

Risk factors

Source: AGORA GROUP Management Discussion and Analysis for the year 2013 to the consolidated financial statements

Macroeconomic risk

Advertising revenues strictly depend on the general economic situation in Poland and in Europe. They grow in the periods of economic upswing and are marked by considerable decrease in time of the economic slowdown. According to the Company's estimations in 2013, advertisers spent 5% yoy less on advertising. Advertisers increased their expenditure only in Internet (by 7.5% yoy). Other media suffered further erosion of advertising expenditure: dailies down by almost 29.5% yoy, magazines down by 13.5% yoy and outdoor by almost 14.0% and cinemas down by almost 11.5% yoy. Additionally, ad spends in TV were lower by over 3.5% yoy.

On the basis of the current macroeconomic situation as well as on the advertising market, the Company estimates that in 2014 the value of advertising market in Poland will grow by 0-2% yoy. Additionally, it should be noted that the level of advertising revenues is dependent on both the ad volume as well as prices of media purchase which hinders estimations regarding the development of the situation at the particular segments of ad market.

Seasonality of advertising spending

The Group sales revenues are marked by seasonal variation. The Group's advertising revenues in the first and third quarter are usually lower than in the second and fourth quarter of a given financial year.

Cinema revenues are subject to seasonality - revenues earned in the second and third quarters are usually lower than in the first and fourth quarters.

Advertising market structure and the position of individual media in readership, TV and radio audience market

The Group's advertising revenues are generated by the following media: dailies, outdoor advertising, radio stations, magazines, internet and cinemas. As a result of structural changes and media convergence particular media in the Agora Group's portfolio compete

both with their business competitors and with television broadcasters - constituting nearly half of the advertising market expenditure (almost 49.5%) in 2013. The next largest segment of advertising market - Internet held almost 21.0% share in total ad spend. Ad expenditure in magazines and dailies constituted over 9.0% and almost 5% share of total ad spend, respectively. Outdoor advertising held, in 2013, over 6.5% of the advertising market share and radio ad spend constituted over 7.5% of total ad expenditure. Cinema advertising in Poland constituted almost 1.5% of all advertising expenditure. Bearing in mind the dynamics of particular and the current Company's estimates of advertising market growth in 2014 there is a risk that the share of particular media in the advertising market will change. This may influence the Group's position and its revenues.

Additionally, as a result of the changes in media described above and consolidation on the advertising market the competition between media grows and it may influence Group's advertising revenues. Moreover, due to those changes and technological progress there is no certainty that the Group will be able to react to them in a proper time and manner, which may negatively influence the Group's position and financial results.

Advertising revenues depend also on the readership figures and shares in radio and television audience. Media market changes dynamically - some sectors can take advantage of the current changes while other can lose its position on the market. There is no certainty that the Group's position in the particular media sectors will remain unchanged.

Press distribution

The main channel of press distribution, used by every press publisher in Poland, is networks of kiosks situated in places of intense traffic. Distribution market in Poland is highly concentrated - two main distributors control over 80% of press distribution market. Therefore, significant financial or operational problems of either of them may have a negative impact on copy sales and the results of the Group.

Press

Presently paid press experiences a worldwide trend of copy sales decrease and shrinking of advertising expenditure. Press titles, published by the Group and its competitors, are not resistant to the changes taking place on the press market. The process of classifieds migration from press to Internet is taking its place. The dynamics of the above mentioned processes may have a negative impact on dailies copy sales and the revenues of the Group. At the same time, the Group digitalizes its content and on February 4, 2014 the Company introduced system of metered paywall on websites related to Gazeta Wyborcza.

Nowadays, it is hard to evaluate the impact of new access system on the Group's revenue. The Group also publishes a free daily - Metro. We cannot predict how the global changes occurring on the press market will influence the free press position and consequently, the position and the results of the Group.

Internet

Polish Internet advertising market is highly competitive. Number of internet users in Poland is not growing so fast as in the past. Internet business is highly dependent on technology progress and number of Internet users and maintaining a strong position on that market is possible by means of investment in modern and innovative technology. In this segment of advertising market the Group competes with local and international players. There is no guarantee, that on such a competitive market, the Group's position and ad revenues will be unchanged. Additionally, online advertising market is undergoing transformation. Search advertising, dominated in Poland by one player, is becoming more popular among advertisers. The Group's main source of Internet advertising revenue is display advertising. Video and mobile advertising are growing their share. Maintenance of the strong position in rapidly changing market requires investment in advanced technological solutions. Due to that fact there is no guarantee that the Group will be able to compete with national and foreign players with larger financial resources.

Outdoor

Outdoor advertising market in Poland is highly competitive. AMS S.A. competes with Polish companies as well as big international concerns. Outdoor advertising market is of high legal risk due to the possible changes in the rules regarding the use of public space and introduction of new limitations in the centers of large urban areas, as well as rules on fees and tax rates related to this business activity. The factors mentioned above may have an impact on the Group's result.

