

AGORA SA  
CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 December 2003  
prepared under  
INTERNATIONAL FINANCIAL REPORTING STANDARDS

## Contents

Consolidated balance sheets	1
Consolidated income statements	2
Consolidated statement of changes in shareholders' equity	3
Consolidated cash flow statements	4
Notes to the consolidated financial statements	5 – 36

**Agora SA****Consolidated balance sheet as at 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

		As at 31 December	
	Note	2003	2002
<b>Assets</b>			
Long-term assets:			
Property, plant and equipment	2	820,079	903,440
Intangible assets	3	258,645	266,131
Investments	4	30,718	27,865
Investments in associates	5	8,602	8,594
		<u>1,118,044</u>	<u>1,206,030</u>
Current assets:			
Cash and cash equivalents	7	90,549	49,481
Short-term financial assets	8	6,960	8,626
Accounts receivable and prepayments	9	131,592	152,883
Inventories	10	15,166	14,739
		<u>244,267</u>	<u>225,729</u>
Total assets		<u>1,362,311</u>	<u>1,431,759</u>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity:			
Share capital	11	56,758	56,758
Share premium		353,646	353,646
Retained earnings and other reserves	12	654,842	652,675
		<u>1,065,246</u>	<u>1,063,079</u>
Minority interests	31	1,273	1,476
Long-term liabilities:			
Long-term borrowings	13	139,564	140,142
Deferred income taxes	14	27,751	39,382
Long term provisions, deferred credits	15	6,384	18,091
		<u>173,699</u>	<u>197,615</u>
Current liabilities:			
Accounts payable and accrued charges	16	121,470	144,877
Short-term borrowings	13	623	24,712
		<u>122,093</u>	<u>169,589</u>
Total liabilities and shareholders' equity		<u>1,362,311</u>	<u>1,431,759</u>

See accompanying notes to the consolidated financial statements.

**Agora SA**  
**Consolidated income statement for the year ended 31 December 2003**  
**with comparative figures for 2002**  
(all amounts in PLN thousands unless otherwise indicated)

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	Note	Year ended 31 December <u>2003</u>	<u>2002</u>
Sales	17	853,507	785,289
Operating costs	18	<u>(849,034)</u>	<u>(716,156)</u>
Operating profit		4,473	69,133
Interest in results of associates		(1,689)	(2,306)
Gain on disposal of shares in an associate		322	-
Provision for losses on investments		(3,577)	(2,709)
Interest and financial items	20	<u>(6,191)</u>	<u>10,127</u>
Profit before income taxes		(6,662)	74,245
Income taxes	22	9,616	(22,292)
Minority interests	31	<u>(836)</u>	<u>(906)</u>
<b>Net profit for the period</b>		<u>2,118</u>	<u>51,047</u>
Earnings per share (in PLN)	23	<u>0.04</u>	<u>0.90</u>

See accompanying notes to the consolidated financial statements.

**Agora SA****Consolidated statement of changes in shareholders' equity for the year ended 31****December 2003****with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

	<u>Share capital</u>	<u>Share premium</u>	<u>Retained earnings</u>	<u>Other</u>	<u>Total</u>
<b>As at 31 December 2001</b>	<u>56,758</u>	<u>353,646</u>	<u>609,057</u>	<u>1,147</u>	<u>1,020,608</u>
Adjustment from initial consolidation of certain subsidiaries and associates (see note below)	-	-	(8,576)	-	(8,576)
Net profit for the period	-	-	51,047	-	51,047
<b>As at 31 December 2002</b>	<u>56,758</u>	<u>353,646</u>	<u>651,528</u>	<u>1,147</u>	<u>1,063,079</u>
Adjustment from consolidation of subsidiary previously consolidated as associate company	-	-	49	-	49
Net profit for the period	-	-	2,118	-	2,118
<b>As at 31 December 2003</b>	<u>56,758</u>	<u>353,646</u>	<u>653,695</u>	<u>1,147</u>	<u>1,065,246</u>

As a result of the initial consolidating of certain subsidiary and associate companies that were not consolidated as at 31 December 2001, the opening balance of shareholders' equity as at 1 January 2002 was decreased by PLN 8,576 thousand. This represents the Group's share in accumulated losses since acquisition of the consolidated companies at that date and amortisation of the consolidation goodwill for the period up to 1 January 2002.

See accompanying notes to the consolidated financial statements.

**Agora SA****Consolidated cash flow statement for the year ended 31 December 2003****with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

		Year ended 31 December	
	Note	2003	2002
<b>Cash flows from operating activities</b>			
Net profit / (loss) before taxation		(7,498)	73,339
Adjustments for:			
Depreciation of plant, property and equipment		116,914	106,468
Amortisation of intangible assets and goodwill		20,344	10,117
Foreign exchange (gain) / loss		(31)	(640)
Investment (income) / cost		12,664	9,859
Interest, net		9,431	3,587
Minority interest and interest in results of associates		2,494	3,212
(Increase) / decrease in trade and other receivables		13,152	1,285
(Increase) / decrease in inventories		(426)	2,047
(Decrease) / increase in payables		(31,071)	(4,845)
Other non-recurring expenses		(47)	(10,107)
Cash generated from operations		135,926	194,322
Income taxes paid		(1,566)	(6,839)
Net cash from operating activities		134,360	187,483
<b>Cash flows from investing activities</b>			
Purchase of property plant and equipment		(44,019)	(229,572)
Acquisition of subsidiary and associate undertakings	6, 24	(14,693)	(176,600)
Net cash on sale and purchase of long-term investments		(2,314)	(9,891)
Proceeds from sale of equipment		843	805
Redemption/(acquisition) of short-term securities, net		1,371	58,576
Net cash used in investing activities		(58,812)	(356,682)
<b>Cash flows from financing activities</b>			
(Decrease) / increase in borrowings		(24,890)	86,331
Interest and fees paid		(10,161)	(5,495)
Dividends paid		(1,008)	-
Net cash used in financing activities		(36,059)	80,836
Net increase in cash and cash equivalents		39,489	(88,363)
Movements in cash and cash equivalents			
At start of period	1 f	51,060	137,844
At end of period		90,549	49,481

See accompanying notes to the consolidated financial statements.

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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#### **General information**

Agora SA with its registered seat in Poland, 00-732 Warsaw, Czerska 8/10 street ("the Company") principally produces, sells and promotes Gazeta Wyborcza the daily newspaper, magazines and other periodicals in Poland and controls or exercises significant influence over 24 radio operating companies (26 stations broadcasting at 31 December 2003). With effect from 1 October 2002 the Company is active in the outdoor segment through an acquired subsidiary, Art Marketing Syndicate SA ("AMS").

The Group comprises Agora SA, 19 subsidiaries and 9 associate companies. Details of the Group companies are presented in note 30.

The Group operates in all the major cities in Poland.

Financial statements are presented for the year ended 31 December 2003, with comparative figures presented for the year ended 31 December 2002.

The financial statements were authorised for issue by the directors on 14 April 2004.

#### **1. Significant accounting policies**

##### **(a) Statement of compliance**

The consolidated financial statements of the Agora SA Group ("the Group"), are prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standard Board and interpretations promulgated by International Financial Interpretation Committee.

##### **(b) Basis of preparation**

The financial statements are presented in Polish zloty, rounded to the nearest thousand. They are prepared on the historical cost basis except that trading instruments and derivative financial instruments are stated at their fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the change in accounting policy relating to the classification of cash and cash equivalents described in accounting policy (f), "Cash and cash equivalents".

The accounting policies have been applied consistently by Group entities.

##### **(c) Basis of consolidation**

###### **(i) Subsidiaries**

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

###### **(ii) Associates**

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further

**Agora SA**

**Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

## Agora SA

### Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002

(all amounts in PLN thousands unless otherwise indicated)

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#### (Significant accounting policies continued)

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised gains arising from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) **Property, plant and equipment**

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses, if any.

The cost of property, plant and equipment comprises costs incurred in their purchase or manufacture and includes capitalised borrowing costs.

Depreciation is calculated on the straight line basis or on the reducing balance basis over the estimated useful life of each asset, with the exception of low-value assets that are depreciated fully when brought into use. Estimated useful lives of property, plant and equipment, by significant class of asset, are as follows:

Perpetual leasehold of land	86 - 93 years
Buildings	10 - 40 years
Plant and machinery	2 - 20 years
Other equipment and motor vehicles	4 - 7 years

Land is not depreciated.

Repairs and renewals are charged to the income statement when the expenditure is incurred; major improvements are capitalised when incurred, providing that they increase the future economic benefits embodied in the item of property, plant and equipment.

(e) **Intangible assets**

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses, if any.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses, if any.

Estimated useful lives of intangibles assets (amortised on a straight-line basis) are as follows:

Acquired magazine titles	5 - 20 years
Goodwill	5 - 20 years
Other intangible assets	3 - 5 years

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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#### **(Significant accounting policies continued)**

##### **(f) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances, call deposits and short term financial assets with maturities up to 3 months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

During 2003 the Group changed its accounting policy with respect to the classification of monetary assets with maturities up to 3 months. The Group previously classified these assets as short-term financial assets. From 2003 these assets are classified as cash equivalents. The effect of the change is an increase in the Group's balance of cash and cash equivalents at 1 January 2003 in the amount of PLN 1,579 thousand, representing the value of these assets at that date.

##### **(g) Derivative financial instruments**

At 31 December 2003 the Group was a party to contracts that contained derivative financial instruments embedded into rental and other contracts denominated in foreign currencies. Upon acquisition of such financial instruments the Group assesses whether the economic characteristics of the embedded derivative instrument are clearly and closely related to the economic characteristics of the financial instrument ("host contract") and whether the financial instrument that embodies both the embedded derivative instrument and the host contract is currently measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. If the embedded derivative instrument is determined not to be clearly and closely related to the host contract and the embedded derivative instrument would qualify as a derivative instrument, the embedded derivative instrument is separated from the host contract and valued at fair value with changes recorded in earnings.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The Group does not apply hedge accounting and any gain or loss relating to the change in the fair value of the derivative financial instrument is recognized in the income statement.

Amounts and details of the methodology applied are disclosed in note 25.

##### **(h) Originated loans**

Loans originated by the Group are financial assets created by the Group providing money, goods, or services to a debtor, other than those created with the intent to be sold in the short-term. Loans originated by the Group comprise loans provided to associate entities (refer to Note 4), other non-consolidated entities and buy and sell back treasury bonds (refer to note 7). Originated loans are carried at amortized cost, less impairment losses recognised. Accrued interest is included in net profit or loss for the period in which it arises. The Group instantly recognises impairment losses for all interest accrued on loans given.

##### **(i) Trading instruments**

Trading instruments are those that the Group principally holds for the purpose of short-term profit taking. Subsequent to initial recognition (at which date trading instruments are stated at cost), all trading instruments are measured at fair value.

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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#### **(j) Foreign currency**

Foreign currency transactions are translated at the foreign exchange rates prevailing at the date of the transactions, set either by the Company's bank, the National Bank of Poland or customs authorities as appropriate. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to PLN at the foreign exchange rate set by the National Bank of Poland ruling at that date.

#### **(Significant accounting policies continued)**

#### **(k) Receivables**

Trade and other receivables are stated at their cost less impairments losses (refer to the accounting policy u). The Group recognises impairment losses for receivables in dispute, doubtful debts, including debts overdue at least 3 months. The losses are charged to the operating or financial cost depending on the nature of the amount that was provided for.

#### **(l) Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

#### **(m) Equity**

The share capital of the parent company is also the share capital of the Group and is presented at the nominal value of registered stock, in accordance with the parent company's statute and commercial registration.

The share premium is a capital reserve arising on the Group's initial public offering ("IPO") during 1999 and is presented net of the IPO costs, decreased by the tax shield on the costs.

Retained earnings represent accumulated net income / losses.

#### **(n) Income taxes and deferred income taxes**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise on depreciation of property, plant and equipment, tax losses carried forward and various transactions not considered to be taxable or tax-deductible until settlement. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(o) Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

**Agora SA**

**Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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**(Significant accounting policies continued)**

**(p) Interest-bearing borrowings**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method.

**(q) Grants from the disabled fund**

The Group's subsidiary (AMS) receives grants to fund the acquisition of fixed assets, which are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching thereto. The grants are recognised in the income statement as revenue on a systematic basis over the useful life of the respective assets.

**(r) Trade and other payables**

Trade and other payables are stated at their cost.

**(s) Revenue recognition**

Sales revenue comprises revenue earned (net of value added tax (VAT), returns, discounts and allowances) from the provision of services or goods to third parties. Revenues are recognised when the conditions of sale have been met and no significant uncertainties remain regarding the acceptance of the services and/or goods. Revenues and matching costs are recognised on the accrual basis regardless of the actual payment date. Revenue from sales of advertising services is recognized as services are provided.

**(t) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments.

The Group is not segmented geographically.

**(u) Impairment losses**

The carrying amount of the Group's assets, other than inventories (see accounting policy l), and deferred tax assets (see accounting policy n), are reviewed at each balance sheet date to determine whether there are any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

**(v) Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

**(w) Borrowing costs**

**Agora SA**

**Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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Interest and other costs of borrowing are recorded in the income statement, unless directly related to investments in property, plant and equipment, in which case they are capitalised.

**Agora SA**

**Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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**(Significant accounting policies continued)**

**(x) Employee incentive plans**

The Group's employee incentive scheme provides for performance related remuneration of management level and non-executive high performing employees in the form of a cash bonus and restricted stock.

The cost arising from the discretionary scheme, comprising the amount of cash bonus is estimated and accrued over the performance measurement period, and adjusted for final awards once determined.

One of the Group's shareholders (Agora Holding Sp. z o.o.) awards restricted stock to the Group's eligible employees. Restricted stock is awarded to the Group's employees from stock already in issue. The shares are awarded to the Group's eligible employees at a fixed price of 1 PLN per share. The Group does not bear the costs of such awards and no new stock is issued by the Group for such awards.

**(y) Related parties**

For the purposes of these financial statements, related parties comprise significant shareholders, non-consolidated subsidiaries, associated undertakings, members of the Management and Supervisory Boards of the Group entities and their immediate family, and entities under their control.

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**2. Property, plant and equipment**

	Land and buildings	Plant, machinery and equipment	Assets under constructi on	Total
Opening net book amount	350,800	537,835	15,753	904,388
Additions	4,881	35,750	21,601	62,232
Additions through business combinations	1,351	509	-	1,860
Disposals and adjustments	(948)	(4,201)	(24,897)	(30,046)
Depreciation charge	(15,955)	(100,959)	-	(116,914)
Closing net book amount	<u>340,129</u>	<u>468,934</u>	<u>12,457</u>	<u>821,520</u>
<b>At 31 December 2003</b>				
Cost	402,024	863,951	12,457	1,278,432
Accumulated depreciation	(61,895)	(395,017)	-	(456,912)
	<u>340,129</u>	<u>468,934</u>	<u>12,457</u>	<u>821,520</u>
Prepayments for property, plant and equipment				344
Allowance for leasehold improvements				(1,785)
Net book amount				<u>820,079</u>

All assets included above are owned by the Group.

The following property, plant and equipment with their respective net book values as at 31 December 2003 are pledged as security for a PLN 500 million loan facility, which is fully described in note 13.

Assets	Net book value as at 31 December 2003
Perpetual usufruct	7,205
Land	8,604
Buildings	324,616
Printing presses	149,993
Other	2,176
	<u>492,594</u>

The Group has changed the estimated useful life of perpetual usufruct of land from 10 years to up to 93 years, i.e. the period of the lease.

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**3. Intangible assets**

	Magazine titles	Goodwill	Other intangible assets	Total
Opening net book amount	79,500	180,551	6,080	266,131
Reclassification	4,075	-	(4,075)	-
Additions	-	-	1,160	1,160
Additions - business combinations	-	9,089	80	9,169
Amortisation charge	(5,676)	(11,558)	(536)	(17,770)
Disposals and adjustments	14	-	(59)	(45)
Closing net book amount	<u>77,913</u>	<u>178,082</u>	<u>2,650</u>	<u>258,645</u>
<b>At 31 December 2003</b>				
Cost	86,696	209,809	5,062	301,567
Accumulated amortisation	<u>(8,783)</u>	<u>(31,727)</u>	<u>(2,412)</u>	<u>(42,922)</u>
Net book value	<u>77,913</u>	<u>178,082</u>	<u>2,650</u>	<u>258,645</u>

Reclassification relates to motor magazine titles previously shown in “other intangible assets”.

The rights to magazine titles purchased are pledged as security for a PLN 500 million loan facility, which is fully described in note 13.

