

**Prokom Software SA
Consolidated Financial Statements
31 December 2000**

Report of Independent Accountants

To the Board of Directors and Shareholders of Prokom Software S.A.

We have audited the accompanying consolidated balance sheets of Prokom Software S.A. (the Company) as at 31 December 2000 and 1999 and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows for the years ended 31 December 2000 and 1999 prepared in accordance with International Accounting Standards and on the basis set out in Note 2 to the financial statements, expressed in Polish Złoty (PLN). 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 audits.

We conducted our audits 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 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of the Company as at 31 December 2000 and 1999 and the results of its operations, changes in shareholders' equity and cash flows for the years ended 31 December 2000 and 1999 in accordance with International Accounting Standards.

PricewaterhouseCoopers Sp. z o.o.
Warsaw, Poland
15 May 2001

Prokom Software SA

**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR 12 MONTHS PERIODS ENDED 31 DECEMBER 2000 AND 1999**

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This report contains 29 consecutively numbered pages, from page 1 to 29.

The accompanying Financial Statements have been approved by the Board of Directors of Prokom Software SA on 11 May 2001.

On behalf of the Board of Directors:

Bogdan Bartkowski
Member of the Board of Directors

Krzysztof Wilski
Member of the Board of Directors

Prokom Software S.A.
Consolidated Balance Sheets
(Expressed in Polish Zloty (PLN) all amounts in thousands)

	Note	31 December 2000	31 December 1999
ASSETS			
CURRENT ASSETS			
Cash at bank and in hand		37,541	80,780
Short term securities	4	33,177	30,842
Related parties	22	293,176	39,943
Accounts receivable			
Trade		259,104	120,504
Other		22,214	8,569
Inventories	5	65,470	76,584
Prepaid expenses	6	13,497	11,061
TOTAL CURRENT ASSETS		724,179	368,283
LONG TERM RECEIVABLES	7	10,998	22,110
RELATED PARTIES	22	9,720	46,374
DEFERRED TAX	8	6,151	9,199
INVESTMENTS	9	109,220	6,781
INTEREST IN ASSOCIATED UNDERTAKINGS	10	31,258	20,582
GOODWILL ON CONSOLIDATION	11	7,780	7,672
INTANGIBLE FIXED ASSETS, NET	12	17,114	6,829
TANGIBLE FIXED ASSETS, NET	13	50,142	55,406
TOTAL ASSETS		966,562	543,236
LIABILITIES			
CURRENT LIABILITIES			
Short term borrowings	15	272,707	404
Accounts payable and accruals			
Trade		178,290	102,729
Government	16	29,183	11,498
Employees		1,202	766
Accruals and other		14,811	8,135
Deferred income	17	5,812	11,261
TOTAL CURRENT LIABILITIES		502,005	134,793
LONG TERM LIABILITIES		122	-
MINORITY INTEREST		10,572	3,198
SHAREHOLDERS' EQUITY	14		
Share capital		13,081	13,081
Share premium		195,348	195,348
Retained earnings		245,434	196,816
TOTAL SHAREHOLDERS' EQUITY		453,863	405,245
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		966,562	543,236

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Consolidated Statements of Operations
(Expressed in Polish Zloty (PLN) all amounts in thousands)

	Note	Year ended 31 December 2000	Year ended 31 December 1999
REVENUES		922,759	713,292
COST OF SALES	18	(670,004)	(474,306)
GROSS MARGIN		252,755	238,986
SELLING COSTS	18	(31,829)	(24,448)
GENERAL AND ADMINISTRATIVE COSTS	18	(113,641)	(80,048)
OTHER OPERATING INCOME/(EXPENSES), NET	19	(2,656)	(9,634)
PROFIT ON DISPOSAL OF DISCONTINUING OPERATIONS	24	3,114	-
OPERATING PROFIT		107,743	124,856
FINANCIAL INCOME/ (EXPENSES), NET	20	(15,909)	24,568
SHARE OF RESULTS OF ASSOCIATES	10	(17,084)	(650)
PROFIT ON DISPOSAL OF ASSOCIATE	24	48,511	-
PROFIT BEFORE INCOME TAXES		123,261	148,774
CORPORATE INCOME TAXES	21	(56,426)	(52,857)
MINORITY INTEREST		833	(799)
NET PROFIT		67,668	95,118
BASIC AND DILUTED EARNINGS PER SHARE (in PLN):	26	5.03	7.48

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Polish Zloty (PLN) all amounts in thousands)

	Number of shares (not in thousand)	Share Capital	Share Premium	Retained earnings	Total Shareholders Equity
Balance at 1 January 1999	12,700,000	12,994	188,847	114,398	316,239
Share issue series D	87,264	87	6,501	-	6,588
Net Profit for the year	-	-	-	95,118	95,118
Dividend paid	-	-	-	(12,700)	(12,700)
Balance at 31 December 1999	12,787,264	13,081	195,348	196,816	405,245
Net Profit for the year	-	-	-	67,668	67,668
Dividend paid	-	-	-	(19,050)	(19,050)
Balance at 31 December 2000	12,787,264	13,081	195,348	245,434	453,863

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Consolidated Statements of Cash Flow
(Expressed in Polish Zloty (PLN) all amounts in thousands)

