

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

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REVENUE PLN 475 MILLION, EBITDA PLN 82 MILLION, OPERATING CASHFLOW PLN 58 MILLION

*Unless indicated otherwise, all data presented herein represent the period of January – June 2004, while comparisons refer to the first half of 2004 versus the first half 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**

- In the first half of the year, advertising spending was better than expected and, according to Agora's estimates, increased by around 10%. The second quarter saw lower growth of newspaper advertising (up 5%).
- Advertising sales of the Group grew by nearly 7%. *Gazeta's* advertising revenue increased by 4%, magazines posted a growth of 28%, outdoor increased by 30% and radios by almost 12%.
- Consolidated revenue of the Group grew by 11.5%, while its consolidated EBITDA stood at PLN 81.5 million.
- Copy sales of all national newspapers in the period of January-May 2004, excluding *Fakt*, declined by 5.4%, and grew by 3.3% including *Fakt*. Paid circulation of *Gazeta Wyborcza* increased by 5.3% over the period and grew by 11% in June.
- In June the Company launched a big readership campaign "Book collection of *Gazeta Wyborcza*". This canon of masterpieces of 20<sup>th</sup> century literature became very popular with the readers. The project should be profitable even without taking into account obvious promotional benefits.
- We can see the first positive results of the restructuring process which helps to improve financial and market performance of the Group.

### **Zbigniew Bak, Deputy President of the Management Board said:**

"We are witnessing a real takeoff in all segments of the advertising market. We have been waiting for this moment three years. New businesses achieved significant growth of revenue. Restructuring shows first positive effects. Readership and circulation of *Gazeta Wyborcza* are quite impressive but to a large extent they were achieved due to a substantial increase in marketing spending. Hence, we will make further efforts to enhance operating efficiency of the Group and improve client service. A lot still needs to be done but we are moving forward with our heads held high".

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

### **1. EXTERNAL FACTORS**

#### **1.1. Economy**

GDP growth in the first quarter of 2004 was better than expected (6.9%). The majority of economists forecast 6% growth in the second quarter of the year. These optimistic assumptions are good indicators of more rapid growth of the advertising market.

What causes caution is June's steep decline in construction industry, which posted positive growth only two months ago. This may indicate that companies have not yet implemented their significant investment plans. Moreover, lack of execution of the austerity plan to cut public spending may impede the high growth of GDP in the long term.

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

In the first half of 2004, advertising market performance outshined the original expectations. According to Agora's estimates advertising spending increased by nearly 10% over the period (10.2% in the second quarter of 2004). Shortly before Poland's accession to the EU, that is in the period of January-April 2004, we witnessed an increased level of spending in some advertising categories (e.g. automotive and construction). It declined in May and June of 2004.

In the second quarter of 2004, television grew advertising revenue by 12%. This was due to healthy performance of TV key categories, such as food, cosmetics, health, as well as rapidly growing media advertising.

Daily newspapers, which were most affected by the declining revenue of some advertising categories (i.e. automotive and construction) after Poland's accession to the EU, posted weaker growth rates (5%). A heavy decrease (over 30%) was also recorded by telecom advertising – one of the biggest categories in the national newspaper segment. Nevertheless, in the second quarter of 2004, advertising revenue of national newspapers grew at the level of the previous quarter (6.6%). Warsaw dailies saw revenue growth of 6% in the second quarter of 2004, chiefly owing to better performance of employment, real-estate, health and entertainment advertising. As was the case in the previous quarter, local dailies saw a decline of revenue from the advertising agencies.

In the second quarter of 2004, magazine segment increased by as much as 7%. Similar to TV, the growth was attributed to a surge in food, cosmetics and health advertising categories.

Over the period, advertising spending in the radio segment increased significantly (by around 14%). Despite heavy drop of automotive and construction advertising, the loss was compensated for by a steep growth of entertainment and media advertising.

In the second quarter of 2004, outdoor advertising climbed nearly 17%. The fastest growing categories were entertainment and retail. Also European Parliamentary Elections contributed positively to the outdoor's growth rates.

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

According to the Circulation Audit Office (ZKDP), in the period of January-May 2004, total number of copies sold of all newspapers increased by 3.3%. Average copy sales of tabloid *Fakt* reached 561.4 thousand copies, while that of *Gazeta* stood at the level of 443.9 thousand.

In May *Gazeta* sold 464.3 thousand copies, only 36 thousand fewer than *Fakt*, which declined to 500.3 thousand copies. The gap between the two dailies narrowed from 230 thousand copies in February 2004. *Gazeta's* copy sales continue growing in comparison with the respective months of last year. According to the Circulation Audit Office (ZKDP) data, published on 3 August 2004, average copy sales of *Gazeta* reached 444.4 thousand in June, an increase of 11% over the last year. Average copy sales of *Fakt* were 501.3 thousand. In June 2004 the gap between *Fakt* and *Gazeta Wyborcza* also wasn't very wide and stood at 57 thousand copies.

*Super Express* continues precipitous decline of paid circulation. In the period of the first five months of the year, the tabloid's copy sales fell by 11.5%. Local dailies also have declining circulation (a fall of 6% over the period). In May, a 2% decrease was also recorded by *Rzeczpospolita*.

Circulation performance was reflected in readership data. After having reached its peak results in April 2004 (23.3%), in June 2004 *Fakt's* weekly readership reach went down to 20.8%. Over the last few months, readership of *Gazeta Wyborcza* has continued to reach record rates of around 20%. In June 2004, the gap between the readership

reach of *Gazeta Wyborcza* and *Fakt* narrowed to 0.7 pp from 2.9 pp in April 2004. Since the entry of the new tabloid, *Super Express* lost 2 pp of its readership reach.

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 Warsaw editions throughout the week and national editions on Thursday sell for PLN 1.20 (the cover price of the national edition outside Warsaw on all days but Thursday 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).

According to Agora's estimates, in the first half of 2004, *Fakt's* share of the overall daily advertising revenue stood at 3%, an equivalent of PLN 12.7 million. The tabloid's advertising portfolio is dominated by telecom, culture and entertainment and retail – the categories which target mass market.

## **2. INTERNAL FACTORS**

### **2.1. Restructuring**

In the first half of 2004, the Group continued implementing the measures aiming at improving its operating effectiveness and market flexibility in the context of increased competition. Some significant changes have already been put into practice: centralization of payroll and accounting functions, reorganization of employment and modification of the organizational structure designed to enhance *Gazeta's* advertising sales and improve its circulation promotion. The Group will continue implementing the restructuring measures. Major restructuring cost was incurred in the first quarter of the year.