The additions to goodwill resulted from:

Acquisitions of new subsidiaries during the period (note 24)	5,214
Reclassifications from associates (note 5)	3,016
Increase of interests in subsidiaries	859
	<u>9,089</u>

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**(all amounts in PLN thousands unless otherwise indicated)

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**4. Investments****Year ended 31 December 2003**

Opening net book amount, including		27,865
- shares in non-consolidated subsidiaries and associates	2,218	
- loans granted	13,966	
- advances for shares	11,412	
- other	269	
Additions		20,443
- long-term loans granted and similar	17,007	
- acquisitions and increases in equity of non-consolidated subsidiaries and associates	3,436	
Disposals and adjustments		(4,461)
Transfer to short term loans		(431)
Provision for losses on investments		(12,698)
Closing net book amount, including:		30,718
- shares in non-consolidated subsidiaries and associates	3,073	
- loans granted	17,889	
- advances for shares	8,784	
- other	972	

Additions to long term loans granted and similar in the amount of PLN 17,007 thousand include primarily loans granted in the amount of PLN 10,673 thousand and accrued interest in the amount of PLN 5,047 thousand.

Provision for losses on investments of PLN 12,697 thousand includes primarily an increase in provisions for a loan granted to an associate Inforadio Sp. z o.o. of PLN 7,175 thousand and an increase of PLN 5,047 thousand in provision for accrued interest to associate companies.

## Agora SA

### Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002

(all amounts in PLN thousands unless otherwise indicated)

#### 5. Investments in associates

##### Year ended 31 December 2003

Share in equity of the associates	47
Net goodwill at the end of the period	<u>8,555</u>
Total investments in the associates	<u>8,602</u>

Gross goodwill at the beginning of the period	10,133
Additions	11,831
- acquisitions of associates entities	11,831
Disposals	(9,685)
- reclassification to subsidiary	(3,350)
- share in cumulative negative equity of the associates	(6,257)
- disposal of a share in an associate	(78)
Gross goodwill at the end of the period	<u>12,279</u>

Write-off of goodwill at the beginning of the period	1,539
Write-off of goodwill during the period	2,185
- reclassification to subsidiary	(334)
- amortisation of goodwill and impairment losses	2,574
- share in losses	(55)
Write-off of goodwill at the end of the period	<u>3,724</u>
Net goodwill at the end of the period	<u>8,555</u>

Interest in results of associates	<u>(1,689)</u>
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#### 6. Acquisitions of AMS SA and magazine business

##### Acquisition of Art Marketing Syndicate SA

In June 2002 Agora SA signed an agreement obliging a group of majority shareholders of AMS SA to sell their shares in AMS SA.

On 14 October 2002, as a result of the public tender offer settlement, Agora SA took full control of AMS SA, acquiring, along with the shares already held, a total of 99.20% of shares, which enabled it to execute 99.33% of voting rights at the General Meeting of Shareholders of AMS.

On 27 November 2002, following the settlement of the second tender, Agora SA increased its stake to 99.48% of the total amount of shares in AMS SA, which enabled it to execute 99.57% of voting rights at the General Meeting of Shareholders of AMS.

On 14 March 2003 Agora SA entered into an agreement with AMS S.A., concerning subscription for shares of AMS. The total issue price of the shares amounted to PLN 30 million. Agora paid in full for the shares subscribed on 17 March 2003.

As at 31 December 2003 Agora's share in the equity of AMS amounted to 99.83%, and the total acquisition cost is PLN 199.0 million.

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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The financial results and the balance sheet of AMS are consolidated using the full consolidation method.

Gross goodwill on consolidation of AMS as at 31 December 2003, amounted to PLN 156.6 million and is amortized over a period of 20 years. The net book value amounts to PLN 146.8 million (2002: PLN 154.0 million) and amortization charge for the period is PLN 7,8 million (2002: PLN 2.0 million).

The result of the outdoor segment amounts to a loss of PLN 6.8 million (refer to note 17) and includes operational revenue and costs of the segment, before adjusting for financial items.

#### Acquisitions of the magazine business

On 19 April 2002, in execution of the investment agreement dated 18 February 2002, Agora SA signed an agreement to purchase the enterprise of "Proszynski i S-ka Czasopisma" Sp. z o. o. (a limited liability company), which included 12 magazine titles published by that company. The purchase price amounted to PLN 73.8 million. The transfer of assets to Agora was executed immediately after the payment of the above-specified amount. Additionally, the final price was adjusted for the amount of the accounts receivable acquired by Agora and not collected until 31 December 2002. The goodwill on acquisition amounted to PLN 3,260 thousand and is amortised over 10 years. During the twelve months to 31 December 2003, the magazine business contributed a loss of PLN 9.7 million (2002: PLN 1.2 million) to the consolidated net result for the year, the figure includes marketing cost of PLN 21.7 million (2002: PLN 4.8 million). The results of the magazines business are included in the results of the press and other media segment, as disclosed in note 17.

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**Effect of acquisitions**

Assets and liabilities acquired in the two largest transactions made in 2002:

	<u>AMS SA</u>	<u>Magazines</u>	<u>Total</u>
Intangible assets	7,021	83,010	90,031
Property, plant and equipment	84,534	414	84,948
Investments	1,838	-	1,838
Inventories	1,082	3,822	4,904
Trade receivables	28,997	4,389	33,386
Other receivables	22,887	878	23,765
Cash and cash equivalents	1,282	114	1,396
Interest-bearing loans and borrowings	(79,145)	-	(79,145)
Employee benefits	-	-	-
Deferred taxes	1,117	-	1,117
Provisions and accruals	(11,594)	(3,154)	(14,748)
Trade payables	(45,657)	(18,938)	(64,595)
Net identifiable assets and liabilities	<u>12,362</u>	<u>70,535</u>	<u>82,897</u>
Goodwill	156,000	3,260	159,260
Total acquisition cost paid, satisfied in cash	<u>168,362</u>	<u>73,795</u>	<u>242,157</u>
Cash acquired	(1,282)	(114)	(1,396)
Net cash outflow	<u>167,080</u>	<u>73,681</u>	<u>240,761</u>

The net cash outflow relating to AMS SA is included in cash flow statement under “acquisition of subsidiary and associate undertakings” in the comparative figures, whereas the net cash outflow relating to the Magazines business is included in “purchase of property, plant and equipment” item.

**7. Cash and cash equivalents**

	<u>2003</u>	<u>2002</u>
Cash at bank and in hand	17,840	28,819
Short-term bank deposits	31,461	20,662
Buy and sell back treasury bonds	39,573	-
Certificates in investment funds	1,675	-
	<u>90,549</u>	<u>49,481</u>

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

Included in cash at bank is an amount of PLN 3,690 thousand representing cash administered by the Group's social fund (31 December 2002: PLN 2,474 thousand).

**8. Short-term financial assets**

	<u>2003</u>	<u>2002</u>
Short-term debt securities	-	1,218
Investment funds certificates	-	1,580
Embedded financial instruments	6,960	5,828
	<u>6,960</u>	<u>8,626</u>

**9. Accounts receivable and prepayments**

	<u>2003</u>	<u>2002</u>
Trade receivables (net of impairment losses)	99,672	107,139
Other receivables	13,123	27,911
Prepayments and accrued income	7,404	5,667
Income taxes	5,564	5,965
Other taxes and social security	5,829	6,201
	<u>131,592</u>	<u>152,883</u>
Impairment losses recognised	53,064	58,960
Total receivable gross	<u>184,656</u>	<u>211,843</u>

Other receivables include loans granted to employees from the Group's social fund of PLN 11,324 thousand (31 December 2002: 7,709 PLN thousand).

Trade receivables include amounts due from related parties arising from normal trading operations of PLN 3,058 thousand (31 December 2002: PLN 1,726 thousand).

**10. Inventories**

	<u>2003</u>	<u>2002</u>
Raw materials and consumables	15,052	14,121
Finished goods and goods for resale	114	618
	<u>15,166</u>	<u>14,739</u>

## Agora SA

### Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002

(all amounts in PLN thousands unless otherwise indicated)

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#### 11. Share capital

##### Number of shares as at 31 December 2003

"Registered A" shares of PLN 1.00 each	4,281,600
"Registered B" shares of PLN 1.00 each	39,108,900
"Registered C" shares of PLN 1.00 each	750,000
"Registered D" shares of PLN 1.00 each	2,267,025
"Bearer E" shares of PLN 1.00 each	9,000,000
"Bearer F" shares of PLN 1.00 each	1,350,000
	<u>56,757,525</u>

Number of shares has not changed in the reporting periods.

Each Registered A share carries five votes at general meetings and Registered C shares carry up to five votes each limited to the overall percentage of shares owned.

Each B, D, E, F share carries one vote at a general meeting.

All the authorised and issued shares are fully paid up.

The Registered B and D shares which are being distributed to employees of the Group by means of the incentive plans, are gradually deregistered to bearer shares in line with the rules of those plans and respective vesting periods.

#### 12. Retained earnings and other reserves

##### Dividends

At the Annual General Meeting held to approve the Company's statutory financial statements for the year ended 31 December 2002, the shareholders resolved that no dividend would be paid in respect of 2002 retained earnings.

Retained earnings, as reported in accordance with Polish accounting regulations, may be distributed subject to certain minimum capital maintenance restrictions, stipulated in the commercial companies' code. Under the Statute of the Company, approval of a three-quarters majority vote of shareholders at the annual general meeting of shareholders is required to distribute retained earnings.

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**13. Long-term and short-term borrowings**

	2003	2002
Long term bank loan	139,480	140,100
Other	84	42
Total long term borrowings	<u>139,564</u>	<u>140,142</u>
Short term bank loan	623	15,712
Commercial debt securities	-	9,000
Total short term borrowings	<u>623</u>	<u>24,712</u>
Total borrowings	<u><u>140,187</u></u>	<u><u>164,854</u></u>

As at 31 December 2003 the Group had a PLN 500 million long-term credit line available from Bank PEKAO SA, on the basis of the loan agreement dated 5 April 2002. A pledge of the Group's fixed assets constitutes the main collateral for the loan (see note 2 and 3 for details on the collateral).

The loan may be drawn in tranches until 30 March 2005 (based on the amendment to the loan agreement of 30 December 2003 extending the drawing period by one year) and may be used to finance Agora's new premises, purchase of fixed and financial assets, capital increases in entities in which Agora may purchase shares, as well as current working capital needs. The base schedule set by the agreement provides for repayment of the principal of the loan in 16 equal quarterly instalments between 31 March 2005 and 31 December 2008. Interest is payable monthly or quarterly (at the borrower's election) and is set based on the WIBOR rate for the given interest period plus bank margin.

The amount of the loan drawn as at 31 December 2003 was PLN 139,480 thousand (2002: PLN 139,480 thousand), whole amount was classified as long term.

The short-term bank loan is repayable in August 2004 and the interest rate is based on the WIBOR rate for the given interest period plus bank margin.

Debt repayment schedule:

	Total	1 year or less	1 - 2 years	3 - 5 years	More than 5 years
Total long term borrowings	139,564	-	69,804	69,740	20
Total short term borrowings	623	623	-	-	-
Total borrowings	<u><u>140,187</u></u>	<u><u>623</u></u>	<u><u>69,804</u></u>	<u><u>69,740</u></u>	<u><u>20</u></u>

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**14. Deferred income taxes**Recognised deferred tax assets and liabilities

Taxable temporary differences as at 31 December 2003 amounted to PLN 146,058 thousand (as at 31 December 2002 PLN 145,859 thousand).

Deferred income taxes are calculated using a rate of 19% (2002: 27%). The change of tax rate is caused by change of legislation effective from 1 January 2004.

	Balance as at 31 December 2002	Recognised in the income statement	Balance as at 31 December 2003
Accelerated depreciation	31,536	281	31,817
Investment relief	15,807	(5,455)	10,352
Accruals and liabilities	(4,177)	934	(3,243)
Impairment losses	(1,946)	1,058	(888)
Tax losses	-	(8,890)	(8,890)
Deferred revenue and adjustments to revenue	(448)	(868)	(1,316)
Other	(1,390)	1,309	(81)
	<u>39,382</u>		<u>27,751</u>

Unrecognised tax assets

Due to uncertainty about availability of future tax profits or uncertainty as to realisation for tax purposes the certain Group companies did not recognise certain deferred tax assets. The amounts of deductible temporary differences and unused tax losses available together with expiry dates are shown in the table below:

	Amount of available differences	Expiry date
Unused tax losses	40,254	Up to 2008
Impairment losses for receivables (net of VAT)	43,495	Unknown
Other deductible temporary differences	8,624	2004

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**15. Long term provisions and deferred credits**

	Balance as at 31 December 2002	Additio ns	Usage	Reversals / Reclassificati on	Balance as at 31 December 2003
Provision for guarantees	9,712	-	-	(9,712)	-
Retirement severances provision – long term part	1,442	180	-	-	1,622
Other	743	328	(36)	-	1,035
Long term provisions	<u>11,897</u>				<u>2,657</u>
Deferred income related to financing from the disabled fund	6,194				3,727
	<u>18,091</u>				<u>6,384</u>

The decrease of the provision for a guarantee to the Inforadio was caused by part repayment of the loan (PLN 2,739 thousand) and by reclassification to short term. According to the Polish employment regulations, employees have the right to retirement severances payments. The amount provided is based on a reliable estimate. These liabilities result from the rights accrued to employees in the current year as well as in prior years.

**16 Accounts payable and accrued charges**

	2003	2002
Trade payables	53,984	79,749
Income taxes	253	205
Other taxes and social security	11,220	18,863
Other payables	16,225	14,064
Accruals	24,783	20,734
Short term provisions	5,740	2,148
Short term deferred income	9,265	9,114
	<u>121,470</u>	<u>144,877</u>

Payables include amounts due to related parties arising from normal trading operations of PLN 540 thousand (31 December 2002: PLN 149 thousand).

Other payables include the Group's social fund and disabled fund of PLN 14,973 thousand (31 December 2002: PLN 12,612 thousand).

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

Short term provisions include:

	Balance as at 31 December 2002	Additions	Usage	Reversals / Reclassification	Balance as at 31 December 2003
Provision for guarantees	1,399	7,125	-	(2,943)	5,581
Retirement severances provision – short term part	34	-	-	(12)	22
Restructuring provision	715	-	-	(578)	137
	<u>2,148</u>				<u>5,740</u>

Provision for guarantees as at 31 December 2003 relates to guarantee granted to an associate company, Inforadio Sp. z o.o. ( refer to note 28).

The accruals include primarily:

- PLN 3,936 thousand (31 December 2002, PLN 3,729 thousand) provided for the Group employees incentive plan,
- PLN 9,598 thousand (31 December 2002, PLN 9,830 thousand) for holiday leave pay provision,
- PLN 7,330 thousand (31 December 2002, PLN 2,978 thousand) for accrual for costs,
- PLN 1,250 thousand (31 December 2002, PLN 1,518 thousand) for accrual for penalty interest,
- PLN 1,150 thousand (31 December 2002, PLN 606 thousand) for accrual for penalty charges.

Deferred income includes primarily:

- PLN 5,607 thousand (31 December 2002, PLN 4,553 thousand) in prepayments for advertising services,
- PLN 1,981 thousand (31 December 2002, PLN 2,103 thousand) in financing from the disabled fund (AMS).

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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#### **17. Sales and segment information**

##### **(a) Segment information**

The Group comprises the following main business segments:

- press and other media,
- outdoor advertising.

A vast majority of the press and other media segment sales and operating profit are derived from the principal activity of the Group which is copy sales and advertising sales of the Gazeta Wyborcza newspaper in Poland. Additionally, the segment also included magazines business, radio business and internet.

The Group commenced its activities in radio broadcasting during 1996, through numerous investments in local and one super-regional radio station in Poland.

In April 2002 Agora acquired the business of 12 colour magazines (see note 6 for details).

In October 2002 Agora acquired AMS SA (see note 6 for details).

The outdoor advertising segment is represented by the AMS Group.

All the Group's assets are located in Poland and, other than the radio, magazine and outdoor businesses referred to above, represent those of the newspaper business.

Segment information is presented in respect of the Group's business segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, financial revenue and costs and income tax.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Inter-segment pricing is determined on an arm's length basis.

