TVN Sp. z o.o.

INTERIM REPORT
FOR THE SIX MONTHS ENDED
June 30, 2004

TABLE OF CONTENTS

PART I	**FINANCIAL INFORMATION**	**3**
PART II	**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**	**27**

PART 1

FINANCIAL INFORMATION

The financial information of TVN Sp. z o.o. presented as a part of this report included on pages 4-26 as follows:

	Page
Consolidated unaudited financial statements for the three and six months ended June 30, 2004	
TVN Information	4
Report of Independent Auditors	6
Condensed Consolidated Income Statements	7
Consolidated Balance Sheets	8
Consolidated Statements of Changes in Shareholders' Equity	9
Consolidated Cash Flow Statements	10
Notes to the Consolidated Financial Statements	11

TVN Information

1. PRINCIPAL ACTIVITY

TVN and its subsidiaries (together the Group) own and operate seven television channels in Poland, TVN, TVN 7, TVN 24, TVN Meteo, TVN Turbo, ITVN and TVN Style. The Group's channels broadcast news, information and entertainment shows, and serials and movies.

2. REGISTERED OFFICE

TVN Sp. z o.o.

ul. Wiertnicza 166

02-952 Warszawa

3. SUPERVISORY BOARD

- Jan Wejchert, President
- Mariusz Walter
- Bruno Valsangiacomo
- Henryka Bochniarz
- Tomasz Kolbusz
- Maciej Raczkiewicz
- Romano Fanconi (appointed on January 26, 2004)
- Alicja Kos - Gołaszewska (appointed on April 20, 2004)
- Maciej Żak (appointed on January 26, 2004)

4. MANAGEMENT BOARD

- Piotr Walter, President
- Karen Burgess
- Edward Miszczak
- Piotr Tyborowicz
- Jarosław Potasz
- Waldemar Ostrowski
- Tomasz Berezowski

5. AUDITORS

PricewaterhouseCoopers Sp. z o.o.

Al. Armii Ludowej 14

00-638 Warszawa

6. SOLICITORS

Chadbourne&Parke Polska Sp. z o.o., Wujek, Radzikowski, Szubielska i Wspólnicy Spółka Komandytowa

Ul. Emilii Plater 53

00-113 Warszawa

7. PRINCIPAL BANKERS

Bank Przemysłowo-Handlowy PBK S.A. (“BPH PBK”)

Al. Pokoju 1

31-548 Kraków

8. SUBSIDIARIES

Telewizja Wisła Sp. z o.o.
ul. Pułkownika Dąbka 2
30-832 Kraków

Newsroom Sp. z o.o.
ul. Wiertnicza 166
02-952 Warszawa

TVN 24 Sp. z o.o.
ul. Wiertnicza 166
02-952 Warszawa

Polish Television Finance Corporation B.V.
De Boelelaan 7
NL-1083 Amsterdam

TVN Finance Corporation plc.
Hillgate House
26 Old Bailey
London EC4M 7HW

Eltrade Sp. z o.o.
ul. Cicha 7
00-353 Warszawa

TVN Turbo Sp. z o.o.
ul. Wiertnicza 166
02-952 Warszawa

ProCable Sp. z o.o.
ul. Powsińska 4
02-920 Warszawa

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Review Report of Independent Auditors

To the Supervisory Board and Shareholders of TVN S.A. (successor of TVN Sp. z o.o.):

We have reviewed the accompanying interim condensed consolidated balance sheet of TVN Sp. z o.o. and its subsidiaries (the "Company") as of June 30, 2004 and the related interim condensed consolidated income statement for the three and six month periods ended June 30, 2004 and the interim condensed consolidated statement of changes in shareholders' equity and cash flow statement for the six month period ended June 30, 2004. These condensed consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance about whether the condensed consolidated interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements have not been properly prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers Sp. z o.o.

Warsaw, Poland

August 9, 2004

TVN Sp. z o.o.
Unaudited Interim Condensed Consolidated Income Statements
(Expressed in PLN, all amounts in thousands, except as otherwise stated)

	Note	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30,2003
Revenue, net		361,506	304,286	202,844	164,766
Programming and broadcasting expenses	4	(205,794)	(191,329)	(110,116)	(97,988)
Selling expenses	4	(19,031)	(11,986)	(9,134)	(5,622)
General and administration expenses	4	(28,628)	(17,826)	(16,313)	(9,778)
Other operating (expenses)/income, net	5	(2,294)	(409)	(2,224)	71
Operating profit		**105,759**	**82,736**	**65,057**	**51,449**
Finance (expense)/income, net	6	(4,845)	(20,742)	9,080	(712)
Profit before income tax		**100,914**	**61,994**	**74,137**	**50,737**
Income tax charge	9	(20,288)	(20,152)	(13,346)	(16,836)
Net profit		**80,626**	**41,842**	**60,791**	**33,901**
Basic and diluted earnings per share (not in thousands)	3	**122.53**	**63.59**	**92.39**	**51.52**

TVN Sp. z o.o.
Unaudited Interim Condensed Consolidated Balance Sheets
(Expressed in PLN, all amounts in thousands, except as otherwise stated)

	Note	June 30, 2004	December 31, 2003
ASSETS			
Non-current assets			
Property, plant, and equipment		106,742	82,902
Intangible assets	7	163,600	23,062
Non-current programming inventory	8	55,302	58,970
Available-for-sale investment	20	14,769	11,388
Held to maturity investment with related party	14	633,250	625,588
Non-current related party receivables	14	1,288	23,562
Restricted cash	10	11,891	15,408
Deferred tax asset	9	15,470	-
Other non-current assets		465	487
		1,002,777	**841,367**
Current assets			
Current programming inventory	8	117,630	95,615
Restricted cash	10	8,838	179,517
Trade receivables		110,699	78,206
Related party receivables	14	10,693	8,761
Financial assets at their fair value through profit and loss	19	9,379	-
Other assets		21,528	16,596
Cash and cash equivalents		112,226	103,964
		390,993	**482,659**
TOTAL ASSETS		**1,393,770**	**1,324,026**
EQUITY AND LIABILITIES			
Equity			
Share capital		65,800	65,800
Fair value reserve		2,739	-
Cumulative translation adjustment		(222)	28
Accumulated profits		127,458	46,832
		195,775	**112,660**
Non-current liabilities			
9.5% Senior Notes due 2013	12	996,709	1,033,270
Deferred tax liability	9	5,160	1,063
		1,001,869	**1,034,333**
Current payables			
Trade payables	11	109,650	103,692
Related party payables	14	1,053	4,546
Accrued interest on 9.5% Senior Notes due 2013	12	4,507	8,483
Corporate income tax payable		8,309	9,221
Other liabilities and accruals	13	72,607	51,091
		196,126	**177,033**
TOTAL EQUITY AND LIABILITIES		**1,393,770**	**1,324,026**

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

	Number of shares	Share capital	Fair value reserve	Cumulative translation adjustment	Accumulated (deficit)/ profit (*)	Shareholders' equity
Balance at January 1, 2003	**658,000**	**65,800**	**-**	**27**	**(27,506)**	**38,321**
Net profit	-	-	-	-	41,842	41,842
Balance at June 30, 2003	**658,000**	**65,800**	**-**	**27**	**14,336**	**80,163**
			-			
Balance at January 1, 2004	**658,000**	**65,800**	**-**	**28**	**46,832**	**112,660**
Net profit	-	-	-	-	80,626	80,626
Revaluation of available for sale investment	-	-	3,369	-	-	3,369
Deferred tax on revaluation to fair value			(630)			(630)
Cumulative translation adjustment	-	-	-	(250)	-	(250)
Balance at June 30, 2004	**658,000**	**65,800**	**2,739**	**(222)**	**127,458**	**195,775**

* 67,580 of accumulated profits are included in a reserve from which future payment of dividends may be made.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

	Note	Six months ended June 30, 2004	Six months ended June 30, 2003
Operating activities			
Cash generated from operations	16	135,111	91,708
Interest received		3,601	1,785
Interest paid		(54,934)	(4,162)
Taxes paid		(17,338)	(3,800)
Net cash generated from operating activities		**66,440**	**85,531**
Investing activities			
Acquisition of subsidiary, net of cash acquired	17	(164,431)	-
Payments to acquire options		(7,774)	-
Payments to acquire property, plant and equipment		(34,994)	(14,883)
Decrease in restricted cash	10	174,196	6,279
Payments to acquire intangible assets		(11,566)	(965)
Net cash outflow from investing activities		**(44,569)**	**(9,569)**
Financing activities			
Senior Notes issuance costs paid		(12,749)	-
Net cash outflow from financing activities		**(12,749)**	**-**
Effects of changes in exchange rates		**(860)**	**1,688**
Increase in cash and cash equivalents		**8,262**	**77,650**
Movement in cash and cash equivalents			
At the start of the period		103,964	36,686
At the end of the period		112,226	114,336
Increase		**8,262**	**77,650**

1. GENERAL INFORMATION

These interim condensed consolidated financial statements were authorized for issue by the Management Board and Supervisory Board on August 9, 2004.

TVN Sp. z o.o. ("the Company") was formed in May 1995 and is a private limited television broadcasting company established under the laws of Poland. The Company was awarded a 10 year consolidated terrestrial broadcasting license on April 15, 2004. The Company previously held regional terrestrial licenses to broadcast in northern Poland and the cities of Warsaw and Łódź and via its wholly owned subsidiary, TV Wisła, a terrestrial license to broadcast in southern Poland. The consolidated license replaces the regional licenses and expires April 14, 2014.

The Company's revenue is generated in Poland and all of its assets are located in Poland. Television broadcasting sales in Poland tend to be lowest during the third quarter of each calendar year, which includes the summer holiday period and highest during the fourth quarter of each calendar year.

The Company is a part of a group of companies owned, either wholly or partially, by International Trading and Investments Holdings S.A. Luxembourg ("ITI Holdings") and its subsidiaries (the "ITI Group"). The ITI Group has been active in Poland since 1984 and is one of the largest media and entertainment groups in Poland. ITI Holdings is a Luxembourg company listed on the Luxembourg Stock Exchange and is admitted to public trading, but not listed on the Warsaw Stock Exchange.