	Year ended 31 December 2000	Year ended 31 December 1999
Net cash flow from operating activities:		
Net profit before taxation	123,261	148,774
Adjustments to reconcile net profit to net cash generated by operating activities		
Depreciation and amortization	41,486	21,034
Loss on associated undertakings	17,084	650
Changes in working capital	(47,824)	(25,809)
Interest expense	12,897	161
Investment income	(61,705)	(24,729)
Other	-	365
Net cash generated by operating activities	85,199	120,446
Interest paid	(11,515)	(161)
Tax paid	(46,422)	(53,302)
Net cash from operating activities	27,262	66,983
Cash flow used in investing activities:		
Purchase of short term securities, net of sales	(2,746)	67,445
Purchase of tangible fixed assets	(22,148)	(41,884)
Purchase of intangible fixed assets	(15,463)	(6,625)
Purchase of investments	(131,571)	(625)
Advances for the acquisition of shares in subsidiary	-	(4,200)
Purchases of shares in associated undertaking	(39,810)	(14,411)
Purchase of subsidiaries, net of cash acquired (see Note 23)	(1,612)	(894)
Repayments/(contribution) to real estate project with related party (see Note 22)	7,789	(24,251)
Disposal of associate (see Note 24)	55,604	-
Deemed disposal of subsidiary	11,410	-
Loans (given)/repaid, net	12,768	(10,037)
Guarantee payment	(12,584)	-
Bank interest received	5,160	2,607
Interest received from loans to non related parties	2,248	-
Net cash used in investing activities	(130,955)	(32,875)
Cash flow from financing activities:		
Increase in short term borrowings	270,921	-
Decrease in short term borrowings	-	(542)
Dividends paid	(19,050)	(12,700)
Loans to related parties (advance)/received, net	(2,631)	20,615
Payments for short term securities from related parties	(276,917)	(111,229)
Receipts from sales of short term securities issued by related parties	78,070	134,404
Interest received from loans and commercial papers to related parties	10,061	8,530
Advances for office rental to related party (see Note 22)	-	(19,680)
Net cash provided/(used in) by financing activities	60,454	19,398
Net change in cash and cash equivalents	(43,239)	53,506
Cash and cash equivalents at the beginning of the period	80,780	27,274
Cash and cash equivalents at the end of the period	37,541	80,780

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Consolidated Statements of Cash Flow
(Expressed in Polish Zloty (PLN) all amounts in thousands)

	Year ended 31 December 2000	Year ended 31 December 1999
Changes in working capital and long term operating items:		
Trade receivables	(138,515)	(17,072)
Other receivables	(5,682)	(4,802)
Inventories	11,242	(52,287)
Prepaid expenses	(1,969)	8,057
Long term receivables	3,466	(2,773)
Trade creditors	73,973	39,430
Due to related parties	(1,981)	-
Due to government	10,730	959
Due to employees	436	549
Accruals and other payables	5,925	1,563
Deferred income	(5,449)	567
Total	(47,824)	(25,809)

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

1. The Company

Prokom Software S.A. ("the Company") (formerly Prokom International Sp. z o.o.) based in Warsaw, Al. Jerozolimskie 65/79, was formed in 1991 under the laws of Poland.

Since 10 February 1998 the Company's shares have been listed on the Warsaw Stock Exchange. In December 1997 the Company also signed an agreement with the Bank of New York on the basis of which Global Depository Receipts were issued which are currently listed in London and traded under Rule 144(a) in the United States of America.

The Company's principal activity in 2000 and in 1999 was the provision of information technology services comprising design, installation and implementation of comprehensive information technology solutions to large companies in Poland. The Company also trades in computer software and hardware. In 2000 and in 1999 the Company acquired interests in internet companies.

Details of subsidiaries and associates are provided in Notes 2 and 9.

2. Basis of preparation of the financial statements

(a) Basis of Accounting

The Company maintains its accounting records and prepares statutory financial statements in accordance with Polish accounting and tax regulations. These financial statements have been prepared based upon the Company's accounting records in order to present the financial position, results of operations and cash flows in accordance with International Accounting Standards (IAS). These financial statements are prepared in accordance with and comply with International Accounting Standards.

(b) Currency of Presentation

The accompanying financial statements are presented in Polish Zloty (PLN), which is the functional currency of the Company.

(c) Principles of Consolidation

Subsidiary undertakings, which are those companies in which Prokom Software S.A., directly or indirectly, has an interest of more than half of the voting rights have been consolidated. Subsidiaries are consolidated from the date on which the effective control is transferred to the Company and no longer consolidated from the date of disposal. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between group consolidated subsidiaries have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Company. Separate disclosure is made of minority interests.

Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Company has between 20% and 50% of the voting rights. Provisions are recorded for long-term impairment in value.

Transfers of entities under common control are accounted for using the purchase method of accounting when both of the following criteria are met:

- (i) the change in the ownership interest is substantial; and

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

2. Basis of preparation of the financial statements (cont'd)

- (ii) the value of the transaction is supported by independent evidence, for example market valuation or similar transactions.

If these criteria are not met, such transactions are accounted for on a uniting of interests basis.

The consolidated financial statements include the following subsidiaries and associates:

Entity's name	Business activity	Percentage owned 31 December 2000	Percentage owned 31 December 1999
Koma S.A. (Koma) – subsidiary	Software trading, IT services	59.3%	75.0%
Combidata Poland Sp. z o.o. (Combidata) – subsidiary	Information technology training	83.8%	83.8%
Powszechna Agencja Informacyjna "Pagi" S.A. (Pagi) – associate	Telecommunications services	-	42.4%
Zeto Sp. z o.o.(Zeto) – subsidiary	Information technology services	100.0%	100.0%
The Polished Group S.A. (TPG) – subsidiary	Information technology services	*95.0%	100%
Wirtualna Polska S.A. (Wirtualna Polska) – associate	Internet portal operator	*38.0%	25.0%
Edison S.A. – subsidiary	Data processing company	*48.5%	-
Prokom Internet SA (Prokom Internet) – subsidiary	Holding company	95.0%	-
ce-market.com. S.A. - associate	E-commerce company	**46.8%	-
Ad Net S.A.- associate	E-commerce company	*46.6%	-
Stopklatka Sp. z o.o. – subsidiary	Internet portal operator	*76%	-

* percentage owned via Prokom Internet SA

** 5% owned directly by the Company, the rest via Prokom Internet

All the above companies are incorporated and operate principally in Poland.

