 and Euro 125.0 million of floating rate Senior Notes due May 2012 (for further information, see Part II, Item 8, Note 5, "Senior Notes" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus). The proceeds from this loan were used to finance part of the acquisition of the TV Nova (Czech Republic) group;

Net proceeds from the issuance of Class A Common Stock of approximately US$ 236.5 million, of which US$ 230.6 million was raised from the issuance of

5.4 million shares of Class A Common Stock, the proceeds of which were used for our acquisition of the TV Nova (Czech Republic) group (for further information, see Part II, Item 8, Note 3, "Acquisitions and Disposals" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus) and approximately US$ 5.9 million from stock option exercises;

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

Repayments of indebtedness by our Czech Republic operations (US$ 8.0 million), our Slovenian operations (US$ 31.7 million) and our Croatian operations (US$ 0.3 million);

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

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

In 2003, net cash used in financing activities of US$ 199.5 million was due to the repurchase of US$ and Euro senior notes of US$ 183.7 million, net repayments of US$ 17.9 million under certain credit facilities with GoldenTree Asset Management and Ceska Sporitelna, a.s., offset by proceeds of US$ 2.5 million received on a loan from STS.

Discontinued operations

In 2005, we paid taxes of US$ 2.0 million to the Dutch tax authorities pursuant to the agreement we entered into with them on February 9, 2004.

In 2004, we paid taxes of US$ 9.0 to the Dutch tax authorities pursuant to the agreement we entered into with them on February 9, 2004 and incurred US$ 0.5 of other expenses in connection with the disposal of our former Czech Republic operations. We also received a second payment (of US$ 20.3 million) from PPF in respect of the sale of CNTS, our former Czech operating company.

In 2003, we received US$ 358.6 million from the Czech government in final settlement of the UNCITRAL Arbitration and incurred US$ 15.2 million of arbitration-related legal costs. We also received US$ 15.0 million from PPF in respect of the sale of CNTS, our former Czech operating company.

V (b) Sources and uses of cash

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

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. In the case of our Dutch and Netherlands Antilles subsidiaries, our voting power is sufficient to compel the making of distributions.

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

STS made dividend distributions to us in 2005, 2004, and 2003; Pro TV made dividend distributions to us in 2005, and Pro Plus made dividend distributions to us in 2004.

As at December 31, 2005 and 2004 the operations had the following unsecured intercompany balances owing to their respective holding companies:

Operating segment (US $ 000's)	**December 31, 2005**	**December 31, 2004**
Croatia	$ 40,166	$ 11,087
Czech Republic	441,569	
Romania	28,873	37,109
Slovak Republic	88	
Slovenia	39	1,590
Ukraine	10,617	13,459
Total	$ 521,352	$ 63,245

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V (c) Contractual obligations, commitments and off-balance sheet arrangements

Our future contractual obligations as at December 31, 2005 were as follows:

Contractual Obligations	Payments due by period (US$ 000's) Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt principal	$ 480,262	$ 43,081	$ 317	$ 348	$ 436,516
Long-Term Debt interest	227,240	35,794	71,262	71,230	48,954
Capital Lease Obligations	5,906	694	1,118	930	3,164
Operating Leases	20,206	7,841	8,053	2,782	1,530
Unconditional Purchase Obligations	52,715	45,836	6,783	96	
Other Long-Term Obligations	18,062	12,818	4,244	1,000	
Total Contractual Obligations	**$ 804,391**	**$ 146,064**	**$ 91,777**	**$ 76,386**	**$ 490,164**

Long-term debt

As at December 31, 2005 we had the following debt outstanding:

(US$ '000s)	December 31, 2005
CME Ltd.(1)	$ 436,424
Czech Republic Operations(2)-(3)	42,703
Slovenian Operations(4)	
Croatian operations(5)-(7)	1,135
Total	$ 480,262

(1) In May 2005, we issued Senior Notes in the aggregate principal amount of Euro 370.0 million consisting of Euro 245.0 million of 8.25% Senior Notes due May 2012 and Euro 125.0 million of floating rate Senior Notes due May 2012, which bear interest at six-month Euro Inter-Bank Offered Rate ("EURIBOR") plus 5.5% (8.0% at December 31, 2005). Interest is payable semi-annually in arrears on each May 15 and November 15, commencing November 15, 2005.

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

In the event that (A) there is a change in control by which (i) any party other than our present shareholders becomes the beneficial owner of more than 35% of our total voting power; (ii) we agree to sell substantially all of our operating assets; or (iii) there is a change in the composition of a majority of our Board of Directors; and (B) on the 60th day following any such change of control the rating of the Senior Notes is either withdrawn or downgraded from the rating in effect prior to the announcement of such change of control, we can be required to repurchase the Senior Notes at a purchase price in cash equal to 101% of the principal amount of the Senior Notes plus accrued and unpaid interest to the date of purchase.

At any time prior to May 15, 2008, we may redeem up to 35% of the fixed rate Senior Notes with the proceeds of any public equity offering at a price of 108.250% of the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to the redemption date. In addition, prior to May 15, 2009, we may redeem all or a part of the fixed rate Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes, plus a "make-whole" premium and accrued and unpaid interest to the redemption date.

As

of December 31, 2005, Standard & Poor's senior unsecured debt rating for our Senior Notes was B+ (Standard & Poor had assigned us a long-term corporate credit rating of BB- with a stable outlook). At December 31, 2005, Moody's Investors Service's rating of our Senior Notes was B1 (Moody's senior implied rating for us was B1; positive outlook).

(2)

CET 21 has a four-year credit facility of CZK 1.2 billion (approximately US$ 48.8 million) with Ceska Sporitelna, a.s. ("CS"). The final repayment date is October 31, 2009. This facility may, at the option of CET 21, be drawn in CZK, USD or Euro and bears interest at the three-month, six-month or twelve-month LIBOR, EURIBOR or Prague Inter-Bank Offered Rate ("PRIBOR") rate plus 1.95%. This facility is secured by a guarantee of CME Media Services and a pledge of receivables under a factoring

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agreement between CME Media Services and Factoring Ceska Sporitelna, a.s., a subsidiary of CS. As at December 31, 2005, CZK 800 million (approximately US$ 32.5 million) has been drawn under this facility and bears interest at 4.12% (PRIBOR three-month rate at December 31, 2005 was 2.17%). Following the merger of CET 21 with CME Media Services, scheduled for 2006, this loan will be renegotiated.

(3)
CET 21 and CME Media Services have a working capital credit facility of CZK 250 million (approximately US$ 10.2 million) with CS, expiring October 31, 2006. This working capital facility bears interest at the three-month PRIBOR rate plus 1.65%. This facility is secured by a pledge of receivables under the factoring agreement between CME Media Services and Factoring Ceska Sporitelna. As at December 31, 2005, CZK 250 million (approximately US$ 10.2 million) was drawn under this facility and bears interest at 3.82% (PRIBOR three-month rate at December 31, 2005 was 2.17%).

(4)
A revolving five-year facility agreement (the "Revolving Facility") was entered into for up to Euro 37.5 million (approximately US$ 44.2 million) in aggregate principal amount among Pro Plus, ING Bank N.V., Nova Ljubljanska Banka d.d., Ljubljana and Bank Austria Creditanstalt d.d., Ljubljana. The facility availability amortizes by 10% each year for four years commencing one year after signing, with 60% repayable after five years. This facility is secured by a pledge of the bank accounts of Pro Plus, the assignment of certain receivables, a pledge of our interest in Pro Plus and a guarantee of our wholly-owned subsidiary CME Media Enterprises B.V. Loans drawn under this facility will bear interest initially at EURIBOR plus 3.6%. The applicable margin may be reduced (by increments of 0.5% to a minimum of 2.1%) if Pro Plus exceeds certain benchmarks for the ratio of net debt to broadcasting cash flow. As at December 31, 2005, nil had been drawn down and was outstanding.

(5)
A total of Euro 0.8 million (approximately US$ 0.9 million) was drawn down on three loan agreements our Croatian operations have with Hypo Alpe-Adria-Bank d.d. These loans bear a variable interest rate of the three-month EURIBOR plus 2.5% and are repayable in quarterly installments until April 1, 2011. As at December 31, 2005 a rate of 4.75% applied to these loans. These loan facilities are secured by the real property and fixed assets of OK, which as at December 31, 2005 have a carrying amount of approximately US$ 0.3 million.

(6)
Euro 0.01 million (approximately US$ 0.01 million) was drawn down on a loan agreement our Croatian operations have with Hypo Alpe-Adria-Bank d.d. This loan bears a fixed interest rate of 7.25% and is repayable on July 31, 2006.

(7)
Euro 0.2 million (approximately US$ 0.2 million) was drawn down by our Croatian operations under a loan agreement with BKS Bank fur Karnten and Steiermark AG. This loan bears a variable interest rate of the three-month EURIBOR plus 3.0% and is repayable on October 1, 2006. As at December 31, 2005 a rate of 5.25% applied to this loan.

Capital lease obligations

Capital lease obligations include future interest payments of US$ 1.4 million. For more information on our capital lease obligations see Part II, Item 8, Note 12, "Credit Facilities and Obligations under Capital Leases" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus.

Operating leases

For more information on our operating lease commitments see Part II, Item 8, Note 19 "Commitments and Contingencies, Commitments" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus.

Unconditional purchase obligations

Unconditional purchase obligations largely comprise future programming commitments. For more information on our programming commitments see Part II, Item 8, Note 19 "Commitments and Contingencies, Commitments" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus.

Other long-term obligations

Included in Other Long-Term Obligations are our commitments to the Dutch tax authorities of US$ 7.0 million (see Part II, Item 8, Note 19, "Commitments and Contingencies" in our Annual

Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus) and the settlement liability of CZK 246 million (approximately US$ 10.0 million) among the PPF Group, CET 21 and CNTS. The balance of the settlement liability was paid in January 2006.

In addition to the amounts disclosed in the table above, we have entered into an agreement with Adrian Sarbu that would require us to purchase his remaining 10% shareholding in Pro TV and MPI at a price that will be determined by an independent valuation and is subject to a floor price of US$ 1.45 million for each 1% interest sold. Mr. Sarbu can exercise this put from March 1, 2009 for a twenty-year period thereafter.

V (d) Cash outlook

The issuance of the Euro 370.0 million (approximately US$ 480 million at the time of issuance) Senior Notes for the acquisition of the TV Nova (Czech Republic) group has increased our leverage and we have significant debt service obligations in respect of the Senior Notes and other debt facilities entered into by certain operating subsidiaries. In addition, the terms of our indebtedness, particularly the Senior Notes, restrict the manner in which our business is conducted, including the incurrence of additional indebtedness, the making of investments, the payment of dividends or the making of other distributions, entering into certain affiliate transactions and the sale of assets.

Our future cash needs will depend on our overall financial performance, our ability to service the indebtedness incurred under the Senior Notes as well as other indebtedness incurred by us and any future investment and development decisions. Our ability to raise further funds through external debt facilities depends on our satisfaction of a leverage ratio under the Senior Notes. In the short-term we are able to fund our operations from our current cash resources.

On February 17, 2006 we paid US$ 27.2 million for an additional 5% interest in our Romanian operations (see Part II, Item 8, Note 21, "Subsequent Events" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus).

In connection with our on-going review of our Croatian operations and following a strategic assessment of the performance of Nova TV (Croatia) undertaken during the second quarter, we modified our strategy for Croatia in late June 2005. This new strategy requires higher current expenditures than had been planned prior to the strategic assessment in order to secure our audience and market share targets. In order to achieve these targets, we increased our budget for the acquisition of higher quality foreign and domestic programming for 2005 and 2006, for marketing and promotion (including improvements to the on-air look of Nova TV (Croatia)) and accelerated investment for the extension of our technical reach. We expect the increase in funding required to support Nova TV (Croatia) to be in excess of US$ 20.0 million during 2006.

