

***AGORA GROUP  
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)  
OF THE COMPANY'S RESULTS FOR THE FIRST QUARTER OF 2004  
PRESENTED ACCORDING TO  
INTERNATIONAL FINANCIAL REPORTING STANDARDS***

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**INTERNATIONAL FINANCIAL REPORTING STANDARDS**

REVENUE PLN 210 MILLION, EBITDA PLN 25 MILLION, OPERATING CASHFLOW PLN 22 MILLION

*Unless indicated otherwise, all data presented herein represent the period of January – March 2004, while comparisons refer to the first quarter of 2004 versus the first quarter of 2003. All data sources are presented in part IV of this MD&A.*

*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 (distribution, copying and reproduction possible only under the permission of Media Watch, tel.+48 71 341 47 11).*

*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.*

## **I. IMPORTANT EVENTS AND FACTORS WHICH INFLUENCE THE FINANCIALS OF THE GROUP**

- There are signs of advertising improvement in all media segments including better than expected revenue in newspapers. According to Agora's estimates, total advertising expenditure grew by over 8%, the newspapers segment by nearly 6%.
- Advertising sales of the Group grew by nearly 5%. *Gazeta's* advertising revenue increased by 3.6%, other businesses posted double-digit growth rates.
- Consolidated revenue of the Group grew by 5.8%; consolidated operating cost before restructuring was up by over 6%.
- Copy sales of all national newspapers, excluding *Fakt*, declined by 9.3%, and grew by 15% including *Fakt*. After a decline in the first two months of 2004, due to less active marketing, *Gazeta Wyborcza* turned around in March and its copy sales grew by 2.8%.
- In the first quarter of 2004, the cost of restructuring, amounting to over PLN 7 million (including the provision), negatively affected the Group's operating line. The Group is continuing restructuring measures.
- In March 2004, the Group launched *Avanti*, a new magazine for women.

### **Wanda Rapaczynski, the President of the Management Board, said:**

„After three lean years, the first signs of advertising improvement are visible. Macroeconomic indicators suggest recovery in company investments. This is good news and may indicate a better year than we expected. Yet, political situation and condition of the state budget advise caution. We are prepared to take advantage of the rebound, but are not re-forecasting our revenue assumptions at this time.”

## **II. EXTERNAL AND INTERNAL FACTORS IMPORTANT FOR THE DEVELOPMENT OF THE GROUP.**

### **1. EXTERNAL FACTORS**

#### **1.1. Economy**

The macroeconomic data indicate economic recovery. Better than expected GDP growth in the first quarter of 2004 (inching up to 6%), as well as the first, after four years of recession, growth in the construction industry (over 6%), may signal an improvement in company investments, which in turn revive the advertising spending.

Although the economic data are basis for optimism, the political instability and the lackluster tempo in improving the state of public finances are of concern. These factors may impede the stability of the recovery, especially its internal demand aspect, and cause uncertainty in the currency and capital markets.

In the first quarter of 2004, zloty depreciated against euro by an average of 14%.

#### **1.2. Advertising market**

The advertising market shows signs of recovery. According to Agora's estimates, in the first quarter of 2004, real advertising spending grew by over 8%.

For the first time in three years, the dailies advertising market climbed by nearly 6%. This was due to a healthy growth of key advertising categories: automotive (5%), employment (38%), finance (26%) travel and construction (25%). Warsaw dailies saw much steeper growth (11%) which was to some extent driven by the enhancement of the advertising offer, i.e. new dailies and new metro sections of national newspapers.

Local newspapers grew revenue by 4%, chiefly owing to better sales of *Gazeta Wyborcza* (12% increase). Weaker advertising sales of local dailies resulted from the decline of revenue from the Warsaw advertising agencies which was not fully compensated for growth in local advertising.

As much as 12% increase was recorded by national magazines. Such lively growth stems from a surge in cosmetics (ca. 23%), food (ca. 40%), automotive (ca. 17%) and health (ca. 4%) advertising.

Radio market saw significant revenue increase (ca. 17%). As was the case in the previous quarters, the growth was driven by national radio stations (18%). Local radio stations posted an increase of 13%.

Television grew revenue by almost 8%. The biggest TV stations recorded a 10% increase of total usage of their advertising time.

#### **1.3. Print market - competition**

The publication of the new tabloid increased competition in the newspaper market. Publishers compete by point of sale presentations, new supplements and local sections (largely in Warsaw), some broadened street distribution. Newspapers attract readers with new promotions and prizes, some decided to lower cover price (e.g. *Zycie Warszawy* or *Super Express*). The discount pressure in the newspaper market is growing.

According to Circulation Audit Office (ZKDP), in the first quarter of 2004, total number of copies sold of all newspapers increased by 15%. Average copy sales of tabloid *Fakt* reached 578.9 thousand copies and in March 2004 decreased by 14% versus the previous month. *Gazeta's* copy sales fell by 2.1% in the first quarter 2004, and grew by 2.8% in March 2004.

Copy sales of *Super Express* – the direct competitor of *Fakt* - saw a significant decline over the last months. In the first quarter of 2004, *Super Express* sold nearly 12% fewer copies than last year. Local dailies are also declining circulation (a fall of 14%). Since the entry of the new tabloid (i.e. in the period October 2003 - March 2004) paid circulation of *Super Express* declined by 18.6 thousand copies, while that of local newspapers by 101.2 thousand.

Circulation performance was reflected in readership data. In the first quarter of 2004, the weekly readership reach of *Fakt* was 21.1%. In March, however, it remained on the February's level (i.e. ca. 23%). In the first quarter of 2004 readership of *Gazeta* was 18.6% and, after having declined to 16.2% in January, it climbed back to over 20% in March. In the first quarter of 2004, *Super Express* noted readership of 11.8%, one of the weakest results in recent years. During the period, local dailies lost readers as well.

In March 2004, Axel Springer, encouraged by good copy sales results of the new tabloid, increased its advertising rates by over 30%, and – since the beginning of April 2004 – its cover price. Now the Warsaw and national Thursday issues sell for PLN 1.20 (the week day cover price in the remaining part of Poland remained at PLN 1).

*Fakt* continues to be supported by intensive promotional campaign and another edition of cash contest on its pages. The publisher of *Super Express* significantly decreased cover price in Warsaw (i.e. by 23% to PLN 1.20-1.60).

In the first quarter of 2004, advertising performance of *Fakt* was still quite insignificant (according to Agora's estimates its advertising sales amounted to PLN 5 million, which translated in 2.7% share in the daily advertising spending). *Fakt's* advertising revenue is dominated by telecom, culture and entertainment, media and automotive – the categories which target mass market.

## **2. INTERNAL FACTORS**

### **2.1. Restructuring**

Last year's restructuring of new businesses bore fruit – in the first quarter of 2004, operating and market performance of the segments were in line with our plan to bring them to profitability.