On June 30, 2003, the ITI Group and BRE Bank SA ("BRE") entered into the Master Restructuring Agreement as amended by supplemental agreements dated August 14, 2003, November 6, 2003, December 29, 2003 and July 2, 2004. The Master Restructuring Agreement contains undertakings from the ITI Group to BRE that best efforts will be made to procure the admission to public trading and listing of the Company's shares on the Warsaw Stock Exchange prior to June 30, 2005 (subject to extension under certain circumstances).

On March 11, 2004 the Company acquired 100% of TVN 24 for a consideration of 168,053 EUR 35,000 (see Note 17).

On July 29, 2004 the Company was awarded a broadcasting license for a new television channel called TVN Style. The channel commenced broadcasting on August 1, 2004.

On July 2, 2004 the shareholders approved a resolution to transform the Company from a limited liability company to a public company (Spółka Akcyjna). On the same day the shareholders approved amended articles for the Company. On July 30, 2004 the Court registered the transformation. The amended articles provide for the Company to have issued and outstanding, as of the time of the transformation, two series of shares, to be called Series A and Series B. The current shares of the Company (in number 65,800,000) are to be divided so that upon the transformation there will be 59,220,000 Series A shares, and 6,580,000 Series B shares. ITI Group companies will initially hold all of the Series A shares and a company controlled by BRE will initially hold all of the Series B shares. Each series of shares has the same rights to receive dividends and distributions. As long as the Series A shares in registered form constitute 33% or more of the Company's total issued and outstanding shares, the Series A shares have the right to appoint the majority of the members of the Supervisory Board. As long as there are at least 3,290,000 Series B shares in registered form, the Series B shares have the right to appoint one member of the Supervisory Board. Until such time as either the shares of the Company are admitted to public trading and listed on the Warsaw Stock Exchange or there are less than 3,290,000 Series B shares in registered form, the Series B shares also enjoy certain minority protection rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2003.

Costs that arise unevenly during the financial year are anticipated or deferred in the interim financial statements only if it would be also appropriate to defer such costs at the end of the financial year.

The Company believes that all of its material operations are part of the television broadcast service segment, and it currently reports as a single business segment. Additionally, all of the Company's operations and assets are based in Poland. Therefore, no other geographic information has been included.

Certain comparative figures in the income statement have been adjusted to conform to changes in presentation in the current period. No changes have been made to previously presented results.

2.2 Accounting for derivative financial instruments and hedging activities

The Company entered into option agreements in respect of foreign currency during the six months ended June 30, 2004. The Company applies the following policy in respect of derivative financial instruments and hedging activities:

Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognizing the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as either (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or (3) a hedge of a net investment in a foreign entity on the date a derivative contract is entered into.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset (for example, property, plant and equipment) or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement (for example, when the forecasted sale takes place).

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the income statement. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group separates embedded derivatives from the host contracts and accounts for these as derivatives under IAS 39 (revised) if the economic characteristics and risks of the embedded derivative and host contract are not closely related and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

2.3 Early adoption of Standards

As of January 1, 2004, the Company adopted early IFRS 3 Business Combinations (“IFRS 3”) together with IAS 36 (Revised) Impairment of Assets and IAS 38 (Revised), Intangible Assets. Following adoption of IFRS 3, goodwill which arose from the acquisition of TVN24 and TV Wisła is not amortized but is tested for impairment annually or more frequently if there are indicators of possible impairment.

3. BASIC AND DILUTED EARNINGS PER SHARE (NOT IN THOUSANDS)

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period (2004: 658,000 shares; 2003: 658,000 shares). There were no outstanding dilutive instruments during the three and six months ended June 30, 2004 and 2003.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

4. OPERATING EXPENSES

	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30, 2003
Programming rights purchased	-	39,371	-	19,445
Amortization of programming rights	43,887	17,729	17,959	8,934
Production expenses	59,584	57,768	32,858	31,056
Staff expenses	51,708	40,127	27,380	19,880
Broadcasting expenses	25,164	23,995	13,252	12,576
Depreciation and amortization	13,916	8,655	6,144	4,467
Marketing and research	8,476	4,788	4,092	2,446
Rental	8,706	5,093	5,064	2,457
Royalties	11,429	11,087	6,324	6,119
Impaired accounts receivable	1,622	(776)	815	(514)
Other	28,961	13,304	21,675	6,522
TOTAL	**253,453**	**221,141**	**135,563**	**113,388**

On July 22, 2004 we terminated the Framework Agreement with JHH and FFMP relating to the supply and licensing of programming content and entered into a Programming Library Assumption and Assignment Agreement in terms of which a termination fee of USD 2,2 million is due to JHH and FFMP and all existing contracts between JHH, FFMP and programming suppliers are to be assigned to us.

5. OTHER OPERATING EXPENSES, NET

The Company recognized an impairment loss of PLN 2,000 on revaluation of land during the three and six months period ended June 30, 2004. The revaluation of land was based on a report from an external valuation expert and reflects its fair value less costs to sell.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

6. FINANCE EXPENSE, NET

	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30, 2003
Interest on 9,5% Senior Notes due 2013	(54,889)	-	(27,120)	-
Accrued interest income on related party bonds	32,120	-	16,047	-
Revaluation of financial assets at their fair value through profit and loss	(2,245)	-	823	-
Interest income	3,125	1,789	1,157	1,134
Interest expense and charges on bank borrowings	(967)	(4,824)	(550)	(1,934)
Foreign exchange gains/ (losses), net	21,302	(16,621)	22,791	274
Other, net	(3,291)	(1,086)	(4,068)	(186)
	(4,845)	**(20,742)**	**9,080**	**(712)**

7. INTANGIBLE ASSETS

	June 30, 2004	December 31, 2003
Goodwill	144,127	12,423
Broadcasting licenses	8,743	1,600
Software and other	10,730	9,039
	163,600	**23,062**

On March 11, 2004 the Company recognized goodwill on the acquisition of TVN 24 (see Note 17).

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

INTANGIBLE ASSETS (CONTINUED)

Changes in intangible assets

	Goodwill	Broadcasting licenses	Software and other	Total
Gross value				
January 1, 2004	50,028	5,399	16,611	72,038
Additions	131,704	8,927	1,687	142,318
Decreases		(5,432)	(289)	(5,721)
Acquisition of subsidiary	-	-	4,767	4,767
June 30, 2004	**181,732**	**8,894**	**22,776**	**213,402**
Accumulated amortization				
January 1, 2004	37,605	3,799	7,572	48,976
Charge for the period	-	338	1,012	1,350
Decreases		(3,986)	(289)	(4,275)
Acquisition of subsidiary	-	-	3,751	3,751
June 30, 2004	**37,605**	**151**	**12,046**	**49,802**
Net book value at December 31, 2003	**12,423**	**1,600**	**9,039**	**23,062**
Net book value at June 30, 2004	**144,127**	**8,743**	**10,730**	**163,600**

8. PROGRAMMING INVENTORY

	June 30, 2004	December 31, 2003
Acquired programming rights	131,137	129,333
News archives	14,494	-
Co-productions	1,322	472
Productions	25,979	24,780
	172,932	154,585
Less current portion of programming inventory	(117,630)	(95,615)
Non-current portion of programming inventory	**55,302**	**58,970**

Changes in acquired programming rights

	June 30, 2004	June 30, 2003
Net book value as at the beginning of the period	129,333	37,739
Additions	44,865	8,913
Amortisation	(43,061)	(17,559)
Net book value as at the end of the period	**131,137**	**29,093**

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

9. INCOME TAX

	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30, 2003
Current tax	(16,070)	(25,861)	(4,726)	(16,132)
Deferred tax	(4,218)	5,709	(8,620)	(704)
	(20,288)	**(20,152)**	**(13,346)**	**(16,836)**

	June 30, 2004	June 30, 2003
Reconciliation of accounting profit to tax charge		
Profit before income tax	100,914	61,994
Income tax charge at the enacted statutory rate of 19% / 27%	(19,174)	(16,738)
Tax impact of amortization of goodwill	-	(128)
Tax impact of net expenses not deductible for tax purposes	(1,114)	(3,286)
Tax for the period	**(20,288)**	**(20,152)**

Management believes that it is probable that taxable profit will be available in the future against which the deductible temporary differences can be utilized, and consequently has recognized the deferred tax asset in full as of June 30, 2004. The deferred tax amounts were calculated using the enacted tax rate of 19% as at June 30, 2004.

Movements in deferred tax asset	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30, 2003
Opening balance	-	11,824	19,560	18,237
Impact of acquisition of TVN 24	16,221	-	-	-
(Charge)/benefit for the period	(751)	5,709	(4,090)	(704)
	15,470	**17,533**	**15,470**	**17,533**

Movements in deferred tax liability	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30, 2003
Opening balance	(1,063)	-	-	-
Deferred tax charged to equity	(630)	-	(630)	-
(Charge)/benefit for the period	(3,467)	-	(4,530)	-
	(5,160)	**-**	**(5,160)**	**-**

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

Deferred tax	**Six months ended June 30, 2004**	**Six months ended June 30, 2004**
Differences in depreciation and amortization rates for tax and accounting purposes	2,242	(2,606)
Non-deductible provisions and accruals	1,759	4,486
Differences in accounting and tax treatment of debt issuance costs	121	-
Unrealized foreign exchange differences	(2,317)	3,789
Tax losses	658	-
Interest accrued on ITI Media note	(6,103)	-
Interest accrued on Senior Notes	(775)	-
Other, net	197	40
	(4,218)	**5,709**

10. Restricted cash

Restricted cash represents bank deposits used as collateral in connection with future payments relating to satellite sub-lease agreements. The majority of these deposits are denominated in Euro. Restricted cash as at December 31, 2003 included an amount of Euro 35,000 (equivalent of 165,095) reserved for the acquisition of TVN24. The Company completed the acquisition of TVN24 on March 11, 2004.

11. Trade payables

Trade payables as of June 30, 2004 included PLN 83,936 due to JHH Exploitatie Maarschappij B.V. (“JHH”) and FFMP Financial Holding B.V. (“FFMP”) for purchases of programming rights (55,639 as of December 31, 2003).

