

AGORA_{SA}

Annual Report 1998



AGORA
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Design: ☒ Studio 27 Karol Laskowski, Karol Pereplyś

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To the Shareholders of Agora SA

change was the program to broaden staff ownership of the company. We designed a stock purchase plan aimed at the majority of our employees and introduced stock incentive plans for managers and top-performing non-management employees. This will ensure that in the future staff objectives will be aligned with those of investors.

On May 8, 1998 the shareholders voted to make Agora a public company. The vote marked the completion of reorganization and we began preparations for the initial public offering. Since we were planning for a simultaneous public offering of stock in Warsaw and of GDRs in London, the process was fairly challenging. We also went through a period of uncertainty caused by the August crash in Russia and the subsequent downturn in world capital markets. We postponed the offer and restarted work in January 1999.

Our IPO met with lively interest from retail and institutional investors, the latter both in Poland and abroad. Ultimately, Agora's stock was more than ten times oversubscribed, despite the fact that it was priced at the top of the range. Public trading began at the Warsaw Stock Exchange on April 20, 1999; the GDRs have been trading in London since February 23, 1999.

Although preparation for the IPO claimed significant management time, *Gazeta Wyborcza* was our number one priority throughout the year as always, as documented by its market and financial results. *Gazeta* further strengthened its leadership position in the daily newspaper market. On an average publication day in 1998 we sold 436,000 copies of *Gazeta*, 6.5% more than in 1997, a second consecutive growth year. Today, when circulation of world newspapers is

systematically shrinking, we view this result as a great success, well deserved and hard-earned through the joint efforts of our editorial, circulation and advertising departments.

Advertising revenues grew as well. In 1998 we sold PLN 420 million worth of ads, 36.4% more than in 1997. The unique national-local structure of *Gazeta Wyborcza* and its supplements enables us to offer advertisers both a national and local range. These two markets are of comparable importance to *Gazeta*: local markets generate 50.4% of advertising revenues, while the national market contributes the rest. We estimate (alas, precise market statistics are not available) that in 1998 *Gazeta* commanded a 9% share of the total advertising expenditure in the Polish media and a 45% share of advertising spending for daily newspapers.

In our view, we owe the growth of advertising revenue to three key factors. One, Poland's economic growth. Two, the largest professional network of well trained and well motivated sales representatives in Poland. Three, what we offer: flexible market reach, a whole gamut of thematic supplements, and color ads. Although we contend with a temporary slowing of economic growth, we expect that advertising spending will be buoyed by the new pension funds and increasing competition in telecommunications and financial services, and the advertising market will continue to grow.

Expanded production capacity is essential to capitalize on market growth and to convert it into increased revenues. In 1998 we completed construction of a new printing plant in the Special Economic Zone in Tychy and expansion of the Warsaw plant. We also decided to

1998 was a year of change for Agora. On April 1, 1998 the company changed its legal form from a limited to a joint stock company and its shareholders elected a new, five-member Supervisory Board. The transformation was preceded by a period of intensive preparation and fundamental changes in the capital and organizational structure of the company. To make them possible, we restructured the agreement with our strategic investor, Cox Poland Investments, Inc. Perhaps the most important element of

make significant further investments in printing infrastructure. By the end of 2000 we will build a new plant in Piła, expand Tychy and the Warsaw plant (in a new location: Białołęka borough). The plants will be equipped with state-of-the-art printing presses from Koenig & Bauer, as well as mailroom and inserting equipment. This investment program will cost about PLN 400 million in the years 1999-2001. It will deliver significant benefits: an improved advertising package thanks to increased color capability and the removal of constraints on *Gazeta's* page-count and of other technical barriers.

At the same time we made a long overdue decision to construct new premises for the company. Today Agora's 1,300 Warsaw employees work in seven different, often remote, buildings. Such dispersion hinders efficiency, and in a daily newspaper every minute counts. The construction of the new building will start in the spring of 2000. By the end of 2001 all departments of *Gazeta* and Agora should again work under one roof.

In the midst of so many exciting developments, we have not lost sight of our second strategic priority, expansion into related media. The number of local radio stations in the Agora group grew from five at the beginning of the year to ten by December. Our market strategy led to a rapid growth in listeners. In the second half of 1998, the stations commanded a 4.5% share of the total Polish radio audience in our target group (people aged 25-45 in cities over 100,000). This is a very good result given that over 200 stations operate in Poland, powerful commercial and public stations with national and regional broadcast ranges among them. More good news: our local stations which broadcast in large cities are breaking even fairly quickly.

Inforadio (now broadcasting as TOK FM) in which Agora holds a minority share, was launched in the

spring of 1988. This is the first attempt in Poland at the news/talk format that is breaking all popularity records in the US. This format is more challenging in implementation than the standard music programming and requires more time to build an audience share. However, it is well worth the effort as news/talk stations have significant revenue potential.

Our investment in TKP, parent company of the operator of Canal+, took an unexpected turn. In 1998 Wizja TV, US @Entertainment's digital package, entered the market. Despite intense negotiations, a joint venture of Wizja TV and Canal+ did not materialize and soon thereafter Canal+ started offering its own digital bouquet, Cyfra+.

Expenditures associated with a digital offering exceed the scope of our capital commitment to television. Hence our decision not to contribute further funding to TKP and, if necessary, to allow our stake to be diluted. We would like to state very clearly that this does not signify our withdrawal from the project. On the contrary, today, when Cyfra+ and Wizja TV battle for the future digital market in Poland, Agora's representatives in the governing bodies of TKP actively participate in articulating its strategy and support the implementation.

On May 8, 1999 *Gazeta Wyborcza* and Agora celebrated their tenth birthday. On this festive occasion, after a successful IPO, excellent 1998 market and operating results, with most of 2,500 employees participating in the ownership of the company, with capital projects guaranteeing future growth of our flagship, *Gazeta Wyborcza*, well under way, first and foremost we would like to warmly thank our readers, advertisers and staff for a successful first decade. Our shareholders who stand with us on the threshold of the second decade of Agora and *Gazeta Wyborcza*, we thank for their confidence and promise that we will do our best to ensure that our common enterprise will be our shared success.



Wanda Rapaczynski

Wanda Rapaczynski

President of the Management Board, Ph.D. in psychology from City University of New York, graduate of the Yale University School of Organization and Management. Oversees finance and business development divisions.



Helena Łuczywo

Helena Łuczywo

Member of the Management Board, deputy Editor-in-Chief of *Gazeta Wyborcza*. Graduate of Warsaw University Department of Economics. Oversees the editorial office and the HR/premises division.



P. Niemczycki

Piotr Niemczycki

Vice President of the Management Board and the publisher of *Gazeta Wyborcza*. M.A. in philosophy from the Academy of Catholic Theology. Responsible for the publishing, printing and technology divisions.

Organisational Structure

Supervisory Board

Henryka Bochniarz, President

Ph.D. in Economics, graduated from Main School of Planning and Statistics in Warsaw. President of Polish Business Roundtable, president of Polish Confederation Of Private Employers, president of the Management Board of Nicom Consulting Sp. z o.o., Minister of Trade and Commerce in the government of J. K. Bielecki, serves on supervisory boards of ITI Holdings S.A., ComputerLand Poland S.A., Constar S.A., and TVN S.A.

Stanisław Sołtysiński, Member

Professor of law, legal adviser, graduated from Department of Law at the Adam Mickiewicz University in Poznań. Founding partner in the S. Sołtysiński, A. Kawecki, A Szlęzak law firm, member of the Civil Law Codification Committee, serves on supervisory boards of Bank Handlowy S.A., Polampack S.A., ABB Polska, Ltd., Atlantis S.A. and TKP S.A.

Tomasz Sielicki, Member

Graduate of Warsaw Polytechnic, president of management Board of ComputerLand S.A., member of the supervisory board of Positive SA, president of the Polish Union of Information Technology Private Employers, vice president of Polish Business Roundtable, member of the Council of Polish IT and Telecommunications Chamber, president of the management board of Foundation In-Aid of Single Parent Families, member of the board of United Way and Friends of Children's Hospital on Litewska Foundation.

Wojciech Kostrzewa, Member

Graduate of Economics Department of University of Kiel. President of the Management Board of BRE Bank SA, serves on supervisory boards of Atlantis S.A., FAMCO S.A., Polish Pre IPO SICAV, Skarbiec TFI S.A. "Skarbiec-Emerytura" Common Pension Fund, BRE Leasing Sp. z o.o. and RHEINHYP - BRE Mortgage Bank.

Dean Eisner, Member

Graduate of Purdue University and University of Michigan (MBA), VP in charge of new business development at Cox Enterprises, member of governing bodies of Optical Data Corporation, telecom Towers, Inc and many non-profit organizations in Atlanta, including Hands On Atlanta, Atlanta Chamber of Commerce, United Way, UNICEF, Atlanta College of Art.

Management Board

Helena Łuczywo

Division

Editorial Office Adam Michnik
Staff and Support Wojciech Kamiński

Department

Deputies: Helena Łuczywo, Juliusz Rawicz, Piotr Pacewicz
HR Zbigniew Matysik
Premises Sławomir Król
Administration Jerzy Świdrak

Piotr Niemczycki

Publishing Piotr Niemczycki

Warsaw Stanisław Turnau
Sławomir Jędrzejewski
Marek Tretyn
Wojciech Mazowiecki
Branches Seweryn Blumsztajn
Corporate - Warsaw Plant Piotr Parnowski
Michał Przewłocki

Printing Piotr Parnowski

Technology Piotr Niemczycki

Piła Plant Jerzy Wójcik
Tychy Plant Wojciech Świerczyński
IT Wojciech Pawłowski
Telecommunication Jerzy Borża
Production Technology Hanna Kasprzyk

Wanda Rapaczynski

Finance Wanda Rapaczynski

Business Development Wanda Rapaczynski

Accounting Hanna Kossowska
Financial Control Anna Biały
Tax Jarosław Wójcik
Radio Janusz Janiec, Marek Michalski
Mobile Halina Obrycka
Development

Investor Relations/Corporate Communications

Joanna Bażyńska, tel.: +48 22 699 4373, e-mail: j.bazynska@gazeta.pl

Marcin Gędziorowski, tel.: +48 22 699 4373, e-mail: m.gedziorowski@gazeta.pl

Shareholding Structure

The public offering at the beginning of this year was addressed to Polish and foreign institutional investors and Polish retail investors. Of the total of 10,350,000 series E and F shares offered, Polish retail investors purchased 787,500, the institutional investors 775,007 and Cox Poland Investments, Inc. acquired additional 1,125,000 series E shares.