Taking into account the multimedia profile of the Group, the company set up corporate sales division responsible for enhancement of key client service.

### **2.2. Publishing projects – books**

In June 2004 *Gazeta Wyborcza* started a big readership campaign. Every week we publish a new book from the 20<sup>th</sup> century literature. The books are available every Tuesday and are sold together with *Gazeta* for PLN 15 plus the price of the newspaper.

*Gazeta's* collection is modeled on the projects that have already been fire-proved by the most important newspapers in Europe, e.g. *La Repubblica*. Their publishers emphasize the successful outcomes of such projects and their significant impact on the newspapers' copy sales.

The sales results of the titles already published are promising. Therefore, the Group decided to enlarge the collection to 40 titles. In the second quarter of 2004, revenue from book sales reached PLN 10.3 million (4 books excluding the first title which was included for free with the newspaper). Should the trend continue, the project will pose healthy margins even without taking into account the obvious value of promotion.

## **3. PROSPECTS**

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

Growth of advertising market in the first half of 2004 outshined the Group's expectations. A better performance of ad spend is directly correlated with the economic turnaround, as well as pre-accession growth of advertising expenditure, particularly in some media segments.

Taking into account the above, as well as better economic outlook, the Management Board decided to review the Group's 2004 advertising assumptions. According to the most recent estimates, the overall advertising market will increase by around 9%. Television will see a growth of 10%, outdoor by about 16% and radio slightly above 8%.

Print advertisers will spend around 7% more than last year, while the biggest increase will be recorded by magazines (9%). As per Agora's previous assumptions, the weakest growth will be recorded by newspapers (up a bit over 4%). Such a weak growth is attributed to poorer condition of typical newspaper advertising categories.

Despite better than expected growth rates for the newspapers, *Gazeta's* advertising sales will grow slightly below the market due to aggressive competition and continued discount pressure among publishers.

Other businesses of the Group may grow revenue ahead of the growth rates assumed for their relevant advertising segments. Total revenue of the Group is likely to be higher than originally expected.

### **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*. In the first half of 2004, this cost item amounted to PLN 31 million (excluding the book project), of which 22% was spent on barter (non-cash) contracts. The Group assumes that spending on promotion and marketing in the second half of the year will be maintained on similar level as in the first half of the year.

### **3.3. Strategy**

19 July 2004 was a deadline to submit bidding offers to acquire shares of Wydawnictwa Szkolne i Pedagogiczne S.A. („WSiP”). Regrettably, the management board of WSiP limited access to employees and the company's information to the extent that, in the opinion of Agora's Management Board, submitting a binding offer would carry a significant investment risk. As a result, the Management Board of Agora reported to the Ministry of Treasury that having been denied access to fundamental information, Agora as a public company with responsibilities to its shareholders was not able to submit a binding offer.

Taking into account the above, and bearing in mind the fact that TV investment may not be possible, the Management Board of Agora started to work on the alternative growth strategies for the Group.

### **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.

#### ***3.4.3. New International Financial Reporting Standards***

Starting from 1 January 2005, all public companies in the EU will be obliged to report in accordance with International Financial Reporting Standards (IFRS). The Agora's Group has been preparing its financial statements pursuant to the IFRS for many years. As on 1 January 2005 significant amendments come into force, the Group is currently reviewing the potential impact of new standards concerning goodwill treatment, as well as share-based payments.

### 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 25 subsidiary and associated companies of the radio business. Detailed list of companies of the Agora Group was presented in financial statements for 2003. In the first two quarters of 2004 the following changes occurred:

- 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,
- 49% shares in 8 radio related companies and 29%, 90% and 100% in three others controlled by Agora were contributed in kind to LRR Sp. z o.o. (a subsidiary of Agora),
- Agora acquired a 48.52% stake in Tres Sp. z o.o., a broadcaster of local radio program *Radio Pabianice*.

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

**Tab. 1**

in PLN million	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Sales	264.8	227.6	16.3%	475.0	426.2	11.5%
Operating cost net, incl.:	(239.4)	(207.5)	15.4%	(456.2)	(404.6)	12.8%
D&A	(27.9)	(31.9)	(12.5%)	(56.5)	(64.9)	(12.9%)
Staff cost	(58.0)	(57.6)	0.7%	(117.5)	(114.3)	2.8%
Promotion and marketing	(31.1)	(16.5)	88.5%	(48.3)	(27.1)	78.2%
Goodwill amortization	(3.6)	(3.2)	12.5%	(7.2)	(6.6)	9.1%
Restructuring	(1.2)	-	-	(8.5)	(0.2)	-
Operating profit / (loss) - EBIT	25.4	20.1	26.4%	18.8	21.6	(13.0%)
Finance cost, net, incl.:	(2.8)	(1.1)	154.5%	(4.1)	(5.5)	(25.5%)
Revenue from short-term investment	1.1	0.8	37.5%	2.3	1.5	53.3%
Interest on loans	(2.3)	(2.6)	(11.5%)	(4.3)	(5.3)	(18.9%)
Allowance for losses on investment, net	(1.0)	(0.5)	100.0%	(1.8)	(1.4)	28.6%
Share of results of associates	(0.2)	(0.6)	(66.7%)	(1.0)	(0.9)	11.1%
Profit / (loss) before income tax	22.4	18.4	21.7%	13.7	15.2	(9.9%)
Income tax expense	(1.0)	(5.1)	(80.4%)	(1.6)	(6.5)	(75.4%)
Minority interest	(0.3)	(0.3)	-	(0.3)	(0.5)	(40.0%)
Net profit / (loss) for the period	21.1	13.0	62.3%	11.8	8.2	43.9%
EBIT margin (EBIT/Sales)	9.6%	8.8%	0.8pp	4.0%	5.1%	(1.1pp)
EBITDA	56.5	54.1	4.4%	81.5	91.9	(11.3%)
EBITDA margin (EITDA/Sales)	21.3%	23.8%	(2.5pp)	17.2%	21.6%	(4.4pp)

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 7.3 million was incurred to the balance sheet day and the remaining PLN 1.2 million constitutes a restructuring provision. Total restructuring cost amounted to PLN 8.5 million, including PLN 2 million of a write-off of goodwill of *City Magazine*.

