CENTRAL EUROPEAN MEDIA ENTERPRISES LTD
Form 10-Q/A
December 12, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended September 30, 2003

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

For the transition period from __________ to __________

Commission File Number 0-24796

CENTRAL EUROPEAN MEDIA ENTERPRISES LTD.

(Exact name of registrant as specified in its charter)

BERMUDA (State or other jurisdiction of incorporation and organization)	N/A (IRS Employer Identification No.)
Clarendon House, Church Street, Hamilton (Address of principal executive offices)	HM CX Bermuda (Zip Code)

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

Indicate by check mark whether registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for each shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act)

Yes x No o

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

Class	Outstanding as of November 5, 2003
Class A Common Stock, par value $0.08	18,577,100

Class B Common Stock, par value $0.08	7,934,736

EXPLANATORY NOTE FOR FORM 10-Q/A:

This is a Form 10-Q/A to the Central European Media Enterprises Ltd. Quarterly Report on Form 10-Q, as originally filed on November 5, 2003. No changes have been made to our income statement, balance sheet or cash flow statements as they appeared in our November 5, 2003 Form 10-Q. Changes have been made in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations". These changes correct (i) our discussion of the local currency results in our Slovenian and Slovak Republic operations, and (ii) the amount of the VUB credit facility to STS.

We have not updated the Form 10-Q/A to modify disclosures in the Form 10-Q for events occurring subsequent to the original November 5, 2003 filing date. This Form 10-Q/A continues to speak as of November 5, 2003.

Part 1. Financial Information
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our consolidated net revenues for the first nine months of 2003 increased by US$ 16,053,000 or 26% compared with the first nine months of 2002. Following the receipt of US$ 358.6 million from the Czech Republic government, our net income for the first nine months of 2003 was US$ 312,953,000 compared to a net loss of US$ 9,377,000 for the first nine months of 2002.

Corporate

On May 19, 2003, we received US$ 358,635,000 from the Czech Republic government in final settlement following our Uncitral Arbitration.

Between May 15, 2003 and June 30, 2003 we purchased US$ 16,449,000 of our US$ Senior Notes and Euro 18,793,000 (approximately US$ 21.5 million) of our Euro Senior Notes at various prices all generating a net cash saving. On August 15, 2003, we redeemed all of the remaining Senior Notes at 100% of face value.

On May 29, 2003, we settled our outstanding debt and accrued interest with GoldenTree Asset Management in the sum of US$ 15,300,000. No additional warrants were issued.

On May 27, 2003, we repaid our outstanding debt and accrued interest to Czech Sporitelna Bank for a sum of Kc 253,262,000 (approximately US$ 9.2 million).

We disagree with the Dutch tax authorities on the taxability of the award received from the Czech Republic. We have now received advice from our tax counsel and two additional Dutch legal opinions that the main part of the Czech award (US$ 270 million) should not be taxable under Dutch law and that the interest element of the award (US$ 86 million) also should not be taxable.

The advice received by us expressed the view that there is a high probability that the Supreme Court of the Netherlands would affirm the non-taxability of at least the main part of the award in the event we elect to litigate any final decision of the Dutch tax authorities. We have received a provisional tax assessment from the Dutch Tax Authorities. The taxable amount according to this assessment is US$ 227 million with tax payable of US$ 78.5

million. Until a decision of the Dutch Tax Court or an earlier ruling by the Dutch Tax Authorities, we have deposited US$ 78.5 million in an interest bearing Dutch bank account, reflecting our expected maximum tax liability at 34.5%, reduced by carried forward losses. We are treating this deposit as restricted cash. We are making strong representations to the Dutch tax authorities and to the Ministry of Finance in the Netherlands to highlight the disparity between the positive framework of the Bilateral Investment Treaty and the current position of its Tax Inspectors. We believe that our tax liability is zero, since the potential tax liability on the interest from the award would be fully offset by our carried forward losses. Consequently, no provision has been made for any Dutch tax on the Czech award in these statements.

On May 19, 2003 we paid Euro 3.4 million (approximately US$ 3.8 million) to the Dutch tax authorities to settle outstanding corporate tax liabilities up to and including 2000.

