

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

CONSOLIDATED FINANCIAL STATEMENTS  
AS AT 31 DECEMBER 1999 AND 1998  
prepared under  
INTERNATIONAL ACCOUNTING STANDARDS

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**Agora SA (formerly Agora-Gazeta Sp. z o.o.)****Consolidated balance sheet as at 31 December 1999 with comparative figures for 1998**

(all amounts in PLN thousands unless otherwise indicated)

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

See accompanying notes to the consolidated financial statements.

**Agora SA (formerly Agora-Gazeta Sp. z o.o.)**  
**Consolidated income statement for the year ended 31 December 1999**  
**with comparative figures for 1998**  
(all amounts in PLN thousands unless otherwise indicated)

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	Note	Year ended 31 December	
		1999	1998
Sales	15	689,689	549,894
Operating costs	16	(498,421)	(397,470)
Operating profit before associated undertakings and other charges		191,268	152,424
Other charges		-	(34,743)
Share of losses in associated undertakings		-	(41,388)
Amortisation of goodwill in associated undertakings		-	(27,395)
Provision for losses on other investments		(4,400)	(5,200)
Profit after associated undertakings and other charges		186,868	43,698
Interest and financial items	18	3,246	2,375
Dividends received		288	-
Profit before income taxes		190,402	46,073
Income taxes	19	(63,956)	(41,896)
Net profit for the year		126,446	4,177
Earnings per share (in PLN)	20	2.31	0.09

See accompanying notes to the consolidated financial statements.

**Agora SA (formerly Agora-Gazeta Sp. z o.o.)**  
**Consolidated statement of changes in shareholders' equity for the year ended 31**  
**December 1999**  
**with comparative figures for 1998**  
(all amounts in PLN thousands unless otherwise indicated)

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

See accompanying notes to the consolidated financial statements.

**Agora SA (formerly Agora-Gazeta Sp. z o.o.)**  
**Consolidated cash flow statement for the year ended 31 December 1999**  
**with comparative figures for 1998**

(all amounts in PLN thousands unless otherwise indicated)

	Note	Year ended December 1999	1998
<b>Operating activities</b>			
Operating profit before associated undertakings and other charges		191,268	152,424
Depreciation of plant, property and equipment		39,260	19,275
Amortisation of intangible assets		6,684	3,081
(Profit)/loss on disposal of plant, property and equipment		2,521	(468)
		<u>239,733</u>	<u>174,312</u>
Other charges		-	(34,743)
Movement in operating working capital	21	(2,353)	(27,846)
Net cash inflow before interest and tax		237,380	111,723
Interest received		6,973	3,137
Interest paid		(5,389)	(2,638)
Foreign exchange result		17,402	1,872
Tax paid		(62,375)	(39,129)
Net cash from operating activities		<u>193,991</u>	<u>74,965</u>
<b>Investing activities</b>			
Capital expenditure, net		(204,572)	(137,873)
Acquisition of subsidiary undertaking, net of cash acquired		-	(14,646)
Increase of long-term investments, net		(4,942)	(12,255)
Redemption/(acquisition) of short-term securities		(207,889)	6,972
Result on forward foreign exchange, future interest rate contracts		4,547	-
Dividends received		288	-
Net cash used in investing activities		<u>(412,568)</u>	<u>(157,802)</u>
<b>Financing activities</b>			
Increase / (decrease) in borrowings		(123,304)	75,304
Public offering equity contributions		379,755	-
Public offering expenditure		(18,760)	-
Net cash from financing activities		<u>237,691</u>	<u>75,304</u>
Change in cash and cash equivalents		<u>19,114</u>	<u>(7,533)</u>
<b>Movements in cash and cash equivalents</b>			
At start of period		17,243	24,776
Increase		<u>19,114</u>	<u>(7,533)</u>
At end of period		<u>36,357</u>	<u>17,243</u>

See accompanying notes to the consolidated financial statements.

