

January 03, 2005

UNITED STATES OF AMERICA
European Media

Central European Media Enterprises Ltd (USD 56.70) 2 - Equal weight

Initiation of Coverage

Looking East for Growth

Tamsin Garrity
+44 20 710 24543
tgarrity@lehman.com

Matthew Walker
(44) 20 7102 4459
mawalker@lehman.com

Investment Conclusion

□ We are initiating coverage of Central European Media Enterprises Ltd with a 2 Equal weight rating and a price target of US\$60. We have a favourable outlook on the company as it has a scarce set of assets and is producing strong growth in the context of European Media. However, the share price has already performed very strongly without the company producing any notable organic upgrades during the past year. We could assume a more aggressive stance on any sizeable pull-back.

Summary

- CME represents a good play on Eastern European GDP growth and consumer spending
- The strong growth markets are Ukraine and Romania (close to 30%)
- The largest business is Nova in the Czech Republic which represents 43% and 47% of our 2006 estimated revenue and EBITDA respectively.

Company Rating

New: 2 - Equal weight
Old: 0 - Not Rated

Sector View: 1 - Positive

Target (USD)

New: 60.0
Old: -

FY Jan	2004A	2005E		2006E		2007E	
		Currency USD	Actual	Old	New	Old	New
Revenue (m)	182	-	400	-	620	-	689
Net Income (m)	16	-	29	-	78	-	108
EPS	0.56	-	1.05	-	2.33	-	3.10
	-	-	-	-	-	-	-
EV/Revenues	14.3x	-	6.5x	-	4.2x	-	3.8x
EV/EBITDA	73.2x	-	23.5x	-	12.7x	-	10.6x
P/E	102.2x	-	54.4x	-	24.4x	-	18.4x

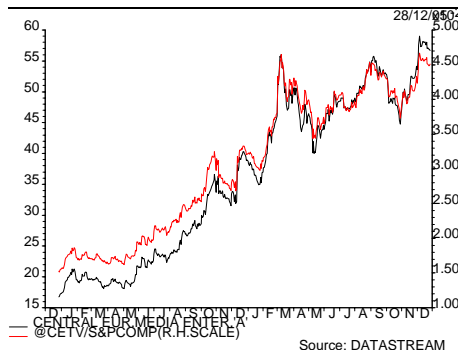
Market Data

Market Cap (m)	2223
Shares Outstanding (m)	39
Float (%)	72
Net Div Yield (%)	-
Convertible	No
Shares per ADR	-

Financial Summary

Five Yr. EPS CAGR (%)	NA
Return on Equity FY04 (%)	NA
Current BVPS	NA
Net Debt (m current)	408

Stock Overview



Reuters	CETV.OQ
Bloomberg	CETV US
ADR	-
Performance	1M 3M 12M
Absolute %	9 7 42
Rel. Market %	10 4 36
Rel. Sector %	4 3 24
52 Week Range	59.00 - 34.90

Source: DATASTREAM

Investment Conclusion

We are initiating coverage of Central European Media Enterprises (CME) Ltd with a 2 Equal weight rating and a price

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target of US\$60. Our price target is based on a combination of a DCF using a WACC of 10.5% and growth of 4.5% and longer term parity with Western European TV multiples. We have a favourable outlook on the company as it has a strong collection of scarce assets and is exhibiting strong growth in some key markets such as Romania and Ukraine. The company does however, trade on high multiples and did not give cause for any significant organic upgrades during the past year. If the outlook does not change we would be inclined to get more aggressive on any sizeable weakness.

Central European Media Enterprises (CME) Ltd operates commercial television channels in 6 Central and Eastern European (CEE) counties (Romania, the Slovak Republic, Slovenia, Ukraine, Croatia and following the acquisition of TV Nova the Czech Republic). The company was founded in 1991 by Ronald Lauder, incorporated in 1994 in Bermuda, and is listed on Nasdaq (market cap approx. \$2.2bn). The assets of CME are held through a series of Dutch and Netherlands Antilles holding companies.

Comparative Valuation

EV/Sales	2004	2005E	2006E	2007E	2008E	2009E	CAGR 2006-9	P/Growth 2006-9
Western Europe TV Average	3.2x	3.0x	2.8x	2.6x	2.5x	2.4x	6.7%	0.42x
TVN	8.5x	7.3x	6.4x	5.9x	5.4x	5.0x	8.3%	0.77x
CME (GAAP)	14.3x	6.5x	4.2x	3.8x	3.5x	3.2x	9.8%	0.43x
CME Pro Forma Attributable (Cz 100%)	6.6x	5.4x	4.7x	4.3x	3.9x	3.6x	9.5%	0.50x
Premium vs (Discount vs TV average)								
CME (GAAP)	354%	117%	51%	45%	39%	35%		3%
CME Pro Forma Attributable (Cz 100%)	109%	80%	69%	63%	57%	53%		20%
CME Premium/(Discount) vs TVN	69%	-10%	-34%	-35%	-36%	-37%		-44%

EV/EBITDA	2004	2005E	2006E	2007E	2008E	2009E	CAGR 2006-9	P/Growth 2006-9
Western Europe TV Average	13.4x	11.2x	10.7x	8.9x	8.4x	7.6x	12.1%	0.9x
TVN	28.8x	21.2x	17.8x	15.5x	13.5x	11.9x	14.3%	1.2x
CME (GAAP)	73.2x	23.5x	12.7x	10.6x	9.1x	8.1x	16.2%	0.8x
CME Pro Forma Attributable (Cz 100%)	19.1x	18.2x	14.2x	11.9x	10.3x	9.2x	15.5%	0.9x
Premium vs (Discount vs TV average)								
CME (GAAP)	446%	111%	19%	18%	9%	7%		-11%
CME Pro Forma Attributable (Cz 100%)	43%	63%	32%	32%	23%	21%		3%
CME Premium/(Discount) vs TVN	154%	11%	-29%	-32%	-32%	-32%		-37%

P/E	2004	2005E	2006E	2007E	2008E	2009E	CAGR 2006-9	P/Growth 2006-9
Western Europe TV Average	24.6x	19.2x	18.4x	14.7x	13.7x	13.4x	11.2%	1.6x
TVN	40.0x	27.6x	22.5x	20.0x	18.2x	16.0x	12.0%	1.9x
CME (GAAP)	102.2x	54.4x	24.4x	18.4x	14.9x	12.6x	24.6%	1.0x
Premium vs (Discount vs TV average)								
CME (GAAP)	315%	183%	32%	25%	9%	-6%		-39%
CME Premium/(Discount) vs TVN	155%	97%	9%	-8%	-18%	-21%		-47%