Czech Republic

On October 23, 2003 we sold our 93.2% participation interest in CNTS, our Czech operating company, for US$ 53.2 million.

The first instalment of US$ 7.5 million was received on October 8, 2003 and the second US$ 7.5 million instalment was received on October 23, 2003. The remainder of the purchase price will be settled by payments of US$ 20 million plus all accrued interest on or before July 15, 2004 and US$ 18.2 million plus all accrued interest on or before July 15, 2005. The sale agreement provides for a discount of US$2.0 million if payment of the full amount is received prior to December 31, 2003, or a discount of US$1.0 million if payment of the full amount is received prior to July 15, 2004.

The outstanding payment is secured by 250,000 shares of Ceska pojistovna, a.s., a leading insurance company in the Czech Republic.

We have been advised that this transaction is not subject to tax in the Czech Republic or the Netherlands because it is the sale of our ownership or participation interest.

Results of Operations - Discontinued Operations

Czech Republic

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

The revenues and expenses of the Czech operations and the award income and related legal expenses have therefore all been treated as discontinued operations for the year 2003 and the prior year comparatives have been restated.

For additional information, see Note 12 to the accompanying unaudited consolidated financial statements "Discontinued Operations".

Results of Operations - Continuing Operations

Three months ended September 30, 2003 compared to three months ended September 30, 2002

Net Revenues

	2003	2002	US$ increase/ (decrease)	% change
		US$ 000's		
Country				
Romania	$ 10,536	$ 7,422	$ 3,114	42%
Slovenia	5,639	5,060	579	11%
Ukraine	5,711	4,657	1,054	23%
Total Consolidated Net Revenues	$ 21,886	$ 17,139	$ 4,747	28%

Our consolidated net revenues increased by US$ 4,747,000, or 28%, to US$ 21,886,000 for the third quarter of 2003 from US$ 17,139,000 for the third quarter of 2002 due to a:

- 42% increase in the revenues of our Romanian operations. This increase is as a result of a higher advertising ratecard and general growth in the Romanian TV advertising market, together with the reorganization of Romanian sales arrangements to sell directly advertising previously bartered to related parties;
- 11% increase in the revenues of our Slovenian operations. The increase in net revenue was affected by the US dollar depreciating against the Slovenian tolar. In local currency terms, net revenues remained flat; and
- 23% increase in the revenues of our Ukrainian operations (which includes IMS and Innova but excludes Studio 1+1) as a result of significantly increased sales of programming from a subsidiary to an associate within the Studio 1+1 Group. Increased programme sales revenues reflect the increased cost of acquired programming.

Station Expenses

	2003	2002	US$ (increase)/ decrease	% change
		US$ 000's		
Country				
Romania	$ 8,436	$ 5,316	$ (3,120)	(59)%
Slovenia	4,747	4,449	(298)	(7)%
Ukraine	4,748	3,325	(1,423)	(43)%
Total Consolidated Station Expenses	$ 17,931	$ 13,090	$ (4,841)	(37)%

Total station operating costs and expenses (including amortization of program rights and depreciation of fixed assets and other intangibles) increased by US$ 4,841,000, or 37%, to US$ 17,931,000 for the third quarter of 2003 from US$ 13,090,000 for the third quarter of 2002 due to a:

- 59% increase in station operating costs and expenses of our Romanian operations. This increase is as a result of an increase in program amortization charges including the direct purchases of programming to replace a previous related party barter agreement. Additionally, salary costs have increased significantly due to a change in the domestic legislation, effective from January 2003, which increased employers' liability for social security charges;

l 7% increase in station operating costs and expenses of our Slovenian operations. This increase is due to appreciation of the Slovenian tolar, thereby increasing the expenses of our Slovenian operations in US dollar terms. In local currency terms, station operating costs and expenses of our Slovenian operations decreased by 5% as a result of acquired programming cost savings; and

l 43% increase in station operating costs and expenses of our Ukrainian operations. This increase is as a result of an increase in both acquired programming and self-production costs. We have significantly increased our investment in programming for 2003 as a response to the competitive environment and on the basis of expected revenue growth.