## **General information**

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

### **1. Significant accounting policies**

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

#### **Basis of preparation**

The consolidated financial statements of the Agora SA Group ("the Group") are prepared in accordance with International Accounting Standards and under the historical cost convention. Inter-company transactions and balances have been eliminated in the preparation of these financial statements.

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

#### **Translation of foreign currencies**

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

#### **Deferred income taxes**

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The principal temporary differences arise from depreciation on property, plant and equipment, tax losses carried forward and various transactions not considered to be taxable or tax-deductible until settlement.

#### **Receivables**

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

#### **Inventories**

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

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

## 1. Significant accounting policies (continued)

### Property, plant and equipment

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

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

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

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

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

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

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

### Intangible assets

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

Expenditures associated with the initial public offering are being amortised on a straight line basis over five years.

Other intangible assets are being amortised on a straight line basis over a period of three to five years.

### Investments

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

Long-term investments are stated at historical cost less allowances for permanent diminution in value.

### Methods of revenue recognition

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

### Borrowing costs

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

### **Employee plans**

The Company's employee incentive scheme provides for performance related remuneration of management level and non executive high performing employees in the form of a cash bonus and restricted stock. The cost arising from the discretionary scheme, comprising the amount of cash bonus and the fair value of the subsidised shares, less employees' contributions thereto, is estimated and accrued over the performance measurement period, and adjusted for final awards once determined.

## **1. Significant accounting policies (continued)**

### **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.

## **2. Cash and cash equivalents**

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

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

## **3. Short-term securities**

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

## **4. Accounts receivable and prepayments**

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

All receivables fall due within one year.

Trade receivables include amounts due from related entities arising from normal trading operations of PLN 2,033 thousand (31 December 1998: PLN 907 thousand).

## 5. Inventories

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

## 6. Property, plant and equipment

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

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

(6,077 in total) and the construction in progress opening balance was increased by PLN 5,226 thousand.

The PLN 5,226 thousand is an inter-company interest capitalised by a subsidiary that should have been eliminated out of buildings and constructions instead of construction in progress. The PLN 851 thousand is inter-company interest (charged in 1997) capitalised by a subsidiary that should have been eliminated against buildings and constructions in correspondence with retained earnings. The retained earnings closing balance as of 31 December 1997 has been also decreased by the PLN 851 thousand.

## 6. Property, plant and equipment (continued)

	Land and buildings	Plant, machinery and equipment	Assets under construction	Total
<b>Year ended 31 December 1998</b>				
Opening net book amount	20,574	31,905	28,514	80,993
New company subsidiaries	5,228	553	-	5,781
Additions	51,198	118,169	110,585	279,952
Disposals and adjustments	(382)	(672)	(138,003)	(139,057)
Depreciation charge	(1,641)	(17,634)	-	(19,275)
Closing net book amount	<u>74,977</u>	<u>132,321</u>	<u>1,096</u>	<u>208,394</u>
<b>At 31 December 1998</b>				
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
Adjustments for an error:				(844)
Prepayments for property, plant and equipment				60,892
Net book amount	<u>74,977</u>	<u>132,321</u>	<u>1,096</u>	<u>268,442</u>

All assets included above were owned by the Group.

## 7. Intangible assets

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

	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>

## 8. Investments

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

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

As a consequence of the decrease in the Group's stake in TKP, TKP is no longer treated as an associate and therefore is no longer consolidated under the equity method. The closing net book value of investment in TKP (totalling PLN 22,492 thousand) is the most recent value of the investment under the equity consolidation (zero) increased by the cost of the new shares acquired. As of December 31 1998, the carrying value of the 20% Group's investment in TKP was nil, being unamortised goodwill of PLN 98,166 thousand less its share in the consolidated net liabilities thereof of PLN 98,166 thousand.

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

In March 1998 the Group provided a pledge on the TKP shares (held at that time) as a security for a bank loan granted to TKP. According to the representation of the bank TKP repaid the

loan in full by the December 31, 1999. Therefore the pledge has expired and is now being removed out of a specific register.

