

A N N U A L  
R E P O R T  
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**AGORA**<sup>SA</sup>

ul. Czerska 8/10, 00-732 Warszawa

**at** advertising & media

Desing & Production

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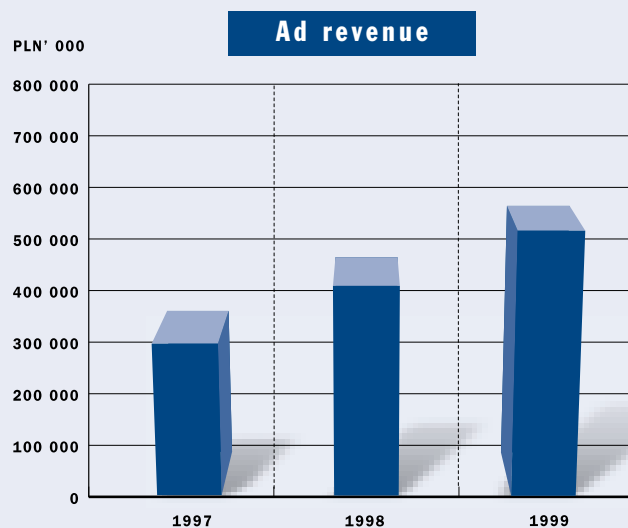
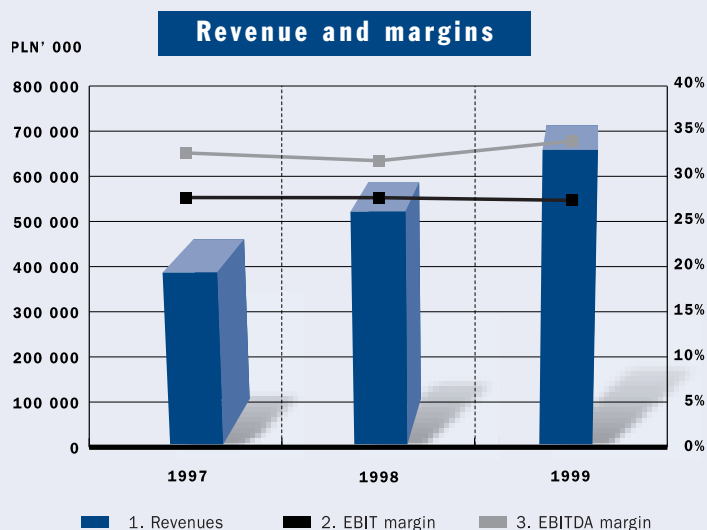
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*Financial  
Report*

# Financial Highlights

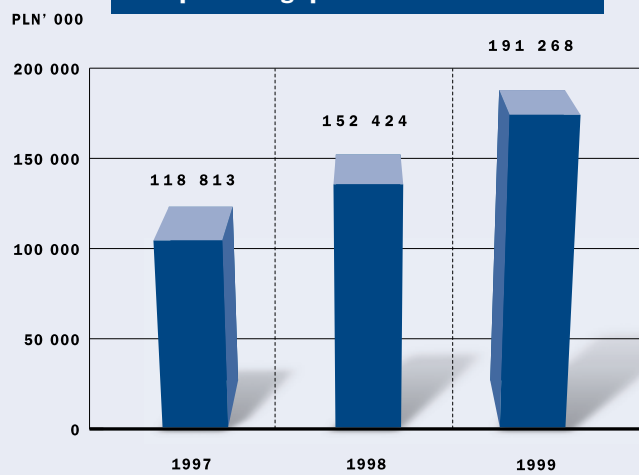
(according to International Accounting Standards)



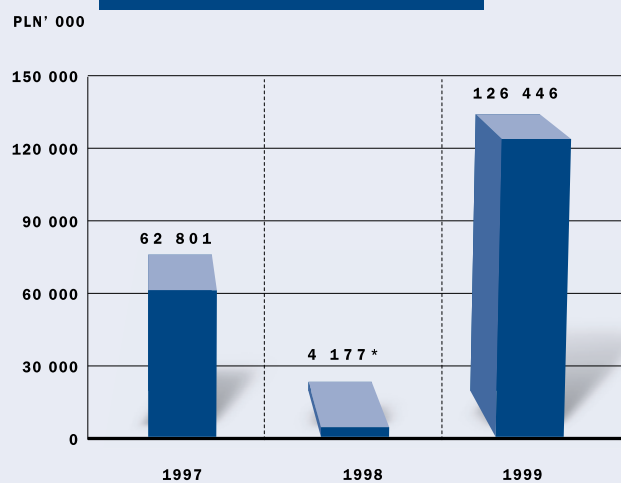
## Ad revenue structure '000 PLN

Ad sales	1997	1998	1999
<b>total</b>	<b>314 403</b>	<b>432 176</b>	<b>540 179</b>
<b>national</b>	<b>145 149</b>	<b>207 795</b>	<b>265 497</b>
<b>local</b>	<b>162 154</b>	<b>211 112</b>	<b>256 448</b>
Warsaw	74 602	99 104	123 701
branches	87 552	112 008	132 747
<b>inserts</b>	<b>5 222</b>	<b>9 046</b>	<b>14 054</b>
<b>other</b>	<b>1 879</b>	<b>4 223</b>	<b>4 180</b>

### Operating profit 1997-1999

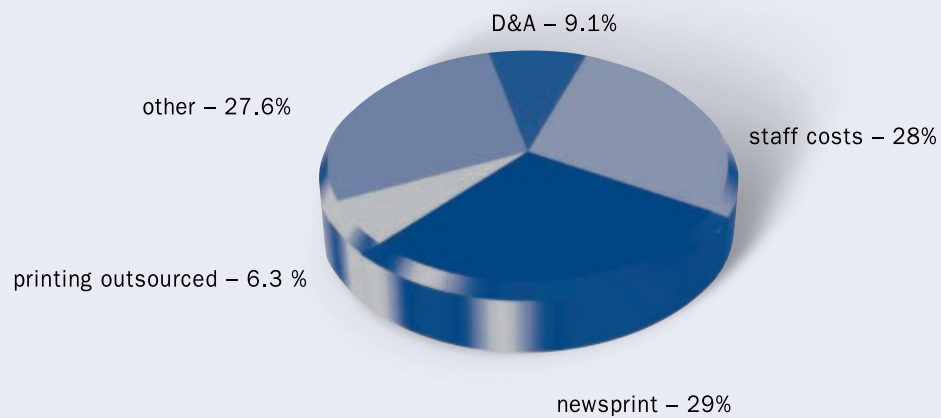


### Net profit 1997-1999



\* influenced by extraordinary items connected with Agora's restructuring and TKP

### Operating cost structure in 1999



# Consolidated Financial Statements

## Management Board's Report

The Group's consolidated report includes Agora SA, Agora Poligrafia sp. z o. o., and Trans-Serwis SA which are consolidated using the full consolidation method. Other subsidiaries which are not material were excluded from consolidation. 1998 comparable data include TKP (consolidated using the equity method) which was no longer an associate in 1999.