Station selling, general and administrative expenses decreased by US$ 1,570,000, or 45%, to US$ 1,935,000 for the third quarter of 2003 from US$ 3,505,000 for the third quarter of 2002. The reduction is primarily attributable to our Romanian operations, where costs decreased due to the recovery of receivables against which provisions had been raised in prior periods. US$ 0.7m of this relates to a reduction in the provision for receivables from parties related or connected to our minority shareholder, Mr. Sarbu. In our Slovenian operations cost increases of 16% were primarily attributable to the weaker US dollar.

Corporate Expenses

Corporate operating costs and development expenses for the third quarter of 2003 and 2002 were US$ 4,970,000 and US$ 2,619,000 respectively, an increase of US$ 2,351,000. This increase is primarily attributable to higher compliance costs in 2003 in relation to Sarbanes-Oxley and accounting technical advice, and to increased directors' and officers' insurance costs.

Stock based employee compensation for the third quarter of 2003 and 2002 was a charge of US$ 1,719,000 and US$ 1,467,000, respectively. The increase of US$ 252,000 is primarily as a result of the increase in our stock price growth in the third quarter of 2003 compared to the growth in the third quarter of 2002. (For further discussion, see Note 10 to the Consolidated Financial Statements, "Stock Based Compensation").

As a result of the above factors, we generated an operating loss of US$ 4,669,000 for the third quarter of 2003 compared to US$ 3,542,000 for the third quarter of 2002.

Results Below Operating Income/(Loss)

Equity in income/(loss) of unconsolidated affiliates was a loss of US$ 1,374,000 for the third quarter of 2003 compared to a loss of US$ 2,539,000 for the third quarter of 2002. This change of US$ 1,165,000 is detailed below:

	Three months to September 30, (US$ 000's)		
	2003	2002	US$ increase/ (decrease)
Slovak Republic operations	$ (457)	$ (154)	$ (303)
Ukrainian operations	(945)	(1,131)	186
Romanian operations	28	(1,254)	1,282
Equity in income/(loss) of unconsolidated affiliates	$ (1,374)	$ (2,539)	$ 1,165

The net revenues and operating expenses of our Slovak Republic operations increased by 35% and 21%, respectively. Net revenues increased by 9% in local currency terms as our Slovak operation kept its market share in a growing market. Additionally, the increase in revenues was as a result of the Slovak koruna appreciating against the US dollar. In local currency terms, operating expenses decreased by 3% for the third quarter of 2003 compared to 2002. The net revenues of our equity accounted affiliate in Ukraine increased by 18% as a result of a growth in the Ukrainian television advertising market. Included in the equity accounting for Romania in 2002 was Pro TV. Following the restructuring of our Romanian operations, Pro TV has been fully consolidated as a subsidiary from April 1, 2003.

Net interest and other expense was an expense of US$ 365,000 for the third quarter of 2003 compared to an income of US$ 2,643,000 for the third quarter of 2002. The 2002 income was primarily a result of a re-scheduling agreement in the third quarter of 2002 relating to our Romanian tax liabilities which enabled us to reverse a provision for possible penalties and interest.

A net foreign currency exchange loss of US$ 221,000 for the third quarter of 2003 compares to a net currency exchange gain of US$ 55,000 for the third quarter of 2002. This foreign currency exchange loss is a result of a significant weakening of the US dollar against the Euro which affected our Euro denominated balances.

Provision for income taxes decreased by US$ 726,000 to US$ 212,000 for the third quarter of 2003 from a provision of US$ 938,000 for the third quarter of 2002.

Minority interest in income of consolidated subsidiaries was US$ 9,000 for the third quarter of 2003 compared to US$ 1,445,000 for the third quarter of 2002.

As a result of these factors, our net loss from continuing operations was US$ 6,850,000 for the third quarter of 2003 compared to a net loss of US$ 5,766,000 for the third quarter of 2002.

