

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 1998 and 1997

Agora SA (formerly Agora-Gazeta Sp. z o.o.)
Consolidated financial statements for the years ended 31 December 1998 and 1997

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Agora SA (formerly Agora-Gazeta Sp. z o.o.)
Consolidated balance sheets as at 31 December 1998 and 1997

	Note	At 31 December 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		<u>430,021</u>	<u>330,250</u>
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		<u>430,021</u>	<u>330,250</u>

See accompanying notes to the consolidated financial statements.

Agora SA (formerly Agora-Gazeta Sp. z o.o.)
Consolidated income statements for the years ended 31 December 1998 and 1997

	Note	Year ended 31 December	
		<u>1998</u>	<u>1997</u>
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

See accompanying notes to the consolidated financial statements.

Agora SA (formerly Agora-Gazeta Sp. z o.o.)**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

See accompanying notes to the consolidated financial statements.

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 „S.A.”). 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.

Agora SA (formerly Agora-Gazeta Sp. z o.o.)

Notes to the consolidated financial statements for the years ended 31 December 1998 and 1997

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.

1. Significant accounting policies (continued)

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 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.

1. Significant accounting policies (continued)

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.

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2. Cash and deposits

	<u>1998</u>	<u>1997</u>
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

	<u>1998</u>	<u>1997</u>
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

	<u>1998</u>	<u>1997</u>
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

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

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Notes to the consolidated financial statements for the years ended 31 December 1998 and 1997

6. Property, plant and equipment

	Land and buildings	Plant, machinery and equipment	Asset under construction	Total
Year ended 31 December 1998				
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	<u>74,977</u>	<u>132,321</u>	<u>1,096</u>	<u>208,394</u>

At 31 December 1998

Cost	80,290	195,704	1,096	277,090
Accumulated depreciation	(5,313)	(63,383)	-	(68,696)
	<u>74,977</u>	<u>132,321</u>	<u>1,096</u>	<u>208,394</u>
Prepayments for property, plant and equipment	-	-	-	60,892
Net book amount	<u>74,977</u>	<u>132,321</u>	<u>1,096</u>	<u>269,286</u>

	Land and buildings	Plant, machinery and equipment	Assets under construction	Total
Year ended 31 December 1997				
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	<u>20,574</u>	<u>31,905</u>	<u>28,514</u>	<u>80,993</u>

At 31 December 1997

Cost	24,246	79,770	28,514	132,530
Accumulated depreciation	(3,672)	(47,865)	-	(51,537)
	<u>20,574</u>	<u>31,905</u>	<u>28,514</u>	<u>80,993</u>
Prepayments for property, plant and equipment	-	-	-	51,722
Net book amount	<u>20,574</u>	<u>31,905</u>	<u>28,514</u>	<u>132,715</u>

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.

Agora SA (formerly Agora-Gazeta Sp. z o.o.)**Notes to the consolidated financial statements for the years ended 31 December 1998 and 1997****7. Intangible assets**

	Goodwill	Other intangible assets	Total
Year ended 31 December 1998			
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	<u>9,192</u>	<u>12,826</u>	<u>22,018</u>
At 31 December 1998			
Cost	11,735	14,032	25,767
Accumulated depreciation	(2,543)	(1,206)	(3,749)
Net book amount	<u>9,192</u>	<u>12,826</u>	<u>22,018</u>
Year ended 31 December 1997			
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	<u>11,539</u>	<u>691</u>	<u>12,230</u>
At 31 December 1997			
Cost	11,735	1,163	12,898
Accumulated depreciation	(196)	(472)	(668)
Net book amount	<u>11,539</u>	<u>691</u>	<u>12,230</u>

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)).

Agora SA (formerly Agora-Gazeta Sp. z o.o.)**Notes to the consolidated financial statements for the years ended 31 December 1998 and 1997****8. Investments**

	Associated undertakings	Other investments	Total
Year ended 31 December 1998			
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

	Associated undertakings	Other investments	Total
Year ended 31 December 1997			
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.

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9. Accounts payable and accrued charges

	<u>1998</u>	<u>1997</u>
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

	<u>1998</u>	<u>1997</u>
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

	<u>1998</u>	<u>1997</u>
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.