12. Borrowings

	June 30, 2004	**December 31, 2003**
9,5% Senior Notes due 2013	996,709	1,033,270
Interest accrued on Notes	4,507	8,483
	1,001,216	**1,041,753**

On December 2, 2003 the Company’s subsidiary, TVN Finance Corporation, issued Euro 235,000 Senior Notes with an interest rate of 9,5%. The Notes are quoted on the Luxembourg Stock Exchange. Interest is paid semi-annually starting June 15, 2004. The Senior Notes mature on December 15, 2013. The Senior Notes are senior unsecured obligations and are governed by a number of covenants including, but not limited to, restrictions on the level of additional indebtedness, payment of dividends, sale of assets and transactions with affiliated companies. The Senior Notes are fully and unconditionally guaranteed by the Company and its principal subsidiaries, TV Wisła and TVN 24. The fair value of the Senior Notes, excluding accrued interest, as at June 30, 2004 is estimated to be PLN 1,112,784 (€244,988). This is based on the price quoted by Reuters on that date.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

The Company may redeem all or part of the Senior Notes on or after December 15, 2008 at a redemption price ranging from 104,75% to 100% of nominal value.

The Company may redeem, prior to December 15, 2006, up to 35% of the Senior Notes at a redemption price at 109,5% in the event of an Initial Public Offering of the Company. In the event that certain changes occur in any relevant taxing jurisdiction which would result in withholding taxes being imposed on the Notes the Company may redeem the Notes at a redemption price equal to their principal amount plus accrued interest.

The Senior Notes also have a put option, which may be exercised by the holders of the Senior Notes at a purchase price of 101% of the nominal value if a change of control event takes place. Change of control means:

i) a person other than Permitted Holders become the beneficial owner of more than 35% of the voting power of the voting stock of the Company,
ii) Approved directors cease to constitute a majority of the Supervisory Board,
iii) the Company sells substantially all of its assets,
iv) the Company is liquidated,
v) the Company ceases to own 100% of the shares of the Issuer.

On January 29, 2004 the Company entered into a USD 17,000 loan facility with BPH. The facility provides a multicurrency revolving loan bearing interest at WIBOR, EURIBOR or LIBOR plus 1,8% as the case may be, or a Zloty overdraft facility bearing interest at WIBOR plus 1,9%. The facility is secured over trade receivables, television and broadcasting equipment, programming rights and insurance policies with a net book value of 197,490. The facility expires January 28, 2005. The facility includes a number of restrictive covenants, including restrictions on additional indebtedness and the ability to extend loans. As of June 30, 2004 there have been no drawdowns from this facility.

13. OTHER LIABILITIES AND ACCRUALS

	June 30, 2004	**December 31, 2003**
VAT and other taxes payable	10,765	5,475
Employee benefits	13,771	10,259
Deferred income from sales of airtime	7,116	7,118
Satellite and related consultancy	3,220	3,246
Termination fee due to JHH and FFMP	8,243	-
Other liabilities and accrued costs	29,492	24,993
	72,607	**51,091**

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

14. RELATED PARTY TRANSACTIONS

(i) Revenue:

	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30, 2003
ITI Group	**5,423**	**4,576**	**758**	**2,843**

Revenue from the ITI Group includes mainly revenue from the exploitation of film rights, production services rendered and services of broadcasting advertising, net of commissions, invoiced under commercial terms and conditions at market prices.

(ii) Operating expenses:

All services were purchased based on commercial terms and are at market prices. In addition, operating expenses for the six months ended June 30, 2004 include 5,961 of consultancy fees to be paid to JHH and FFMP (8,933 for six month period ended June 30, 2003), relating to guarantee and consultancy services provided to JHH and FFMP by ITI Holdings. As a result of the termination of the agreement with JHH and FFMP in July 2004 the Company will pay such guarantee and consultancy fees directly to ITI.

	Six months ended June 30, 2004	Six months ended June 30, 2003	Three months ended June 30, 2004	Three months ended June 30, 2003
ITI Group	7,642	12,665	4,194	7,647
Media Business Centre Sp. z o.o. (“MBC”)	3,507	660	1,994	325
ITI Poland S.A. (“ITI Poland”)	2,603	2,550	1,324	1,275
	13,752	**15,875**	**7,512**	**9,247**

Operating expenses from ITI Poland and MBC comprise rent of the office premises leased by the Company from ITI Poland and MBC. MBC and ITI Poland are controlled by shareholders and executive directors of the ITI Group. These expenses were based on commercial terms and were charged at market prices.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) ITI Media Bond

On December 2, 2003, the Company acquired a bond issued by ITI Media Group N.V. ("ITI Media Group") for a total consideration of EUR 131,561 (PLN 611,861). ITI Media Group is a holding company for the media assets of ITI Group and is ultimately controlled by ITI Holdings. ITI Media Group used the proceeds to pay the purchase price for the acquisition of the entire share capital of Strateurop International B.V. ("Strateurop") pursuant to the Share Purchase Agreement signed on September 12, 2003 by ITI Holdings and SBS Broadcasting S.A.

The bond is classified by the Company as held to maturity. The Company assesses at each balance sheet date whether there is any objective evidence that this financial asset may be impaired. If any such evidence exists, the Company estimates the recoverable amount of the bond and recognizes an impairment loss, if any, calculated as the difference between the asset's carrying amount and the present value of the expected future discounted cash flows. As at June 30, 2004 no evidence of impairment was identified by the Company. The fair value of the bond, including interest as at June 30, 2004 amounted to Euro 139,529 (PLN 633,769).

The bond bears interest at an effective rate of 10.03% and shall mature and be payable in full including interest on January 15, 2014.

The amount due and payable on this bond shall increase from and after the date of issuance of the bond in accordance with the table set below.

Date	Compound Accreted Value
December 2, 2003 (Issuance Date)	€131,561
December 2, 2004	€145,375
December 2, 2005	€160,640
December 2, 2006	€177,507
December 2, 2007	€196,145
December 2, 2008	€216,740
December 2, 2009	€239,498
December 2, 2010	€264,645
December 2, 2011	€292,433
December 2, 2012	€323,139
December 2, 2013	€357,068
January 15, 2014 (Maturity Date)	€361,546

Accrued interest income on the bond for the six month period ended June 30, 2004 amounted to 32,120 (EUR 6,791).

The bond is secured by a pledge over 100% of the shares of Strateurop. Strateurop owns 30.43% of the Company's shares.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

(iv) Outstanding balances arising from sale/purchase of goods and services:

	June 30, 2004	December 31, 2003
Receivables:		
ITI Group	11,981	32,321
ITI Poland	-	2
	11,981	**32,323**

Receivables from the ITI Group include non–current receivables from Neovision Holding BV amounting to PLN 1,288. Repayment is due on June 30, 2005.

Trade payables:	June 30, 2004	December 31, 2003
ITI Group	944	4,452
ITI Poland	106	90
MBC	3	4
	1,053	**4,546**

(v) Lease commitments with related parties

See Note 15 for further details.

(vi) Other

During the six months ended June 30, 2004, the Company recorded net interest revenue of 505 on overdue amounts due from related parties (net revenue of 292 during the six months ended June 30, 2003).

ITI Holdings has provided guarantees in the amount of US$ 65,000 (covering a 3 year output deal) to Warner Bros. International Television Distribution, US$ 8,000 to DreamWorks and US$ 2,000 to Saban International in respect of programming rights purchased by JHH and FFMP to be broadcast by TVN. During the six months ended June 30, 2004, the Company recorded finance costs of PLN 4,228 (USD 1,125) relating to these guarantees.

The programming inventory balance as at June 30, 2004 includes 563 (1,468 as at December 31, 2003) of productions purchased from the ITI Group.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

15. COMMITMENTS

The Company has entered into a number of operating lease and other agreements. The commitments derived from these agreements are presented below.

(i) Commitments to acquire programming inventory

The Company has outstanding contractual payment commitments of 288,003 in relation to programming inventory as of June 30, 2004. These commitments are scheduled to be paid as follows:

Due in 2004	60,086
Due in 2005	100,492
Due in 2006	80,005
Due in 2007	38,331
Due in 2008	8,124
Due in 2009 and thereafter	965
	288,003

(ii) Total future minimum payments relating to operating lease agreements as at June 30, 2004:

	Related parties	**Non-related parties**	**Total**
Due in 2004	6,765	787	7,552
Due in 2005	13,605	1,217	14,822
Due in 2006	13,683	1,149	14,832
Due in 2007	8,687	1,149	9,836
Due in 2008	6,995	1,149	8,144
Due in 2009 and thereafter	25,268	2,575	27,843
	75,003	**8,026**	**83,029**

Contracts signed with related parties relate to lease of office space and TV studios from ITI Poland and MBC. The rental fee is inflation indexed. Commitments in foreign currencies were calculated using exchange rates to Polish Zloty as at June 30, 2004.

Additionally, the Company leases transmitting sites and related services for the annual fee of PLN 6,600. The Company is also obliged to pay an annual fee of PLN 1,200 for digital terrestrial connections.

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

In addition to the lease agreements disclosed above, the Company has agreements with third parties for the provision of satellite capacity. These agreements are valid until the end of the operational lifetime of the related satellite transponders. Under these agreements the Company is obliged to pay annual fees. There are bank guarantees in the amount of Euro 6,520 (equivalent of 29,615) to secure the agreements. These commitments are scheduled to be paid as follows:

Due in 2004	17,856
Due in 2005	22,453
Due in 2006	8,494
	48,803

(iii) Barter commitments as of June 30, 2004

The Company has an outstanding commitment to broadcast advertising of PLN 3,371 in exchange for programming asset to be delivered of PLN 3,371.

There is an additional outstanding commitment of service to broadcast advertising of a value of 859 to settle sundry amounts payable recorded as of June 30, 2004 (707 at December 31, 2003). The service to broadcast advertising will be rendered under commercial terms and conditions and at market prices.

16. RECONCILIATION OF OPERATING PROFIT TO NET CASH GENERATED FROM OPERATIONS

	Six months ended June 30, 2004	Six months ended June 30, 2003
Operating profit	**105,759**	**82,736**
Depreciation and amortization	13,916	8,656
Impairment of land	2,000	-
Amortization of programming rights	43,887	17,729
Payments for programming rights	(25,185)	(2,845)
Barter revenue, net	(5,174)	(1,945)
Decrease in receivables, net	5,165	4,135
(Increase)/Decrease in local production	(1,198)	5,052
(Increase)/Decrease in other assets, net	(1,461)	984
Increase/(Decrease) in trade payables and other current liabilities and accruals, net	(2,598)	(22,794)
Cash generated from operations	**135,111**	**91,708**

Non-cash transactions:

	Six months ended June 30, 2004	Six months ended June 30, 2003
Barter revenue, net	5,174	1,945
Program rights acquired under barter agreements	3,776	7,172
Assignment of trade receivables and borrowings	-	19,570

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

17. TVN 24

On March 11, 2004 the Company completed the acquisition of 100% of TVN 24 for a consideration of 168,053 (equivalent of EUR 35,000). The Company uses the purchase accounting method to account for transactions with entities under common control.