On December 18, 2013, a consortium of AMS SA - Ströer Poland Sp. z o.o. signed a concession contract with the City of Warsaw for the construction and operation of bus shelters in Warsaw. Parties of the consortium decided that AMS shall accrue all the outlays related to the investment process, the maintenance cost related to bus shelters and future revenue from the utilization of bus shelters. The subject of the concession contract is construction of 1,580 bus shelters in Warsaw. The investment process shall last 3 years and shall commence in 2014. The estimated cost of the bus shelters' construction, according to the capital city of Warsaw, amounts to ca PLN 80 million. The duration of the contract is nearly 9 years.

The timely execution of the contract carries risk related to the necessity of acquiring a number of approvals and administration decisions. Additionally, in such a competitive and changing environment the macroeconomic and market assumptions necessary for the project success may not materialize.

Cinema

Helios group opens new cinemas mainly in shopping centres. Therefore, further development of the cinema network is dependent upon the construction of new shopping galleries in Poland and ability to compete with other cinema operators for new space lease contracts. The pace of Polish infrastructure development and the situation on the Polish Real estate market (i.e. cost of space rent) may influence the results of cinema operators.

Additionally, the available repertoire affects results of cinema business. Lack of interesting movies, abilities to promote movies or the quality of movies may negatively affect cinema admissions. Moreover, economic downturn may translate into lower expenditure on entertainment which may result in lower revenues from ticket sales and willingness to buy food and beverages in cinema bars.

Moreover, the cinema operators compete with other technologies of film screening, inter alia, cable networks, Internet, home cinema systems or DVD, which may decrease popularity of cinema going.

Risks of running licensed business

The Group comprises local radio stations broadcasting under the brands Złote Przeboje and Roxy FM (Rock Radio since January 31, 2014) and superregional radio TOK FM. Radio broadcasting in Poland is licensed. The license entries determine the scope and form of business during the time for which the license is granted.

There is a risk that demand, from listeners, for a certain radio format may decrease, while the Group will not be able to adjust to the market requirements due to the obligation to respect program entries stated in the license.

Radio stations

Polish radio ad market is highly competitive. Agora's radio stations compete with other radio broadcasters, with national reach, as well as other media - TV, press, internet and outdoor advertising. To maintain audience share it is important to have a demanded radio format. There is no certainty that the Group's current position in the radio audience market

will be unchanged. Competing for ad revenue, radio stations (also belonging to different media concerns), create joint advertising offers. The popularity of these offers may significantly influence the shares of particular radio broadcasters in radio ad market.

Television

Due to the purchase of 41.04% stake in Stopklatka S.A. by Agora on March 12, 2014 r. the Company entered television market. Our television channel competes with existing television broadcasters and potential new market entrants. Among Stopklatka TV competitors there are larger broadcasters with better brand recognition and resources than us. The increasing success in Poland of DTH, cable and DTT providers will likely result in the increasing fragmentation of Polish TV viewing audiences, which may make it more difficult for us to persuade advertisers to purchase airtime in Stopklatka TV. The results of Stopklatka shall be consolidated on the equity basis.

Movie business

Movie distribution and co-production is of project nature, which may result into volatility of its results - it may also impact the Group's results. The majority of costs incurred, especially those related to movie co-production, burdens the Group results long before the profits related to that field of operations. The impact of this activity on the Group's results depends also on the popularity of given film production.

Impairment tests

Inline with the International Financial Reporting Standards, the Group runs impairment tests. In the past and in the current period, some of the tests resulted in impairment loss which was reflected in the income statement (unconsolidated and/or consolidated). There is no certainty that the tests run in the future will give positive effects.

Currency risk

The Group's revenues are expressed in Polish zlotys. Part of the operating cost, connected mainly with cinema activities, the printing services, usługami IT, purchase of production materials, mainly newsprint, and gadgets inserted in magazines, is related to the currency exchange rates. The volatility of currency exchange rates may have influence on the level of Group's operating cost and its financial results.

Interest rate risk

The changes in interest rates may influence the level of the Group's financial cost related to the Group's debt.

Risk of losing key employees

The Group's success is dependent on the involvement and qualifications of its key employees who contributed immensely to Group's development and effective optimization of the Group's operating processes. Due to the market competition for highly qualified specialists there is no guarantee the Group will be able to preserve all valuable employees.

The risk of collective dispute

On December 12, 2011 an Inter-union trade organization NSZZ Solidarnosc AGORA S.A i INFORADIO SP. Z O.O. ("OM") was created. The trade unions operate in Agora S.A., Inforadio Sp. z o.o., Agora Poligrafia Sp. z o.o. and AMS S.A. According to the law requirements the management boards of the companies in which trade unions operate consult or negotiate with them decisions in legally determined cases.

The Group tries to maintain good relations with its employees and solve any problems as they appear, however it can not be excluded that in the future the Group may experience a collective dispute in law determined cases.