We expect that, taken together, our current cash balances, internally generated cash flow, committed bank facilities, and local financing of broadcast operations should result in us having adequate cash resources to meet our debt service and other existing financial obligations for the next 12 months. The acquisition of additional shareholdings in our current operations, further investment in the expansion of existing operations or investment in the development of new revenue opportunities will require further financing, part of which is being raised through this offering. To the extent we will need additional financing, we would expect to raise such financing through issuing debt or additional equity. To this end, we have applied for a loan from the European Bank for Reconstruction and Development ("EBRD") for up to Euro 100 million, and EBRD's board of directors approved our application on March 7, 2006.

V (e) Tax inspections

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

V (f) Off-balance sheet arrangements

None.

VI. Critical accounting policies and estimates

Our accounting policies affecting our financial condition and results of operations are more fully described in Note 2 to our consolidated financial statements that are included in Part II, Item 8 in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus. The preparation of these financial statements requires us to make judgments in selecting appropriate assumptions for calculating financial estimates, which inherently contain some degree of uncertainty. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Program rights

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

Goodwill and intangible assets

In accordance with FAS No. 141, "Business Combinations," we allocate the purchase price of our acquisitions to the tangible assets, liabilities and identifiable intangible assets acquired based on their estimated fair values, with the excess purchase price over those fair values being recorded as goodwill. The fair value assigned to intangible assets acquired is supported by valuations using estimates and assumptions provided by management. If we had made different estimates, the amount of the purchase price attributable to intangible assets and goodwill would have changed, resulting in changes to the annual amortization charge recorded in the Consolidated Statement of Operations as well as reclassifications between goodwill and intangible assets.

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

Our annual assessment of the carrying values of intangible assets with indefinite lives and goodwill is based on discounted projected future cash flows. When an impairment review is undertaken, whether it be our annual assessment or if events or changes in circumstances indicate such carrying value may not be recoverable, significant judgment is required in estimating projected future cash flows including the determination of certain variables:

discount rates, terminal values, the number of years on which to base the cash flow projections as well as the assumptions and estimates used to determine the cash inflows and outflows. We believe that our assumptions are appropriate. If future cash flows do not materialize as expected or there is a future adverse change in market conditions, we may be unable to recover the carrying amount of an asset, resulting in future impairment losses.

Impairment tests are performed at the reporting unit level. If potential for goodwill impairment exists, the fair value of the reporting unit is subsequently measured against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the reporting unit's goodwill. Determination of a reporting unit requires judgment, and if we were to change our business structure we could change the number and nature of the reporting units we use to assess potential impairment. An impairment loss is recognized for any excess of the carrying value of the reporting unit's goodwill over the implied fair value. We recognized an impairment loss during 2005 in our Croatian operations. There was no such impairment in any of our operations during 2004 or 2003.

Impairment or disposal of long-lived assets

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

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

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

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

Revenue recognition

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

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

Income taxes

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

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

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

Reporting exchange differences on intercompany foreign currency transactions that are long-term in nature

On May 2, 2005, we made an intercompany loan of US$ 465.5 million to a 100% wholly-owned subsidiary holding our investment in the Czech Republic. This loan was converted to CZK 11,425 million during the second quarter and CZK 738 million (US$ 30.5 million at August 25, 2005) of this balance was capitalized as equity on August 25, 2005. The loan has a balance of CZK 10,687 million (US$ 434.7 million) as at December 31, 2005.

During the year ended December 31, 2005, a foreign exchange adjustment of negative US$ 17.8 million arose on inter-company foreign currency transactions, primarily consisting of this inter-company loan. As these transactions are long-term in nature as contemplated by FAS 52 "Foreign Currency Translation" paragraph 20(b), the foreign exchange adjustments are reported in the same manner as translation adjustments in "Other Comprehensive Income", a separate component of equity. Foreign exchange adjustments on inter-company transactions that are not long-term in nature are included in our determination of net income, and accordingly if we determined that the loan was no longer long-term in nature we would be required to record subsequent foreign exchange adjustments as income or expense in our Consolidated Statement of Operations.

Contingencies

We are currently involved in certain legal proceeding and, as required, accrue our estimate of the probable costs for the resolution for these claims. These estimates have been developed in consultation with legal counsel and are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular period could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these proceedings. See Part II, Item 8, Note 19, "Commitments and Contingencies" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus, for more detailed information on litigation exposure.

VII. Related party matters

Overview

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

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

Related party transactions

Croatia

We have no related party transactions in Croatia.

Czech Republic

We have no related party transactions in the Czech Republic.

Romania

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

On February 28, 2005 we acquired 2% of Pro TV and MPI from Mr. Sarbu for US$ 5.0 million and on July 29, 2005 we acquired an additional 3% of Pro TV and MPI from Mr. Sarbu for US$ 15.0 million. (see Part II, Item 8, Note 3 "Acquisitions and Disposals, Romania" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus). Under a put option agreement with Mr. Sarbu entered into in July 2004, Mr. Sarbu has the right to sell his remaining shareholding in Pro TV and MPI to us at a price, to be determined by an independent valuation and is subject to a floor price of US$ 1.45 million for each 1% interest sold. This put is exercisable from March 1, 2009 for a twenty-year period thereafter.

On February 17, 2006, we purchased an additional 5% of Pro TV, MPI and Media Vision from Mr. Sarbu for consideration of US$ 27.2 million (for further information, see Part II, Item 8, Note 21, "Subsequent Events" in our Annual Report on Form 10-K for the year ended December 31, 2005, as amended by our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006, which is incorporated by reference into this prospectus). We now own a 90% voting and economic interest in Pro TV and MPI and a 75% voting and economic interest in Media Vision.

Slovenia

On June 24, 2005, we acquired from Marijan Jurenec, director of our Adriatic regional operations, his remaining 3.15% interest in Pro Plus for Euro 4.7 million (approximately US$ 5.7 million at the date of acquisition).

Slovak Republic

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

STS has a number of contracts with companies connected to Jan Kovacik, a shareholder in Markiza, and indirectly STS, for the provision of television programs. Many of these contracts are for the production of programs that require specialist studios and specific broadcast rights. Total purchases from these companies in 2005 amounted to US$ 0.5 million (2004: US$ 0.4 million, 2003: US$ nil).

STS also sold advertising time through an advertising agency controlled by Jan Kovacik. The total 2005 advertising sales of STS placed through Mr. Kovacik's advertising agency were US$ 0.2 million (2004: US$ 1.9 million, 2003: US$ 2.5 million), and the total amount due to STS from this agency at December 31, 2005 was US$ nil (2004: US$ 0.4 million).

We have received contractual management fees from STS since 1998. The value of these fees was US$ 0.4 million in each of 2005, 2004 and 2003,. In 2003, the other local shareholders suggested that they were also entitled to fees for their services to STS. Consequently, we made a provision of US$ 0.7 million in our Consolidated Statement of Operations (representing our 70% share of a potential US$ 1.1 million charge against STS). During 2004, this issue was resolved and our 2004 results include a write-back of the provision taken in 2003.

Ukraine

We contract with Contact Film Studios for the production of certain television programs. This is a company connected to Boris Fuchsmann, the 40% shareholder and joint Managing Director of Innova, which is one of the operating companies for the Studio 1+1 Group. Our total purchases from Contact Film Studios in 2005 were US$ 0.1 million (2004: US$ 0.1 million, 2003: US$ nil). This amount is included in prepaid programming as at December 31, 2004.

In 1998 we made a loan to Mr. Fuchsmann with a total balance outstanding at December 31, 2005 of US$ 2.5 million (2004: US$ 2.8 million). The interest rate on this loan is US$ three-month LIBOR+3%, subject to a minimum of 5% and has a final due date of November 2006.

Alexander Rodnyansky, the former general director and current Honorary President of Studio 1+1, continues as the 70% shareholder in the license company. Mr. Rodnyansky is also the general director of the Russian broadcaster CTC based in Moscow. Our total purchases from CTC in 2005 were US$ 0.2 million (2004: US$0.1 million, 2003: US$0.4 million).

We acquire legal and consulting services from LLC Legal Company Varlamov and Partners, headed by the Deputy General Director of Studio 1+1. The total amount of services rendered by the company in 2005 was US$ 0.3 million (2004: US$ 0.2 million).

We contract with Vabank for the provision of banking services. This is a bank connected to the minority shareholder and joint Managing Director of Innova Boris Fuchsmann through his presence on the bank's Supervisory Board. Our balance on the current account with the bank was US$ 5.0 million as of December 31, 2005 (2004: US$1.2 million). Commission and other expenses carried by us in respect of the banking services rendered by Vabank amount to US$ 0.1 million for the twelve months ended December 31, 2005. Interest of US$0.1 million was earned on funds on deposit with Vabank.

We contract with Kino-Kolo magazine for advertising Studio 1+1. Kino Kolo is 75% owned by Alexander Rodnyansky, who is 70% shareholder in the license company. Purchases of services from Kino-Kolo in 2005 amounted to US$ 0.1 million.

Innova Marketing is a company fully owned and headed by Boris Fuchsmann. Innova Marketing renders consulting services to Innova. The amount of such services provided in 2005 was US$ 0.1 million (2004: US$ 0.2 million).

Corporate

On May 27, 2003 we paid US$ 4.7 million to Ronald S. Lauder, our non-executive Chairman and controlling shareholder, reimbursing costs previously incurred by him in pursuing his Czech Republic arbitration. The payment was approved unanimously by our independent directors following a review of the ways in which the Lauder arbitration contributed to our success in the UNCITRAL Arbitration against the Czech Republic.

Legal proceedings

General

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

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

Croatia

On October 29, 2004, OK filed suit against Global Communications d.o.o. claiming approximately HRK 53 million (approximately US$ 8.6 million) in damages. Global Communications is a company controlled by Ivan Caleta, who had previously operated Nova TV (Croatia) through OK. Global Communications, together with GRP Media d.o.o., another company controlled by Mr. Caleta, had provided certain goods and services to OK and Nova TV (Croatia) in exchange for advertising time. Global Communications and GRP Media were functionally managing the advertising inventory of Nova TV (Croatia). On December 31, 2003, Global Communications entered into an agreement by which OK acknowledged that Global Communications was entitled to approximately 375,000 seconds of advertising time for goods and services previously provided. Following our acquisition of Nova TV (Croatia) and OK in July 2004, OK concluded that Global Communications had used all of its seconds by June 2004 based on a substantial discrepancy discovered between the utilization of advertising time recorded by Global Communications and that recorded by AGB Puls, an independent television audience measurement service operating in Croatia. In the course of its investigation of the usage of seconds by Global Communications, OK discovered that computer records of advertising seconds kept for OK may have been altered. OK brought a suit to recover amounts for advertising time used by Global Communications in excess of the 375,000 seconds agreed. Global Communications filed a counterclaim in January 2005 for HRK 68 million (approximately US$ 11.0 million), claiming that the AGB data is unreliable and that it is entitled to additional seconds under the previous agreement. We do not believe that these counterclaims will prevail.

Czech Republic

Claims relating to the Vilja shareholding in CET 21

On May 20, 2002, Vilja, now our wholly-owned subsidiary, acquired its ownership interest in CET 21 from Messrs. Alan, Huncik and Venclik. On July 19, 2002, Peter Krsak, a shareholder of CET 21, filed a claim with the City Court in Prague challenging a number of CET 21 shareholder resolutions adopted by written consent (the "Krsak 2002 Petition"). In relevant part, his complaint included challenges to (1) a decision of the CET 21 shareholders of April 22, 2002 to approve the transfer by Messrs. Alan and Venclik of their ownership interests in CET 21 to Vilja and (2) a written resolution of the CET 21 shareholders on the redistribution of a 60% interest in CET 21 then held by the company itself. (This 60% interest had previously been held by Vladimir Zelezny, who had been forced to relinquish it in an enforcement proceeding against him following his default on a judgment adverse to him in another proceeding). These claims, in effect, constituted a challenge to the ownership by Vilja of a 52.075% ownership interest in CET 21.