The remaining of 7,662,493 series E and F shares were allocated to Bankers Trust for GDRs subscribed for by foreign institutional investors. The offer price was PLN 36 or USD 9.29.

Cox Poland Investment, Inc.,

a subsidiary of Cox Enterprises Inc., became Agora's shareholder in 1993. Cox holds 12.2% of share capital and the same percentage of votes at the General Meeting of Shareholders. The shareholders agreement guarantees

Cox the right to maintain this equity position in Agora regardless of new share issues, with the exception of issues intended for incentive plans.

Other key shareholders:

Employees

own 37.1% of the share capital entitling them to 27.6 % of votes at the General Meeting of Shareholders. The share of Agora's capital held by employees will increase in the future as the participation plans get implemented. For example, in the next three years series D and B shares currently held by Agora-Holding will be granted to the participants in the incentive plans for management and for non-executive high performers, especially journalists. In 1999, around 300 employees are eligible for these plans.

Agora-Holding

holds series A, B, and D shares which represent 34.1 % of the share capital and 47.8% of votes at the General Meeting of Shareholders. Series B and D shares are intended for individuals participating in the incentive plans. Voting preferred series A shares enable Agora-Holding to fulfil the role of the guardian of *Gazeta Wyborcza's* editorial independence.

Capital Structure

Agora-Poligrafia Sp. z o.o.,

a wholly-owned subsidiary of Agora. It built a printing plant in the Special Economic Zone in Tychy in 1998. Its operating activity consists of printing of *Gazeta Wyborcza*.

Radio

In order to diversify, since 1996 we have been acquiring stakes in local radio stations. By the end of 1998 Agora owned, directly or indirectly, stakes in 10 local radio stations, a share of the super-regional TOK FM station and of Biuro Obsługi Radiowej Sp z o.o. which operates three local stations in Poznań.

TV

In 1997 Agora acquired 22.5% stake in TKP S.A. TKP is the owner of pay TV channel Canal+ Polska. In 1998 TKP launched a digital bouquet Cyfra+. As a result of several capital increases in which Agora did not participate, its share in TKP went down to 17.9 %.

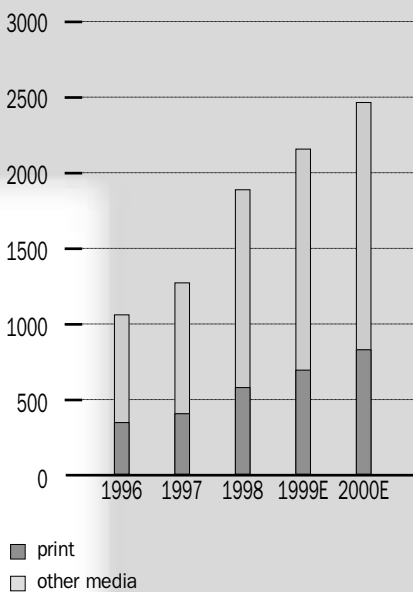
Trans-Serwis S.A.,

a wholly-owned subsidiary of Agora. It will be Agora's partner in the project to build our new head office in Warsaw.

| | |
|--|------------|
| Agora-Poligrafia Sp. z o.o. | 100 % |
| Stakes in 11 radio companies | 29 - 100 % |
| Telewizyjna Korporacja Partycypacyjna S.A. | 17.9 % |
| Trans-Serwis S.A. | 100 % |

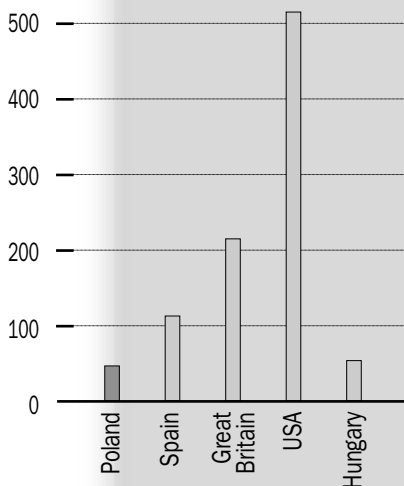
The Media Market in Poland

Estimated advertising spending in Poland (in USD M)



Source: print - Agora estimates
other media - AGB Polska, IP.

1998 advertising spending per capita (in USD)



Source: Poland - Agora estimates
other countries - IP estimates

Dynamic growth of independent media and the advertising market has been an integral element of the democratic transformation in Poland. The print market was the first to develop and take shape because it was not burdened by legal restrictions such as licensing or limits on foreign investment. Today, Poland has 13 national daily newspapers, 64 local papers and 3,700 magazines, according to the Press Research Institute at Jagiellonian University (1998 data).

Thanks to that early start ten years ago, the newspaper market is now fairly stable. In the past few years the positions of the major players in the daily newspaper market have not changed significantly and, although few new entrants appeared, none of them posed a serious threat. Nearly from the moment of its inception, *Gazeta Wyborcza* has been the unquestionable number one.

The development of commercial broadcast media began much later, after the first licenses were granted in 1994. Today, it is still hampered by, on the one hand, numerous regulations that restrict licenses and limit foreign investment and advertising time, and, on the other hand, by competition from the powerful public broadcast media partially funded by receiver license fees. Nine commercial television stations and more than 200 commercial radio stations operate in Poland. New players can quickly gain a strong position, and as Polish law changes to comply with EU regulations, further dynamic changes will occur as strong foreign competitors enter the market.

The driving force behind the development of commercial media, both print and electronic, has been the rapid growth of the advertising market, stimulated by the economic boom and the catch-up of advertising expenditure

per capita, which is still significantly lower than in Western countries, and even Hungary. During the past five years the average nominal growth rate (in PLN) of advertising spending was 63% per year. In 1998, total advertising expenditures in Poland were USD 1.86 billion. Although the rate of GDP growth slowed in 1999, the advertising market continues to grow due to pension reform and increased competition in telecommunications and financial services.

The size of the advertising market in Poland can only be estimated. Precise figures are not available because advertising revenues are not audited. Available estimates are based on sampling. To obtain the most precise data possible for the print market, Agora has developed its own system of daily monitoring of display ads in over 200 publications, which account for about 80 percent of print advertising expenditures, according to our estimates.

According to these calculations, in 1998 advertisers spent USD 680 million in 4,000 different publications. Daily national and local newspapers were the second largest segment of the Polish advertising market, right behind television. In the 200 highest-circulation publications, 65% of spending went to dailies (37% to 64 local and 28% to 10 national dailies) and 35% to weeklies and monthlies.

Agora - Media Group



Morning news conference



Tychy plant



Warsaw plant



Warsaw plant



Mobile billboards



Radio



Evening news conference

Gazeta Wyborcza

Local supplements



Thematic and weekend supplements



Areas reached by local supplements



Gazeta Wyborcza

includes most major newspapers around the world.

Over 300 journalists work in *Gazeta's* editorial office in Warsaw, another 300 in our local branches. Eight foreign correspondents in major capitals all over the world and dozens of regular contributors supplement this team. Together they produce the most award-winning newspaper in Poland. In 1998 alone, the paper received scores of prestigious Polish and international awards.

Gazeta Wyborcza has a unique structure: it combines a national newspaper and 20 local dailies, covering all of Poland's regions. Every day, the reader receives both a national section and a substantial local section. In addition, the paper contains a wide range of national supplements, most of them with locally zoned pages, as well as weekend supplements: Employment on Monday, Computers and Public Announcements supplements on Tuesday, Home and Building on Wednesday, the full-color *Magazyn* and the Automotive supplement on Thursday, a TV Guide and the Sports supplement on Friday, a color magazine for women *Wysokie Obcasy* (High Heels) and Travel on Saturday.

In the largest regions we also include the daily *Supermarket* section with retail information and classified ads and a guide to weekend entertainment *Co jest grane* (What's Up).

The national section of *Gazeta* and its Warsaw sections are edited in Warsaw, while the 19 local supplements are prepared in Agora's 17 branches. The coverage area of these local branches roughly corresponds the new administrative districts of Poland. The branches also supply editorial material to *Gazeta's* national news desk.



Adam Michnik

Born in 1946, Editor-in Chief of *Gazeta Wyborcza* from its inception in May 1989, one of the best known public figures in Poland for the past 30 years. Arrested for the first time for opposition activities in 1965. One of the leaders of March '68 students protests. Arrested and expelled from Warsaw University, in 1975 completed MA degree in history at Adam Mickiewicz University in Poznań as a non-matriculated student. In the 70s one of the founders of the Workers Defense Committee (KOR), and a coordinator of 'flying university' courses in which he lectured in history. Editor of underground periodicals "Biuletyn Informacyjny," "Zapis" and "Krytyka." One of the heads of the underground Independent Publishing House which published masterpieces of the future Nobel Prize winners Czesław Miłosz and Josif Brodsky, banned in Poland, as well as books by Orwell, Gombrowicz and Mandelstam. During that period he wrote the book "The Church, The Left, The Dialogue" and edited a collection of essays "The Story of Honor in Poland."

During the "first" Solidarity he served as an adviser to the union, was interned when martial law was imposed and then imprisoned. Essays he wrote during that time were later published in collections entitled "Chances for Polish Democracy" and "Such are the Times...About Compromise." In 1989, despite protests of communist authorities who considered him a radical and at Lech Walesa's insistence, he participated in the Round Table negotiations. He was an MP in the first parliament elected in 1989.

