

PROKOM SOFTWARE S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2000

Report of Independent Accountants

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

We have reviewed the accompanying condensed consolidated balance sheets of Prokom Software S.A. (the Company) as at 30 June 2000 and the condensed consolidated statements of operations, of consolidated changes in shareholders' equity and of consolidated cash flows for the six month periods ended 30 June 2000 and 1999, prepared in accordance with International Accounting Standards and on the basis set out in Note 1 to the financial statements, expressed in Polish Złoty (PLN). These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with International Standards on Auditing and Related Services applicable to such reviews. A review consists principally of applying analytical procedures to financial data and making inquiries of Company personnel responsible for financial and accounting matters. It is substantially less in scope than an examination in accordance with International Standards on Auditing, the objective of which is an expression of opinion regarding financial statements taken as a whole. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial information in order for it to have been prepared in accordance with International Accounting Standards.

We previously audited in accordance with International Standards on Auditing, the consolidated balance sheet of the Company as at 31 December 1999 and the related consolidated statements of operations, of changes in shareholders' equity and of cash flows for the year then ended, not presented herein, as prepared in accordance with International Accounting Standards. In our report dated 15 May 2000, we expressed an unqualified opinion on these consolidated financial statements. In our opinion, the information set forth in the condensed balance sheet as of 31 December, 1999, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

Warsaw, Poland
17 October 2000

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

	<u>30 June 2000</u>	<u>31 December 1999</u>
ASSETS		
CURRENT ASSETS		
Cash at bank and in hand	7,210	80,780
Short term securities	37,272	30,842
Related parties	118,538	39,943
Accounts receivable		
Trade	182,012	120,504
Other	26,249	8,569
Inventories	58,791	76,584
Prepaid expenses	<u>7,371</u>	<u>11,061</u>
TOTAL CURRENT ASSETS	437,443	368,283
LONG TERM RECEIVABLES	9,993	17,910
RELATED PARTIES	56,249	46,374
DEFERRED TAX	7,923	9,199
INVESTMENTS, AT COST	12,488	10,981
INTEREST IN ASSOCIATED UNDERTAKING	52,795	20,582
GOODWILL ON CONSOLIDATION	6,864	7,672
INTANGIBLE FIXED ASSETS, NET	7,180	6,829
TANGIBLE FIXED ASSETS, NET	<u>54,473</u>	<u>55,406</u>
TOTAL ASSETS	<u><u>645,408</u></u>	<u><u>543,236</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Short term borrowings	47,119	404
Accounts payable and accruals		
Trade	103,880	102,729
Government	26,979	11,498
Employees	841	766
Unpaid dividends	19,050	-
Accruals and other	10,933	8,135
Deferred income	<u>9,472</u>	<u>11,261</u>
TOTAL CURRENT LIABILITIES	218,274	134,793
LONG TERM BORROWINGS	296	-
MINORITY INTEREST	3,386	3,198
SHAREHOLDERS' EQUITY		
Share capital	13,081	13,081
Share premium	195,348	195,348
Retained earnings	<u>215,023</u>	<u>196,816</u>
TOTAL SHAREHOLDERS' EQUITY	<u>423,452</u>	<u>405,245</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>645,408</u></u>	<u><u>543,236</u></u>

The accompanying notes are an integral part of these financial statements

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

	6 months 30 June 2000	6 months 30 June 1999
REVENUES	383,974	313,887
COST OF SALES	<u>(277,831)</u>	<u>(184,786)</u>
GROSS MARGIN	106,143	129,101
SELLING COSTS	(10,238)	(9,238)
GENERAL AND ADMINISTRATIVE COSTS	(48,453)	(36,184)
OTHER OPERATING EXPENSES, NET	(3,550)	(7,886)
INTEREST IN ASSOCIATED UNDERTAKING	<u>(2,944)</u>	<u>(7)</u>
OPERATING PROFIT	40,958	75,786
FINANCIAL INCOME, NET	<u>17,312</u>	<u>10,453</u>
PROFIT BEFORE INCOME TAXES	58,270	86,239
CORPORATE INCOME TAXES	(20,824)	(31,344)
MINORITY INTEREST	<u>(189)</u>	<u>(432)</u>
NET PROFIT	<u><u>37,257</u></u>	<u><u>54,463</u></u>
BASIC EARNINGS PER SHARE (not in thousands)	<u><u>2.91</u></u>	<u><u>4.29</u></u>
DILUTED EARNINGS PER SHARE (not in thousands)	<u><u>2.84</u></u>	<u><u>-</u></u>

The accompanying notes are an integral part of these financial statements

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

	Number of shares <i>(not in thousands)</i>	Share capital	Share premium	Total Retained earnings	Total shareholders' equity
Balance as at 1 January 2000	12,787,264	13,081	195,348	196,816	405,245
Net profit for the 6 months ended 30 June 2000	37,257	37,257	-	-	
Dividend declared				(19,050)	(19,050)
Balance as at 30 June 2000	<u>12,787,264</u>	<u>13,081</u>	<u>195,348</u>	<u>215,023</u>	<u>423,452</u>