Nine months ended September 30, 2003 compared to nine months ended September 30, 2002

Net Revenues

	2003	2002	US$ increase/ (decrease)	% change
		US$ 000's		
<u>Country</u>				
Romania	$ 33,544	$ 22,711	$ 10,833	48%
Slovenia	24,548	22,742	1,806	8%
Ukraine	19,242	15,828	3,414	22%
Total Consolidated Net Revenues	$ 77,334	$ 61,281	$ 16,053	26%

Our consolidated net revenues increased by US$ 16,053,000, or 26%, to US$ 77,334,000 for the nine months ended September 30, 2003 from US$ 61,281,000 for the nine months ended September 30, 2002 due to a:

- 48% increase in the revenues of our Romanian operations. This increase is as a result of a higher advertising ratecard and general growth in the Romanian TV advertising market together with the reorganization of

Romanian sales arrangements to sell directly advertising previously bartered to related parties;

- 8% increase in the revenues of our Slovenian operations. The increase in net revenue was affected by the US dollar depreciating against the Slovenian tolar (SIT) compared to the first nine months of 2002. In local currency terms, net revenues decreased by 7% due to incremental revenue derived from the FIFA World Cup in June 2002 which did not re-occur in June 2003; and

- 22% increase in the revenues of our Ukrainian operations (which includes IMS and Innova but excludes Studio 1+1) as a result of significantly increased sales from a subsidiary to an associate within the Studio 1+1 Group.

Station Expenses

	2003	2002 US$ 000's	US$ (increase)/ decrease	% change
Country				
Romania	$ 24,756	$ 18,731	$ (6,025)	(32)%
Slovenia	16,271	15,243	(1,028)	(7)%
Ukraine	15,255	9,656	(5,599)	(58)%
Total Consolidated Station Expenses	$ 56,282	$ 43,630	$ (12,652)	(29)%

Total station operating costs and expenses (including amortization of program rights and depreciation of fixed assets and other intangibles) increased by US$ 12,652,000, or 29%, to US$ 56,282,000 for the nine months ended September 30, 2003 compared to US$ 43,630,000 the nine months ended September 30, 2002 due to a:

- 32% increase in station operating costs and expenses of our Romanian operations. This increase is as a result of an increase in program amortization charges including the direct purchases of programming to replace a previous related party barter agreement. Additionally, salary costs have increased significantly due to a change in the domestic legislation, effective from January 2003, which increased employers' liability for social security charges;

- 7% increase in station operating costs and expenses of our Slovenian operations. This increase is as a result of the US dollar depreciating against the Slovenia tolar. In local currency terms station operating costs and expenses of our Slovenian operations decreased by 8% as a result of lower program amortization charges; and

- 58% increase in station operating costs and expenses of our Ukrainian operations. This increase is as a result of an increase in acquired programming costs. We have significantly increased our investment in programming for 2003 as a response to the competitive environment and on the basis of expected revenue growth.

Station selling, general and administrative expenses decreased by US$ 473,000, or 6%, to US$ 8,115,000 for the nine months ended September 30, 2003 from US$ 8,588,000 for the nine months ended September 30, 2002. The reduction is primarily attributable to our Romanian operations, where costs decreased due to the recovery of receivables against which provisions had been raised in prior periods, partially off-set by extended local audit scope, one-off restructuring costs and higher rental costs including a related party rental agreement that was revised in late 2002. The Slovenian operations' cost increases of 19% were primarily attributable to the weaker US dollar.

Corporate Expenses

Corporate operating costs and development expenses for the nine months ended September 30, 2003 and 2002 were US$ 11,220,000 and US$ 8,722,000 respectively, an increase of US$ 2,498,000 or 29%. This increase is primarily attributable to higher compliance costs in 2003 in relation to Sarbanes-Oxley and accounting technical advice, and to increased directors' and officers' insurance costs.

Stock based employee compensation for the first nine months of 2003 and 2002 was US$ 8,343,000 and US$ 1,884,000, respectively. The increase of US$ 6,459,000 is primarily as a result of the increase in our stock price growth in the first nine months of 2003 compared to the growth in the first nine months of 2002. (For further discussion, see Note 10 to the Consolidated Financial Statements, "Stock Based Compensation").

As a result of the above factors, we generated an operating loss of US$ 6,626,000 for the first nine months of 2003 compared to US$ 1,543,000 for the first nine months of 2002.

