

THE DESCRIPTION OF BASIC HAZARDS AND RISK

▀ Macroeconomic risk

Advertising revenues strictly depend on the general economic situation in Poland and in Europe. They grow in the periods of economic upswing and are marked by considerable decrease in time of the economic slowdown. According to the Company's estimations in 2018, advertisers spent 7.5% yoy more on advertising. Advertisers increased their expenditure in almost all advertising market segments. The erosion of advertising expenditure was observed only in press.

It should be noted that the level of advertising revenues is dependent on both the ad volume as well as prices of media purchase which hinders estimations regarding the development of the situation at the particular segments of ad market.

Polish economy is sensitive to countries political situation and looping risk of abrupt legislative changes, whose full impact on the conditions of running business activity in Poland is hard to foresee.

▀ Seasonality of advertising spending

The Group sales revenues are marked by seasonal variation. The Group's advertising revenues in the first and third quarter are usually lower than in the second and fourth quarter of a given financial year.

Cinema revenues are subject to seasonality – revenues earned in the second and third quarters are usually lower than in the first and fourth quarter.

▀ Advertising market structure and the position of individual media in readership, TV and radio audience market

The Group's advertising revenues are generated by the following media: dailies, outdoor advertising, radio stations, magazines, internet and cinemas. As a result of structural changes and media convergence particular media in the Agora Group's portfolio compete both with their business competitors and with television broadcasters - constituting almost half of the advertising market expenditure (46.0%) in 2018. The next largest segment of advertising market – Internet held 33.5% share in total ad spend. Ad expenditure in magazines and dailies constituted 4.5% and 2.0% share of total ad spend, respectively. Outdoor advertising held, in 2017, 5.5% of the advertising market share and radio ad spend constituted 7.0% of total ad expenditure. Cinema advertising in Poland constituted 1.5% of all advertising expenditure. Bearing in mind the dynamics of particular and the current Company's estimates of advertising market growth in 2019 there is a risk that the share of particular media in the advertising market will change. This may influence the Group's position and its revenues.

Additionally, as a result of the changes in media described above and consolidation on the advertising market the competition between media grows and it may influence Group's advertising revenues. Moreover, due to those changes and technological progress there is no certainty that the Group will be able to react to them in a proper time and manner, which may negatively influence the Group's position and financial results.

Advertising revenues depend also on the readership figures and shares in radio and television audience. Media market changes dynamically – some sectors can take advantage of the current changes while other can lose its position on the market. There is no certainty that the Group's position in the particular media sectors will remain unchanged.

Abrupt changes to law regulations in particular business areas may affect not only macroeconomic situation in Poland but also the propensity and the way advertisers (including state owned companies) spend advertising budgets, including state owned companies.

▀ Press

Presently paid press experiences a worldwide trend of copy sales decrease and shrinking of advertising expenditure. Press titles, published by the Group and its competitors, are not resistant to the changes taking place on the press market. The process of classifieds migration from press to Internet is taking its place. The dynamics of

the above mentioned processes may have a negative impact on dailies copy sales and the revenues of the Group. At the same time, the Group digitalizes its content by means of metered paywall on websites related to *Gazeta Wyborcza*. At the end of 2018, the number of *Gazeta Wyborcza* active paid subscriptions totalled 170.5 thousand (increased by 28% comparing to 2017). Nowadays the Company focuses on the growth of average revenue from each subscription and growth of online advertising revenues. It is hard to predict if the Company will be able to deliver above expectations, because of the competitive internet market.

▶ **Press distribution**

The main channel of press distribution, used by every press publisher in Poland, is the networks of kiosks situated in places of intense traffic and supplied by three largest press distributors. Financial problems of RUCH S.A., which supplied 30% of all press points of sales in Poland affected the way the titles published by Company are distributed. Preventive measures undertaken by Company in the area of distribution minimized negative results related with the problems of RUCH S.A. In the longer perspective it is difficult to clearly assess further development of the situation in the Polish distribution market as multiple factors affect financial condition of distributors – i.a. sales of press in retails networks and active attitude of publishers.

The problems of the press distribution market in 2018 suggest that the risk of running publishing business grew and may have negative influence on revenues and financial results of the Group in future.

▶ **Internet**

Polish Internet advertising market is highly competitive and number of internet users in Poland is not growing so fast as in the past. Internet business is highly dependent on technology progress and number of Internet users and maintaining a strong position on that market is possible by means of investment in modern and innovative technology. The development of this medium is also determined by the available infrastructure. The number of mobile internet users is increasing. Both, changes in the internet usage and increase of internet speed may also affect growth dynamics of individual segments of the internet advertising market. In this segment of advertising market the Group competes with local and international players. There is no guarantee, that on such a competitive market, the Group's position and ad revenues will be unchanged. Additionally, online advertising market is undergoing transformation. Search advertising and social media are becoming more popular among advertisers. Therefore the position of global platforms as Facebook and Google is increasing and they are the main beneficiaries of online advertising market growth in Poland. The Group's main source of Internet advertising revenue is display advertising. Programmatic, video and mobile advertising are also growing their share. Maintenance of the strong position in rapidly changing market requires investment in advanced technological solutions. Due to that fact there is no guarantee that the Group will be able to compete with national and foreign players with larger financial resources.