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

#### 9. Accounts payable and accrued charges

	<u>1999</u>	<u>1998</u>
Trade payables	67,923	43,660
Income taxes	15	280
Other taxes and social security	4,958	7,012
Other payables	5,638	5,949
Accruals and deferred income	<u>10,451</u>	<u>8,361</u>
	<u>88,985</u>	<u>65,262</u>

All amounts fall due within one year.

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

#### 10. Short-term borrowings

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

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

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

#### 11. Long-term borrowings

	<u>1999</u>	<u>1998</u>
Unsecured loans repayable after five years	79,101	63,128

Unsecured loans repayable after five years comprise a loan of USD 19,068 thousand (31 December 1998: USD 17,518 thousand) from shareholder Cox Poland Investments, Inc. which is repayable in 2007 or may (principle and interest), in 2000, be exchanged for 13,308 of the shares in TKP S.A. held by the Group, being 49% of class B ordinary shares in TKP (Note 8). The annual rate of interest is 6.31% and interest is payable when the principal becomes due.

## 12. Deferred income taxes

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

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

## 13. Share capital

Number of shares as at 31 December 1998	Issued 31December 1999	Authorised 31December 1998	Issued 31December 1998
	"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	39,108,900
"Registered C" shares of PLN 1.00 each	750,000	750,000	750,000
"Registered D" shares of PLN 1.00 each	2,267,025	2,267,025	-
"Bearer E" shares of PLN 1.00 each	9,000,000	9,000,000	-
"Bearer F" shares of PLN 1.00 each	1,350,000	1,350,000	-
	<u>56,757,525</u>	<u>56,757,525</u>	<u>44,140,500</u>

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

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

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

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

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

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

#### 14. Retained earnings and other reserves

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

##### Dividends

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

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

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

#### 15. Sales and segment information

##### (a) Segment information

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

In January 2000 the Group announced its Internet strategy which aims to set up a number of new portals, which will generate revenue from advertising and, over time, e-commerce. 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

	<u>1999</u>	<u>1998</u>
Sales of newspapers and other goods	137,297	108,478
Sales of advertising and other services	540,178	432,176
Other sales	12,214	9,240
	<u>689,689</u>	<u>549,894</u>

Included in sales of advertising and other services are barter sales of PLN 4,611 thousand (for 1998: PLN 3,839 thousand).

## 16. Operating costs

	<u>1999</u>	<u>1998</u>
Raw materials and consumables	177,032	140,689
Other external charges	136,112	123,420
Staff costs (Note 17)	139,333	111,005
Depreciation of property, plant and equipment	39,260	19,275
Amortisation of intangible assets	6,684	3,081
	<u>498,421</u>	<u>397,470</u>
Other external charges include the following items:		
Property operating lease rentals	10,930	7,034
Foreign exchange losses	1,297	339

## 17. Staff costs

	<u>1999</u>	<u>1998</u>
Wages and salaries	115,275	73,786
Social security costs	23,034	35,319
Employee incentive scheme costs	1,024	1,900
	<u>139,333</u>	<u>111,005</u>
Average number of persons employed	<u>2,766</u>	<u>2,426</u>

### **Directors' remuneration and other benefits**

Remuneration of Management Board members paid pursuant to employment contracts amounted to PLN 1,915 thousand (31 December 1998: PLN 1,084 thousand).

## 18. Interest and financial items

	<u>1999</u>	<u>1998</u>
Interest income	6,996	3,137
Income (loss) from short-term investments	78	6,972
Result on forward foreign exchange, future interest rate contracts	4,547	-
Foreign exchange translation gains	<u>1,271</u>	<u>-</u>
	12,892	10,109
Interest and other expenses:		
Overdrafts and other short-term borrowings	(3,522)	(2,063)
Loans repayable wholly within five years	-	(413)
Loans repayable partly or wholly after five years	(5,228)	(3,288)
Foreign exchange translation losses	-	(1,890)
Other financing costs	<u>(896)</u>	<u>(80)</u>
	<u>(9,646)</u>	<u>(7,734)</u>
	<u>3,246</u>	<u>2,375</u>

Effective 30 June 1999 the Group changed income statement presentation with respect to financial income and costs (mainly: interest, foreign exchange differences) related to financing activities (bank loans and other borrowings), investment activities and items classified as cash and cash equivalents. Certain items now presented as interest and financial items were previously included in operating costs.