Price/FCF	2004	2005E	2006E	2007E	2008E	2009E	CAGR 2006-9	P/Growth 2006-9
Western Europe TV Average	24.4x	17.6x	16.8x	13.5x	12.5x	12.0x	11.9%	1.4x
TVN	NA	NA	65.2x	40.2x	26.3x	21.5x	16.5%	3.9x
CME (GAAP)	NA	NA	46.4x	28.6x	18.7x	15.3x	44.7%	1.0x
Premium vs (Discount vs TV average)								
CME (GAAP)	NA	NA	176%	113%	50%	28%		-27%
CME Premium/(Discount) vs TVN			-29%	-29%	-29%	-29%		-74%

Source: Lehman Brothers estimates. TVN (Not Rated) estimates from Multix

On our estimates the company trades at a premium to our Western European TV coverage universe on ordinary multiples at least up to 2009. In 2009 it trades at a small discount on P/E but remains at a premium on other measures. It trades at a large discount to TVN (Not Rated), a TV company in Poland whose share price has been driven strongly in the past year by stock specific factors.

However, the company does have significantly better growth prospects over the 2006 to 2009 period than the Western European stocks (which are flattered by 2006 being a low point for EPS for TF1 and M6 due to the World Cup) on all the various measures of sales, EBITDA, EPS and FCF. On a growth adjusted basis, the company trades close to parity on sales and EBITDA but at a significant discount on P/E and FCF and so may well be attractive to growth investors. Our DCF is more than usually uncertain due to the wide number of possibilities for advertising as a percentage of GDP in CME's markets in the long term but is producing a value close to the current share price.

Segment Revenue and EBITDA estimates

US\$m	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Revenue									
Croatia (Nova)	0.0	0.0	9.6	25.2	30.4	37.3	45.1	49.1	53.5
Romania	33.5	51.2	76.5	100.4	125.0	146.7	167.9	193.1	219.3
Slovakia (Markiza)	38.4	50.8	61.6	63.0	65.0	70.7	75.8	81.1	84.9
Slovenia (POP, KANAL A)	33.9	37.2	45.4	47.2	50.2	52.7	55.6	58.6	61.2
Ukraine (Studio 1+1)	31.7	36.6	53.3	70.5	89.2	102.4	114.7	127.4	140.0
Total Segment ex Czech	137.5	175.8	246.4	306.2	359.9	409.8	459.0	509.3	559.0
Core 4	137.5	175.8	236.8	281.0	329.5	372.5	414.0	460.1	505.5
Czech (Nova)		191.5	207.8	241.5	263.4	281.9	298.4	315.4	333.4
Total	137.5	367.3	454.2	547.7	623.2	691.7	757.4	824.7	892.4
Revenue Growth									
Croatia (Nova)				163%	21%	23%	21%	9%	9%
Romania		53%	49%	31%	25%	17%	14%	15%	14%
Slovakia (Markiza)		32%	21%	2%	3%	9%	7%	7%	5%
Slovenia (POP, KANAL A)		10%	22%	4%	6%	5%	5%	5%	5%
Ukraine (Studio 1+1)		15%	46%	32%	27%	15%	12%	11%	10%
Total Segment ex Czech		28%	40%	24%	18%	14%	12%	11%	10%
Core 4		28%	35%	19%	17%	13%	11%	11%	10%
Czech (Nova)			9%	16%	9%	7%	6%	6%	6%
Total		167%	24%	21%	14%	11%	10%	9%	8%
EBITDA									
Croatia (Nova)	0.0	0.0	-3.8	-13.4	-9.8	-4.5	1.5	3.7	6.2
Romania	6.3	12.2	25.2	41.0	56.0	70.8	84.4	99.4	114.8
Slovakia (Markiza)	7.1	11.7	19.0	16.0	18.3	21.8	24.6	27.5	28.8
Slovenia (POP, KANAL A)	11.1	13.2	19.1	17.1	19.6	20.5	22.0	23.5	24.7
Ukraine (Studio 1+1)	6.9	8.0	14.7	21.1	29.2	36.0	42.9	50.0	56.7
Total Segment ex Czech	31.4	45.0	74.2	81.8	113.3	144.6	175.3	204.1	231.2
Core 4	31.4	45.0	78.0	95.2	123.1	149.2	173.8	200.4	225.0
Czech (Nova)	NA	-20.8	99.4	101.3	116.6	128.4	137.6	146.3	155.4
Total	31.4	24.3	173.6	183.1	229.9	273.0	312.9	350.3	386.6
EBITDA Margin									
Croatia (Nova)			-39%	-53%	-32%	-12%	3%	8%	12%
Romania	19%	24%	33%	41%	45%	48%	50%	51%	52%
Slovakia (Markiza)	19%	23%	31%	25%	28%	31%	32%	34%	34%
Slovenia (POP, KANAL A)	33%	35%	42%	36%	39%	39%	40%	40%	40%
Ukraine (Studio 1+1)	22%	22%	28%	30%	33%	35%	37%	39%	41%
Total Segment ex Czech	23%	26%	30%	27%	31%	35%	38%	40%	41%
Core 4	23%	26%	33%	34%	37%	40%	42%	44%	45%
Czech (Nova)		-11%	48%	42%	44%	46%	46%	46%	47%
Total Margin		7%	38%	33%	37%	39%	41%	42%	43%
EBITDA Growth									
Croatia (Nova)		NA	NA	255%	-27%	-54%	-133%	152%	67%
Romania		92%	106%	63%	37%	26%	19%	18%	16%
Slovakia (Markiza)		63%	63%	-16%	14%	20%	12%	12%	5%
Slovenia (POP, KANAL A)		19%	45%	-10%	15%	5%	7%	7%	5%
Ukraine (Studio 1+1)		16%	84%	43%	38%	23%	19%	17%	13%
Total Segment ex Czech		43%	65%	10%	38%	28%	21%	16%	13%
Czech (Nova)		NA	NA	2%	15%	10%	7%	6%	6%
Total		-23%	616%	5%	26%	19%	15%	12%	10%

Source: Company data, Lehman Brothers estimates

We see CME as having the following the following positive investment characteristics:

Summary of investment positives

Unique way to access GDP and consumer spending growth in Eastern Europe
 Structural growth opportunity
 Strong market positions
 Essential medium for marketers seeking TV exposure
 High barriers to entry
 Creating a family of channels
 Less immediate technology risk
 Access to programming
 Leading blue-chip clients and high revenue visibility
 Unique HQ/local management structure

Source: Lehman Brothers research

Unique way to access GDP and consumer spending growth in Central and Eastern Europe – Real GDP growth was 6.4% in CME markets in 2004 vs. 2.1% in the EU.