Advertising market recovery, seasonality and first effects of restructuring positively affected profitability ratios. All ratios presented in point 5 below improved. Significant enhancement of the Group's financials improved ratios for the first half of 2004 over last 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) 6 months 2004
Total sales	358.1	46.9	56.8	22.6	10.5	(19.9)	475.0
% Share	75.3%	9.9%	12.0%	4.8%	2.2%	(4.2%)	100.0%
Total operating cost	(308.0)	(55.7)	(63.1)	(23.0)	(20.0)	13.6	(456.2)
EBIT	50.1	(8.8)	(6.3)	(0.4)	(9.5)	(6.3)	18.8
Finance cost, net							(4.1)
Share of results of associates							(1.0)
Income tax expense							(1.6)
Minority interest							(0.3)
Net profit (loss)							11.8
EBITDA	86.9	(5.9)	2.7	0.6	(3.1)	(0.3)	81.5
CAPEX	(4.9)	(0.1)	(5.9)	(0.6)	(0.2)	-	(11.7)

The column “unallocated amounts” includes amounts which were not allocated to any of Agora's lines of business: Agora's radio division, cost of the new headquarters and operating cost of new business 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 half 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*

in PLN million	30/06/2004	31/03/2004	% change to 31/03/2004	31/12/2003	30/06/2003
Non-current assets	1,084.1	1,109.7	(2.3%)	1,133.6	1,161.2
share in balance sheet total	78.5%	81.4%	(2.9pp)	82.3%	82.9%
Current assets	296.2	252.9	17.1%	243.3	240.2
share in balance sheet total	21.5%	18.6%	2.9pp	17.7%	17.1%
<b>TOTAL ASSETS</b>	<b>1,380.3</b>	<b>1,362.6</b>	<b>1.3%</b>	<b>1,376.9</b>	<b>1,401.4</b>
Equity	1,070.2	1,049.3	2.0%	1,065.2	1,071.3
share in balance sheet total	77.5%	77.0%	0.5pp	77.3%	76.4%
Minority interest	0.8	1.4	(42.9%)	1.3	1.0
share in balance sheet total	0.1%	0.1%	-	0.1%	0.1%
Non-current liabilities and provisions	173.0	180.9	(4.4%)	188.3	190.1
share in balance sheet total	12.5%	13.3%	(0.8pp)	13.7%	13.6%
Current liabilities and provisions	136.3	131.0	4.0%	122.1	139.0
share in balance sheet total	9.9%	9.6%	0.3pp	8.9%	9.9%
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,380.3</b>	<b>1,362.6</b>	<b>1.3%</b>	<b>1,376.9</b>	<b>1,401.4</b>

#### 3.1. Non-current assets

Lower value of fixed assets versus 31 March 2004 results from the depreciation of tangible fixed assets and amortization of intangible assets.

As a result of acquisition of a radio company the goodwill in the amount of PLN 2 million was recognised.

#### 3.2. Current assets

The change in balance of current assets versus 31 March 2004 was affected by the increase in short-term financial assets (increase in cash and short-term securities), increase in receivables (effect of growing sales) and decrease in interperiod settlements prepaid in the first quarter of 2004.

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

Lower non-current liabilities as compared to 31 March 2004 result mainly from reclassification as of 30 June 2004 of the PLN 8.7 million long-term liability (bank loan) to current liabilities.

#### 3.4. Current liabilities and provisions

Increase in current liabilities over 31 March 2004 results from reclassification of the loan installment mentioned under point 3.3. above and increase in payables. At the same time short term provisions decreased – guarantee provision in the amount of PLN 1.4 million was reversed and restructuring provision amounted to PLN 1.2 million.

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

**Tab. 4**

in PLN million	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Net cash from operating activities	36.7	34.9	5.2%	57.9	69.2	(16.3%)
Net cash from investment activities	(13.5)	(56.8)	(76.2%)	(49.0)	(65.3)	(25.0%)
Net cash from financing activities	(8.1)	(5.7)	42.1%	(5.4)	(25.5)	(78.8%)
Total movement of cash and cash equivalents	15.1	(27.6)	-	3.5	(21.6)	-
Cash and cash equivalents at the end of period	52.8	27.9	89.2%	52.8	27.9	89.2%

As at 30 June 2004, the Agora Group had PLN 120.3 million in cash and in short-term monetary assets, of which PLN 52.8 million was in cash and PLN 67.5 million in short-term monetary assets.

Considering the cash position and the available loan facility (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

Although the Group recorded growth of sales in the first half of 2004, its operating cash flow declined over last year. This was due to increased cost of marketing and restructuring as well as growth in receivables. Additionally, net operating cash flow in the first half of 2003 included, among others, one-off transactions resulting from the purchase of AMS SA, mainly payments from former majority shareholders of AMS SA in the amount of PLN 15 million and repayment in the first half of 2003 of PLN 10.8 million of short-term trade liabilities by AMS SA (trade liabilities decreased by the same amount).

##### 4.2. Investment activities

Net cash from investment activities in the period includes, among others, expenditure for tangible fixed assets in the amount of PLN 16.5 million. Additionally, the Group spent PLN 9.0 million on investment in its affiliates, including the purchase of shares, additional capital contributions and purchase of short term securities, totaling PLN 3.8 million, as well as loans granted of PLN 5.2 million.

Free cash is invested in highly liquid short-term securities (treasury bonds and certificates in investment funds). Total net spending in the first half of 2004 amounted to PLN 25.1 million.

In the first half of 2003, net cash flow from investment activities included payment of PLN 10 million to AMS SA 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 half of 2004 includes, among others, the following items:

- PLN 4.3 million of interest on loans paid (PLN 5.2 million in the previous year),
- PLN 0.8 million of dividend paid by subsidiary to minority shareholders (PLN 1.0 million in the previous year),
- additionally, in the second quarter of 2004, the loans of AMS SA decreased by PLN 5.1 million.

In the first half of 2003 net cash from financing activities included:

- PLN 9.0 million outflow on redemption of commercial papers by AMS SA,
- PLN 10.2 million net outflow on repayment of loans by AMS.