These financial statements are prepared under International Accounting Standards and represent the second consolidated report of the Agora Group since its creation in 1998.

### FINANCIAL RESULTS

1999 was an important year for the Group. Agora's public offering and listing on the stock exchanges in Warsaw and in London was very successful and yielded a significant injection of cash. The Group continued its growth which was reflected in PLN 126.4 million net profit. There was no negative impact of TKP S.A., an associated company, on the results of the Group in 1999 as losses from this investment were recognised in 1998 and 1997. In 1999 Agora's stake in TKP was reduced to 12.12%; accordingly, TKP ceased to be an associate. The

repayment by TKP of Agora's shareholder loan in the amount of US\$ 5.46 million and the simultaneous increase of TKP capital by the same amount (accompanied by parallel actions by other shareholders of TKP) meant that Agora's financial investment in TKP remained unchanged. The impact of Trans-Serwis S.A. on financial results of the Group is negligible as that company's business was extremely limited in scope.

### PROFIT AND LOSS ACCOUNT

Revenues and operating expense of the Group are primarily related to the publication of *Gazeta Wyborcza*, i.e. to the operations of Agora SA and of Agora-Poligrafia, sp. z o. o. Agora-Poligrafia, a wholly owned subsidiary of Agora SA, is engaged in printing operations in the Special Economic Zone in Tychy. Those operations began in 1998, after construction and start-up of the Tychy printing plant was completed. Revenues and expenses of the Group reflect largely revenues and expenses of Agora SA, the parent company. Agora Poligrafia prints *Gazeta Wyborcza* (28.9% of circulation in 1999) for Agora on printing presses leased from Agora. Printing fees paid by Agora constitute its chief

Profit and loss account PLN million	1998	1999	% change 1999 to 1998
Sales	549.9	689.7	25.4%
<b>Operating costs</b>	<b>(397.5)</b>	<b>(498.4)</b>	<b>25.4%</b>
<b>Operating profit before associated undertakings and other charges (payment to Cox in 1998)</b>	<b>152.4</b>	<b>191.3</b>	<b>25.5%</b>
<b>Operating profit</b>	<b>43.7</b>	<b>186.9</b>	<b>327.6%</b>
Pretax profit	46.1	190.4	313.3%
Income tax	(41.9)	(64.0)	52.7%
<b>Net profit</b>	<b>4.2</b>	<b>126.4</b>	<b>2927.2%</b>

Ratios	1998	1999	% change 1999 to 1998
EPS	0.09	2.31	2344.8%
<b>EBIT (PLN million)</b>	<b>155.4</b>	<b>191.3</b>	<b>23.1%</b>
EBIT margin	28.3%	27.7%	-0.5 p.p.
<b>EBITDA (PLN million)</b>	<b>177.7</b>	<b>237.2</b>	<b>33.5%</b>
EBITDA margin	32.3%	34.4%	2.1 p.p.

revenue source and leasing fees paid to Agora its main expense item. Both of these positions are eliminated in the process of consolidation. Since July 14, 1998, i.e. from the date on which it was acquired by Agora SA, Trans-Serwis has conducted very limited business activities. In 1999 the Group's revenue totalled PLN 689.7 million and net profit reached PLN 126.4 million.

## SALES

Agora SA, the parent company, is the publisher of the national daily *Gazeta Wyborcza* and the sales of its circulation and advertising still constitute a major part of the Group's revenue (97.3 % in 1998 and 97.4% in 1999). Therefore, the quality of the newspaper remains one of the key priorities of the Company. Virtually, 100% of Agora's revenue comes from the domestic market.

In 1999 revenues were PLN 689.7 million, 25.4% above the previous year, at the average annual inflation rate of 7.3 % with the following structure:

Sales (PLN million)	1998	1999	% change 1999 to 1998
<b>Advertising sales</b>	<b>432.2</b>	<b>540.2</b>	<b>25.0%</b>
share	78.6%	78.3%	—
<b>Copy sales</b>	<b>108.5</b>	<b>137.3</b>	<b>26.6%</b>
share	19.7%	19.9%	—
<b>Other sales</b>	<b>9.2</b>	<b>12.2</b>	<b>32.2%</b>
share	1.7%	1.8%	—
<b>Total sales</b>	<b>549.9</b>	<b>689.7</b>	<b>25.4%</b>
share	100%	100%	—

Such impressive results were accomplished by an ongoing effect to maintain and improve *Gazeta's* number one position in the Polish market. In April 1999 *Gazeta's* readers were offered a new glossy-style supplement *Wysokie Obcasy* (High Heels) addressed to women readers and targeted at the beauty and fashion advertising sector. Launch of the new product was a part of a more complex project to reorganise supplements published around the weekend: colour Magazine was shifted from Friday to Thursday, re-designed TV Guide was moved to Friday, freeing Saturday for High Heels.

**Advertising revenue** reached PLN 540.2 million, 25% more than in 1998. The most significant part are revenues

from sales of advertising space in *Gazeta Wyborcza* (including its local and thematic supplements) which accounted for 96.6% of total advertising sales. Total advertising space sold in *Gazeta* grew 7.7% in relation to previous year, while the average share of advertising pages to total pages remained at the level of 58% (the average pagecount, however, grew by 6.2% from 118 to 126 pages). This dynamic growth was achieved as a result of consistent pricing policy (across categories and regions). The average net revenue per advertising page reached PLN 4500, as compared to 3900 achieved in the preceding year, i.e. 7.8 % above inflation.

Additional 3.4% of advertising revenues came from other advertising services, mainly sales of pre-printed inserts and sales of ads on mobile billboards (PLN 18.2 million as compared to PLN 13.3 million in 1998).

The average daily copy sales of *Gazeta* grew to 447 208 copies, 2.6% above the previous year.

Total revenues from copy sales amounted to PLN 137.3 million (revenue for *Gazeta Wyborcza* reached PLN 135.4 million), 26.6% more than in 1998 year and constituted, as in the preceding year, 19.9% share of total revenues.