Koma and Combidata were purchased by the Company in May 1997 from Prokom Investments S.A. and have been accounted for on a uniting of interests basis.

Subsidiaries and associates, which were not included in the consolidation due to the immateriality of balances involved, are listed in Note 9 of the financial statements.

Goodwill arising on acquisition is capitalized and amortized over its useful life, generally over 5 years. Amortization of goodwill is included in general and administrative expenses. The carrying amount of goodwill is reviewed annually and written down for permanent impairment where it is considered necessary.

Any dilution gains arising on the deemed disposals of subsidiaries are recognized in the year of the disposal.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

3. Summary of significant accounting policies

(a) Use of Estimates

The preparation of financial statements in conformity with IAS necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and expenses during the reported period. Actual results could differ from these estimates.

(b) Cash and Cash Equivalents

The Company considers all debt instruments purchased with a maturity of three months or less to be cash equivalents.

(c) Short Term Securities

Government and commercial bonds are carried at market value. Investments in companies listed on the Warsaw Stock Exchange are valued at the lower of cost and market value. Market value is calculated by reference to quoted selling prices at the close of business on the balance sheet date. Changes in carrying amount are charged or credited to the income statement. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

(d) Inventories

Inventories are valued on a FIFO basis at the lower of purchase price and net realisable value. The Company has recorded a provision for obsolete and slow moving inventory.

(e) Tangible Fixed Assets

Tangible Fixed Assets are stated at cost plus related inflation up to 31 December 1996, and additions are at cost thereafter, less accumulated depreciation.

Depreciation is recorded using the straight-line method over the estimated useful life of the assets. These rates are summarised as follows:

Type	Depreciation rate	Term
Vehicles	20 - 40%	2.5 to 5 years
Computers	30 - 60%	1.5 to 3 years
Leasehold improvements	10%	10 years
Buildings	10%	10 years
Office equipment	10 - 50%	2 to 10 years

Land is not depreciated.

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

3. Summary of significant accounting policies (cont'd)

(f) Intangible Fixed Assets

Expenditure on acquired patents, licenses and similar rights is capitalized and amortized using the straight-line method over their useful lives, generally over 4 years. The carrying amount of each intangible fixed asset is reviewed annually and adjusted for permanent impairment where it is considered necessary.

(g) Investments

Marketable securities are carried at market value. Market value is calculated by reference to Stock Exchange quoted selling prices at the close of business on the balance sheet date. Other investments are shown at cost and provision is only made where, in the opinion of Directors, there is a permanent diminution in the value of an investment.

(h) Foreign currency transactions

Foreign currency transactions are valued according to the average exchange rate announced by the central bank of Poland at the transaction date. Debtors and creditors are valued according to the central bank of Poland average exchange rate as at the balance sheet date for a given currency.

Gains and losses arising on foreign currency transactions are included in other operating income or expense, respectively.

(i) Deferred Income Taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

(j) Revenues

Revenues (and the related profit) from information technology services are recognized based on completion of a given stage of the relevant contract. This is normally evidenced by formal customer acceptance procedures. Sales of hardware are recognized on delivery to the customer. Revenues from software licenses are recognized ratably over the duration of the systems contract to which they relate.

(k) Royalties

Royalties payable in respect of revenues from third party software products are accounted for in the same period as the related revenues.

(l) Borrowing costs

All borrowing costs are expensed in the period to which they relate.

(m) Research and development

Research and development expenditure is recognized as an expense except that costs incurred on development projects are recognized as intangible assets to the extent that such expenditure is expected to have future benefits. However, development costs initially recognised as an expense are not recognised as an asset in subsequent periods.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

3. Summary of significant accounting policies (cont'd)

(n) Shares issued at price below fair value

Proceeds from the issue of new shares are credited to shareholders' equity and no adjustment is made in respect of any difference between the issue price and the market value of shares issued.

(o) Comparatives

Comparative figures have been adjusted to conform with changes in presentation in the current year. However, the comparatives have not been adjusted or extended to take into account the requirements of the following revised or new International Accounting Standards as the Company implemented these in 1999 in advance of their effective dates:

IAS 16 (revised)	-Property, Plant and Equipment;
IAS 22 (revised)	-Business Combination;
IAS 36	-Impairment of Assets;
IAS 37	-Provisions, Contingent Liabilities and Contingent Assets;
IAS 38	-Intangible Assets.

No amendments have resulted in changes to previously presented results or shareholders' equity.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

4. Short term securities

	31 December 2000	31 December 1999
Equity securities	16,158	13,078
Government bonds	16,050	17,764
Commercial papers	969	-
	<u>33,177</u>	<u>30,842</u>

Government bonds mainly include 26-week and 52-week bonds issued by the Polish government. Equity securities include investments in companies listed on the Warsaw Stock Exchange. The market value of equity securities was PLN 22,082 at 31 December 2000 (PLN 14,126 at December 1999).