The comparative income statement for the 12 months ended 31 December 1998 has been restated to conform to the changed presentation.

The effect of the change is a decrease of the operating costs and decrease of interest and financial items by an amount of PLN 131 thousand in the income statement for the 12 months ended 31 December 1998.

## 19. Income taxes

	<u>1999</u>	<u>1998</u>
Current domestic income taxes	59,658	39,969
Deferred income taxes	<u>4,298</u>	<u>1,927</u>
	<u>63,956</u>	<u>41,896</u>

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

		<u>1999</u>	<u>1998</u>
Statutory domestic income tax rate	(%)	34	36
Effect of permanent differences related to:			
Losses and amortisation of goodwill in associated undertakings	(%)	-	53
Other non-deductible expenses	(%)	<u>-</u>	<u>2</u>
		<u>34</u>	<u>91</u>

## 20. Earnings per share

Earnings per share has been calculated based on the weighted average of the number of shares issued. That is 54, 853,606 and 44,140,500 shares issued as at 31 December 1999 and 31 December 1998 respectively.

## 21. Cash Flows: movement in operating working capital

Movement in operating working capital comprises

	1999	1998
Increase in inventories	(1,562)	(8,142)
Increase in receivables	(13,939)	(17,892)
Increase in payables	13,148	(1,812)
	<u>(2,353)</u>	<u>(27,846)</u>

## 22. 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 22,629 thousand payable principally in German marks/Euros and Swiss Francs. The exchange rate of the Polish Zloty with foreign currencies until 12 April 2000 was largely governed by the National Bank of Poland through a crawling peg system as calculated against a basket of major currencies, after that date the exchange rate is free and market regulated.

The Group has a potential currency exposure since it purchases newsprint from abroad in Euros and has Western-currency commitments pursuant to equipment contracts. The Company manages foreign exchange risk by hedging specific contracts - foreign currency forwards or options are purchased. Management does not anticipate a material negative impact of Zloty volatility in the short-term.

As of 31 December 1999 the Group had foreign currency forward transactions to purchase in total CHF 4,728 thousand at a rate of CHF to PLN ranging from 2.5998 to 2.7164, all ending between 10 January and 2 May 2000. At that date the Group also had future rates agreement contracts for total amount of PLN 45,000 thousand at a rate ranging from 12.89% to 17.10%, all ending between 26 January and 25 May 2000.

### Interest rate risk

The Group's short-term deposits and short-term securities 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.

### **23. Capital commitments**

As of 31 December 1999, future capital expenditures budgeted by the Group for the following 12 months amounted to PLN 328,000 thousand, for which contracts have been placed for the amount of PLN 169,553 thousand.

### **24. Contingencies**

As of 31 December 1999 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.

#### **Guarantees**

As of 31 December 1999 the Company guaranteed a loan taken by Inforadio Sp. z o.o. (an associate).

The guarantee amounts to PLN 13.000 thousand.

#### **@ 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 it is expected that the decision may be rendered in the mid of 2000.

#### **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 (Y2K)**

The Y2K problem (inability of computerised systems to properly acknowledge the date on 1 January 2000 and thereafter) did not affect the computer systems of the Group or Group's operations. Management believes it has taken appropriate action to compensate for any known contingencies that may arise as result of this matter.

## 25. 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>1999</u>	<u>1998</u>
Within one year	14,115	8,216
Between:		
one and two years	9,110	7,470
two and three years	2,726	5,577
three and four years	2,336	1,840
four and five years	1,870	1,535
later than five years	<u>2,760</u>	<u>1,648</u>
Total minimum payments	<u>32,917</u>	<u>26,286</u>

The amounts disclosed above include 22% VAT that the Group will be able to recover.