On June 18, 2003, before the City Court had issued a decision in the Krsak 2002 Petition, CET 21 petitioned the City Court to approve, among other things, the registration of Vilja in the commercial register maintained by the City Court (the "Commercial Register") as the owner of 52.075% of CET 21 (the "CET 21 Petition").

On February 24, 2005, we entered into the Agreement on the Settlement of Disputes and Transfer of Ownership Interest with Peter Krsak (the "Krsak Agreement"). The Krsak Agreement provides that Mr. Krsak will file petitions to withdraw all of his claims in respect of the TV Nova (Czech Republic) group following the satisfaction of specified conditions precedent. Those conditions were satisfied in April 2005 and Mr. Krsak filed the necessary petitions in May 2005. The City Court in Prague accepted a petition to withdraw the Krsak 2002 Petition on May 24, 2005 and issued a resolution confirming that the proceedings in respect of the Krsak 2002 Petition have been terminated. This decision has become final.

In connection with an extraordinary appeal filed by Mr. Krsak on August 8, 2003, the Commercial Register file of CET 21 was lodged with the Supreme Court. Pursuant to the Krsak Agreement, Mr. Krsak filed a petition on May 31, 2005 to withdraw this claim, and the court has confirmed that the proceedings in respect of this claim have been terminated. The Commercial Register file of CET 21 was returned to the City Court in Prague as a result of the termination of the proceedings before the Supreme Court. On October 14, 2005, the City Court in Prague confirmed the registration of Vilja in the Commercial Register as the owner of 52.075% of CET 21. The decision became final on December 17, 2005.

Disposition of the CET 21 interest held by CET 21

Following an enforcement proceeding against Vladimir Zelezny in another matter, his 60% interest passed to CET 21. The CET 21 shareholder resolution based on a proposal dated July 4, 2002 provided for the redistribution of this 60% interest among Vilja, Krsak, CEDC and CS, the four remaining shareholders of CET 21. Only Vilja elected to participate in the redistribution of that interest; it acquired its pro rata portion of the 60% interest and thereby increased its ownership in CET 21 to 52.075% (from a 20.83% interest of an aggregate 40% interest then held by the four remaining shareholders). Neither Mr Krsak, who previously held a 16.67% interest in CET 21, or CS or CEDC, which each holds a 1.25% interest, participated in the redistribution. As a result, their pro rated portions of the 60% interest (equal to an aggregate 28.755% interest in CET 21) continue to be held by CET 21 itself. The preliminary injunction which had previously prohibited the disposition of this 28.755% interest ceased to exist as a result of termination of one of the lawsuits previously launched by Mr. Krsak. On October 14, 2005, the City Court in Prague confirmed the registration of CET 21 in the Commercial Register as the owner of this 28.755% interest. The decision became final on December 17, 2005.

Claims brought by Alan, Huncik, Venclik and Gal

On May 7, 2003, Messrs. Alan, Huncik, Venclik and Gal, former shareholders of CET 21, filed a claim against Krsak, Zelezny, CET 21, CEDC and CS with the City Court in Prague. The substance of this challenge concerns the basis on which Zelezny purported to increase his ownership interest in CET 21 to 60% in 1997. The claim was withdrawn by Messrs. Alan, Huncik, Venclik and Gal on November 18, 2005. Subsequently, the proceedings were terminated by a court resolution dated November 25, 2005. This decision has become final.

Claims relating to the interests of CS and CEDC in CET 21

On April 2, 2003, CS entered into an agreement with Vilja to transfer its 1.25% interest in CET 21 to Vilja. This transfer was approved by a resolution of the CET 21 shareholders adopted by written consent on May 16, 2003. Mr. Krsak filed a petition against CET 21 in the City Court in Prague on August 8, 2003 to declare the shareholders resolution invalid. Pursuant to the Krsak Agreement, Mr. Krsak filed a petition in May 2005 with the High Court in Prague to withdraw this claim. The High Court in Prague decided on June 22, 2005 to return the file to the City Court in Prague for a formal decision on the withdrawal of the claim and termination of the proceedings. On January 11, 2006, the City Court in Prague issued a resolution confirming that the proceedings in respect of this petition have been terminated. This decision has become final.

CET 21 adopted a shareholder resolution by written consent on January 5, 2004 to approve the transfer of the 1.25% interest of CEDC in CET 21 to PPF (Cyprus) Ltd. Mr. Krsak filed a petition against CET 21 in the City Court in Prague on February 3, 2004 to declare this shareholders resolution invalid. Pursuant to the Krsak Agreement, Mr. Krsak filed a petition in May 2005 with the High Court in Prague to withdraw this claim. The City Court in Prague issued a resolution on August 1, 2005 confirming that the proceedings in respect of this petition have been terminated. This decision has become final.

The consent of the Czech Media Council to the transfer of each of these 1.25% interests, which is necessary for such transfers to become effective, has been requested but has not yet been issued.

Other claims

On January 25, 2005, Mr. Krsak filed on his own behalf and on behalf of CET 21 an action in the City Court in Prague against 25 parties, including PPF and its affiliates, CP 2000, Vilja, and certain former and current members of management. In his filing, Mr. Krsak claimed damages to himself in the amount of approximately CZK 1.25 billion (approximately US$ 50.9 million) and on behalf of CET 21 in the amount of approximately CZK 7.5 billion (approximately US$ 305.7 million). The substance of this claim is that various entities and persons controlling CET 21 caused CET 21 damage by entering into agreements on disadvantageous terms with service companies related to such controlling person (such as CP 2000 and Mag Media, which have subsequently been merged into CME Media Services).

Pursuant to the Krsak Agreement, Mr. Krsak filed a petition to withdraw this claim in May 2005 with the City Court in Prague. The City Court in Prague accepted this petition on May 31, 2005 and issued a resolution confirming that the proceedings have been terminated. This decision has not yet become final.

In December 2002, the Czech Republic Union of Authors ("OSA"), a collective administrator of copyright, filed an action against CET 21, claiming payment of CZK 46.8 million (approximately US$ 1.9 million) plus interest for alleged unauthorized use of works from the OSA library. CET 21 has been attempting to negotiate a revised pricing structure with OSA since 2002 and has been paying advances on the licensing fee to OSA on an estimated basis pending final agreement of the amounts payable. At a hearing on September 19, 2005, the Municipal Court in Prague upheld OSA's claim. On December 21, 2005, CET 21 entered into a settlement agreement with OSA to pay CZK 39.6 million (approximately US$ 1.6 million) as full payment for all amounts claimed by OSA for the period from 2002 through 2005. CET 21 also entered into a contract with OSA to fix payments for the period from 2006 through 2008.

Antimonopoly office

Following an investigation that the Office for the Protection of Economic Competition of the Czech Republic began conducting during the fourth quarter of 2005 regarding potential infringements of Czech antimonopoly legislation in respect of the sale of advertising on the TV NOVA channel from 2004, CET 21 has, without acknowledging any infringements alleged by the Antimonopoly Office, agreed to make certain undertakings in respect of the sale of advertising on TV NOVA. Upon acceptance of these undertakings by the Antimonopoly Office and subject to observance of them, the investigation will be terminated.

Romania

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

Slovenia

On November 20, 2002, we received notice of a claim filed by Mrs. Zdenka Meglic, the founder and a former shareholder of MMTV 1 d.o.o (MMTV), against MMTV, a subsidiary of CME Media Enterprises BV. In her claim against MMTV, Mrs. Meglic is seeking an amount equal to SIT 190 million (approximately US$ 1.0 million) for repayment of monies advanced to MMTV from 1992 to 1994 (in the amount of approximately SIT 29 million (approximately US$ 0.1 million) plus accrued interest. On September 9, 2004, the court of first instance found against MMTV and issued a judgment requiring MMTV to pay SIT 190 million (approximately US$ 1.0 million) plus interest as well as costs. On September 24, 2004, MMTV filed an appeal against the judgment. On December 15, 2004, the appellate court vacated the judgment of the lower court and returned the case for further proceedings. We do not believe that Mrs. Meglic will prevail and will continue to defend the claim. Accordingly, we have made no provision for this claim in our Consolidated Balance Sheets as at December 31, 2005.

Slovak Republic

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

Ukraine

On October 11, 2005, Igor Kolomoiski filed a lawsuit against Alexander Rodnyansky and Studio 1+1 in a district court in Kiev. Our Ukrainian affiliate Intermedia is participating in the proceedings as a third party, though Studio 1+1 is no longer a party to the proceedings.
Mr. Kolomoiski is attempting to enforce what he alleges was a binding agreement with Mr. Rodnyansky to purchase the latter's 70% interest in Studio 1+1 for consideration of US$ 70.0 million and to transfer that interest to Mr. Kolomoiski on receipt of a prepayment of US$ 2.0 million. The lawsuit arises from abortive negotiations among Mr. Kolomoiski,

Mr. Rodnyansky and Boris Fuchsmann for the acquisition by Mr. Kolomoiski of the totality of interests in the Studio 1+1 Group held by Mr. Rodnyansky and Mr. Fuchsmann, subject to Mr. Kolomoiski assuming all of their obligations under our existing partnership arrangements. Following a series of initial hearings, proceedings on the merits were suspended pending the resolution of a procedural matter that has been appealed to the Supreme Court of Ukraine. This appeal is currently pending. An acceptance of this appeal would automatically suspend proceedings in the district court in Kiev; however, the filing of such an appeal with the Supreme Court does not impact the proceedings. As a result, the hearings on the case in the district court have resumed and the hearings on the merits commenced on March 20, 2006. The next hearing has been scheduled for March 28, 2006. In the event the appeal to the Supreme Court is accepted, the hearings in the district court will be suspended during the pendency of this appeal.

We believe the lawsuit is without merit primarily because there was no agreement with Mr. Kolomoiski and because any transfer would, in any event, breach Intermedia's statutory and contractual consent and pre-emptive rights. In the event of an adverse outcome which results in the ownership of 70% of Studio 1+1 being transferred from Mr. Rodnyanksy to Mr. Kolomoiski pursuant to a court decision, we may not be able to secure and enforce our contractual rights to a 60% economic interest in Studio 1+1 or rights related to the governance of Studio 1+1 against Mr. Kolomoiski. A reduction in our right to future distributable cash from Studio 1+1 would have an adverse impact on our financial position and results of operations.

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

Principal security holders

The following table sets forth certain information as of March 6, 2006 with respect to the beneficial ownership of our Class A Common Stock and Class B Common Stock by each shareholder known by us to beneficially own more than 5% of any class of our outstanding voting securities.

Name of beneficial owner	Beneficial ownership of Class A common stock(a)		Beneficial ownership of Class B common stock		Common stock	
	Number	Percent	Number	Percent	% of voting power(b)	% owner-ship(b)
Ronald S. Lauder(1)(2)			6,031,965(3)	85.02%	59.13%	15.81%
Leonard A. Lauder(4)(5)			721,673	10.36%	7.16%	1.90%
Federated Investors, Inc.(6)(7)	3,002,088	9.67%			2.98%	7.90%
Eric Semler(8)(9)	2,365,497	7.62%			2.35%	6.22%
Testora Ltd(10)	3,500,000	11.28%			3.47%	9.20%

(a) Does not include 6,966,533 shares of Class A Common Stock issuable upon conversion of shares of Class B Common Stock. Shares of Class B Common Stock are convertible at any time into shares of Class A Common Stock for no additional consideration on a share-for-share basis.