▶ **Responsibility for published content**

The Group's activity is based in its many aspects on publishing the content created by journalists, writers, publicists or users of Internet forums. This can result in publisher's responsibility or co-responsibility for distribution of information contradictory to law regulations, including infringement of personal interests. It cannot be ruled out, that the Group could unintentionally violate such laws and as a result it could be a subject of claims relating to that and as a result it may have to pay relevant compensations.

▶ **Outdoor**

Outdoor advertising market in Poland is highly competitive. AMS S.A. competes with Polish companies as well as big international concerns. Outdoor advertising market is of high legal risk due to the possible changes in the rules regarding the use of public space and introduction of new limitations in the centers of large urban areas, as well as rules on tax rates related to this business activity and rules regarding the use of public space. Introduction of limitations in running outdoor advertising business in cities, as well as changes in law interpretations may affect the rates of fees, taxes and penalties related to that business, which may have an impact on the Group's result.

On September 11, 2015 selected regulations on strengthening landscape protection changed. On its basis the local governments acquired rights to regulate the distribution of visual advertisement and small architecture in public space and charging adequate fees and potential fee penalties. It is really hard to estimate the impact of this

regulation on the Agora Group's results. Till the day of this publication 3 local government introduced new rules of charging fees which did not affect the results of AMS.

► **Cinema**

Helios opens new cinemas in shopping and entertainment centres. Therefore, further development of the cinema network is dependent upon the construction of new shopping and entertainment galleries in Poland and ability to compete with other cinema operators for new space lease contracts. The pace of Polish infrastructure development and the situation on the Polish real estate market (i.e. cost of space rent) may influence the results of cinema operators.

Additionally, the available repertoire affects results of cinema business. Lack of interesting movies, abilities to promote movies or the quality of movies may negatively affect cinema admissions. Moreover, economic downturn may translate into lower expenditure on entertainment which may result in lower revenues from ticket sales and willingness to buy food and beverages in cinema bars. Moreover, the cinema operators compete with other technologies of film screening, inter alia, in Internet.

Abrupt growth of energy prices may have a negative impact on the results of cinema business. On January 1, 2019 an act relating to prices of energy came into force. It set the prices of energy for end user at the rates valid on June 30, 2018. Unfortunately, till the day of publication of this MD&A for the year 2018 no implementing acts were adopted. Therefore, it is uncertain that keeping the prices at the level set in the act will be possible, despite significant market rise in energy prices. On June 15, 2018 an act on collective management of copyright and related rights was adopted. It changed the rules of settlement with organizations representing artists. Currently, the impact of this act is not known. Helios decided to increase the provision on fees regulated by this act.

► **Risks of running licensed business**

The Group has been running its activities in radio market for years and since 2014 it started to operate in TV market. Radio and TV operations are licensed activity in Poland. The license entries determine the scope and form of business during the time for which the license is granted.

There is a risk that demand, from radio and TV audience, for a certain radio or TV format may decrease, while the Group will not be able to adjust to the market requirements due to the obligation to respect program entries stated in the license.

Additionally, KRRiT initialized the consultation among business activities in the licensed area. It is difficult to predict what will be the outcome, and how it will affect the results and operations of the Company and the Group.

Additionally, there is a risk that, the Group may not fulfill the disposition of concession or regulations, especially in relation to programme content or cease the broadcasting of the programme which may result in sanctions from KRRiT.

It cannot be ruled out that KRRiT will refuse to grant the concession the Group again, after the time for which they had been granted previously, or the conditions of newly granted concessions (or contracts related to those concessions) will be less beneficial from the Group's perspective.

► **Radio stations**

Polish radio ad market is highly competitive. Agora Group's radio stations compete with other radio broadcasters, with national reach, as well as other media – TV, press, internet and outdoor advertising. To maintain audience share it is important to have a demanded radio format. There is no certainty that the Group's current position in the radio audience market will be unchanged. Competing for ad revenue, radio stations (also belonging to different media concerns), create joint advertising offers. The popularity of these offers may significantly influence the shares of particular radio broadcasters in radio ad market.

Additionally, radio stations compete for audience with other media, especially with Internet.

► **Movie business**

Movie distribution and co-production is of project nature, which may result in volatility of its results – it may also impact the Group's results. The majority of costs incurred, especially those related to movie co-production,

burdens the Group results long before the profits related to that fields of operations. The impact of this activity on the Group's results depends also on the popularity of given film production.