The structure of *Gazeta's* copy sales has remained stable in the past few years. In 1999 27% of copies were sold in the Warsaw region, followed by Silesia with 11.6% and Wroclaw (7.9%). *Gazeta* is mainly distributed by retail outlets. The sales via subscription constitutes only 11.6% of total paid circulation (10% in 1998). Agora continues to diversify its distribution network. RUCH S.A. remains the biggest distributor with over 53% share followed by Kolporter S.A. (19% share). The others are Jard Press S.A. (over 9%) and Garmond Ltd – Spółka z o.o. (nearly 5%).

**Other sales** include the revenue from related parties which are excluded from consolidation (i.e. fees for accounting services for radio companies), as well as royalties, sales of digital archives and sales of materials and products to staff (cafeterias).

## OPERATING COSTS

The operating cost structure reflects the business of the parent company:

In 1999 total number of printed pages reached 21.5 billion (8.74% more than in 1998 year), of which 55.2% were in colour (40.7% in 1998).

Operating costs (PLN million)	1998	1999	% change 1999/1998
<b>Raw materials</b>	<b>140.7</b>	<b>177.0</b>	<b>25.8%</b>
▮ newsprint	121.7	143.1	17.6%
<b>Outside printing</b>	<b>37.1</b>	<b>31.5</b>	<b>-15.0%</b>
▮ GW printing	36.8	30.9	-16.1%
<b>Staff costs</b>	<b>111.0</b>	<b>139.3</b>	<b>25.5%</b>
▮ payroll and fringe	107.2	134.6	25.6%
<b>Amortisation and Depreciation</b>	<b>22.4</b>	<b>45.9</b>	<b>105.5%</b>
<b>Other costs and third party services</b>	<b>86.3</b>	<b>104.7</b>	<b>21.3%</b>
<b>Total operating costs</b>	<b>397.5</b>	<b>498.4</b>	<b>25.4%</b>

In 1999 Agora's most significant expense items by category were **raw materials and energy** (35.5% of all operating expenses, i.e. PLN 177.0 million). Among raw materials, the most significant position is newsprint which amounted to PLN 143.1 million, representing the growth of 17.6 % compared to 1998. There were two factors influencing such growth of newsprint costs, an increase in production volume which translates into higher usage of newsprint to 63 thousand metric tones in 1999 as compared to 58 thousand metric tones in 1998 (9.3% growth) and the increase in newsprint unit price by 7.5 %. 95 % of newsprint used in production of *Gazeta Wyborcza* is imported from abroad, chiefly from Germany and Finland.

**Staff costs** amounted to PLN 139.3 million (28% of total operating costs) and was 25.5% higher than in 1998 at the average permanent headcount growth of 14%. At year end the Company had 2847 permanent employees (2615 at the end of 1998) which translates into growth by 8.8 %.

**Outside printing costs** of *Gazeta Wyborcza* reached PLN 30.9 million (6.2% of total operating costs) and were 16.1 % lower than in 1998.

In line with its strategy Agora is expanding its proprietary printing facilities. In 1998 Agora-Poligrafia – a wholly owned subsidiary – commenced production in its new printing plant located in Special Economic Zone in the southern Poland. In 1999 the plant continued its expansion. Today over 21% of production is still outsourced as compared to 43.4 % in 1998.

**Increase in Depreciation & Amortisation** by 105.5% compared to previous year reflected investments in printing and IT.

**Other costs** amounted to PLN 104.7 million, and grew by PLN 18.4 million or 21.3% compared to 1998 (representation and promotion costs grew by PLN 7 million). The most significant positions in this group are advertising, promotion and representation costs (PLN 17.7 million), rents (PLN 11 million), computer services (PLN 11.3 million), telecommunication services (PLN 9.4 million), other production related services, such as telecom links and inserting of newspaper's sections (PLN 6.5 million), transport of press (PLN 6.1 million), business trips (PLN 5.4 million), legal services (PLN 4.1 million), inserting of pre-printed materials (PLN 3.4 million) and fees and taxes (PLN 2.2 million).

## FINANCIAL RESULTS

**Operating profit before associated undertakings and other costs** (payment to Cox in 1998) amounted to PLN 191.3 million, 25.5% above year previous.

**Pretax profit** in 1999 reached PLN 190.4 million which translates into 313.3% growth in relation to 1998. However, after excluding non-recurring items in 1998, i.e. negative impact of PLN 68.8 million (TKP) and one time payment of 34.7 million zł for Cox Poland Investments, Inc., pretax profit would represent a 27.3% growth in relation to preceding year.

Net profit in 1999 amounted to PLN 126.4 million as compared to PLN 4.2 million in 1998. The previous year's net profit was, however, influenced by the non-recurring items mentioned above. Net profit in 1999, compared to net profit for 1998 excluding these non-recurring items, grew nearly 33%.

**EBITDA margin** grew from 32.3% in 1998 to 34.4% in 1999, that is by 2.1 percentage points.

**EBIT margin** fell from 28.3% to 27.7% due to an increase in D&A from PLN 22.4 million in 1998 to PLN 45.9 million in 1999 (105.5% growth) as a result of printing infrastructure expansion and IT investments.

## BALANCE SHEET

1999 brought an increase in total assets as well as significant changes in the structure of the balance sheet. The main factor was Agora's IPO, which resulted in an increase of the total balance sheet to PLN 866.9 million, or by 102.0% in relation to 1998. The decrease in short-term liabilities was connected with the repayment of the Company's two outstanding loans (CSFB and RCB). At the end of the year the Company had no bank debt.

Main balance sheet positions (PLN million)	31.12.98	31.12.99	% change 1999/1998
<b>TOTAL ASSETS</b>	<b>429.2</b>	<b>866.9</b>	<b>102.0%</b>
Share in total assets	100%	100%	—
<b>Current assets</b>	<b>107.3</b>	<b>349.4</b>	<b>225.8%</b>
Share in total assets	25.0%	40.3%	—
<b>Fixed assets</b>	<b>321.9</b>	<b>517.5</b>	<b>60.8%</b>
Share in total assets	75.0%	59.7%	—
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>SHAREHOLDER'S EQUITY</b>	<b>429.2</b>	<b>866.9</b>	<b>102.0%</b>
Share in total liabilities	100%	100%	—
<b>Short-term liabilities</b>	<b>177.7</b>	<b>89.0</b>	<b>-49.9%</b>
Share in total liabilities	41.4%	10.3%	—
<b>Long-term liabilities</b>	<b>70.2</b>	<b>90.4</b>	<b>28.9%</b>
Share in total liabilities	16.3%	10.4%	—
<b>Equity</b>	<b>181.3</b>	<b>687.5</b>	<b>279.2%</b>
Share in total liabilities	42.3%	79.3%	—

## CASH FLOW STATEMENTS

The Group's cash position was excellent owing to a large inflow of proceeds from the IPO and good operating results. For the end of the period the Group had PLN 36.4 million in cash and PLN 209.3 million in short-term securities (purchase and sale of such securities is shown in investment activities positions). Uses of funds comprised primarily capital spending (PLN 204.6 million) and placement of proceeds from the IPO in short-term securities (PLN 207.9 million). Financial activities positions reflect inflow from share offering, costs related to the IPO and repayment of bank debt.