Michnik's books have been published in many countries and languages and his essays have for years appeared in the world press. His recent books include "Polish Questions," "Between the Lord and the Parish Priest" and "The Devil in Our Times." He has been the recipient of many prestigious awards.

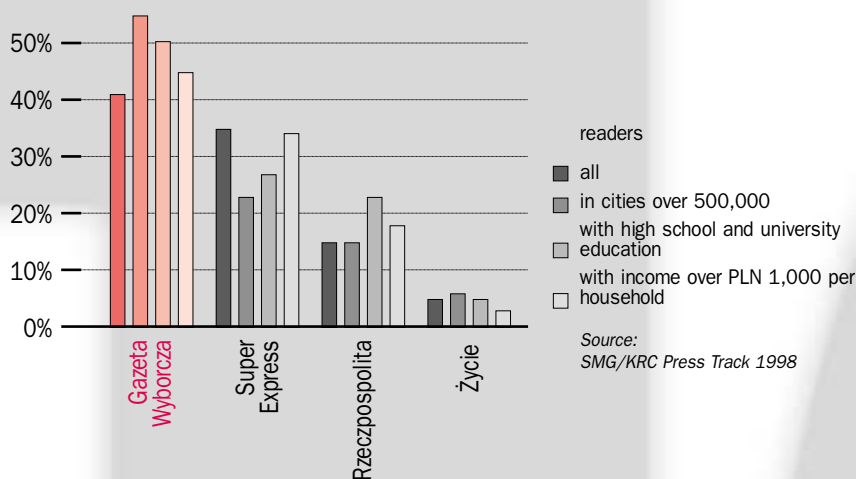
Gazeta Wyborcza has been an independent publication from day one. Adam Michnik, Editor-in-Chief of *Gazeta* since its first issue appeared on May 8, 1989, says: "What we write is not subject to the scrutiny of any external or higher authority. We carefully guide this independence, mindful that a free press is integral to a healthy society."

Gazeta Wyborcza was the sixth largest serious daily in Europe by circulation in 1998, according to a report by the World Association of Newspapers, which boasts a membership that

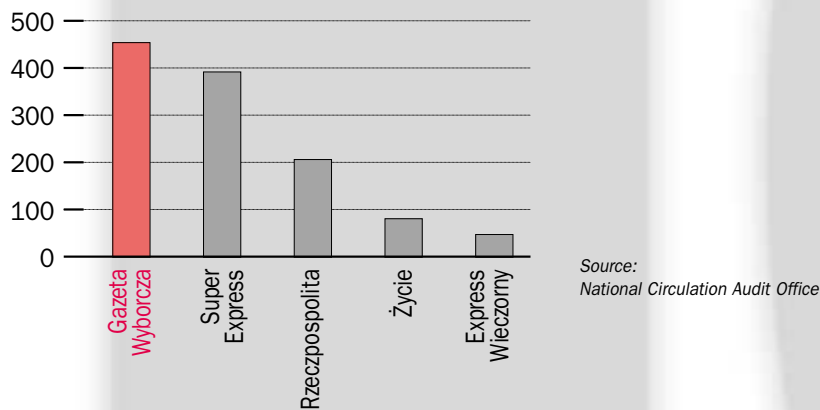
Gazeta Wyborcza

Market Position

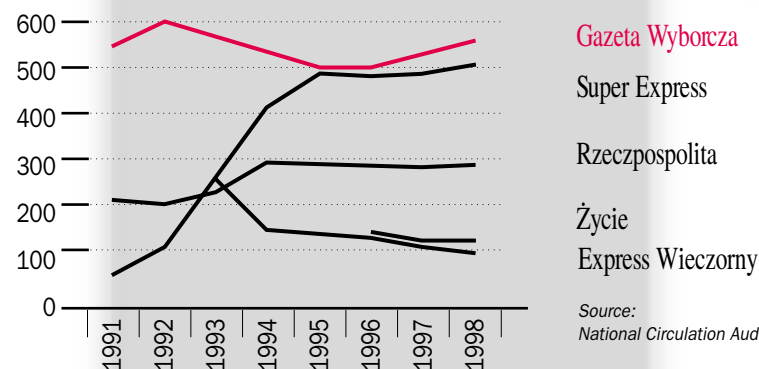
Share of readership of national newspapers (1998 data)



Average daily copy sales of national newspapers (1998 data in thousands of copies)



Average daily circulation of national newspapers in thousands of copies.



Readership

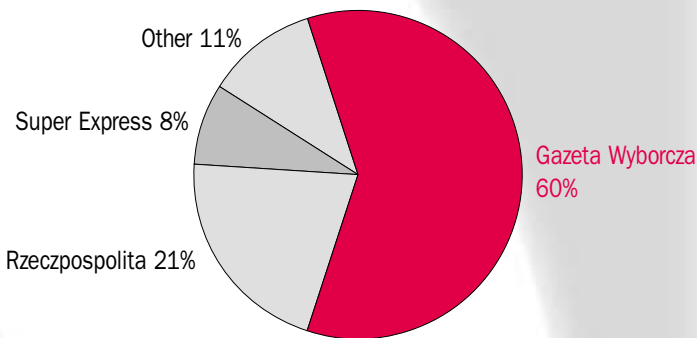
In the national market, *Gazeta* competes primarily with *Super Express* and *Rzeczpospolita*. *Super Express* is a tabloid newspaper aimed at less educated and less affluent readers. *Rzeczpospolita* is a business and economic daily sold chiefly via institutional subscriptions. It attracts a similar segment of readers as *Gazeta*, those who have higher education and better income.

Copy sales

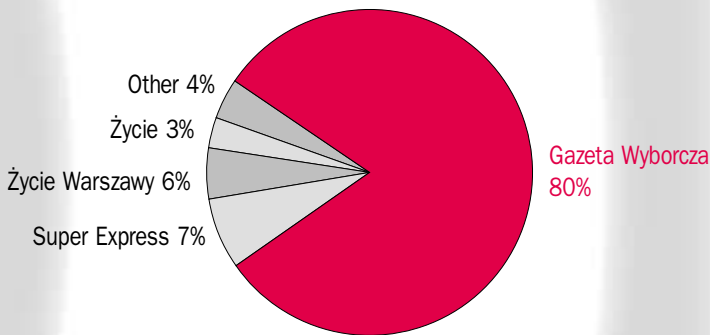
In 1993, after a period of dynamic growth, *Gazeta's* copy sales began to fall. This decline was a result of growing competition from new daily newspapers and reflected the worldwide trends in the press market. By late 1996/early 1997, however, *Gazeta* had succeeded in reversing the decline. We achieved this partly by limiting copy price increases to the rate of inflation, by introducing numerous thematic supplements, and improving our monitoring of distribution. However, the primary vehicle for increasing *Gazeta's* sales was dynamic and consistent promotion of the paper. In 1998, sales of the newspaper rose by 6.5 percent.

Advertising spending in 1998

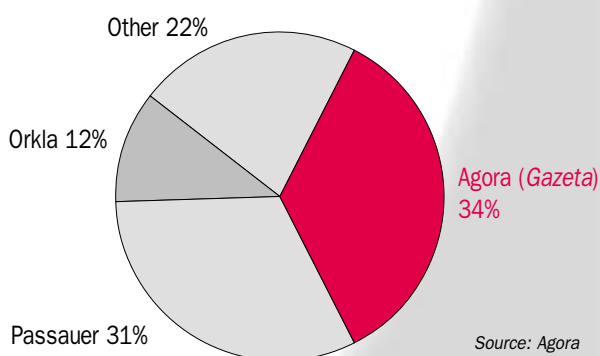
National market



Warsaw market



Local market (including Warsaw)



Source: Agora

Advertising

Gazeta is the unchallenged #1 in the national and Warsaw advertising market; it also holds a strong position in local markets. We got there by offering advertisers color capability, fixed annual rates, and a wide range of supplements with national and local reach. We provide our clients excellent service from a well-trained and highly motivated sales force, the largest in Poland. We work actively to retain existing clientele and to attract new customers. Our objective is to keep expanding our share in all three market segments. This year we have launched an offensive in the local markets. There we compete with two Western press groups, Passauer Neue Presse and Orkla Media, which inherited loyal readerships when they bought local papers that have been around for decades.

New Ventures

Radio

Several years ago Agora made a strategic decision to invest in local radio stations. The venture began in 1996 with shares in one station. At the end of 1998 Agora group consisted of 10 local stations, all broadcasting music programs.

To design these programs, we use a special approach. Rather than relying on our own likes and dislikes, we field market studies of audience preferences - our listeners choose the music we play and how it is presented. So far, they chose Polish and foreign oldies, pop and classical music. The approach we use allows the stations to quickly build audience share and, following that, advertising sales.

The collective audience share of our stations in our market (cities over 100,000 inhabitants, target listeners 25-45 years old) grew from 1.2% in 1997 to 3.3% in the first half and 4.5% in the second half of 1998, and reached 6.6% in the first quarter of 1999. Total revenues of the group in 1998 were PLN 12.5 million.

In addition to local stations we also acquired a minority share in a super-regional radio TOK FM which broadcasts in 9 cities. TOK FM is the first station in Poland in the news/talk format which has been breaking all popularity records in the US. The station was launched in March of 1998.