(b) Represents the percentage of total voting power and the percentage ownership of the Class A Common Stock and the Class B Common Stock currently beneficially owned by each identified shareholder. The Class A Common Stock and the Class B Common Stock are the only authorized classes of the Company's capital stock with shares outstanding.

1. The address of Ronald S. Lauder is Suite 4200, 767 Fifth Avenue, New York, New York 10153.

2. 57,799 of the shares of Class B Common Stock listed are owned directly by Ronald S. Lauder, 3,385,417 of the shares of Class B Common Stock are owned by RSL Investments Corporation, 1,672,500 of the shares of Class B Common Stock are owned by RSL Capital LLC and 577,788 of the shares of Class B Common Stock are owned by TV Holdings Ltd., all of which are owned by Mr. Lauder. 210,461 of the shares of Class B Common Stock are held by RAJ Family Partners L.P., which Mr. Lauder may be deemed to beneficially own. In addition, Mr. Lauder directly owns currently exercisable options to purchase 128,000 shares of Class B Common Stock.

3. Includes (i) 100,000 shares of Class B Common Stock underlying options which are currently exercisable at an exercise price of $23.925 per share and which expire on August 1, 2007; (ii) 8,000 shares of Class B Common Stock underlying options which are currently exercisable at a price of $0.2625 per share and which expire on May 18, 2011; (iii) 9,600 shares of Class B Common Stock underlying options which are currently exercisable at a price of $2.0558 per share and which expire on May 15, 2012; (iv) 6,400 shares of Class B Common Stock underlying options which are currently exercisable, at a price of $11.44 per share and which expire on May 21, 2013; and (v) 4,000 shares of Class B Common Stock underlying options which are currently exercisable at an exercise price of $23.22 per share and which expire on June 1, 2014. Does not include (i) 2,000 shares of Class B Common Stock underlying options with an exercise price of $0.2625 per share which are not currently exercisable within 60 days, and expire May 18, 2011; (ii) 6,400 shares of Class B Common Stock underlying options with an exercise price of $2.0558 per share which are not currently exercisable and will not become exercisable within 60 days, and expire on May 15, 2012; (iii) 9,600 shares of Class B Common Stock underlying options with an exercise price of $11.44 per share which are not currently exercisable and will not become exercisable within 60 days, and expire on May 21, 2013; (iv) 12,000 shares of Class B Common Stock underlying options with an exercise price of $23.22 per share which are not currently exercisable and will not become exercisable within 60 days, and expire on June 1, 2014; and (v) 6,000 shares of Class B Common Stock underlying options with an exercise price of $46.725 which are not currently exercisable and will not become exercisable within 60 days and expire on June 1, 2015.

4. Information in respect of the beneficial ownership of Leonard A. Lauder (other than percentage ownership) is based upon a statement on Schedule 13D filed by him. The address of Mr. Leonard A. Lauder is c/o The Estée Lauder Companies Inc., 767 Fifth Avenue, New York, New York 10153.

5.

285,239 of the shares of Class B Common Stock listed are owned directly by Leonard A. Lauder and 436,434 of the shares of Class B Common Stock are held by LWG Family Partners L.P., a partnership whose managing partner is a corporation which is one-third owned by Mr. Leonard A. Lauder.

6. Information in respect of the beneficial ownership of Federated Investors, Inc. (other than percentage ownership) is based upon a statement on Schedule 13G filed on February 14, 2006 jointly by Federated Investors, Inc., Voting Shares Irrevocable Trust, John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue. The address of Federated Investors, Inc., Voting Shares Irrevocable Trust, John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue is Federated Investors Tower, Pittsburgh, Pennsylvania 15222-3779.

7. Federated Investors, Inc. ("Parent") is the parent holding company of Federated Equity Management Company of Pennsylvania and Federated Global Investment Management Corp. (the "Investment Advisors"), which act as investment advisors to registered investment companies and separate accounts that own shares of common stock in Central European Media Enterprises, Ltd. The Investment Advisors are wholly owned subsidiaries of FII Holdings, Inc., which is a wholly owned subsidiary of Parent. All of Parent's outstanding voting stock is held in the Voting Shares Irrevocable Trust for which John F. Donahue, Rhodora J. Donahue and J. Christopher Donahue act as trustees. The trustees have collective voting control over Parent and shared voting power over the shares listed.

8. Information in respect of the beneficial ownership of Eric Semler (other than percentage ownership) is based upon a statement on Schedule 13G/A filed by him on January 18, 2006. The address of Mr. Semler is 888 Seventh Avenue, Suite 1504, New York, New York 10019.

9. Mr. Semler has sole power to vote and to dispose of these shares which consist of (i) 1,459,491 shares of Class A Common Stock held for the account of TCS Capital Investments; (ii) 123,405 shares of Class A Common Stock held for the account of TCS Capital; (iii) 780,601 shares of Class A Common Stock held for the account of TCS Capital II; and (iv) 2,000 shares of Class A Common Stock held for the account of TCS Select. TCS Capital Management, LLC, a Delaware limited liability company ("TCS Capital Management") is the investment manager of each TCS Capital International, TCS Capital and TCS Capital II. Mr. Semler is the investment manager of TCS Capital Management.

10. Information in respect of the beneficial ownership of Testora Limited (other than percentage ownership) is based upon a statement on Schedule 13G filed by it on January 11, 2006. The address of Testora Limited is Grigori Afxentiou, 8, El.Pa. Livadioti, Flat/Office 401, P.C. 6023, Larnaca, Cyprus.

Description of capital stock

As of March 6, 2006, our authorized share capital was 120,000,000 shares, which consists of (i) 100,000,000 Class A common shares, par value $0.08 per share (which we refer to as "Class A Common Stock"), (ii) 15,000,000 Class B common shares, par value $.08 per share (which we refer to as "Class B Common Stock"), and (iii) 5,000,000 preferred shares, par value $.08 per share (which we refer to as "Preferred Stock"). As of March 6, 2006 there were 31,057,994 shares of Class A Common Stock issued and outstanding, 6,966,533 shares of Class B Common Stock issued and outstanding and no shares of Preferred Stock issued and outstanding. The following statements are summaries of certain provisions of our Memorandum of Association, bye-laws and the Companies Act 1981, as amended, of Bermuda. These summaries do not purport to be complete and are qualified in their entirety by reference, to all of the provisions of our memorandum of association and bye-laws, copies of which have been incorporated by reference as exhibits to the registration statement of which this prospectus forms a part. Prospective investors are urged to read the exhibits for a complete understanding of our memorandum of association and bye-laws.

Class A common stock

The holders of Class A Common Stock are entitled to one vote per share and are entitled to vote as a single class together with the holders of Class B Common Stock on all matters subject to shareholder approval, except that the holders of Class A Common Stock and the holders of Class B Common Stock will each vote as a separate class with respect to any proposed "going private" transactions (as defined in our bye-laws and summarized below) between us and Ronald S. Lauder or any of his Affiliates (as defined below); and with respect to any matter requiring class voting by the Companies Act. The holders of issued shares of Class A Common Stock are entitled to receive dividends as and when declared by our Board of Directors, pari passu with the holders of Class B Common Stock, out of funds legally available therefor, subject to any preferred dividend right of the holders of any preferred stock. Under Bermuda law, a company's board of directors may declare and pay dividends from time to time unless there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts. The holders of Class A Common Stock have no preemptive or cumulative voting rights and no rights to convert their shares of Class A Common Stock into any other securities. All of the issued shares of Class A Common Stock prior to this offering are fully paid and all of our shares of Class A Common Stock to be issued in this offering will be issued fully paid. In the event of our dissolution or winding up, the holders of Class A Common Stock are entitled to receive and share ratably and equally in our remaining assets, if any, pari passu with the holders of the Class B Common Stock, after the payment of all of our debts and liabilities and subject to any liquidation preference on any issued and outstanding preferred stock.

Our bye-laws provide that our board may in its absolute discretion and without assigning any reason refuse to register the transfer of any Class A Common Stock to more than 4 (four) joint holders, or if the transfer of such stock is restricted by an employee plan. Our board may decline to recognise any instrument of transfer unless it is accompanied by the relevant share certificate and such other evidence of the transferor's right to make the transfer as our board shall reasonably require. Subject to the foregoing, a holder of Class A Common Stock may transfer the title to all or any of his shares by an instrument of transfer in the usual or common form or in any other form approved by the Board. The instrument of transfer must be signed by the transferor and the transferee, although our Board may accept the instrument signed only by the transferor.

Our bye-laws further provide that nothing in the bye-laws shall impair the settlement of transactions entered into through the facilities of the Nasdaq except as provided by such exchange.

On March 15, 2006, our Board of Directors authorized the issuance of up to an aggregate of 4.0 million shares of our Class A Common Stock in connection with this offering.

A register of holders of the Class A Common Stock is maintained by Codan Services Limited in Bermuda, and a branch register is maintained in the United States by our transfer agent, American Stock Transfer and Trust Company.

Class B common stock

The holders of Class B Common Stock are entitled to ten votes per share and are entitled to vote as a single class together with the holders of Class A Common Stock on all matters which are subject to shareholder approval, except that the holders of the Class A Common Stock and the holders of Class B Common Stock will each vote as a separate class with respect to any proposed "going private" transactions (as defined in our bye-laws and summarized below) between us and Ronald S. Lauder or any of his Affiliates (as defined below) and any matter requiring class voting by the Companies Act. The holders of the issued shares of Class B Common Stock are entitled to receive dividends as and when declared by the Board of Directors, pari passu with the holders of Class A Common Stock, out of funds legally available therefor, subject to any preferred dividend right of the holders of any preferred stock. Under Bermuda law, a company's board of directors may declare and pay dividends from time to time unless there are reasonable grounds for believing that the company is or would, after the payment, be unable to pay its liabilities as they become due or that the realizable value of its assets would thereby be less than the aggregate of its liabilities and issued share capital and share premium accounts. The holders of the Class B Common Stock have no preemptive or cumulative voting rights. The holders of the Class B Common Stock have the right to convert their shares of Class B Common Stock into shares of Class A Common Stock at their election and on a one to one basis, and all shares of Class B Common Stock will automatically convert into shares of Class A Common Stock on a one to one basis when the number of shares of Class B Common Stock represent less than 10% of the combined total number of shares of Class A Common Stock and Class B Common Stock issued and outstanding. As of March 6, 2006, all of the issued and outstanding shares of Class B Common Stock are fully paid. Shares of Class B Common Stock may be transferred only to (i) other original holders of Class B Common Stock; (ii) to members of the immediate family of the original holder by gift, devise or otherwise through laws of inheritance, descent or distribution; to a trust established by the holder for the holder's family members, to corporations of which the majority of beneficial owners are or will be owned by the holders of Class B Common Stock and to a corporation or other entity the majority of the beneficial owners of which are or will be owned by holders of Class B Common Stock; (iii) in the case where the holder of Class B Common Stock is a corporation, to its shareholders; (iv) in the case where the holder of Class B Common Stock is a partnership, to its partners; and (v) to any person who would be a Permitted Transferee through a series of permitted transfers (all of the foregoing referred to as a "Permitted Transferee"). Any other transfer of Class B Common Stock is void. However, as discussed above, a holder of Class B Common Stock may convert his or her shares into Class A Common Stock as permitted by our bye-laws and transfer such Class A Common Stock as permitted by law. A transfer by an original holder of Class B Common Stock which is either a corporation or a partnership of more than 50% of the equity interest in such corporation or partnership to other than a Permitted Transferee shall result in an automatic conversion of all shares of Class B Common Stock held by such corporation or partnership into an equal number of shares of Class A Common Stock. We are entitled to seek specific enforcement of such conversion of shares of Class B Common Stock into shares of Class A Common Stock upon the failure of any holder and/or transferee of shares of Class B Common Stock to comply with such conversion. In such event, we are entitled to recover from the holder and the transferee who failed to comply with such conversion, jointly and severally, the court costs, reasonable attorneys' fees and other costs and expenses incurred by it in connection with the obtaining of such specific enforcement. In the event of our dissolution or winding up, the holders of Class B Common Stock are entitled to receive and share ratably and equally in our remaining assets, if any, pari passu with the holders of our Class A Common Stock, after the payment of all of our debts and liabilities and subject to any liquidation preference on any issued and outstanding preferred stock.