Main items of cashflow statements (PLN million)	1998	1999	% change 1999/1998
Net cash from operating activities	75.0	194.0	158.8%
Net cash from investing activities	(157.8)	(412.6)	161.4%
Net cash from financing activities	75.3	237.7	215.6%
<b>Total movements of cash and cash equivalents</b>	<b>(7.5)</b>	<b>19.1</b>	<b>—</b>
<b>At end of period</b>	<b>17.2</b>	<b>36.4</b>	<b>110.9%</b>

## SUPPLEMENTARY INFORMATION

**Unconsolidated entities.** The Group systematically expanded its radio activities and at the beginning of 2000 held stakes (varying from 42 to 100%) in 13 local stations and a 29% stake in a super regional station. Despite its growing scale the radio operations are not material in relation to the Group's activities as a whole and are therefore not consolidated. Their combined net revenues from sale of goods and services and from financial operations in 1999 amounted to PLN 37.2 million (compared to PLN 15.8 million in 1998) and represented 4.92% of such revenues of Agora SA, while balance sheet total was PLN 20.9 million and represented 2.19% of such figure for Agora SA. The Group continues to make investments into radio stations, primarily in the form of loans for working capital since most of the stations have not yet reached profitability. However, it should be underscored that the stations in aggregate produced in 1999 a positive EBITDA in the amount of PLN 3.1 million. The superregional station

TOK FM which began broadcasting in March 1998 is gradually building market position as a first of its kind news/talk station. The shareholders of TOK FM made the decision to change the way the station is financed: in 1999 TOK FM signed a loan agreement for PLN 13 million, guaranteed by its shareholders. Because of significant indebtedness of TOK FM, Agora made a provision in its financial statements in the amount of PLN 4.4 million.

**Investments.** In October 1999 TKP, the company operating pay TV Canal+ Polska repaid shareholder loans, with repayment to Agora in the amount of US\$ 5.46 million, and simultaneously shareholders increased the company's capital. As a result, Agora's current stake in TKP is 12.12%. The amount of Agora's investment in TKP remained unchanged pursuant to the above operations.

In 2000 Agora acquired shares in three more radio stations increasing the size of the group to 13 and received one broadcasting license. The Group continues to fund these stations primarily in the form of shareholder loans.

**Capital expenditures.** In 1999 the Group made further investments to develop its printing infrastructure (executed contracts with Poz-Building for construction of printing plant facilities, new agreements with Ferag for mailroom equipment for the Group's printing plants in Białoleka and Piła and payments for previously contracted printing presses and other equipment) in the amount of PLN 164.1 million and representing 80.2% of all capital spending.

Expenditures related to IT and telecommunications improvement in 1999 amounted to PLN 21.7 million and represented another 10.6% of all capital expenditure.

In addition, in 1999 the Group made improvements and repairs on both owned and leased buildings. Together with the preliminary expense related to the preparation of documentation for the Agora SA new building, the total spending in this area was PLN 11.8 million or 5.8% of capital spending.

Practically all of the above investments and expenditures were financed from the Group's funds. The last draw-down on the CSFB loan in the amount of DEM 5 million was used to prepay printing presses contracted; however, the entire loan was repaid in April 1999. In total,

in 1999 the Group spent PLN 204.6 million for these assets, PLN 194.6 million from own funds and PLN 10 million from proceeds from bank loans.

**Funding.** The Group finances its activities primarily from cash from operations and from proceeds of a shares issue. In 1999 cash from operations amounted to PLN 194 million and was used to fund capital expenditure. In 1999 such projects (including all expenditures for fixed assets, intangible assets and investments in progress) absorbed PLN 204.6 million, compared to PLN 137.9 million in 1998. The Group's long term debt as of December 31, 1999 amounted to PLN 79.1 million and consist entirely of an exchangeable loan to Cox Poland Investments, Inc. As of December 31, 1999 the Group had PLN 36.4 million in cash and PLN 209.3 million in short-term securities.

Liquidity ratio (measured by current assets divided by short-term liabilities) as of the end of 1999 was equal to 4.4, compared to 0.6 in 1998. The change is accounted for by the significant influx of cash (from the public offering of shares) and by repayment of debt. Clearly, it is unlikely that such a high liquidity ratio will be maintained in the future. The Group is implementing a rich program of development and investments (completion of printing projects, construction of facility in Warsaw, development of the internet offering) which will absorb the excess of cash.

In 1999 the Group did not encounter any difficulties in meeting its financial obligations and does not anticipate such difficulties in the future. It has sufficient means to complete its three year investment program. The most important elements of the program include completion of the printing infrastructure expansion, development of the Internet offering, construction of the Group's facility in Warsaw and further computerisation. Within the next three years these projects will cost the total of PLN 540 million.

**Extraordinary events and factors.** In accordance with earlier agreements, on December 31, 1999 Trans-Serwis S.A. (a company acquired by Agora SA in 1998) was deleted from the commercial register and as of January 1, 2000 incorporated into Agora by transfer of all its assets without simultaneous increase in the Company's capital.

## GROWTH OF THE COMPANY

Further growth of the company is contingent on the continued improvement of market and financial results of *Gazeta Wyborcza*, radio group and successful launch of its Internet offering. The Company's growth depends, in turn, on several important factors.

**Political and economic situation in Poland.** Optimistic GDP growth forecasts and declining inflation lead to better financial position of individual households and companies and thus to growth in consumption which translates directly into growth of advertising spending. Additionally, structural changes in the economy, i.e. pension fund reform, privatisations and increased competition in such market segments as telecommunications and financial services will generate new advertising budgets. The company anticipates further growth of the advertising market in the next three years of 23%, 17% and 15%, respectively.

**World newsprint and paper prices.** Newsprint and paper account for about a third of the company's cost base and changes in unit prices have a direct impact on the Company's profit margins. Historically, newsprint prices are cyclical and high price cycles affect adversely all publishers. 1998 witnessed relatively low newsprint prices (the last high price phase of the cycle took place in 1994-1996). In 1999 the real (euro-denominated) prices remained stable. In 2000 the industry expectation is for about 4% increase in unit price.