## 26. Post-balance sheet events

Effective January 1, 2000 Agora SA (the parent company) legally merged with its associate TRANS-SERWIS SA following the resolutions of the Agora SA and TRANS-SERWIS SA shareholders. Since the Company owns 100% the TRANS-SERWIS SA share capital the merger shall be effected with no increase in the Company's capital as provided by art. 464 § 3 of the Polish Commercial Code.

### Radio acquisitions

On the 10 January 2000 Agora SA purchased 49% stake in ROM Sp. z o.o., totalling to 6,705 shares, giving 49% of votes for the price of PLN 636 thousand. ROM Sp. z o.o. is the broadcaster of a local radio now named Klasyka FM.

In February 2000 Agora SA purchased 80% stake in BARYS Sp. z o.o., totalling to 2,415 shares, for the price of PLN 500 thousand. After that transaction the Company has in total 90% of shares and votes of BARYS Sp. z o.o, which is providing services (including advertising) for local radio stations.

### Internet

According to the strategy publicly announced in January 2000 Agora SA intends to launch internet portals by the end of the current year. Management of Agora believes it that its existing strengths being the Gazeta Wyborcza newspaper brand and extensive readership base, rich local and national content and a leading advertising market position, both in display and classifieds, will provide an appropriate base from which its internet strategy can be leveraged.

## **Independent Auditors' Report to the shareholders of Agora SA**

### **Scope**

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

### **Respective responsibilities of directors and auditors**

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

### **Basis of opinion**

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

### **Opinion**

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

KPMG Polska Audyt Sp. z o.o.

18 April 2000

Warsaw

To Agora Shareholders:

In May of 1999 Agora and *Gazeta Wyborcza* celebrated their tenth anniversary. We held an *al fresco* party for approximately 10,000 people and an international discussion panel attended by key politicians who had sat on the opposite sides of negotiating tables during democratic transitions in Spain, Chile and Poland. The panel culminated with an award of *Gazeta's* "Man of the Decade" prize to Vaclav Havel, President of the Czech Republic, and a dinner given in his (and our) honor by the President of Poland.

The anniversary was an occasion to look back at the last ten years, to wax sentimental about the beginnings of *Gazeta* in the nursery school premises at Iwicka Street in Warsaw, to take great pride in the accomplishments of the team which, in the memorable Spring of 1989, set out to publish the first independent newspaper in Poland in nearly 50 years, over the following decade built an innovative newspaper and a formidable company and which, in a defining moment in the spring of 1999, took it public, making most of the employees shareholders in the process.

In reflecting on this success, we asked the inevitable questions: where we are now? where do we go from here? where do we want to be a decade hence?

Where are we today? Our core businesses – newspaper publishing and radio - are in excellent shape. *Gazeta* goes from strength to strength, with circulation expanding annually thanks to a combination of editorial excellence, unique national/local market approach, breadth of product array augmented by new title introductions and a focused promotion strategy. *Gazeta* continues to improve its overwhelming advertising share advantage in the national and the Warsaw markets and can boast of new victories in local markets outside of Warsaw where we are making significant investments to challenge entrenched competitors. New printing and automated inserting equipment capacity which will come on line this year will liberate *Gazeta* from constraints on production, enabling it to further consolidate its position and take full advantage of the growth of Poland's advertising market.

Our radio business, although small compared to *Gazeta*, is turning out to be a winner. Several years ago we took a bet on Poland's local radio market and on a strategy of formatted stations. Today, as we become a leading radio player, it is clear that the bet is paying off. The business is expanding, with ratings and revenues growing strongly, and profitability well ahead of schedule. Our task for the future is straightforward: continue executing the strategy and keep expanding the radio group to achieve operating scale. Unlike print, broadcast media are heavily regulated in Poland and our ability to achieve expansion goals hinges to some extent on the attitude of the Broadcast Council.

In addition, our investment in pay TV, a 12.12% stake in TKP S.A. (Canal+ Polska and Cyfra+) is performing well, ending March 2000 with 320,000 digital subscribers.