Agora's radio stations

| City | Station | Launch Date | Format | Ownership | Ranking (Weekly Cume) | Weekly Cume** |
|----------------|--------------------|--------------|--------------------|-----------|-----------------------|---------------|
| Wrocław | Radio Kolor | May 96 | Golden Oldies | 49% | 5/16 | 18.3% |
| Poznań* | Radio 88.4 Jazz FM | July 97 | Golden Oldies+Jazz | 42% | 5/19 | 20.7% |
| Gdańsk | Radio Trefl | September 97 | Golden Oldies | 49% | 7/15 | 12.9% |
| Bydgoszcz | Radio Elita | September 97 | Golden Oldies | 96% | 4/12 | 15.6% |
| Warszawa | Radio Pogoda | November 97 | Golden Oldies | 49% | 4/18 | 18.4% |
| Opole | Radio O'le | February 98 | Golden Oldies | 100% | 4/15 | 25% |
| Katowice | Radio Karolina | October 98 | Golden Oldies | 100% | 4/23 | 19.2% |
| Kraków | Radio Wawel | - | - | 50% | license pending | |
| Poznań* | Radio 103.4 POP FM | November 98 | Adult Contemporary | 100% | 2/19 | 27.7% |
| Poznań* | Radio Klasyka FM | October 98 | Classical | 0% | 9/19 | 6% |
| Częstochowa | Radio C. 96.6 FM | July 98 | Golden Oldies | 100% | 1/11 | 31.8% |
| Super-regional | TOK FM | March 98 | News/Talk | 29.2% | | |

TV

Late in 1997 Agora made its first move into television. This medium was a natural next step after radio and we were particularly interested in the revolution taking place in broadcast technology. Hence our investment in TKP, the operator of Polish pay TV Canal+. In the middle of 1998, digital television entered the Polish market. First came Wizja TV, offered by a US company @Entertainment; several months later Canal+ followed with its own offering, Cyfra+. Today Canal+ has over 305 thousand subscribers, of which nearly 134 thousand "went digital," and competes head-on with Wizja TV. Although current situation means more risk, it also offers a unique opportunity for Agora: we are building a knowledge base in digital technology, the fastest growing media sector.

Other ventures

In addition to radio and television, we have seeded a number of smaller ventures. Although their scale is not significant, they serve to point us in the direction of growth areas with opportunities for scale and profitability. Examples include outdoor advertising, i.e. mobile billboard project which reached break even in the first year of operations, sale of *Gazeta's* archives and photo agency. We make *Gazeta* available via Internet and sell advertising banners, as well.

* operated by Biuro Obsługi Radiowej

** SMG/KRC Radio Track, January-April 1999

Agora's Capital Projects

Soon after *Gazeta Wyborcza* began publication, it became obvious that a modern and attractive daily paper simply could not be produced on antiquated printing presses from the communist era. So, in the middle of 1994, the presses started rolling in our very own printing plant. State of the art technology allowed us in 1995 to introduce a new layout that was clear and easy to read and showcased our photographs and color capability. Our second printing plant, in Tychy in southern Poland, went into operation in mid-1998. At the same time we completed expansion of the Warsaw plant, doubling its production capacity. To take advantage of the growing advertising market, further investment in printing capacity is essential so that we can increase our page count while our circulation continues to grow.

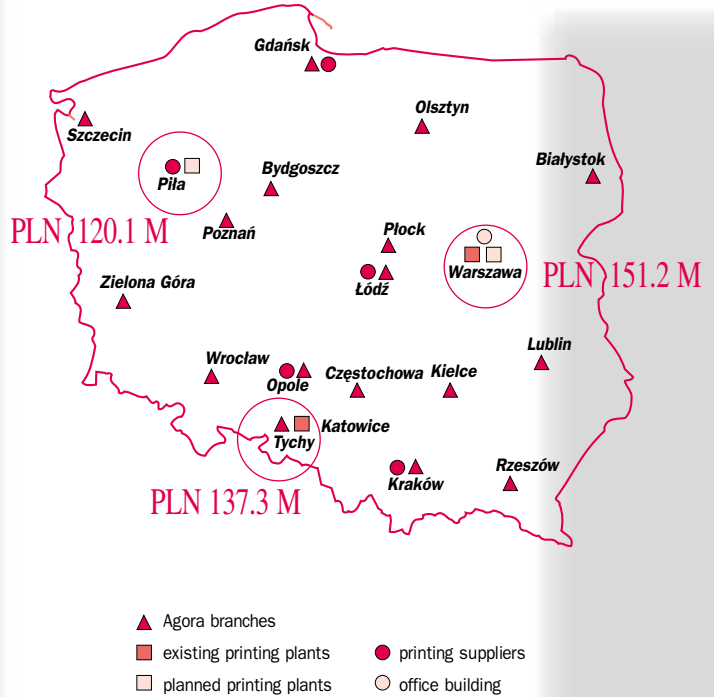
Before 2001, we will begin printing at new plants that we are building in Pila (western Poland) and on the outskirts of Warsaw (Białoleka suburb) and on additional presses at the Tychy facility. The existing plant in Warsaw will have been closed and the equipment moved to Pila and Bialoleka. The capital expenditure for this project in the next three years will total more than PLN 400 million. When it is completed, *Gazeta's* entire print run will be produced in-house, except for *Magazyn* and *Wysokie Obcasy*, which are produced in heat-set technology.



Architects' depiction of new premises in Warsaw

The second key investment is the construction of our new office building in Warsaw which will consolidate the approximately 1500 employees we expect to have by the end of 2001 from seven leased locations around the city. In the course of the next three years we will spend PLN 130 million on this project.

Projected printing capex 1999-2001



Agora is also investing in its computer systems for advertising, editorial and management information, as well as in telecommunications to build a wide area network encompassing all printing plants, branches and the Warsaw office. Expenditure for these projects will total nearly PLN 85 million between 1999 and 2001.

The Agora Team

The people responsible for the success of *Gazeta Wyborcza* and Agora are its employees. They created the newspaper and the company and then secured its position in the market. They are the company's most valuable asset; the company's growth hinges on their skills, motivation, job satisfaction and loyalty. Fostering these qualities is the task of the new human resources department, formed in 1998.

Our first steps in this direction were an employee stock purchase plan available to more than 1,500 people and incentive programs for approximately 300 managers and non-executive high performers, especially journalists. From 1999 to 2001, in addition to bonuses of cash and Agora stock, the participants will be eligible for large allocations from a pool of stock set aside for this purpose and held in Agora-Holding.

Currently we are carrying out a series of training courses for managers to improve their communication skills, to help them more effectively motivate their employees and support the

professional development of their staffs. We also organize specialized courses for other groups of employees in the company.

Last year we launched a weekly in-house bulletin that serves two purposes: first, informing the growing and increasingly dispersed Agora staff of management's goals and activities, and second, providing employees a forum for sharing ideas, personal news, sporting triumphs, etc.

We are continuing a successful program started in 1997 to provide organizational and financial support to employees who have been transferred from a branch to Warsaw or who are moving to work for the company in a different city.

In the immediate future, our goals are to improve recruitment and, inside the company, to redesign the system of evaluations, compensation and promotions so that they motivate employees effectively and give them a clear perspective on their future with the company.



- At the end of 1998 Agora employed 2509 people, 1175 of them in local branches
- 45% of the staff are less than 30 years old
- 41% have university degrees
- 40% have been with Agora more than 5 years
- for 189 new staff Agora is their first job

Consolidated Financial Statements for 1998 and 1997

Consolidated Financial Statements for 1998 and 1997

Management discussion and analysis of financial condition and results of operations

Basis of presentation

Between December 1997 and April 1998 the Company, its shareholder, Agora-Holding, and other subsidiaries and affiliates in the Agora-Holding group were reorganised. As a part of the reorganisation, (a) in December 1997, the Company acquired all of the minority shareholdings of Cox in three of Agora-Holding's other subsidiaries, AC TV, AC Radio and Agora-Druk, (b) in January 1998, the Company was legally merged with these entities, as a result of which the holding of AC TV in TKP, and the holdings of AC Radio in various radio broadcasting entities were transferred to the Company and (c) in February 1998, the Company acquired Agora-Poligrafia Sp.z o.o. from Agora-Holding in exchange for shares in the Company.

In order to provide historical financial information that is comparable to the Company's financial statement for 1998 and beyond, the financial statements contained in this report have been prepared in accordance with IAS and presented in a manner analogous to the pooling of the interests method in order to reflect the economic substance of the legal merger, i.e. as if the Company and the predecessor entities had been combined with effect from 1 January, 1995, inter-group transactions and balances being eliminated and the share capital of the predecessor entities being reclassified as other reserves to the date of the merger. For full details of the reorganisation see note entitled "General information and restructuring" at the beginning of the notes to the financial statements.

As a wholly-owned subsidiary, Agora-Poligrafia has been included in the consolidated financial statements prepared on the basis set out above from the date of its incorporation in January 1997. As a wholly-owned subsidiary, Trans-Serwis S.A. has been included in the consolidated financial statements from the date of its acquisition in July 1998. As an associated undertaking, TKP has been included in the consolidated financial statements using the equity method to reflect the Company's 22.5 per cent. interest in TKP (subsequently diluted to 20 per cent.). The Company's other subsidiaries and associated undertakings (i.e. its radio station operating companies) have not been included in the consolidation because, in the opinion of the Management, they are individually and in aggregate immaterial

in the context of the financial position of the Agora group of companies.

In compliance with various regulatory requirements, the Company is presenting its results of operations in accordance with International Accounting Standards in the English language version of the annual report and in accordance with Polish Accounting Law in the Polish language version of the report. The only significant difference between the two is related to the accounting treatment of the Company's restructuring. Specifically, the financial statement prepared according to Polish accounting practice shows a charge of PLN 19 million in the income statement and a corresponding increase in capital reserves related to non-cash redemption of shares in Agora Holding held by Agora, while in the IAS, this redemption has no effect on earnings or shareholders' equity.

Results of operations

Revenue

In 1998 the Company's revenues totaled PLN 546.2 million, 33.4% more than in 1997. The Company's most important product is *Gazeta Wyborcza* and revenues related to the publication of the paper, i.e. advertising sales and copy sales, together account for over 98% of revenue. The rapid rate of revenue growth (given average yoy inflation of 11.8%) reflected ongoing efforts to improve *Gazeta Wyborcza* for both readers and advertisers. Nearly 100% of revenue comes from the Polish market; sales abroad constitute a fraction of one percent of revenue.

In 1998 average daily copy sales of *Gazeta* grew to 435,877 copies, 6.5% above year previous. Over a fourth or 27.1% of copies sold in the Warsaw market (27.4% in 1997). Most copies are sold at retail points of sale; subscriptions account for only about 10% of circulation. Revenue from copy sales was PLN 107 million, 20.1% more than in 1997 and represented 19.6% of total revenue (21.7% in 1997).