In the first quarter of 2004, the Group continued implementing the measures aiming at improving its effectiveness and market flexibility in the context of increased competition. Some significant changes have already been put into practice: payroll and accounting functions have been centralized, while modification of the organizational structure resulted in better sales of *Gazeta's* advertising and improvement of its circulation promotion. These changes have already translated into newspaper's market performance.

## **3. PROSPECTS**

### **3.1. Advertising market and revenue**

In the first quarter of 2004, advertising revenue of dailies was above the Group's expectations, and – together with the economic recovery – is a source of optimism. However, the Management Board would like to stress that the growth of newspaper advertising could have resulted from a one-off increase in revenue in some advertising categories before Poland's accession to the EU (e.g. automotive or home construction), as well as enhancement of the offer in the print market.

Bearing in mind uncertain political situation and slow progress in implementing the austerity program to improve the state budget, the Management Board believes it is too early to judge how firm is the recovery. As of the day of publication of this report, the Group is not changing its 2004 advertising market assumptions and revenue targets. At the same time, we believe that a better than expected scenario is possible.

### **3.2. Competition**

Currently, the newspaper market and *Gazeta's* market position are of the greatest importance to the Group. Agora will continue increased spending on promotion and marketing of *Gazeta Wyborcza*, and will be launching new projects designed to enhance the newspaper's revenue stream.

### **3.4. Regulatory environment**

#### **3.4.1. Lifting the ban on foreign capital in broadcast media after EU accession**

As of 1 May 2004, the limitation of foreign capital in broadcast media was lifted. This may result in increased competition of foreign media companies in the broadcast market.

#### **3.4.2. Law on Value Added Tax (VAT) and on copyrights and associated rights**

Both laws were signed by the President and became effective as of 1 May 2004. The provisions of the laws will not significantly increase the cost base of the Group.

### III. FINANCIAL RESULTS

#### 1. THE AGORA GROUP

The consolidated financial statements of the Agora Group for the first quarter of 2004 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. Detailed list of companies of the Agora Group was presented in financial statements for 2003. Two radio related companies (Wanda Sp. z o.o. and Klakson Sp. z o.o.) are now fully consolidated with the financials of the Agora Group, while as of 31 December 2003 they were accounted for using the equity method.

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

*Tab. 1*

in PLN million	I Q 2004	I Q 2003	% change yoy
Sales	210.2	198.6	5.8%
Operating cost net, incl.:	(216.8)	(197.1)	10.0%
D&A	(28.6)	(33.0)	(13.3%)
Staff cost	(59.5)	(56.7)	4.9%
Promotion and marketing	(17.2)	(10.6)	62.3%
Goodwill amortization	(3.6)	(3.4)	5.9%
Restructuring	(7.3)	(0.2)	3,550%
Operating profit / (loss) - EBIT	(6.6)	1.5	-
Finance cost, net, incl.:	(1.3)	(4.4)	(70.5%)
Revenue from short-term investment	1.2	0.7	71.4%
Interest on loans	(2.0)	(2.7)	(25.9%)
Allowance for losses on investment, net	(0.8)	(0.9)	(11.1%)
Share of results of associates	(0.8)	(0.3)	166.7%
Profit / (loss) before income tax	(8.7)	(3.2)	171.9%
Income tax expense	(0.6)	(1.4)	(57.1%)
Minority interest	-	(0.2)	-
Net profit / (loss) for the period	(9.3)	(4.8)	93.8%
EBIT margin (EBIT/Sales)	(3.1%)	0.8%	(3.9pp)
EBITDA	25.0	37.8	(33.9%)
EBITDA margin (EBITDA/Sales)	11.9%	19.0%	(7.1pp)

Major products and services as well as operating revenue and cost of the Agora Group are presented in detail in part IV of this MD&A ("Operating review – major lines of business of the Agora Group").

The impact of the operating results of particular businesses on the Group's financials is presented in the table under point 2.1. below.

Restructuring cost includes payments resulting from the lay-offs as well as other cost related to the implementation of the planned restructuring measures in the Group. Out of the amount mentioned above, net cost of PLN 2.4 million was incurred to the balance sheet day and the remaining PLN 4.9 million constitutes a restructuring provision (balance of the provision as of 31 March 2004 amounted to PLN 5 million). Total restructuring cost amounted to PLN 7.3 million.

Restructuring cost was the main factor negatively affecting the operating profit, net profit margin and return on equity ratios, presented in point 5 below. Gross profit margin remained at the same level over the previous year.

## 2.1. Results presented according to major lines of business of the Agora Group

*Tab. 2*

	Press and the Internet	Magazines	Outdoor	Radio	Unallocated amounts	Elimina- tions	Total (consoli- dated)
Total sales	162.6	20.6	21.1	9.9	4.9	(8.9)	210.2
% Share	77.4%	9.8%	10.0%	4.7%	2.3%	(4.2%)	100.0%
Total operating cost	(148.9)	(23.0)	(29.9)	(11.6)	(9.2)	5.8	(216.8)
EBIT	13.7	(2.4)	(8.8)	(1.7)	(4.3)	(3.1)	(6.6)
Finance cost, net							(1.3)
Share of results of associates							(0.8)
Income tax expense							(0.6)
Minority interest							0.0
Net profit (loss)							(9.3)
EBITDA	32.4	(0.9)	(4.5)	(1.2)	(1.1)	0.3	25.0
CAPEX	(7.0)	0.0	(4.0)	(0.2)	(0.1)	-	(11.3)

The column unallocated amounts includes amounts which were not allocated to any of Agora's lines of business: Agora's radio division, costs of the new headquarters and operating costs of new businesses development division.

## 2.2. Finance cost, net

Higher revenue from short-term investment results from an increase in cash and monetary assets in the first quarter of 2004.

Lower financial interest on loans results from bank loans and commercial papers of the AMS Group, which were repaid in full in 2003.

### 3. BALANCE SHEET OF THE AGORA GROUP

*Tab. 3*

PLN million	31/03/2004	31/12/2003	% change to 31/12/2003	31/03/2003	% change to 31/03/2003
Non-current assets	1,109.7	1,133.6	(2.1%)	1,188.5	(6.6%)
share in balance sheet total	81.4%	82.3%	(0.9pp)	85.2%	(3.8pp)
Current assets	252.9	243.3	3.9%	207.1	22.1%
share in balance sheet total	18.6%	17.7%	0.9pp	14.8%	3.8pp
<b>TOTAL ASSETS</b>	<b>1,362.6</b>	<b>1,376.9</b>	<b>(1.0%)</b>	<b>1,395.6</b>	<b>(2.4%)</b>
Equity	1,049.3	1,065.2	(1.5%)	1,058.3	(0.9%)
share in balance sheet total	77.0%	77.3%	(0.3pp)	75.8%	1.2pp
Minority interest	1.4	1.3	7.7%	1.7	(17.6%)
share in balance sheet total	0.1%	0.1%	0.0pp	0.1%	0.0pp
Non-current liabilities and provisions	180.9	188.3	(3.9%)	207.3	(12.7%)
share in balance sheet total	13.3%	13.7%	(0.4pp)	14.9%	(1.6pp)
Current liabilities and provisions	131.0	122.1	7.3%	128.3	2.1%
share in balance sheet total	9.6%	8.9%	0.7pp	9.2%	0.4pp
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,362.6</b>	<b>1,376.9</b>	<b>(1.0%)</b>	<b>1,395.6</b>	<b>(2.4%)</b>

#### 3.1. Non-current assets

Lower value of fixed assets versus 31 December 2003 results from the depreciation of tangible fixed assets and amortization of intangible assets.