TVN 24 is an affiliate pay-television channel which broadcasts 24 hour news and current affairs programs.

TVN 24 is currently the only 24-hour news channel devoted exclusively to broadcasting national and international news and public affairs of interest to Polish viewers. Substantially all of its domestic news content is produced in-house. For its coverage of events outside Poland, TVN 24 has entered into agreements with international news services such as Reuters.

In addition to generating subscription revenue from cable and digital platform operators, TVN 24 generates revenue from advertising and sponsorship. TVN 24 is available on the digital satellite platform of Cyfra+ and through the cable networks of major operators such as Multimedia Polska, UPC and AsterCity and a number of smaller cable networks.

In May 2003, TVN 24 launched the first Polish weather channel, TVN Meteo, available as a subscription channel. In December 2003 TVN Turbo Sp. z o.o., fully owned by TVN 24, launched the first Polish automotive channel, TVN Turbo. In August 2004 TVN Style was launched. All these channels are distributed via cable and digital platforms.

The purchase of TVN 24 was fully financed from the proceeds received from the Senior Notes issued by TVN Finance.

In 2003 TVN 24 generated revenues of 43,818 and an operating loss of 12,203. Total assets amounted to 32,884 and net equity amounted to a deficit of 55,565 as of December 31, 2003.

The Company has accounted for the acquisition of TVN 24 using the purchase accounting method. The net assets acquired as a result of this acquisition are:

Fair value of net assets acquired	36,349
Goodwill	131,704
Total purchase consideration	168,053
Less: cash in TVN 24	(3,622)
Cash outflow on acquisition	**164,431**

The estimated fair value of net assets differed from the book value of the net assets acquired in respect of news archives, which was estimated at PLN 14,645. No restructuring or other provisions were established.

The TVN 24 purchase agreement contains a claw-back provision, whereby if during the financial year 2004 the market conditions are significantly and adversely different from those assumed in the TVN 24 Business Plan (as defined in the agreement), the Company will have the right to demand that the consideration paid to ITI Group be decreased by no more than 20%. Currently management does not expect to utilize the claw back provision.

The Company has performed an evaluation of the fair value of the assets of TVN 24 and based on that evaluation assessed the fair value to be 36,349, and consequently recognized goodwill of 131,704 on the transaction.

The assets and liabilities arising from the acquisition dated March 11, 2004 are as follows:

(Expressed in PLN, all amounts in thousands, except as otherwise stated)

TVN 24 (CONTINUED)

	March 11, 2004
Property, plant, and equipment	16,276
Goodwill	131,704
Intangible assets	1,016
News archives	14,645
Non-current programming inventory	360
Deferred tax asset	16,221
Trade receivables	8,400
Related party receivables	4,715
Other assets	3,450
Cash	3,622
Trade payables	(1,279)
Related party payables	(26,099)
Other liabilities and accruals	(4,978)
Total purchase consideration	**(168,053)**

For the six month period ended June 30, 2004 the Company recognized 19,085 and 2,166 of post acquisition revenue and losses related to TVN 24.

18. EXCHANGE RATES

	PLN Exchange rate to USD	PLN Exchange rate to EUR
As at December 31, 2003	3.7405	4.7170
As at June 30, 2004	3.7470	4.5422

19. FINANCIAL ASSETS AT THEIR FAIR VALUE THROUGH PROFIT AND LOSS

	June 30, 2004	December 31, 2003
Currency options	1,596	-
Note options	7,783	-
	9,379	**-**

On February 26, 2004 the Company entered into foreign exchange option agreements with JPMorgan Chase Bank, London to manage its foreign exchange risk related to the first four coupon payments on its Senior Notes due 2013. A premium of 7,773 was paid on March 1, 2004. The fair value of these agreements as at June 30, 2004 was 1,596 as per valuation based on the Black Scholes model. At June 30, 2004 there were no derivative instruments designated as hedges.

The note options represent prepayment options embedded in the Senior Notes. The fair value of these options as at June 30, 2004 was PLN 7,783 (Euro 1,713). The fair value was calculated using the Brace-Gatarek-Musiela model.

20. AVAILABLE FOR SALE INVESTMENT

The Company revalued its investment in Polskie Media SA as of June 30, 2004. The investment was valued applying market multiples for comparable companies to revenues earned by Polskie Media S.A. for the year ended December 31, 2003.

PART 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report has been prepared as required by Section 4.16 of the Indenture for our Senior Notes, dated December 2, 2003.

The following discussion and analysis provides information concerning the results of operations and financial condition of the TVN Group. Such discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying interim unaudited consolidated financial statements of the Company, including the notes thereto. Additionally, the following discussion and analysis should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of operations and the audited consolidated financial statements included in Part I and III of the Company's 2003 Annual Report. The following discussion focuses on material trends, risks and uncertainties affecting the results of operations and financial condition of the Company.

In this quarterly report "we", "us", "our", the "TVN Group" and the "group" refer, as the context requires, to TVN Sp.z o.o. and its consolidated subsidiaries; the "Company" refers to TVN Sp.z o.o.; "TV Wisla" refers to TV Wisła Sp.z o.o.; "TVN 24" refers to TVN 24 Sp.z o.o.; "guarantors" refers collectively to the Company, TV Wisla and TVN 24 and "guarantor" refers to each of them individually; "TVN" refers to the Company's free-to-air broadcast channel and "TVN 7" refers to the Company's free satellite and cable channel, "TVN 24 channel" refers to the TVN 24 news channel, "TVN Turbo" refers to our automotive channel, "TVN Meteo" refers to our weather channel, "TVN Style" refers to our health and beauty channel, "ITVN" refers to our Polish language channel broadcast to Poles living abroad, "Senior Notes", "notes" refer to the 9,5% Senior Notes issued by TVN Finance Corporation plc. on December 2, 2003.

This quarterly report contains "forward-looking statements," relating to our business, financial condition and results of operations. You can find many of these statements by looking for words such as "may," "will," "expect," "anticipate," "believe," "estimate" and similar words used in this quarterly report. By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by the forward-looking statements. We caution readers not to place undue reliance on such statements, which speak only as of the date of this quarterly report.

The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this quarterly report.

Financial reporting and accounting

We have prepared our financial statements in złoty, or PLN, and in accordance with accounting standards adopted by the International Accounting Standard Board and its predecessors, which we refer to in this report as IFRS.

Our interests in TV Wisla Sp. z o.o., TVN 24 Sp.z o.o., TVN Finance Corporation plc. and Polish Television Finance Corporation B.V., a dormant subsidiary, are fully consolidated in accordance with IFRS.

Our fiscal year ends on December 31.

OVERVIEW

TVN Sp. z o.o. was formed in May 1995 and is a private limited television broadcasting company established under the laws of Poland. On April 15, 2004 TVN was awarded a ten year consolidated terrestrial broadcasting license. The consolidated license replaces the regional licenses and expires April 14, 2014.

TVN and its subsidiaries own and operate seven television channels in Poland, TVN, TVN 7, TVN 24, TVN Meteo, TVN Turbo, ITVN and TVN Style. In addition to the terrestrial broadcasting licence, the Group holds separately licences to broadcast all of its channels by cable and satellite. TVN's registered office is located on 166 Wiertnicza str, 02-952 Warsaw, Poland.

Recent Developments

On March 11, 2004, we completed the acquisition of TVN 24 from ITI Group for a total consideration of PLN 168,052,500. Details regarding this transaction are disclosed in our report on Acquisition of TVN 24 Sp. z o.o. shares.

The financial results for the Group for the six months ended June 30, 2004 include the financial results of TVN 24 for the period from March 11, 2004 to June 30, 2004.

On April 15, 2004, we received a ten year consolidated terrestrial broadcasting license. TVN previously held regional terrestrial licenses to broadcast in northern Poland and the cities of Warsaw and Lódź and via its wholly owned subsidiary, TV Wisla, a terrestrial license to broadcast in southern Poland. The consolidated licence replaces the regional licenses and expires April 14, 2014

On April 29, 2004, we launched ITVN, a subscription based Polish language channel, in the United States.

On August 1, 2004, we launched TVN Style, a subscription based women's lifestyle channel targeted at Polish women between the ages of 16 and 45.

On July 22, 2004, we terminated the Framework Agreement with JHH and FFMP relating to the supply and licensing of programming content and entered into a Programming Library Assumption and Assignment Agreement under the terms of which a termination fee of USD 2.2 million is due to JHH and FFMP, and all existing contracts between JHH, FFMP and programming suppliers are to be assigned to us. As a result of the termination of this agreement we will have direct relationships with our key programming suppliers, which include Warner Brothers, Dreamworks, Universal and Paramount.

On July 2, 2004 the shareholders approved a resolution to transform the Company from a limited liability company to a public company (Spółka Akcyjna). On the same day the shareholders approved amended articles for the Company. On July 30, 2004 the Court registered the transformation. The amended articles provide for the Company to have issued and outstanding, as of the time of the transformation, two series of shares, to be called Series A and Series B. The current shares of the Company (in number 65,800,000) are to be divided so that upon the transformation there will be 59,220,000 Series A shares, and 6,580,000 Series B shares. ITI Group companies will initially hold all of the Series A shares and a company controlled by BRE will initially hold all of the Series B shares. Each series of shares has the same rights to receive dividends and distributions. As long as the Series A shares in registered form constitute 33% or more of the Company's total issued and outstanding shares, the Series A shares have the right to appoint the majority of the members of the Supervisory Board. As long as there are at least 3,290,000 Series B shares in registered form, the Series B shares have the right to appoint one member of the Supervisory Board. Until such time as either the shares of the Company are admitted to public trading and listed on the Warsaw Stock Exchange or there are less than 3,290,000 Series B shares in registered form, the Series B shares also enjoy certain minority protection rights.