Structural growth opportunity – TV ad spend per capita in Central and Eastern Europe is expected to move nearer to the eastern-European and eventually western-European average (\$9 to \$18 to \$57). TV advertising in CME markets is 0.4% of GDP vs. 0.8% in Western Europe.

Strong market positions – Leader in audience share in Slovenia, Slovak Republic and Czech Republic. Number 2 in Ukraine and number 2 and 4 Romania. Turnaround potential in Croatia (no.4) acquired in mid 2004.

Essential medium for marketers seeking TV exposure – Targets attractive 14-49 year old demographic. Leading market positions make channels an essential part of any national television campaign. TV takes 61% of advertising in CME markets vs. 30% in Western Europe. TV advertising in CME's markets was up 66% in the 2002-2004 period and CME's segment revenue is up 116% since 2000.

High barriers to entry – Scarce spectrum, limited competition from cable & satellite and dominant not-for-profit state broadcasters.

Creating a family of channels – The company is very early in the region in creating a family of channels in each market, something ITV, TF1, M6, Mediaset and RTL have done to limit the effects of fragmentation and offer advertisers more targeted ways of reaching particular demographics. This is being done so far in Romania, Ukraine and in the Czech Republic with the acquisition of Galaxie Sport in 2005.

Less immediate technology risk – DTT fragmentation, PVR ad-skipping and HDTV differentiation are further away than in the US and EU.

Access to programming – Popular local language production and exclusive programming right for US and European content; 40% of CME's scheduling is local programming.

Leading blue-chip clients and high revenue visibility - Major clients are multinational corporations, local mobile and FMCG groups. Advertising is sold on 12 month forward contracts, although enforceability is discretionary and not always wise when dealing with a large client.

Unique HQ/local management structure – HQ management is responsible for execution of growth strategy and group targets. Local management understand local programming and licensing rules. Local management is compensated on local EBITDA targets and with CME group stock (as of 2004).

Longer term potentially interesting for larger media groups – there are many larger groups involved in free TV broadcasting in Europe and the US. As growth is mature in these markets they may look at CME as a way of accessing higher growth, less developed markets.

We see CME as having the following investment risks:

Summary of investment risks and issues

Emerging market risk
Shareholders are minorities from a voting perspective
Advertising volatility & concentration
New competition in Czech Republic
Local partner risk
Losses in Croatia
License renewals
FX exposure
High leverage
Longer term technology risk
Litigation risk
No dividend
Acquisition risk

Source: Lehman Brothers research

Emerging market risk – Central and Eastern European economies are more susceptible to economic volatility and legal instability.

Shareholders are minorities from a voting perspective – Ronald Lauder controls 71% of votes with only 19% of the outstanding shares. The super-voting rights are not transferable in the event of a change of control.

Advertising volatility & concentration – Advertising spending is discretionary. The top 10 advertisers equal 23-35% of sales in each market, versus 15-20% in Western Europe. If advertising growth was 10% points less in Ukraine for one year only this would reduce EBIT in year one by 10% and in year two by 4%. If the same thing happened in Romania this would reduce EBIT in year one by 15% and in year two by 6%. If growth was reduced in the Czech Republic by 5% points for one year only this would reduce EBIT by 7% in year one.

New competition in the Czech Republic – In H2 2005 Modern Times Group of Scandinavia acquired TV Nova's main competitor in the Czech Republic, Prima TV. Prima has a 23% audience share compared to Nova's 42% share. CME management are confident that this will lead to greater pricing power for commercial TV stations to counteract price pressure from state TV and that commercial stations will co-operate in programme acquisition. Longer-term there is a risk that Prima provides stiffer competition for Nova if the co-operation that CME anticipates does not materialize.

Local partner risk – Local partners have significant autonomy and could enter into agreements contrary to the interests of group shareholders. CME only controls 18% of the Ukrainian licence company.

Losses in Croatia – The Croatian business is taking longer to establish profitability than CME management first expected. In June 2005 management outlined a new strategy which required a larger investment. This plan saw a \$35.3m impairment charge and expects EBITDA breakeven during 2007 with positive FCF during 2009. The Croatian market is still reasonably competitive with state TV having access to generous funding and RTL having a one and a half year head start. There is a risk that the Croatian business takes longer than planned to break-even.

License renewals – Each of CME's licenses will expire between 2007 and 2017 and there is no guarantee licenses will be renewed even though it is likely that they will be renewed. In 1999 CME lost the Czech TV Nova license due to a dispute with the local partner. New commercial licenses could also be awarded through privatizations.

Broadcast license renewal schedule for CME

Broadcast license renewals	Romania	Slovak Republic	Slovenia	Ukraine	Croatia	Czech
History of renewals & renewal process	All licenses renewed on rolling basis; major Bucharest license renewed in 2003 (9 years). Expectation of renewal based on prior renewals	License due to renew in 2007 - Qualified presumption of renewal	Full license renewal on 2002 through 2012. Qualified presumption of renewal; indefinite renewals possible	New off-prime license granted until 2014. Current license due to be re-tendered in 2006. Qualified presumption of renewal	License in place until 2010. License expected to be tendered on renewal	License in place until 2017
Ownership of broadcast license EU TV without Frontiers	85% Yes	80% Yes	100% Yes	18% No	100.0% Yes	96.5% Yes

Source: Company data

FX exposure – CME generates revenue and incurs expenses in Czech Koruna, Romanian Lei, Slovenian Tolar, Slovak Korunas, Ukranian Hryvna and Croatian Kuna. Revenues in the Ukraine and Romania are most often paid in US dollar. Expenses are also incurred in Euros, pound sterling, and US dollar. About 10% of programming is paid in US dollar. The EUR 370m of high yield debt is Euro denominated, although the company has swapped a significant portion of this into Czech local debt. On our estimates a 10% weakening of the currency in the Czech Republic could reduce EPS by 7% and valuation by 5%. If the same happened in Romania and Ukraine it would likely not have the same effect unless the local economy became depressed as revenues are most often benchmarked in US dollar. However if this did have the same impact as the Czech Republic then in Romania this would reduce EPS by 3.5% and valuation by 4% and in Ukraine EPS by 2% and valuation by 2%.