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

**Tab. 5**

	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
<b>Profitability ratios</b>						
Net profit margin	8.0%	5.7%	2.3pp	2.5%	1.9%	0.6pp
Gross profit margin	41.0%	38.3%	2.7pp	37.7%	36.1%	1.6pp
Return on equity	8.0%	4.9%	3.1pp	2.2%	1.5%	0.7pp
<b>Efficiency ratios</b>						
Inventory turnover	7 days	8 days	(12.5%)	8 days	9 days	(11.1%)
Debtors days	39 days	43 days	(9.3%)	43 days	46 days	(6.5%)
Creditors days	24 days	34 days	(29.4%)	31 days	43 days	(27.9%)
<b>Liquidity ratio</b>						
Current ratio	2.2	1.7	29.4%	2.2	1.7	29.4%
<b>Financing ratios</b>						
Gearing ratio	10.1%	10.4%	(0.3pp)	10.1%	10.4%	(0.3pp)
Interest cover	11.4	8.0	42.5%	4.4	4.2	4.8%
Free cash flow interest cover	14.1	11.2	25.9%	9.7	10.0	(3.0%)

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	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Total sales	195.5	172.4	13.4%	358.1	328.9	8.9%
Copy sales	48.3	42.4	13.9%	94.2	89.4	5.4%
incl. <i>Gazeta Wyborcza</i>	48.3	42.3	14.2%	94.2	89.3	5.5%
Advertising revenue	120.2	116.4	3.3%	219.6	213.0	3.1%
incl. <i>Gazeta Wyborcza</i>	119.0	114.0	4.4%	217.3	208.9	4.0%
Revenue from Internet activity	2.6	2.0	30.0%	5.0	4.0	25.0%
Other revenue	24.4	11.6	110.3%	39.3	22.5	74.7%
incl. sales of printing services	9.9	7.4	33.8%	20.7	14.4	43.8%
Total operating cost	(159.1)	(140.1)	13.6%	(308.0)	(281.6)	9.4%
Raw materials and energy	(39.2)	(35.7)	9.8%	(76.4)	(74.2)	3.0%
incl. newsprint for press (purchased by Agora)	(26.0)	(23.5)	10.6%	(49.2)	(50.4)	(2.4%)
Staff cost	(42.8)	(44.7)	(4.3%)	(88.2)	(89.2)	(1.1%)
D&A	(18.1)	(22.2)	(18.5%)	(36.8)	(45.4)	(18.9%)
Other operating cost net, incl.:	(59.0)	(37.5)	57.3%	(106.6)	(72.8)	46.4%
promotion and marketing (1)	(23.3)	(8.8)	164.8%	(34.8)	(16.5)	110.9%
outsourced printing services	(10.0)	(9.4)	6.4%	(21.1)	(13.3)	58.6%
restructuring	0.9	-	-	(6.1)	-	-
EBIT	36.4	32.3	12.7%	50.1	47.3	5.9%
EBIT margin	18.6%	18.7%	(0.1pp)	14.0%	14.4%	(0.4pp)
EBITDA	54.5	54.5	-	86.9	92.7	(6.3%)
EBITDA margin	27.9%	31.6%	(3.7pp)	24.3%	28.2%	(3.9pp)
Full-time employment at the end of the period (2)	2,818	3,043	(7.4%)	2,818	3,043	(7.4%)

(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 second quarter of 2004, average copy sales of *Gazeta Wyborcza* reached ca. 466 thousand (June figures are Agora's estimates) and were 15.5% higher versus the same period of the previous year. As expected, the substantial increase in marketing spending, reorganization of *Gazeta's* marketing approach, as well as introduction of new attractive editorial ideas translated into double-digit copy sales growth in each month of the second quarter.

Better copy sales of *Gazeta* are reflected in readership results. In the second quarter of 2004, *Gazeta* recorded high readership reach of over 20%.

### 1.1.2. Advertising sales

In the second quarter of 2004, *Gazeta's* advertising revenue grew by 4.4%. This increase results from a growth of dailies advertising market and maintenance of *Gazeta's* solid share in this market (42.9%, display advertising).

*Gazeta's* best results were noted in local markets outside Warsaw (revenue from display advertising and classifieds up 13.3%). This was due to a healthy growth of *Gazeta's* key advertising categories, i.e. employment and real estate. As a consequence, *Gazeta's* share in revenue from local advertising (display ads) increased by 2.9pp.

Since fall of 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 a slight increase in advertising revenue from display ads and classifieds by 1.2%, although its share in the display advertising market fell by 3.1pp. Free daily *Metro* is a significant player in the Warsaw market - its advertising sales increased by over 30%.

*Gazeta's* revenue from national advertising slightly declined. *Fakt's* entry broadened the advertising offer of national dailies.

In the second quarter of 2004, *Gazeta's* net revenue per ad page totaled PLN 5.4 thousand. The share of ad pages in the total pagecount reached 38.6% and the average number of ad pages published daily in all local and national editions amounted to 280.5 (up 2.7%) [3].

### 1.1.3. Other revenues

Increase of other revenues was attributed to a book project. Since June 2004, the books from the collection of international and Polish literature can be purchased together with *Gazeta Wyborcza* for PLN 15.

First weeks of the campaign were successful and translated into *Gazeta's* copy sales and other revenues growth.

Similarly, the increase of other cost results from the additional cost of book campaign.

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

In the first half of 2004, the production volume sold to external clients increased by 28% as compared to the first half of 2003.

**Tab. 7**

Cost of production of <i>Gazeta Wyborcza</i> (newsprint and printing services) in PLN million	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Fixed cost	17,0	19,0	(10,5%)	34,9	37,3	(6,4%)
incl. D&A	9,7	10,3	(5,8%)	19,4	20,3	(4,4%)
Variable cost	39,1	36,8	6,3%	76,3	70,5	8,2%
incl. newsprint	31,0	28,4	9,2%	60,2	55,3	8,9%
TOTAL fixed and variable cost	56,1	55,8	0,5%	111,2	107,8	3,2%

### 1.2.1. Newsprint and printing services

The change of newsprint cost and cost of printing services in the first half of 2004 were mainly affected by changing volume of production and exchange rates. In the first half of 2004, average EUR/PLN exchange rate was 11% higher than last year. Printing volume of *Gazeta Wyborcza* was 6% higher than in the first half of 2003, including a 21% growth of printing volume in external printing plants. The main reasons for increased production in external printing plants were editorial improvements in *Gazeta's* supplements (coated covers) and a shift of *Duzy Format* (Large Format) from Thursday to Monday. At the beginning of June 2004 production of *Duzy Format* was shifted from external printing plant to Agora's own plant.

## 2. FREE PRESS

In the second quarter of 2004, free daily *Metro* was distributed in Warsaw five times a week and its average daily circulation reached 137 thousand copies. In the second quarter of 2004, the daily generated revenue of PLN 1.3

million, which was PLN 0.3 million more compared to the same period in 2003. In the second quarter of 2004, *Metro's* production cost (newsprint and printing services) was PLN 1 million.

### **3. INTERNET [4]**

The most important event of the first half of 2004 was signing an agreement with PTK Centertel Sp. z o.o. on WAP. *Gazeta.pl* became a leading partner of the newly established mobile platform *Swiat Idei* (Idea's World).

The first half of 2004 saw the introduction of the new homepage version, new *Wiadomosci* channel (News channel), the re-design of discussion *Forum* and *Kobieta* (Woman) vortal including *Avanti* thematic channel. The group of community channels was enriched by an introduction of blogs – *Blox.pl*. Dial-up Internet access (*netGazeta*) was introduced in cooperation with Energis. New marketing and advertising products were launched: paid links and special offers.