5. Inventories

	31 December 2000	31 December 1999
Raw materials and components used in systems installations	10,525	27,517
Computer equipment for resale	13,099	13,035
Costs incurred relating to work not yet invoiced	41,846	36,032
	<u>65,470</u>	<u>76,584</u>

6. Prepayments

Prepayments principally include software license fees prepaid.

7. Long term receivables

	31 December 2000	31 December 1999
Long term trade receivables	-	12,117
Long term loans	7,162	15,362
Loans to employees	-	3,004
Deposits and other	3,836	3,744
	<u>10,998</u>	<u>34,227</u>
Less current portion of long term receivables	-	(12,117)
	<u>10,998</u>	<u>22,110</u>

Long term loans comprise loans to non-related companies, which bear market interest rates. These loans have repayment dates after 31 December 2001, or have no fixed repayment date and therefore are regarded as long term in nature.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

8. Deferred tax

1 January 1999	9,071
Deferred tax – income statement credit	128
31 December 1999	9,199
Deferred tax – income statement debit	(3,048)
31 December 2000	6,151

Deferred taxation arises in respect of the following:

	31 December 2000	31 December 1999
Share issue costs	2,031	3,056
Financial income	(5,027)	(1,114)
Deferred income	1,470	2,910
Accounts payable and accruals	5,327	3,710
Revaluation of marketable securities to current market value	2,250	261
Other, net	100	376
	6,151	9,199

Deferred tax on share issue costs was calculated on costs incurred in the public offering in 1997 and in 1998, which were charged against share premium account.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

9. Investments

The following table provides a summary of investments.

Company	31 December 2000 Percentage Ownership	31 December 2000 Percentage of votes	31 December 2000	31 December 1999
Softbank S.A. (i)	10%	10%	104,195	-
Grupa Inwestycyjna Pro S.A.	58%	58%	89	89
Optix Polska Sp. z o.o	60%	67%	313	313
Postdata S.A.	49%	49%	798	798
Koma Nord Sp. z o.o.	75%	75%	155	155
International Data System	15%	15%	51	51
NKA Investments Sp.z o.o.	15%	15%	1,803	1,803
Elterix S.A.(ii)	10%	10%	406	3,518
Safe Computing Sp. z o.o.	53%	53%	768	-
Internet Wizards Sp. z o.o.	96%	96%	336	-
Other	n/a	n/a	306	54
Total			109,220	6,781

- (i) On 2 September 2000 the Company acquired a 9.99% shareholding in Softbank S.A., a company listed on the Warsaw Stock Exchange and specialising in software integration, for a consideration of PLN 128,240. As at 31 December 2000 the market value of Softbank shares owned by the Company was PLN 104,195. The loss arising on the write down of these shares to market value of PLN 24,045 was recognised in the year ended 31 December 2000.
- (ii) The carrying value of Elterix shares are net of a provision for permanent diminution in value of PLN 3,112. This provision was created in the year ended 31 December 2000.

The above subsidiaries and associates, all of which are incorporated and operate principally in Poland, were not included in the consolidated financial statements due to the immateriality of amounts involved. Other investments are also incorporated in Poland.

These are investments in companies operating predominately in the IT and telecommunication services sector, except for the following:

NKA Investments Sp. z o.o. - real estate development
 Grupa Inwestycyjna Pro S.A. – business and financial consulting

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

10. Interest in associated undertakings

	Pagi	Wirtualna Polska	Ce-Market	Ad-Net	Total
1 January 1999, net book value	7,476	-	-	-	7,476
Acquisition	-	14,411	-	-	14,411
Share in post-acquisition losses	(343)	(307)	-	-	(650)
Amortisation of goodwill	(190)	(465)	-	-	(655)
31 December 1999, net book value	6,943	13,639	-	-	20,582
1 January 2000, net book value	6,943	13,639	-	-	20,582
Acquisition	-	35,693	3,920	197	39,810
Share in post-acquisition profits / (losses)	310	(16,799)	(571)	(24)	(17,084)
Amortisation of goodwill	(160)	(3,331)	-	(4)	(3,495)
Disposal (including goodwill not written off)	(7,093)	(1,284)	(169)	(9)	(8,555)
31 December 2000 net book value	-	27,918	3,180	160	31,258

11. Goodwill on consolidation

	1 January 1999	Additions	31 December 1999	Additions	31 December 2000
Gross value	2,608	7,414	10,022	2,510	12,532
Amortization	(1,845)	(505)	(2,350)	(2,402)	(4,752)
Total	763	6,909	7,672	108	7,780

Additions to goodwill in 2000 arise solely from the acquisition of Edison (see Note 23). In the opinion of the management of the Company, there was no impairment to the carrying value of goodwill as at 31 December 2000.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

12. Intangible fixed assets

Changes in intangible assets:

	Computer software	Licenses and other	Total
Year ended 31 December 1999			
Opening net book value	12	2,040	2,052
Additions	325	6,299	6,624
Acquisition of subsidiary	87	909	996
Depreciation charge	(202)	(2,641)	(2,843)
Closing net book value	222	6,607	6,829
Costs	452	33,596	34,048
Accumulated depreciation	(230)	(26,989)	(27,219)
Net book value	222	6,607	6,829
Year ended 31 December 2000			
Opening net book value	222	6,607	6,829
Additions	2,163	13,300	15,463
Acquisition of subsidiary (see Note 23)	2,609	43	2,652
Depreciation charge	(2,283)	(5,547)	(7,830)
Closing net book value	2,711	14,403	17,114
Costs	5,224	46,939	52,163
Accumulated depreciation	(2,513)	(32,536)	(35,049)
Net book value	2,711	14,403	17,114

Amortisation of intangible fixed assets is included in general and administrative expenses.