Comparatively high leverage – Following the acquisition of TV Nova we forecast net debt/EBITDA in 2005 of c.3.7x vs. zero for our TV coverage universe. This gives the company a more efficient balance sheet but could compound the operational leverage during an advertising downturn. In 2006 the ratio should fall to 2.0x net debt/EBITDA as the business grows and a full year of TV Nova is consolidated.

Competition – Any newly awarded analogue spectrum, the privatization of state channels in CME’s markets, the expansion of cable and satellite TV and the implementation of digital terrestrial broadcasting could necessitate higher capital spending and increased competition.

Litigation risk - The main litigation risk relates to a series of lawsuits by Peter Krsak who had a 16.7% stake in CET 21, the license company for Nova. However, under the terms of the Krsak agreement of February 24th 2005 all outstanding litigation from this source was dropped. Mr Krsak filed the necessary petitions in May 2005. On October 14th 2005 the City Court in Prague confirmed the registration in the Commercial Register of Vilja (owned by CME) as the owner of 52% of CET 21, but the decision has not yet become final. On the same day the court confirmed the registration of CET 21 as the owner of the non-redistributed 28.755% of CET 21. The decision has not yet become final. The Czech Media Council has not yet given approval for the transfer of the two 1.25% interests of CS and CEDC in CET 21, but this has been requested by the company.

Dividends – The management currently has no intention to pay dividends so the company is not supported by a dividend yield

Acquisition risk – The management of CME has frequently publicly stated its interest in making further acquisitions if the right financial and strategic criteria are met (as at the company’s investor day in November 2005). In particular the company is looking at the Russian market.

Share price developments

CME has enjoyed exceptionally strong share price performance since re-listing on Nasdaq.

Vladimir Zelezny, the former partner of CME, withdrew the license from CNTS Czech operating company in 1999. Without the license CNTS became distressed financially and CME delisted from Nasdaq in October 2000. CME continued to run its other operations and re-listed on Nasdaq in 2002.

CME was awarded \$360m by an International Arbitration Tribunal in 2003, after successfully suing the Czech government for damages. This was done because the government at the time had controlled the Czech Media Council which had not upheld the rule of law in the dispute between Zelezny and CME in the dispute over the license held by CET 21.

CME Share price chart 1994-2005



Source: Datastream

Other key developments which help to explain the movement of the share price include:

- Appointment of Michael Garin as CEO on 2nd February 2004
- 5th March 2004 Moody's upgrades CME rating from Caa3 to B2
- 10th April acquisition of another 14% of Romanian business
- 27th April launch of Pro Cinema as the company's third channel in Romania
- May 2004 advertising growth becoming stronger in CME markets, not just Ukraine
- 16th July acquisition of 100% of Nova TV in Croatia for c. US\$25m.
- 13th December 2004 announcement of agreement to acquire 85% of PPF's stake in Nova in the Czech Republic
- 2nd March 2005 announcement of the settlement with Peter Krsak, with the company press release stating that the "agreement would improve the company's attributable economic interest from 56% to 85% at no additional cost".
- 15th March 2005, full year results for 2004 show company exceeding consensus expectations on revenue and EBITDA but not reaching consensus on operating and net income.

- 28th April 2005 CME announces pricing of 5.4m common shares (4.7m plus the underwriters' option)
- 20th September 2005, CME acquires Galaxie Sport, a sports cable channel in the Czech Republic and serving Slovakia for US\$5.1m.
- 31st October 2005, CME increases its voting interest in TV Markiza in Slovakia from 34% to 80% and its economic interest from 70% to 80%. This costs US\$28.7m. From 2006 onwards the company can fully consolidate this business.
- 2nd November 2005, CME acquires for US\$7.0m a 65% stake in Ukrpromtorg which controls the Kiev TV stations Gravis and Channel 7, a local broadcaster in Kirovograd and a 100% stake in a 24 hour national satellite broadcasting license.

Company Overview

Central European Media Enterprises (CME) Ltd operates commercial television channels in 6 Central and Eastern European (CEE) countries (Romania, the Slovak Republic, Slovenia, Ukraine, Croatia and following the acquisition of TV Nova the Czech Republic). The company was founded in 1991 by Ronald Lauder, incorporated in 1994 in Bermuda, and is listed on Nasdaq (market cap approx. \$2.2bn). The assets of CME are held through a series of Dutch and Netherlands Antilles holding companies.