Additionally, as a result of full consolidation of two radio related companies (as of 31 December 2003 valued using the equity method), long-term investment of PLN 9.9 million was excluded in consolidation. At the same time, the increase in Agora's stake in these companies resulted in goodwill of PLN 9.6 million.

#### 3.2. Current assets

The balance of current assets was affected by the increase in short-term interperiod settlements resulting from the prepayment in the first quarter of 2004 of operating cost (insurance, fees for perpetual usufruct, advertising, Social Fund, printing services for magazines), which are being settled throughout the year. This is reflected in a significant increase of the current ratio.

As a consequence of the change in accounting policy described in part VII of this MD&A, there is a decrease in short-term financial assets, which results from derecognition of the PLN 7.0 million asset ensuing from valuation (as of 31 December 2003) of embedded financial derivatives.

#### 3.3. Non-current liabilities and provisions

Lower non-current liabilities result mainly from reclassification as of 31 March 2004 of the PLN 8.7 million long-term liability (bank loan) to current liabilities, in line with the repayment date of the first loan installment payable on 31 March 2005.

### **3.4. Current liabilities and provisions**

Increase in current liabilities result from reclassification of the loan installment mentioned under point 3.3. above and recognition as of the balance sheet day of the provision for restructuring cost of PLN 5 million. At the same time trade liabilities decreased, which was reflected in the creditors days ratio. The ratio is lower compared to the same period of the previous year due to debt restructuring of AMS S.A., as the result of which trade liabilities of this company were repaid in the first quarter of 2003.

#### 4. CASH FLOW STATEMENT OF THE AGORA GROUP

*Tab. 4*

In PLN million	I Q 2004	I Q 2003	% change yoy
Net cash from operating activities	21.9	34.4	(36.3%)
Net cash from investment activities	(14.6)	(3.0)	386.7%
Net cash from financing activities	2.7	(19.9)	-
Total movement of cash and cash equivalents	10.0	11.5	(13.0%)
Cash and cash equivalents at the end of period	100.5	62.6	60.5%

As at 31 March 2004, the Agora Group had PLN 100.5 million in cash and its equivalents (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.

##### 4.1. Operating activities

Decrease in operating cash flow in 2004 is partly due to the fact that net operating flow in the first quarter of 2003 included, among others, one-off transactions resulting from the purchase of AMS S.A. 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 had a positive impact on the net cash flow. Repayment in the first quarter of 2003 of PLN 8.5 million of short-term trade liabilities by AMS S.A. (trade liabilities decreased by the same amount) affected the net cashflow negatively.

##### 4.2. Investment activities

Net cash from investment activities in the said period includes, among others, expenditure and prepayments for tangible fixed assets in the amount of PLN 11.2 million. Additionally, the Group spent PLN 4.6 million on investment in affiliates, including the purchase of shares and additional capital contribution of PLN 2.3 million, as well as loans granted of PLN 2.3 million.

In the first quarter of 2003, net cash flow from investment activities included payment of PLN 10 million to AMS S.A. made by the former majority shareholders according to the agreement between these shareholders and Agora SA.

##### 4.3. Financing activities

Net cash flow from financing activities in the first quarter of 2004 includes, among others, the following items:

- PLN 2.1 million outflow of interest on loans
- PLN 4.7 million net inflow from the loans taken by AMS S.A. to finance its operating activities.

Net cash flow from financing activities in the first quarter of 2003 includes repayment of the loan principal by AMS S.A. (PLN 7.9 million), redemption of commercial papers by AMS S.A. (PLN 9.0 million) as well as loan interest and discount on commercial papers in the amount of PLN 2.8 million.

**5. SELECTED FINANCIAL RATIOS [2]**

**Tab. 5**

	I Q 2004	I Q 2003	% change yoy
<b>Profitability ratios</b>			
Net profit margin	(4.4%)	(2.4%)	(2.0pp)
Gross profit margin	33.4%	33.6%	(0.2pp)
Return on equity	(0.9%)	(0.5%)	(0.4pp)
<b>Efficiency ratios</b>			
Inventory turnover	9 days	9 days	-
Debtors days	43 days	46 days	(6.5%)
Creditors days	29 days	46 days	(37.0%)
<b>Liquidity ratio</b>			
Current ratio	2.1	1.7	23.5%
<b>Financing ratios</b>			
Gearing ratio	10.6%	10.6%	-
Interest cover	-	0.5	-
Free cash flow interest cover	5.0	7.9	(36.7%)

Definitions of financial ratios [2] are presented at the end of part IV of this MD&A ("*Operating review – major lines of business of the Agora Group*").

## IV. OPERATING REVIEW - MAJOR LINES OF BUSINESS OF THE AGORA GROUP

### IV.A. PRESS AND THE INTERNET

**Tab. 6**

in PLN million	I Q 2004	I Q 2003	% change yoy
Total sales	162.6	156.5	3.9%
Copy sales	45.9	47.0	(2.3%)
incl. <i>Gazeta Wyborcza</i>	45.9	47.0	(2.3%)
Ad revenue	99.4	96.6	2.9%
incl. <i>Gazeta Wyborcza</i>	98.3	94.9	3.6%
Revenue from Internet activity	2.4	2.0	20.0%
Other revenue	14.9	10.9	36.7%
incl. sales of printing services	10.8	7.0	54.3%
Total operating cost	(148.9)	(141.5)	5.2%
Raw materials and energy	(37.2)	(38.5)	(3.4%)
incl. newsprint for <i>Gazeta Wyborcza</i> (purchased by Agora)	(28.0)	(29.1)	(3.8%)
Staff cost	(45.4)	(44.6)	1.8%
D&A	(18.7)	(23.2)	(19.4%)
Other operating cost net, incl.:	(47.6)	(35.3)	34.8%
promotion and marketing(1)	(11.5)	(7.7)	49.4%
outsourced printing services	(11.1)	(3.9)	184.6%
restructuring	(7.0)	-	-
EBIT	13.7	15.0	(8.7%)
EBIT margin	8.4%	9.6%	(1.2pp)
EBITDA	32.4	38.2	(15.2%)
EBITDA margin	19.9%	24.4%	(4.5pp)
Full-time employment at the end of the period	2,971 (2)	3,063	(3.0%)

(1) the amounts do not include the total cost of cross-promotion of Agora's different media (only the direct variable cost of campaigns carried out on advertising panels) if such promotion is executed without prior reservation on space which was not sold to external clients

(2) includes employees in the period of notice due to restructuring of the Company

#### 1. GAZETA WYBORCZA

##### 1.1. Revenue

###### 1.1.1. Copy sales

In the first quarter of 2004, average copy sales of *Gazeta Wyborcza* reached 423.8 thousand and were 2.1% lower versus the same period of the previous year. After two months of a decline in copy sales, caused mainly by less extensive marketing activity, in March 2004 paid circulation of *Gazeta* increased by 2.8%.