**Currency exchange rates.** The Company generates revenues in Polish zloty. Production materials, and most importantly newsprint, are contracted mostly in euro, as are deliveries of equipment for the printing plants. Significant and long lasting weakening of the zloty could have a negative impact on operating profits by causing an increase in the zloty newsprint expense. Weak zloty could also lead to an increase in actual expenditure for capital projects (printing expansion). The recent floating of zloty may mean a broader range of its volatility in relationship to other currencies in the future. Heretofore, zloty was kept within +/- 15% range to parity. Currently, the currency may fluctuate without limit. The Group is exploring

the possibility of long term hedging of the cost of newsprint to limit currency exposure.

**Operating effectiveness and safety.** Daily process of *Gazeta's* preparation and production requires careful planning, disciplined management systems and effective work organisation. The company constantly searches for way to improve effectiveness and reliability of key production processes via automation and implementation of modern technologies for pre-press, printing, advertising sales, and distribution of *Gazeta*, as well as of financial planning and management and communications between various operating units and branches of the Group.

**Production technology and capacity.** Provision of sufficient production capacity and modern colour capabilities is a condition sine qua non for leveraging *Gazeta's* growth opportunities and thus the Group's investment priority. At the beginning of 2001 the Group will complete its expansion of printing facilities. Once implemented, these changes will result in the entire offset production being executed in-house. As a result the Group will be able to fully control its cost base and configure its advertising offer in a flexible way.

**Growth of the radio activities** of the Group depends on the rate of growth of advertising market and its development in the relevant local markets. The radio business needs operating scale which, in turn, depends on the speed with which new radio stations can be added to the group. The Group is growing the radio operation by acquiring shares in existing radio stations and applying to the Broadcast Council for new licences. The attitude of the Broadcast Council is an important factor affecting the growth of the radio operations.

**The Internet expansion** requires expenditures and will dilute earnings. The success of the Group's Internet offering depends to a large extent on the development of Poland's internet market, including removal of the technological and logistics barriers, such as access or enablement of on line transactions.

**The Group's team.** In the eleven years of its existence the Group has hired and trained extremely valuable staff.

Maintaining their job satisfaction and loyalty to the Group and their further professional growth are key goals of the Group. To this end, the Group has implemented several programs which broaden stockholding among company's employees, including incentive plans for managers and non-executive star performers and an employee stock purchase program.

### **GROWTH PERSPECTIVES**

The Group's Strategy includes further development of *Gazeta Wyborcza*, of the radio business, development & launch of the Internet offering and expansion into related media. The Group will grow organically by expanding

existing business and by forming alliances and equity relationships with other Polish companies and, over time, internationally.

In addition, the Group's long term expansion strategy may be implemented by means of M&A transactions. The future price of Agora's stock may have impact in the context of such transactions.

**Governing bodies and agreements which affect future structure of ownership** were described in detail in the Management Board's report to the unconsolidated financial statements of the Company.



Wanda Rapaczynski – President



Helena Łuczywo – Member of the Board



Piotr Niemczycki – Vice-president of the Board



Jerzy Thieme – Member of the Board

Warsaw, 18 April 2000

# *Auditors' Opinion*

## **SCOPE**

We have audited the accompanying consolidated balance sheet of Agora SA ("the Company", collectively, "the Group") as of 31 December 1999, and the related consolidated statements of income and cash flows for the year then ended.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

## **BASIS OF OPINION**

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

## **OPINION**

In our opinion, the consolidated financial statements of Agora SA give a true and fair view of the financial position of the Group as of 31 December 1999, and of the results of its operations and cash flows for the year then ended, in accordance with International Accounting Standards. KPMG Polska Audyt Sp. z o.o.

*Warsaw, 18 April 2000*

## Consolidated Balance Sheet

Assets	Note	At 31 December 1999	At 31 December 1998
<b>Current assets:</b>			
Cash and cash equivalents	2	36,357	17,243
Short-term securities	3	209,258	1,290
Accounts receivable and prepayments	4	85,303	71,803
Inventories	5	18,479	16,917
		<b>349,397</b>	<b>107,253</b>
<b>Long-term assets:</b>			
Property, plant and equipment	6	442,316	268,442
Intangible assets	7	36,883	22,018
Investments	8	38,329	31,464
		<b>517,528</b>	<b>321,924</b>
<b>Total assets:</b>		<b>866,925</b>	<b>429,177</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued charges	9	88,985	65,262
Short-term borrowings	10	—	112,448
		<b>88,985</b>	<b>177,710</b>
<b>Long-term liabilities:</b>			
Long-term borrowings	11	79,101	63,128
Deferred income taxes	12	11,328	7,030
		<b>90,429</b>	<b>70,158</b>
<b>Shareholders' equity:</b>			
Share capital	13	56,758	44,141
Share premium		367,138	—
Retained earnings and other reserves	14	263,615	137,168
		<b>687,511</b>	<b>181,309</b>
<b>Total liabilities and shareholders' equity:</b>		<b>866,925</b>	<b>429,177</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Income Statements

	Note	Year ended 31 December:	
		1999	1998
Sales	15	689,689	549,894
Operating costs	16	(498,421)	(397,470)
<b>Operating profit before associated undertakings and other charges</b>		<b>191,268</b>	<b>152,424</b>
Other charges		—	(34,743)
Share of losses in associated undertakings		—	(41,388)
Amortisation of goodwill in associated undertakings		—	(27,395)
Provision for losses on other investments		(4,400)	(5,200)
<b>Profit after associated undertakings and other charges</b>		<b>186,868</b>	<b>43,698</b>
Interest and financial items	18	3,246	2,375
Dividends received		288	—
<b>Profit before income taxes</b>		<b>190,402</b>	<b>46,073</b>
Income taxes	19	(63,956)	(41,896)
<b>Net profit for the year</b>		<b>126,446</b>	<b>4,177</b>
<b>Earnings per share (in PLN)</b>	<b>20</b>	<b>2,31</b>	<b>0,09</b>

See accompanying notes to the consolidated financial statements.