Key Company and geographic data

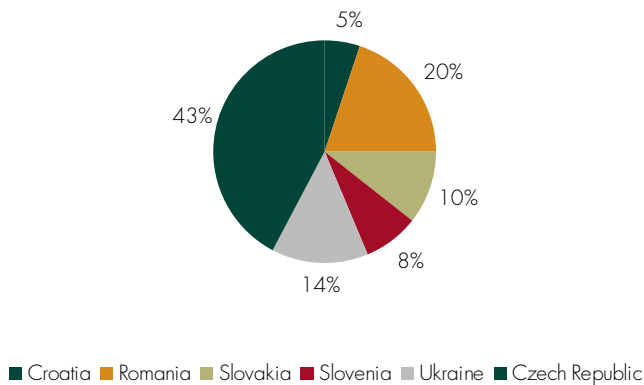
All US\$, unless indicated	Croatia	Romania	Slovakia	Slovenia	Ukraine	Czech
2004 Segment financials						
Revenues (m)	\$9.8	\$76.5	\$61.6	\$45.5	\$53.4	\$207.8
EBITDA (m)	-\$3.8	\$25.2	\$19.0	\$19.1	\$14.7	\$99.4
Margins	-38%	33%	31%	42%	28%	48%
Ad market growth (local curr.)	4%	28%	11%	9%	24%	0%
2005 market growth outlook	"single digit percentage"	"between 20% and 30%"	"single digit percentage"	"no growth"	"between 25% and 30%"	"single digit percentage"
Acquired / Launched	July 2004	1995	1996	Aug 2002	1997	1994/2005
Economic interest	100%	85%	80%	100%	60%	96.5%
Voting interest	100%	85%	80%	100%	18%	96.5%
Population (m)	4.5	21.9	5.4	2.0	48.3	10.3
GDP per capita 2005	\$8,362	\$4,100	\$8,752	\$16,678	\$1,489	\$11,615
Real GDP growth '06	3.9%	6.0%	5.0%	3.9%	6.0%	4.0%
EU accession	expect 2007	expect 2007	May-04	May-04	NA	May-04
Ad market size 2005 (US\$m)	\$100-110	\$140-160	\$85-90	\$50-60	\$170-180	\$360-380
TV Ad spend per capita 2005	\$24.0	\$7.0	\$16.7	\$28.4	\$3.6	\$36.0
TV Ad market growth 2006 (US\$)	6.4%	22.0%	3.2%	6.4%	26.6%	6.8%
Broadcast reach	80%	72%	97%	87%	95%	98%
Cable penetration	17%	68%	38%	56%	23%	20%
Channel(s) ranking	#4	#2, #4	#1	#1, #4	#2	#1
Channel(s) audience share	14.3%	24.6%	32.0%	36.0%	20.0%	42.2%
Channel(s) revenue share	14.0%	60.0%	77.0%	70.0%	39.5%	72.0%
Power ratio	1.0x	2.4x	2.4x	1.9x	2.0x	1.7x
Broadcast hours	18	24	21	16	24	21
license renewal due	Apr 2010	2005-2013	Sep 2007	Aug 2012	Dec 06/Aug 14	2017
Owned channels	Nova	ACASA, PRO Cinema, PRO TV	Markiza TV	POP TV, KANAL A	Studio 1+1	Nova, Galaxie
Competition	State, RTL	State, Antena 1	State, TV JOJ	SLO1, SLO2	Inter, Novi Kanal	CT1, CT2, Prima
Competition audience share	39%, 16%, 24%	19%, 13%	19%, 13%	25%, 9%	26%, 9%	21%, 9%, 23%
Customer concentration: top ten	34%	26%	35%	32%	23%	30%
Corporate tax rate	20%	19%	19%	25%	25%	26%
Content: locally produced	>20%	>40%	45%	>20%	>70%	32%
Regulations on advertising	15%, 12min/hr			12min/hr	15%	15%, 12min/hr
Regulations on content	20% local, o.w. 60% prime time	50% EU by 2008	51% 1st run films EU; <20% Czech; 10% Pl prog	20% local, o.w. 60 min 6-10pm; 2% Slovenian (rising to 5%); future - 50% EU;	>80% Ukrainian language; >70% internal programming	50% EU; >10% independent; >10% 2000+

Source: Lehman Brothers estimates

CME has interests in license companies who have been granted a license to broadcast and operating companies who generate revenue via the sale of advertising and also acquire programming rights on behalf of license companies. In Romania and Ukraine, the license company also acts as an operating company. In each market (except Croatia) CME works with local partners, who in the case of the Slovak Republic, Romania and Ukraine own equity stakes in the respective country businesses. All of the businesses are run by local management with financial oversight from the London based management who place one financial controller at each station. Senior London based management make regular trips to the region, checking on the stations, liaising with local management and negotiating with regulators and other government and business contacts.

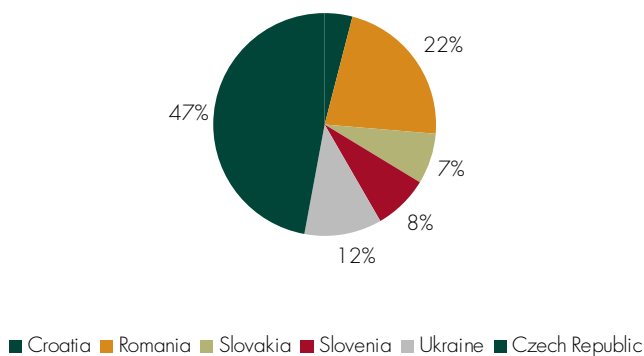
Estimated average real GDP growth in the counties in which CME operates in was +6.4% in 2004 vs. +2.1% in the EU and +3.4% in the US. The company estimates television advertising spend as a percentage of GDP was 0.4% in 2004 vs. 0.8% in western-Europe. CME has first or second position for advertising market share in each of its core markets. CME offers investors exposure to trends in GDP, consumer spending and advertising in the CEE region. CME is also the largest private producer of local programming in the Central and Eastern European region. In 2004 CME channels were responsible for the production of 12,000 hours of original programming. Our estimated division of revenue and EBITDA for the various countries is shown below.

2006E Total Segment Revenue Breakdown



Source: Lehman Brothers estimates

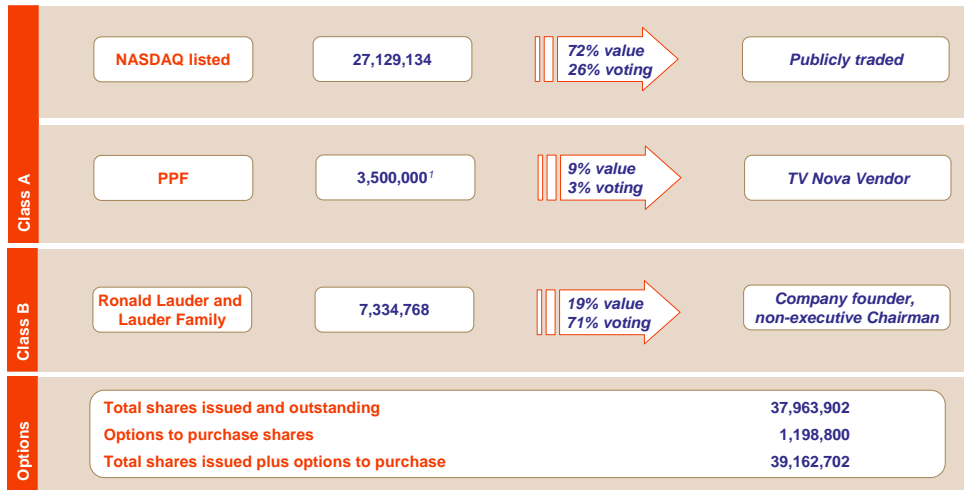
2006E Total Segment EBITDA Breakdown



Source: Lehman Brothers estimates

The current ownership structure is shown in the figure below.