Sale of advertising space in *Gazeta* generated PLN 418.9 million and grew 36.3% compared to 1997, thus accounting for 76.7% of total revenue (75% in 1997). Total advertising space sold in *Gazeta* grew nearly 22% in relation to 1997. The average share of advertising pages to total pages produced was 58.4%, 1.4 percentage points more than during the preceding year. Nearly half of all advertising revenues originated from national titles, with the remainder split nearly evenly between titles with Warsaw reach (24%) and titles reaching other local markets (27%).

In 1998, national advertising revenues grew 43.2%, Warsaw revenues 32.8% and revenues from other local markets by 28%, with the concomitant lineage growth of 38.4%, 7.2% and 25.6%, respectively. This growth reflects the Company's strong and systematically growing share of national and Warsaw markets, as well as the respectable results it achieves in the competitive battle with the entrenched, traditional newspapers in other local markets.

In addition to ads inserted into *Gazeta* and other titles, in 1998 Agora generated nearly PLN 12 million of revenue from other advertising-related activities, mainly from inserting of pre-printed materials and from mobile billboards.

Raw materials and consumables

In 1998, Agora's most significant expense items by category were raw materials and energy (37% of all operating expenses before D&A), external charges (33.3%) and payroll expense (30% of operating expense before D&A). Among raw materials, the most significant position is newsprint and other kinds of paper, which accounted for 89% of material costs; other materials comprise ink, films and offset plates.

In 1998 production volume grew by 26.7% compared to 1997, driven by average pagecount growth of 18.6% combined with total print runs growth of 6.8%. Increased volume translates directly into higher production costs. Newsprint expense grew significantly despite the fact that the unit price grew only by 8.4%, below inflation. In 1998 the proprietary plants and other plants which print *Gazeta Wyborcza* and which are supplied with newsprint for that purpose by Agora, together consumed 57.7 thousand metric tons of newsprint worth PLN 122 million. Newsprint cost was 41% higher than in 1997. Of total newspaper purchases made by Agora, 86% represents paper for newspaper printing and the remaining 14% coated paper for the *Magazine*.

External charges

Among external charges the largest positions reflect cost of production of *Gazeta*, including 37.1 million for printing at supplier plants (34% growth compared to 1997), PLN 6 million for transport of newspapers, PLN 7 million for premises leases and about PLN 8 million for telecommunications services, as well as advertising, promotion and representation expense (PLN 10 million).

Staff costs

Total payroll expense grew significantly. The increase stems from the growth of the company: increasingly larger scale of *Gazeta* operations and new ventures. It also reflects Agora's compensation policy intended to make it competitive in the

labor market. In 1998 cost of wages was PLN 73.8 million, 27.5% more than in 1997. Other payroll-related expense, including mandatory social security fringe, mobility, training and the social fund expense, and PLN 1.9 million provision for incentive plans, appearing for the first time, amounted to PLN 37.2 million or 35.6% more than in 1997.

In 1998 the average permanent employee salary grew by 13.5%. During the year the Company employed on the average 2,418 people as compared to 2,157 during 1997, with the average headcount growth of 12%. At year end 1998, the company had a total of 2,861 permanent full and part time employees and contributors on its payroll, 16.8% more than at year end 1997. Production employment, calculated in this manner, doubled from 169 in December 1997 to 340 in December 1998, reflecting addition of the Tychy plant and expansion in Warsaw. The number of journalists grew 16%, from 723 at the end of 1997 to 839 at the end of 1998, while general employment grew by 8% to 1683 in December 1998.

Depreciation and amortization

D&A expense was PLN 22.4 million, 11% more than in 1997. The small increase reflects the fact that the Company did not begin depreciating the new equipment in Tychy and Warsaw until completion of acceptance testing, i.e. until December 1998. Thus, the full impact of the charges relating to new printing equipment in the two plants will occur in 1999.

Operating profit, other charges and associated undertakings

Operating profit before associated undertakings and other charges amounted to PLN 152.3 million, PLN 33.5 million or 28.2% more than in 1997. EBIDTA, which consists of operating profit before associated undertakings and other charges, adjusted for related company interest and D&A charges included in operating costs, amounted to 177.7 million, 41.9 million more than in 1997, with 1998 EBIDTA margin at 32.5%, six tenths of a point less than in 1997. The slight decline in the EBIDTA margin is largely due to two factors. One, costs associated with the start up of Tychy and expansion of the Warsaw plant. Two, rapid growth of color pages printed after start-up of Tychy, prior to relevant advertising rate increases which took place in 1999.

Operating profit was significantly reduced by two factors: One, in 1998 the Company made a one-time payment to Cox Poland Investments, Inc. in the amount of PLN 34.7 million (equivalent of USD 10 million). The payment was made pursuant to the Strategic Alliance Agreement between Cox and Agora, entered into in connection with the reorganization of the company and preparation for the IPO.

Two, in addition to publication of *Gazeta Wyborcza*, Agora pursues its adopted strategy of expansion into related media, including radio and television. Unlike *Gazeta Wyborcza*, which operates at scale, generating substantial revenues and profits, new media ventures are still in early phases of development and, as anticipated in their respective business plans, are not yet profitable. In effect, they have negative impact on the Group's earnings.

In 1998 the largest such impact stemmed from TKP S.A. TKP is the parent of the operator of pay TV Canal+ Polska. In August of 1997 AC TV PLN paid 98.5 million for stock in the increased capital of TKP, thus becoming a 22.47% shareholder of that company. Goodwill generated by the transaction amounted to PLN 136.98 million. On Dec. 31, 1997 book value of the investment amounted to PLN 68.8 million, representing unamortized goodwill of PLN 125.6 million less share of net liabilities of PLN 56.8 million.

In 1998, due to investment in a digital offer, TKP suffered higher than expected operating losses. The value of the investment in the Group's books was reduced to zero as a result of pro-rata take-up of net losses in TKP in the amount of PLN 41.4 million and amortization of goodwill in the amount of PLN 27.4 million. The total negative impact on the Group's consolidated net profit amounted to PLN 68.8 million. Since the book value was thus reduced to zero, TKP will have no further impact on earnings, provided no need arises to convert the loan made to TKP into equity.

The Group also pursues radio investments. It has direct or indirect involvement in ten local radio stations and one super-regional station. In 1998 the total advertising revenues earned by the stations amounted to PLN 12.5 million. This amount is equal to 2.3% of the Agora's revenues and 4% of its total assets. Currently the stations do not have material effect on the Group's results and can be omitted from consolidation. However, the radio business is an important element of the Group's strategy. The group continues to financially support the stations, primarily in the form of loans for working capital necessary until stations reach profitability. In connection with its radio activities, specifically with Inforadio (TOK FM), the Group made a PLN 5.2 million provision which has been disclosed separately in the income statement.

The one time cash payment to Cox and non-cash charges related to investments in radio and television reduced profit after associated undertakings and other charges to PLN 43.6 million, compared to PLN 89.1 million in 1997.

Interest and financial items

Financial revenue and costs, which include primarily interest revenue and expense, results on sale of marketable securities, currency exchange differences, and PLN 3.6 million in interest charge accrued but not paid on the exchangeable loan from Cox, netted in 1998 a positive PLN 2.5 million, bringing pretax profit to PLN 46.1 million.

Provision for income taxes

Income tax expense of PLN 41.9 million for the period represented an effective income tax rate of 91% compared to an effective tax rate of 50% in 1997. The losses and amortization of goodwill related to TKP do not result in any tax reductions and thus the pretax profit base for tax purposes is significantly higher than accounting pretax base. The effective income tax rate would have otherwise been 38%, two points higher than the statutory rate of 36%.

Net profit

The net profit for the period of PLN 4.2 million as compared to net profit of PLN 62.8 million was a result of the negative impact of TKP and the non-recurring charge related to the Strategic Alliance Agreement with Cox.

Financial resources and future expansion

Strong 1998 operating results which provided PLN 102 million in cash from operations before financial items and taxes, combined with approximately PLN 350 million in proceeds from the successful IPO and other capital increases completed in the first quarter of 1999 and a PLN 150 million loan agreement concluded in March 1999, has provided the Company with sufficient liquidity and capital resources necessary to complete capital projects planned for the years 1999-2001.

Auditors' opinion

We have audited the accompanying consolidated balance sheet of Agora SA (formerly Agora-Gazeta Sp. z o.o.) („the Company”, collectively, „the Group”) as at 31 December 1998 and 1997 and the related consolidated income and consolidated cash flow statements for the years then ended prepared in accordance with International Accounting Standards. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 1998 and 1997 and of the results of its operations and cash flows for the years then ended in accordance with International Accounting Standards.