In the second quarter of 2004, the number of unique users of *Gazeta.pl* increased by 14% to 2.9 million compared to the first quarter of 2004. In the same period, the number of Internet users in Poland increased by 5% to 7.3 million. In the second quarter of 2004, *Gazeta.pl* had 72% more unique users than last year.

The portal improved its financial results. Revenue growth was accompanied by a 28% decline in operating cost, which includes a decrease in depreciation as a result of full amortization of software used in the Internet activity.

## IV.B. THE MAGAZINES

Despite strong gadgets competition, which got tougher since the beginning of 2004, the launch of *Avanti* was successful. Average copy sales of the first three issues amounted to 176 thousand copies. High interest in the magazine expressed by advertising clients bodes well for the project's success. Advertising revenue in the second quarter of 2004 was above expectations.

In June 2004 Agora decided to close free monthly *City Magazine*. Prohibition of tobacco advertising, liberalizations of the law allowing beer commercials on t.v. and decrease in advertising spending of telecommunication companies significantly decreased advertising revenue of the magazine. Despite several restructuring attempts, the magazine became permanently unprofitable.

One-time write-off of goodwill of *City Magazine* amounted to PLN 2 million.

**Tab. 8**

in PLN million	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Total sales	26.3	22.0	19.5%	46.9	37.8	24.1%
Copy sales	14.2	12.7	11.8%	26.5	21.8	21.6%
Advertising revenue	12.1	9.3	30.1%	20.3	15.9	27.7%
Other revenue	-	-	-	0.1	0.1	-
Total operating cost	(32.7)	(25.7)	27.2%	(55.7)	(43.7)	27.5%
Raw materials and energy	(0.2)	(0.2)	-	(0.4)	(0.3)	33.3%
Staff cost	(5.7)	(4.8)	18.8%	(10.8)	(9.4)	14.9%
D&A	(1.4)	(1.5)	(6.7%)	(2.9)	(3.0)	(3.3%)
Other operating cost net, incl.:	(25.4)	(19.2)	32.3%	(41.6)	(31.0)	34.2%
promotion and marketing (1)	(10.5)	(8.1)	29.6%	(16.5)	(11.3)	46.0%
outsourced printing services	(11.3)	(8.6)	31.4%	(19.6)	(15.3)	28.1%
restructuring	(2.2)	-	-	(2.4)	-	-
EBIT	(6.4)	(3.7)	(73.0%)	(8.8)	(5.9)	(49.2%)
EBIT margin	(24.3%)	(16.8%)	(7.5pp)	(18.8%)	(15.6%)	(3.2pp)
EBITDA	(5.0)	(2.0)	(150.0%)	(5.9)	(2.6)	(126.9%)
EBITDA margin	(19.0%)	(9.1%)	(9.9pp)	(12.6%)	(6.9%)	(5.7pp)
Full-time employment at the end of the period (2)	252	226	11.5%	252	226	11.5%

(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

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

Negative EBITDA of the magazine line of business achieved in the second quarter of 2004 was mainly caused by expenditure related to the launch of the new magazine *Avanti*.

## 1. REVENUE

### 1.1. Copy sales

**Tab. 9**

	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Average copy sales (in thousand of copies)	1,144.8	1,003.7	14.1%	1,057.5	918.8	15.1%
Average circulation of free <i>City Magazine</i> (in thousand of copies)	146.3	152.7	(4.2%)	145.7	152.7	(4.6%)

Higher copy sales are mainly caused by *Avanti*.

### **1.2. Advertising sales**

Restructuring of the sales team as well as content and layout changes of the magazines contributed to 17.2% higher advertising revenue. New title, *Avanti*, brought another 12.9% revenue growth. As a result, in the second quarter of 2004, the Magazines occupied 6.3% share in the magazine advertising market, which is a 1.0pp increase versus the previous year.

The magazine market grew by 6.9% 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 second quarter of 2004, the following factors had an impact on this cost category:

- cost of new magazine *Avanti*,
- change in EUR/PLN exchange rate (cost up by 8.1%).

### **2.2. Other cost**

Higher cost of payroll (up by PLN 0.8 million) and headcount (26 persons more) results from the launch of *Avanti* (23 persons) and reorganization of the sales department which entailed an increase in the number of sales staff.

In the second quarter of 2004, promotion of the new title *Avanti* increased advertising sales.

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

In the first half of 2004, the outdoor market grew by 17.9% comparing to the same period of the previous year. The estimated share of AMS grew in the said period by 1.7pp to 28.7% [5].

**Tab. 10**

in PLN million	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Total sales (1)	35.7	28.0	27.5%	56.8	48.7	16.6%
Advertising revenue	35.5	27.7	28.2%	56.1	43.3	29.6%
Advertising revenue, one off	-	-	-	-	4.9	-
Other revenue	0.2	0.3	(33.3%)	0.7	0.5	40.0%
Total operating cost	(33.2)	(29.1)	14.1%	(63.1)	(52.8)	19.5%
Materials and energy	(2.4)	(1.6)	50.0%	(4.7)	(2.7)	74.1%
Staff cost	(4.4)	(4.1)	7.3%	(8.6)	(7.4)	16.2%
D&A	(5.2)	(5.0)	4.0%	(10.0)	(9.7)	3.1%
Other operating cost net, incl.:	(21.2)	(18.4)	15.2%	(39.8)	(33.0)	20.6%
rental fees for outdoor panels	(11.0)	(12.0)	(8.3%)	(21.6)	(21.7)	(0.5%)
execution of campaigns	(10.9)	(8.8)	23.9%	(15.4)	(12.7)	21.3%
EBIT	2.5	(1.1)	-	(6.3)	(4.1)	(53.7%)
EBIT margin	7.0%	(3.9%)	10.9pp	(11.1%)	(8.4%)	(2.7pp)
EBITDA	7.2	3.4	111.8%	2.7	4.6	(41.3%)
EBITDA margin	20.2%	12.1%	8.1pp	4.8%	9.4%	(4.6pp)
Full-time employment at the end of the period	303	304	(0.3%)	303	304	(0.3%)
Number of advertising faces (2)	23,339	23,170	0.7%	23,339	23,170	0.7%

(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.

(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 half of 2004, advertising revenue of AMS, excluding the one-off revenue of PLN 4.9 million in the first quarter of 2003 from making AMS's panels available to the former majority shareholder, increased by 29.6%. (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's shares. As this revenue was not accompanied by cost of campaign execution, its total amount increased the operating result of AMS). The new sales policy, new sales offer of AMS and increased demand for outdoor advertising were the main factors behind this high growth.