Ownership structure as at Oct 31, 2005



Source: Company data

The current company strategy is shown in the figure below.

Company strategy

- Continue to drive organic growth
- Pursue sub-regional synergies
- Expand multi-channel offerings
- Develop and execute New Media & Content strategies
- Increase shareholdings in existing operations
- Expand footprint when financially prudent opportunities arise

Source: Company data

Profit and Loss

US\$m	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Net Revenue	99.143	124.978	182.339	399.660	620.230	688.695	754.435	821.670	889.374
Growth %		26.1%	45.9%	119.2%	55.2%	11.0%	9.5%	8.9%	8.2%
Operating costs	-23.038	-26.608	-33.615	-76.126	-114.497	-121.655	-129.078	-137.984	-147.360
Programming cost	-37.56	-50.747	-71.793	-149.238	-214.075	-227.669	-241.738	-258.664	-276.488
Station D&A	-7.009	-5.276	-6.663	-14.101	-21.866	-23.024	-24.229	-25.600	-27.043
Total Station Opex	-67.607	-82.631	-112.071	-239.464	-350.438	-372.347	-395.045	-422.248	-450.891
Station SG&A	-14.256	-14.245	-22.112	-44.627	-64.774	-69.324	-73.715	-77.692	-81.898
Corporate operating costs	-15.814	-32.512	-29.185	-21.597	-23.217	-24.378	-25.596	-26.876	-28.220
Growth		105.6%	-10.2%	-26%	8%	5%	5%	5%	5%
Amortization of intangibles	0	0	-0.231	-8.100	-13.4	-13.4	-13.4	-13.4	-13.4
Total expenses	-97.677	-129.388	-163.599	-313.788	-451.828	-479.449	-507.757	-540.216	-574.409
Growth		32.5%	26.4%	91.8%	44.0%	6.1%	5.9%	6.4%	6.3%
EBITDA	12.229	14.075	35.736	111.073	205.668	247.670	286.307	322.453	357.407
Margin	12.33%	11.26%	19.6%	27.8%	33.2%	36.0%	37.9%	39.2%	40.2%
Growth		15%	154%	211%	85%	20%	16%	13%	11%
D&A	10.763	18.485	16.996	60.532	37.266	38.424	39.629	41.000	42.443
Impairment charge	0.000	0.000	0.000	-35.331	0.000	0.000	0.000	0.000	0.000
EBIT	1.466	-4.410	18.740	50.542	168.402	209.246	246.678	281.454	314.965
Margin	1.5%	-3.5%	10.3%	12.6%	27.2%	30.4%	32.7%	34.3%	35.4%
Growth			170%	233%	24%	18%	14%	12%	
Interest income	1.841	5.507	4.318	4.200	5.800	8.900	13.500	18.800	24.600
Rate									
Interest expense	-17.453	-12.01	-1.203	-30.000	-40.500	-40.500	-40.500	-40.500	-40.500
Rate									
Net interest	-15.612	-6.503	3.115	-25.8	-34.7	-31.6	-27.0	-21.7	-15.9
Rate									
FX gain or loss	-10.247	-10.023	-0.574	30.286	0	0	0	0	0
Other income	1.738	-2.458	-0.698	-4.529	0	0	0	0	0
Change in derivative fair value	1.108	0	0	0	0	0	0	0	0
Loss on investment write down	-2.685	0	0	0	0	0	0	0	0
Exceptionals	0	0	0	0	0	0	0	0	0
PBT	-24.232	-23.394	20.583	50.499	133.702	177.646	219.678	259.754	299.065
Margin	-24.4%	-18.7%	11.3%	12.6%	21.6%	25.8%	29.1%	31.6%	33.6%
Taxes	-3.746	-3.76	-11.089	-20.117	-41.514	-52.113	-62.277	-71.996	-81.550
Rate	15.5%	16.1%	-53.9%	-39.8%	-31.0%	-29.3%	-28.3%	-27.7%	-27.3%
Rate on station group	-19.6%	-11.2%	-21.1%	-23.5%	-23.5%	-23.5%	-23.5%	-23.5%	-23.5%
Minority in consolidated subsidiaries	-0.576	-0.676	-4.106	-9.077	-14.385	-17.900	-21.246	-24.805	-28.058
Equity in unconsolidated affiliates	3.448	3.629	10.619	7.607					
Net Income	-25.106	-24.201	16.007	28.912	77.803	107.632	136.155	162.953	189.457
Net Income (pre goodwill and Xpts)	-25.106	-24.201	16.238	37.012	91.203	121.032	149.555	176.353	202.857
Margin	-25.3%	-19.4%	8.9%	9.3%	14.7%	17.6%	19.8%	21.5%	22.8%
Shares in issue	26.451	26.492	29.7	39.1	39.1	39.1	39.1	39.1	39.1
Weighted average shares in issue	26.451	26.492	29.1	35.3	39.1	39.1	39.1	39.1	39.1
EPS reported	-0.95	-0.91	0.55	0.82	1.99	2.75	3.48	4.17	4.85
EPS (pre GW and Xpts)	-0.95	-0.91	0.56	1.05	2.33	3.10	3.83	4.51	5.19
Growth				87.7%	122.8%	32.7%	23.6%	17.9%	15.0%
DPS	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax income from discontinued	11.922	384.213	0.146	0.2	0.0	0.0	0.0	0.0	0.0
Tax on disposal of discontinued	-1	-14.000	2.378	-5.540	0.0	0.0	0.0	0.0	0.0
Net discontinued	10.922	370.213	2.524	-5.376	0.0	0.0	0.0	0.0	0.0
Total Net income	-14.184	346.012	18.531	23.536	77.803	107.632	136.155	162.953	189.457
EPS reported inc discontinued	-0.54	13.06	0.64	0.67	1.99	2.75	3.48	4.17	4.85
FCF	-30.37	-44.04	-49.26	-5.78	47.98	77.82	118.91	145.50	172.34
FCF per share	-1.15	-1.66	-1.69	-0.16	1.23	1.99	3.04	3.72	4.41