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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:

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

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 and 1997	Authorised	Issued
"Registered A" shares of PLN 1.00 each	4,281,600	4,281,600
"Registered B" shares of PLN 1.00 each	39,108,90	39,108,90
	0	0
"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	-
	<u>56,757,52</u>	<u>44,140,50</u>
	<u>5</u>	<u>0</u>

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 BIŚE 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.

Agora SA (formerly Agora-Gazeta Sp. z o.o.)**Notes to the consolidated financial statements for the years ended 31 December 1998 and 1997****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

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Other sales	<u>7,133</u>	9,141
	<u>546,163</u>	<u>409,502</u>

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

16. Operating costs

	<u>1998</u>	<u>1997</u>
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
	<u>393,870</u>	<u>290,689</u>
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

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

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).

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19. Interest and financial items

	<u>1998</u>	<u>1997</u>
Interest income	3,07	5,334
	2	
Income from short-term investments	6,97	11,399
	2	
	10,0	16,733
	44	
Interest and other expenses:		
Overdrafts and other short-term borrowings	(2,06)	(210)
Loans repayable wholly within five years	(413)	-
Loans repayable partly or wholly after five years	(3,61)	(1,093)
Foreign exchange translation losses	(1,44)	(201)
Other financing costs	-	(134)
	(7,53)	(1,638)
	2,	15,095

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

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

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

		<u>1998</u>	<u>1997</u>
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
		91	50

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.

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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

22. Acquisitions (continued)

(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.

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

	<u>1998</u>	<u>1997</u>
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)
	<u>101,765</u>	<u>129,380</u>
 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
	<u>(37,673)</u>	<u>(9,451)</u>

24. Cash and cash equivalents and net borrowings

	<u>1998</u>	<u>1997</u>
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	<u>(158,333)</u>	<u>(75,496)</u>

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

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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:

	<u>1998</u>	<u>1997</u>
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	<u>26,286</u>	<u>20,783</u>

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.

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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 Pila. Construction on the Warsaw plant is expected to be completed by 15 February 2000 at a cost of approximately PLN 42 million. The Pila 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%.

To the Shareholders of Agora SA

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

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 statement 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 (ie. 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. Specificly, 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 546.2 mm PLN, 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 107 million PLN, 20.1% more than in 1997 and represented 19.6% of total revenue (21.7% in 1997).

Sale of advertising space in *Gazeta* generated 418.9 million PLN 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 12 million PLN 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 plant and others 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 122 million PLN. 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 mln for printing at supplier plants (34% growth compared to 1997), 6 million PLN for transport of newspapers, 7 mln PLN for premises leases and about 8 mln PLN for telecommunications services, as well as advertising, promotion and representation expense (10 million PLN).

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 73.8 million PLN, 27.5% more than in 1997. Other payroll-related expense, including mandatory social security fringe, mobility, training and the social fund expense, and 1.9 million provision for incentive plans, appearing for the first time, amounted to 37.2 million PLN 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 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 152.3 million PLN, 33.5 million PLN 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 34.7 million PLN (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 SA. TKP is the parent of the operator of pay TV Canal+ Polska. In August of 1997 AC TV paid 98.5 million PLN for stock in the increased capital of TKP, thus becoming a 22.47% shareholder of that company. Goodwill generated by the transaction amounted to 136.98 mln PLN. On Dec. 31, 1997 book value of the investment amounted to 68.8 million PLN, representing unamortized goodwill of 125.6 million PLN less share of net liabilities of 56.8 million PLN.

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 41.4 million PLN and amortization of goodwill in the amount of 27.4 million PLN. The total negative impact on the Group's consolidated net profit amounted to 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 superregional station. In 1998 the total advertising revenues earned by the stations amounted to 12.5 million PLN. This amount is equal to 2.3% of the Agora's revenues and 4% of its total assets. Thus, 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 5.2 million PLN 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 43.6 million PLN, compared to 89.1 million PLN 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 3.6 million PLN in interest charge accrued but not paid on the exchangeable loan from Cox, netted in 1998 a positive 2.5 million PLN, bringing pretax profit to 46.1 million.

Provision for income taxes

Income tax expense of 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 mln in proceeds from the successful IPO and other capital increases completed in the first quarter of 1999 and a PLN 150 mln loan agreement concluded in March 1999, has provided the Company has sufficient liquidity and capital resources necessary to complete capital projects planned for the years 1999-2001.