Prokom Software S.A.
Notes to consolidated financial statements
(Expressed in Polish Zloty (PLN) all amounts in thousands)

13. Tangible fixed assets

Changes in tangible fixed assets:

	Land & buildings	Long-term lease and leasehold improvements	Computers and office equipment	Vehicles	Total
Year ended 31 December 1999:					
Opening net book value	6,520	8,149	12,023	3,630	30,322
Additions	56	6,272	32,065	3,491	41,884
Acquisition of subsidiary (see Note 23)	-	12	170	49	231
Depreciation charge	(214)	(572)	(14,286)	(1,959)	(17,031)
Closing net book value	6,362	13,861	29,972	5,211	55,406
At 31 December 1999					
Cost	7,159	15,359	58,337	14,301	95,156
Accumulated depreciation	(797)	(1,498)	(28,365)	(9,090)	(39,750)
Net book value	6,362	13,861	29,972	5,211	55,406
Year ended 31 December 2000:					
Opening net book value	6,362	13,861	29,972	5,211	55,406
Additions	-	2,589	16,014	4,014	22,617
Disposals	-	(16)	(98)	(355)	(469)
Acquisition of subsidiary	-	153	194	-	347
Depreciation charge	(214)	(1,605)	(24,134)	(1,806)	(27,759)
Closing net book value	6,148	14,982	21,948	7,064	50,142
At 31 December 2000					
Cost	7,159	18,085	74,447	17,960	117,651
Accumulated depreciation	(1,011)	(3,103)	(52,499)	(10,896)	(67,509)
Net book value	6,148	14,982	21,948	7,064	50,142

Computers with gross book value of PLN 538 are pledged as security for bank borrowings.

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14. Shareholders' equity (amounts not in thousands)

	Number of shares	
	31 December 2000	31 December 1999
Series A preferred shares	185,416	185,416
Series B shares	9,814,584	9,814,584
Series C shares	2,700,000	2,700,000
Series D shares	87,264	87,264
Inflation effect	294,000	294,000
	13,081,264	13,081,264

Each series A preferred share carries five voting rights. The shares series B,C and D carry one vote per share.

Nominal value of shares

All shares at 31 December 1999 are issued at a nominal value of PLN 1.

Shareholders rights

With the exception of the special voting rights attached to the series A preferred shares, all classes of issued shares rank equally for dividend and on a return of capital from 1 January 1999.

Series D shares

During the year ended 31 December 2000 the Company obtained approval from the Warsaw stock exchange to issue all the series D shares (762,000 shares). These shares were issued on 2 March 2001.

The series D issue included an allocation of shares to TPG management (87,264 shares). The remaining shares were issued to Beskidzki Dom Maklerski S.A and will be subscribed for by employees of the Company by the end of July 2001.

All series D shares had an exercise price of 1 PLN.

Dividend

In 1999 the Company declared and paid a dividend out of retained earnings as at 31 December 2000 of PLN 19,050. The Company's management has not yet decided on the amount of dividend to be paid out of the Company's profits for 2000 in 2001.

Significant shareholders as at 31 December 2000

The following shareholders held more than 5% of shares:

	% of ownership	% of voting rights
Prokom Investments S.A.	29.80%	30.36%
Ryszard Krauze	13.93%	14.53%

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15. Short term borrowings

	31 December 2000	31 December 1999
Bank loans (i)	173,745	-
Issued commercial papers (ii)	98,744	-
Other	218	404
	<u>272,707</u>	<u>404</u>
 (i) Bank loans comprise:		
Bank loan from Bank Austria Creditanstalt AG	124,055	-
Bank overdraft from Raiffeisen Bank Polska SA	35,954	-
Bank overdraft from BRE Bank SA	13,736	-
	<u>173,745</u>	<u>-</u>

Bank loan from Bank Austria Creditanstalt AG is denominated in EURO (EURO 32,185 as at 31 December 2000). Annual interest rate is one month WIBOR plus 0.91%.

Bank overdraft from Raiffeisen Bank Polska SA is denominated in PLN (maximum overdraft PLN 48,000) and has an annual interest rate of one week WIBOR plus 0.85%.

Bank overdraft from BRE Bank SA is denominated in PLN (maximum overdraft PLN 15,000) and has an annual interest rate of one month EURIBOR plus 0.70%.

(ii) Commercial Papers issued by the Company in the second half of 2000 bear an annual interest rate of 19.60% - 20.13%. These Commercial Papers are short term in nature. The nominal value of commercial papers issued by the Company as at 31 December 2000 is PLN 100,000.

16. Government payables

	31 December 2000	31 December 1999
Corporate income tax	10,460	3,690
Value added tax	10,268	1,861
Other	8,455	5,947
	<u>29,183</u>	<u>11,498</u>

Other includes mainly payables for customs duties, personal income taxes withheld on payroll and social security.

17. Deferred income

	31 December 2000	31 December 1999
Deferred income on software licenses	877	8,430
Deferred income on maintenance services	4,355	2,713
Other deferred income	580	118
	<u>5,812</u>	<u>11,261</u>

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18. Operating expenses

	Year ended 31 December 2000	Year ended 31 December 1999
Cost of hardware supplied and materials used in installations	(457,549)	(310,170)
External services	(156,938)	(117,883)
Payroll	(131,744)	(105,202)
Social security	(19,753)	(16,082)
Depreciation and amortization of goodwill	(41,486)	(21,034)
Other	(23,323)	(23,399)
Changes in work in progress	15,319	14,968
Total	(815,474)	(578,802)
Cost of sales	(670,004)	(474,306)
Selling costs	(31,829)	(24,448)
General and administrative costs	(113,641)	(80,048)
Total	(815,474)	(578,802)

The average number of employees in the Company in 2000 was 2,180 (1,908 in 1999).