KPMG Polska Audyt Sp. z o.o.
6 May 1999
Warsaw, Poland

Consolidated balance sheets as at 31 December 1998 and 1997

| Year ended 31 December | Note | 1998 | 1997 |
|---|------|----------------|----------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and deposits | 2 | 7,120 | 14,485 |
| Short-term securities | 3 | 11,413 | 15,196 |
| Accounts receivable and prepayments | 4 | 71,803 | 53,705 |
| Inventories | 5 | 16,917 | 8,727 |
| | | <u>107,253</u> | <u>92,113</u> |
| Long-term assets: | | | |
| Property, plant and equipment | 6 | 269,286 | 132,715 |
| Intangible assets | 7 | 22,018 | 12,230 |
| Investments | 8 | 31,464 | 93,192 |
| | | <u>322,768</u> | <u>238,137</u> |
| Total assets | | 430,021 | 330,250 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable and accrued charges | 9 | 65,262 | 47,200 |
| Short-term borrowings | 10 | 112,448 | 3,927 |
| | | <u>177,710</u> | <u>51,127</u> |
| Long-term liabilities: | | | |
| Long-term borrowings | 11 | 63,128 | 96,345 |
| Deferred income taxes | 12 | 7,030 | 4,802 |
| | | <u>70,158</u> | <u>101,147</u> |
| Shareholders' equity: | | | |
| Ordinary shares | 13 | 44,141 | 44,141 |
| Retained earnings and other reserves | 14 | 138,012 | 133,835 |
| | | <u>182,153</u> | <u>177,976</u> |
| Total liabilities and shareholders' equity | | 430,021 | 330,250 |

Consolidated income statements for the years ended 31 December 1998 and 1997

| Year ended 31 December | Note | 1998 | 1997 |
|---|------|-----------|-----------|
| Sales | 15 | 546,163 | 409,502 |
| Operating costs | 16 | (393,870) | (290,689) |
| Operating profit before associated undertakings and other charges | | 152,293 | 118,813 |
| Other charges | 17 | (34,743) | - |
| Share of losses in associated undertakings | 8 | (41,388) | (18,320) |
| Amortisation of goodwill in associated undertakings | 8 | (27,395) | (11,415) |
| Provision for losses on other investments | 8 | (5,200) | - |
| Profit after associated undertakings and other charges | | 43,567 | 89,078 |
| Interest and financial items | 19 | 2,506 | 15,095 |
| Profit before income taxes and minority interests | | 46,073 | 104,173 |
| Income taxes | 20 | (41,896) | (52,383) |
| Profit after income taxes | | 4,177 | 51,790 |
| Minority interests | | - | 11,011 |
| Net profit for the year | | 4,177 | 62,801 |
| Earnings per share (in PLN) | 21 | 0.09 | 1.42 |

Consolidated cash flow statements for the years ended 31 December 1998 and 1997

| Year ended 31 December | Note | 1998 | 1997 |
|---|------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Net cash inflow before interest and tax | 23 | 101,765 | 129,380 |
| Interest received | | 2,755 | 3,627 |
| Interest paid | | (3,868) | (387) |
| Income from short-term securities | | 6,972 | 11,399 |
| Tax paid | | (39,129) | (55,471) |
| Net cash from operating activities | | 68,496 | 88,548 |
| INVESTING ACTIVITIES | | | |
| Capital expenditure, net | | (128,046) | (65,609) |
| Acquisition of subsidiary undertaking, net of cash acquired | 22 | (14,646) | - |
| Acquisition of minority interests | 22 | - | (3,613) |
| Acquisition of long-term investments, net | | (12,255) | (112,002) |
| Redemption/(acquisition) of short-term commercial papers | | 3,615 | (4,905) |
| Net cash used in investing activities | | (151,332) | (196,129) |
| FINANCING ACTIVITIES | | | |
| Increase in borrowings | | 75,304 | 85,502 |
| Additional capital contributions | | - | 71 |
| Dividends paid | | - | (6,436) |
| Net cash from financing activities | | 75,304 | 79,137 |
| Change in cash and cash equivalents | | (7,533) | (28,444) |
| MOVEMENTS IN CASH AND CASH EQUIVALENTS | | | |
| At start of year | | 24,776 | 53,220 |
| Decrease | | (7,533) | (28,444) |
| At end of year | 24 | 17,243 | 24,776 |

Notes to the Consolidated Financial Statements for 1998 and 1997

General information and restructuring

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 2,000 people. During 1997 and 1998 the Company underwent a process of capital restructuring, the principal steps of which are outlined below:

- In December 1997 the Company acquired the minority interests in Agora-Druk Sp. z o.o., AC Radio Sp. z o.o. and AC Telewizja Sp. z o.o. ("the Predecessor Entities").
- In January 1998 the Company was legally merged with the same entities. The holding of AC Telewizja Sp. z o.o. in Telewizyjna Korporacja Partycypacyjna S.A. (associated undertaking), provider of pay television services, and the holdings of AC Radio Sp. z o.o. in various entities engaged in radio broadcasting were transferred to the Company as a result of the merger.
- In February 1998 a share exchange between the Company and Agora-Holding Sp. z o.o. (formerly Agora Sp. z o.o.) was executed with the effect that the latter ceased to control the activities of the Company. All the shares of Agora-Holding Sp. z o.o. in the wholly-owned subsidiary undertaking Agora-Poligrafia Sp. z o.o. were also transferred to the Company. Agora-Poligrafia Sp. z o.o. was established in 1997 with the principal objective of constructing and operating a print facility in southern Poland, and is an unlisted entity registered in Poland. The Company has provided all of the requisite funding for the construction of the print facility and controls its activities.
- In April 1998 the Company's legal form was changed from that of a limited liability company ("spółka z ograniczoną odpowiedzialnością", or "Sp. z o.o.") to that of a company limited by shares ("spółka akcyjna", or "SA"). Total share capital remained unchanged.
- In April 1998 the Company concluded a strategic alliance agreement with former minority shareholder Cox Poland Investments, Inc. whereby the latter agreed, amongst other matters, not to enter into activities in competition with the Agora Group of companies in Poland for a period of five years from the signing of the agreement. The cost to the Company of this agreement was USD 10 million (Note 17).

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.

The consolidated financial statements are presented in a manner analogous to the pooling of interests method in order to reflect the economic substance of the legal merger of the Company with the Predecessor Entities, i.e. as if the Company and the Predecessor Entities had been combined with effect from the beginning of the earliest period presented. In addition, the share capital of the Predecessor Entities has been reclassified as other reserves included in shareholders' equity.

The transfer of the interests of Agora-Holding Sp. z o.o. in Agora-Poligrafia Sp. z o.o. to the Company has also been presented in a manner analogous to the pooling of interests method. Accordingly, the financial statements of Agora-Poligrafia Sp. z o.o. are reflected in the consolidated financial statements of the Company by the full consolidation method from the date of incorporation of this subsidiary.

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. The Company does not engage in hedging activities.

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; acquisitions acquired before that date are stated at their individual revalued amounts as required by Polish law, less depreciation.

Cost comprises costs incurred in their purchase or manufacture and includes exchange differences. The net increase from the revaluation of property, plant and equipment is recorded directly to shareholders' equity. The last mandatory revaluation of property, plant and equipment was applied to assets held as of 1 January 1995.

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 | 2 - 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 installments 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.

Goodwill

Goodwill, other than noted below, 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.

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, 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 employees in the form of a cash bonus and subsidised share options. The cost arising from the discretionary scheme, comprising the amount of cash bonus and the fair value of the subsidised share options, 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.

Comparative figures

Prepayments for property, plant and equipment included in accounts receivable and prepayments in 1997 have been reclassified to property, plant and equipment so as to conform with the presentation adopted for 1998.

2. Cash and deposits

| | 1998 | 1997 |
|--------------------------|--------------|---------------|
| Cash at bank and in hand | 5,618 | 3,698 |
| Short-term bank deposits | 1,502 | 10,787 |
| | <u>7,120</u> | <u>14,485</u> |

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.

3. Short-term securities

| | 1998 | 1997 |
|------------------------------|---------------|---------------|
| Treasury bills | 10,123 | 10,291 |
| Short-term commercial papers | 1,290 | 4,905 |
| | <u>11,413</u> | <u>15,196</u> |

Treasury bills are readily redeemable or saleable, but not quoted on an exchange. Redemption is due within one year, and the securities may be sold at any time up to the date of redemption. Short-term commercial papers are held at banks in respect of related entities, and are redeemable within one year.

4. Accounts receivable and prepayments

| | 1998 | 1997 |
|---------------------------------|---------------|---------------|
| Trade receivables | 56,418 | 40,588 |
| Other receivables | 7,409 | 3,786 |
| Prepayments and accrued income | 2,940 | 2,189 |
| Income taxes | 3,639 | 3,909 |
| Other taxes and social security | 1,397 | 3,233 |
| | <u>71,803</u> | <u>53,705</u> |

All receivables fall due within one year.

Trade receivables include amounts due from related entities arising from normal trading operations of PLN 907 thousand (1997: PLN 175 thousand).

5. Inventories

| | 1998 | 1997 |
|-------------------------------------|---------------|--------------|
| Raw materials and consumables | 16,596 | 8,534 |
| Finished goods and goods for resale | 321 | 193 |
| | <u>16,917</u> | <u>8,727</u> |

6. Property, plant and equipment

Year ended 31 December 1998

| | Land and buildings | Plant, machinery and equipment | Asset under construction | Total |
|---|--------------------|--------------------------------|--------------------------|----------------|
| Opening net book amount | 20,574 | 31,905 | 28,514 | 80,993 |
| New subsidiary | 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) |
| Closing net book amount | 74,977 | 132,321 | 1,096 | 208,394 |
| Cost | 80,290 | 195,704 | 1,096 | 277,090 |
| Accumulated depreciation | (5,313) | (63,383) | - | (68,696) |
| | 74,977 | 132,321 | 1,096 | 208,394 |
| Prepayments for property, plant and equipment | - | - | - | 60,892 |
| Net book amount | 74,977 | 132,321 | 1,096 | 269,286 |

Year ended 31 December 1997

| | Land and buildings | Plant, machinery and equipment | Asset under construction | Total |
|---|--------------------|--------------------------------|--------------------------|----------------|
| Opening net book amount | 16,841 | 33,835 | 7,516 | 58,192 |
| Additions | 4,856 | 13,721 | 26,673 | 45,250 |
| Disposals and adjustments | (30) | (312) | (5,675) | (6,017) |
| Depreciation charge | (1,093) | (15,339) | - | (16,432) |
| Closing net book amount | 20,574 | 31,905 | 28,514 | 80,993 |
| Cost | 24,246 | 79,770 | 28,514 | 132,530 |
| Accumulated depreciation | (3,672) | (47,865) | - | (51,537) |
| | 20,574 | 31,905 | 28,514 | 80,993 |
| Prepayments for property, plant and equipment | - | - | - | 51,722 |
| Net book amount | 20,574 | 31,905 | 28,514 | 132,715 |

Additions to plant, property and equipment include amounts which are initially recorded as prepayments for plant, property and equipment (Note 4) and which are reclassified as plant, property and equipment when the terms of the purchase contract have been satisfied and legal title has passed to the Group.
All assets included above were owned by the Group.