This growth is a consequence of reorganization of *Gazeta's* marketing approach as well as introduction of new and attractive editorial ideas. Impact of these activities is expected to enhance the dynamic growth in the months to come.

Better copy sales of *Gazeta* are reflected in readership results. In the first quarter of 2004, *Gazeta* retained its high readership of 18.6%. In March 2004 - despite aggressive competition in the dailies market - *Gazeta* reached record readership of 20.3%, which was one of the highest in several years.

### 1.1.2. Advertising sales

In the first quarter of 2004, *Gazeta's* advertising revenue grew by 3.6%. This increase - first in several months - results from a growth of dailies advertising market and maintenance of *Gazeta's* solid share in this market (44.9%, display advertising).

*Gazeta's* best results were noted in local markets outside Warsaw (revenue from display advertising and classifieds up by 11.9%). This was due to a healthy growth of *Gazeta's* key advertising categories, i.e. employment (display advertising up 40%) and real estate (up 32%). As a consequence, *Gazeta's* share in revenue from local advertising (display ads) increased by 2pp.

Since fall 2003 the Warsaw market has become more competitive. National dailies introduced new or revitalized Warsaw sections, advertising offer of Warsaw dailies was enhanced and competition in the free press market became more aggressive. Discount war in the Warsaw market brings about new, competitive offers for advertisers. The Warsaw section of *Gazeta Wyborcza* registered an increase in advertising revenue from display ads and classifieds by 4.1%, although its share in the display advertising market fell by 5pp. Free daily *Metro* is a significant player in the Warsaw market - its advertising sales increased by 50%.

*Gazeta's* revenue from national advertising remained nearly on the level of last year (down by 1%). *Fakt's* entry broadened the advertising offer of national dailies. Advertising is shifting from local to national market.

In the first quarter of 2004, *Gazeta's* net revenue per ad page totaled PLN 5.2 thousand. The share of ad pages in the total pagecount reached 44.3% and the average number of ad pages published daily in all local and national editions amounted to 238.6 (up 5.8%).

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

In the first quarter of 2004 the production volume sold to external clients increased by 36%.

**Tab. 7**

Cost of production of <i>Gazeta Wyborcza</i> (newsprint and printing services) in PLN million	I Q 2004	I Q 2003	% change yoy
Fixed cost, incl.:			
D&A	17.9	18.3	(2.2%)
D&A	9.7	10.0	(3.0%)
Variable cost, incl.:	37.2	33.7	10.4%
Newsprint	29.2	26.9	8.6%
TOTAL fixed and variable cost	55.1	52.0	6.0%

#### 1.2.1. Newsprint and printing services

In the first quarter of 2004, 14% average growth of the EUR/PLN exchange rate was the main factor behind higher cost of newsprint.

Higher cost of outsourced printing services resulted from a 37% increase in printing volume. The product structure underwent significant changes, including a shift of *Duzy Format* (Large Format) from Thursday to Monday.

## 2. FREE PRESS

Free daily *Metro* is distributed in Warsaw five times a week. In March 2004, *Metro's* average daily circulation reached 130 thousand copies. In the first quarter of 2004, the daily generated revenue of PLN 0.9 million, which was PLN 0.3 million more compared to the same period in 2003. In the first quarter of 2004, *Metro's* production cost (newsprint and printing services) was PLN 1.1 million.

From January 2004 *Metro* in Katowice ceased publication.

## 3. INTERNET [3]

The first quarter of 2004 saw the introduction of the new homepage version and successful implementation (in cooperation with Energis) of *netGazeta* - paid access to the Internet. Within the process of portal enhancement, discussion *Forum* was re-designed and new magazine services *Auto+* and *Avanti* were added to the thematic channels.

In the first quarter of 2004, the number of unique users of *Gazeta.pl* increased by 13% to 2.5 million users compared to the fourth quarter of 2003, while in the same period the number of Internet users in Poland increased by 10% to 7.0 million. Compared to the first quarter of 2003, the number of unique users of *Gazeta.pl* increased by 62%.

The portal improved its financial results. Revenue growth was accompanied by a 37% decline in operating cost, which was mainly due to a decrease in amortization and payroll costs.

At the end of the first quarter of 2003, significant part of the software used in the Internet activity was fully amortized, which explains the decline in amortization in the first quarter of 2004.

## IV.B. THE MAGAZINES

In March 2004 Agora launched *Avanti*, the first title in Poland of the increasingly popular category of the so-called *shopping magazines*. *Avanti* is a practical guide into the world of fashion and beauty, it gives advice and shows trends. All products (clothes, shoes, accessories and cosmetics) are shown together with their price and address of the shop. The magazine is targeted at young female inhabitants of cities, interested in fashion and beauty and fond of shopping. *Avanti's* cover price amounts to PLN 4.5.

On 5 May 2004 Agora introduced a new quarterly *Studio Kuchnie i Lazienki* (Kitchens and Bathrooms). It is an exclusive interior decoration magazine with the cover price of PLN 9.90.

**Tab. 8**

in PLN million	I Q 2004	I Q 2003	% change yoy
Total sales	20.6	15.8	30.4%
Copy sales	12.3	9.1	35.2%
Advertising revenue	8.2	6.6	24.2%
Other revenue	0.1	0.1	0.0%
Total operating cost	(23.0)	(18.0)	27.8%
Materials and energy	(0.2)	(0.1)	100.0%
incl. newsprint (purchased by Agora)	-	-	-
Staff cost	(5.1)	(4.6)	10.9%
D&A	(1.5)	(1.5)	0.0%
Other operating cost, net, incl.:	(16.2)	(11.8)	37.3%
promotion and marketing (1)	(6.0)	(3.2)	87.5%
outsourced printing services	(8.3)	(6.7)	23.9%
restructuring	(0.2)	0.0	-
EBIT	(2.4)	(2.2)	9.1%
EBIT margin	(11.7%)	(13.9%)	2.2pp
EBITDA	(0.9)	(0.6)	50.0%
EBITDA margin	(4.4%)	(3.8%)	(0.6pp)
Full - time employment at the end of the period	253	221	14.5%

(1) the amounts do not include the total cost of cross-promotion of Agora's different media (only the direct variable cost of campaigns carried out on advertising panels) if such promotion is executed without prior reservation on space which was not sold to external clients

The new title *Avanti* contributed minus PLN 2.2 million to the EBITDA of magazines.