**Agora SA**
**Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**(a) Segment information, continued**

	2003			
	Press and other media	Outdoor	Consolidation eliminations	Consolidated
Revenue from external sales	763,582	89,925	-	853,507
Revenue from inter-segment sales	513	30,397	(30,910)	-
Total revenue	764,095	120,322	(30,910)	853,507
Costs of revenue from external customers	(747,015)	(89,125)	-	(836,140)
Costs of revenue from internal customers	(462)	(30,149)	30,612	-
Goodwill amortisation	(5,076)	(7,818)	-	(12,894)
Total operating costs	(752,554)	(127,092)	30,612	(849,034)
Operating profit	11,541	(6,770)	(298)	4,473
Interest in result of associates	(1,689)	-	-	(1,689)
Segment result	9,852	(6,770)	(298)	2,784
Net financial revenue and costs				(9,768)
Gain on disposal of shares in an associate				322
Income taxes				9,616
Minority interests				(836)
Consolidated net profit for the period				2,118
Assets	1,068,796	261,332	-	1,330,128
Investment in results of associates	8,602	-	-	8,602
Unallocated assets				23,581
Total Assets				1,362,311
Liabilities	77,557	80,028	-	157,585
Unallocated liabilities				139,480
Total liabilities				297,065
Capital expenditure	(30,532)	(15,786)	-	(46,318)
Depreciation and amortisation	(103,418)	(19,773)	-	(123,191)
Impairment losses recognised in the profit and loss	(10,766)	(10,204)	114	(20,856)
Impairment losses reversed in the profit and loss	5,794	5,637	-	11,431

The comparative figures are not provided due to the fact that the outdoor advertising segment has been consolidated since the fourth quarter of 2002 and hence its results for 2002 were not material to the consolidated financial statements. Consequently the comparative figures include mainly “press and other media” segment.

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

The majority of segmental impairment losses recognised and reversed refer to receivables according to the rules described in the Group's accounting policies. Impairment loss recognised in respect of radio companies, described in note 21, is included in the impairment losses of the "press and other media" segment.

**(b) Sales information**

	<u>2003</u>	<u>2002</u>
Sales of advertising services	581,476	550,679
Sales of newspapers and magazines	226,390	202,358
Other sales	45,641	32,252
	<u>853,507</u>	<u>785,289</u>

Included in sales of advertising services are barter sales of PLN 19,232 thousand (for the year ended 31 December 2002: PLN 11,818 thousand).

**18. Operating costs**

	<u>2003</u>	<u>2002</u>
Raw materials and consumables	166,317	166,769
Other external charges	317,203	219,432
Staff costs (Note 19)	228,256	213,370
Depreciation of property, plant and equipment (note 2)	116,914	106,468
Amortisation of intangible assets and goodwill, including associates (Note 3, 5)	20,344	10,117
	<u>849,034</u>	<u>716,156</u>

Other external charges include the following items:

Advertising and promotion costs	75,472	43,616
Business travel costs	3,967	3,674
Publishing licences	6,044	4,334
Property operating lease rentals	8,832	10,282
Outdoor location lease rentals	56,951	12,826
Insurance costs	1,603	1,038
Taxes and similar charges	7,973	5,274
Other external services rendered (telecommunication, printing, transport, IT, cleaning, maintenance)	153,843	122,500
Impairment losses, net (fixed assets, receivables, inventory)	9,442	6,005
Amortisation of fixed assets financed from the disabled fund	(4,860)	(1,151)
Other (revenues) / costs	(2,064)	11,034
	<u>317,203</u>	<u>219,432</u>

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**19. Staff costs**

	<u>2003</u>	<u>2002</u>
Wages and salaries	187,432	176,546
Social security costs	36,778	33,631
Employee incentive scheme costs	<u>4,046</u>	<u>3,193</u>
	<u>228,256</u>	<u>213,370</u>
Average number of persons employed	<u>3,866</u>	<u>3,613</u>

The headcounts include employees of the companies consolidated using the full consolidation method (see note 30).

**Employee incentive plan**

	<u>2003</u>	<u>2002</u>
Number of employees participating (except Management Board)	3,782	293
Number of Agora SA shares sold to individuals (except those bought by the Management Board)	3,189,725	718,926

**Directors' remuneration and other benefits**

Remuneration of Management Board members of Agora SA paid pursuant to employment and management contracts amounted to PLN 2,145 thousand (2002: PLN 1,990 thousand).

Agora's shares owned by the Management Board members acquired in accordance with the employee incentive plans (see note 1: employee incentive plans for details):

	<u>acquired in 2003</u>	<u>acquired in 2002</u>	<u>total shares owned at 31.12.2003</u>	<u>total shares owned at 31.12.2002</u>
Wanda Rapaczynski	27,411	-	1,385,314	1,377,535
Piotr Niemczycki	27,011	-	1,882,691	1,855,680
Helena Łuczywo	21,625	-	1,300,193	1,327,329
Zbigniew Bąk	59,466	73,583	140,728	92,484

Total compensation paid during the year to the Supervisory Board members amounted to PLN 242 thousand (2002: PLN 244 thousand).

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

Total compensation paid to the management of associated and subsidiary companies:

	<u>2003</u>	<u>2002</u>
In consolidated companies		
Management Board members	7,992	6,066
Supervisory Board members	120	18
In companies excluded from consolidation		
Management Board members	492	193
Supervisory Board members	-	5

**20. Interest and financial items**

	<u>2003</u>	<u>2002</u>
Interest income	2,192	7,650
Income, other than dividends, from short-term investments	1,822	1,843
Net gains on forward foreign exchange and future interest rate contracts	-	1,268
Income on valuation of embedded financial instruments	2,216	4,307
	<u>6,230</u>	<u>15,068</u>
Interest and other expenses:		
Interest on loans payable	(10,059)	(3,594)
Foreign exchange translation gains / (losses)	(1,844)	647
Other financing costs	(518)	(1,994)
	<u>(12,421)</u>	<u>(4,941)</u>
	<u>(6,191)</u>	<u>10,127</u>

**21. Impairment losses**

Due to the loss making position of certain radio companies Agora SA performed impairment tests for its investments in those companies. Radio companies were grouped according to their regional locations. The estimates of recoverable amount were based on value in use, determined using a discount rate of 10.8%. Impairment tests performed resulted in an additional write off of goodwill of an associate company in the amount of PLN 1,152 thousand (included in amortisation of goodwill).

**22. Income taxes**

	<u>2003</u>	<u>2002</u>
Current domestic income taxes	2,018	3,272
Deferred income taxes	(11,634)	19,020
	<u>(9,616)</u>	<u>22,292</u>

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate ruling in the particular year as follows:

	<u>2003</u>	<u>2002</u>
(Loss) / Profit before tax	(6,662)	74,245
Tax calculated at a tax rate of 27% (2002: 28%)	(1,799)	20,789
Interests in results of associates	456	646
Tax losses of subsidiaries consolidated	13,913	1,814
Income not subject to tax	(3,011)	(2,824)
Amortisation of goodwill	3,481	1,467
Other consolidation adjustments	(572)	6,068
Other temporary differences on which deferred tax was not recognised	(10,142)	(3,151)
Other permanent differences	3,240	179
Utilisation of previously unrecognised tax losses	(3,178)	(2,696)
Change of tax rate	<u>(12,004)</u>	<u>-</u>
Tax (recovery) / charge	<u>(9,616)</u>	<u>22,292</u>

**23. Earnings per share**

In calculating earnings per share the following variables were used:

- a) as numerators – net profits for the respective years,
- b) as denominators - the average number of shares issued for the current year which is 56,757,525 for both 2003 and 2002.

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

**24. Cash flows: Acquisition of subsidiary and associate undertakings****Year ended 31 December 2003**

Purchase of consolidated subsidiaries	Intangible assets	80	
	Property, plant and equipment	1,860	
	Inventories	1	
	Trade receivables	226	
	Other receivables	49	
	Cash and cash equivalents	207	
	Interest-bearing loans and borrowings	(803)	
	Provisions and accruals	(69)	
	Trade and other payables	(215)	
		<u>1,336</u>	
	Net identifiable assets and liabilities purchased (51%)	682	
	Goodwill on acquisition	<u>5,214</u>	
Total acquisition cost paid, satisfied in cash			5,896
Purchase of non-consolidated subsidiaries			3,073
Purchase of shares in associates			3,713
Other			<u>2,011</u>
			<u>14,693</u>

The details for comparative information are included in note 6.

In the year ended 31 December 2003 the Group acquired certain shares in subsidiary and associate undertakings (mainly radio companies). The acquisitions were accounted for using purchase method of consolidation.

**25. Financial risk management****Credit risk**

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash, short-term deposits and trade receivables. The Group's cash equivalents are placed with high credit quality financial institutions or with related entities. All investments are made subject to procedures approved by the Management Board .

Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Group's customer base and their dispersion across different industries. Accordingly, the Group has no significant concentration of credit risk.

**Exchange rate risk**

Accounts receivable in foreign currency amounted to PLN 1,038 thousand (31 December 2002: PLN 794 thousand), principally in Euros.

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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Accounts payable requiring settlement in foreign currency amounted to PLN 6,565 thousand (31 December 2002: PLN 19,540 thousand), payable principally in Euros and USD.

Foreign exchange risk is related to purchases of newsprint which is contracted in Euro, and capital purchases and rent of space which are also partly made in foreign currencies, mainly Euro and USD.

Until 2001 Agora hedged against general foreign currency exposure by foreign currency derivatives contracts. Although the Company does not currently hedge against such risk on a long term basis (because of high cost of long term hedging) it may still enter into short term forward currency contracts with maturity up to three months.

#### Embedded derivative

In the financial statements the Group has recognized the impact of embedded financial derivatives in accordance with requirements set out in IAS 39. Consequently, the Group has recorded a financial asset amounting to PLN 6,960 thousand (31 December 2002: PLN 5,828 thousand).

The embedded instruments arise from long-term contracts denominated in foreign currencies, the majority of which are for the lease of outdoor locations, and the provision of computer services and equipment, entered into 1999 or earlier. Lease payments resulting from the contracts are scheduled up to 2012.

#### **Interest rate risk**

The Group invests in short-term deposits and short-term securities with variable interest rates specific to liquid financial instruments of minimum risk, or other securities paying a premium on redemption. All the deposits and securities mature within one year. Additionally, the Group has interest bearing bank loans with floating rate based on WIBOR (refer to the note 13).

#### **Sensitivity analysis**

At 31 December 2003 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately PLN 1.5 million.

## **26. Fair value of financial instruments**

The carrying value of financial instruments approximate their fair value.

## **27. Capital and investment commitments**

Contractual capital and investment commitments existing at the balance sheet date amounted to PLN 18,309 thousand (31 December 2002: PLN 45,836 thousand).

As of 31 December 2003 future capital and investment expenditures budgeted by the Group for the following 12 months amounted to PLN 53,260 thousand (31 December 2002: PLN 76,500 thousand).

## Agora SA

### Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002

(all amounts in PLN thousands unless otherwise indicated)

#### 28. Contingencies

As of 31 December 2003 the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, other than those noted below.

Benefiting party	Debtor	Valid till	Amount	Provisions booked
Guarantees provided by Agora SA				
Deutsche Bank Polska S.A.	BOR Sp. z o.o.	14.10.2004	1,523	-
Raiffeisen Bank Polska S.A.	Inforadio Sp. z o.o.	30.12.2004	5,581	5,581
Guarantees provided by AMS SA				
Gmina Wrocław	Akcent Media Sp. z o.o.	16.02.2004	408	-
VOX Chemia Sp. z o.o.	AMS SA	31.12.2012	1,467	-
PKiN Sp. z o.o., Warszawa	AMS SA	31.01.2006	200	-
Zakład Gospodarki Mieszkaniowej Bielsko Biała	AMS SA	-	6	-
BP Poland Sp. z o.o.	AMS SA	-	20	-
			<u>9,205</u>	<u>5,581</u>

#### 29. Commitments under operating leases

The future minimum lease payments under non-cancellable operating leases are primarily for the lease of outdoor locations, land and buildings and are summarised as follows :

	2003	2002
Within one year	43,283	49,435
Between:		
one and two years	37,611	34,644
two and three years	35,154	30,353
three and four years	32,999	27,260
four and five years	31,186	26,488
more than five years	33,231	52,258
Total minimum payments	<u>213,464</u>	<u>220,438</u>

The amounts disclosed above include 22% VAT that the Group will be able to recover.

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

The majority of lease payments are denominated in PLN.

Total value of minimum lease payments denominated in foreign currencies amounts to EUR 1,995 thousand and USD 8,725 thousand which is equivalent of PLN 42,046 thousand.

A breakdown of the future minimum lease payments under non-cancellable operating leases to be paid by AMS is presented below:

	<u>2003</u>	<u>2002</u>
Within one year	37,590	44,068
Between:		
one and two years	34,456	31,332
two and three years	32,372	28,720
three and four years	30,666	26,105
four and five years	30,231	25,016
more than five years	<u>29,625</u>	<u>47,669</u>
Total minimum payments	<u>194,940</u>	<u>202,910</u>

The amount of minimum lease payments recognised in the income statements is shown in note No 18.

### **30. Group companies**

The financial statements of the Group for year 2003 include consolidated data for the following companies:

**Agora SA****Notes to the consolidated financial statements for the year ended 31 December 2003  
with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

<b>Companies consolidated using the full consolidation method</b>		<b>Group's equity holding 2003</b>	<b>Group's equity holding 2002</b>
1	Agora SA, Warsaw	N/A	N/A
2	Agora Poligrafia Sp. z o.o., Tychy	100.00%	100.00%
3	Art Marketing Syndicate SA (AMS), Poznań (1)	99.83%	99.48%
4	KKK FM S.A., Wrocław	84.18%	84.18%
5	Elita Sp. z o.o., Bydgoszcz	99.75%	99.08%
6	Radio Trefl sp. z o.o., Sopot	99.96%	99.96%
7	IM 40 Sp. z o.o., Warsaw	72.01%	72.01%
8	LRR Sp. z o.o., Warsaw	100.00%	100.00%
9	O'le Sp. z o.o., Opole	100.00%	100.00%
10	Karolina Sp. z o.o., Tychy	100.00%	100.00%
11	CITY Radio Sp. z o.o., Częstochowa	100.00%	100.00%
12	Radio Na Fali Sp. z o.o., Szczecin (previous name ZUH UZNAM Sp. z o.o.)	100.00%	100.00%
13	ROM Sp. z o.o., Warsaw	100.00%	100.00%
14	Barys Sp. z o.o., Tychy	89.78%	89.78%
15	Agencja Reklamowa Jowisz Sp. z o.o., Jelenia Góra	100.00%	99.12%
16	Radio Pomoże Sp. z o.o., Bydgoszcz	100.00%	100.00%
17	Twoje Radio Sp. z o.o. Wałbrzych(2)	100.00%	95.32%
18	Wibor Sp. z o.o., Nowy Sącz	100.00%	48.99%
19	Adpol Sp. z.o.o., Warsaw	100.00%	100.00%
20	Akcent Media Sp. z o.o., Poznań	100.00%	100.00%

(1) On 14 March 2003 Agora SA entered into an agreement with Art Marketing Syndicate S.A., concerning subscription for 681,818 series E ordinary bearer shares of AMS of nominal value of PLN 2 per share, and total nominal value of PLN 1,363,636.

The issue price of the shares subscribed for by Agora equals to PLN 44 per share and their total issue price amounts to PLN 29,999,992. Agora paid fully for the shares subscribed on 17 March 2003.

(2) indirectly, through Agencja Reklamowa Jowisz Sp. z o.o.

<b>Companies accounted for using the equity method</b>		<b>Group's equity holding 2003</b>	<b>Group's equity holding 2002</b>
21	Multimedia Plus Sp. z o.o., Śrem	24.00%	47.99%
22	Jan Babczyszyn Radio Jazz FM Sp. z o.o., Poznań	42.00%	42.00%
23	BOR Sp. z o.o., Poznań	48.16%	47.19%
24	Inforadio Sp. z o.o., Warsaw	41.61%	41.61%
25	Radio Wanda Sp. z o.o., Cracow	27.00%	27.00%
26	Radio Mazowsze Sp. z o.o. Łomianki	23.95%	23.95%
27	Radio Klakson Sp. z o.o., Wrocław	49.00%	4.00%
28	Bis Media Sp. z o.o., Lublin	49.00%	4.99%
29	Regionalne Przedsiębiorstwo Związkowe Sp. z o.o., Tychy	49.00%	4.00%

## Agora SA

### Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002

(all amounts in PLN thousands unless otherwise indicated)

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The remaining companies in which Agora SA owns shares (not listed in the tables presented above) are not consolidated as they are immaterial.

#### 31. Minority interest

Following the consolidation of subsidiaries, as described in note 30, the Company accounted for a minority interest which is presented below:

	2003	2002
Opening balance at 1 January	1,476	509
Change for the period	836	906
On acquisition of subsidiaries	(31)	61
Dividends	(1,008)	-
	<u>1,273</u>	<u>1,476</u>

#### 32. Service concession arrangements – radio business companies

Agora SA holds interest in 24 radio companies in Poland, which control 28 local stations (26 of them broadcasting) and the superregional radio station TOK FM. Radio stations operates under concessions granted by the National Broadcasting Council (KRRiT). The concessions are granted for periods from 3 to 7 years in exchange for the licence fee payable upfront. The fees depend on the population in the area covered by particular station.

During the period of the concession the radio stations are, among others, obliged to comply with regulations in the Broadcasting Act, broadcast radio programmes as specified in the application for the concession approved by the National Broadcasting Council as well as provide the National Broadcasting Council with yearly financial statements.