Source: Company data, Lehman Brothers estimates

Cash Flow

US\$m	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Net Income	-14.184	346.012	18.531	23.536	77.803	107.632	136.155	162.953	189.457
Adjustments reconciling net income to OCF									
Income from discontinued	-10.922	-370.213	-2.524	5.376	0	0	0	0	0
Equity in income, net of DPS received	-3.448	-0.243	-4.34	-1.000	-6.000	-7.000	-8.000	-9.000	-10.000
D&A	28.452	38.037	49.357	72.980	80.278	84.292	88.506	92.932	97.578
Impairment charge	0	0	0	35.331	0	0	0	0	0
Loss on write down of investment	2.685	0	0	0	0	0	0	0	0
Interest accrued on loans	-0.889	-0.344	-0.340	-0.200	0	0	0	0	0
Loss on disposal of investment	0	0	0.018	0.600	0	0	0	0	0
Stock based compensation	3.754	13.209	10.102	3.000	2.000	2.000	2.000	2.000	2.000
Minority in income of consolidated subsid.	0.576	0.676	4.106	9.077	14.385	17.900	21.246	24.805	28.058
FX net	10.247	10.023	0.574	-30.286	0	0	0	0	0
Net Change in:									
Restricted Cash	-2.606	1.769	-10.145	-20.000	-8.000	-5.000	0	0	0
Accounts receivable	0.075	-3.547	-9.100						
Programme rights cost	-22.957	-33.049	-45.446						
Other assets	1.019	1.246	-4.572						
Accounts payable and accrued liabilities	1.646	-7.642	-13.611						
Short term payables to bank	-1.576	0	0	0	0	0	0	0	0
Income and other taxes payable	1.633	-1.615	-0.34	0	0	0	0	0	0
Change in working capital	-21.793	-42.992	-72.729	-43.464	-33.085	-34.232	-32.870	-33.617	-33.852
Change in working capital as % change in sales	-78%	-166%	-127%	-20%	-15%	-50%	-50%	-50%	-50%
Change in working capital as % sales	-22%	-34.4%	-39.9%	-10.9%	-5.3%	-5.0%	-4.4%	-4.1%	-3.8%
Operating Cash Flow	-6.495	-5.681	-7.730	54.949	127.381	165.592	207.037	240.072	273.241
Capex as % of Sales	-4.4%	-6.2%	-5.9%	-6.5%	-5.5%	-4.9%	-3.2%	-3.0%	-2.9%
Investments in fixed assets (Capex)	-4.324	-7.811	-10.808	-26.000	-34.000	-34.000	-24.000	-24.840	-25.709
Disposal of fixed assets	0	0	0.072	0.124	0	0	0	0	0
Investments in subsidiaries and affiliates	0	-0.008	-35.8	-291.900	-86	0	0	0	0
Proceeds from partial disposal of investment	0	0	0.042	0	0	0	0	0	0
Loans and advances to related parties	0	0	0.4	0	0	0	0	0	0
Licence costs, other assets and intangibles	-0.192	-6.06	-0.77	0	0	0	0	0	0
Cash used in investing	-4.516	-13.879	-46.864	-317.776	-120.000	-34.000	-24.000	-24.840	-25.709
Cash facilities and payments under capital leases	19.555	-17.905	-2.275	-18.000	-3.000	-3.000	-3.000	-3.000	-3.000
Repurchase of senior notes	0	-183.739	0	-491.703	0	0	0	0	0
Loans and advances with equity investments	2.253	2.45	0	-3.000	0	0	0	0	0
Issuance of stock	0.008	0.123	4.161	235.629	0	0	0	0	0
Minority interest	1.32	0	0	0	0	0	0	0	0
Other long term liabilities (inc senior notes)	0	-0.4	0	474.292	0	0	0	0	0
Cash from financing	23.136	-199.471	1.886	197.218	-3.000	-3.000	-3.000	-3.000	-3.000
Net cash received from discontinued	15.634	358.358	10.886	-2.000	0	0	0	0	0
FX impact on cash	0.818	1.146	2.144	-7.460	0	0	0	0	0
Net change in cash	28.577	140.473	-39.678	-75.069	4.381	128.592	180.037	212.232	244.532
Net (debt)/cash start of period	6.12	-150.752	180.599	148.772	-408.911	-421.989	-294.591	-115.807	95.109
Net (debt)/cash end of period	-150.752	180.599	148.772	-408.911	-421.989	-294.591	-115.807	95.109	338.260
Net (debt)/EBITDA	-12.3x	12.8x	4.2x	-3.7x	-2.1x	-1.2x	-0.4x	0.3x	0.9x
EBITDA/Interest	0.8x	2.2x	-11.5x	4.3x	5.9x	7.8x	10.6x	14.9x	22.5x