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Note	Share capital	Share premium	Retained	Other earnings	Total
At 31 December 1997		44 141	—	124 169	8 822	132 991
Net profit for the year		—	—	4 177	—	4 177
Other movements		—	—	197	(197)	0
<b>At 31 December 1998</b>		<b>44 141</b>	<b>—</b>	<b>128 543</b>	<b>8 625</b>	<b>181 309</b>
Issue of ordinary shares		12 617	—	—	—	12 617
Other movements	14	—	—	7 587	(7 586)	1
Net profit for the year	14	—	—	126 446	—	126 446
<b>Share premium from initial public offering</b>	<b>13</b>	<b>—</b>	<b>367 138</b>	<b>—</b>	<b>—</b>	<b>367 138</b>
<b>At 31 December 1999</b>		<b>56 758</b>	<b>367 138</b>	<b>262 576</b>	<b>1 039</b>	<b>687 511</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Cash Flow Statements

	Note	Year ended December:	
		1999	1998
<b>Operating activities</b>			
Operating profit before associated undertakings and other charges		191,268	152,424
Depreciation of plant, property and equipment		39,260	19,275
Amortisation of intangible assets		6,684	3,081
(Profit)/loss on disposal of plant, property and equipment		2,521	(468)
		<b>239,733</b>	<b>174,312</b>
<b>Other charges</b>			
Movement in operating working capital	21	(2,353)	(27,846)
Net cash inflow before interest and tax		237,380	111,723
Interest received		6,973	3,137
Interest paid		(5,389)	(2,638)
Foreign exchange result		17,402	1,872
Tax paid		(62,375)	(39,129)
<b>Net cash from operating activities</b>		<b>193,991</b>	<b>74,965</b>
<b>Investing activities</b>			
Capital expenditure, net		(204,572)	(137,873)
Acquisition of subsidiary undertaking, net of cash acquired		—	(14,646)
Increase of long-term investments, net		(4,942)	(12,255)
Redemption/(acquisition) of short-term securities		(207,889)	6,972
Result on forward foreign exchange, future interest rate contracts		4,547	—
Dividends received		288	—
<b>Net cash used in investing activities</b>		<b>(412,568)</b>	<b>(157,802)</b>
<b>Financing activities</b>			
Increase / (decrease) in borrowings		(123,304)	75,304
Public offering equity contributions		379,755	—
Public offering expenditure		(18,760)	—
Net cash from financing activities		237,691	75,304
<b>Change in cash and cash equivalents</b>		<b>19,114</b>	<b>(7,533)</b>
<b>Movements in cash and cash equivalents</b>			
At start of period		17,243	24,776
Increase		19,114	(7,533)
<b>At end of period</b>		<b>36,357</b>	<b>17,243</b>

See accompanying notes to the consolidated financial statements.

# Notes

## GENERAL INFORMATION

Agora SA (formerly Agora-Gazeta Sp. z o.o.) (“the Company”) principally produces, sells and promotes the *Gazeta Wyborcza* daily newspaper and other print media in Poland. The Company operates in all the major cities in Poland and employs over 2,700 people.

## 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. There have been no significant changes in these policies during the period presented.

### Basis of preparation

The consolidated financial statements of the Agora SA Group (“the Group”) are prepared in accordance with International Accounting Standards and under the historical cost convention.

Inter-company transactions and balances have been eliminated in the preparation of these financial statements.

Investments in associated undertakings are accounted for by the equity method. These are investments over which the Company exercises significant influence, but which it does not control.

### Translation of foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions, set either by the National Bank of Poland or customs authorities as appropriate. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, unless directly related to investments in property, plant and equipment, in which case they are capitalised. Such balances are translated at period-end exchange rates.

### Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the

tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and various transactions not considered to be taxable or tax-deductible until settlement.

### Receivables

Receivables are stated at nominal value less valuation adjustments to cover likely risks of non-recovery.

### Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the first-in, first-out (FIFO) method.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

### Property, plant and equipment

Property, plant and equipment acquired after 1 January 1995 is stated at historical cost less depreciation.

Cost comprises costs incurred in their purchase or manufacture and includes exchange differences.

Depreciation is calculated on the straight line method to write off the cost of each asset over its estimated useful life, with the exceptions of computer equipment which is calculated on the reducing balance method and low-value assets which are written off completely when brought into use. Estimated useful lives of property, plant and equipment, by significant class of asset, are as follows:

Buildings	10 – 40 years
Leasehold improvements	10 years
Plant and machinery	2 – 20 years
Other equipment and motor vehicles	4 – 7 years

Gains or losses on the disposal of fixed assets are determined as the difference between the sales price and the net book value of the asset at the date of disposal.

Payments made under operating leases are charged to the income statement in equal instalments over the period of the lease.

Repairs and renewals are charged to the income statement when the expenditure is incurred; improvements are capitalised when incurred.

### Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiary undertakings is reported in the balance sheet as an intangible asset. Goodwill on investments in associated undertakings, to the extent that it is not already amortised, is separately disclosed as part of the carrying value of the investments. Goodwill is amortised using the straight-line method over five years.

Expenditures associated with the initial public offering are being amortised on a straight line basis over five years. Other intangible assets are being amortised on a straight line basis over a period of three to five years.

### Investments

Short-term investments are stated at cost plus premiums accruing to the balance sheet date, which approximates to market value; movements on their valuation are recorded in income. Long-term investments are stated at historical cost less allowances for permanent diminution in value.

### Methods of revenue recognition

Sales are recorded for amounts receivable for goods sold at the date of shipment and services provided in accordance with contract terms, less related distribution costs, returns and sales taxes.

### Borrowing costs

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

### Employee plans

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

from the discretionary scheme, comprising the amount of cash bonus and the fair value of the subsidised shares, less employees' contributions thereto, is estimated and accrued over the performance measurement period, and adjusted for final awards once determined.

### Related parties

Significant transactions, balances and other arrangements with related parties are disclosed separately in the financial statements. For the purposes of these financial statements, related parties comprise shareholders, subsidiary and associated undertakings, members of the Management and Supervisory Boards of the Group entities and their immediate family, and entities under their control.

	1999	1998
Cash at bank and in hand	0,262	5,618
Short-term bank deposits	31,285	1,502
Treasury bills	4,810	10,123
	<b>36,357</b>	<b>17,243</b>

## 2. CASH AND CASH EQUIVALENTS

Included in cash and deposits are sundry amounts held in accounts restricted for the benefit of employees (Note 9) and in respect of liabilities arising from the use of corporate credit cards.

Starting 30 June 1999 the Group changed balance sheet presentation with respect to treasury bills. In order to reflect the intended use of such assets, they are now being presented under the "Cash and cash equivalents" caption of the balance sheet. The comparative balance sheet as of 31 December 1998 has been restated to conform to the current presentation. The effect of the change is an increase of the Cash and cash equivalents and decrease of Short – term securities by an amount of 4,810 PLN thousand as at 31 December 1999 and 10,123 PLN thousand as at 31 December 1998.