The certainty of the future cash flows from the radio business depends, among others, on the decisions of the National Broadcasting Council which may revoke the licence or refuse to renew it. The licence may be revoked when:

- the transmission of programme services threatens the interests of the national culture, security and defence or if it transgresses the standards of public decency,
- by transmitting programme services the broadcaster gains a dominant position in the mass media in the given area,
- another person takes over direct or indirect control over the activity of the broadcaster,
- the activity subject to the broadcasting licence is performed in breach of the Broadcasting Act or the terms of the licence,
- the licensee fails to commence operations within the time limit specified in the licence or if the licensee's activity is interrupted for more than three months, unless the delay in commencing the initial transmission or the break are caused by circumstances beyond the broadcaster's control,
- the licensee fails to make the payment in full of the broadcasting licence fee within the time limit provided for in the broadcasting licence,
- the licensee fails to deliver the financial statements.

The renewal of the licence is subject to the same conditions as for granting a new one.

## Agora SA

### Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002

(all amounts in PLN thousands unless otherwise indicated)

The breakdown of current year revenues of radio companies, consolidated using the full method, according to years when licences will expire (expired) is presented below:

Expiry date of radio licence	Number of radio companies concerned	Revenues for 2003
2003	1	313
2005	2	4,173
2007	1	1,548
2008	2	1,560
2009	3	3,630
2010	3	9,872
2011	2	3,143
	<u>14</u>	<u>24,239</u>

The breakdown of Agora's share in revenues of radio companies, consolidated using the equity method, according to years when licences will expire is presented below

Expiry date of radio licence	Number of radio companies concerned	Share in revenues for 2003
2007	1	159
2008	3	1,755
2009	3	1,761
2010	3	4,882
	<u>10</u>	<u>8,557</u>

### 33. Post-balance sheet events

- On 5 January 2004 and 28 January 2004 Agora SA notified – on the basis of the stipulations of art. 4 item 1 of the Act dated 13 March 2003 on specific rules of terminating employment relationship due to causes unrelated to the employee – the Employment Office of the planned group lay-offs. In the first half of the year the lay-offs will affect about 500 employees. Agora SA is implementing yet another phase of organizational transformation that aims at increasing effectiveness of its operations within altering market conditions. The approximate costs relating to restructuring amount to PLN 7 million. No provision for restructuring was established in the Group accounts as at 31 December 2003.
- On 19 January 2004 Agora SA acquired 51 shares in the company Radio Klakson Sp. z o.o. with its seat in Wroclaw, with nominal value of PLN 25.5 thousand. The acquired shares constitute 51.01% of the company's share capital. After the transaction Agora's stake in the share capital of Radio Klakson Sp. z o.o. amounts to 100% and entitles the Company to exercise 100% of voting rights at the general meeting of shareholders.
- On 30 January 2004 Agora SA acquired a 73% stake in the share capital of the company under the business name Radio Wanda Sp. z o.o. with its seat in Krakow, the broadcaster of local radio programs *Zlote Przeboje Wanda 92,5 FM*, with nominal value of PLN 182.5 thousand. After the transaction, Agora's stake in the share

## **Agora SA**

### **Notes to the consolidated financial statements for the year ended 31 December 2003 with comparative figures for 2002**

(all amounts in PLN thousands unless otherwise indicated)

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capital of Radio Wanda amounts 100% and entitles the Company to 100% of voting rights at the general meeting of shareholders.

- On 23 February 2004 a limited liability company under the business name Polskie Badania Outdooru (the "PBO") was formed by Agora's subordinate entity - Art Marketing Syndicate S.A. with its seat in Poznań (the "AMS") and the company Clear Channel Poland Sp.z o.o. with its seat in Warsaw (CCP). The objects of the PBO shall include research as regards means of outdoor advertising, authorizing results of such research in campaigns offered to customers as well as establishing rules and standards of research in outdoor advertising in Poland. The initial share capital of the PBO shall equal PLN 150,000 and be divided into 100 equal and indivisible shares of the nominal value PLN 1,500 each. The AMS shall subscribe for 51 shares constituting 51% of the PBO share capital and entitling to exercising 51 votes (that is 51% of total voting rights) at the general meeting in the company. Total nominal value of shares subscribed for in the PBO by AMS S.A. equalled PLN 76,500. AMS investment in PBO Sp. z o.o. is of a long term nature.
- On 17 March 2004 the Management Board of Agora SA informed that Polskie Badania Reklamy Zewnętrznej Sp. z o.o., the subsidiary of AMS SA will be liquidated. The research project concerning audience of outdoor advertising will be continued by AMS within the company Polskie Badania Outdooru Sp. z o.o. (Polish Outdoor Research - "PBO"), which was set up with Clear Channel Poland Sp. z o.o. The liquidation process has been initiated based on the resolution of the shareholders meeting of 6 February 2004.

## **Report of the independent auditor to the shareholders of Agora S.A.**

We have audited the accompanying consolidated balance sheet of Agora S.A. (“the Company” or “the Group”) as of December 31, 2003, and the related consolidated statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Company’s directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of December 31, 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Polska Audit Sp. z o.o.  
14 April 2004

Dear shareholders:

This year Agora and *Gazeta Wyborcza* celebrate their 15<sup>th</sup> anniversary. It is a moment to take stock of where we are coming from and where we are heading. Here is an accounting of our accomplishments and challenges.

The company was born on the eve of Polish transformation and from the outset it has been tightly bound to its success. In the early 90-ies the young advertising market grew rapidly, fuelled by expanding economy. During the period we built the leading Polish newspaper and a company with a remarkable profit margin. All profits were plowed back to build the technology base necessary to deliver quality product and services to our readers and clients.

In the late 90-ies the company was ready to start gingerly expanding into other media segments. In 1999, Agora went public to generate funds necessary to complete the state-of-art printing base and to fund growth.

Since then, several things have happened, some good, others less so. We put behind us the first advertising recession. Polish economy started slowing by 2001, causing the advertising market to keep shrinking for three consecutive years. *Gazeta Wyborcza's* revenues were not immune to the decline, yet the newspaper's profitability remained high.

In the midst of the recession, we made two significant acquisitions, in the magazine and outdoor advertising segments. Both were turn-around cases and, after restructuring, are on track to profitability. They will become positive contributors to the bottom line over the next couple of years.

We did not make two other significant acquisitions – into terrestrial television and educational publishing. Both were blocked by Polish government which, in effect, stymied Agora's growth. To prevent our entry into TV, the government redrafted the media law. The redraft, which cast doubt on media freedom in Poland, led to a corruption scandal after we publicized an attempt, by an alleged representative of the ruling coalition, to extort from Agora editorial concessions and a huge bribe in exchange for a less adverse law. This was the first in a long list of corruption cases associated with the current government. It's approval ratings plummeted, destabilizing the political scene on the eve of EU accession.

As we battled the impact of recession and the backlash which followed on our whistle blowing, the competitive situation in our core newspaper segment became tougher when a new national tabloid, launched in October of 2003, posed a challenge to *Gazeta's* advertising position.

Advertising recession, new entrants, and political harassment are business as usual for media companies. However, it is rare for all of them to occur at the same time. The accretion of negative events tested our strengths and pointed out how and where we needed to toughen up for the future. We responded immediately by restructuring the company. Still, a lot remains to be done to meet the high expectations of the market. We know what we want to accomplish: to ensure future scale and profitability of our core business and to expand our operations, growing Agora's value to shareholders. We know how to go about it and we have the will to get there. In the process, we will have built a stronger company, more resilient to EU competition.

The market outlook signals fairer winds ahead for Agora. Polish economy is expanding again. After solid improvement last year, the GDP growth in the first quarter of this year is ahead of expectations and will top 5%, the political mess notwithstanding. The advertising market is showing the first signs of recovery and its growth should accelerate provided the domestic leg of the economy strengthens. Poland will have become a member of EU on May 1. In the

medium term, the membership will strengthen the institutions of the state and will provide an additional stimulus to the economy, thus improving the business climate.

**AGORA GROUP**  
**MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)**  
**OF THE GROUP'S RESULTS**  
**FOR THE YEAR OF 2003 PRESENTED ACCORDING TO**  
**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

**REVENUE PLN 853.5 MILLION, EBITDA PLN 139.1 MILLION,  
OPERATING CASHFLOW PLN 134.4 MILLION**

Unless indicated otherwise, all data presented below represent the period of January-December 2003, while comparisons refer to the year 2003 versus 2002. The percent changes presented herein have been calculated on the basis of exact (not rounded off) figures.

***Market data sources:***

*Unless explicitly stated otherwise, advertising market data referred to herein are based on Agora's estimates adjusted for average discount rate and are stated in current prices. Given the discount pressure and advertising time and space sell-offs, these figures may not be fully reliable and will be adjusted in the consecutive reporting periods. The estimates refer to advertising expenditures in four media (TV, print, radio and outdoor), which in case of print do not include classifieds, inserts and obituaries. The estimates are based on rate card data obtained from the following sources: AGB Polska monitoring, CR Media monitoring, Agora Monitoring, Media Watch monitoring.*

*In this MD&A Agora has corrected the advertising figures for 2003 and the previous years. The data referred to herein are based on the corrected estimates of the Company.*

*The estimates referring to employment advertising category are more precise as they are based on Gazeta Wyborcza's revenues, which constitute about 80% share of this category in all paid dailies.*

*The data on the number of copies sold of daily newspapers is based on the National Circulation Audit Office (ZKDP).*

# I. EXTERNAL AND INTERNAL FACTORS IMPORTANT FOR THE DEVELOPMENT OF THE GROUP AND INFLUENCING ITS FINANCIAL RESULTS

## 1. EXTERNAL FACTORS

### 1.1. Economy

The positive economic trends are becoming firm. According to the preliminary forecast of the Main Statistics Office (GUS), the GDP growth in 2003 was 3.7%. The 2004 economic growth assumptions are also very optimistic at 5%.

The lively growth of GDP has been largely driven by exports, which do not have an impact on the advertising market. In the third quarter of 2003, the company investments, which enhance the advertising spending, posted a growth of 0.4%. This was however significantly below expectations. According to the GUS forecast, the level of the company investments in 2003 was down 0.7%.

The state of public finances (growing budget deficit and public debt) is a cause for concern. The government presented its austerity programme (the so called Hausner's plan), with cuts to the budget spending. However, the cuts have already been curtailed and it is uncertain whether the entire plan is approved by the parliament. A debate concerning the scale of the cutbacks brings about instability in the currency market. In 2003, the Polish zloty depreciated 14.2% against the euro.

### 1.2. Advertising market

In 2003, which was the third year of the recession on the advertising market, total advertising spending remained flat over 2002. The advertising spending in TV remained nearly on the same level, while radio grew by 8.7% and outdoor grew by 7.2%<sup>1</sup>. The print market experienced a decline of 3.2%. The daily newspapers, the segment that was most severely affected by the recession, lost almost 8%.

### 1.3. Circulation market

According to ZKDP, the number of newspapers sold in 2003 decreased by 6% (the statistics do not include the tabloid *Fakt*). Copy sales of *Gazeta Wyborcza* declined by a mere 0.8%, *Rzeczpospolita* lost 1.1%, while *Super Express* as much as 8.6%.

After two months in the market (November and December of 2003), the average copy sales of the tabloid *Fakt* (weighted average by the number of issues) was 458.7 thousand copies (374.2 thousand in November 2003 and 536.3 thousand in December 2003). In the same period, paid circulation of *Gazeta Wyborcza* reached 441.8 thousand copies (451.5 thousand in November 2003 and 432.9 thousand in December 2003), an increase of 4.9% over the same period in 2002. In November and December of 2003 the average copy sales of tabloid *Super Express* amounted to 271.3 thousand and decreased by 1% over the same period in 2002.

Local dailies monitored by ZKDP saw a steep decline in copy sales. In November and December 2003, the average paid circulation of this group of dailies decreased by 11.4% or almost 130 thousand copies. The most significant deceleration of copy sales (15%) was noted among the titles belonging to *Polskapresse* in December 2003.

The launch of the tabloid *Fakt* is accompanied by an intensive marketing campaign. The tabloid offers a very low cover price (PLN 1) and from the very beginning runs cash contests with attractive prizes. Readers win PLN 30 thousand every day and a car every week. This contributes to high copy sales. Hence, it is difficult to judge what will be the level of copy sales in the long run if the publisher decides to cease the lotteries and increases the copy price.

2003 brought a decline in the average number of copies sold of the well-entrenched magazine titles. In the period of January-December 2003, 105 magazines monitored by ZKDP, which did not change their name, the publisher or the frequency of publication, decreased copy sales by 6.9% yoy. The downward trend was caused by new high-circulation titles appearing in the market, such as *Glamour*, *Dobre Rady* or *Bella*. In 2003 the publishers of magazines competed aggressively in the market, attaching to their publications increasingly more attractive gifts for the readers (the most popular ones were DVDs).

### 1.4. Competitive environment

As set forth in point 1.3 above, the immediate effect of *Fakt's* entry was reflected in a much lower level of paid circulation of local newspapers. At the same time, the launch of the new tabloid increased the total number of copies sold of daily newspapers. It is difficult to judge whether the observed trend is sustainable as November and December of 2003 were the peak period for marketing and promotional campaigns for most of the dailies.

It should be pointed out that only a few local dailies decreased their cover prices following the entry of *Fakt* (*Zycie Warszawy*, *Kurier Lubelski* and *Dziennik Wschodni*).

The first readership statistics for November and December of 2003 indicate that *Fakt's* target audience differs from *Gazeta's* active and well-educated readers. According to December 2003 readership data, *Fakt's* reach among readers amounts to 14%. Among the readers in cities over 100 thousand inhabitants *Fakt's* readership reaches 18% (compared to *Gazeta's* 32%), of secondary and higher education to 15.5% (*Gazeta* reaches 30.7%) and of those whose personal income exceeds PLN 1,000 to 17.4% (*Gazeta's* 35.9%). *Fakt* is a typical tabloid and will compete with *Super Express* in the readership market (Source: PBC General readership research by SMG/KRC A MILLWARD BROWN COMPANY; weekly readership).

Axel Springer assumes that in 2004 *Fakt* will gain a share in the dailies advertising market equal to that of *Super Express*. According to Agora's estimates this will translate into advertising revenue of PLN 30-35 million. In the opinion of the

Management Board, it is too early to draw conclusions as to what extent the new tabloid will compete with *Gazeta* in the advertising market.

The once stable newspaper market is undergoing significant change. In the first two months of publication, *Fakt* acquired a large number of readers. The readership data for November and December 2003 indicate that the tabloid has slightly broadened the readership of newspapers. Still, it is too early to judge whether this change will be permanent. In consequence, it is difficult to forecast today the future make up of the dailies market.

## **2. INTERNAL FACTORS**

### **2.1. New businesses**

Consolidation and integration of new businesses (AMS, Magazines and radio companies, as well as revenue and costs of the radio department of Agora SA) had the following impact on the Group's 2003 financials:

- revenue increased by PLN 196.2 million,
- operating profit was down by PLN 36.9 million (including cost of goodwill write-off in the amount of PLN 14.1 million and amortization of new magazine titles of PLN 5.7 million),
- net result decreased by PLN 44.5 million (including financial cost related to the loan drawn to finance investment in AMS S.A.).

Amortization of goodwill includes a write-off of PLN 1.3 million of impairment loss of a radio company.

AMS and Magazines have accomplished their 2003 operating goals. The 2003 revenue of the magazine titles increased by 16.4% (2002 data include the estimated revenue of the Magazine division and four motorcycle titles prior to their acquisition by Agora as well as revenue of City Magazine Sp. z o.o.). As a result of restructuring, AMS reduced its operating cost by 15.9% and reached positive EBITDA.

As a result of a very weak local radio market, which continued to lose revenue to national stations, Agora's local radio stations failed to achieve their 2003 operating objectives. In 2003, the Management Board implemented restructuring measures in the group.

## **3. 2004 PROSPECTS**

### **3.1. Advertising market**

Export driven economic growth, new competition in the dailies market, as well as uncertain pricing policy of the public television make the 2004 advertising outlook unclear.

The growth of advertising expenditure in the fourth quarter of 2003 may signify a slow reversal of the negative trend. On the other hand, we hear mixed opinions from the advertising clients, particularly about the newspaper segment, which suffered largest losses during recession.

According to very preliminary assumptions of the Company, total advertising spending in 2004 shall be ca 4% higher than in the previous year. Television will grow ca 4%, radio 8% and outdoor 6%. Advertisers will spend ca 4% more in the print segment than last year. In the newspaper segment, visibility is poorer due to dynamic changes in that market. The Company estimates that the best case scenario is a 1-2% growth. The Company wishes to emphasize that due to lack of clear signals from the clients, its advertising market assumptions for 2004 may be subject to corrections.