Source: Company data, Lehman Brothers estimates

Balance Sheet

US\$m	2002	2003	2004	2005E	2006E	2007E	2008E	2009E	2010E
Assets									
Cash and equivalents	49.644	192.246	152.568	77.499	81.880	210.471	390.508	602.741	847.272
Restricted cash	6.168	5.429	15.574	34.115	0	0	0	0	0
Accounts receivable (net of allowances)	25.873	29.812	45.17	121.77	129.076	136.821	145.030	153.732	162.956
Other receivable	0	20.103	18.368	0	0	0	0	0	0
Programme rights	10.997	10.16	22.055	30.877	33.038	35.351	37.826	40.473	43.307
Loans to related parties	4.25	3.849	0.300	1.000	1.000	1.000	1.000	1.000	1.000
Other short term assets	9.614	5.292	11.014	46.155	48.463	50.886	53.430	56.102	58.907
Total Current Assets	106.546	266.891	265.049	311.416	293.457	434.529	627.794	854.047	1113.442
Loans to related parties	3.486	1.883	2.525	3.000	3.000	3.000	3.000	3.000	3.000
Investments in associated companies	24.134	24.413	28.558	29.986	31.485	33.059	34.712	36.448	38.270
Acquisition costs	0	0	10.77	0	0	0	0	0	0
PP&E (net of depreciation)	14.544	18.003	31.548	57.009	60.430	64.055	67.899	71.973	76.291
Other receivable	0	18.2	0	0	0	0	0	0	0
Programme rights	6.982	9.682	18.299	45.855	48.836	52.010	55.391	58.991	62.825
Goodwill	18.201	17.821	59.092	763.882	763.882	763.882	763.882	763.882	763.882
Other intangibles	1.798	9.554	27.331	204.557	214.785	225.524	236.800	248.640	261.072
Other assets	4.286	2.305	1.467	16.448	1.500	1.500	1.500	1.500	1.500
Total assets	179.977	368.752	444.639	1432.153	1417.374	1577.560	1790.978	2038.481	2320.283
Liabilities									
Accounts payable and accrued liabilities	40.152	37.748	67.042	107.360	112.728	118.364	124.283	130.497	137.022
Duties and other taxes payable	18.088	20.192	20.243	27.000	28.350	29.768	31.256	32.819	34.460
Income taxes payable	5.181	12.991	4.658	14.000	14.700	15.435	16.207	17.017	17.868
Credit facilities and obligations under capital leases	8.44	0.185	10.472	19.000	19.950	20.948	21.995	23.095	24.249
Deferred consideration	0	0	6.384	28.124	0.000	0.000	0.000	0.000	0.000
Deferred tax	0	0	0.946	1.047	1.099	1.154	1.212	1.273	1.336
Total Current liabilities	71.861	71.116	109.745	196.531	176.827	185.669	194.952	204.700	214.935
Accounts payable and accrued liabilities	0	0	0.734	5.289	5.553	5.831	6.123	6.429	6.750
Credit facilities and obligations under capital leases	23.124	16.891	8.898	55.419	3.919	4.115	4.321	4.537	4.764
Senior notes	175.000	0	0	446.106	480.000	480.000	480.000	480.000	480.000
Income taxes payable	0	6	3.12	5.500	5.775	6.064	6.367	6.685	7.020
Provision for losses in associated companies	3.442	0.227	0	0.161	0.169	0.178	0.186	0.196	0.205
Deferred tax	0.407	0	6.213	45.702	47.987	50.386	52.906	55.551	58.329
Total non-current liabilities	201.973	23.118	18.965	558.177	543.404	546.574	549.902	553.398	557.067
Minority interests in consolidated subsidiaries	2.019	0.994	4.861	8.425	8.846	9.289	9.753	10.241	10.753
Total liabilities	275.853	95.228	133.571	763.133	729.077	741.531	754.608	768.338	782.755
Class A common stock	1.482	1.542	1.684						
Class B common stock	0.635	0.587	0.587						
Preferred stock	0	0	0						
Additional paid in capital	359.342	372.662	387.305						
Retained earnings	-452.011	-105.999	-87.468						
Accumulated other comprehensive income	-5.324	4.732	8.96						
Total Shareholders equity	-95.876	273.524	311.068	669.020	688.297	836.029	1036.370	1270.143	1537.528
Total liabilities and shareholders equity	179.977	368.752	444.639	1432.153	1417.374	1577.560	1790.978	2038.481	2320.283

Source: Company data, Lehman Brothers estimates

Analyst Certification

I, Matthew Walker, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this report.

Other Team Members

Colin Tennant	(44) 20 7102 1105	ctennant@lehman.com
Richard Jones	(44) 20 7102 2099	rijones@lehman.com
Nadia Ridout-Jamieson	(44) 20 7102 1943	Nadia.RidoutJameison@lehman.com
David Ferguson	+(44) 20 710 24537	dferguso@lehman.com

Important Disclosures

Rating and Price Target Chart: Central European Media Enterprises Ltd

Not Available

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Important Disclosures:

The analysts responsible for preparing this report have received compensation based upon various factors including the Firm's total revenues, a portion of which is generated by investment banking activities.

Company Name	Disclosures	Reuters Ticker	Price(29-12-2005)	Rating
Central European Media Enterprises Ltd	D,E,J,L	CETV.OQ	(USD 56.63)	2-Equal weight

Related Stocks	Reuters Ticker	Price(29-12-2005)	Rating
ITV	ITV.L	(STG 111p)	2 - Equal weight
TF1	TFFP.PA	(EUR 23.35)	2 - Equal weight
ProsiebenSat. 1 Media AG	PSMG_p.DE	(EUR 15.99)	RS - Rating Suspended
Telecinco	TL5.MC	(EUR 21.57)	1 - Overweight
Mediaset	MS.MI	(EUR 9.00)	2 - Equal weight
RTL	AUDKt.BR	(EUR 68.00)	3 - Underweight

Risks Which May Impede the Achievement of the Price Target: CME is subject to risks involving political developments, economic growth and consumer spending in its markets, advertising growth, audience share at its stations, risks from litigation, license renewals and reliance on partnerships with local management.

D - Lehman Brothers Inc. or an affiliate has received compensation for investment banking services from the subject company within the past 12 months.

E - Lehman Brothers Inc. or an affiliate expects to receive or intends to seek compensation for investment banking services from the subject company within the next three months.

J - Lehman Brothers Inc. or an affiliate trade[s] regularly in the shares of the subject company.

L -The subject company is or during the past 12 months has been an investment banking client of Lehman Brothers Inc.

Guide to Lehman Brothers Equity Research Rating System

Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2- Equal weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector ("the sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity on a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals are improving.

2-Neutral - sector coverage universe fundamentals are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals are deteriorating.

Distribution of Ratings:

Lehman Brothers Global Equity Research has 1801 companies under coverage.

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41% have been assigned a 2-Equal weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating, 6% of companies with this rating are investment banking clients of the Firm.

17% have been assigned a 3-Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating, 88% of companies with this rating are investment banking clients of the Firm.

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Lehman Brothers Inc.
745 Seventh Avenue, New York, New York 10019
1.212 526-7000, Member, NYSE and NASD

Taiwan

Lehman Brothers Inc., Taiwan Branch
Cathay Financial Center 12F
7 Sungren Road – Shin-Yi District
Taipei, Taiwan
Republic of China
886.2.8723.1600

London

Lehman Brothers (International) Europe Ltd
25 Bank Street, London, E14 5LE, UK
44.20.7102.1000 Regulated by FSA

Tokyo

Lehman Brothers Japan Inc
Roppongi Hills Mori Tower 31st Floor
10-1 Roppongi 6-chome
Minato-ku, Tokyo 106-6131, Japan
813.6440.1674 Regulated by FSA

Hong Kong

Lehman Brothers Asia Limited- Hong Kong
Two International Finance Centre
26th Floor, 8 Finance Street
Central, Hong Kong
852.2252.60000 Regulated by SFC

Seoul

Lehman Brothers (International) Europe Seoul Branch
Hanwha Building
12th Floor
110, Sokong-dong Chung-Ku
Seoul 100-755, Korea
82.2.317.5000 Regulated by FSC

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