Revenue

We derive a substantial portion of our revenue from commercial television advertising, most of which is sold through media houses and independent agencies. During the six months ended June 30, 2004, we derived approximately 88% of our total net revenue from commercial television advertising. In the current Polish advertising market, advertisers tend to allocate their television advertising budgets between channels based on each channel's audience share, demographic audience profile and pricing policy.

In order to provide flexibility to our customers, we offer advertising priced on two different bases. The first basis is cost per gross rating point ("GRP"). A GRP represents one percent of the population over the age of four. As applied to Poland, one GRP is equal to 368,000 inhabitants. The second basis is rate-card pricing. The majority of our advertising sales are package sales based on the cost per GRP.

Cost per GRP pricing. Advertising priced on a cost per GRP package basis allows an advertiser to specify the number of gross ratings points that it wants to achieve within a defined period of time with its advertisement. We schedule the timing of the airing of the advertisements during such defined period of time, usually one month in advance of broadcast, in a manner that enables us to meet the advertiser's GRP target while maximizing the use and profitability of our available advertising programming time. Cost per GRP pricing varies depending on the demographic group that the advertisement is targeting, the amount of flexibility given to us by the advertisers in scheduling the advertisements and the rebates offered by us to advertising agencies and their clients. The GRP package sales basis generally allows for better inventory control and optimizes the net price per GRP achieved. Generally, we structure the GRP packages to ensure higher sales of advertising spots in the daily off-peak period. For example, for every one GRP purchased in peak time, the client must purchase at least one GRP in off-peak. Currently, approximately 90% of our advertising revenue is derived from sales of GRP packages.

Rate-card pricing. Advertising priced on a rate-card basis is scheduled at a specific time. The cost of such advertising is based on the length of the advertisement, the time of the day and the season during which the advertisement is shown. Consistent with industry practice, we provide an incentive rebate on rate-card prices to a number of advertising agencies and their clients.

We enter into non binding annual framework contracts with the majority of our advertising customers pursuant to which they commit to a minimum spending level. We usually schedule specific advertisements one month in advance of broadcasting them. Prices paid by the advertisers, whether they purchase advertising time on a GRP package or rate-card basis, tend to be higher during peak viewing months such as October and November than during off-peak months such as July and August. Consistent with television broadcasting industry practice, and in order to optimize ratings and revenue, we do not sell all of our legally permissible advertising time. During the peak advertising seasons, we tend to sell over 95% of prime-time advertising spots and over 93% of non-prime-time advertising spots. During the off-peak viewing seasons, we tend to sell approximately 74% of prime-time advertising spots and approximately 71% of non-prime-time advertising spots. We record our advertising revenue at the time the relevant advertisement is broadcast. As is common in the television broadcasting industry, we provide advertising agencies and advertisers with an incentive rebate. We record advertising revenue net of rebates.

Occasionally, we enter into transactions pursuant to which we exchange advertising time for goods and services, such as programming. We record barter transactions at fair market value of the goods or services received.

Subscription fees from satellite and cable operators

Subsequent to the acquisition of TVN 24 we also generate revenue from the sale of licenses granting digital platform and cable operators the right to distribute our channels' programming content to subscribers to their respective services. During the six months ended June 30, 2004, approximately 3% of our total net revenue came from such distribution license fees. Generally, our agreements with digital platform and cable television operators specify the rates at which we charge the operators for each subscriber to a given digital platform or cable television service who receives one of our channels (the "per-subscriber-rate"). The monthly license fee payable to us by a digital platform or cable operator is calculated by multiplying the applicable per-subscriber-rate times the average number of digital platform or cable subscribers who paid for one of our channels in a given month. We have also granted some operators the right to broadcast our channels free of charge on a promotional basis, provided that we receive a monthly license fee upon the expiration of a limited promotional period.

Other revenue

Other sources of revenue accounted for approximately 9% of our revenue for the six months ended June 30, 2004. These include sponsorship, short messaging system (“SMS”), call television and teleshopping.

We derive sponsorship revenue by displaying sponsors' logos adjacent to the sponsored show. We typically have no more than three sponsors per show.

We have developed a number of other products, such as SMS and call television:
- using SMS, a viewer can send a text message to a live show and influence the outcome of the relevant show. Viewers are charged per text message sent; and
- using call television, viewers can call in and win prizes. Callers are charged per minute at a premium rate.

Revenue generated from SMS, call television and teleshopping is shared between the service provider, such as the telecommunications company or the supplier of merchandise, and us.

Expenses

Our expenses relate to programming and broadcasting costs, selling and general and administrative costs.

Our programming and broadcasting costs consist primarily of:
- local production costs comprising internal and external production costs in respect of programs specifically produced by or for us, either under licenses from third parties or under our own license;
- costs relating to the purchase of programming rights from JHH Exploitatie Maatschappij B.V. (“JHH”) and FFMP Financial Holding B.V. (“FFMP”), both major suppliers of programming content;
- rights to programming content produced by third parties and licensed to us are capitalized and amortized as programming inventory. Amortization is based on the estimated number of showings and the type of programming content. For example, we use different bases of amortization for films, series, animated films and current events. Consequently, we expense programming costs either at the time of the initial broadcast in the case of news and current events programs or, in the case of films, documentaries and other programs, which are typically shown up to three times, by the earlier of the end of the third run or the end of the license. For further details on our amortization policy refer to note 2 to our audited consolidated financial statements for the year ended December 31, 2003.
- broadcasting costs which mainly comprise rental costs for satellite and terrestrial transmission capacity; and
- other costs such as royalties payable to unions of artists and professionals in the entertainment industry such as ZAiKS, a union of writers, composers and performers in Poland, and depreciation of television and broadcasting equipment.

Our selling, general and administration costs consist primarily of:
- employee salaries;
- marketing and research costs;
- rent and maintenance costs in relation to premises occupied by us; and
- consulting fees for technical, financial and legal services.

Factors affecting our revenues and costs

Television advertising. The price at which television advertising is sold generally depends on demand, audience share and any commercial discounts, volume rebates and agency commissions negotiated by the buyer. Audience share represents the proportion of television viewers watching a television channel’s program at a specific time. Demand for television advertising in Poland depends on general business and economic conditions and historically has been subject to both cyclical and seasonal trends. Because advertising in Poland is sold through centralized media buyers who receive volume rebates and agency commissions on sales made through them, most advertising in Poland is sold at a considerable reduction to published rates. Commercial discounts represent the difference between rate card prices for advertising minutes and the gross prices at which those minutes are actually sold before the deduction, if applicable, of agency commissions and volume rebates. Although the aggregate total of these discounts and rebates is not publicly available, we estimate that net television advertising expenditure was approximately 33%, of the reported gross television advertising expenditure during the first six months of 2004. The Polish television advertising market is very competitive. The policies and behavior of our competitors relating to pricing and scheduling may result in changes in our own pricing and scheduling practices, and this may affect our revenue.

Seasonality of television. Television viewing in Poland tends to be seasonal, with Autumn and Spring months attracting a greater number of viewers than summer months, when television competes with a large number of other leisure activities. During the summer months, when audiences tend to decline, advertisers significantly reduce expenditure on television advertising. Consequently, television advertising sales in Poland tend to be at their lowest during the third quarter of each calendar year. Conversely, advertising sales are typically at their highest during the fourth quarter of each calendar year. During the year ended December 31, 2003, approximately 23% of our advertising revenue was generated in the first quarter, 28% in the second quarter, 18% in the third quarter and 31% in the fourth quarter.

Cyclicality. Advertising sales in Poland historically have responded to changes in general business and economic conditions. Advertising spend in Poland generally has grown during periods of economic expansion and recovery and decreased during periods of economic recession and downturn. While we believe that Poland's accession to the European Union in May 2004 will lead to growth in gross domestic product and an increase in consumer spending levels, there can be no assurance that such conditions or developments will continue or that we will benefit from an increase in advertising spending as a result. Because future levels of television advertising spending are not predictable with any certainty more than one month in advance, we cannot predict with certainty our future levels of advertising sales.

Availability and cost of attractive programming content. The continued success of our advertising sales and the licensing of our channels to digital platform and cable television operators depends on our ability to attract a large share of our target audience, preferably during prime-time when the greatest number of individuals in our target audience watch television and we are able to charge advertisers premium rates for airtime. Our ability to attract a large share of the target audience in turn depends in large part on our ability to broadcast quality programming that appeals to our target audience. According to AGB, we captured an average of 17.9% of Poland's nationwide all-day audience and 18.8% of Poland's nationwide prime-time audience during the six months ended June 30, 2004. While we believe we have been successful in acquiring programming content that appeals to our target audience, we continue to compete with other television broadcasters for programming content and to strive to air programming that addresses evolving audience tastes and trends in television broadcasting. While we believe that we are able to produce and source programming content at attractive cost levels increased competition may require higher levels of expenditure in order to maintain or grow our audience share.

Acquisition and development of new channels. We have been developing our business through the acquisition and development of new channels and the introduction of Poland's first-ever thematic television channels. On March 11, 2004, we acquired TVN 24, a pay-television channel broadcasting 24-hour news and current affairs programs, for PLN 168,053 (€35 million), all of which was fully financed from part of the proceeds of the senior notes issued by TVN Finance in December 2003. We have accounted for the acquisition of TVN 24 by using the purchase accounting method. For the six-month period ended June 30, 2004, we recognized PLN 19,085 and PLN 2,166 of post-acquisition revenue and losses, respectively, related to TVN 24. In addition, during the six-months ended June 2004, we have invested in the development of four thematic television channels, ITVN, TVN Turbo, TVN Meteo and TVN Style. Our combined non-recurring expenses associated with the initial investment in these channels amounted to PLN 600 (€126) during the six-months ended June 30, 2004.

Other factors affecting our results

Foreign exchange rate exposure. We generate net sales primarily in złoty, while a substantial portion of our operating expenses, borrowings and capital expenditures are denominated in foreign currencies, mainly in euro and US dollars.

Taxation. We are subject to corporate taxation in Poland. In 2004, Poland's statutory tax rate was lowered from 27.0% to 19.0%. Deferred income taxes on our balance sheet relate to timing differences between the recognition of income and expenses for accounting and tax purposes as at the balance sheet date. Our deferred tax assets principally relate to tax loss carry forwards from TVN 24. The recognition of deferred tax assets depends on management's assessment of the likelihood of future taxable profits in respect of which tax loss carry forwards can be applied.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All references to Euro and PLN are in thousands unless otherwise stated.