### 1. REVENUE

#### 1.1. Copy sales

**Tab. 9**

	I Q 2004	I Q 2003	% change yoy
Average copy sales (in thousand of copies)	972.0	833.8	16.6%
Average circulation of free <i>City Magazine</i> (in thousand of copies)	145.0	152.7	(5.0%)

Consistent implementation of the marketing strategy promoting titles through outdoor, TV, and, above all, gadgets such as DVDs and VCDs translated into higher copy sales.

## **1.2. Ad sales**

Change in the content and layout, increase in copy sales, restructuring of the sales force and the launch of *Avanti* contributed to 24% higher advertising revenue. As a result, in the first quarter of 2004, the Magazines reached a 4.1% share in the magazine advertising market, which is a 0.5pp increase versus adjusted data from the previous year (3.6%).

The magazine market grew by 12.2% in the said period.

## **2. COST**

### **2.1. Cost of production of the Magazines (newsprint and printing services)**

Printing services in external printing plants include the cost of newsprint and printing services. In the first quarter of 2004, the following factors had an impact on this cost category:

- increase in the number of printed pages (costs up by PLN 1.2 million)
- EUR/PLN exchange rate (costs up by PLN 0.9 million)
- decrease in the number of printed gadgets accompanying the titles (costs down by PLN 0.4 million).

### **2.2. Other cost**

Higher cost of payroll (up by PLN 0.3 million) and headcount (26 persons more) results from the launch of two new titles.

In the first quarter of 2004, promotion of the new title *Avanti* added to the advertising expenditure. Remaining growth derives from the marketing strategy, i.e. intensive promotion through DVD and VCD movies.

#### IV.C. OUTDOOR (AMS GROUP)

In the first quarter of 2004, the outdoor market grew by 11.1%. The estimated share of AMS grew in the said period by 2.4pp to 29.9% [4].

**Tab. 10**

in PLN million	I Q 2004	I Q 2003	% change yoy
Total sales (1)	21.1	20.7	1.9%
Advertising revenue	20.6	15.6	32.1%
Advertising revenue, one off	-	4.9	-
Other revenue	0.5	0.2	150.0%
Total operating cost	(29.9)	(23.7)	26.2%
Materials and energy	(2.3)	(1.1)	109.1%
Staff cost	(4.2)	(3.3)	27.3%
D&A	(4.8)	(4.7)	2.1%
Other operating cost net, incl.:	(18.6)	(14.6)	27.4%
rental fees for outdoor panels	(10.6)	(9.7)	9.3%
execution of campaigns	(4.5)	(3.9)	15.4%
EBIT	(8.8)	(3.0)	(193.3%)
EBIT margin	(41.7%)	(14.5%)	(27.2pp)
EBITDA	(4.5)	1.2	-
EBITDA margin	(21.3%)	5.8%	(27.1pp)
Full-time employment at the end of the period	305	329	(7.3%)
Number of advertising faces (2)	23,134	22,335	3.6%

(1) *the amounts do not include the revenue and direct and variable 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. Additional revenue from this activity amounted to PLN 5.6 million in the first quarter 2004 (PLN 2.9 million in the first quarter 2003)*

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

#### 1. REVENUE

In the first quarter of 2004 the advertising revenue of AMS, excluding the one-off revenue of PLN 4.9 million in the first quarter of 2003 from making AMS' panels available to the former majority shareholder, increased by 32.1%. Restructuring of the sales team, enhancement of the offer, as well as lower revenue in the first quarter of 2003 due to the personnel changes were the main factors behind this growth. Revenue from the former majority shareholder of AMS was a consequence of the contract entered into with Agora SA, imposing the obligation to sell AMS' shares. As this revenue was not accompanied by cost of campaign execution, its total amount increased the operating result of AMS.

#### 2. OPERATING COST

Higher operating cost results from a significant increase in renovation expenses (up by PLN 1.2 million), changes in the remuneration system and personnel reorganization (up by PLN 0.9 million) and higher write-offs of receivables (up by PLN 1.5 million). Costs of campaign execution (including printing services) increased by PLN 1.0 million due to significant sales growth.

#### 3. IMPORTANT EVENTS

In February 2004, AMS S.A. and Clear Channel Polska Sp. z o.o., another significant player in the outdoor market, created Polskie Badania Outdooru Sp. z o.o. (PBO). The company will continue research carried out by Polskie Badania Reklamy Zewnętrznej Sp. z o.o. (PBRZ), which was liquidated. AMS subscribed for 51% of shares in PBO. On 5 April 2004 PBO's research became available through the Internet *Authorisation Platform*. Hence, AMS started to use the results of research conducted in the last three years. At the same time, AMS S.A. rebuilt its IT systems supporting sales, making it possible to plan a campaign on the basis of data collected by PBRZ/PBO.

In the first quarter of 2004, AMS continued the revitalization program for billboards in 8 main cities and started the second stage of the project, envisaging renovation of panels outside the main centers. Moreover, AMS commenced renovation of backlight panels of Media System, a subsidiary that was taken over by AMS in the fourth quarter of 2003.

## IV.D. RADIO

### 1. LOCAL RADIO STATIONS

On 2 January 2004 *Blue FM* operated by *Wibor Sp. z o.o.* started broadcasting in Cracow. *Blue FM* has a HOT AC format and is targeted at the 28-42 age group.

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 type of their business activity).

**Tab. 11**

in PLN million	I Q 2004	I Q 2003	% change yoy
Total sales	9.9	9.0	10.0%
Advertising revenue	9.3	8.4	10.7%
Other revenue	0.6	0.6	0.0%
Total operating cost	(11.6)	(12.5)	(7.2%)
Materials and energy	(0.2)	(0.3)	(33.3%)
Staff cost	(5.0)	(5.5)	(9.1%)
D&A	(0.5)	(0.7)	(28.6%)
Other operating cost net, incl.::	(5.9)	(6.0)	(1.7%)
promotion and marketing (1)	(1.8)	(1.2)	50.0%
restructuring	-	-	-
EBIT	(1.7)	(3.5)	(51.4%)
EBIT margin	(17.2%)	(38.9%)	21.7pp
EBITDA	(1.2)	(2.8)	57.1%
EBITDA margin	(12.1%)	(31.4%)	19.3pp
Full-time employment at the end of the period (2)	379	435	(12.9%)

(1) the amounts do not include the total cost of cross-promotion of Agora's different media (only the direct variable cost of campaigns carried out on advertising panels) if such promotion is executed without prior reservation on space which was not sold to external clients

(2) including employment of Agora's radio division

#### 1.1. Revenue

Higher advertising revenue in the first quarter 2004 resulted from the 13% growth of the local radio advertising market. National market saw steeper growth (18%) and total radio advertising revenue increased by ca. 17%.

#### Market share of Agora's local radio stations group

**Tab. 12**

Cumulative:	Share in the advertising market	Share in the advertising market of local radio stations	Share in the audience market [5]
2004	10.6%	32.6%	12.5%
2003	10.8%	35.0%	13.6%

In the first quarter of 2004, Agora's local radio stations group maintained its position of the third largest radio player -behind *RMF FM* and *Radio Zet* - in the radio advertising market in Poland and in the audience market (in the cities of Agora's broadcasting, age group of 20-50 in the period January - March) [5].