#### 2. OPERATING COST

Higher operating cost in the first half of 2004 results from a significant increase in renovation expenses (up by PLN 2.0 million), changes in the remuneration system and personnel reorganization (up by PLN 1.2 million) and higher write-offs of receivables (net increase by PLN 2.9 million because in the first half of 2003 AMS cancelled provisions for bad debts for 3 big clients thus creating other income of PLN 1.6 million). Cost of execution of advertising campaigns (including printing services) increased by PLN 2.7 million due to significant sales growth.

#### 3. IMPORTANT EVENTS

On 5 April 2004 a subsidiary company Polskie Badanie Outdooru Sp. z o.o. published the results of its research on audience of panels through the Internet *Authorisation Platform*. Hence, AMS started to use the results of research conducted in the last three years. This event positions outdoor as a well-ordered, transparent, measurable and client-friendly medium, similar to television, press and radio.

In May 2004 a new model of planning advertising campaigns was launched. The new IT system, for the first time in Poland, integrates all available and independent sources of data: Acxion (Claritas), PBO, SMG/KRC, IGRZ, GUS. This model enables to shift focus of campaign planning from a single panel to a given target group. Consequently, the optimal usage of all kinds of AMS panels in advertising campaign is possible. Introduction of this system makes AMS the leader in advanced planning of advertising campaigns.

## IV.D. RADIO

### 1. LOCAL RADIO STATIONS

In April the increase in share capital of Lokalne Rozglosnie Radiowe Sp. z o.o. (LRR) was registered. This is another step in restructuring of the radio group. Further steps depend on obtaining regulatory approval from the National Broadcasting Council.

On 10 May 2004 the National Broadcasting Council renewed the radio's license for *Elita* for another 7 years.

On 19 May 2004 the new radio *Zlote Przeboje* that operates in the region of Pabianice and Lodz started broadcasting. The station belongs to Tres Sp. z o.o., is formatted to play *Golden Oldies* and targets a 30-50 age group.

The data presented below show the sum of financials of local radio stations operated by the 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). The financials of the 25<sup>th</sup> radio station, Tres Sp. z o.o., will be included from July 2004. The data below excludes the financials of the Head Office of the Radio Division which constitutes part of the organization structure of Agora SA and supervises operational activities of radio stations as well as carries out national sales (the financials of the Head Office of Radio Division are presented separately in point 2 of part IV.D.).

**Tab. 11**

in PLN million	II Q 2004	II Q 2003	% change yoy	I H 2004	I H 2003	% change yoy
Total sales	12.7	11.2	13.4%	22.6	20.2	11.9%
Advertising revenue	11.7	10.4	12.5%	21.0	18.8	11.7%
Other revenue	1.0	0.8	25.0%	1.6	1.4	14.3%
<b>Total operating cost</b>	<b>(11.4)</b>	<b>(13.2)</b>	<b>(13.6%)</b>	<b>(23.0)</b>	<b>(25.7)</b>	<b>(10.5%)</b>
Materials and energy	(0.3)	(0.2)	50.0%	(0.5)	(0.5)	-
Staff cost	(5.2)	(6.2)	(16.1%)	(10.2)	(11.7)	(12.8%)
D&A	(0.5)	(0.5)	-	(1.0)	(1.2)	(16.7%)
Other operating cost net, incl.:	(5.4)	(6.3)	(14.3%)	(11.3)	(12.3)	(8.1%)
promotion and marketing (1)	(1.2)	(1.8)	(33.3%)	(3.0)	(3.0)	-
restructuring	-	-	-	-	-	-
EBIT	1.3	(2.0)	-	(0.4)	(5.5)	92.7%
EBIT margin	10.2%	(17.9%)	28.1pp	(1.8%)	(27.2%)	25.4pp
EBITDA	1.8	(1.5)	-	0.6	(4.3)	-
EBITDA margin	14.2%	(13.4%)	27.6pp	2.7%	(21.3%)	24.0pp
Full-time employment at the end of the period (2)	387	429	(9.8%)	387	429	(9.8%)

(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 half of 2004 resulted from the 14% growth of the local radio advertising market. National market saw growth of 15% and total radio advertising revenue increased by ca. 15%.

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

**Tab. 12**

Cumulative:	Share in the radio advertising market	Share in the advertising market of local radio stations	Share in the audience market [6]
2004	10.6%	32.3%	12.3%
2003	10.9%	34.2%	13.0%

In the first half 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 - June) [6].

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 in the first half of 2004 by 0.9pp yoy and amounted to 11.1% (in the cities of Agora's broadcasting, age group of 30-50, in the period January - June).

**1.2. Operating cost**

Decrease of operating costs in the first half of 2004 is caused by restructuring measures implemented in 2003 and continued in 2004.

**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 half of 2004, sales reached PLN 10.5 million (up by PLN 8.7 million), EBITDA was a negative PLN 2.4 million (down by PLN 1.3 million).

**3. SUPERREGIONAL RADIO TOK FM**

In the first half of 2004, the revenue of the superregional radio station *TOK FM* reached PLN 0.9 million, EBITDA and net loss amounted to minus PLN 1.8 million and PLN 3.6 million, respectively.

As a result of the changes introduced in October 2003, in the first half of 2004 *TOK FM* achieved 2.2% audience share in the Warsaw market (compared to 1.4% in the first half 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; April n = 3,005; May n = 2,991; June n = 3,017.

[2] Definition of ratios:

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

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

$$\text{Return on equity} = \frac{\text{Net profit (loss)}}{(\text{Equity at the beginning of the period} + \text{Equity at the end of the period}) / 2 / (2 \text{ for half year results and } 4 \text{ for quarterly results})}$$

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

$$\text{Creditors days} = \frac{(\text{Trade creditors at the beginning of the period} + \text{Trade creditors at the end of the period}) / 2}{\text{Cost of sales} / \text{no of days}}$$

$$\text{Inventory turnover} = \frac{(\text{Inventories at the beginning of the period} + \text{Inventories at the end of the period}) / 2}{\text{Cost of sales} / \text{no of days}}$$

$$\text{Current ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

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

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

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

[3] Data based on modified methodology of share of ad pages calculation, complying with regulations in VAT act.

[4] 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 GemiusTraffi, Gemius S.A.