Operating expenses include PLN 25,000 (PLN 9,000 in 1999) for research and development.

19. Other operating income/(expenses), net

	Year ended 31 December 2000	Year ended 31 December 1999
Foreign exchange gains/(losses), net	7,405	(2,006)
Gain on partial sale of interest in real estate project (see Note 22, a, ii)	6,757	-
Donations	(12,025)	(7,077)
Additional costs relating to office space rental (see Note 22, a, iii)	(4,297)	-
Other, net	(496)	(551)
Total	(2,656)	(9,634)

Donations comprise amounts given by the Company for religious, health protection, sport, educational and charitable purposes.

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20. Financial income /(expense), net

	Year ended 31 December 2000	Year ended 31 December 1999
Interest on bank loans	(4,195)	(142)
Interest on own commercial papers	(8,621)	-
Interest from bank deposits	5,160	2,607
Gains on sales of government bonds and commercial papers	3,382	10,275
Gains on sales of equity investments	507	1,883
Dividend received from equity investments	136	702
Write-down of equity securities to market value	(2,368)	(1,989)
Write down of investments to market value	(27,157)	-
Increase in market value of government bonds	1,367	1,118
Financial income from related parties (see Note 22)	18,430	10,351
Interest on loans from non-related parties	1,920	1,311
Bank charges, fees and commissions	(2,975)	(972)
Bank interest payable	(173)	(161)
Other, net	(1,322)	(415)
Total	(15,909)	24,568

21. Corporate income tax

	Year ended 31 December 2000	Year ended 31 December 1999
Current tax	(53,378)	(52,985)
Deferred tax (debit)/credit	(3,048)	128
	(56,426)	(52,857)

Reconciliation of tax expense:

The Company's corporate income tax charge differs from the amount that would arise using the statutory tax rate as follows:

	Year ended 31 December 2000	Year ended 31 December 1999
Profit before tax	123,261	148,774
Expected income tax expense at statutory rates	(36,978)	(50,583)
Increase/(decrease) resulting from:		
Tax on intra group profit	(12,128)	-
Tax losses in subsidiaries and associates not utilized	(7,793)	(485)
Effect on enacted future rate changes on deferred taxation	(294)	(1,283)
Tax on other, net	767	(506)
	(56,426)	(52,857)

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21. Corporate income tax (cont'd)

The corporate tax rate in Poland for 2000 was 30% (34% in 1999).

There is no procedure for final agreement of tax assessments in Poland. The tax authorities may examine the accounting records for up to five years after the end of the year to which they relate. Consequently, the Company may be subject to additional tax liabilities in the event of such an audit. However, the Management Board is not aware of any significant unaccrued potential tax liability that might arise in these circumstances.

The Company has not had a deferred tax liability throughout the periods covered by these financial statements.

22. Related party transactions

(a) Related party receivables

	31 December 2000	31 December 1999
Amounts due from Prokom Investments S.A.	292,372	67,251
Long term amounts due from NKA Investments Sp. z o.o.	-	11,971
Amounts due from Nihonsvi AG	-	5,004
Trade receivables from related parties	5,122	-
Other balances with non-consolidated subsidiaries	5,402	2,091
	302,896	86,317
Less long term portion	(9,720)	(46,374)
	293,176	39,943

Prokom Investments S.A. is a shareholder of the Company, in which Mr Ryszard Krauze, the chairman of the management board and a major shareholder of the Company, has a controlling interest. NKA Investments Sp. z o.o. ("NKA Investments"), which is a real estate company in Warsaw, is controlled by Mr Ryszard Krauze. Nihonsvi AG is one of the shareholders of the Company and it also has a financial interest in Prokom Investments S.A.

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22. Related party transactions (cont'd)

Amounts due from Prokom Investments S.A.:

	31 December 2000	31 December 1999
Prokom Investments S.A. commercial papers (i)	226,989	13,168
Amounts due arising from the partial sale of interest in real estate project (ii)	30,595	-
Funding for joint real estate projects (ii)	9,720	29,376
Advance for lease of office space (iii)	19,680	19,680
Other loans (iv)	5,388	5,027
	292,372	67,251
Less long term (ii), (iv)	(9,720)	(34,403)
	282,652	32,848

- (i) The commercial papers issued by Prokom Investments S.A. bear interest at market rates, detailed below.

Changes in commercial papers issued by Prokom Investments S.A.

	12 months 31 December 2000	12 months 31 December 1999
1 January	13,168	24,072
Commercial papers purchased	274,857	111,229
Interest accrued	17,710	4,912
Commercial papers redeemed plus accrued interest paid	(78,746)	(127,045)
31 December	226,989	13,168

In addition, the Company purchased the following commercial papers from Prokom Investments S.A. after 31 December 2000:

On 12 January 2001 for consideration of PLN 2,012, interest of 19.72%, redemption date 4 January 2002

On 24 January 2001 for consideration of PLN 6,674, interest of 19.72%, redemption date 28 February 2001

On 26 January 2001 for consideration of PLN 15,818, interest of 19.72%, redemption date 28 February 2001

On 28 February 2001 for consideration of PLN 22,933, interest of 19.72%, redemption date 30 August 2001

On 9 March 2001 for consideration of PLN 5,922, interest of 19.26%, redemption date 10 September 2001

On 28 March 2001 for consideration of PLN 33,399, interest of 19.01%, redemption date 28 September 2001

On 29 March 2001 for consideration of PLN 10,031, interest of 18.76%, redemption date 3 October 2001

On 11 April 2001 for consideration of PLN 5,674, interest of 18.50%, redemption date 11 October 2001

On 20 April 2001 for consideration of PLN 6,589, interest of 18.50%, redemption date 20 November 2001

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22. Related party transactions (cont'd)

On 27 April 2001 for consideration of PLN 32,631, interest of 18.25%, redemption date 26 October 2001

On 4 May 2001 for consideration of PLN 3,018, interest of 18.25%, redemption date 7 November 2001

On 28 February 2001, the Company redeemed commercial papers issued by Prokom Investments S.A. in the amount of PLN 22,900. This amount included interest of PLN 408. Interest income was recognised in 2001.