The Management Board assumes that total revenue of the Group in 2004 will register a one-digit increase. The level of advertising sales of *Gazeta Wyborcza* depends on the trends in the dailies market. The Management Board will keep the shareholders informed of these trends and their impact on *Gazeta's* result.

### **3.2. Competition**

Three-year advertising recession increased the already high level of competitiveness in the media market. Public television supported by license fees took advantage of its strong position in the advertising market, offering its clients high discount rates. The discount pressure negatively affected both national commercial TV stations and daily newspapers. Very cheap TV advertisements attracted smaller clients, which typically advertise in print, e.g. construction or retail.

On December 24, 2003 Agora, Polsat SA and TVN Sp. z o.o. filed a suit with the Competition and Consumer Protection Office (UOKiK), requesting the authority to initiate antitrust proceedings against public TV and to reveal its competition distorting practices. The parties to the suit request that UOKiK orders public television to discontinue monopolistic practices and imposes a fine.

The newspaper market, which is crucial for the Agora Group, has changed significantly. A new national tabloid *Fakt* hit the newsstands, while the daily *Zycie* was re-introduced to the market. In the opinion of the Management Board, consolidation of *Gazeta Wyborcza's* market position is the Company's priority for 2004.

Several projects which further this objective have already been executed, including the image campaign of *Gazeta*, changes to *Gazeta's* layout and the launch of *High Gear*, a new supplement for men. On October 22, 2003 the Company relaunched the enhanced Warsaw free daily *Metro*. In 2003, the total cost associated with the projects mentioned above was PLN 36 million.

The Company intends to continue active promotion of *Gazeta Wyborcza* in 2004.

### **3.3. Restructuring**

In the last couple of years Agora grew the scale of its business and became a multimedia company. It is now an important goal to adjust the Company's operations to its new business formula, particularly in the context of growing competition and unclear outlook in the advertising market.

Hence, the Management Board is continuing restructuring measures which commenced in 2001. The process aims at a thorough review of the Company's operations. Implementation of simpler and more flexible processes will translate into more efficient market performance of the Company, which now operates on a larger scale.

The main changes are centralization of corporate utilities, such as finance and human resources, optimization of the cost of materials or renegotiation of agreements with the suppliers. One of the key elements of the cost curtailment program is the adjustment of the employment level. The Company is planning to lay off 500 employees in the first half of 2004. The employees who leave the Company receive solid severance packages.

Agora will continue restructuring throughout 2004. The Company will keep the shareholders informed about the completion of the consecutive stages and the impact of the restructuring activities. According to the Company's estimates the first phase of the process will bring PLN 25 million of savings starting from 2005. The Company created a provision for the restructuring cost of ca PLN 7 million in the first quarter of 2004; this provision will be gradually settled throughout the year.

### **3.4. New businesses**

According to the Management Board's estimates, new businesses (exclusive of new projects) will add to the Group's revenue and EBITDA level in 2004. As per operating goals for 2004, both Magazines (excluding a new title *Avanti*), as well as the outdoor company AMS will increase their revenue by more than 10%.

In 2003 the Management Board implemented restructuring measures in the radio group. They were designed to put the group on track to profitability and achieving EBITDA break even in 2004.

In 2004 the estimated impact of goodwill amortization of new businesses will amount to PLN 20 million.

### **3.5. Foreign exchange risk**

Cost of production materials (mainly newsprint purchased by Agora) and printing services from external printing houses are exposed to foreign exchange rate risk. To offset the risk of exchange rate the Company increased the share of newsprint purchased in Poland to 20%.

### **3.6. Financial cost on loan facility**

To support its growth strategy, in April 2002 the Company entered into a loan facility agreement in the amount of PLN 500 million. As of December 31, 2003 Agora drew PLN 139.5 million. In 2003 the financial cost resulting from the execution of the loan agreement reached PLN 9.4 million. On December 30, 2003 the Company signed an amendment to the loan agreement, extending the drawdown and repayment period of the loan by one year.

### **3.7. Regulatory Environment**

#### **3.7.1. The Media Law**

On 2 April 2004 Sejm (lower House of Parliament) adopted small re-draft (with certain changes proposed by Senate) harmonizing Polish regulations with the EU directives. The act is awaiting President's approval. The law adopted does not include changes which could substantially influence Agora's activity. The work on the major redraft continues, however, the timetable is still unclear. Redraft proposed has not been filed at Sejm yet.

#### **3.7.2. Law on Value Added Tax (VAT)**

The new law, which will come into force as of 1 May 2004, contains amendments, which, according to publishers, may influence the development of the book and press market in Poland. The amendments stipulate, among other things, an increase of the VAT rate on printing services from 0% to 22% and imposition of a 22% VAT rate on classifieds advertising. The most controversial provision of the draft law proposed a 22% VAT rate on revenue from the sale of publications in which advertising constitutes a "considerable" part. The parliament defined the word "considerable" as 67% of the total lineage of the publication given to advertising. Although this definition is a step in the right direction, it is still unclear what methodology will be applied by the revenue office and how the revenue office will verify whether the threshold has been exceeded.

#### **3.7.3. The Law on copyrights and associated rights**

In January 2004 the new draft of amendment of the Law of 4 February 1994 on the copyrights and associated rights was sent to the Parliament. The draft contains provisions adjusting the Polish law to that of the European Union. The EU Committee in the Sejm decided that the amendment will not contain provisions regulating the activity of the collective management organizations. This draft, extending beyond the requirements of the Directive no 2001/29/WE of 22 May 1991, assumes mediation of the copyrights collective management organizations in the publication of any materials on the Internet, which will entail the necessity of paying fees for the benefit of these organizations for the materials published on the Internet. Therefore, adoption of the amendment in its present shape may lead to the increase of the operating cost of Agora especially in the radio and Internet operations. The draft

(with certain changes proposed by Senate) was approved by Sejm on 1 April 2004. The act is awaiting President's approval.

## II. FINANCIAL RESULTS

### 1. THE AGORA GROUP

The consolidated financial statements of the Agora Group for 2003 include Agora SA, Agora Poligrafia Sp. z o.o., the Art Marketing Syndicate S.A. Group (AMS Group), and 24 subsidiary and associated companies of the radio business.

Companies consolidated by means of the full consolidation method		Agora's equity holding as at 31/12/03	Companies valued with the equity method		Agora's equity holding as at 31/12/03
1	Agora SA	-	19	Inforadio Sp. z o.o.	41,61%
2	KKK FM S.A.	84.18%	20	Jan Babczyszyn Radio Jazz FM Sp. z o.o.	42,00%
3	Elita Sp. z o.o.	99.75%	21	BOR Sp. z o. o.	48,16%
4	Radio Trefl Sp. z o.o.	99.96%	22	Radio Mazowsze Sp. z o.o.	23,95%
5	IM 40 Sp. z o.o.	72.01%	23	Radio Wanda Sp. z o.o.	27.00%
6	LRR Sp. z o.o.	100.00%	24	Multimedia Plus Sp. z o.o.	24.00%
7	O'LE Sp. z o.o.	100.00%	25	Radio Klakson Sp. z o. o.	49.00%
8	Karolina Sp. z o.o.	100.00%	26	Bis Media Sp. z o.o.	49.00%
9	CITY Radio Sp. z o.o.	100.00%	27	Regionalne Przedsiębiorstwo Związkowe Sp. z o.o.	49.00%
10	BARYS Sp. z o.o.	89.78%			
11	Radio na Fali Sp. z o.o.	100.00%			
12	Agora Poligrafia Sp. z o.o.	100.00%			
13	ROM Sp. z o.o.	100.00%			
14 (1)	Twoje Radio Sp. z o.o.	100.00%			
15	Agencja Reklamowa Jowisz Sp. z o. o.	100.00%			
16	Radio Pomoze Sp. z o.o.	100.00%			
17 (2)	Grupa Art Marketing Syndicate S.A.	99.83%			
18	Wibor Sp. z o.o.	100.00%			

(1) including 77% owned indirectly through Agencja Reklamowa Jowisz Sp. z o.o.;

(2) the AMS Group: Art Marketing Syndicate S.A., Adpol Sp. z o.o., Akcent Media Sp. z o.o.;

The remaining companies, in which Agora SA owns shares, are not consolidated as they are immaterial from the perspective of the accounting standards.

From the second quarter of 2002, the financials of Magazines acquired in April 2002 as a result of the purchase of Proszynski i S-ka - Czasopisma Sp. z o.o. influence Agora's financial result.

From the fourth quarter of 2002 AMS is fully consolidated with the financials of the Agora Group (in the third quarter of 2002, AMS was consolidated using the equity method).

To enhance comparability, major items of the profit and loss account of the Agora Group, excluding the Magazine business, the AMS Group and radio related companies, are presented in part II point 3 of this MD&A.

Additionally, in part III of this MD&A ("Operating review – major lines of business of the Agora Group") the impact of consolidation of AMS, Magazines and radio related companies on major items of the profit and loss account of the Agora Group, as well as detailed information on the following businesses is presented:

- press (*Gazeta Wyborcza*, free press and Magazines);
- outdoor (AMS Group);
- radio;
- Internet.

## 2. PROFIT AND LOSS ACCOUNT OF THE AGORA GROUP

in PLN million	2003	2002	% change yoy
Sales	853.5	785.3	8.7%
Operating cost	(849.0)	(716.2)	18.5%
Operating profit (loss)	4.5	69.1	(93.5%)
Interest in net results of associates	(1.7)	(2.3)	(26.1%)
Gain (loss) on disposal of shares in an associated company	0.3	-	-
Provisions for losses on investments	(3.6)	(2.7)	33.3%
Interest and financial items	(6.2)	10.1	-
Profit (loss) before income tax	(6.7)	74.2	-
Income tax	9.6	(22.3)	-
Minority interests	(0.8)	(0.9)	(11.1%)
Net profit (loss)	2.1	51.0	(95.9%)
EPS - net profit (loss) per 1 common share (PLN)	0.04	0.90	(95.6%)
EBIT	4.5	71.0	(93.7%)
EBIT margin (EBIT/ Sales)	0.5%	9.0%	(8.5pp)
EBITDA	139.1	187.6	(25.9%)
EBITDA margin (EBITDA/ Sales)	16.3%	23.9%	(7.6pp)

### 2.1. Products and services of the Agora Group

Major products and services of the Agora Group and operating revenue and cost are presented in detail in part III of this MD&A (“Operating review – major lines of business of the Agora Group”). Additionally, to enhance comparability, operating cost of the Agora Group presented in part II point 3 hereof excludes Magazines, AMS Group and the radio business.

### 2.2. Revenue and markets of the Agora Group

Revenue and markets of the Group were discussed in part III of this MD&A (“Operating review – major lines of business of the Agora Group”).

99.9% of the total revenue of the Group was related to sales in the domestic market. Sales on foreign markets are realized mainly through press (foreign subscription).

As compared with 2002, changes in the Group’s revenue structure are the result of extension of the press activity through acquisition of the Magazine business, as well as of consolidation of the AMS Group and the companies of the radio business.

in PLN million	2003	Share in total revenue of the Group in 2003	2002	Share in total revenue of the Group in 2002	% change yoy	% change in share yoy (pp)
A. Copy sales	226.4	26.5%	202.4	25.8%	11.9%	0.7pp
incl. among others <i>Gazeta Wyborcza</i>	179.4	21.0%	175.1	22.3%	2.5%	(1.3pp)
Magazines	46.8	5.5%	26.1	3.3%	79.3%	2.2pp
B. Ad sales	595.9	69.8%	551.3	70.2%	8.1%	(0.4pp)
incl. among others <i>Gazeta Wyborcza(1)</i>	415.1	48.6%	461.4	58.8%	(10.0%)	(10.2pp)
Magazines	31.5	3.7%	19.6	2.5%	60.7%	1.2pp
Outdoor (2)	101.3	11.9%	26.2	3.3%	286.6%	8.6pp
Radio (3)	27.4	3.2%	31.4	4.0%	(12.7%)	(0.8pp)
C. Other revenue	53.4	6.3%	38.0	4.8%	40.5%	1.5pp
incl. Printing services (4)	30.0	3.5%	15.6	2.0%	92.7%	1.5pp
D. Intra-group sales excluded in consolidation	(22.2)	(2.6%)	(6.4)	(0.8%)	246.9%	(1.8pp)
Total revenue of the Group	853.5	100.00%	785.3	100.00%	8.7%	0.0pp

(1) sales of ads and inserts

(2) sales of the AMS Group; the amounts do not include revenue from cross-promotion of Agora’s other media on AMS panels if such promotion is executed without prior reservation on space which was not sold to external clients

(3) advertising sales of the radio related companies consolidated by means of the full consolidation method

(4) sales of printing services for external clients of Agora’s plants

## **Notes to the data presented in the table above**

Items A. and B. are not adjusted for internal sales among the companies of the Agora Group. To maintain clarity of the Group revenue structure, item C. excludes internal sales between Agora SA and Agora Poligrafia Sp. z o.o. (Agora Poligrafia Sp. z o.o. derives most of its revenue from sale of printing services to Agora SA, using the printing presses leased from Agora SA).

Other internal revenue within the Agora Group (excluded in consolidation) is presented in item D. in the above table (total internal sales within the Agora Group decreased by internal sales between Agora SA and Agora Poligrafia Sp. z o.o.).

### **2.3. Major products and services of the Group**

Major products and services of the Group are presented in detail in part III of this MD&A (“Operating review – major lines of business of the Agora Group”).

### **2.4. Markets of the Group**

The Group does not depend on a particular client. The biggest client of the Group (in respect of the number of transactions) is Ruch SA – press distributor (the company is not related to Agora SA). In 2003, the transaction value with Ruch SA exceeded 10% of the Group’s revenue and amounted to 11.4%.

### **2.5. Suppliers of the Group**

The Group does not depend on a particular supplier. Paper and printing services are important cost items of the Group. Paper used for printing is imported from several European countries and from several suppliers. In 2003, the value of the transactions with any of the suppliers did not exceed 10% of the total revenue.

### **2.6. Other operating items**

In 2003 impairment losses for receivables, as well as receivables written off decreased the operating result of the Group by PLN 2.4 million.

Operating income includes, among others, amounts from disabled fund that financed fixed assets (PLN 2.6 million) and VAT granted to AMS S.A. (PLN 2.4 million). AMS has the status of a protected workplace as it employs disabled people.

### **2.7 Provisions for investment activities in associated companies**

Provisions for investment activities in associated companies were set up in the amount of PLN 3.6 million of which PLN 3.2 million results from an increase in the provision for a loan granted to Inforadio Sp. z o.o. and a decrease in the provisions for contingent liabilities resulting from a guarantee granted to Inforadio Sp. z o.o.

### **2.8. Result on financial operations**

Net of financial revenue and expenses includes mainly interest revenue and expenses, profit/loss on sales of securities and foreign exchange differences.

The result on short-term financial investments (securities and bank deposits) amounted to PLN 3.6 million in 2003. Financial cost (including interest) resulting from bank loans amounted to PLN 10.1 million.

### **2.9. Deferred income tax**

As a result of a decrease in the CIT rate to 19% effective as of 1 January 2004 the Group adjusted the provision for deferred income tax. Had the 27% CIT rate from the previous year been applied, the net result of the Group would have been lower by PLN 11.7 million and the provision for deferred income tax higher by the same amount.

### 3. MAJOR ITEMS OF THE PROFIT AND LOSS ACCOUNT OF THE AGORA GROUP EXCLUDING THE MAGAZINES AND THE IMPACT OF CONSOLIDATION OF THE RADIO COMPANIES AND THE AMS GROUP

in PLN million	2003	2002	% change yoy
Sales	665.3	683.5	(2.7%)
Total operating cost before D&A	(523.5)	(504.2)	3.8%
incl. raw materials and energy	(154.1)	(168.6)	(8.6%)
incl. staff cost	(181.3)	(184.0)	(1.4%)
incl. other operating cost (1)	(188.1)	(151.6)	24.0%
D&A	(96.1)	(100.4)	(4.3%)
Operating profit (loss)	45.7	78.9	(42.1%)
Profit (loss) before income tax	25.6	89.9	(71.5%)
Net profit (loss)	29.4	70.0	(58.0%)
EPS – net profit per 1 common share (PLN)	0.52	1.23	(58.0%)
EBIT	45.7	80.0	(42.9%)
EBIT margin (EBITDA/ Sales)	6.9%	11.7%	(4.8pp)
EBITDA	141.8	180.4	(21.4%)
EBITDA margin (EBITDA/ Sales)	21.3%	26.4%	(5.1pp)
Full-time employment at the end of the period	3,085	3,095	(0.3%)

(1) the amounts do not include the cost of cross-promotion of Agora's different media if such promotion is executed without prior reservation on space which was not sold to external clients

#### 3.1. Raw materials and energy

In 2003 the newsprint cost of *Gazeta Wyborcza* (purchased by Agora) accounted for 63.9% of total cost of raw materials and energy and was lower by 6.7pp yoy. Detailed information on newsprint cost and printing services of *Gazeta Wyborcza* are presented in part III A point 2.2 of this MD&A.