We have a terrific team, well respected in Poland and abroad – hardworking, with courage to innovate, market and business savvy, tremendous dedication to the company and an appetite for new challenges. Our culture of flat management structure, direct communication and investment in staff makes us an attractive place to work for both old and new employees. And we have made sure that the compensation they receive is competitive in the Polish labor market. Shared ownership and stock incentive plans for the over 300 top managers and other star performers ensure that the team's pride as well as its self-interest are firmly tied with the growth of Agora's value.

The company has financial resources necessary for expansion. Though Polish economic growth slowed in 1999, Agora's revenue increased strongly by 26% and we expect growth to continue over

our three year planning horizon. The publishing business is very profitable, with 35% EBITDA margin in 1999. The company has cash, open lines of credit and, given its clean balance sheet, a significant additional borrowing capacity. The listing of the company opened up a host of other funding options and gave us currency in the form of stock.

Where do we go from here? First, keep growing our core businesses. The newspaper – with its successful ubiquitous market strategy, combining national and local presence on the one hand, and, on the other hand, general and thematic or sectoral approach – is not only the main cash contributor but also the main springboard for the success in new media. Hence, we intend to continue the battle for the local markets – both to improve *Gazeta*'s position and to widen the addressable market for our on-line offering. Second, expand the business in Poland and, over time, internationally. In order to identify and implement new business opportunities we are currently building a business development team which will bring new, specialized skills. In the first decade, the company primarily grew organically by developing its core business. The strategy built a solid foundation on which we can now superimpose much faster growth through partnerships and acquisitions.

For a media company like Agora, internet presents a unique and exciting opportunity for business expansion. We can get closer to the consumer online than in print, with customized information, interactive decision tools and enablement to instantly act on those decisions. We can get closer to the advertiser with an expanded offer of tailored marketing products and lead generation for online transactions. And in the process we can expand revenue sources – from broadly cast advertising in print to targeted advertising, direct marketing and transactional income online.

We anticipate that the Polish internet market will grow rapidly and as of the beginning of this year we made internet our number one developmental priority. For about three years, we have had an electronic edition of our newspaper ([www.gazeta.pl](http://www.gazeta.pl)); it has attracted a strong following, making it the number three site in Poland. In preparation for expansion of our internet presence we have examined carefully what Western publishers have done on line in order to build our own business model. It follows the European approach of leveraging content, content gathering and content presentation advantages to build useful, easy to use thematic services under a common brand umbrella. The goal of these services is to provide users with tailored, actionable information and, at the same time, to deliver to advertisers targeted users interested in purchase.

The project is underway, with dedicated staff and funding and launch expected later this year. The success of our on line project hinges, on one hand, on the speed and excellence of execution of content and technology, sales and marketing strategy, and, on the other hand, on wise alliances with partners who have complementary assets and skills. Building such alliances is an important task of the project team.

A little over a year ago Agora became a public company. Being public raised the profile of the company and brought it unanticipated – though certainly welcome – recognition. Our IPO was named one the most notable financings of 1999 by Institutional Investor, Agora was elected an Emerging Market Leader by World Economic Forum and one of the eight companies worldwide to win the Institutional Shareholder Services 2000 Award for Excellence in Corporate Governance. Throughout the year, we built and implemented procedures to help us make good on our promises of quality information, transparency and communications with shareholders. In this spirit, we launched our corporate website ([www.agora.pl](http://www.agora.pl)) intended to give our shareholders quick updates at a glance and to facilitate their interaction with the company.

We have come a long way from Iwicka Street. Agora is today Poland's leading media company. Management vision and the quality of execution brought us this far and position us well to rise to the challenge of globalization ahead of us. In a few years Poland will become a member of the European Union. It is our job to ensure that by then Agora achieves sufficient stature to become an active player in the European media consolidation.

Management Board :

Wanda Rapaczynski

Piotr Niemczycki

Helena Luczywo

Jerzy Thieme

Warsaw, April 18<sup>th</sup>, 2000.