On 15 May 2001, the total amount of receivables due from Prokom Investments S.A. in relation to the above transactions was PLN 122,209 excluding accrued interest.

- (ii) During the 12 month period ended 31 December 2000 the Company advanced an additional PLN 4,182 to Prokom Investments S.A. to provide funding for a real estate project undertaken by that company. As at 29 December 2000, the total amount invested in this project by the Company was PLN 33,558. As at 29 December 2000, the Company sold to Prokom Investments part of its interest in this project with a carrying value PLN of 23,838 for PLN 30,595. The profit on this transaction of PLN 6,757 was recognised as other operating income (see Note 19). The remaining amount due of PLN 9,720 does not bear interest and has no fixed repayment date, it is therefore regarded as long term in nature. The return to the Company on this advance will be based on the performance of the underlying real estate project in proportion to the amounts contributed by each party.
- (iii) In July 1999, the Company signed an agreement with Prokom Investments to lease office space from 1 April 2000 for 10 years. In August 1999 the Company advanced PLN 19,680 to Prokom Investments as a guarantee payment in respect of the lease contract. On 14 February 2000, the Company paid an additional PLN 4,297 to Prokom Investments to pay for additional costs incurred by Prokom Investments S.A. in relation to the office space. This amount was expensed by the Company in the year ended 31 December 2000.
- (iv) Other loans include loans to companies which are not related parties but where the repayment of the loans was guaranteed by Prokom Investments S.A. as at 31 December 1999. During the year ended 31 December 2000 these loans were ceded to Prokom Investments.

Long term amounts due from NKA Investments

In 2000 the Company advanced an additional PLN 4,200 to NKA Investments in order to construct an office building in Warsaw. On 31 August the Company cancelled its agreement with NKA Investments. All amounts previously advanced to NKA Investments and totalling 16,171 as at 31 August 2000 were repaid in full to the Company before 31 December 2000.

(a) Financial income from related parties

	12 months 31 December 2000	12 months 31 December 1999
Prokom Investments S.A.	18,071	9,272
Nihonsvi AG	81	716
Other	278	363
	18,430	10,351

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22. Related party transactions (cont'd)

Financial income from Prokom Investments S.A. comprise:

	12 months 31 December 2000	12 months 31 December 1999
Interest from commercial papers (see point a (ii))	17,710	4,912
Interest on other long term loans (see point a (iv))	361	716
Interest on bills of exchange drawn by Prokom Investments	-	1,313
Interest on short term loan	-	2,331
	<u>18,071</u>	<u>9,272</u>

(a) Services purchased from related parties in 2000

	12 months 31 December 2000	12 months 31 December 1999
Prokom Investments S.A.	17,382	15,476
Baltway S.A.	5,345	3,910
Optix Polska Sp. z o.o.	9,731	-
Other	64	-
	<u>32,522</u>	<u>19,386</u>

The services purchased from Prokom Investments S.A. comprise:

Rental costs of aircraft	7,080	7,234
Rental of cars	540	1,434
Rental of office space	1,407	-
Marketing costs	7,704	5,576
Other	1,021	1,232
	<u>17,752</u>	<u>15,476</u>

In June 1998, the Company signed an agreement with Baltway S.A., a company controlled by Prokom Investments S.A., to lease office space from 1 July 1998 for 5 years. In addition, the total cost of leasehold improvements incurred by the Company on these offices was PLN 1,876. The total amount outstanding under this rental agreement at 31 December 2000 was PLN 4,926.

(b) Future lease commitments

The future minimum lease payments under non-cancellable operating leases (with related parties) are as follows:

	31 December 2000	31 December 1999
Amounts falling due:		
In less than 1 year	11,899	16,097
After 1 year and not later than 5 years	41,112	53,552
Later than 5 years	35,262	46,494
	<u>88,273</u>	<u>116,143</u>

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22. Related party transactions (cont'd)

The future minimum lease payments include the future lease commitments for rental of office space from Prokom Investments and Baltway.

Guarantees given

In addition the Company gave guarantees to BIG Bank Gdański S.A. for a maximum amount of USD 900,000 as surety for a letter of credit issued by the bank to Petrolinvest Sp. z o.o., in which Prokom Investments S.A. has a financial interest.

23. Acquisition of business

In the first half of 2000, the Company purchased 51% of shares of Edison SA.

Details of net assets acquired and goodwill are as follows:

Purchase consideration:

Cash paid	4,200
Fair value of net assets acquired	(1,690)
Goodwill (see Note 11)	<u>2,510</u>

The assets and liabilities arising from the acquisition are as follows:

Cash	2,588
Net current assets	812
Tangible fixed assets	347
Intangible fixed assets	2,652
Other liabilities	(3,085)
Minority interests	(1,624)
Net assets acquired	<u>1,690</u>
Goodwill	2,510
Total purchase consideration	4,200
Less:	
Cash in subsidiary acquired	(2,588)
Cash outflow on acquisition	<u><u>1,612</u></u>

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24. Discontinuing operations

In October 2000 the Company sold all its shares held in Powszechna Agencja Informacyjna PAGI S.A. to Telekomunikacja Korporacyjna Sp. z o.o. for a consideration of PLN 55,604.