### 3. SHORT-TERM SECURITIES

	1999	1998
Short-term commercial papers	141,907	1,290
Treasury bonds	66,351	—
Shares in an investment fund	1,000	—
	<b>209,258</b>	<b>1,290</b>

### 5. INVENTORIES

	1999	1998
Raw materials and consumables	17,795	16,596
Finished goods and goods for resale	684	321
	<b>18,479</b>	<b>16,917</b>

### 6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Plant, machinery and equipment	Assets under construction	total
<b>Year ended 31 December 1999</b>				
Opening net book amount per accounts of 31 December 1998	74,977	132,321	1,096	208,394
Adjustments for an error:	(6,077)	—	5,226	(851)
Opening net book amount	68,900	132,321	6,322	207,543
Additions	7,384	30,165	129,579	167,128
Disposals and adjustments	(2,216)	(686)	(8,021)	(10,923)
Depreciation charge	(2,937)	(36,323)	—	(39,260)
<b>Closing net book amount</b>	<b>71,131</b>	<b>125,477</b>	<b>127,880</b>	<b>324,488</b>
<b>At 31 December 1998</b>				
Cost	79,362	219,655	127,880	426,897
Accumulated depreciation	(8,231)	(94,178)	—	(102,409)
	<b>71,131</b>	<b>125,477</b>	<b>127,880</b>	<b>324,488</b>
Prepayments for property, plant and equipment	—	—	—	117,828
<b>Net book amount</b>	<b>71,131</b>	<b>125,477</b>	<b>127,880</b>	<b>442,316</b>

Opening balances as of 1 January 1999 of buildings and constructions and construction in progress have been adjusted for the effects of an error in classification. Consequently the buildings and constructions opening balance was decreased by PLN 5,226 and 851 thousand (6,077 in total) and the construction in progress opening balance was increased by PLN 5,226 thousand.

The PLN 5,226 thousand is an inter-company interest capitalised by a subsidiary that should have been elimi-

### 4. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	1999	1998
Trade Receivables	63,105	56,418
Other Receivables	7,502	7,409
Prepayments and accrued income	1,035	2,940
Income taxes	5,612	3,639
Other taxes and social security	8,049	1,397
	<b>85,303</b>	<b>71,803</b>

All receivables fall due within one year.

Trade receivables include amounts due from related entities arising from normal trading operations of PLN

nated out of buildings and constructions instead of construction in progress. The PLN 851 thousand is inter-company interest (charged in 1997) capitalised by a subsidiary that should have been eliminated against buildings and constructions in correspondence with retained earnings. The retained earnings closing balance as of 31 December 1997 has been also decreased by the PLN 851 thousand.

## Notes to the consolidated financial statements

	Land and buildings	Plant, machinery and equipment	Assets under construction	total
<b>Year ended 31 December 1998</b>				
Opening net book amount	20,574	31,905	28,514	80,993
New company subsidiaries	5,228	553	—	5,781
Additions	51,198	118,169	110,585	279,952
Disposals and adjustments	(382)	(672)	(138,003)	(139,057)
Depreciation charge	(1,641)	(17,634)	—	(19,275)
<b>Closing net book amount</b>	<b>74,977</b>	<b>132,321</b>	<b>1,096</b>	<b>208,394</b>
<b>At 31 December 1998</b>				
Cost	80,290	195,704	1,096	277,090
Accumulated depreciation	(5,313)	(63,383)	—	(68,696)
	<b>74,977</b>	<b>132,321</b>	<b>1,096</b>	<b>208,394</b>
Adjustments for an error:	(5,313)	(63,383)	—	(844)
Prepayments for property, plant and equipment	—	—	—	117,828
<b>Net book amount</b>	<b>74,977</b>	<b>132,321</b>	<b>1,096</b>	<b>268,442</b>

All assets included above were owned by the Group.

### 7. INTANGIBLE ASSETS

	Costs of initial public offering	Goodwill	Other intangible assets	Total
<b>Year ended 31 December 1999</b>				
Opening net book amount	—	9,192	12,826	22,018
Reclassification	140	—	(140)	—
Additions	21,348	—	206	21,554
Amortisation charge	(2,878)	(2,347)	(1,459)	(6,684)
Disposals and adjustments	—	—	(5)	(5)
<b>Closing net book amount</b>	<b>18,610</b>	<b>6,845</b>	<b>11,428</b>	<b>36,883</b>
<b>At 31 December 1999</b>				
Cost	21,509	11,735	14,159	47,403
Accumulated depreciation	(2,899)	(4,890)	(2,731)	(10,520)
<b>Net book amount</b>	<b>18,610</b>	<b>6,845</b>	<b>11,428</b>	<b>36,883</b>
<b>Year ended 31 December 1998</b>				
Opening net book amount		11,539	691	12,230
Additions		—	12,869	12,869
Amortisation charge		(2,347)	(734)	(3,081)
<b>Closing net book amount</b>		<b>9,192</b>	<b>12,826</b>	<b>22,018</b>
<b>At 31 December 1998</b>				
Cost		11,735	14,032	25,767
Accumulated depreciation		(2,543)	(1,206)	(3,749)
<b>Net book amount</b>		<b>9,192</b>	<b>12,826</b>	<b>22,018</b>

## 8. INVESTMENTS

	Associated undertakings	Other investments	Total
<b>Year ended 31 December 1999</b>			
Opening net book amount	—	31,464	31,464
Additions-	—	34,367	34,367
Disposals and adjustments-	—	(469)	(469)
Repayment of loan to TKP	—	(22,633)	(22,633)
Provision for loss on other investment	—	(4,400)	(4,400)
<b>Closing net book amount</b>	<b>—</b>	<b>38,329</b>	<b>38,329</b>
<b>Year ended 31 December 1998</b>			
Opening net book amount	68,783	24,409	93,192
Additions	—	15,401	15,401
Disposals and adjustments	—	(3,146)	(3,146)
Share of net loss for the year	(41,388)	—	(41,388)
Amortisation of goodwill	(27,395)	—	(27,395)
Provision for loss on other investment	—	(5,200)	(5,200)
<b>Closing net book amount</b>	<b>—</b>	<b>31,464</b>	<b>31,464</b>

As of December 31, 1999 the Group's share in capital of Telewizyjna Korporacja Partycypacyjna S.A. ("TKP"), (an entity registered in Poland which holds controlling interests in entities providing pay-television broadcasting services), amounted to 12.12% of closing net book value totalling PLN 22,492 thousand (purchase cost PLN 121,009 thousand). The decrease of the Groups shareholding results from the latest increase of capital following the shareholders resolution dated July 26 1999 in which the Group took part. The acquisition of new shares in TKP was effectively a conversion of the long term loan granted to TKP into equity and therefore did not require any additional funds. On the October 25, 1999 TKP repaid the loan in the amount of PLN 22,492 thousand and on the same day the Group paid the same amount of money for the new shares.