## **AGORA SA**

### **Management Board's Report to the Consolidated Financial Statements prepared under International Accounting Standards**

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

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

#### **FINANCIAL RESULTS**

1999 was an important year for the Group. Agora's public offering and listing on the stock exchanges in Warsaw and in London was very successful and yielded a significant injection of cash. The Group continued its growth which was reflected in PLN 126.4 million net profit.

There was no negative impact of TKP S.A., an associated company, on the results of the Group in 1999 as losses from this investment were recognised in 1998 and 1997. In 1999 Agora's stake in TKP was reduced to 12.12%; accordingly, TKP ceased to be an associate. The repayment by TKP of Agora's shareholder loan in the amount of US\$ 5.46 million and the simultaneous increase of TKP capital by the same amount (accompanied by parallel actions by other shareholders of TKP) meant that Agora's financial investment in TKP remained unchanged.

The impact of Trans-Serwis S.A. on financial results of the Group is negligible as that company's business was extremely limited in scope.

#### **PROFIT AND LOSS ACCOUNT**

Revenues and operating expense of the Group are primarily related to the publication of *Gazeta Wyborcza*, i.e. to the operations of Agora SA and of Agora Poligrafia, sp. z o. o. Agora Poligrafia, a wholly owned subsidiary of Agora SA, is engaged in printing operations in the Special Economic Zone in Tychy. Those operations began in 1998, after construction and start-up of the Tychy printing plant was completed. Revenues and expenses of the Group reflect largely revenues and expenses of Agora SA, the parent company. Agora Poligrafia prints *Gazeta Wyborcza* (28.9% of circulation in 1999) for Agora on printing presses leased from Agora. Printing fees paid by Agora constitute its chief revenue source and leasing fees paid to Agora its main expense item. Both of these positions are eliminated in the process of consolidation. Since July 14, 1998, i.e. from the date on which it was acquired by Agora SA, Trans-Serwis has conducted very limited business activities.

In 1999 the Group's revenue totalled PLN 689.7 million and net profit reached PLN 126.4 million.

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

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

## SALES

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

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

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

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

**Advertising revenue** reached PLN 540.2 million, 25% more than in 1998. The most significant part are revenues from sales of advertising space in *Gazeta Wyborcza* (including its local and thematic supplements) which accounted for 96.6% of total advertising sales. Total advertising space sold in *Gazeta* grew 7.7% in relation to previous year, while the average share of advertising pages to total pages remained at the level of 58% (the average pagecount, however, grew by 6.2% from 118 to 126 pages). This dynamic growth was achieved as a result of consistent pricing policy (across categories and regions). The average net revenue per advertising page reached PLN 4500, as compared to 3900 achieved in the preceding year, i.e. 7.8 % above inflation.

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

The average daily copy sales of *Gazeta* grew to 447 208 copies, 2.6% above the previous year. Total revenues from copy sales amounted to PLN 137.3 million (revenue for *Gazeta Wyborcza* reached PLN 135.4 million), 26.6% more than in 1998 year and constituted, as in the preceding year, 19.9% share of total revenues.

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

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

## OPERATING COSTS

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

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

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

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

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

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

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

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

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

## FINANCIAL RESULTS

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

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

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

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

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

## BALANCE SHEET

Main balance sheet positions (PLN million)	31.12.1998	31.12.1999	% change 1999 to 1998
<b>TOTAL ASSETS</b>	<b>429.2</b>	<b>866.9</b>	<b>102.0%</b>
<i>share in total assets</i>	<i>100%</i>	<i>100%</i>	
Current assets	107.3	349.4	225.8%
<i>share in total assets</i>	<i>25.0%</i>	<i>40.3%</i>	
Fixed assets	321.9	517.5	60.8%
<i>share in total assets</i>	<i>75.0%</i>	<i>59.7%</i>	
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>429.2</b>	<b>866.9</b>	<b>102.0%</b>
<i>share in total liabilities</i>	<i>100%</i>	<i>100%</i>	
Short-term liabilities	177.7	89.0	-49.9%
<i>share in total liabilities</i>	<i>41.4%</i>	<i>10.3%</i>	
Long-term liabilities	70.2	90.4	28.9%
<i>share in total liabilities</i>	<i>16.3%</i>	<i>10.4%</i>	
Equity	181.3	687.5	279.2%
<i>share in total liabilities</i>	<i>42.3%</i>	<i>79.3%</i>	