7. Intangible assets

Year ended 31 December 1998

| | Goodwill | Other intangible assets | Total |
|--------------------------|----------|-------------------------------|---------|
| Opening net book amount | 11,539 | 691 | 12,230 |
| Additions | - | 12,869 | 12,869 |
| Amortisation charge | (2,347) | (734) | (3,081) |
| Closing net book amount | 9,192 | 12,826 | 22,018 |
| Cost | 11,735 | 14,032 | 25,767 |
| Accumulated depreciation | (2,543) | (1,206) | (3,749) |
| Net book amount | 9,192 | 12,826 | 22,018 |

Year ended 31 December 1997

| | Goodwill | Other intangible assets | Total |
|--------------------------|----------|-------------------------------|---------|
| Opening net book amount | 3,358 | 807 | 4,165 |
| Additions | 11,735 | - | 11,735 |
| Amortisation charge | (3,554) | (116) | (3,670) |
| Closing net book amount | 11,539 | 691 | 12,230 |
| Cost | 11,735 | 1,163 | 12,898 |
| Accumulated depreciation | (196) | (472) | (668) |
| Net book amount | 11,539 | 691 | 12,230 |

During the year ended 31 December 1997 the Company acquired the minority shareholders' interests in the Predecessor Entities, as a result of which goodwill arose of PLN 11,735 thousand (Note 22(b)).

Additions to intangible assets for the year ended 31 December 1998 include land usage rights in the amount of PLN 9,331 thousand acquired as a result of the purchase of a subsidiary undertaking (Note 22(a)).

8. Investments

Year ended 31 December 1998

| | Associated undertakings | Other investments | Total |
|---|----------------------------|----------------------|---------------|
| 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 losses on other investments | - | (5,200) | (5,200) |
| Closing net book amount | - | 31,464 | 31,464 |

Year ended 31 December 1997

| | Associated undertakings | Other investments | Total |
|--------------------------------|----------------------------|----------------------|---------------|
| Opening net book amount | - | 925 | 925 |
| Additions | 98,518 | 23,484 | 122,002 |
| Share of net loss for the year | (18,320) | - | (18,320) |
| Amortisation of goodwill | (11,415) | - | (11,415) |
| Closing net book amount | 68,783 | 24,409 | 93,192 |

Effective August 1997, the Group acquired 22.5% of the share capital of Telewizyjna Korporacja Partycypacyjna S.A. ("TKP"), an entity registered in Poland which holds controlling interests in entities providing pay-television broadcasting services. 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 are PLN 59,708 thousand and PLN 38,810 thousand, respectively. As of 31 December 1998, the carrying value of the Group's investment in TKP is nil, being unamortised goodwill of PLN 98,166 thousand less its share in the consolidated net liabilities thereof of PLN 98,166 thousand. Other investments include a long-term loan to TKP of PLN 19,133 thousand (USD 5,460). During December 1998, the Group's share of capital of TKP was reduced to 20% as a result of additional capital issues by TKP in which the Group did not take part. As discussed in note 29, the Group's shareholding in TKP is expected to decrease to 17.9% in April 1999.

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

9. Accounts payable and accrued charges

| | 1998 | 1997 |
|---------------------------------|---------------|---------------|
| Trade payables | 43,660 | 29,395 |
| Income taxes | 280 | 11 |
| Other taxes and social security | 7,012 | 7,137 |
| Other payables | 5,949 | 2,793 |
| Accruals and deferred income | 8,361 | 7,864 |
| | <u>65,262</u> | <u>47,200</u> |

All amounts fall due within one year.

Included in accruals and deferred income is PLN 1,900 thousand (1997: PLN 2,348 thousand) set aside for the benefit of the individual Group entities' employees.

10. Short-term borrowings

| | 1998 | 1997 |
|--|----------------|--------------|
| Short-term borrowings | 73,203 | 3,927 |
| Unsecured loans repayable wholly within one year | 39,245 | - |
| | <u>112,448</u> | <u>3,927</u> |

Short-term borrowings of PLN 73,203 thousand (DEM 35,000 thousand) comprise a bank loan under which the total credit facility available to the Group is DEM 55,000 thousand. The loan was subsequently repaid with proceeds from the initial public offering of ordinary shares of the Company (note 29).

Unsecured bank loans repayable wholly within one year comprises a bank loan of USD 11,200 thousand which is guaranteed by Agora-Holding Sp. z o.o. and carries an annual interest rate of LIBOR plus one per cent. The loan is repayable in December 1999 and was included in long-term borrowings in 1997.

11. Long-term borrowings

| | 1998 | 1997 |
|--|---------------|---------------|
| Unsecured loans repayable after five years | 63,128 | 56,943 |
| Unsecured loans repayable wholly within five years (note 10) | - | 39,402 |
| | <u>63,128</u> | <u>96,345</u> |
| Due for repayment: | | |
| Between one and two years | - | 39,402 |
| After five years | 63,128 | 56,943 |
| | <u>63,128</u> | <u>96,345</u> |

Unsecured loans repayable after five years comprise a loan of USD 16,676 thousand from shareholder Cox Poland Investments, Inc. which is repayable in 2007 or may, 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 34% (1997: 36%) as follows:

| | 1998 | 1997 |
|--|---------|---------|
| Accelerated tax depreciation and similar | 10,303 | 7,202 |
| Other temporary differences | (3,273) | (2,400) |
| Tax losses | - | - |
| | 7,030 | 4,802 |

Tax losses are carried forward for three years and are expected to be fully utilised before expiry.

13. Ordinary shares

Number of shares as at 31 December 1998

| | Authorised | Issued |
|--|------------|------------|
| "Registered A" shares of PLN 1.00 each | 4,281,600 | 4,281,600 |
| "Registered B" shares of PLN 1.00 each | 39,108,900 | 39,108,900 |
| "Registered C" shares of PLN 1.00 each | 750,000 | 750,000 |
| "Registered D" shares of PLN 1.00 each | 2,267,025 | - |
| "Bearer E" shares of PLN 1.00 each | 9,000,000 | - |
| "Bearer F" shares of PLN 1.00 each | 1,350,000 | - |
| | 56,757,525 | 44,140,500 |

On transformation of the Company in April 1998 the share capital of 882,810 shares of PLN 50.00 each was replaced by 44,140,500 shares of PLN 1.00 each.

In January 1998, prior to the transformation, the Company cancelled and, at the same time, issued 314,813 shares in order to legally merge the Company with Agora-Druk, AC Radio and AC Telewizja. In February 1998 the Company also cancelled and issued 384,689 shares in order to effect the transfers of: a) 43.2% of the Company's share capital from Agora-Holding Sp. z o.o. to the latter's shareholders; and b) the interest of Agora-Holding in Agora-Poligrafia Sp. z o.o. and BISE S.A. to the Company.

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. There are various legal and contractual restrictions on transfer. All the authorised and issued shares are fully paid up.

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. As more fully explained in note 29, class D, E and F shares were issued pursuant to these plans.

14. Retained earnings and other reserves

| | Retained earnings | Other | Total |
|------------------------------------|-------------------|-------|---------|
| At 31 December 1996 | 68,622 | 8,907 | 77,529 |
| Net profit for the year | 62,801 | - | 62,801 |
| Dividend paid | (6,436) | - | (6,436) |
| Additional contributions to equity | - | 36 | 36 |
| Other movements | 33 | (128) | (95) |
| At 31 December 1997 | 125,020 | 8,815 | 133,835 |
| Net profit for the year | 4,177 | - | 4,177 |
| Other movements | 197 | (197) | - |
| At 31 December 1998 | 129,394 | 8,618 | 138,012 |

Other reserves comprise adjustments totalling PLN 7,695 thousand arising on the elimination of the share capital of the Predecessor Entities, and net surpluses arising on periodic revaluations required by Polish law; the latter are not available for distribution until the assets subjected to revaluation are disposed of.

Dividends

At the Annual General Meeting held to approve the Company's statutory financial statements for the year ended 31 December 1997, the shareholders resolved that no dividend be paid in respect of 1997 retained earnings (1997: PLN 6,436 thousand). The Company does not propose to pay dividends in respect of the year ended 31 December 1998.

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.

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 production, selling and promotion of the Gazeta Wyborcza newspaper and other print media in Poland. The Group commenced its activities in radio broadcasting in 1996, principally through numerous investments in regional and supra-regional radio stations in Poland. The financial statements of the related entities have not been consolidated with those of the Group as the impact of the operations, results and cash flows of these activities is not material to consolidated financial statements, taken as a whole. The Group's sole activity in television broadcasting has been the investment in 1997 in TKP (Note 8).

All the Group's assets are located in Poland and, other than the radio and television broadcasting-related investments referred to above, represent substantially those of the newspaper business.

(b) Sales information

| | 1998 | 1997 |
|---|---------|---------|
| Sales of newspapers and other goods | 108,478 | 93,795 |
| Sales of advertising and other services | 430,552 | 306,566 |
| Other sales | 7,133 | 9,141 |
| | 546,163 | 409,502 |

Included in sales of advertising and other services are barter sales of PLN 3,839 thousand (1997: PLN 3,880 thousand).

16. Operating costs

| | 1998 | 1997 |
|---|----------------|----------------|
| Raw materials and consumables | 136,958 | 96,341 |
| Other external charges | 123,551 | 88,923 |
| Staff costs (Note 18) | 111,005 | 85,323 |
| Depreciation of property, plant and equipment | 19,275 | 16,432 |
| Amortisation of intangible assets | 3,081 | 3,670 |
| | 393,870 | 290,689 |
| Other external charges include the following items: | | |
| Property operating lease rentals | 7,034 | 5,103 |
| Foreign exchange losses | 339 | 4,928 |

17. Other charges

During the year ended 31 December 1998 the Company finalised a strategic alliance agreement with shareholder Cox Poland Investments, Inc. whereby the latter agreed, amongst other matters, not to enter into activities in competition with the Group in Poland for a period of five years from the signing of the agreement. The cost to the Group of this agreement amounted to USD 10 million.