A "going private" transaction is any "Rule 13e-3 Transaction," as that term is defined in Rule 13e-3 promulgated under the U.S. Securities Exchange Act of 1934 between us and (i) Ronald S. Lauder, (ii) any Affiliate of Mr. Lauder, as defined below or (iii) any group consisting of Mr. Lauder or Affiliates of Mr. Lauder.

An Affiliate of Ronald S. Lauder is (i) any individual or entity who or that, directly or indirectly, controls, is controlled by, or is under direct or indirect common control with, Mr. Lauder, (ii) any corporation or organization (other than CME or a majority owned subsidiary of CME) of which Mr. Lauder is an officer or a partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of voting securities, or in which Mr. Lauder has a substantial beneficial interest, (iii) any trust or other estate in which the Mr. Lauder has a substantial beneficial interest or as to which Mr. Lauder serves as trustee or in a similar fiduciary capacity or (iv) any relative or spouse of Mr. Lauder, or any relative of such spouse, who has the same residence as Mr. Lauder.

The transfer agent and registrar for our Class B Common Stock is Codan Services Limited of Hamilton, Bermuda.

Preferred stock

Subject to the Companies Act and our memorandum of association and bye-laws, our Preferred Stock may be issued from time to time as determined by our Board of Directors, without shareholder approval. Such Preferred Stock may be issued in such series and with such preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or other provisions, as may be fixed by our Board of Directors. While our Board of Directors has no current intention of doing so, our Board of Directors, without shareholder approval, could issue preferred stock with voting and conversion rights which could adversely affect the benefit of any voting power and the benefit of other rights of the holders of Class A Common Stock and which could be used by us as an anti-takeover measure such as a "poison pill" without any further action by the holders of Class A Common Stock. This may have the effect of delaying, deferring or preventing a change of control of CME by increasing the number of shares necessary to gain control of us. At the date of this prospectus, the Board of Directors has not authorized the issuance of any shares of preferred stock and we have no agreements or understanding for the issuance of any shares of preferred stock.

Meetings of shareholders

Under Bermuda law, a company is required to convene at least one general meeting of shareholders each calendar year. Bermuda law provides that a special general meeting of shareholders may be called by the board of directors of a company and must be called upon the request of shareholders holding not less than 10% of the paid-up capital of the company carrying the right to vote at general meetings. Bermuda law also requires that shareholders be given at least five days' advance notice of a general meeting, but the accidental omission to give notice to any person does not invalidate the proceedings at a meeting. Our bye-laws provide that our Board of Directors may convene an annual general meeting or a special general meeting. Under our bye-laws, in general, at least 14 clear days' notice of an annual general meeting or a special general meeting must be given to each shareholder entitled to vote at such meeting. This notice requirement is subject to the ability to hold such meetings on shorter notice if such notice is agreed: (i) in the case of an annual general meeting by all of the shareholders entitled to attend and vote at such meeting; or (ii) in the case of a special general meeting by a majority in number of the shareholders entitled to attend and vote at the meeting holding not less than 95% in nominal value of the shares entitled to vote at such meeting. The quorum required for a general meeting of shareholders is such number of shareholders holding a majority of the total issued gvoting shares and present in person or by proxy.

Variation of rights

If at any time we have more than one class of shares, the rights attaching to any class, unless otherwise provided for by the terms of issue of the relevant class, may be varied either: (i) with the consent in writing of the holders of at least 75% of the issued shares of that class; or

(ii) with the sanction of a resolution passed by at least 75% of the votes cast at a separate general meeting of the relevant class of shareholders at which a quorum consisting of at least two persons holding or representing one-third of the issued shares of the relevant class is present. Our bye-laws specify that the creation or issue of shares ranking equally with existing shares will not, unless expressly provided by the terms of issue of existing shares, vary the rights attached to existing shares.

Capitalization of profits and reserves

Pursuant to our bye-laws, our Board of Directors may (i) capitalize any part of the amount of our share premium or other reserve accounts or any amount credited to our profit and loss account or otherwise available for dividend or distribution by applying such sum in paying up unissued shares to be allotted as fully paid bonus shares pro-rata to the shareholders; or (ii) capitalize any sum standing to the credit of a reserve account or sums otherwise available for dividend or distribution by paying up in full partly paid shares of those shareholders who would have been entitled to such sums if they were distributed by way of dividend or distribution.

Anti-takeover protections

Our bye-laws contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions provide for discretion conferred upon our Board of Directors to determine the powers, preferences and rights of our preference shares and to issue the preference shares without shareholder approval. This could impede the ability of one or more shareholders (acting in concert) to acquire sufficient influence over the election of directors and other matters to effect a change in control of our management. Our bye-laws also establish an advance notice procedure for the nomination, other than by or at the direction of our Board of Directors, of candidates for election as directors. In general, notice of intent to nominate a director or raise business at such meeting must be received by us not less than 90 nor more than 120 days prior to the meeting, and must contain certain specified information concerning the person to be nominated or the matter to be brought before the meeting and concerning the shareholder submitting the proposal. These provisions could make it more difficult for a third party to acquire us, even if the third party's offer may be considered beneficial by many shareholders. As a result, shareholders may be limited in their ability to obtain a premium for their shares.

Amendment of memorandum of association and bye-laws

Bermuda law provides that the memorandum of association of a company may be amended by a resolution passed at a general meeting of shareholders. Our bye-laws provide that no bye-law shall be rescinded, altered or amended, and no new bye-law shall be made, unless it shall have been approved by a resolution of our Board of Directors and by an ordinary resolution of the holders of Class A Common Stock and Class B Common Stock.

Under Bermuda law, the holders of an aggregate of not less than 20% in par value of the company's issued share capital or any class thereof have the right to apply to the Supreme Court of Bermuda for an annulment of any amendment of the memorandum of association adopted by shareholders at any general meeting, other than an amendment which alters or reduces a company's share capital as provided in the Companies Act. Where such an application is made, the amendment becomes effective only to the extent that it is confirmed by the Bermuda court. An application for an annulment of an amendment of the memorandum of association must be made within twenty-one days after the date on which the resolution altering the company's memorandum of association is passed and may be made on behalf of persons entitled to make the application by one or more of their number as they may appoint in writing for the purpose. No application may be made by shareholders voting in favor of the amendment.

Differences in corporate law

Bermuda law and the Companies Act differ in certain respects from laws generally applicable to United States corporations and their shareholders. Set forth below is a summary of certain material differences between Bermuda law and Delaware corporate law. The following statements are summaries, and do not purport to deal with all aspects of Bermuda law that may be relevant to us or our shareholders.

Fiduciary Duty; Interested Directors. Under Bermuda law, at common law, the directors of a Bermuda company owe a fiduciary duty to the company to act in good faith in their dealings with or on behalf of the company and to exercise their powers and fulfill the duties of their office honestly. This duty includes the following elements: (i) a duty to act in good faith in the best interests of the company; (ii) a duty not to make a personal profit from opportunities that arise from the office of director; (iii) a duty to avoid conflicts of interest; and (iv) a duty to exercise powers for the purpose for which such powers were intended. In addition, the Companies Act imposes a specific duty on directors and officers of a Bermuda company to act honestly and in good faith with a view to the best interests of the company and requires them to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Companies Act also imposes various duties on officers of a company with respect to certain matters of management and administration of the company. Our bye-laws provide that no director or officer shall be disqualified by his office from entering into a contract or arrangement with us nor can such director be liable to us for any profit realized pursuant to such a transaction provided the nature of such director's or officer's interest is disclosed at the first opportunity at a meeting of directors, or in writing to the directors. Under Delaware law no such transaction would be voidable if (i) the material facts as to such interested director's relationship or interests are disclosed or are known to the board of directors and the board in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested directors, (ii) such material facts are disclosed or are known to the stockholders entitled to vote on such transaction and the transaction is specifically approved in good faith by vote of the stockholders or (iii) the transaction is fair as to the corporation as of the time it is authorized, approved or ratified. Under Delaware law, such interested director could be held liable for any transaction for which such director derived an improper personal benefit.

Amalgamation, Merger and Other Business Combinations. We may acquire the business of another Bermuda company similarly exempt from Bermuda taxes or a company incorporated outside Bermuda and carry on such business when it is within the objects of our memorandum of association. We may amalgamate with another Bermuda company or with a company incorporated in another jurisdiction which permits such a company to amalgamate with a Bermuda company, subject to board and certain shareholder approval (except for an amalgamation between certain affiliates). Under Bermuda law, in the event of an amalgamation of a Bermuda company with another company or corporation, a shareholder of the Bermuda company who is not satisfied that fair value has been offered for such shareholder's shares may, within one month of notice of the shareholders meeting to consider the amalgamation, apply to the Supreme Court of Bermuda to appraise the fair value of such shareholder's shares. Under Delaware law, with certain exceptions, any merger, consolidation or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the issued shares entitled to vote. Under Delaware law, a stockholder of a corporation participating in certain major corporate transactions may, under varying circumstances, be entitled to appraisal rights pursuant to which such stockholder may receive cash in the amount of the fair market value of the shares held by such stockholder (as determined by a court or by agreement of the corporation and the stockholder) in lieu of the consideration such stockholder would otherwise receive in the transaction. Delaware law does not provide stockholders of a corporation with voting or appraisal rights when the corporation acquires another business through the issuance of its stock or other consideration (i) in exchange for the assets of the business to be acquired, (ii) in exchange for the issued stock of the corporation to be acquired or (iii) in a merger of the corporation to be acquired with a subsidiary of the acquiring corporation.

Takeovers. Under Bermuda law, an acquiring party is generally able to acquire compulsorily the shares of minority shareholders in the following ways:

By a procedure under the Companies Act 1981 known as a "scheme of arrangement". A scheme of arrangement could be effected by obtaining the agreement of the company and of holders of shares, representing in the aggregate a majority in number and at least 75% in value of the shareholders present and voting at a court ordered meeting held to consider the scheme or arrangement. The scheme of arrangement must then be sanctioned by the Bermuda Supreme Court. If a scheme of arrangement receives all necessary agreements and sanctions, upon the filing of the court order with the Registrar of Companies in Bermuda, all holders of shares could be compelled to sell their shares under the terms of the scheme or arrangement.

If the acquiring party is a company, it may compulsorily acquire all the shares of the target company by acquiring pursuant to a tender offer 90% of the shares or class of shares not already owned by, or by a nominee for, the acquiring party (the offeror), or any of its subsidiaries. If an offeror has, within four months after the making of an offer for all the shares or class of shares not owned by, or by a nominee for, the offeror, or any of its subsidiaries, obtained the approval of the holders of 90% or more of all the shares to which the offer relates, the offeror may, at any time within two months beginning with the date on which the approval was obtained, by notice require any nontendering shareholder to transfer its shares on the same terms as the original offer. In those circumstances, nontendering shareholders will be compelled to sell their shares unless the Supreme Court of Bermuda (on application made within a one-month period from the date of the offeror's notice of its intention to acquire such shares) orders otherwise.