Financial condition

On March 11, 2004 we acquired TVN 24 for a consideration of PLN 168,053. We performed an evaluation of the fair value of the assets of TVN 24 and based on that evaluation we assessed the fair value to be PLN 36,349, and we consequently recognized goodwill of PLN 131,704 on the transaction. Goodwill is disclosed as an intangible asset in our financial statements and following the early adoption of IFRS 3, Business Combinations, on 1 January 2004, goodwill is no longer amortized but tested annually for impairment or more frequently if there are indicators of possible impairment.

Our restricted cash (current portion) decreased from PLN 179,517 as at December 31, 2003 to PLN 8,838 as at June 30, 2004. Restricted cash as at December 31, 2003 included Euro 35,000 reserved for the acquisition of TVN 24, subsequently used to make the acquisition as described above.

Our non current related party receivables decreased from PLN 23,562 as at December 31, 2003 to PLN 1,288 as at June 30, 2004. We attribute this decrease mainly to the acquisition of TVN 24, which resulted in a decrease of PLN 18,925 due to the elimination of intragroup receivables on consolidation.

Our deferred tax asset increased from PLN 0 as at December 31, 2003 to PLN 15,470 as at June 30, 2004. This increase was due to the recognition of a deferred tax asset of PLN 16,221 on acquisition of TVN 24, which asset primarily represents prior year tax losses incurred by TVN 24 now considered to be available for utilization.

Financial assets at their value through profit and loss increased from PLN 0 as at December 31, 2003 to PLN 9,379 as at June 30, 2004. This balance mainly comprises the fair value of the prepayment options embedded in the Senior Notes as at June 30, 2004.

Other liabilities and accruals increased from PLN 51,091 as at December 31, 2003 to PLN 72,607 as at June 30, 2004. We attribute this increase of PLN 21,516 primarily to the accrual of a termination fee of PLN 8,243 in respect of the termination of the agreement with JHH and FFMP, and an increase of PLN 5,290 in respect of VAT and other taxes payable.

Results of operations

Three months ended June 30, 2004 compared to three months ended June 30, 2003

Revenue, net. Our net revenue increased by 23.1% from PLN 164,766 for the three months ended June 30, 2003 to PLN 202,844 for the three months ended June 30, 2004.

During the three months ended June 30, 2004, we sold 9.5% more gross rating points than during the three months ended June 30, 2003. In addition we increased our advertising sales prices. As a result advertising revenues increased by PLN 28,874. Our revenues for the three months ended June 30, 2004 include TVN 24 revenues of PLN 15,126 comprising mainly cable and advertising revenues.

Programming and broadcasting expenses. Our programming and broadcasting expenses increased by 12.4% from PLN 97,988 for the three months ended June 30, 2003 to PLN 110,116 for the three months ended June 30, 2004. Our expense in respect of programming rights purchased decreased from PLN 19,445 for the three months ended June 30, 2003 to PLN 0 for the three months ended June 30, 2004 whereas amortization of programming rights increased by PLN 9,025 from PLN 8,934 in the first three months ended June 30, 2003 to PLN 17,959 in the three months ended June 30, 2004.These changes are a direct result of the restructuring of our programming agreement with JHH in July 2003.

Programming and broadcasting expenses for the three months ended June 30, 2004 include the accrual of a termination fee of PLN 8,243 in respect of the termination of the agreement with JHH and FFMP.

Staff expenses increased by PLN 6,515 from PLN 13,461 for the three months ended June 30, 2003 to PLN 19,976 for the three months ended June 30, 2004. This is mainly attributable to the acquisition of TVN 24 on March 11, 2004 resulting in an increase in staff expenses of PLN 5,147 during the three months ended June 30, 2004 .

Selling expenses. Our selling expenses increased by 62.5% from PLN 5,622 for the three months ended June 30, 2003 to PLN 9,134 for the three months ended June 30, 2004. This increase is primarily attributable to the acquisition of TVN 24, which contributed selling expenses of PLN 2,636 for the three months ended June 30, 2004.

General and administration expenses. Our general and administration expenses increased by 66.8% from PLN 9,778 for the three months ended June 30, 2003 to PLN 16,313 for the three months ended June 30, 2004. General and administration expenses for the three months ended June 30, 2004 include PLN 2,513 of expenses attributable to TVN 24. In addition, general and administration expenses for the three months ended June 30, 2004 include consulting fees of PLN 5,958 relating to the six months ended June 30, 2004 but reclassified during the three months ended June 30, 2004 from programming and broadcasting expenses to general and administration costs.

Other operating expenses. We recorded net other operating expenses of PLN 2,224 for the three months ended June 30, 2004 compared to net operating income of PLN 71 for three months ended June 30, 2003.The increase related to an impairment provision of PLN 2,000 against land, which we revalued to its fair value as June 30, 2004.

Operating profit. Operating profit increased by 26.5% from a profit of PLN 51,449 for the three months ended June 30, 2003 to a profit of PLN 65,057 for the three months ended June 30, 2004.
This increase was primarily due to the increase in revenue, which was partially offset by an increase in operating expenses.

Finance income, net. We recorded net finance income of PLN 9,080 for the three months ended June 30, 2004 compared to a net finance expense of PLN 712 for the three months ended June 30, 2003.

During the three months ended June 30, 2004 we recorded net foreign exchange gains of PLN 22,791, compared to net foreign exchange losses of PLN 274 for the three months ended June 30, 2003. This increase was mainly due to favorable Euro/PLN exchange rate movements in the second quarter of 2004 compared with the unfavorable movements in the second quarter of 2003. During the three months ended June 30, 2004, we recorded an unrealized exchange rate gain of PLN 47,776 on our Senior Notes which was partially offset by an unrealized exchange rate loss of PLN 27,644 on the ITI Media bond. Our interest expense related to the Senior Notes due 2013 amounted to PLN 27,120 for the three months ended June 30, 2004, whereas interest on our bank borrowings for the three months ended June 30, 2004 amounted to PLN 1,934. Interest income on related party bonds of PLN 16,047 partially offset this increase in our interest expense. .

Profit before tax. Our profit before tax increased by 46.1% from a profit of PLN 50,737 for the three months ended June 30, 2003 to a profit of PLN 74,137 for the three months ended June 30, 2004, due to the factors described above.

Income tax charge. Our total income tax charge for the three months ended June 30, 2004 amounted to PLN 13,346 compared to a total income tax charge for three months ended June 30, 2003 of PLN 16,836. The current income tax charge for the three months ended June 30, 2004 decreased by PLN 11,406 to PLN 4,726 from PLN 16,132 for the three months ended June 30, 2003 mainly due to a reduction in the income tax rate to 19% for the year 2004 from 27% levied for the year 2003, and payment of interest on our Senior Notes on June 15, 2004 for the six months period ended on that date. We recognized a deferred tax charge of PLN 8,620, mainly related to unrealized foreign exchange gains and interest accrued on the ITI Media bond, for the three months ended June 30, 2004 compared to a deferred tax charge of PLN 704 for the three months ended June 30, 2003.

Net profit. Our net profit increased by 79.3% from a net profit of PLN 33,901 for the three months ended June 30, 2003 to a net profit of PLN 60,791 for the three months ended June 30, 2004 due to the factors described above.

Six months ended June 30, 2004 compared to six months ended June 30, 2003

Revenue, net. Our net revenue increased by 18.8% from PLN 304,286 for the six months ended June 30, 2003 to PLN 361,506 for the six months ended June 30, 2004.

During the six months ended June 30, 2004, we sold 9% more gross rating points than during the six months ended June 30, 2003. In addition we increased our advertising sales prices. As a result advertising revenues increased by PLN 47,511. Our revenue for the first six months of 2004 includes TVN 24 revenues of PLN 20,379 comprising mainly cable and advertising revenues for the period March 11, 2004 to June 30, 2004. Lower audiotele revenues partially offset these increases.

Programming and broadcasting expenses. Our programming and broadcasting expenses increased by 7.6% from PLN 191,329 for the six months ended June 30, 2003 to PLN 205,794 for the six months ended June 30, 2004. Programming rights purchased decreased by PLN 39,371 whereas amortization of programming rights increased by PLN 26,158, resulting in a net decrease in costs associated with acquired ready made content of PLN 13,213. The acquisition of TVN 24 resulted in an increase of PLN 17,149 in programming and broadcasting costs in the first six months of 2004.

Programming and broadcasting expenses for the three months ended June 30, 2004 include the accrual of a termination fee of PLN 8,243 in respect of the termination of the agreement with JHH and FFMP.

We relocated the majority of our staff to new premises by December 31, 2003, and, as a result, our rental expense for the six months ended June 30, 2004 increased by PLN 1,018, and depreciation expense increased by PLN 2,497, largely attributable to the capital expenditure incurred in December in connection with the relocation.

Selling expenses. Our selling expenses increased by 58.8% from PLN 11,986 for the six months ended June 30, 2003 to PLN 19,031 for the six months ended June 30, 2004.The acquisition of TVN 24 resulted in an increase in selling expenses of PLN 2,434 for the six months ended June 30, 2004. In addition, our provision for impaired accounts receivable, excluding TVN 24, increased by PLN 1,987 during the six months ended June 30, 2004.

General and administration expenses. Our general and administration expenses increased by 60,6% from PLN 17,825 for the six months ended June 30, 2003 to PLN 28,628 for the six months ended June 30, 2004. The acquisition of TVN 24 contributed additional general and administration expenses of PLN 3,031 for the six months ended June 30, 2004. We incurred expenditure related to professional services of PLN 5,229 during the six months ended June 30, 2004, as compared with PLN 1,017 in the prior period. The increase is mainly attributable to legal and other advisors fees that we incurred in respect of the acquisition of TVN 24.In addition, general and administration expenses include consulting fees of PLN 5,958 reclassified during the six months ended June 30, 2004 from programming and broadcasting expenses to general and administration costs.

Other operating expenses. Other operating expenses increased by PLN 1,885 from PLN 409 for the six months ended June 30, 2003 to PLN 2,294 for the six months ended June 30, 2004. The increase relates to an impairment provision of PLN 2,000 against land, which has been revalued to its fair value as at June 30, 2004.

Operating profit. Operating profit increased by 27.8% from a profit of PLN 82,736 for the six months ended June 30, 2003 to a profit of PLN 105,759 for the six months ended June 30, 2004.