Results Below Operating Income/(Loss)

There was a loss on the write down of investment for the first nine months of 2002 of US$ 2,685,000. This was due to the write down of our investment in STS after a change in our share of profits. On January 18, 2002, we entered into an agreement to acquire a 34% voting interest with veto rights and a 0.1% share of profits in Markiza. As a result of this acquisition, we will be entitled to 70% of STS' profits as opposed to 80% prior to the acquisition. (For further discussion, see our 10K filing of March 10, 2003 as amended by our Form 10-K/A filed with the SEC on April 25, 2003, and our amendment No.2 to our Form 10-K/A filed with the SEC on August 21, 2003, Part 1, Item 1 "Business"). No such loss on write down of investment was recorded in the first nine months of 2003.

Equity in income/(loss) of unconsolidated affiliates was income of US$ 232,000 for the first nine months of 2003 compared to a loss of US$ 1,193,000 for the first nine months of 2002. This change of US$ 1,425,000 is detailed below:

	Nine months to September 30, (US$ 000's)		
	2003	2002	US$ increase/ (decrease)
Slovak Republic operations	$ 2,255	$ 1,763	$ 492
Ukrainian operations	(1,398)	(1,702)	304
Romanian operations	3	(1,254)	1,257
Slovenian operations	(628)	-	(628)
Equity in income/(loss) of unconsolidated affiliates...	$ 232	$ (1,193)	$ 1,425

The net revenues and operating expenses of our Slovak Republic operations increased by 32% and 23%, respectively. Net revenues increased by 7% in local currency terms as our Slovak operation kept its market share in a growing market. Additionally, the increase in revenues was as a result of the Slovak koruna appreciating against the US dollar. In local currency terms, operating expenses decreased by 1% for the nine months to September 30, 2003 compared to the nine months to September 30, 2002. The net revenues of our equity accounted affiliate in Ukraine increased by

18% as a result of a growth in the Ukrainian television advertising market. Included in the equity accounting for Romania in 2002 was Pro TV. Following the restructuring of our Romanian operations, Pro TV has been fully consolidated as a subsidiary from April 1, 2003.

Net interest and other expense increased by US$ 2,940,000 to US$ 12,391,000 for the first nine months of 2003 from US$ 9,451,000 for the first nine months of 2002. This is due to a re-scheduling agreement in the third quarter of 2002 relating to our Romanian tax liabilities which enabled us to reverse a provision for possible penalties and interest, partially off-set by the increased interest received following our receipt of US$ 358.6 million on May 19, 2003.

In November 2001, we entered into an interest rate swap transaction through the Royal Bank of Scotland plc (RBS) to exchange our 9 3/8% US$ 100 million fixed rate debt for floating rate debt. As a result, a change in fair value of derivative of US$ 1,108,000 was recorded in the first nine months of 2002. We chose to unwind the transaction by paying RBS US$ 659,000 in May 2002. Consequently, no such fair valuation was recorded in the first nine months of 2003.

A net foreign currency exchange loss of US$ 10,537,000 for the first nine months of 2003 compared to US$ 5,459,000 for the first nine months of 2002. This foreign currency exchange loss is a result of a significant weakening of the US dollar against the Euro and the Czech koruna. This affected our Euro denominated portion of our Senior Notes obligations and the outstanding Czech koruna denominated debt.

Provision for income taxes decreased by US$ 1,630,000 to US$ 3,177,000 for the first nine months of 2003 from a provision of US$ 4,807,000 for the first nine months of 2002.

Minority interest in income of consolidated subsidiaries was US$ 93,000 for the first nine months of 2003 compared to US$ 115,000 for the first nine months of 2002.

As a result of these factors, our net loss from continuing operations was US$ 32,592,000 for the first nine months of 2003 compared to US$ 24,145,000 for the first nine months of 2002.

Romanian Bad Debts

As at September 30, 2003, 30% of the Romanian subsidiaries accounts receivable balance was more than 360 days old. This represents an improvement against the 33% reported as at December 31, 2002. On our Consolidated Balance Sheet, the total provision for bad debt is US$ 6,021,000, of which the provision for Romanian bad debts is US$ 4,773,000. As at September 30, 2003, the total gross accounts receivable in respect to our Romanian operations is US$ 14,263,000, compared to $15,544,000 as at December 31, 2002.