The details of the transaction are as follows:

Sales consideration	55,604
Value of net assets disposed	(6,870)
Goodwill not written off	(223)
Profit on disposal of Pagi	48,511

On 27 July 2000 Koma S.A. issued additional share capital, not acquired by the Company. This reduced the Company's shareholding in Koma SA from 75% to 59.3%.

The details of this deemed disposal are as follows:

Share of net assets after deemed disposal	12,950
Share of net assets before deemed disposal	(7,864)
Unamortised goodwill on acquisition relating to shareholding disposed	(33)
Profit on deemed disposal of Koma	5,053

On 26 October 2000 Wirtualna Polska acquired a 5% cross shareholding in Prokom Internet S.A. As a result of this transaction, the Company's effective shareholding in Prokom Internet decreased from 99.99% to 94.99%.

The details of this deemed disposal are as follows:

Share of net assets after deemed disposal	36,635
Share of net assets before deemed disposal	(37,691)
Unamortised goodwill on acquisition relating to shareholding disposed	(883)
Loss on deemed disposal of Prokom Internet	(1,939)

Profit on deemed disposal of Koma	5,053
Loss on deemed disposal of Prokom Internet	(1,939)
Profit on disposal of discontinuing operations	3,114

25. Financial instruments

Credit risk

Financial assets, which potentially subject the Company and its affiliates to a concentration of credit risk, consist principally of cash and cash equivalents, balances with related parties and trade receivables. The Company's cash deposits are with major Polish banks.

Trade receivables, which are presented net of an allowance for doubtful receivables, generally include significant amounts from a small number of customers, reflecting the nature of the Company's business which is focused on a small number of large contracts for major Polish corporations.

At 31 December 2000 five customers accounted for 54% of the total amount of trade receivables; at 31 December 1999, four customers accounted for 67 % of the total.

Foreign currency risk

The Company's operating revenues and costs are predominantly denominated in Polish zloty with exception of equipment purchased in foreign currency for ultimate resale to customers. For significant sales contracts denominated in Polish zloty with purchases denominated in foreign currencies, forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates.

At 31 December 2000 and 1999 there were no open forward contracts.

A significant part of the Company's borrowings is denominated in EURO. Management does not consider it is cost effective to use financial instruments to hedge or otherwise seek to reduce foreign currency risk for borrowings there.

Fair values

At 31 December 2000 and 31 December 1999, the carrying amounts of cash at bank and in hand, short term securities, accounts receivable, accounts payable and accrued expenses, short-term borrowings and long-term investments approximated their fair values. The Company does not use any derivative financial instruments.

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26. Earnings per share (not in thousands)

Basic and diluted earnings per share have been calculated based on net profit for each year divided by the weighted average number of shares. Contingently issuable shares are included in the calculation of basic and diluted earnings per share as the conditions for issue are deemed to have been met at the end of both reporting periods.

	Year ended 31 December 2000	Year ended 31 December 1999
Net profit attributable to shareholders	67,668,000	95,118,000
Weighted average number of shares issued	13,458,171	12,721,810
Basic and diluted earnings per share	5.03	7.48

The weighted average number of shares was calculated as follows:

Weighted average number of shares issued	12,700,000	12,700,000
Weighted average number of D series shares	762,000	22,426
Number of shares that would have been issued at fair value	(3,829)	(616)
Weighted average number of shares	13,458,171	12,721,810

27. Management Board and Supervisory Board Remuneration

The total remuneration, including salary and bonuses paid or accrued by the Company to the members of the Management and Supervisory Boards in the period 1 January to 31 December 2000, was PLN 4,561 (1999: PLN 5,304).

28. Subsequent events

On 15 January 2001 Koma S.A. issued additional share capital, not acquired by the Company. As a result the Company's shareholding in Koma SA decreased from 59.3% to 56.3%.

In January 2001 the Company signed a further contract with TP SA to provide services for a consideration of PLN 16,000.

On 23 February 2001 the Company provided guarantees to BRE Bank S.A. for a maximum amount PLN 4,070 as surety for a letter of credit issued by the bank to ce-market.com. S.A.

In March 2001 the Company signed a further contract with TP SA to provide services for a consideration of PLN 36,800.

On 12 March 2001, the Company acquired an 8.13% interest in Ster-Projekt S.A., a software system integrator, for a consideration of PLN 20,252.

In March 2001 the Company signed a further contract with Warta SA to provide services for a consideration of PLN 42,000.

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28. Subsequent events (cont'd)

In April 2001 the Company signed a further contract with Zakład Ubezpieczeń Społecznych (ZUS) to provide services for a consideration of PLN 56,500.

29. Future lease commitments

The future minimum lease payments under non-cancellable operating leases (other than those disclosed in Note 22) are as follows:

	Year ended 31 December 2000	Year ended 31 December 1999
Amounts falling due:		
In less than 1 year	9,247	7,564
After 1 year and not later than 5 years	638	495
	<u>9,885</u>	<u>8,059</u>

The above amounts relate mainly to rental of office space.

30. New accounting standards

For the consolidated financial statements for 2001, a new International Accounting Standard will come into effect in respect of financial instruments, recognition and measurement. The Company intends to adopt this standard in 2001. The Company has not yet determined the effect, if any, of this standard.