▶ **Risk of claims as a result of intellectual property rights infringement**

The Group's activity is based in its many aspects on using the intellectual property rights and on license agreements. In the Group's opinion it does not infringe the intellectual property rights of the third parties. However, it cannot be ruled out that the Group may unintentionally violate such laws. As a result the Group could be a subject of claims and could be forced to pay relevant compensations.

▶ **Risk of rapid changes in law regulations, especially those relating the Group's operations**

Due to the fact that legal regulations in Poland change quite often, they may negatively impact the Group's operations and carry risk in business operations. This risk is especially associated with regulations that directly influence the day-to-day business, including those related the processing of personal data, changes to the Broadcasting Act and the regulations implementing those changes, Copyright and related rights Act, as well as acts regulating capital market in Poland and rules of commercial activities in Poland.

New regulations may pose a risk due to the problems with their interpretation, lack of judicial practice, unfavourable interpretations adopted by courts or public institutions.

Additionally tax regulations in Poland are subject of often changes. Changes in VAT and other kinds of tax burden may negatively impact the operations and financial results of the Group.

The Group is also a subject of risk in changes of tax rules interpretation by tax organs which may affect operations and financial results of the Group.

▶ **Impairment tests**

Inline with the *International Financial Reporting Standards*, the Group runs impairment tests. In the past and in the current period, some of the tests resulted in impairment loss which was reflected in the income statement (unconsolidated and/or consolidated). There is no certainty that the tests run in the future will give positive effects.

▶ **Currency risk**

The Group's revenues are expressed in Polish zlotys. Part of the operating cost, connected mainly with cinema activities, the production materials and services and IT services, is related to the currency exchange rates. The volatility of currency exchange rates may have influence on the level of Group's operating cost and its financial results.

▶ **Interest rate risk**

The changes in interest rates may influence the level of the Group's financial cost related to the Group's debt.

▶ **Risk of losing key employees**

The Group's success is dependent on the involvement and qualifications of its key employees who contributed immensely to Group's development and effective optimization of the Group's operating processes. Due to the market competition for highly qualified specialists there is no guarantee the Group will be able to preserve all valuable employees.

▶ **The risk of collective dispute**

On December 12, 2011 an Inter-union trade organization *NSZZ Solidarnosc* AGORA S.A. i INFORADIO SP. Z O.O. ("OM") was created. The trade unions operate in Agora S.A., Inforadio Sp. z o.o., Agora Poligrafia Sp. z o.o., AMS S.A., Domiporta Sp. z o.o. and Grupa Radiowa Agory Sp. z o.o. In December 2018 OM included GoldenLine Sp. z o.o. and in January 2019 Tandem Media Sp. z o.o. According to the law requirements the management boards of the companies in which trade unions operate consult or negotiate with them decisions in legally determined cases. The Group tries to maintain good relations with its employees and solve any problems as they appear, however it can not be excluded that in the future the Group may experience a collective dispute in law determined cases.

► **Risk related to functioning within tax capital group (TCG)**

Functioning within TCG requires from Agora S.A. the obligation to maintain at least 75% of shares in subsidiary companies which are part of the TCG, for the period of validity of the TCG. Given the changes in the market environment and the execution of Agora's Group strategy, a necessity may arise of change in the ownership structure. In the case of decrease of share in any of the subsidiary companies below the threshold of 75%, the TCG status shall be lost retroactively. This may result in loss of savings, growth of costs of tax year closing and the necessity to prepare additional documents for transfer prices.

What is more, functioning within the TCG imposes on the organization a whole range of statutory requirements, such as, for example, obtaining at least a 2% level of TCG's tax profitability. Based on the financial forecasts prepared as at the date of establishing the TCG, the Company expects that all statutory requirements will be met throughout the duration of the TCG. Considering that the future financial results of companies included in the TCG depend on a number of factors, parts of which the Company is not able to predict or reliably estimate at the moment, it is uncertain whether, during the entire TCG operation, a group of eight companies forming it, it will be able to meet the requirements related to maintaining the profitability threshold described above, except that failure to meet the profitability condition will not result in a retroactive loss of benefits resulting from TCG.

► **Risk related to print activity**

Changes in the way media are consumed, and in particular the popularity of digital media, mean that the demand for printing services is decreasing. It is reflected in the decreasing volume of orders and dropping revenues. Oversupply of production capacities and strong price pressure on the print market may result in a further outflow of customers and a decrease of revenues of print businesses of the Agora Group. The printing plants of the Group specialize in printing services in the coldset technology. The main customers include publishers of dailies, weeklies and retail chains. They also print Agora's Gazeta Wyborcza. The Agora Group's printing houses also offer heatset printing services. However, they constitute a smaller share in the entire printing production of the Agora Group and may not be able to compensate for the decreases related to production in the coldset technology.