As a consequence of the decrease in the Group's stake in TKP, TKP is no longer treated as an associate and therefore is no longer consolidated under the equity method. The closing net book value of investment in TKP (totalling PLN 22,492 thousand) is the most recent value of the investment under the equity consolidation (zero) increased by the cost of the new shares acquired. As of

December 31 1998, the carrying value of the 20% Group's investment in TKP was nil, being unamortised goodwill of PLN 98,166 thousand less its share in the consolidated net liabilities thereof of PLN 98,166 thousand.

The Group originally acquired 22.5% of the share capital of TKP effective August 1997. Total cash consideration paid of PLN 98,518 thousand was represented by goodwill of PLN 136,976 thousand less the Group's acquired share of consolidated net liabilities of PLN 38,458 thousand. The Group's share of the consolidated net losses of TKP and accumulated amortisation of related goodwill since acquisition to 31 December 1998 were PLN 59,708 thousand and PLN 38,810 thousand, respectively.

In March 1998 the Group provided a pledge on the TKP shares (held at that time) as a security for a bank loan granted to TKP. According to the representation of the bank TKP repaid the loan in full by the December 31, 1999. Therefore the pledge has expired and is now being removed out of a specific register.

Other than the referred to above, other investments comprise equity interests in and loans to other related entities.

**9. ACCOUNTS PAYABLE AND ACCRUED CHARGES**

	1999	1998
Income taxes	15	280
Other taxes and social security	4,958	7,012
Other payables	5,638	5,949
Accruals and deferred income	10,451	8,361
	<b>88,985</b>	<b>65,262</b>

All amounts fall due within one year.

Included in accruals and deferred income is PLN 1,500 thousand set aside for the benefit of the individual Group entities' employees incentive plan.

**10. SHORT-TERM BORROWINGS**

	1999	1998
Short-term borrowings	—	73,203
Unsecured loans repayable wholly within one year	—	39,245
	<b>—</b>	<b>112,448</b>

In March 1999 the Company signed an agreement for a line of credit with BRE Bank SA for the amount of PLN 150 million. The facility is granted for the period from 4 May 1999 to 28 February 2001 and will be used for financing current activities and investments. As at 31 December the line of credit was not drawn upon.

The unsecured bank loan granted by Raiffeisen Centrobank SA, which was repaid in December 1999, carried an annual interest rate of LIBOR plus one per cent. Other short-term borrowings outstanding as at 31 December 1998 were repaid during the year.

**11. LONG-TERM BORROWINGS**

	1999	1998
Unsecured loans repayable after five years	79,101	63,128

Unsecured loans repayable after five years comprise a loan of USD 19,068 thousand (31 December 1998: USD 17,518 thousand) from shareholder Cox Poland Investments, Inc. which is repayable in 2007 or may (principle and interest), in 2000, be exchanged for 13,308 of

the shares in TKP S.A. held by the Group, being 49% of class B ordinary shares in TKP (Note 8). The annual rate of interest is 6.31% and interest is payable when the principal becomes due

**12. DEFERRED INCOME TAXES**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal rate of 30% (1998: 34%) as follows:

	1999	1998
Accelerated tax depreciation and similar	19,886	10,303
Other temporary differences	(8,558)	(3,273)
	<b>11,328</b>	<b>7,030</b>

### 13. SHARE CAPITAL

Number of shares as at 31 December	Issued	Authorised	Issued
	31December 1999	31December 1998	31December 1998
“Registered A” shares of PLN 1.00 each	4,281,600	4,281,600	4,281,600
“Registered B” shares of PLN 1.00 each	39,108,900	39,108,900	39,108,900
“Registered C” shares of PLN 1.00 each	750,000	750,000	750,000
“Registered D” shares of PLN 1.00 each	2,267,025	2,267,025	—
“Bearer E” shares of PLN 1.00 each	9,000,000	9,000,000	—
“Bearer F” shares of PLN 1.00 each	1,350,000	1,350,000	—
	<b>56,757,525</b>	<b>56,757,525</b>	<b>44,140,500</b>

The extraordinary general meeting of the Company’s shareholders on 8 May 1998 authorised the issue of the D E and F shares. Registered D shares were intended for an offering of shares to employees of the Company and certain of its affiliates and for future awards under the Company’s employee incentive plan. The bearer E and bearer F shares were authorised for issue in connection with the initial public offering. Class D, E and F shares were issued pursuant to these plans.

During the period from 29 January to 2 February 1999 the Company offered and sold 2,267,025 D shares at 1 PLN each. The number of past and current employees who subscribed for these shares amounted to 1,551.

During the period from 25 February to 10 March 1999 the Company successfully completed its initial public offering of 7,875,000 class E shares and 1,350,000 class F shares which were sold at a price of 36 PLN per share. Costs and expenses of the offering were approximately 2.50 PLN per share.

In conjunction with the public offering the Company issued 1,125,000 class E shares to Cox Poland Investments Inc., at a price of 36 PLN per share.

Total proceeds from the issue of class D, E and F shares amounted to PLN 379,755 thousand of which PLN 12,617 thousand is the increase in ordinary share capital and PLN 367,138 thousand is the share premium.

Each Registered A share carries five votes at general meetings; Registered B shares carry one vote each and Registered C shares carry up to five votes each limited to the overall percentage of shares owned. All the authorised and issued shares are fully paid up.

### 14. RETAINED EARNINGS AND OTHER RESERVES

During 1999 an amount PLN 7,587 thousand was transferred from other reserves to retained earnings as it represents equity of Predecessor Entities which can be distributed.

#### Dividends

At the Annual General Meeting held to approve the Company’s statutory financial statements for the year ended 31 December 1998 the shareholders resolved that no dividend be paid in respect of 1998 retained earnings.

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

The Management Board does not propose to pay dividends in respect of profits for the year ended 31 December 1999.

### 15. SALES AND SEGMENT INFORMATION

#### (a) Segment information

Substantially all the Group’s sales and operating profit are derived from the principal activity of the copy sales and advertising sales of the *Gazeta Wyborcza* newspaper and other print media in Poland. The Group commenced its activities in radio broadcasting in 1996, through numerous investments in local and one supra-regional radio sta-