*[5] 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.*

*[6] 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 June; for TOK FM: in the cities of broadcasting. from January to June; for Złote Przeboje: in the cities of broadcasting and in the age group of 30-5, from January to June.*

## V. ADDITIONAL INFORMATION

- On 11 May 2004 the Management Board of Agora SA informed that on 28 April 2004 the court registered an increase in the initial capital of Lokalne Rozgłośnie Radiowe Sp. z o.o. The increase was made as a contribution in kind of shares of selected subsidiary radio companies of Agora SA.
- On 24 June 2004 Agora purchased shares in Tres Sp. z o.o. with its seat in Sieradz - the broadcaster of a local radio program named *Radio Pabianice*. The acquired shares constitute a 48.52% stake in the share capital of Tres Sp. z o.o. and entitle the Company to exercise 48.52% of votes at the shareholders meetings.
- The Annual General Meeting of the Company's Shareholders was held on 24 June 2004. Shareholders approved the financial statements of Agora SA as well as consolidated financial statements of the Agora Group, granted approval to the Supervisory Board members and Management Board members of the performance of their duties in 2003, and resolved on allocating net profit of the Company for the financial year 2003 amounting to PLN 7,801,792.66. Out of the net profit, the amount of PLN 378,590.76 was allocated to cover loss from previous years resulting from a change in accounting policies (derecognition of embedded derivatives) whereas the remaining amount of PLN 7,423,201.90 increased the reserve capital of the Company.
- Additionally, the Annual Meeting of Shareholders took the following resolutions:
  - (a) Appointment of Mrs. Anna Fornalczyk and Mr. Sanford Schwartz to the Supervisory Board of Agora SA,
  - (b) Approval of lists of employees subject to incentive plans (the total number of shares for this purpose was 1,267,460 series B shares),
  - (c) Amendment to the Company's Statute concerning the authorisation of the Company's Management Board to make one or several increases of the share capital by a total amount not greater than PLN 42,568,143 (authorised capital) by 30 June 2007,
  - (d) Amendment to the Company's Statute concerning the removal of necessity to obtain Supervisory Board consent to enter into an agreement with a related party if Agora is the holder of at least 95% of the shares entitling the Company to exercise at least 95% of total voting rights at the shareholders meeting of that related party,
  - (e) Amendment to the Company's Statute concerning the increase of the maximum number of Management Board members to six persons,
  - (f) Appointment of Mr. Jaroslaw Szalinski to the Management Board of Agora SA.

### 1. Changes in ownership of shares and rights to shares by Management Board members in the second quarter of 2004

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 30 June 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	1,365,314	10,000	0	1,375,314

b. rights to shares	as of 30 June 2004	decrease	increase	as of 31 March 2004
Zbigniew Bak	85,486	0	85,486	0
Helena Luczywo	27,366	0	27,366	0
Piotr Niemczycki	37,981	0	37,981	0
Wanda Rapaczynski	38,543	0	38,543	0

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

**Tab. 14**

	as of 30 June 2004	decrease	increase	as of 31 March 2003
Anna Fornalczyk	0	0	0	0
Tomasz Sielicki	33	0	0	33
Stanislaw Soltysinski(1)	-	-	-	-
Louis Zachary	0	0	0	0
Sanford 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 second 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. 15**

	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 9 July 2004, 4,276,371 shares of Agora SA were admitted for trading on the main market of the Warsaw Stock Exchange. Currently the number of shares admitted for trading amounts to 34,683,062 shares.

On 15 July 2004 Local Court in Warsaw XX Commercial Department of the Register Court registered amendments to the Agora’s statute made by Annual General Meeting of Shareholders on 24 June 2004 and registered Jaroslaw Szalinski as member of the Management Board of Agora. Consequently, since 15 July 2004 Jaroslaw Szalinski is a Management Board member.

## 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.

After the publication of financial statements prepared as at 31 March 2004, according to the auditor’s suggestions, the Group has changed the balance sheet presentation of monetary assets with maturities up to 3 months (treasury bonds and certificates in investment funds), which are now classified as short-term securities whereas they used to be presented as cash equivalents. Comparative financial data have been adequately restated.

Since the publication of the financial statements prepared as at 31 December 2004, the Group has made the following changes:

- 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 a 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. Deferred tax assets and liabilities are now stated separately. Additionally, the Group introduced several presentational changes to the balance sheet, income statement and the cash flow statement described under the financial statements. Comparative financial data have been adequately restated.

As of 30 June 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 30 June 2004 the following impairment losses were recognized in the consolidated financial statements of Agora SA (in brackets data for the second quarter):

- write-offs for receivables: decrease by PLN 2,369 thousand (decrease by PLN 1,621 thousand);
- write-offs for financial assets: increase by PLN 6,251 thousand (increase by PLN 3,252 thousand), including a PLN 4,657 thousand write-off for a loan granted to Inforadio Sp. z o.o. and a PLN 1,658 thousand increase in the write-off for interest on loans granted.

As of 30 June 2004 the deferred tax liability amounted to PLN 45,523 thousand and increased in comparison to 1 January 2004 by PLN 3,205 thousand (increase by PLN 1,502 thousand). Deferred tax assets amounted to PLN 17,023 thousand and increased by PLN 2,456 thousand (increase by PLN 982 thousand).

Additionally, in the period from 1 January to 30 June 2004 the following write-offs and provisions were changed:

- increase in write-offs for inventories by PLN 25 thousand (increase by PLN 660 thousand).
- decrease in the provision for certain and probable losses (including guarantee granted to Inforadio Sp. z o.o.) by PLN 3,145 thousand (decrease by PLN 1,733 thousand).
- decrease in the retirement severances provision by PLN 146 thousand (decrease by PLN 168 thousand).
- increase in the provision for restructuring by PLN 1,094 thousand (decrease by PLN 3,774 thousand).

As for 30 June 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, 5 August 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 .....

Jaroslaw Szalinski – Member of the Management Board .....