From January 2004 15 radio stations formatted to broadcast *Golden Oldies* operate under a common brand *Złote Przeboje*. The stations have different local programs but they use a common logo and coordinate their marketing

activities. Share in the audience market of *Złote Przeboje* increased by 1pp yoy and amounted to 11.7% (in the cities of Agora's broadcasting, age group of 30-50 in the period January - March).

### **1.2. Operating cost**

In the first quarter of 2004, due to the launch of a common brand *Złote Przeboje*, local radio stations carried out intensive promotional activity through TV, outdoor and local press. Despite higher cost of promotion, other operating cost decreased due to restructuring measures implemented in 2003.

## **2. RESULTS OF THE RADIO DIVISION IN THE STRUCTURE OF AGORA SA**

The radio division is responsible for local radio stations, as well as national sales. In the first quarter of 2004, sales reached PLN 4.9 million (up by PLN 4.4 million), EBITDA was a negative PLN 0.8 million (down by PLN 0.2 million).

### **3. SUPERREGIONAL RADIO TOK FM**

In the first quarter of 2004, the revenue of the superregional radio station *TOK FM* reached PLN 0.4 million, EBITDA and net loss amounted to minus PLN 1.0 million and PLN 2.5 million, respectively.

From October 2003 the station's program was improved, introducing more commentaries, business, culture, entertainment and sports news, as well as special programs.

As a result of these changes, in the first quarter of 2004 *TOK FM* achieved 2.3% audience share in the Warsaw market (compared to 1.1% in the first quarter of 2003).

## NOTES

[1] The data on the number of copies sold of daily newspapers is based on the National Circulation Audit Office (ZKDP). The term "copy sales" used in this MD&A is consistent with the sales declarations of publishers to the National Circulation Audit Office.

Data on dailies' readership are based on PBC General research carried out by SMG/KRC A MILLWARD BROWN COMPANY on a random, nationwide sample of Poles over 15 years of age. Weekly readership index was used - percentage of respondents reading at least one edition of the title within 7 days of the survey. Size of the nationwide sample in 2004: January n = 3,037 persons; February n = 3,019; March n = 3,012.

[2] Definition of ratios:

$$\text{Net profit margin} = \frac{\text{Net profit (loss)}}{\text{Sales of finished products, merchandise and materials}}$$

$$\text{Gross profit margin} = \frac{\text{Profit (loss) on sales}}{\text{Sales of finished products, merchandise and materials}}$$

$$\text{Return on equity} = \frac{\text{Net profit (loss)}}{(\text{Equity at the beginning of the period} + \text{Equity at the end of the period}) / 2}$$

$$\text{Debtors days} = \frac{(\text{Trade receivables at the beginning of the period} + \text{Trade receivables at the end of the period}) / 2}{\text{Sales of finished products, merchandise and materials} / \text{no. of days}}$$

$$\text{Creditors days} = \frac{(\text{Trade creditors at the beginning of the period} + \text{Trade creditors at the end of the period}) / 2}{\text{Sales of finished products, merchandise and materials} / \text{no of days}}$$

$$\text{Inventory turnover} = \frac{(\text{Inventories at the beginning of the period} + \text{Inventories at the end of the period}) / 2}{\text{Sales of finished products, merchandise and materials} / \text{no of days}}$$

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current liabilities} + \text{Current interperiod settlements}}$$

$$\text{Gearing ratio} = \frac{\text{Current and non-current liabilities from loans}}{\text{Total liabilities}}$$

$$\text{Interest cover} = \frac{\text{Operating profit / (loss)}}{\text{Interest charge}}$$

$$\text{Free cash flow interest cover} = \frac{\text{Free cash flow}}{\text{Interest charge}}$$

[3] Data on the number of Internet users and unique users: own calculation on the basis of NetTrack research, carried out by SMG/KRC A MILLWARD BROWN COMPANY and GemiusTraffic, Gemius S.A.

*[4] The data refer to campaigns carried out in 12 largest agglomerations.(source: MEDIA WATCH monitoring 2003-2004, distribution, copying and reproduction possible only under the permission of Media Watch, tel. +48 71 341 47 11). Data do not include advertising campaigns realized outside of the 12 largest agglomerations, where AMS is the leader.*

*[5] Audience market data referred herein are based on Radio Track surveys, carried out by SMG/KRC A MILLWARD BROWN COMPANY (all places, all days and all quarters of an hour of listening) for local radio stations: in the cities of broadcasting and in the age group of 20-50, from January to March; for TOK FM: in the cities of broadcasting, from January to March; for Złote Przeboje: in the cities of broadcasting and in the age group of 30-50, from January to March.*

## V. ADDITIONAL INFORMATION

- On 19 January 2004 Agora purchased shares in Radio Klakson Sp. z o.o. with its seat in Wroclaw – the broadcaster of a local radio program named *Radio Blue 106.1 FM* (Wroclaw), *Radio Blue 106.6 FM* (Opole) and *Radio Blue 101.7 FM* (Zielona Gora). After the transaction Agora's stake in the share capital of Radio Klakson Sp. z o.o. increased from 49% to 100%, which entitles the Company to exercising 100% of votes at the shareholders meeting.
- On 29 January 2004 a current report was publicly announced in which the Management Board of Agora informed of the legally observant notice presented to the Employment Office on 5 January and 28 January 2004 concerning planned group layoffs.
- On 30 January 2004 Agora SA acquired shares in Radio Wanda Sp. z o.o. with its seat in Krakow – the broadcaster of a local radio program named *Zlote Przeboje Wanda 92.5 FM*. After the transaction Agora's stake in the share capital of Radio Wanda Sp. z o.o. increased from 27% to 100%. Agora is entitled to exercising 100% of votes at the shareholders meeting.
- On 23 February 2004 Agora's affiliate entity- Art Marketing Syndicate S.A. with its seat in Poznan (AMS) and the company Clear Channel Poland Sp.z o.o. with its seat in Warsaw (CCP) founded a limited liability company under the business name Polskie Badania Outdooru (PBO). AMS S.A. held 51% of PBO share capital entitling it to exercising 51% of total number of votes at the shareholders meeting. The object of PBO activity will be: research of outdoor advertising panels, authorizing the results of research in advertising campaigns and setting the standards of outdoor advertising research in Poland.
- On 17 March 2004 the Company informed of opening of liquidation proceedings of a subordinate entity – the company Polskie Badania Reklamy Zewnetrznej Sp. z o.o. (PBRZ). PBRZ is an affiliate company of Art Marketing Syndicate S.A. – Agora SA affiliate entity.