Liquidity and Capital Resources

Cash-flows

Net cash used in operating activities was US$ 94,115,000 for the nine months ended September 30, 2003 compared to US$ 1,302,000 for the nine months ended September 30, 2002. The movement of US$ 92,813,000 was primarily a result of treating US$78.6 million as restricted cash until a decision of the Dutch Tax Court or an earlier ruling by the Dutch tax authorities has been reached with regard to our potential Dutch Tax liability arising from the Czech arbitration award (see "Tax Inspections and Liabilities" below), increased tax payments (see "Tax Inspections and Liabilities" below) and increased program rights costs.

Net cash used in investing activities was US$ 7,888,000 for the nine months ended September 30, 2003 compared to US$ 1,836,000 for the nine months ended September 30, 2002. The movement of US$ 6,052,000 was primarily attributable to our increase in investment in our Slovenian operations and the acquisition of fixed assets partially offset by a decrease in loans and advances to affiliates.

Net cash used in financing activities was US$ 203,188,000 for the nine months ended September 30, 2003 compared to net cash received from financing activities of US$ 15,323,000 for the nine months ended September 30, 2002. The movement of US$ 218,511,000 was primarily attributable to redeeming our Senior notes and repaying our outstanding debt and accrued interest to Czech Sporitelna Bank and GoldenTree Asset Management (see "Uses of Liquidity" below).

Net cash received from discontinued operations was US$ 346,254,000 for the nine months ended September 30, 2003 compared to US$ 16,805,000 for the nine months ended September 30, 2002. The movement of US$ 329,449,000 was attributable to the receipt of US$ 358,635,000 from the Czech Republic government in final settlement following our Uncitral Arbitration.

We had cash and cash equivalents of US$ 91,271,000 at September 30, 2003 compared to US$ 49,644,000 at December 31, 2002.

Contractual Cash Obligations

At September 30, 2003, we had two main tranches of debt as follows:-

(1) A facility of up to Euro 8.0 million (approximately US$ 9.1 million) pursuant to a loan agreement among Pro Plus, Bank Austria Creditanstalt d.d. ("BACA") and Nova Ljubljanska banka d.d. which matures in February 2009. Loans under this facility are secured by the real property, fixed assets and receivables of Pro Plus. During the term of the loan, Pro Plus is required to keep Euro 900,000 (approximately US$ 1.0 million) on deposit with BACA. As at September 30, 2003, Euro 8.0 million (approximately US$ 9.1 million) was drawn down on this agreement.

(2) A loan of SKK187million (approximately US$ 5.2 million) from our unconsolidated affiliate, STS.

In addition to the above, two of our non-consolidated entities have the following loans:

(1) As at September 30, 2003, Studio 1+1 had US$ 0.2 million outstanding on loan with Va Bank in Ukraine. This loan matures in November 2003 and bears interest at 16%. By way of security, Inter-Media, one of the consolidated entities of the Studio 1+1 Group, has pledged fixed assets in the amount of US$ 1.1 million and 4,864 minutes of advertising time (nominal value of US$ 1,000 per minute). Sufficient cash is currently held in Studio 1+1 to repay this debt as it falls due.

(2) A Slovak bank, Vseobecna uverova banka a.s., "VUB", has agreed to lend STS SKK 100 million (approximately US$ 2.8 million), a facility supported by charges over the assets and receivables of STS. As at September 30, 2003, SKK 95 million (approximately US$ 2.6 million) was drawn down on this agreement.

On January 1, 2002 the Euro was introduced and replaced a number of European currencies, including the German Mark. Accordingly, the Senior Notes originally denominated in German Marks have been restated as a Euro denominated Note. At the time of changeover, the Euro was fixed against the German Mark at a rate of 1.95583, and this is the rate that has been applied in the restatement of the principal amount repayable to the Note-holders.