#### 3.2. Staff cost

In 2003 average employment in the Agora Group was 1.9% lower yoy. The payroll (less social security costs) decreased by 1.6% yoy and amounted to PLN 151.6 million.

#### 3.3. D&A

The decrease in D&A is caused by the lapse in April 2003 of the two-year period of amortization of intangible assets in the Internet activity.

#### 3.4. Other operating cost

Major items in this category of cost include: advertising and representation expenses (PLN 62.8 million), external printing of *Gazeta Wyborcza* (PLN 37.6 million), telecommunications (PLN 9.4 million), IT services (PLN 8.4 million), newspaper transportation services (PLN 7.3 million), rents (PLN 6.2 million) and legal services (PLN 5.7 million).

The increase in other operating cost in 2003 results mainly from:

- PLN 27.7 million increase in advertising cost,
- PLN 19.6 million increase outsourced printing services for *Gazeta Wyborcza* (the cause of the increase is presented in part III A point 2.2 of this MD&A).

#### 4. BALANCE SHEET OF THE AGORA GROUP

in PLN million	31/12/2003	31/12/2002	% change yoy
<b>TOTAL ASSETS</b>	1,362.3	1,431.8	(4.9%)
Fixed assets	1,118.0	1,206.0	(7.3%)
Share in balance sheet total	82.1%	84.2%	(2.1pp)
Current assets	244.3	225.8	8.2%
Share in balance sheet total	17.9%	15.8%	2.1pp
<b>TOTAL LIABILITIES</b>	1,362.3	1,431.8	(4.9%)
Equity	1,065.2	1,063.1	0.2%
Share in balance sheet total	78.1%	74.2%	3.9pp
<b>Minority interests</b>	1.3	1.5	(13.3%)
Share in balance sheet total	0.1%	0.1%	0.0pp
Long term liabilities and provisions	173.7	197.6	(12.1%)
Share in balance sheet total	12.8%	13.9%	(1.1pp)
Current liabilities	122.1	169.6	(28.0%)
Share in balance sheet total	9.0%	11.8%	(2.8pp)

##### 4.1. Fixed assets

Decrease in value of fixed assets results mainly from depreciation of tangible fixed assets in the amount of PLN 83.3 million. As at 31 December 2003 the net book value of magazine titles acquired in April 2002 as a result of the purchase of Proszynski i S-ka – Czasopisma Sp. z o.o. and publishing rights to four motorcycle magazines acquired in October 2002 amounted to PLN 77.9 million.

Net goodwill on acquired magazines as at 31 December 2003 amounted to PLN 2.7 million (amortized for the period of 10 years ending 2012).

Net goodwill on consolidation of the AMS Group as for 31 December 2003 amounted to PLN 146.8 million (amortized for the period of 20 years ending in 2022).

As at 31 December 2003 net goodwill on consolidation of subsidiary and associated companies of the radio business amounted to PLN 30.1 million (amortized for the period of 10 years ending 2013).

As at 31 December 2003 net goodwill on incorporation of City Magazine Sp. z o.o. into Agora on 31 October 2002 amounted to PLN 2.1 million (amortized for the period of 10 years ending 2012).

##### 4.2. Current assets

As at 31 December 2003 current assets increased by PLN 18.5 million yoy.

As at 31 December 2003 the balance of cash and short-term securities grew by PLN 41.0 million yoy and amounted to PLN 90.5 million.

As at 31 December 2003 the balance of assets resulting from valuation of embedded financial derivatives amounted to PLN 7.0 million.

##### 4.3. Long-term liabilities and provisions

As at 31 December 2003 long-term liabilities and provisions decreased by PLN 23.9 million yoy.

On 14 October 2003 the Parliament lowered the CIT rate to 19%, which came into force as of 1 January 2004. As a result, in the fourth quarter of 2003 the Group decreased its provision for deferred income tax by PLN 11.7 million.

Long-term liabilities and interperiod settlements decreased by PLN 11.7 million, which results chiefly from a PLN 9.7 million decrease in provisions for a guarantee granted to Inforadio Sp. z o.o., including a released provision in the amount of PLN 4.1 million, as well as a PLN 5.6 million provision transferred to short-term liabilities. Additionally, long-term interperiod settlements decreased by PLN 2.5 million.

As at 31 December 2003 Agora SA had drawn PLN 139.5 million from its loan facility in order to acquire shares in AMS S.A. and contribute to its further financing. On 30 December 2003 Agora SA signed an amendment to the loan agreement, extending the drawing period by one year. As a result, as at 31 December 2003 the whole amount of the loan was classified as a long-term liability.

##### 4.4. Short-term liabilities

As at 31 December 2003 short-term liabilities decreased by PLN 47.5 million yoy, which results from repayment of short-term bank loans and redemption of commercial papers issued by the AMS Group in the amount of PLN 24.1 million, as well as a decrease in other short-term liabilities by the amount PLN 23.4 million.

## 5. CASH FLOW STATEMENT OF THE AGORA GROUP

	2003	2002	% change yoy
In PLN million			
Net cash from operating activities	134.4	187.5	(28.3%)
Net cash from investment activities	(58.8)	(356.7)	(83.5%)
Net cash from financing activities	(36.1)	80.8	-
Total movement of cash and cash equivalents	39.5	(88.4)	-
Cash at the end of the period	90.5	49.5	82.8%

At the end of December 2003 the Agora Group had PLN 90.5 million of cash (cash at hand, bank accounts and short term monetary assets).

Considering the cash position and the loan facility available (PLN 500 million less the drawing of PLN 139.5 million), the Agora Group does not anticipate any liquidity problems with regard to its further investment plans.

### 5.1. Operating activities

Net cash flow from operating activities for 2003 includes, among others, payments from former majority shareholders of AMS S.A. stipulated in the agreement between these shareholders and Agora SA concerning the sale of receivables by AMS S.A. in the amount of PLN 8.1 million to BB Investment, as well as AMS' revenue totaling net PLN 6.9 million derived from advertising services sold to BB Investment by virtue of the said agreement. Additionally, in 2003 AMS S.A. repaid over PLN 11.2 million of its trade liabilities (trade liabilities decreased by the same amount).

### 5.2. Investment activities

Net cash flow from investment activities in the said period includes, among others, expenditure and prepayments for tangible fixed assets in the amount of PLN 44.1 million, purchase of promissory notes of Aktis Media Sp. z o.o. by AMS (PLN 1.5 million) and net outflows for short-term securities (PLN 1.4 million). Inflow from investment activities includes payment of PLN 10 million to AMS S.A. made by the former majority shareholders. The payment results from the agreement concerning compensation for loss on investment in IDM Serwis Sp. z o.o. between these shareholders and Agora SA.

### 5.3. Financing activities

Net cash flow from financing activities in 2003 includes:

- a dividend of PLN 1.0 million paid to the minority shareholders by the subsidiary company IM 40 Sp. z o.o.;
- PLN 9.5 million of interest expense on loans and commercial papers;
- PLN 9.0 million as redemption of bonds by AMS S.A.;
- repayment of the principal of bank loans in the amount of PLN 15.9 million (incl. PLN 15.8 million by the AMS Group).

### III. OPERATING REVIEW – MAJOR LINES OF BUSINESS OF THE AGORA GROUP

#### III.A. PRESS

##### 1. THE RESULTS OF THE PRESS

In the second quarter of 2002 the press segment of Agora SA expanded by the acquisition of the Magazine business. The results of the Magazines have been presented in part III A point 4 of this MD&A.

To enhance comparability, the results of the press segment excluding the Magazines are presented below.

in PLN million	2003	2002	% change yoy
Total revenue	649.2	675.1	(3.8%)
Copy sales	179.6	176.2	1.9%
incl. <i>Gazeta Wyborcza</i>	179.4	175.1	2.5%
Ad revenue	423.4	468.4	(9.6%)
incl. <i>Gazeta Wyborcza (inserts and ads)</i>	415.1	461.4	(10.0%)
Other revenue	46.2	30.5	52.0%
incl. sales of printing services	30.0	15.6	92.7%

Total operating cost	(572.6)	(549.2)	4.3%
Raw materials and energy	(153.9)	(167.3)	(8.0%)
incl. newsprint for <i>Gazeta Wyborcza</i> purchased by Agora	(98.4)	(119.0)	(17.3%)
Staff cost	(171.5)	(172.3)	(0.5%)
incl. payroll	(143.5)	(144.5)	(0.7%)
D&A	(73.6)	(76.3)	(3.6%)
Other operating cost	(173.6)	(133.3)	30.3%
incl. ad cost (1)	(60.5)	(31.3)	93.6%
incl. outsourced printing services	(37.6)	(18.0)	108.8%
Total operating cost (excluding D&A)	(499.0)	(472.9)	5.5%
Full-time employment at the end of the period	2,987	2,985	0.04%
EBIT	76.6	127.0	(39.7%)
EBIT margin	11.8%	18.8%	(7.0pp)
EBITDA	150.2	203.3	(26.1%)
EBITDA margin	23.1%	30.1%	(7.0pp)

(1) the amounts do not include the cost of cross-promotion of Agora's different media if such promotion is executed without prior reservation on space which was not sold to external clients

##### 2. GAZETA WYBORCZA

In 2003 revenue generated by *Gazeta Wyborcza* (copy sales, advertising sales and inserts) accounted for nearly 70% of the Group's revenue.

###### 2.1. Revenue

###### 2.1.1. Copy sales

In 2003 average daily copy sales of *Gazeta Wyborcza* reached 421,000 and were 0.8% lower than in 2002 (down 2.5%, 3.5% and 1.8% in the first three quarters of 2003, respectively and up 4.7% in the fourth quarter of 2003).

In the fourth quarter of 2003 the following changes were introduced in *Gazeta Wyborcza*: (1) from October 2003, *Gazeta Auto-Moto* was replaced by a new magazine for men *Wysokie Obroty* (High Gear), (2) in November *Gazeta Turystyka* was replaced by a new travel magazine *Turystyka. Podroze Male i Duzo* (Travel. Big and Small Trips). These steps were undertaken to enhance readership and challenge the growing market competition.

*Gazeta* continues to be a leader in the paid dailies readership market. In 2003 the weekly readership of *Gazeta Wyborcza* reached 18.8% which corresponds to 5.6 million readers (an increase of 400 thousand). *Gazeta's* readership reach among readers of all paid dailies amounted to 30.6% (source: PBC General research carried out by SMG/KRC A MILLWARD BROWN COMPANY, weekly readership).

### 2.1.2. Advertising sales

The print segment advertising data and *Gazeta Wyborcza's* share are measured on the basis of the estimates corrected by the Company. The correction refers to the segment of national dailies in 2003 and in the previous years.

In 2003 the advertising expenditure in the paid daily press recorded a 7.7% decline, while *Gazeta's* share in the paid dailies advertising market fell by 1.7pp to 44.2%. *Gazeta's* share in the national advertising market fell to 54.8% (3.5 pp down), in the Warsaw advertising market it decreased by 4.9 pp to 78.2% while in other local markets it went up by 0.7pp to 27.5%.

Total advertising sales of *Gazeta Wyborcza* fell by 9.7% and reached PLN 400.5 million in 2003 (incl. PLN 186.1 million from national ads, PLN 92.4 million from Warsaw ads and PLN 122.0 million from other local ads).

*Gazeta's* average net revenue per ad page was PLN 5.2 thousand. The share of ad pages in the total pagecount reached 44.6% and the average number of ad pages published daily in all local and national editions amounted to 255.2 (up 1.4% yoy).

Revenue from *Gazeta's* inserts in 2003 fell by 18.4% and totaled PLN 14.6 million.

### 2.2. Cost of production of *Gazeta Wyborcza* (newsprint and printing services)

Starting from March 2003, *Gazeta Wyborcza's* cost structure changed: external printing plants provide *Gazeta* with printing services on own newsprint (previously it was supplied by *Agora*). As a result, from the second quarter of 2003 cost of printing services in external plants (printing and newsprint provided by an external plant) increased while the use of newsprint purchased by *Agora* for the production of *Gazeta Wyborcza* decreased.

In 2003 total cost of newsprint, external printing services and in-house printing related to *Gazeta Wyborcza* reached PLN 224.6 million and was higher by 0.2% yoy, whereas before D&A it amounted to PLN 184.1 million (down 0.8%).

In 2003, *Gazeta's* production volume measured by the number of printed pages increased by 1.2% yoy (a total of 18.7 billion pages were printed).

Production materials (mainly newsprint purchased by *Agora*) and external printing services are exposed to foreign exchange risk (EUR appreciation vis a vis PLN). In 2003 the average EUR/PLN exchange rate grew by about 14.2% yoy.

#### 2.2.1. Cost of newsprint

Newsprint used for in-house production is imported from several European countries and from several suppliers. Such diversification of suppliers allows for better flexibility, secures continuity of deliveries and gives a better negotiation position.

Lower newsprint usage in tons by 11.9% resulted from the fact that *Agora* ceased providing newsprint for outsourced printing.

#### 2.2.2. In-house printing cost

In-house printing cost (excluding newsprint purchased by *Agora*) of *Gazeta* (Warszawa Bialoleka, Pila, Tychy) reached PLN 88.6 million in 2003, 83.1% of which was fixed cost.

In-house printing cost of <i>Gazeta Wyborcza</i> (1) in PLN million	2003	2002	% change yoy
Total fixed cost	73.6	74.3	(0.9%)
incl. D&A	40.5	38.6	4.9%
Variable cost (1)	15.0	13.0	15.1%
TOTAL fixed and variable costs	88.6	87.3	1.5%

(1) excluding newsprint purchased by *Agora* — this cost item was discussed above

An increase in D&A in 2003 results from putting in use of printing presses and other printing equipment in October 2002.

An increase in variable cost (mainly production materials) results chiefly from higher EUR/PLN exchange rate. In 2003 in-house production volume went up by 1.8% yoy.

#### 2.2.3. Outsourced printing services provided to *Gazeta*

*Agora* outsources heat-set printing – among others: *Wysokie Obcasy* (High Heels), *Duzy Format* (Large Format) and the covers of the TV Guide, *Wysokie Obroty* and *Turystyka. Podroze male i duze* (Travel. Big and Small Trips).

Cost of external printing of *Gazeta* amounted to PLN 37.6 million in 2003, up 108.8% yoy. This is mainly due to the fact that external printing plants used own newsprint (until the second quarter of 2003 newsprint purchased by *Agora*).

In the entire 2003 *Agora's* outsourced printing volume decreased by 4.0% yoy. The decrease results from changing of the format of the TV Guide and transferring production of *The Cartoons* supplement to *Agora's* own plant.

Introduction in the fourth quarter of 2003 of the following changes to *Gazeta's* product structure (1) shifting *Duzy Format* (Large Format) from Thursday to Monday (higher circulation day), (2) printing the covers of *Wysokie Obroty* (High Gear) and *Turystyka. Podroze male i duze* (Travel. Big and Small Trips) on coated paper led to an increase in the outsourced printing volume by 46.5% yoy.

### 3. FREE PRESS

On July 16, 2003 the President Competition and Consumer Protection Office (UOKiK) passed a decision concerning an agreement signed in June 2001 between the City of Warsaw and TPP Sp. z o.o. (the publisher of Warsaw daily *Metropol*). The agreement regulated publishing and distribution of free daily press in the Warsaw public transport network. The City committed itself not to sign a similar agreement with other publishers for the period of 10 years (exclusivity for a period of 10 years).

By virtue of the investigation conducted at Agora's request, the President of UOKiK resolved that since the agreement constitutes the practice of unfair competition it should be abandoned with the order of immediate enforceability. This means that TPP Sp. z o.o. lost exclusive rights to distribute papers through stands located at bus stops and subway stations.

Simultaneously, the City of Warsaw and TPP Sp. z o.o. were charged with fines in the amount of PLN 16 thousand and PLN 400 thousand, respectively. The said decision is not yet legally binding.

#### 3.1. Metro

In 2003 the free newspaper *Metro* was distributed in two Polish cities: Warsaw and Katowice (from 1 January 2004 *Metro's* distribution in Katowice was suspended).

In order to gain a better position against increasing competition on the daily press market, Agora introduced a number of changes to the free daily *Metro*. In the fourth quarter of 2003, *Metro* in Warsaw was published 6 times a week with a circulation of 100-220 thousand copies. From January 2004, it has a circulation of 90-200 thousand copies. The daily received a new, more attractive layout and a formula of a so called *light paper*. The newspaper aims to serve readers who want quick access to national and international headlines.