This increase was primarily due to the increase in revenue, which was partially offset by an increase in operating expenses.

Finance expense, net. We recorded a net finance expense of PLN 4,845 for the six months ended June 30, 2004 compared to a net finance expense of PLN 20,742 for the six months ended June 30, 2003.

This significant decrease is the net result of a number of factors. During the six months ended June 30, 2004 we generated net foreign exchange gains of PLN 21,302, compared to net foreign exchange losses of PLN 16,621 during the six months ended June 30, 2003. This gain was mainly due to more favorable Euro/PLN exchange movements in the first half of 2004 compared with the first half of 2003. We recorded an unrealized exchange rate gain of PLN 41,078 on our Senior Notes during the six months ended June 30, 2003 which was partially offset by an unrealized exchange rate loss of PLN 22,997 on our ITI Media Bond. Our interest expense related to the Senior Notes due 2013 amounted to PLN 54,889 for the six months ended June 30, 2004, whereas interest on our bank borrowings for the six months ended June 30, 2003 amounted to PLN 4,824. This increase of PLN 50,065 in our interest expense was partially offset by interest income on related party bonds of PLN 32,120. On February 26, 2004 we entered into four foreign exchange option agreements to manage foreign exchange risk related to the first four coupon payments due on our Senior Notes. We incurred costs of PLN 6,178 in respect of the options during the six months ended June 30, 2004. These costs were partially offset by income of PLN 3,933 related to the revaluation of the embedded prepayment option in our Senior Notes during the six months ended June 30, 2004.

Profit before tax. Our profit before tax increased by 62.8% from a profit of PLN 61,994 for the six months ended June 30, 2003 to a profit of PLN 100,914 for the six months ended June 30, 2004, due to the factors described above.

Income tax charge. Our total income tax charge for the six months ended June 30, 2004 amounted to PLN 20,288 compared to a total income tax charge for the six months ended June 30, 2003 of PLN 20,152. Our effective tax rate decreased from 33% for the six months ended June 30, 2003 to 20% for the six months ended June 30, 2004. This decrease was partly due to a decrease in the statutory tax rate from 27% in 2003 to 19% in 2004, and partly due to a reduction in the net level of non taxable items. The current income tax charge for the six months ended June 30, 2004 decreased by PLN 9,791 to PLN 16,070 from PLN 25,861 for the six months ended June 30, 2003 mainly due to the above mentioned decrease in the statutory tax rate which led to a saving of PLN 6,766. We recorded a deferred tax charge of PLN 4,218 for the six months ended June 30, 2004 compared to a deferred tax benefit of PLN 5,709 for the six months ended June 30, 2003. The deferred tax charge arose mainly due to an increase in foreign exchange gains and the interest accrual on the ITI Media Bond, neither of which gains is taxed until realized. The deferred tax benefit for the six months ended June 30, 2003 related to non deductible provisions and accruals, and unrealized foreign exchange losses.

Net profit. Our net profit increased by 92.7% from a net profit of PLN 41,842 for the six months ended June 30, 2003 to a net profit of PLN 80,626 for the six months ended June 30, 2004 due to the factors described above.

Liquidity and Capital Resources (PLN and Euro in thousands)

Historical Overview

The table below summarizes our cash flow for the six months ended June 30, 2003 and 2004.

	Six months ended June 30,		
	2003	**2004**	**2004**
	PLN	PLN	Euro*
Cash generated from operations……………………………	91,708	135,111	29,746
Net cash generated from operating activities………….	85,531	66,440	14,627
Net cash used in investing activities…………………….	(9,569)	(44,569)	(9,812)
Net cash used in financing activities…………………….	-	(12,749)	(2,807)
Effects of exchange rates changes	1,688	(860)	(189)
Increase in cash and cash equivalents………………	**77,650**	**8,262**	**1,819**

* For the convenience of the reader, złoty amounts for the six months ended June 30, 2004 have been converted into Euro at the rate of PLN 4.5422 per €1.00 (the effective NBP exchange rate, złoty per Euro, on June 30, 2004). You should not view such translations as a representation that such złoty amounts actually represent such Euro amounts, or could be or could have been converted into Euro at the rates indicated or at any other rate.

Cash generated from operations

Cash generated from operations increased by PLN 43,403 from PLN 91,708 for the six months ended June 30, 2003 to PLN 135,111 for the six months ended June 30, 2004.

The increase is partly due to an increase in operating profit of PLN 23,023 from PLN 82,736 for the six months ended June 30, 2003 to PLN 105,759 for the six months ended June 30 2004 and a decrease in payments to settle trade payables and other current liabilities of PLN 20,196 in the first six months of 2004 as compared with the first six months of 2003.

Net Cash generated from operating activities

Net cash generated from operating activities includes all cash generated from operations and also reflects cash paid for taxes and interest and cash received for interest. Net cash generated from operating activities amounted to PLN 66,440 for the six months ended June 30, 2004 in comparison to PLN 85,531 for the six months ended June 30, 2003. The decrease was due to an interest payment of PLN 54,934 in respect of the Senior Notes and a higher tax payment, partially offset by the increase in cash generated from operations.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 44,569 during the six months ended June 30, 2004 in comparison to PLN 9,569 during the six months ended June 30, 2003. Payments to acquire property, plant and equipment increased by PLN 20,111 from PLN 14,883 during the six months ended June 30, 2003 to PLN 34,994 during the six months ended June 30, 2004. Due to the relocation of the majority of our staff to new premises we purchased a significant amount of fixtures, furniture and equipment in December 2003 and made the related payments during the six months ended June 30, 2004. In addition, we commenced the fit out of our new newsroom in 2004 and made prepayments for technical equipment of PLN 9,244 during the six months ended June 30, 2004. During the six months period ended June 30, 2004 the Company acquired TVN 24 for PLN 168,053 utilising cash restricted for this purpose.

Net cash used in financing activities

Net cash used in financing activities amounted to PLN 12,749 during the six months ended June 30, 2004 and represented payments to settle invoices for legal services connected with the issue of our Senior Notes due 2013.

Total cash and cash equivalents held by our group as of June 30, 2004 amounted to PLN 112,226. We hold cash and cash equivalents in bank deposits in Poland in złoty, Euro and U.S. dollars. In addition to cash and cash equivalents, restricted cash amounted to PLN 20,729 as at June 30, 2004.

Future liquidity and capital resources

We expect that our principal future cash needs will be to fund debt service on our Senior Notes, the launch of new thematic channels and replacement capital expenditures relating to television and broadcasting equipment. We believe that cash generated from our operations together with the available loan facility (described below) will be sufficient to fund these needs.

On January 29, 2004, we entered into a USD 17 million multicurrency loan facility with Bank Przemyslowo-Handlowy S.A. The purpose of the facility is to finance our working capital needs by a revolving loan bearing interest at WIBOR, EURIBOR or Libor plus 1.8% as the case may be, or an overdraft facility bearing interest at WIBOR plus 1.9%. The facility is secured by our trade receivables, television and broadcasting equipment, programming rights and insurance policies. The facility is subject to renewal on January 28, 2005. The facility includes a number of restrictive covenants, including but not limited to, restrictions on additional indebtedness and the ability to extend loans.
As of June 30, 2004 there have been no drawdowns on this facility.

Commitments and off-balance sheet arrangements

The following table summarizes the contractual obligations, commercial commitments and principal payments we were bound to make as of June 30, 2004 under our operating leases and other agreements. The information presented below reflects the contractual maturities of our obligations. These maturities may differ significantly from their actual maturity and do not reflect the offering and the application of the proceeds thereof. All amounts in this table and the related footnotes are shown in thousands.

	Year ending December 31,							
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**thereafter**	**total**
	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Operating leases……………...								
Satellite transponder leases	17,856	22,453	8,494	-	-	-	-	48,803
Other technical leases	3,900	7,800	7,800	7,800	7,800	7,800	28,600	71,500
Operating leases – other (1)…..	7,552	14,822	14,832	9,836	8,144	15,763	12,080	83,029
Obligations for programming content/assets ………………..	60,086	100,492	80,005	38,331	8,124	965	-	288,003
Total cash commitments……	**89,394**	**145,567**	**111,131**	**55,967**	**24,068**	**24,528**	**40,680**	**491,335**
Other liabilities……………….								
Barter commitments (2) ……….	-	-	-	-	-	-	-	3,371
Total other obligations and guarantees…………………….	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,371**
Total cash commitments and other liabilities……………….	**89,394**	**145,567**	**111,131**	**55,967**	**24,068**	**24,528**	**40,680**	**494,706**

(1) We enter into certain operating lease contracts with respect to our equipment, our office and studio space. As of June 30, 2004, we had PLN 83,029 of commitments due under such operating leases. These amounts include (i) PLN 75,003 in lease payments over the remaining life of our lease agreements entered into for the lease and sub-lease of office space and television studios from ITI Poland S.A. ("ITI Poland") and Media Business Center Sp. z o.o. ("MBC") and (ii) PLN 8,026 in minimum lease payments over remaining life of our lease contracts entered into with third parties. The payments under the lease agreement with ITI Poland are inflation indexed.

(2) As of June 30, 2004**,** pursuant to barter agreements, we had contractual commitments outstanding amounting to PLN 3,371, settlement of which will be in form of advertising and is intended to be rendered on arm's-length terms and conditions and at market prices.

Unaudited pro forma consolidated financial information

The selected unaudited pro forma consolidated financial information has been derived from the consolidated financial statements for the year ended December 31, 2003, and the unaudited condensed consolidated financial statements as of and for the six month period ended June 30, 2004 as adjusted to give effect to the purchase of 100% of TVN 24 as described in footnote 15 of the unaudited condensed consolidated financial statements as of and for the six month period ended June 30, 2004.

The selected unaudited pro forma consolidated financial information set forth below has been prepared as if the acquisition of TVN 24 took place on January 1, 2003 and 2004, respectively. The selected unaudited pro forma financial information has been prepared using our accounting policies as described in our financial statements presented in the 2003 Annual Report, which are prepared in accordance with IFRS. It is provided for information purposes only and does not purport to represent what our consolidated financial position or consolidated results of operations for the period presented would actually have been if the transaction had in fact occurred on those dates, nor is it necessarily representative of the financial position or results of operations for any future periods.

For convenience of the reader certain zloty amounts for the period ended June 30, 2004 have been converted into Euro at the rate of PLN 4.5422 per €1 (the effective NBP exchange rate, zloty per Euro on June 30, 2004).