Where one or more parties holds not less than 95% of the shares or a class of shares of a company, such holder(s) may, pursuant to a notice given to the remaining shareholders or class of shareholders, acquire the shares of such remaining shareholders or class of shareholders. When this notice is given, the acquiring party is entitled and bound to acquire the shares of the remaining shareholders on the terms set out in the notice, unless a remaining shareholder, within one month of receiving such notice, applies to the Supreme Court of Bermuda for an appraisal of the value of their shares. This provision only applies where the acquiring party offers the same terms to all holders of shares whose shares are being acquired. Delaware law provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any 90% or more owned subsidiary. Upon any such merger, dissenting stockholders of the subsidiary would have appraisal rights.

Shareholder's Suit. The rights of shareholders under Bermuda law are not as extensive as the rights of shareholders under legislation or judicial precedent in many United States jurisdictions. Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda.

However, the Bermuda courts ordinarily would be expected to follow English case law precedent, which would permit a shareholder to commence an action in our name to remedy a wrong done to us where the act complained of is alleged to be beyond the corporate power of the Company or is illegal or would result in the violation of our memorandum of association or bye-laws.

Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or where an act requires the approval of a greater percentage of our shareholders than that which actually approved it. When the affairs of a company are being conducted in a manner which is oppressive or prejudicial to the interests of some part of the shareholders, one or more shareholders may apply to the Supreme Court of Bermuda, which may make such order as it sees fit, including an order regulating the conduct of the company's affairs in the future or ordering the purchase of the shares of any shareholders by other shareholders or by the company. Class actions and derivative actions generally are available to stockholders under Delaware law for, among other things, breach of fiduciary duty, corporate waste and actions not taken in accordance with applicable law. In such actions, the court has discretion to permit the winning party to recover attorney fees incurred in connection with such action.

Indemnification of Directors and Officers. Section 98 of the Companies Act provides generally that a Bermuda company may indemnify its directors, officers and auditors against any liability which by virtue of any rule of law would otherwise be imposed on them in respect of any negligence, default, breach of duty or breach of trust, except in cases where such liability arises from fraud or dishonesty of which such director, officer or auditor may be guilty in relation to the company. Section 98 further provides that a Bermuda company may indemnify its directors, officers and auditors against any liability incurred by them in defending any proceedings, whether civil or criminal, in which judgment is awarded in their favour or in which they are acquitted or granted relief by the Supreme Court of Bermuda pursuant to section 281 of the Companies Act. Our bye-laws provide that our directors, officers, any person appointed to any committee by the board of directors and certain other persons (and their respective heirs, executors or administrators) in their capacity as such shall be indemnified and held harmless by us in respect of their acts or omissions, except in respect of their fraud or dishonesty. Under Delaware law, a corporation may adopt a provision eliminating or limiting the personal liability of a director to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for breaches of the director's duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law, for improper payment of dividends or for any transaction from which the director derived an improper personal benefit. Delaware law has provisions and limitations similar to Bermuda regarding indemnification by a corporation of its directors or officers, except that under Delaware law the statutory rights to indemnification may not be as limited.

Our bye-laws also provide that our shareholders waive any claim or right of action that they might have, both individually and on our behalf, against any of our directors or officers in relation to any act or failure to act in the performance of such director's or officer's duties, except in respect of any fraud or dishonesty of such director or officer. Our bye-laws provide that the indemnity and waiver of claims provided in our bye-laws shall extend, as a matter of contract, between each shareholder and each former director and officer of the Company (and their respective heirs, executors or administrators) to any act done, purported to be done, concurred in or omitted in or about the execution of their duty, or supposed duty, or in their respective offices or trust by the former directors or officers of the Company. The indemnification provided in our bye-laws is not exclusive of other indemnification rights to which a director or officer may be entitled, provided these rights do not extend to his or her fraud or dishonesty.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

Inspection of Corporate Records. Members of the general public have the right to inspect our public documents available at the office of the Registrar of Companies in Bermuda which will include our memorandum of association (including its objects and powers) and any alteration to the memorandum of association and documents relating to an increase or reduction of authorized capital. The shareholders have the additional right to inspect the bye-laws, minutes of general meetings and audited financial statements, which must be presented to the annual general meeting of shareholders. Our register of members is also open to inspection by shareholders without charge, and to members of the general public for a fee. We are required to maintain our register of members in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. We are required to keep at our registered office a register of our directors and officers which is open for inspection to shareholders and to members of the public without charge. Bermuda law does not, however, provide a general right for shareholders to inspect or obtain copies of any other corporate records. Delaware law permits any shareholder to inspect or obtain copies of a corporation's shareholder list and its other books and records for any purpose reasonably related to such person's interest as a shareholder.

Certain other provisions of Bermuda law

We have been designated by the Bermuda Monetary Authority as a non-resident for Bermuda exchange control purposes. This designation allows us to engage in transactions in currencies other than the Bermuda dollar, and there are no restrictions on our ability to transfer funds (other than funds denominated in Bermuda dollars) in or out of Bermuda or to pay dividends to United States residents who are holders of our Class A Common Stock. General permission under the Exchange Control Act 1972 (and its related regulations) has been obtained from the Bermuda Monetary Authority for the issue and transfer of the Class A Common Stock to and between non-residents of Bermuda for exchange control purposes provided our shares of Class A Common Stock remain listed on an appointed stock exchange, which includes the National Association of Security Dealers Automated Quotations System (NASDAQ). This Prospectus will be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law.

In granting such permission and in accepting this Prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for our financial soundness or of the correctness of any of the statements made or opinions expressed in this Prospectus.

The Bermuda Monetary Authority has also granted consent for the issue and transfer of up to 20% of our Class A Common Stock in issue from time to time to persons resident in Bermuda for exchange control purposes without the need to obtain prior approval.

In accordance with Bermuda law, share certificates are only issued in the names of companies, partnerships or individuals. In the case of a shareholder acting in a special capacity (for example as a trustee), certificates may, at the request of the shareholder, record the capacity in which the shareholder is acting. Notwithstanding the recording of any such special capacity we are not bound to investigate or incur any responsibility in respect of the proper administration of any such trust.

We will take no notice of any trust applicable to any of our shares whether or not we had notice of such trust.

Material United States federal income and Bermuda tax considerations

The following discussion is a general summary of the material tax consequences of an investment in the Class A Common Stock under Bermuda law and United States federal income tax laws. This discussion is intended only as a summary and does not address all potential tax considerations relating to an investment in the Class A Common Stock. In particular, this discussion does not address the tax consequences of an investment in the Class A Common Stock under state, local or other (i.e., non-United States or Bermuda) tax laws. Accordingly, you must consult your own tax advisor regarding the tax consequences to you of an investment in the Class A Common Stock.

Bermuda

As of the date hereof, neither we nor holders of our Class A Common Stock (who or which holders are not persons ordinarily resident in Bermuda) are subject to any Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax, in respect of our shares of Class A Common Stock.

We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966, as amended, that, in the event there is enacted in Bermuda any legislation imposing tax computed on profits, income, capital assets, gain or appreciation or any tax in the nature of an estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to us or to our Class A Common Stock, except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

United States federal income taxation

The following are the material United States federal income tax consequences of the acquisition, ownership and disposition of the Class A Common Stock. This discussion only applies to holders that hold the Class A Common Stock as capital assets.

This discussion does not describe all of the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

- persons that own, or are deemed to own, 10% or more of the voting power of all of our outstanding stock;
- certain financial institutions;
- insurance companies;
- tax-exempt organizations;
- dealers in securities or foreign currencies;
- persons holding Class A Common Stock as a hedge or as part of a straddle, constructive sale or conversion transaction;
- persons holding Class A Common Stock through partnerships or other entities classified as partnerships for U.S. federal income tax purposes;
- persons subject to the alternative minimum tax; or
- U.S. Holders whose functional currency is not the U.S. dollar.

As used herein, the term "U.S. Holder" means a beneficial owner of Class A Common Stock that is, for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, or a partnership, or other entity taxable as a partnership for U.S. federal

income tax purposes, created or organized in or under the laws of the United States or of any political subdivision thereof;

an estate, the income of which is subject to United States federal income taxation regardless of its source; or

a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (ii) the trust was in existence on August 20, 1996 and has properly elected to continue to be treated as a U.S. person.

A Non-U.S. Holder is any beneficial owner of Class A Common Stock that is not a U.S. Holder.

The discussion below is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, changes to any of which subsequent to the date of this Prospectus may affect the tax consequences described herein. **This discussion is not intended to constitute a complete analysis of all tax considerations relevant to an investment in the Class A Common Stock. It does not take into account the individual circumstances of any particular prospective investor, nor does it address any aspect of estate or gift tax laws or of state, local or foreign tax laws. No rulings have been or will be requested from the Internal Revenue Service concerning any of the tax matters discussed below. We strongly urge you to consult your own tax advisor for advice concerning the application of the U.S. federal income tax laws to your particular situation, as well as any tax consequences arising under state, local or foreign tax laws.**

U.S. Holders

Taxation of distributions on Class A Common Stock

If we make any distributions on our Class A Common Stock (other than certain pro rata distributions of Class A Common Stock), you generally will be required to include the amount of such distribution in gross income as a taxable dividend to the extent such distribution is paid from our current or accumulated earnings and profits as determined applying United States federal income tax principles. Subject to the rules described below under " Passive Foreign Investment Company," distributions in excess of our earnings and profits generally will first be treated as a nontaxable return of capital to the extent of your adjusted tax basis in your Class A Common Stock, and then as gain from the sale or exchange of a capital asset. The taxable amount of the dividend will be treated as foreign source dividend income to you and will generally constitute passive income for foreign tax credit purposes. The dividend will not be eligible for the dividends received deduction generally allowed to U.S. corporations under the Code. Subject to the rules described below under " Passive Foreign Investment Company," for non-corporate U.S. Holders, such dividends, if received in taxable years beginning before January 1, 2009, will qualify for preferential rates of taxation provided that our common stock continues to trade on the NASDAQ or another established United States securities market and the U.S. Holder satisfies certain holding period requirements.

Sale, exchange or redemption of Class A Common Stock

Upon the sale, exchange, redemption or other taxable disposition of our Class A Common Stock, you generally will recognize capital gain or loss (subject to the rules discussed below under "   Passive Foreign Investment Company") equal to the difference between the amount of cash and the fair market value of any property received by you upon such disposition, and your adjusted tax basis in the Class A Common Stock. Such capital gain or loss will be treated as United States source gain or loss for purposes of computing your foreign tax credit limitation, and will be long-term capital gain or loss if your holding period in the Class A Common Stock is more than one year, and otherwise will be short-term capital gain or loss. Long-term capital gains of non-corporate U.S. Holders are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Controlled foreign corporation

We currently are a controlled foreign corporation (CFC). This generally will not be relevant to you unless you hold directly, indirectly, or through certain constructive ownership rules, shares of our common stock representing 10% or more of the voting power of all of our outstanding stock. We do not anticipate that this will occur if you own only Class A Common Stock purchased in this offering.

Passive foreign investment company

We were not classified as a "passive foreign investment company" (PFIC) under U.S. tax laws for 2005, and we believe, but cannot assure, that we will not be so classified for the current or future years. We will be classified as a PFIC if, for any of our taxable years during which you own Class A Common Stock, either 75% or more of our annual gross income is passive income, or 50% or more of the average quarterly value of our assets produce or are held for the production of passive income. Passive income for purposes of the PFIC rules generally includes dividends, interest and other types of investment income, and generally would include amounts derived by reason of the temporary investment of excess funds. In applying the income and asset tests, we will be treated as receiving a proportionate share of the income and as owning a proportionate share of the assets of each foreign corporation in which we own 25% or more in value of the stock.