### 1. Changes in ownership of shares and rights to shares by Management Board members until the date of publication of this report

Changes in ownership of shares by the Management Board members resulting from disposal of shares are depicted in the table below:

**Tab. 13**

a. shares	as of 31 Mar 2004	decrease	increase	as of 31 Dec 2003
Zbigniew Bak	140.728	0	0	140.728
Helena Luczywo	1.282.789	17.404	0	1.300.193
Piotr Niemczycki	1.835.392	47.299	0	1.882.691
Wanda Rapaczynski	1.375.314	10.000	0	1.385.314

b. rights to shares	as of 31 Mar 2004	decrease	increase	as of 31 Dec 2003
Zbigniew Bak	0	0	0	0
Helena Luczywo	0	0	0	0
Piotr Niemczycki	0	0	0	0
Wanda Rapaczynski	0	0	0	0

After the balance sheet day members of Agora's Management Board had their shares of the Company traded. The ownership of shares by members of Management Board as of the day of publication of the report is depicted in the table below:

**Tab. 14**

shares	as of 13 May 2004	decrease	increase	as of 31 March 2004
Zbigniew Bak	140.728	0	0	140.728
Helena Luczywo	1.228.422	54.367	0	1.282.789
Piotr Niemczycki	1.710.392	125.000	0	1.835.392
Wanda Rapaczynski	1.375.314	0	0	1.375.314

## 2. Changes in ownership of shares by Supervisory Board members in the first quarter of 2004

*Tab. 15*

	as of 31 Mar 2004	decrease	increase	as of 31 Dec 2003
Anna Fornalczyk	0	0	0	0
Tomasz Sielicki	33	0	0	33
Stanislaw Soltysinski(1)	-	-	-	-
Louis Zachary	0	0	0	0
Sandford Schwartz	0	0	0	0

(1) Stanislaw Soltysinski invests in a „blind trust” fund

## 3. Shareholders entitled to exercising over 5% of total voting rights at the General Meeting of Shareholders, either directly or through affiliates as of the date of publication of the quarterly report

To the best of the Company’s knowledge as of the day of publication of the report for the first quarter of 2004, the following shareholders are entitled to exercising over 5% of voting rights at the General Meeting of Shareholders in the Company:

*Tab. 16*

	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%

## VI. POST BALANCE SHEET DAY EVENTS

On 11 May 2004 the Management Board of Agora SA informed on registration on 28 April 2004 of an increase in the initial capital of Lokalne Rozgłośnie Radiowe Sp. z o.o. The increase was performed by a contribution in kind of shares of selected subsidiary radio companies of Agora SA. Detailed information was given in the current report of 11 May 2004.

## VII. ADDITIONAL INFORMATION TO THE REPORT

The financial statements have been prepared in accordance with the International Financial Reporting Standards as presented in the financial statements of the Group for 2003, adopted for the purpose of valuation of assets and liabilities and calculation of the net financial result as of the balance sheet day.

Due to the amendment of IAS 39 (Financial Instruments: Recognition and Measurement), the Group altered its accounting policy as regards recognition and valuation of embedded financial derivatives, as the result of which such derivatives shall not be separated from the host contract and valued. In consequence, the opening balance of consolidated equity was decreased by PLN 6,872 thousand constituting fair value of embedded financial derivatives less the deferred tax liability recognized as of 31 December 2003.

The Group changed the method of presentation of the deferred income tax. Assets and deferred tax liability are now stated separately. Additionally the Group introduced several presentation changes to the balance sheet, income statement and the cash flow statement described under financial statements. Comparable financial data have been adjusted.

As of 31 March 2004 the Group has not granted guarantees for loans that in total exceed 10% of the Group’s equity.

In the period from 1 January 2004 to 31 March 2004 r. the following impairment losses were recognized:

- write-offs for receivables: decrease by PLN 748 thousand;
- write-offs for financial assets: increase by PLN 2,749 thousand, including a PLN 2,241 thousand write-off for a loan granted to Inforadio Sp. z o.o. and a PLN 572 thousand increase in the write-off for interest on loans granted.

As of 31 March 2004 the deferred tax liability amounted to PLN 44,021 thousand and increased in comparison with 1 January 2004 by PLN 1,703 thousand. Deferred tax assets amounted to PLN 16,041 thousand and increased by PLN 1,474 thousand.

Additionally, in the period from 1 January to 31 March 2004 the following write-offs and provisions were changed:

- decrease in write-offs for inventories by PLN 635 thousand,
- decrease in write-offs for fixed assets and intangible assets by PLN 124 thousand,
- decrease in the provision for certain and probable losses (including guarantee granted to Inforadio Sp. z o.o.) by PLN 1,412 thousand,
- increase in the retirement severances provision by PLN 22 thousand,
- increase in the provision for restructuring by PLN 4,868 thousand.

As for 31 March 2004, 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.

Warsaw, 13 May 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 .....

Agora SA

Consolidated balance sheets as at 31 March 2004, 31 December 2003 and 31 March 2003

(all amounts in PLN thousands unless otherwise indicated)

	As at 31 March 2004	As at 31 December 2003	As at 31 March 2003
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment	799 104	820 079	878 953
Intangible assets	268 515	258 645	262 020
Investments	20 430	30 597	28 125
Investments in associates	4 590	8 602	8 022
Receivables and prepayments	1 013	1 055	1 379
Deferred tax assets	16 041	14 567	9 958
	<u>1 109 693</u>	<u>1 133 545</u>	<u>1 188 457</u>
Current assets:			
Inventories	12 490	15 166	13 058
Accounts receivable and prepayments	133 274	124 014	117 956
Income tax receivable	5 657	5 564	5 982
Short-term securities and other financial assets	931	8 040	7 614
Cash and cash equivalents	100 499	90 549	62 571
	<u>252 851</u>	<u>243 333</u>	<u>207 181</u>
Total assets	<u>1 362 544</u>	<u>1 376 878</u>	<u>1 395 638</u>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Shareholders' equity:			
Share capital	56 758	56 758	56 758
Share premium	353 646	353 646	353 646
Retained earnings and other reserves	638 898	654 842	647 890
	<u>1 049 302</u>	<u>1 065 246</u>	<u>1 058 294</u>
Minority interest	1 351	1 273	1 689
Non-current liabilities:			
Interest-bearing loans and borrowings	130 782	139 564	139 500
Retirement severance provision	1 644	1 622	1 442
Deferred tax liabilities	44 021	42 318	50 170
Provisions	1 034	1 034	10 477
Deferred revenues i accruals	3 385	3 728	5 695
	<u>180 866</u>	<u>188 266</u>	<u>207 284</u>
Current liabilities:			
Retirement severance provision	22	22	34
Accounts payable	70 708	81 429	85 908
Income tax liabilities	206	253	104
Short-term borrowings	14 073	623	8 243
Provisions	11 574	8 118	4 238
Deferred revenues i accruals	34 442	31 648	29 844
	<u>131 025</u>	<u>122 093</u>	<u>128 371</u>
Total liabilities and shareholders' equity	<u>1 362 544</u>	<u>1 376 878</u>	<u>1 395 638</u>

Agora SA

Consolidated income statements for three months ended 31 March 2004 and 2003

(all amounts in PLN thousands unless otherwise indicated)