Our future contractual obligations are 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	$ 12,093	$ 548	$ 1,095	$ 1,095	$ 9,355
Capital Lease Obligations	843	114	230	225	274
Operating Leases	5,901	868	1,213	1,135	2,685
Unconditional Purchase Obligations	-	-	-	-	-
Other Long-Term Obligations	-	-	-	-	-
Total Contractual Obligations	$ 18,837	$ 1,530	$ 2,538	$ 2,455	$ 12,314

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Tax Inspections and Liabilities

On May 19, 2003 we paid Euro 3.4 million (approximately US$ 3.8 million) to the Dutch tax authorities to settle outstanding corporate tax liabilities up to and including 2000.

We disagree with the Dutch tax authorities on the taxability of the award received from the Czech Republic. We have now received advice from our tax counsel and two additional Dutch legal opinions that the main part of the Czech award (US$ 270 million) should not be taxable under Dutch law and that the interest element of the award (US$ 86 million) also should not be taxable.

The advice received by us expressed the view that there is a high probability that the Supreme Court of the Netherlands would affirm the non-taxability of at least the main part of the award in the event we elect to litigate any final decision of the Dutch tax authorities. We have has received a provisional tax assessment from the Dutch Tax Authorities. The taxable amount according to this assessment is US$ 227 million with tax payable of US$ 78.5 million. Until a decision of the Dutch Tax Court or an earlier ruling by the Dutch Tax Authorities, we have deposited US$ 78.5 million in an interest bearing Dutch bank account, reflecting our expected maximum tax liability at 34.5%, reduced by carried forward losses. We are treating this deposit as restricted cash. We are making strong representations to the Dutch tax authorities and to the Ministry of Finance in the Netherlands to highlight the disparity between the positive framework of the Bilateral Investment Treaty and the current position of its Tax Inspectors. We believe that our tax liability is zero, since the potential tax liability on the interest from the award would be fully offset by our carried forward losses. Consequently, no provision has been made for any Dutch tax on the Czech award in these statements.

In our Consolidated Balance Sheet are the following amounts relating to current tax liabilities and estimated interest and penalties on overdue tax liabilities:

	As at September 30, 2003	As at December 31, 2002
Current tax liabilities	$ 10,603,000	$ 11,699,000
Estimated interest and penalties on overdue tax liabilities	$ 9,231,000	$ 11,570,000

Included in current tax liabilities is a provision of potential tax liabilities in Romania, and as disclosed in our 10K filing of March 10, 2003, as amended by our Form 10-K/A filed with the SEC on April 25, 2003 and our amendment

No.2 to our Form 10-K filed with the SEC on August 21, 2003 a significant portion of estimated interest and penalties on overdue tax liabilities relate to the outstanding tax liability at our Romanian subsidiaries. An agreement with the Romanian tax authorities has reduced and re-scheduled a portion of these interest and penalty charges in return for specific deposits and an agreed repayment schedule. Penalties of up to US$ 5 million may be imposed if the repayment schedule and the conditions of the agreement are not met. Should the Romanian tax authorities demand immediate payment of all potential tax liabilities, the Romanian operations would experience difficulties in continuing to operate unless it receives funding from us, the other minority shareholders or external sources.

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 the inspections, the Slovenian tax authorities have levied an assessment seeking unpaid income taxes, customs duties and interest charges of SIT 636,800,000 (approximately US$ 3.1 million). Pro Plus is contesting this assessment to the courts in Slovenia and has received a temporary order delaying the payment of the assessment pending the final outcome of the court proceedings. This amount has not been provided for in our financial statements as we believe the probability of this assessment being upheld in a Slovenian court is remote.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 12, 2003 /s/ Frederic T. Klinkhammer

Frederic T. Klinkhammer

Chief Executive Officer

(Duly Authorized Officer)

Date: December 12, 2003 /s/ Wallace Macmillan

Wallace Macmillan

Vice President Finance

(Principal Financial Officer and Duly Authorized Officer)

EXHIBIT INDEX

Exhibit Number	Description

31.01	s.302 Sarbanes-Oxley Certification - CEO, dated December 12, 2003
31.02	s.302 Sarbanes-Oxley Certification - CFO, dated December 12, 2003
32.01	s.906 Sarbanes-Oxley Certification - CEO and CFO, dated December 12, 2003