If we become a PFIC at any time while you hold Class A Common Stock, then, unless you make a special tax election (described below) for the year in which we become a PFIC (or unless your Class A Common Stock is otherwise required to be marked-to-market for U.S. federal income tax purposes), you will be subject to special rules generally intended to eliminate any benefits from the deferral of U.S. federal income tax that you might otherwise derive from investing in a foreign corporation that does not distribute all of its earnings on a current basis. Upon a disposition of our Class A Common Stock, any gain recognized by you would be allocated ratably over your holding period for our Class A Common Stock. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be taxed to you at the highest tax rate in effect for such year, and an interest charge would be imposed on your resulting tax liability allocated to such taxable year. Also, if we are a PFIC in the taxable year in which such distributions are paid or in the preceding taxable year, distributions on our Class A Common Stock would not be eligible for preferential rates of taxation as described in "   Taxation of Distributions on Class A Common Stock." Further, any distribution in respect of our Class A Common Stock in excess of 125 percent of the average annual distributions received by you during the preceding three years or your holding period in our

Class A Common Stock, whichever is shorter, would be subject to taxation as described above with respect to the sale or other disposition of Class A Common Stock.

If you own Class A Common Stock in the year (if any) in which we become a PFIC, then you would be eligible to make a mark-to-market election. If you were to make the mark-to-market election, then you would include each year, as ordinary income, the excess, if any, of the fair market value of your Class A Common Stock at the end of the taxable year over your adjusted tax basis, and would be permitted an ordinary loss in respect of the excess, if any, of your adjusted tax basis in your Class A Common Stock over the fair market value of your Class A Common Stock at the end of the taxable year (but only to the extent of the net amount of income previously included as a result of the mark-to-market election). Your tax basis in your Class A Common Stock would be adjusted to reflect any such income or loss amounts. Any gain recognized on the sale or other disposition of your Class A Common Stock would be treated as ordinary income.

Alternatively, you could elect to treat us as a "qualified electing fund" (QEF) for U.S. federal income tax purposes. By making this election, you would be required to include in your income each year, a pro rata share of our income other than net capital gain as ordinary income and a pro rata share of our net capital gain as long-term capital gain. If you were to make this election for the year in which we become a PFIC, then your gain (if any) on a disposition of your Class A Common Stock generally would be treated as capital gain rather than as ordinary income. If we become a PFIC, we intend to comply with the requirements necessary to enable you to elect to treat us as a QEF.

We intend to notify you if we conclude at any time that we have become or are about to become a PFIC.

Special rules apply to determine the foreign tax credit with respect to withholding taxes imposed on distributions on shares in a PFIC. Also, if you own Class A Common Stock during any year in which we are a PFIC, you must file Internal Revenue Service (IRS) Form 8621 with the IRS.

You are urged to consult your tax advisor concerning the potential application of the PFIC rules, including the availability and consequences of making the elections discussed above.

Backup withholding and information reporting

Unless you are an "exempt recipient" (generally, corporations and certain other persons who, when required, demonstrate their exempt status), you generally will be subject to information reporting with respect to payments of dividends on our Class A Common Stock and proceeds from the sale, exchange or other disposition of our Class A Common Stock. You will also be subject to backup withholding on such payments at the applicable statutory rate (currently, 28%) if you fail to supply an accurate taxpayer identification number or otherwise fail to comply with applicable certification requirements. Backup withholding tax is not an additional tax, and may be credited against your regular U.S. federal income tax liability or refunded by the IRS. You should consult your tax advisor regarding the application of these rules.

Non-U.S. Holders

Income and gain on the Class A Common Stock

If you are a Non-U.S. Holder, subject to the discussion below under "Backup Withholding and Information Reporting," you generally will not be subject to U.S. federal income or withholding tax on dividends (if any) paid to you on Class A Common Stock or on your gain (if any) upon the disposition of Class A Common Stock, unless:

- the income or gain is "U.S. trade or business income," which means income or gain that is effectively connected with your conduct of a trade or business, and if required by an applicable income tax treaty, is attributable to a permanent establishment in the United States; or

- you are an individual who is present in the United States for 183 days or more in the taxable year of disposition and certain other conditions are met.

If the first subparagraph above applies, then you generally will be subject to regular U.S. income tax in the same manner as if such income or gain were realized by a U.S. Holder. In addition, if you are a corporation, then such income or gain may be subject to a branch profits tax at a rate of 30%, or such lower rate provided by an applicable income tax treaty. If the second subparagraph applies, then you generally will be subject to tax at a rate of 30%, subject to reduction by an applicable income tax treaty.

Backup withholding and information reporting

If you hold your Class A Common Stock through a non-U.S. office of a non-U.S. related broker or financial institution, then information reporting and backup withholding generally will not be required. Information reporting, and possibly backup withholding, may apply if you hold your Class A Common Stock through a U.S. or U.S.-related broker or financial institution or a U.S. office of a non-U.S. broker or financial institution and you fail to provide appropriate identifying information. You should consult your tax advisor regarding the application of these rules.

Underwriting

The underwriters named below will enter into an underwriting agreement with respect to the Class A Common Stock being offered. Subject to certain conditions, each underwriter will severally agree to purchase the number of shares indicated in the following table. J.P. Morgan Securities Ltd., Lehman Brothers Inc. and ING Bank N.V., London Branch are the joint book-running managers for this offering and the representatives of the underwriters.

Underwriters	**Number of shares**
J.P. Morgan Securities Ltd.	660,000
Lehman Brothers Inc.	550,000
ING Bank N.V., London Branch	330,000
Ceska sporitelna, a.s.	440,000
Jefferies & Company, Inc.	110,000
ThinkEquity Partners LLC	110,000
Total	2,200,000

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the public offering price listed on the cover page of this prospectus, and to selected dealers, which may include the underwriters, at such offering price less a selling concession not in excess of US$1.85 per share. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representative.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 330,000 shares from us to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase such shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by us. The amounts assume both no exercise and full exercise of the underwriters' option to purchase additional shares.

	No exercise	**Full exercise**
Per Share	$ 3.08	$ 3.08
Total	$ 6,776,000	$ 7,792,400

Our directors and our executive officers will enter into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which, with limited exceptions, for a period of 90 days after the date of this prospectus they may not, without the prior written consent of J.P. Morgan Securities Ltd., Lehman Brothers Inc. and ING Bank N.V., London Branch (1) offer, pledge, announce the intention to sell, contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exercisable or exchangeable for any of our common stock (including, without limitation, common stock which may be deemed to be beneficially owned by such directors and executive officers in accordance with the rules and regulations of the U.S. Securities and Exchange Commission and securities which may be issued upon exercise of a stock option or warrant) or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the common stock, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of common stock or such other securities, in cash or otherwise.

Our Class A Common Stock is quoted on the Nasdaq National Market and the Prague Stock Exchange under the symbol "**CETV**".

In connection with the offering, the underwriters may purchase and sell shares of Class A Common Stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional shares in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the Class A Common Stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of Class A Common Stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of our Class A Common Stock, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our Class A Common Stock. As a result, the price of our Class A Common Stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time.

In connection with the offering, underwriters and selling group members may engage in passive market making transactions in the common stock on the Nasdaq National Market in accordance with Rule 103 of Regulation M under the Securities Exchange Act of 1934 during the period before the commencement of offers or sales of common stock and extending through the completion of distribution. A passive market maker must display its bids at a price not in excess of the highest independent bid of the security. However, if all independent bids are lowered below the passive market maker's bid, that bid must be lowered when specified purchase limits are exceeded.

A prospectus in electronic format will be made available on the website maintained by one or more of the representatives and may also be made available on a website maintained by other underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters that may make Internet distributions on the same basis as other allocations.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us and our affiliates, for which they received or will receive customary fees and expenses.

Until and unless we publish a Czech language prospectus in the Czech Republic in compliance with all relevant Czech securities laws, we may offer or sell our shares of common stock in the Czech Republic only in circumstances in which such an offer and sale do not constitute an offering to the public as defined in the relevant Czech securities laws. This document on its own does not constitute a public offer of securities in the Czech Republic or any announcement thereof.

Legal matters

Certain legal matters relating to the validity of the issuance of the shares of Class A Common Stock offered by this prospectus will be passed upon for Central European Media Enterprises Ltd. by our special Bermuda counsel, Conyers Dill & Pearman, Hamilton, Bermuda. Certain legal matters will be passed upon for Central European Media Enterprises Ltd. by Katten Muchin Rosenman LLP, and for the underwriters by Simpson Thacher & Bartlett LLP. Michael Ashford of Codan Services Limited, an affiliate of Conyers Dill & Pearman, serves as our Assistant Secretary.

Experts

The consolidated financial statements and related financial statement schedules of Central European Media Enterprises Ltd. and subsidiaries as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, and management's report on the effectiveness of internal control over financial reporting as of December 31, 2005, incorporated by reference in this prospectus, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are also incorporated by reference herein, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Slovenska televizna spolocnost, s.r.o. and subsidiaries as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, incorporated by reference in this prospectus, have been audited by Deloitte Audit s.r.o, an independent registered public accounting firm, as stated in their report, which is incorporated by reference herein, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The combined financial statements of TV Nova as of December 31, 2004 and 2003, and for each of the years in the two-year period ended December 31, 2004, have been incorporated by reference herein in reliance upon the report of KPMG Ceska republika, s.r.o., independent auditors, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

Unaudited condensed pro forma consolidated financial information

Introduction

On May 2, 2005, CME acquired from PPF (Cyprus) Ltd ("PPF") a controlling interest (85%) in the group of companies that own and operate the TV Nova channel in the Czech Republic (the "TV Nova Group"). The TV Nova Group includes 100% of Ceska Produkcni 2000 a.s ("CP 2000") and its subsidiaries and the consolidated results of 100% of Vilja a.s ("Vilja"), where Vilja controls 73% of CET 21 s.r.o ("CET 21"). CP 2000 was merged into CME Media Services s.r.o on December 31, 2005.

On May 27, 2005, CME acquired from Peter Krsak his 16.67% interest in CET 21 in accordance with the agreement on the settlement of disputes and transfer of ownership interest dated February 24, 2005. In addition, on May 31, 2005, CME exercised its call option and acquired PPF's remaining 15% interest in the TV Nova Group (together with the acquisition of Mr Krsak's 16.67% minority interest in CET 21, the "Additional Interest Acquisition").

The unaudited condensed pro forma consolidated income statement has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and is based on the audited consolidated financial statements of CME for the year ended December 31, 2005 (included in our Form 10-K/A filed with the Securities and Exchange Commission on March 15, 2006) and the unaudited TV Nova combined income statement for the period January 1, 2005 through May 2, 2005 (the "period ended May 2, 2005").

The TV Nova combined income statement includes the combination of the consolidated results of 100% of CP 2000 and its subsidiaries and the consolidated results of 100% of Vilja, where Vilja controls 73% of CET 21.

The unaudited condensed pro forma consolidated income statement gives effect to:

1. The acquisition of 85% of PPF's ownership interest in the TV Nova Group on May 2, 2005 (the "TV Nova Initial Acquisition");

2. The issuance to PPF of 3.5 million shares of our Class A Common Stock, valued at US$120.9 million, as part of the purchase price for the TV Nova Initial Acquisition;

3. The sale of Euro 245 million (US$317.5 million at the date of issuance) 8.25% senior notes and Euro 125 million (US$162.0 million at the date of issuance) floating rate senior notes at an interest rate of 180 day EURIBOR (which was 2.17% at May 5, 2005) plus 5.5%, each due 2012, and the use of the net proceeds from the sale, to finance the TV Nova Initial Acquisition;

4. The issuance to the public of 5.405 million shares of our Class A Common Stock, valued at US$231.8 million (net of underwriting discounts and commissions) and the use of the majority of the net proceeds from the issue to finance the acquisition of PPF's remaining 15% ownership interest in the TV Nova Group;

5. The acquisition of Mr Krsak's 16.67% minority interest in CET 21 on May 27, 2005. This represents 23.4% voting and economic interest in CET 21 as CET 21 itself holds an undistributed 28.755% interest that is not entitled to voting rights or dividends; and

6. The acquisition of PPF's remaining 15% ownership interest in the TV Nova Group on May 31, 2005 (together with the TV Nova Initial Acquisition and the purchase of the Krsak interest, the "TV Nova Acquisition")

As a result of the TV Nova Initial Acquisition (in point 1 above) and the acquisition of PPF's remaining 15% interest in the TV Nova Group (in point 6 above), we acquired a 100% interest in CP 2000 and its subsidiaries and a 100% interest in Vilja, which owns a 52.075% interest in CET 21. When aggregated with the acquisition of Mr Krsak's 16.67% minority interest in CET 21, we own 68.745% of CET 21. Our voting and economic interest in CET 21 is effectively 96.50% because CET 21 itself holds an undistributed 28.755% interest that is not entitled to voting rights or dividends.