	Unaudited pro forma June 30		
	2003	2004	2004
	(PLN)	(PLN)	(Euro)
Revenue……………………………………………………..	317,560	366,647	80,720
Profit before income tax…………………………………..	50,698	95,606	21,048
Net profit before income tax per share (not in thousands)………………………………………………	77.05	145.03	31.99
Net (loss) profit……………………………………………	31,006	73,670	16,219
Net (loss) profit per share (not in thousands)…………	47.12	111.96	24.65

Trends information

The principal trend known to management that will affect our revenues and profitability is the growth in the advertising market in Poland. Currently the television advertising market is growing. To a lesser extent the development of paid cable and DTH services also will affect our revenues and profitability. The likelihood that these trends will continue cannot be predicted however.

We are exposed to fluctuations in the exchange rates of zloty to both the Euro and the US Dollar. Our Senior Notes due 2013 are denominated in Euro and a large proportion of our programming costs are denominated in US Dollars. In recent months the zloty has appreciated against the Euro and has depreciated against the US Dollar. We cannot predict future exchange rate trends cannot be predicted.

Inflationary trends in Poland are currently stable and have previously been on a downwards trend. Currently inflation is approximately 3.4%. We do not believe that current inflationary trends will have a material impact on our business. We cannot predict future inflationary trends can not be predicted.

Critical accounting policies

We prepare our consolidated financial statements in accordance with IFRS. These critical accounting policies are not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by IFRS, with no need for management's judgment in their application. There are also areas in which the exercise of management's judgment in selecting an available alternative would not produce a materially different result. You should examine the December 31, 2003 financial statements included in our 2003 Annual Report for a discussion of accounting principles and other disclosures required by the applicable accounting standards, and note 2 of our unaudited condensed consolidated financial information as of June 30, 2004..

Programming Rights

We record programming rights on our balance sheet at their gross value when the license period begins or when the programs are available to us for broadcasting. These rights are either expensed when the program is aired or amortized on an accelerated basis when we are entitled to more than one broadcast. Programming inventory includes acquired programming rights, co-production and production costs. Accounting for our programming inventory requires the judgment of the management as to the likelihood that such assets will generate sufficient revenue to cover the associated expense by attracting an appropriate audience. We review the carrying value of our programming inventory periodically and test at least annually for impairment to determine whether a write-down is required. Programming inventory is classified as current or non-current based on the anticipated timing of usage in the following year.

Goodwill

Following the early adoption of IFRS 3 Business Combinations on January 1, 2004, goodwill is no longer amortized but tested annually for impairment or more frequently if there are indicators of

possible impairment. We recognized no impairment losses on goodwill or other intangible assets for IFRS during the six months ended June 30, 2004.

Deferred Income Taxes

Deferred income tax is provided using the liability method for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. We use currently enacted tax rates to determine deferred income tax. The principal temporary differences arise from accruals, differences in depreciation, interest and foreign exchange differences. A deferred tax asset is recognized when it is likely that tax benefits will be realized.

Accrued Liabilities

We exercise considerable judgment in recording our accrued liabilities and our exposure to contingent liabilities relating to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Where we expect that the occurrence of a contingency is reasonably likely, we accrue an amount for the contingent liability that represents management's estimate at the balance sheet date considering all anticipated risks and losses up to that date, even if they became known after the balance sheet date but prior to the preparation of the financial statements. Due to the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated amount accrued.

Contingent liabilities

In the ordinary course of business, we are subject to proceedings, lawsuits and other claims. Many of these matters are subject to uncertainties, and the outcome is not predictable. Consequently, we are unable to ascertain the ultimate aggregate amount of potential liability that we may have. We make provisions for ordinary course of business disputes in our accounts. We believe that after final resolution, any potential liability beyond that provided for as of June 30, 2004 would not be material to our results or financial position. There are no disputes pending or threatened that we expect to be material in relation to our business or consolidated financial position, results of operations or cash flow.

Derivative financial instruments

We recognize derivative financial instruments initially in the balance sheet at cost and subsequently they are remeasured at their fair value. The method of recognizing the resulting gain or loss is dependent on the nature of the item being hedged. We designate certain derivatives as either (1) a hedge of the fair value of a recognized asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge), or (3) a hedge of a net investment in a foreign entity on the date a derivative contract is entered into.
Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognized in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset (for example, property, plant and equipment) or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement (for example, when the forecasted sale takes place).

Certain derivative transactions, while providing effective economic hedges under our risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. We recognize immediately in the income statement changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the committed or forecasted transaction ultimately is recognized in the income statement. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

We document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. We also document its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

We separate embedded derivatives from their host contracts and account for these as derivatives under IAS 39 (revised) if the economic risks and characteristics of the embedded derivative and host contract are not closely related, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

New Accounting Pronouncements

New IFRS 3 Business Combinations

In March 2004 the International Accounting Standards Board ("IASB"), released new IFRS 3 - Business Combinations - which replaced IAS 22 Business Combinations. This new IFRS requires all business combinations within its scope to be accounted for by applying the purchase method. It changes the requirements for separately recognizing as part of allocating the cost of a business combination liabilities for terminating or reducing the activities of the acquiree and its contingent liabilities. It also clarifies the criteria for separately recognizing intangible assets of the acquiree as part of allocating the cost of combination. Additionally the new IFRS requires the acquiree's identifiable assets, liabilities and contingent liabilities recognized as part of allocating the cost of the combination to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items. This IFRS requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, goodwill is not amortized and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

IFRS 3 requires the acquirer to reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the costs of the combination if, at the acquisition date, the acquirer's interest in the net fair value of those items exceeds the cost of the combination. Any excess remaining after that reassessment must be recognized by the acquirer immediately in profit or loss.

As of January 1, 2004, we adopted early IFRS 3. Following adoption of IFRS 3, we do not amortize goodwill which arose from the acquisition of TVN 24 and TV Wisla but test for impairment annually or more frequently if there are indicators of possible impairment.

Revised IAS No 36 and IAS No 38

In March 2004, the IASB released the revised International Accounting Standard 36 – Impairment of Assets and International Accounting Standard 38 – Intangible Assets. These standards should be applied on acquisition to goodwill and intangible assets in business combinations for which the agreement date is on or after March 31, 2004 and to all other assets, for annual periods beginning on or after March 31, 2004. However earlier adoption is encouraged.

The new IAS 36 requires the recoverable amount of an asset to be measured whenever there is an indication that the asset may be impaired, but intangible assets with an indefinite useful life need to be measured annually irrespective of whether there is an indication that they may be impaired. Additionally, the recoverable amount of an intangible asset not yet available for use is to be measured

annually, irrespective of whether there is any indication that it may be impaired and goodwill acquired in a business combination must be tested for impairment annually.

The new IAS 38 reflects only changes related to changes in IFRS 3 and these are concerned with clarifying the notion of "identifiability" as it relates to intangible assets, the useful life and amortization of intangible assets and the accounting for in-process research and development projects acquired in business combinations.

Improvement project of IASB

On December 18, 2003, the IASB issued revisions to thirteen existing standards, including IAS 1 – Presentation of Financial Statements, IAS 8 – Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, IAS 16 – Property, Plant and Equipment, IAS 24 – Related Party Disclosures and withdrew IAS No 15. The revisions are effective from 1 January 2005, however early adoption is encouraged. We are currently assessing the impact that the revised standards will have on our financial position and results of operations. We believe that the revisions are not likely to materially impact our ongoing results of operations, financial position or cash flows, however revisions may affect the disclosures required in the financial statements in the future.

IFRS 5 Non-current assets held for sale and discontinued operations

On March 31, 2004, the IASB released new IFRS 5 - Non-current assets held for sale and discontinued operations. The standard sets out the requirements for the classification, measurement and presentation of non-current assets held for sale and replaces IAS 35 Discontinuing Operations. The standard should be applied for annual periods beginning on or after January 1, 2005, however earlier adoption is encouraged. The main objective of IFRS 5 is to specify the accounting for assets held for sale and the presentation and disclosure of discontinued operations.

IFRS 5 requires that assets which meet the criteria for classification as held for sale should be measured at the lower of their carrying amount and fair value less costs to sell, and depreciation on such assets to cease. Additionally IFRS 5 introduces the concept of a disposal group. This is a group of assets to be disposed of, by sale or otherwise together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. Assets and liabilities included within a disposal group should be presented separately on the face of the balance sheet

IFRS 5 changes the timing of the classification of an operation as discontinued. IFRS 5 classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed the operation. The results of discontinued operations are to be shown separately on the face of the income statement.

We believe that the new standard is not likely to materially impact our ongoing results of operations, however it will affect the disclosures in the financial statements required in the future.

IFRS 2 Share-based payment

On February 19, 2004, the IASB released New IFRS 2 Share based payments. The standard sets requirements for the financial reporting by an entity when it undertakes a share-based payment transaction. IFRS 2 applies to transactions in which shares, share options or other equity instruments are granted to employees or other parties (equity-settled transactions). It also applies to transactions to be settled in cash or other assets (cash-settled transactions) that are share-based because the payment amount is based on the price of the entity's shares.

IFRS 2 requires an entity to reflect in its profit and loss and financial position the effects of share-based payment transactions, including expenses associated with share options granted to employees. For equity-settled share-based payment transactions with employees (and others providing similar services), the measurement of the transaction amount is based on the fair value of the equity instruments granted. That fair value is measured at grant date. IFRS 2 contains guidance on estimating the fair value of shares and share options granted.

IFRS 2 sets out requirements if the terms and conditions of an option or share grant are modified (eg an option is repriced) or if a grant is cancelled, repurchased or replaced with another grant of equity instruments. IFRS 2 also contains requirements for equity-settled transactions with other parties (ie other than employees and those providing similar services). Furthermore, IFRS 2 specifies requirements for cash-settled transactions, and transactions in which the terms of the arrangement provide either the entity or the supplier of goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.

IFRS 2 is effective for periods beginning on or after January 1, 2005. It applies to grants of shares, share options or other equity instruments that were granted after November 7, 2002 and had not yet vested at the effective date of the IFRS. It applies retrospectively to liabilities arising from share-based payment transactions existing at the effective date. We have not participated in share-based payment transactions in the past. However, if such transactions occur in the future, we will account for them in accordance with IFRS 2.