In 2003 *Metro's* share in the Warsaw free press market increased by 5.0pp yoy to 25.2%.

*Metro* in Katowice was distributed once a week. Its average daily circulation in December 2003 was 50 thousand copies.

In 2003 the revenue of *Metro* reached PLN 3.6 million and the total cost of production materials, distribution, advertising and editorial amounted to PLN 4.3 million.

#### 3.2. Other free press

The following titles are distributed on Sundays:

- *A Week in Bydgoszcz* with an average circulation of 15,000 copies; since April 2002,
- *A Week in Torun* with an average circulation of 12,000 copies; since March 2003,
- *A Week in Bialystok* with an average circulation of 12,000 copies; since April 2003,
- *A Week in Trojmiasto* with an average circulation of 14,000 copies; since October 2003.

In the said period of 2003, revenue from publishing of other free press was higher than the total cost of production materials and distribution.

### 4. THE MAGAZINES

In 2003 the magazine advertising market increased by 3.5% yoy. The share of Agora's magazines in the national magazine advertising market (excluding *City Magazine*) stood at the level of 4.6%.

The Magazines (excluding: *City*, *Bukiety*, *Lubie Gotowac*, *Zeszyty Literackie*, not examined by PBC) attracted nearly 5 million readers, which corresponds to 20.4% readership reach among readers of national magazines in Poland in 2003 (source: PBC General surveys, performed by SMG/KRC Poland Media S.A., CCS ratio – weekly readership).

As the Magazines were incorporated to the Agora Group in mid-April of 2002 by the purchase of the enterprise of Proszynski i S-ka - Czasopisma Sp. z o.o., the figures for 2003 are incomparable to those for 2002.

Results of the Magazines in PLN million	2003	2002	% change yoy
Total revenue	78.4	46.1	70.1%
incl. copy sales	46.8	26.1	79.2%
incl. advertising revenue	31.5	19.6	60.4%
Operating cost before marketing	(66.4)	(42.7)	55.6%
Printing services (1)	(31.3)	(15.7)	99.9%
Staff cost	(19.0)	(10.6)	80.3%
D&A(2)	(6.7)	(4.2)	59.2%
Others	(9.4)	(12.2)	(23.7%)
Total operating profit before marketing (3)	12.0	3.4	251.9%
External marketing cost	(20.7)	(4.8)	331.1%
Intra-group marketing cost	(1.0)	(0.0)	
EBIT	(9.7)	(1.2)	-
EBIT margin	(12.3%)	(2.7%)	(9.6pp)
EBITDA	(3.0)	3.0	-
EBITDA margin	(3.8%)	6.5%	(10.3pp)
Full-time employment at the end of the period	232	235	(0.9)
Average monthly circulation [million copies] (total circulation of all titles)	1.9	1.5	28.7%

(1) the Magazines are printed externally (printing services include the purchase of paper)

(2) the amortization of the acquired publishing rights to the magazine titles amounted to PLN 5.7 million for 2003

(3) the amounts do not include the cost of cross-promotion of Agora's different media if such promotion is executed without prior reservation on space which was not sold to external clients

Due to revitalization of the magazine portfolio in 2003, the marketing cost (mainly: gadgets, TV and outdoor advertising) amounted to PLN 21.7 million. Cross promotion in *Gazeta Wyborcza* and Magazines was continued. *Motomagazyn* was replaced by a new title *Auto+* and a number of changes was introduced to *Poradnik Domowy*. Significant changes were introduced to the layout and editorial concept of the title *Wiedza i Zycie* and the layout and logo of *Dziecko*.

These activities translated into a 12% increase in the number copies sold. The following issues reached record sales in 2003: July issue of *Poradnik Domowy* with a T-shirt (653 thousand copies), magazines accompanied by free DVDs: August issue of *Cztery Katy* (177 thousand copies), May issue of *Wiedza i Zycie* (101 thousand copies), September issue of *Swiat Motocykli* (75.5 thousand copies) as well as October issue of *Dziecko* with a toy attached (79 thousand copies). May issue of *Auto+* accompanied by a DVD sold in 143.5 thousand copies.

Additionally, in 2003, 27 special editions of the magazines were published.

As of January 2004 the number of pages of *Ladny Dom* was increased by 32. The cover price of the magazine grew from PLN 5.9 to PLN 6.9. The changes aim at enhancing revenue and competitive position of the title.

In March 2004 Agora launched *Avanti*, a new magazine for women. *Avanti* is a combination of a catalogue and a shopping guide, which is a novelty in the Polish market.

### III.B. AMS

In the third quarter of 2002 Agora SA began investment in AMS S.A. Until September 30, 2002 the shares purchased by Agora SA constituted 16.63% of AMS share capital.

In the fourth quarter of 2002 Agora SA increased its stake in AMS S.A. share capital to 99.48%. As a consequence, from the fourth quarter of 2002, the financial results of the AMS Group are fully consolidated with the Agora Group.

As at December 31, 2003 Agora's stake in AMS S.A. share capital reached 99.83%, which enabled it to execute 99.86% of votes at the general meeting of shareholders of the company.

In 2003, the financing structure of AMS S.A. underwent significant changes. In March 2003 Agora SA subscribed for a new issuance of shares of AMS S.A. for a cash contribution of PLN 30 million. In the first quarter of 2003 performance of the former majority shareholders AMS was finally settled, pursuant to the provisions of the agreement on the sale of AMS shares between these shareholders and Agora SA. Total value of pecuniary performance received by virtue of the agreement with AMS S.A. amounted to (less VAT) PLN 25 million in the first quarter of 2003.

The above-mentioned funds were used for repayment of liabilities to Agora SA (decrease in net liabilities by PLN 14.8 million to PLN 40.1 million as of 31 December 2003) and a reduction of liabilities for commercial papers and bank loans by PLN 24.6 million to PLN 0.6 million as of 31 December 2003. Repayment of bank loans constituted the last phase of the restructuring of the financing of AMS S.A.

## 1. THE IMPACT OF THE CONSOLIDATION OF THE AMS GROUP ON THE MAJOR ITEMS OF THE PROFIT AND LOSS ACCOUNT

in PLN million	2003	2002
Sales	89.9	27.4
Operating profit (loss)	(6.2)	(6.0)
Interest in net results of associates	-	(0.6)
Profit on financial activities	(0.4)	1.6
Profit (loss) before income tax	(6.6)	(5.0)
Income tax	(0.3)	(0.4)
Minority interests	(0.05)	-
Net profit (loss)	(7.0)	(5.4)

*The table above presents details on differences between the consolidation of the Agora Group and pro forma consolidation of the Group excluding the AMS Group.*

## 2. THE RESULTS OF THE AMS GROUP (Art Marketing Syndicate S.A., Adpol Sp. z o.o., Akcent Media Sp. z o.o.)

On the basis of the rate card data, the estimated share of AMS in the outdoor market in 2003 fell by 0.7pp yoy to 27.9%. The data refer to campaigns carried out in 12 largest agglomerations. (source: MEDIA WATCH monitoring 2003, distribution, copying and reproduction possible only under the permission of Media Watch, tel. +48 71 341 47 11).

Profit and loss account of the AMS Group in PLN million	2003	2002	% change yoy
Sales (1)	102.6	102.8	(0.2%)
incl. ad sales	101.3	101.4	(0.1%)
Operating cost (1)	(116.2)	(138.1)	(15.9%)
Raw materials and energy	(7.2)	(6.4)	13.1%
Staff cost	(14.6)	(19.7)	(25.9%)
D&A	(20.3)	(20.2)	0.5%
Other cost	(74.1)	(91.8)	(19.3%)
incl. rental fees for outdoor panels	(46.7)	(50.0)	(6.6%)
Operating profit (loss)	(13.6)	(35.3)	-
Result from financial activity	(2.1)	(12.2)	-
incl. evaluation of embedded derivatives	2.2	4.8	(54.2%)
Profit (loss) before income tax	(15.7)	(47.5)	-
Net profit (loss)	(16.0)	(48.1)	-
EBIT	(13.6)	(35.3)	-
EBIT margin (EBIT/ Sales)	(13.3%)	(34.3%)	21.0pp
EBITDA	4.0	(17.2)	-
EBITDA margin (EBITDA/ Sales)	3.9%	(16.7%)	20.6pp
Full time employment at the end of the period	299	345	(13.3%)
Number of advertising faces (2)	22,849	22,847	0.0%

*(1) the amounts do not include the revenue and costs of cross-promotion of Agora's other media on AMS panels if such promotion was executed without prior reservation on space which was not sold to external clients*

*(2) excluding advertising panels of Akcent Media Sp. z o.o. installed on petrol stations and small panels at bus shelters.*

### 2.1. Other cost

In 2003, significant cost items other than rental fees for outdoor panels were:

- cost of advertising campaigns (PLN 18.6 million);
- panel renovation and exploitation cost (PLN 9.1 million);

In 2002 this amount includes one-off revenue of PLN 14 million as compensation for the change in assets of AMS paid by the former majority shareholder of AMS pursuant to the provisions of the agreement on the sale of AMS shares.

## 2.2. Restructuring of the AMS Group

Improvement in the financials of the AMS Group in 2003 compared to 2002 is the effect of profound restructuring (staff reduction, renegotiations of rental fees and cost of advertising campaigns) and stable revenues (excluding the revenue from promotional campaigns executed without prior reservation on space which was not sold to external clients).

A new policy introduced in 2003 (incl. new pricing policy, sales team reorganization, revision of the client service standards) had a positive impact on the company's results, particularly in the fourth quarter.

In 2003 AMS continued to improve the technical quality of its panels. By the end of December 2003 the company completed the work on the lighting and poster installation system of the exclusive backlight panels (mainly 6x3 m). In eight core Polish cities, the process of renovating billboard panels was nearly completed. Moreover, the lightning of the citylight panel system at bus stops was modernized.

AMS continues further development of the sophisticated backlight panel system (6x3m). In October 2003, after a few months of negotiations, AMS acquired shares constituting 100% share capital of Media System Sp. z o.o. Europlakat Group (the owner of 99 backlight faces located mainly in Warsaw). Following this acquisition, AMS increased its stake in this segment of the outdoor market to over 90% (914 faces in Poland, including 333 faces in Warsaw).

## III.C. RADIO

As for the end of 2003 Agora SA held stakes in 24 companies of radio business in Poland (4-100% of share capital), which control 28 local radio stations (26 of them broadcasting) and the superregional radio station *TOK FM*.

### 1. THE IMPACT OF THE RADIO RELATED COMPANIES ON THE FINANCIALS OF THE AGORA GROUP

The first consolidated statements of the Agora Group including subsidiary and associated companies of the radio business was prepared for the second quarter of 2002 (19 companies of the radio business). In 2003 24 radio related companies were included in the consolidation (the list of companies and Agora's holding was presented in part II point 1 of this MD&A).

The impact of consolidation of 24 radio related companies and the radio department of Agora SA on the major items of the profit and loss account of the Agora Group is presented in the table below:

in PLN million	2003	2002
Sales	27.9	30.0
Operating profit (loss)	(10.1)	(4.6)
Interest in net results of associates	(1.7)	(1.7)
Profit (loss) on financial activity	2.7	(1.4)
Profit (loss) before income tax	(14.5)	(7.7)
Income tax	(0.2)	(1.2)
Minority interests	(0.8)	(0.9)
Net profit (loss)	(15.5)	(9.8)

*The table above presents the results of the radio department and differences between pro forma consolidation of Agora SA, Agora Poligrafia Sp. z o.o., subsidiary and associated companies of the radio business and pro forma consolidation of Agora SA and Agora Poligrafia Sp. z o.o.*

### 2. THE RESULTS OF RADIO STATIONS

#### 2.1. Local radio stations

*Audience market data referred herein are based on Radio Track surveys, carried out by SMG/KRC A MILLWARD BROWN COMPANY for the selected periods: 2003 and 2002, all places, all days and all quarters of an hour of listening.*

In 2003 the Agora's local radio stations group maintained its position of the third largest radio player in the audience and advertising market in Poland, behind *RMF FM* and *Radio Zet*.

In 2003, the share of Agora's local radio group in the audience market (in the target group of 20-50 years old, solely local markets Agora's stations are present in) decreased by 2.1 pp yoy to 13.2%.

The radio advertising market increased by about 9% yoy. The national radio stations strengthened their position in the market (their share went up from 61% to 65%) against the local radio market (down from 37% to 33%), including Agora's stations, whose share in the total radio advertising market decreased by 1.6 pp yoy to 10.5%.

In 2003, the management of the radio department conducted restructuring activities of the Agora's radio group. 15 radio stations, which are formatted to broadcast *Golden Oldies* received a common brand *Zlote Przeboje*. Now the stations have different local programs, they use a common brand and coordinate their marketing activities. The group changed their management structure and reduced full-time employment by 12.4% in the period from August- December 2003.

The data presented below show the sum of financials of local radio stations operated by 24 radio companies in which Agora owns shares (the financials of the stations based in Poznan have been consolidated pro forma due to the specificity of their business activity).

Agora's local radio stations Group in PLN million	2003	2002	% change yoy
Total revenue of the Group	40.9	43.4	(5.9%)
incl. ad sales	38.3	40.8	(6.1%)
Operating cost	(50.5)	(50.4)	0.0%
incl. advertising and representation (1)	(4.8)	(5.8)	(16.4%)
incl. D&A	(2.4)	(2.6)	(7.8%)
incl. staff cost	(22.6)	(20.9)	7.9%
Profit (loss) on operating activity	(9.6)	(7.0)	-
Net profit	(14.7)	(11.7)	-
EBITDA	(7.2)	(4.0)	-
EBITDA margin	(17.5%)	(9.3%)	(8.2pp)
Full-time employment at the end of the period	366	426	(14.0%)

(1) the amounts do not include the cost of cross-promotion of Agora's different media if such promotion is executed without prior reservation on space which was not sold to external clients

On 17 June 2003 the Broadcast Council (KRRiTV) refused to renew the broadcasting licence of *ROCK Radio 93,6 FM*. As of this day, the station has not received the written decision of KRRiTV, it complained to the Supreme Administrative Court about inaction of KRRiTV.

On 25 November 2003 the Supreme Administrative Court revoked the decisions of KRRiTV, on the basis of which *Twoje Radio Sp. z o.o.* was refused a licence for broadcasting in *Walbrzych* and *Opole*. On 9 December 2003 the Supreme Administrative Court revoked the decision of KRRiTV to refuse a licence to *Radio Wawel Sp. z o.o.* from *Krakow*. Justifying these decisions, the Supreme Administrative Court pointed to the breach of the provisions of the substantive law and procedure during the licence proceedings. Moreover, the Court pointed to the insufficient substantial evaluation of the licence applications submitted by these companies, and noted that „the only objection raised to (...) the company, which disqualified its licence application was the fact that *Agora SA* was a shareholder of this company". The Supreme Administrative Court considered this objection raised by the KRRiTV as insufficient.

The Broadcast Council renewed the 7-year licenses for the following radio stations: *Trefl Sopot*, *Klasyka Warszawa*, *Pogoda Warszawa*.

The Group has estimated the impairment loss on investment in the radio companies and has made write-offs of goodwill of PLN 1.3 million.

## 2.2. National radio station *TOK FM*

Agora SA holds shares (constituting 41.6% of the share capital) of *Inforadio Sp. z o.o.*, which is the owner of superregional radio station *TOK FM*. In 2003 net revenue of the station amounted to PLN 1.2 million (incl. ad revenue – 97.1% of the amount), EBITDA was negative PLN 2.2 million and net loss amounted to PLN 4.8 million.

Until October 2003 *TOK FM* was not operating at full capacity as its broadcasting license was expiring (and some members of the Broadcast Council expressed a negative opinion of its renewal). Ultimately, the station's license was renewed for the next 7 years.

Since October 2003, the stations program was improved with: more news, more commentaries, more business news, more culture, entertainment and sports, as well as special programs.

As a result of these changes, in the fourth quarter of 2003, *TOK FM* achieved 1.5% audience share in its broadcasting reach (compared to 0.7% in the first quarter of 2003).

*TOK FM*, promoted as the first information radio, would like to attract well educated and affluent listeners from large cities, who currently cannot find a station that would meet their information requirements.

Intensive marketing activities planned for 2004 will help to achieve this aim. Moreover, if the Broadcast Council grants additional frequencies to the station (*Bydgoszcz*, *Zielona Gora*, *Opole*), *TOK FM* will be able to extend its technical reach.

In 2004 the station aims to double its revenue and gain a 3% audience share in its broadcasting reach.