	Three months ended 31 March	
	2004	2003
Sales	210 153	198 588
Cost of sales	<u>(139 896)</u>	<u>(131 812)</u>
Gross profit	70 257	66 776
Distribution costs	(36 426)	(30 680)
Administrative expenses	(28 220)	(30 934)
Other operating income	4 664	5 229
Other operating expenses	<u>(16 923)</u>	<u>(8 883)</u>
Operating profit / (loss)	(6 648)	1 508
Finance cost, net	(525)	(3 821)
Share of results of associates	(699)	(251)
Gain on disposal of shares in subsidiaries and associates	-	322
Allowance for losses on investments, net	<u>(780)</u>	<u>(922)</u>
Profit / (loss) before income taxes	(8 652)	(3 164)
Income tax expense	(576)	(1 408)
Minority interest	<u>(78)</u>	<u>(213)</u>
<b>Net profit / (loss) for the period</b>	<u>(9 306)</u>	<u>(4 785)</u>
Earnings per share (in PLN)	<u>(0,16)</u>	<u>(0,08)</u>

Agora SA  
Consolidated cash flow statements for three months ended 31 March 2004 and 2003  
(all amounts in PLN thousands unless otherwise indicated)

	Three months ended 31 March	
	2004	2003
Cash flows from operating activities		
<b>Net profit / (loss) before taxation</b>	<b>(8 730)</b>	<b>(3 377)</b>
Adjustments for:		
Minority interest	78	213
Share of results of associates	699	251
Depreciation of property, plant and equipment	26 961	31 361
Amortisation of intangible assets and goodwill	5 218	4 969
Foreign exchange (gain) / loss	(177)	-
Interest, net	2 043	2 793
Investment (income) / cost	2 785	525
(Decrease) / increase in provisions	3 470	(32)
(Increase) / decrease in inventories	2 676	1 681
(Increase) / decrease in receivables and prepayments	(6 548)	22 061
(Decrease) / increase in payables	(7 429)	(23 592)
(Decrease) / increase in deferred revenues and accruals	810	554
Other adjustments	423	1 235
Cash generated from operations	22 279	38 642
Income taxes paid	(398)	(4 255)
<b>Net cash from operating activities</b>	<b>21 881</b>	<b>34 387</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment and intangibles	80	208
Disposal of subsidiary, net of cash disposed	-	400
Interests received	34	-
Redemption/(acquisition) of short-term securities	1 168	-
Other	-	10 000
Purchase of property plant and equipment and intangibles	(10 633)	(10 461)
Acquisition of subsidiary, net of cash acquired	(2 335)	(487)
Loans made	(2 320)	(2 168)
Other	(576)	(487)
<b>Net cash used in investing activities</b>	<b>(14 582)</b>	<b>(2 995)</b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	5 331	-
Repayment of borrowings	(619)	(7 969)
Repayment of debt instruments issued	-	(9 000)
Payment of finance lease liabilities	-	(109)
Interest and fees paid	(2 061)	(2 803)
<b>Net cash used in financing activities</b>	<b>2 651</b>	<b>(19 881)</b>
<b>Net increase in cash and cash equivalents</b>	<b>9 950</b>	<b>11 511</b>
At start of period	<b>90 549</b>	<b>51 060</b>
At end of period	<b>100 499</b>	<b>62 571</b>

Consolidated financial statements for as at 31 March 2004, 31 December 2003 and 31 March 2003 and for three months ended 31 March 2004 and 2003  
(all amounts in PLN thousands unless otherwise indicated)

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In the first three months of 2004 the Group has changed the layout of the balance sheet, income statement and the cash flow statement.

The summary of the balance sheet changes:

- separate disclosure of deferred tax asset and deferred tax liability resulting in an increase in balance sheet total in the amount of PLN 14,567 thousand and PLN 9,958 thousand as at 31 December 2003 and 31 March 2003 respectively in comparison to previously reported figures (being the amount of deferred tax asset),
- separate disclosure of "Non-current receivables and prepayments" previously shown in "Non-current investments" and "Accounts receivable and prepayments",
- disclosure of "Income tax receivable" and "Income tax liability" on the face of the balance sheet - previously shown in "Accounts receivable and prepayments" and "Accounts payable and accrued charges" respectively,
- separate disclosure of "Retirement benefit obligations" previously shown in "Long term provisions, deferred credits",
- separate disclosure of non-current and current "Deferred revenues and accruals" previously shown in "Accounts payable and accrued charges".

In the income statement the change is the separate disclosure of "Cost of sales", "Distribution costs", "Administrative expenses", "Other operating income" and "Other operating expenses"; all previously shown in "Operating costs".

In the cash flow statement the change is the more detailed breakdown of cash flow from operating activities and separate disclosure of inflows and outflows from investing and financing activities.

The comparative financial statements as at 31 December 2003, 31 March 2003 and for 3 months then ended have been adequately restated.

The Group has also changed the balance sheet presentation of the short term monetary assets of maturities up to 3 months (treasury papers and investment fund certificates), which are now presented as cash equivalents, while they were presented as "Short term securities and other financial assets" in the financial statement as at 31 March 2003. Consequently the balance of "Cash and cash equivalents" as at 31 March 2003 has been increased and "Short term securities and other financial assets" decreased by PLN 7,125 thousand in comparison to previously presented data.

Agora SA

Consolidated statement of changes in shareholders' equity for three months ended 31 March 2004 and 31 March 2003

(all amounts in PLN thousands unless otherwise indicated)

	Share capital	Share premium	Retained earnings	Other	Total
<b>As at 31 December 2002</b>	56 758	353 646	651 528	1 147	1 063 079
Net profit / (loss) for the period	-	-	(4 785)	-	(4 785)
<b>As at 31 March 2003</b>	56 758	353 646	646 743	1 147	1 058 294
<b>As at 31 December 2003</b>	56 758	353 646	653 695	1 147	1 065 246
Change of accounting policy	-	-	(6 872)	-	(6 872)
Adjustment from consolidation of subsidiaries previously consolidated as associate companies	-	-	234	-	234
Net profit / (loss) for the period	-	-	(9 306)	-	(9 306)
<b>As at 31 March 2004</b>	56 758	353 646	637 751	1 147	1 049 302

Following the amendments to IAS 39 "Financial instruments: Recognition and Measurement" the Group has changed its accounting policy in respect to recognition and measurement of embedded derivatives, the embedded derivatives will not be separated from the host contracts and valued. Consequently the opening balance of consolidated equity has been decreased by PLN 6,872 thousand, being the fair value of embedded derivatives net of deferred tax recognised as at 31 December 2003.

**Signatures of person authorised  
to act on behalf of the Company**

Wanda Rapaczynski - President of the Management Board

Piotr Niemczycki - Vice-President of the Management Board

Helena Łuczywo - Vice-President of the Management Board

Zbigniew Bąk - Vice-President of the Management Board

**13 May 2004**