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

## CASHFLOW STATEMENTS

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

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

## SUPPLEMENTARY INFORMATION

**Unconsolidated entities.** The Group systematically expanded its radio activities and at the beginning of 2000 held stakes (varying from 42 to 100%) in 13 local stations and a 29% stake in a super regional station. Despite its growing scale the radio operations are not material in relation to the Group's activities as a whole and are therefore not consolidated. Their combined net revenues from sale of goods and services and from financial operations in 1999 amounted to PLN 37.2 million (compared to PLN 15.8 million in 1998) and represented 4.92% of such revenues of Agora SA, while balance sheet total was PLN 20.9 million and represented 2.19% of such figure for Agora SA. The Group continues to make investments into radio stations, primarily in the form of loans for working capital since most of the stations have not yet reached profitability. However, it should be underscored that the stations in aggregate produced in 1999 a positive EBITDA in the amount of PLN 3.1 million. The superregional station TOK FM which began broadcasting in March 1998 is gradually building market position as a first of its kind news/talk station. The shareholders of TOK FM made the decision to change the way the station is financed: in 1999 TOK FM signed a loan agreement for PLN 13 million, guaranteed by its shareholders. Because of significant indebtedness of TOK FM, Agora made a provision in its financial statements in the amount of PLN 4.4 million.

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

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

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

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

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

Practically all of the above investments and expenditures were financed from the Group's funds. The last draw-down on the CSFB loan in the amount of DEM 5 million was used to prepay printing presses contracted; however, the entire loan was repaid in April 1999. In total, in 1999 the Group spent PLN 204.6 million for these assets, PLN 194.6 million from own funds and PLN 10 million from proceeds from bank loans.

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

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

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

#### **Extraordinary events and factors**

In accordance with earlier agreements, on December 31, 1999 Trans-Serwis S.A. (a company acquired by Agora SA in 1998) was deleted from the commercial register and as of January 1, 2000

incorporated into Agora by transfer of all its assets without simultaneous increase in the Company's capital.

**Financial transactions with members of governing bodies.** Detailed information on this subject is included in Note 17 of the annual report.

**Significant contracts** entered into by the Group are described in detail in the commentary to unconsolidated financial report.

**Shareholding structure** of the Group as of December 31, 1999 and as of the date of the preparation of the commentary to the annual report is presented in Note 13 of the consolidated financial statements.

## GROWTH OF THE COMPANY

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

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

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

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

(iv) Operating effectiveness and safety. Daily process of *Gazeta's* preparation and production requires careful planning, disciplined management systems and effective work organisation. The company constantly searches for way to improve effectiveness and reliability of key production

processes via automation and implementation of modern technologies for pre-press, printing, advertising sales, and distribution of *Gazeta*, as well as of financial planning and management and communications between various operating units and branches of the Group.

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

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

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

(viii) The Group's team. In the eleven years of its existence the Group has hired and trained extremely valuable staff. Maintaining their job satisfaction and loyalty to the Group and their further professional growth are key goals of the Group. To this end, the Group has implemented several programs which broaden stockholding among company's employees, including incentive plans for managers and non-executive star performers and an employee stock purchase program.

### **Growth perspectives**

The Group's Strategy includes further development of *Gazeta Wyborcza*, of the radio business, development & launch of the Internet offering and expansion into related media. The Group will grow organically by expanding existing business and by forming alliances and equity relationships with other Polish companies and, over time, internationally.

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

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

Warsaw, 18 April 2000

.....  
Wanda Rapaczynski  
*President*

.....  
Piotr Niemczycki  
*Vice-president*

.....  
Helena Luczywo  
*Member of the Board*

.....  
Jerzy Thieme  
*Member of the Board*