Agora SA

Consolidated balance sheets as at 30 June 2004, 31 December 2003 and 30 June 2003

(all amounts in PLN thousands unless otherwise indicated)

	As at 30 June 2004	As at 31 December 2003	As at 30 June 2003
<b>ASSETS</b>			
Non-current assets:			
Property, plant and equipment	777 269	820 079	855 471
Intangible assets	261 678	258 645	257 663
Investments	20 873	30 597	28 089
Investments in associates	6 315	8 602	10 808
Receivables and prepayments	977	1 055	1 211
Deferred tax assets	17 023	14 567	7 920
	<u>1 084 135</u>	<u>1 133 545</u>	<u>1 161 162</u>
Current assets:			
Inventories	12 339	15 166	13 162
Accounts receivable and prepayments	155 306	124 014	136 483
Income tax receivable	5 862	5 564	2 893
Short-term securities and other financial assets	69 901	49 288	59 821
Cash and cash equivalents	52 774	49 301	27 863
	<u>296 182</u>	<u>243 333</u>	<u>240 222</u>
Total assets	<u>1 380 317</u>	<u>1 376 878</u>	<u>1 401 384</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	659 751	654 842	660 909
	<u>1 070 155</u>	<u>1 065 246</u>	<u>1 071 313</u>
Minority interest	848	1 273	959
Non-current liabilities:			
Interest-bearing loans and borrowings	122 065	139 564	122 066
Retirement severance provision	1 479	1 622	1 542
Deferred tax liabilities	45 523	42 318	52 327
Provisions	882	1 034	9 031
Deferred revenues i accruals	3 071	3 728	5 155
	<u>173 020</u>	<u>188 266</u>	<u>190 121</u>
Current liabilities:			
Retirement severance provision	19	22	276
Accounts payable	84 235	81 429	83 871
Income tax liabilities	160	253	686
Short-term borrowings	17 659	623	23 546
Provisions	6 218	8 118	4 238
Deferred revenues i accruals	28 003	31 648	26 374
	<u>136 294</u>	<u>122 093</u>	<u>138 991</u>
Total liabilities and shareholders' equity	<u>1 380 317</u>	<u>1 376 878</u>	<u>1 401 384</u>

## Agora SA

Consolidated income statements for six and three months ended 30 June 2004 and 2003

(all amounts in PLN thousands unless otherwise indicated)

	Three months ended 30 June	Six months ended 30 June	Three months ended 30 June	Six months ended 30 June
	2004	2004	2003	2003
Sales	264 801	474 954	227 647	426 235
Cost of sales	(156 188)	(296 084)	(140 392)	(272 204)
Gross profit	108 613	178 870	87 255	154 031
Distribution costs	(51 438)	(87 864)	(37 075)	(67 755)
Administrative expenses	(26 468)	(54 688)	(27 905)	(58 839)
Other operating income	4 610	9 274	6 348	11 577
Other operating expenses	(9 891)	(26 814)	(8 531)	(17 414)
Operating profit / (loss)	25 426	18 778	20 092	21 600
Finance cost, net	(1 766)	(2 291)	(664)	(4 485)
Share of results of associates	(275)	(974)	(600)	(851)
Gain on disposal of shares in subsidiaries and associates	-	-	-	322
Allowance for losses on investments, net	(1 022)	(1 802)	(480)	(1 402)
Profit / (loss) before income taxes	22 363	13 711	18 348	15 184
Income tax expense	(980)	(1 556)	(5 051)	(6 459)
Minority interest	(296)	(374)	(278)	(491)
<b>Net profit / (loss) for the period</b>	<b>21 087</b>	<b>11 781</b>	<b>13 019</b>	<b>8 234</b>
Earnings per share (in PLN)	0,37	0,21	0,23	0,15

Agora SA  
Consolidated cash flow statements for six months ended 30 June 2004 and 2003  
(all amounts in PLN thousands unless otherwise indicated)

	Six months ended 30 June	
	2004	2003
Cash flows from operating activities		
<b>Net profit / (loss) before taxation</b>	<b>13 337</b>	<b>14 693</b>
Adjustments for:		
Minority interest	374	491
Share of results of associates	974	851
Depreciation of property, plant and equipment	53 274	61 704
Amortisation of intangible assets and goodwill	10 438	9 746
Foreign exchange (gain) / loss	(15)	-
Interest, net	4 234	5 157
Investment (income) / cost	6 700	1 027
(Decrease) / increase in provisions	(2 206)	(1 136)
(Increase) / decrease in inventories	2 827	1 577
(Increase) / decrease in receivables and prepayments	(28 612)	(2 012)
(Decrease) / increase in payables	4 186	(23 590)
(Decrease) / increase in deferred revenues and accruals	(6 490)	(1 418)
Other adjustments	(36)	27
Cash generated from operations	<u>58 985</u>	<u>67 117</u>
Income taxes paid	(1 109)	2 119
<b>Net cash from operating activities</b>	<b><u>57 876</u></b>	<b><u>69 236</u></b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment and intangibles	148	341
Disposal of subsidiary, net of cash disposed	-	400
Interests received	34	-
Redemption/(acquisition) of short-term securities	(26 341)	(48 412)
Other	1 498	10 000
Purchase of property plant and equipment and intangibles	(16 487)	(17 524)
Purchase of investment property	-	-
Acquisition of subsidiary (net of cash acquired) and associates	(2 641)	(4 180)
Loans made	(5 169)	(5 568)
Other	-	(368)
<b>Net cash used in investing activities</b>	<b><u>(48 958)</u></b>	<b><u>(65 311)</u></b>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	224	3 962
Dividends paid	(799)	(1 008)
Repayment of borrowings	(619)	(14 144)
Repayment of debt instruments issued	-	(9 000)
Payment of finance lease liabilities	-	(185)
Interest and fees paid	(4 251)	(5 168)
<b>Net cash used in financing activities</b>	<b><u>(5 445)</u></b>	<b><u>(25 543)</u></b>
<b>Net increase in cash and cash equivalents</b>	<b><u>3 473</u></b>	<b><u>(21 618)</u></b>
At start of period	<b>49 301</b>	<b>49 481</b>
At end of period	<b><u>52 774</u></b>	<b><u>27 863</u></b>

Agora SA

Consolidated financial statements for as at 30 June 2004, 31 December 2003 and 30 June 2003 and for three and six months ended 30 June 2004 and 2003

(all amounts in PLN thousands unless otherwise indicated)

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In 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 7,920 thousand as at 31 December 2003 and 30 June 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, 30 June 2003 and for six months than ended have been adequately restated.

According to the auditor' s suggestions, 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 "Short term securities and other financial assets", while they were presented as "Cash and cash equivalents" in the financial statements as at 31 December 2003.

The balance sheet as at 31 December 2003 has been restated accordingly; "cash and cash equivalents" have been decreased and "short term securities and other financial assets" have been increased by PLN 41,248 thousand in comparison to balance sheet presented in the financial statements as at 31 December 2003.

Agora SA

Consolidated statement of changes in shareholders' equity for six months ended 30 June 2004 and 30 June 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	-	-	8 234	-	8 234
<b>As at 30 June 2003</b>	56 758	353 646	659 762	1 147	1 071 313
<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)
Net profit / (loss) for the period	-	-	11 781	-	11 781
<b>As at 30 June 2004</b>	56 758	353 646	658 604	1 147	1 070 155

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

Jarosław Szaliński - Member of the Management Board

**5 August 2004**