### **III.D. INTERNET**

The number of unique users visiting in 2003 *Gazeta.pl* portal increased by 75% yoy (source: December 2003 versus December 2002, Gemius System, Gemius SA), while the penetration of the Internet in Poland increased by 12% yoy (source: December 2003 versus December 2002, NetTrack research, carried out by SMG/KRC A MILLWARD BROWN COMPANY).

in PLN million	2003	2002	% change yoy
Total revenue	8.1	6.7	21.3%
incl. ad sales	6.9	5.5	23.6%
Operating cost	(23.1)	(32.6)	(29.0%)
incl. advertising and representation (1)	(1.2)	(2.8)	(57.0%)
incl. D&A	(9.9)	(14.8)	(33.0%)
incl. staff cost	(6.5)	(8.7)	(25.4%)
EBIT	(15.0)	(25.9)	-
EBITDA	(5.1)	(11.2)	-
Full-time employment at the end of the period	67	93	(27.6%)

*(1) the amounts do not include the cost of cross-promotion of Agora's different media if such promotion is executed without prior reservation on space which was not sold to external clients*

Lower D&A yoy is the result of the lapse of the two-year amortization period of intangible assets in March 2003.

## IV. SUPPLEMENTARY INFORMATION

### 1. INFORMATION CONCERNING SIGNIFICANT CONTRACTS

In 2003 Agora did not enter into contracts that would be classified as significant according to the stipulations of the Cabinet Decree on disclosure obligations of public companies. However, in the second half of the year the Company concluded annexes to the agreement of 5 April 2002 with the Bank Polska Kasa Opieki S.A. concerning a long-term syndicated loan up to the amount of PLN 500 million:

- annex of 2 September 2003 in which certain technical issues concerning interest calculation, repayment of the principal and functioning of some of the loan's collaterals were rearranged;
- annex of 30 December 2003, which extended the loan's drawing period until 31 March 2005 and simultaneously shifted the principal pay off date by a year. The annex also set additional collaterals of the loan.

Detailed information concerning the above-mentioned annexes was announced by the Company in current reports of 3 September 2003 and 31 December 2003.

#### 1.1. Information concerning insurance and agreements of mutual aid and cooperation

Significant insurance contracts concluded by companies of the Agora Group in 2003 are listed below:

##### **Agora SA**

No.	Subject of insurance	Insurance agent	Scope
1.	buildings, real estate, adaptation costs, machinery, forklifts, equipment, KBA printing machines, production materials and newsprint, promotion materials in stock, cash on hand and on delivery Warsaw plus all territorial branches (including plants)	STU Ergo Hestia SA - 70% (leading) TU Allianz Polska SA - 30% (co-agent)	all risks including risk of theft with burglary and robbery
2.	electronic stationary equipment (owned and entrusted), electronic remote equipment Warsaw plus all territorial branches (including plants)	STU Ergo Hestia SA - 70% (leading) TU Allianz Polska SA - 30% (co-agent)	all risks of material loss (section I)
3.	KBA printing machines in all plants	STU Ergo Hestia SA - 70% (leading) TU Allianz Polska SA - 30% (co-agent)	damage of machines and equipment
4.	civil liability for injuries to the person or material damage – resulting from business activity or owned estate; civil liability of the tenant; civil liability of special events organizer	STU Ergo Hestia SA	civil liability
5.	business travel abroad, settled correspondents	TU iR Warta SA	Business Travel
6.	fatal accidents	PZU SA	full coverage in case of permanent health loss or death

##### **Agora Poligrafia Sp. z o.o.**

1.	buildings and equipment Tychy	STU Ergo Hestia SA - 70% (leading) TU Allianz Polska SA - 30% (co-agent)	all risks including risk of theft with burglary and robbery
2.	electronic stationary and remote equipment Tychy	STU Ergo Hestia SA - 70% (leading) TU Allianz Polska SA - 30% (co-agent)	all risks of material loss (section I)
3.	civil liability for injuries to the person or material damages – resulting from business activity or owned estate, civil liability of the tenant, civil liability of special events organizer	STU Ergo Hestia SA	civil liability

**AMS S.A.**

1.	electronic stationary and remote equipment	STU Ergo Hestia SA	material loss
2.	office equipment, capital expenditure, current assets, cash, bus shelters, citylights in leased bus shelters, citylights in large formats, billboards	STU Ergo Hestia SA	fire and other casualties: all risks including vandalism, except for painting and smearing
3.	office equipment, current assets (including entrusted property)	STU Ergo Hestia SA	theft with burglary, robbery, vandalism; consumption of the insurance sum implemented
4.	civil liability	STU Ergo Hestia SA	civil liability resulting from business activity or used property, excluding civil liability for product

**Adpol Sp. z o.o.**

No.	Subject of insurance	Insurance agent	Scope
1.	bus shelters	Ergo Hestia SA	full, including vandalism, except for painting and smearing
2.	civil liability	Ergo Hestia SA	civil liability resulting from business activity or used property, excluding civil liability for product
3.	digital cameras, stationary electronic equipment	Commercial Union Polska – TUO SA	material loss – section I
4.	office equipment, electronic equipment, current assets	Commercial Union Polska – TUO SA	fire and other casualties

**Akcent Media Sp. z o.o.**

1.	property	TU Allianz Polska SA	fire, explosion, lightning etc.
2.	civil liability	TU Allianz Polska SA	civil liability resulting from business activity, excluding civil liability of tenant and subcontractors, clause of the representatives

In addition, the companies from the AMS Group concluded other forms of insurance agreements (civil liability, car damage, accident insurance for vehicles as well as employees).

**The Radio Group of Agora****KKK FM S.A.**

No.	Subject of insurance	Insurance agent	Scope
1.	electronic stationary and remote equipment, other machines, equipment	STU Ergo Hestia SA	risk of theft with burglary and robbery
2.	machines, equipment	STU Ergo Hestia SA	fire and other casualties
3.	civil liability	STU Ergo Hestia SA	basic, all casualties

**Radio Klakson Sp. z o.o.**

1.	equipment	STU Ergo Hestia SA	fire – all risks
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**Radio City Sp. z o.o.**

1.	property	PZU SA	fire and other calamities, including risk of theft with robbery
2.	property; civil liability – compound insurance for small business entities	PZU SA	fire and other calamities, including risk of theft with robbery and civil liability

**Radio Pomoze Sp. z o.o.**

1.	property	TUiR Warta SA	fire and other casualties, electronic equipment from material loss
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**Radio Trefl Sp. z o.o.**

1.	building, machines, equipment, office equipment, electronic stationary equipment	Commercial Union Polska - TUO S.A.	fire and other casualties; risk of theft with burglary and robbery, vandalism, civil liability resulting from business activity or used property
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**Barys Sp. z o.o.**

1.	equipment, adaptation expenditures, technical equipment	STU Ergo Hestia SA	all risks
2.	computer equipment	STU Ergo Hestia SA	material loss

**Karolina Sp. z o.o.**

1.	equipment, adaptation expenditures, technical equipment	STU Ergo Hestia SA	all risks
2.	computer equipment, electronic stationary equipment	STU Ergo Hestia SA	material loss

**Regionalne Przedsiębiorstwo Związkowe Sp. z o.o.**

1.	equipment, adaptation expenditures, technical equipment	STU Ergo Hestia SA	all risks
2.	computer equipment	STU Ergo Hestia SA	material loss

**Radio O!le Sp. z o.o.**

1.	equipment, adaptation expenditures, technical equipment	STU Ergo Hestia SA	all risks
2.	computer equipment, electronic stationary equipment	STU Ergo Hestia SA	material loss

**Elita Sp. z o.o.**

1.	movable property, buildings, real estate, capital expenditure	Compensa SA	fire and other casualties; risk of theft with burglary, vandalism
2.	civil liability	Compensa SA	basic

In 2003 Agora SA did not enter into any mutual aid or co-operation agreements.

## 2. CHANGES OF CAPITAL AFFILIATIONS OF THE ISSUER WITH OTHER ENTITIES

- On 7 April 2003, Agora acquired shares that constituted 45% of the share capital of the company named Radio Klakson Sp. z o.o. with the seat in Wrocław, the broadcaster of a local radio program *BLUE FM* in Wrocław, Opole and Zielona Góra. As a result of the acquisition of the above mentioned shares, Agora SA holds 49% of Radio Klakson share capital, which entitles the Company to exercise 49% of votes at the general meeting.
- On 31 March 2003, Agora has disposed of shares that constitute 24% of share capital of the company Multimedia Plus Sp. z o.o. with its seat in Srem (Multimedia Plus), the broadcaster of a local radio program in Srem named *Rock Radio Wielkopolska*. As a result of sale of the above-mentioned shares, the Company's share in Multimedia Plus share capital amounts to 24% and entitles Agora SA to exercise 24% of voting rights at the general meeting.
- On 8 July 2003 the Company acquired shares constituting 44% of the share capital of the company under the business name Bis Media Sp. z o.o. with its seat in Lublin, the broadcaster of a local radio program named *Radio Puls (Lublin)*. As a result of the acquisition of the above-mentioned shares Agora SA stake in Bis Media's share capital totals 48.99% which entitles Agora SA to exercise 48.99% voting rights at the general meeting .
- On 1 October 2003 Art Marketing Syndicate S.A. (AMS), Agora SA subordinate company, purchased 60 shares of the company Media System Sp. z o.o. Europlakat Group with its seat in Warsaw from the company DSM Deutsche Städte - Medien GmbH with its seat in Frankfurt, the company Europlakat International Werbeges mbH with its seat in Vienna and three natural persons – Polish citizens. The acquired shares constitute 100% of the share capital of Media System and entitle to 100% of voting rights at the general meeting.
- Based on provisions of the agreement of 8 October 2003 Agora purchased shares in the company Twoje Radio Sp. z o.o. that constituted 4% of its share capital. As a result of the acquisition of the above-mentioned shares, Agora's stake in Twoje Radio Sp. z o.o. share capital increased to 23%, which corresponds to 23% of voting rights at the general meeting.
- On 16 October 2003 Agora purchased shares constituting 45% of the share capital of the company under the business name Regionalne Przedsiębiorstwo Związkowe Sp. z o.o. (RPZ) with its seat in Tychy, the broadcaster of a local radio program named *Radio Blue FM*. As a result of the acquisition of the above-mentioned shares, Agora SA stake in RPZ share capital totals 49% and entitles Agora SA to exercise 49% of voting rights at the general meeting.
- On 3 December 2003 the Company acquired shares constituting 51.01% of the share capital of the company under the business name Wibor Sp. z o.o. with its seat in Nowy Sącz, the broadcaster of local radio programs named *Radio Echo Nowy Sącz* and *Radio Echo Kraków*. As a result of the acquisition of the above-mentioned shares Agora SA stake in the share capital of Wibor totals 100% and entitles Agora SA to exercise all voting rights at the general meeting.
- As of 31 December 2003 Agora's stake in the share capital of AMS S.A. equaled 99.83% and entitled the Company to exercise 99.86% of voting rights at the general meeting of shareholders, which – as regards the state of ownership at the end of the first half of 2003 – constituted a growth by 0.11pp as for the share capital and by 0.06pp as for the number of voting rights at the general meeting of shareholders. The changes were a result of the share buy-out from the AMS minority shareholders.

### 3. OTHER SUPPLEMENTARY INFORMATION

#### 3.1. The shares in Agora and its affiliates owned by members of the Management Board

##### 3.1.1. Shares in Agora SA

	As of 31/12/2003	Nominal value (PLN)
Wanda Rapaczynski	1,385,314	1,385,314
Piotr Niemczycki	1,882,691	1,882,691
Helena Luczywo	1,300,193	1,300,193
Zbigniew Bak	140,728	140,728

##### 3.1.2. Shares in the affiliated company Agora-Holding Sp. z o.o.

	As of 31/12/2003	Nominal value (PLN)
Wanda Rapaczynski	1	10,427.84
Piotr Niemczycki	1	10,427.84
Helena Luczywo	1	10,427.84

The stake held by each of the Management Board members constitutes 19.99% of the share capital and entitles them to exercise 19.99% of voting rights at the general meeting of Agora-Holding Sp. z o.o.

#### 3.2. The shares in Agora and its affiliates owned by members of the Supervisory Board

##### 3.2.1. Agora SA

	As of 31/12/2003	Nominal value (PLN)
Anna Fornalczyk	0	0.00
Sandford Schwartz	0	0.00
Tomasz Sielicki	33	33.00
Stanisław Soltysinski*	-	-
Louis Zachary	0	0.00

\* Stanislaw Soltysinski invests in a "blind trust" fund

##### 3.2.2. Shares in affiliated companies

According to the Company's best knowledge none of the Supervisory Board members held shares in Agora's affiliated entities.

#### 3.3. Changes to the basic rules of managing the issuer's company and its capital group. Description of changes in the organization of Agora's capital group

During 2003 no changes were introduced to the basic rules of managing the issuer's company and its capital group. Except for changes of the issuer's capital affiliations with other entities discussed in the MD&A, no other changes were introduced in the organization of Agora's capital group.

#### 3.4. Changes in the composition of the Management and Supervisory Board

On 25 June 2003 the General Meeting of Shareholders appointed the following persons:

- for the next five-year term of office in the Management Board: Wanda Rapaczynski, Helena Luczywo, Piotr Niemczycki and Zbigniew Bak,
- for the next three-years term of office: Tomasz Sielicki and Louis Zachary.

On 6 November 2003 Mr. Brian Cooper handed in his resignation from the post of Supervisory Board member in the Company.

In the meeting on 18 November 2003 the Supervisory Board – acting on the basis of stipulations of §21 item 5 of Agora SA Statutes – adopted a resolution concerning co-option of Mr. Sandford Schwartz into the Board's composition. The newly appointed member will hold the post until a member of the Supervisory Board is appointed by the General Shareholders Meeting, however, no longer than until the due termination of office of his predecessor.

Detailed information concerning changes in the composition of the Supervisory Board was announced in current reports of 7 and 19 November 2003.

#### 3.5. Shareholders entitled to exercise over 5% of total voting rights at the General Meeting of Shareholders, either directly or through affiliates

To the best of the Company's knowledge resulting from notifications obtained from Deutsche Bank Trust Company Americas and Agora-Holding Sp. z o.o. of which the Company informed in respective current reports of 19 November 2003 and 23

December 2003, the following shareholders were entitled to exercise at least 5% of total voting rights in Agora as of 31 December 2003:

	no. of shares	% of share capital	no. of votes	% of voting rights
Agora-Holding Sp. z o.o.	11,348,738	20.00%	28,475,138	37.55%
Cox Poland Investment, Inc.	5,818,450	10.25%	7,774,690	10.25%

To the knowledge of Agora's Management Board there are no agreements which could result in future changes in the stakes held by its present shareholders, except for agreements on share distribution between Agora SA and Agora-Holding Sp. z o.o. concerning execution of participation plans in connection with the incentive plans carried out by Agora about which the Management Board informed on 18 December 2000 and two annexes to one of the above-mentioned agreements, whose main stipulations were announced in current reports of 14 April 2003 and 9 July 2003.

## V. POST-BALANCE SHEET EVENTS

Important post-balance sheet events are described in the note no. 33 to the financial statements.

## VI. ADDITIONAL INFORMATION

- As for December 31, 2003, the Group has not entered into litigation or has been litigated for claims or liabilities that in total exceed 10% of the Group's equity.
- As for 31 December 2003 the Group has granted guarantees for loans, however, the total value thereof did not exceed 10% of the Group's equity.
- The structure of main capital investments:

In 2003, capital investments made within the Capital Group of the issuer (stock and shares, additional contributions to the capital and loans) increased by PLN 78.6 million and decreased by PLN 35.7 million, as shown in the table below:

in PLN million	increase	decrease
stock and shares	41.6	0.6
contributions to capital	3.1	-
loans	33.7	34.9
securities	0.2	0.2
Total	78.6	35.7

In 2003, capital investments outside the Capital Group of the issuer (T-bills) increased by PLN 15.6 million and decreased by PLN 15.9 million.

In 2003, the main capital investment within the Group were:

- loans granted by Agora SA to a related entity, Art Marketing Syndicate S.A. in the amount of PLN 20 million,
- loans granted by Agora SA to a related entity, Inforadio Sp. z o.o. in the amount of PLN 7.5 million,
- repayment of loans to Agora SA by a related entity, Art Marketing Syndicate S.A. in the amount of PLN 34.9 million,
- subscription by Agora SA for 681,818 series E ordinary registered shares of the company Art Marketing Syndicate S.A. of the nominal value PLN 2 each and total nominal value of PLN 1,363,636. The issuance price of shares subscribed for by Agora equaled PLN 44 per share with total issuance value standing at PLN 29,999,992. The shares were subscribed for a cash contribution.

Warsaw, 14 April 2004

Wanda Rapaczynski – President of the Management Board .....

Piotr Pawel Niemczycki – Deputy President of the Management Board .....

Helena Luczywo – Deputy President of the Management Board .....

Zbigniew Bak – Deputy President of the Management Board .....