The unaudited condensed pro forma consolidated income statement for the year ended December 31, 2005 has been prepared to give effect to the transactions set out in points 1 through 6 above ("the TV Nova Transaction") as if they had occurred on January 1, 2005.

In accordance with Article 11 of Regulation S-X, we have presented the unaudited condensed pro forma consolidated income statement for the year ended December 31, 2005 as the TV Nova Transaction is not reflected in the audited consolidated financial statements of CME for the entire fiscal year ended December 31, 2005.

The pro forma adjustments are based on available information and assumptions that we believe are reasonable. The unaudited condensed pro forma consolidated income statement is for information purposes only and does not purport to present what our results of operations and financial information would have been had these transactions actually occurred as at such dates, nor does it project our results of operations for any future period or our financial condition at any future date. The historical audited consolidated financial statements of CME and unaudited TV Nova combined financial statements are presented in U.S. dollars.

Unaudited condensed pro forma consolidated income statement for the year ended December 31, 2005 (US$'000)

	Year ended December 31, 2005 audited CME	Period ended May 2, 2005 unaudited TV Nova	Pro forma adjustments for TV Nova Transaction	Pro forma total
Net revenues	**400,978**	**82,124**		**483,102**
Operating costs	65,138	25,440		**90,578**
Cost of programming	148,837	5,050		**153,887**
Station selling, general and administrative expenses	46,382	10,587		**56,969**
Depreciation of station property, plant & equipment	16,367	1,707	300 (c)	**18,374**
Amortization of broadcast licenses and other intangibles	11,180	809	5,746 (b)	**17,735**
Corporate operating costs	25,374			**25,374**
Impairment charge	35,331			35,331
Total operating expenses	**348,609**	**43,593**	**6,046**	**398,248**
Operating income	**52,369**	**38,531**	**(6,046)**	**84,854**
Interest income	4,124	140		4,264
Interest expense	(29,387)	(1,585)	(13,422)(a)	(44,394)
Foreign currency exchange gain/(loss), net	37,968	(378)		37,590
Other income/(expense)	(4,705)	747		(3,958)
Income from continuing operations before provision for income taxes, minority interest and equity in income of unconsolidated affiliates	**60,369**	**37,455**	(19,469)	**78,356**
Provision for income taxes	(16,691)	(9,668)	5,569 (d)	(20,790)
Income from continuing operations before minority interests, equity in income of unconsolidated affiliates	**43,678**	**27,787**	(13,899)	**57,566**
Minority interest in income of consolidated subsidiaries	(8,908)	(6,087)	10,029 (e)	(4,965)
Equity in income of unconsolidated affiliates	8,238			8,238
Net income from continuing operations	**43,008**	**21,701**	(3,870)	**60,839**
Net loss from discontinued operations	**(513)**			**(513)**
Net income	**42,495**	**21,701**	(3,870)	**60,326**
EPS Basic (Net income from continuing operations)	1.24			1.62
EPS Diluted (Net income from continuing operations)	1.21			1.58
EPS Basic (Net income)	1.23			1.60
EPS Diluted (Net income)	1.20			1.57

Weighted average common shares	**Basic**	34,664	2,996 (f)	37,660
Weighted average common shares	**Diluted**	35,430	2,996 (f)	38,426

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Notes to the unaudited condensed pro forma consolidated income statement for the year ended December 31, 2005

(a)

A short-term indebtedness of US$491.7 million was incurred to PPF to complete the TV Nova Initial Acquisition on May 2, 2005. The unaudited condensed pro forma consolidated income statement used the rates of interest that apply to the Euro 370 million (US$479.5 million) of fixed and floating rate notes issued on May 5, 2005 rather than the interest rate on the indebtedness to PPF due to the short-term and non-recurring nature of this indebtedness. The notes were used to repay the indebtedness to PPF and to pay other costs associated with the TV Nova Initial Acquisition.

Interest adjustments of US$13.4 million reflect:

Interest charge of Euro 9.9 million (US$12.9 million) on the notes for the period from January 1, 2005 to May 4, 2005, as the audited CME consolidated income statement for the year ended December 31, 2005 already includes the interest charge on the notes from May 5, 2005 to December 31, 2005. The Euro fixed rate notes of Euro 245 million are due for repayment in 2012 and bear interest at an annual rate of 8.25%. The Euro floating rate notes of Euro 125 million are due for repayment in 2012 and bear interest at an interest rate of 180 day EURIBOR (which was 2.17% at May 5, 2005) plus 5.5%.

Non-cash amortization of Euro 0.4 million (US$0.5 million) for debt issuance costs for the period from January 1, 2005 to May 4, 2005, as the audited CME consolidated income statement for the year ended December 31, 2005 already includes the non-cash amortization for debt issuance costs from May 5, 2005 to December 31, 2005. The debt issuance costs on the Euro fixed and floating rate notes of Euro 8.8 million (US$11.5 million) are amortized over 7 years (84 months).

(b)

The amortization charge of US$5.7 million relates to the amortization charge on our share of the fair value uplift of the intangible assets subject to amortization recognized on the acquisition of the TV Nova Group for the five months period to May 31, 2005. This amortization charge also adjusts for the minority interest impact from May 2, 2005 to May 31, 2005 to reflect the Additional Interest Acquisition.

Following the Additional Interest Acquisition on May 27, 2005 and May 31, 2005, the audited CME consolidated income statement for the year ended December 31, 2005 reflects this amortization charge (at our effective interest of 96.5% in the intangible assets of CET 21 and our 100% interest in Mag Media 99, a 100% subsidiary of CP 2000) from May 31, 2005 to December 31, 2005.

The fair value of the intangible assets subject to amortization of the TV Nova Group are listed below:

CET 21 broadcasting license: CZK 4,099 million (US$183.3 million).

Mag Media 99 customer relationships: CZK 285 million (US$12.7 million).

Film libraries: CZK 829 million (US$37.1 million).

Based on the above fair values, we computed our share of the fair value uplift as follows (utilizing our effective interest of 96.5% in the intangible assets of CET 21 and our 100% interest in Mag Media 99, 100% subsidiary entity of CP 2000):

CET 21 broadcasting license: CZK 3,553 million (US$158.9 million).

Mag Media 99 customer relationships: CZK 223 million (US$10.0 million).

Film libraries: CZK 26 million (US$1.2 million).

Based on the costs and risks involved in renewal of the license, the license is considered to have a finite life of twelve years. We have therefore amortized the value of the license over its useful life which ends on the expiry date of January 2017. Customer relationships are amortized over an estimated useful life of 12.2 years. Film libraries are amortized over an estimated weighted average useful life of 5.7 years.

The fair value of the TV Nova trademark was CZK 445 million (US$19.9 million). Our share of the fair value uplift of the TV Nova trademark of CZK 417 million (US$18.6 million) has not been amortized as it has been deemed to have an indefinite life.

An exchange rate at January 1, 2005 of US$ 1 to CZK 22.365 was used to convert the CZK amount to USD.

(c) The depreciation charge of US$0.3 million relates to the depreciation charge for the five month period to May 31, 2005 on our share of the fair value uplift of the tangible fixed assets recognized on the acquisition of the TV Nova Group. This depreciation charge also adjusts for the minority interest impact from May 2, 2005 to May 31, 2005 to reflect the Additional Interest Acquisition.

Following the Additional Interest Acquisition in May 27, 2005 and May 31, 2005, the audited CME consolidated income statement for the year ended December 31, 2005 reflects this depreciation charge (at our effective interest of 96.5% in the tangible assets of CET 21 and our 100% interest in Mag Media 99, a 100% subsidiary of CP 2000) from May 31, 2005 to December 31, 2005.

The fair value of the tangible assets that was subject to fair value uplifts on acquisition of the TV Nova Group are listed below:

Software: CZK 45 million (US$2.0 million).

Other fixed assets: CZK 334 million (US$14.9 million).

Based on the above fair values, we computed our share of the fair value uplift as follows (utilizing our effective interest of 96.5% in the intangible assets of CET 21 and our 100% interest in Mag Media 99, a 100% subsidiary of CP 2000):

Software: CZK 33 million (US$1.5 million).

Other fixed assets: CZK 68 million (US$3.0 million).

The software tangible asset category is amortized over an estimated weighted average useful life of 4.1 years. The fair value uplift of other fixed assets recognized on the acquisition of the TV Nova Group are amortized over an estimated weighted average useful life of 5.5 years.

An exchange rate at January 1, 2005 of US$ 1 to CZK 22.365 was used to convert the CZK amount to USD.

(d)
The provision for income tax benefit adjustment of US$5.6 million represents:

(i)
The tax relief on the intercompany indebtedness of US$3.9 million for the period from January 1, 2005 to May 1, 2005, as the audited CME consolidated income statement for the year ended December 31, 2005 already includes this tax relief from May 2, 2005 to December 31, 2005.

The TV Nova Acquisition was structured in a manner that resulted in intercompany indebtedness with interest expense that is deductible against our operating income for income tax purposes.

(ii)
Deferred tax benefit on the amortization and depreciation expense on the intangibles and tangibles (outlined in item (b) and (c) above) of US$1.7 million for the five month period to May 31, 2005 as the audited CME consolidated income statement for the year ended December 31, 2005 already includes this deferred tax benefit (at our effective interest of 96.5% in the tangible assets of CET 21 and our 100% interest in Mag Media 99, a 100% subsidiary of CP 2000) from May 31, 2005 to December 31, 2005.

(e)
The income statement benefit to minority interest in income of consolidated subsidiaries of US$10.0 million represents the adjustment required to reflect a 3.5% minority interest in the TV Nova Group for the period from January 1, 2005 to May 31, 2005. This minority interest income adjustment also adjusts for the minority interest impact from May 2, 2005 to May 31, 2005 to reflect the Additional Interest Acquisition. The unaudited TV Nova income statement for the period ended May 2, 2005 included a minority interest of 26.9%.

Following the Additional Interest Acquisition in May 27, 2005 and May 31, 2005, the audited CME consolidated income statement for the year ended December 31, 2005 reflects a 3.5% minority interest in the TV Nova Group from May 31, 2005 to December 31, 2005.

(f)
The shares used in computing earnings per common share have been adjusted to reflect the 3.5 million shares of our Class A Common Stock issued to PPF as part of the purchase consideration for the TV Nova Initial Acquisition and the 5.405 million shares of our Class A Common Stock issued in a registered public offering to finance the acquisition of PPF's remaining 15% ownership interest in the TV Nova Group on May 31, 2005 as if these issuances had occurred on January 1, 2005.

2,200,000 Shares

Class A Common Stock

Prospectus

JPMorgan **Lehman Brothers** **ING**

Ceska sporitelna, a.s.

Jefferies & Company **ThinkEquity Partners LLC**

March 23, 2006

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, common shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common shares.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common shares or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

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