18. Staff costs

| | 1998 | 1997 |
|------------------------------------|----------------|---------------|
| Wages and salaries | 73,786 | 57,883 |
| Social security costs | 35,319 | 27,440 |
| Employee incentive scheme costs | 1,900 | - |
| | 111,005 | 85,323 |
| Average number of persons employed | 2,426 | 2,157 |

Directors' remuneration and other benefits

Remuneration of Management Board members paid pursuant to employment contracts amounted to PLN 1,084 thousand (1997: PLN 1,454 thousand). Loans granted to Management Board members of the Company and its subsidiaries, included in other receivables, amounted to PLN 8 thousand (1997: PLN 3 thousand).

Total fees paid to members of the Supervisory Boards of the Group's entities was PLN 86 thousand (1997: nil).

19. Interest and financial items

| | 1998 | 1997 |
|---|----------------|----------------|
| Interest income | 3,072 | 5,334 |
| Income from short-term investments | 6,972 | 11,399 |
| | <u>10,044</u> | <u>16,733</u> |
| Interest and other expenses: | | |
| Overdrafts and other short-term borrowings | (2,063) | (210) |
| Loans repayable wholly within five years | (413) | - |
| Loans repayable partly or wholly after five years | (3,618) | (1,093) |
| Foreign exchange translation losses | (1,444) | (201) |
| Other financing costs | - | (134) |
| | <u>(7,538)</u> | <u>(1,638)</u> |
| | <u>2,506</u> | <u>15,095</u> |

Income from short-term investments comprises gains on the resale and redemption of short-term securities. Other financing costs arise from the issue and redemption of commercial papers.

20. Income taxes

| | 1998 | 1997 |
|-------------------------------|---------------|---------------|
| Current domestic income taxes | 39,969 | 53,084 |
| Deferred income taxes | 1,927 | (701) |
| | <u>41,896</u> | <u>52,383</u> |

Effective income tax rates are reconciled to the statutory domestic income tax rate as follows:

| | | 1998 | 1997 |
|--|-----|-----------|-----------|
| Statutory domestic income tax rate | (%) | 36 | 38 |
| Effect of permanent differences related to: | | | |
| Losses and amortisation of goodwill in associated undertakings | (%) | 53 | 10 |
| Other non-deductible expenses | (%) | 2 | 2 |
| | | <u>91</u> | <u>50</u> |

21. Earnings per share

As a result of the change of the Company's legal form during the period the previous share capital was split in the ratio of 1:50, and 44,140,500 shares of PLN 1.00 each were issued. Earnings per share has been calculated based on the current number of shares issued.

22. Acquisitions

(a) Acquisition of subsidiary undertaking

Effective July 1998, the Company acquired 100% of the share capital of Trans-Serwis S.A. for cash consideration of PLN 15,390 thousand. Trans-Serwis S.A., an unlisted entity registered in Poland, owns buildings and land usage rights currently occupied by the Group in Warsaw. No goodwill arose as a result of this acquisition. The profit of Trans-Serwis S.A. for the six months ended 31 December 1998 amounted to PLN 310 thousand and has been included in the results of the Group for the year ended 31 December 1998.

The fair value of the assets acquired and liabilities assumed are as follows:

| | |
|--|--------|
| Long-term tangible and intangible assets | 15,032 |
| Inventories | 48 |
| Accounts receivable | 159 |
| Accounts payable | (593) |
| Net assets acquired, net of cash | 14,646 |
| Cash acquired | 744 |
| Fair value of net assets acquired | 15,390 |

(b) Acquisition of minority interests

| | Agora-Druk | AC Radio | AC Telewizja | Total |
|---|------------|----------|--------------|--------|
| Total consideration | 2,356 | 1,126 | 131 | 3,613 |
| Minority interests' share of (net assets acquired)/net liabilities assumed | (2,356) | (861) | 11,339 | 8,122 |
| Goodwill capitalised (Note 7) | - | 265 | 11,470 | 11,735 |

In December 1997 the Group acquired the minority interests in Agora-Druk Sp. z o.o., AC Radio Sp. z o.o. and AC Telewizja Sp. z o.o. (the "Predecessor Entities"). Differences between the cost and minority interests' share in the Predecessor Entities gave rise to goodwill. No fair value adjustments were required to be made to the share of equity acquired/deficiency assumed and no acquisition provisions were created in respect of these acquisitions.

23. Net cash inflow from operating activities before interest and tax

| | 1998 | 1997 |
|---|-----------------|----------------|
| Operating profit before associated undertakings and other charges | 152,293 | 118,813 |
| Depreciation of plant, property and equipment | 19,275 | 16,432 |
| Amortisation of intangible assets | 3,081 | 3,670 |
| (Profit)/loss on disposal of plant, property and equipment | (468) | 6 |
| Other charges | (34,743) | - |
| Movement in operating working capital | (37,673) | (9,541) |
| | 101,765 | 129,380 |
| Movement in operating working capital comprises | | |
| Increase in inventories | (8,142) | (949) |
| Increase in receivables | (17,892) | (17,940) |
| (Decrease)/increase in payables | (11,639) | 9,348 |
| | (37,673) | (9,451) |

24. Cash and cash equivalents and net borrowings

| | 1998 | 1997 |
|---------------------------|------------------|-----------------|
| Cash and deposits | 7,120 | 14,485 |
| Treasury bills | 10,123 | 10,291 |
| Cash and cash equivalents | 17,243 | 24,776 |
| Short-term borrowings | (112,448) | (3,927) |
| Long-term borrowings | (63,128) | (96,345) |
| Net borrowings | (158,333) | (75,496) |

For the purposes of the cash flow statement, cash and cash equivalents consist of cash on hand and balances with banks, short-term deposits which are immediately available and Treasury bills which represent readily available surplus funds of the Group, less short-term borrowings repayable within 90 days from the date of the draw-down.

25. Financial risk management

Credit risk

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash, short-term deposits, short-term investments held for resale and trade receivables. The Group's cash equivalents are placed with high credit quality financial institutions, the National Bank of Poland or with related entities. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to the large numbers of customers comprising the Group's customer base and their dispersion across different industries. Accordingly, the Group has no significant concentration of credit risk.

Exchange rate risk

There are no significant trade receivables denominated in foreign currency. Accounts payable requiring settlement in foreign currency amounted to PLN 63,128 thousand, payable principally in German marks/Euros and US dollars. The exchange rate of the Polish Zloty with foreign currencies is largely governed by the National Bank of Poland through a crawling peg system as calculated against a basket of major currencies, but is subject to external and domestic economic factors.

The Group does not engage in a significant amount of hedging activities; accordingly, the Group is exposed to adverse as well as favourable foreign exchange fluctuations with respect to existing monetary items as well as capital and operating commitments.

Interest rate risk

The Group's short-term deposits and short-term investments are at fixed rates of interest and premium on redemption and mature within one year. The fixed and variable interest rates on the Group's debt are presented in Note 11.

26. Capital commitments

As of 31 December 1998, future capital expenditures budgeted by the Group for 1999 amounted to PLN 291,000 thousand, for which contracts had been placed amounting to PLN 147,000 thousand.

27. Contingencies

Guarantees

As of 31 December 1998 the Company had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

In March 1998 the Company extended security in respect of a bank loan of DEM 129,375 thousand granted to TKP comprising all the shares in the latter held by the Company as of the date of the preparation of these financial statements.

@ Entertainment

TKP is involved in the arbitration of a dispute with @ Entertainment, Inc. relating to the termination of a letter of intent to merge the operation of @ Entertainment in Poland with those of TKP. Should the dispute be judged in a manner adverse to TKP, the Company may become liable for 22.5 per cent of any judgement awarded against TKP (the total amount of which is limited to USD 10 million) which TKP fails to satisfy. Management of the Company believes that @ Entertainment has no basis for its claim against TKP, and therefore no provision has been made in respect of this matter in the consolidated financial statements. The matter has been submitted to an arbitrator but it is not determinable as to when a decision may be rendered.

Insurance

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments. The industries in which the Group is engaged are also subject to physical risks of various kinds. The nature and frequency of the developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings are not predictable.

Year 2000

The Group has taken steps to identify and address risks associated with the inability of computerised systems to properly acknowledge the date on 1 January 2000 and thereafter. Computerised systems significant to the business consist primarily of printing facilities, data transmission systems and systems used for the management of advertising transactions. Management has identified and assessed all software used and believes the majority of systems will not be adversely affected. Software which may be adversely affected will be modified or replaced. Uncertainties remain concerning external service providers, in particular utilities, for which contingency plans are being drawn up to reduce the impact of significant service failures on the Group's operations.

28. Commitments under operating leases

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

| | 1998 | 1997 |
|-------------------------------|---------------|---------------|
| Within one year | 8,216 | 4,669 |
| Between: | | |
| one and two years | 7,470 | 3,912 |
| two and three years | 5,577 | 3,720 |
| three and four years | 1,840 | 2,297 |
| four and five years | 1,535 | 1,730 |
| later than five years | 1,648 | 4,455 |
| Total minimum payments | 26,286 | 20,783 |

29. Post-balance sheet events

Increases in share capital

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. Proceeds from the offering were net of costs and expenses of 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.

Investments and financing

In March 1999 the Company signed a loan agreement with BRE 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.

In March 1999 the Company signed a contract with Poz-Building Holding Sp. z o.o. for the construction of two printing plants to be located in Warsaw and Piła. Construction on the Warsaw plant is expected to be completed by 15 February 2000 at a cost of approximately PLN 42 million. The Piła plant is expected to be completed on 30 May 2000 at a cost of approximately PLN 39 million.

In April 1999 the Company used proceeds from its initial public offering to repay the bank loan of DEM 35,000 thousand included in short-term borrowings.

In April 1999 the shareholders of TKP passed a resolution to increase share capital. As the Company will not take part in the capital increase, their interest in TKP is expected to decrease from 20% to 17.9%.