	Number of shares <i>(not in thousands)</i>	Share capital	Share premium	Total Retained earnings	Total shareholders' equity
Balance as at 1 January 1999	12,700,000	12,994	188,847	114,398	316,239
Net profit for the 6 months ended 30 June 1999	54,463	54,463	-	-	
Dividend declared				(12,700)	(12,700)
Balance as at 30 June 1999	<u>12,700,000</u>	<u>12,994</u>	<u>188,847</u>	<u>156,161</u>	<u>358,002</u>

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Condensed Consolidated Statements of Cash Flows
(Expressed in Polish Złoty (PLN), all amounts in thousands)

	6 months 30 June 2000	6 months 30 June 1999
Net cash flow from operating activities:		
Net profit before taxation	58,270	86,239
Adjustments to reconcile net profit to net cash generated by operating activities		
Depreciation and amortisation	19,040	7,972
Loss in associated undertaking	2,944	7
Write down on investments	-	240
Changes in working capital	(34,375)	(64,978)
Interest expense	454	64
Investments income, net	(17,766)	(10,516)
Net cash generated by operating activities	28,567	19,028
Interest paid	(454)	(64)
Tax paid	(14,134)	(24,427)
Cash flow from investing activities:		
Sales/(purchases) of short-term securities, net of sales	3,405	20,132
Purchase of tangible fixed assets	(12,391)	(13,514)
Purchase of intangible fixed assets	(4,323)	(5,176)
Purchase of investment	(1,508)	-
Purchase of shares in associated undertaking	(36,093)	-
Interest income received	2,423	864
Loans (given)/repaid, net	(4,621)	-
Contribution to real estate project with related parties	(6,428)	(14,795)
Net cash used in investing activities	(59,536)	(12,489)
Cash flow from financing activities:		
Increase/(decrease) in short term borrowings	46,715	(515)
Payments for short term securities from related parties	(71,412)	(1,200)
Interests received from loans and commercial papers to related parties	1,647	-
Receipts/(payments) on related party loans and other receivables	(4,963)	442
Net cash used in financing activities	(28,013)	(1,273)
Net change in cash and cash equivalents	(73,570)	(19,225)
Cash and cash equivalents at the beginning of the period	80,780	27,274
Cash and cash equivalents at the end of the period	7,210	8,049
Changes in working capital and long term operating items:		
Trade receivables	(61,508)	(65,122)
Other receivables	(4,747)	(4,580)
Inventories	17,793	(11,308)
Prepaid expenses	3,690	2,456
Long term debtors	75	6,617
Trade creditors	1,151	(187)
Due to government	10,067	1,265
Due to employees	75	607
Due to related parties	(1,096)	78
Accruals and other payables	1,915	1,954
Deferred income	(1,790)	3,242
Total	(34,375)	(64,978)

The accompanying notes are an integral part of these financial statements

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

1. Basis of preparation of the interim financial statements

These interim condensed consolidated financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 1999.

These consolidated interim financial statements should be read in conjunction with the 1999 financial statements.

Costs that arise unevenly during the financial year are anticipated or deferred in the interim financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

Certain prior period amounts have been reclassified to conform to the current period presentation.

2. Significant events occurring in the 6 months ended 30 June 2000

- (i) On 24 January 2000 the Company acquired a 99.99% shareholding in Prokom Internet S.A., a holding company investing in internet business activities, for the consideration of PLN 10,000. In addition, on 29 June 2000 the Company purchased a bill of exchange from Prokom Internet S.A. for the consideration of PLN 28,415. The bill of exchange bears interest at 18.55% per annum and has no fixed repayment date.
- (ii) On 30 June 2000 the Company declared a dividend out of retained earnings as at 31 December 1999 of PLN 19,050. In August 2000 the Company paid out the dividend.
- (iii) The Company made donations of PLN 2,571 during the 6 months ended 30 June 2000 for religious, health protection and charitable purposes. The cost of the donations is recorded as other operating expenses.
- (iv) The Company issued the following commercial papers during the 6 months ended 30 June 2000:

- On 12 June 2000 for consideration of PLN 9,853, interest of 17.77%, redemption date 12 July 2000
- On 29 June 2000 for consideration of PLN 1,479, interest of 17.80%, redemption date 28 July 2000
- On 29 June 2000 for consideration of PLN 14,322, interest of 18.35%, redemption date 28 September 2000
- On 29 June 2000 for consideration of PLN 20,689, interest of 18.54%, redemption date 28 July 2000

On 30 June 2000, the total amount of payables in relation to the above transactions is PLN 46,343 excluding accrued interest.

ING Bank NV underwriter of these commercial papers.

These commercial papers were subsequently redeemed after 30 June 2000.

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

3. Related party transactions

a. Related party receivables

	<u>30.06.2000</u>	<u>31.12.1999</u>
Amounts due from Prokom Investments S.A.	151,267	67,251
Long term amounts due from NKA Investments Sp. z o.o.	16,171	11,971
Amounts due from Nihonsvi AG	-	5,004
Amounts due from Edison SA	3,086	-
Other balances with non-consolidated subsidiaries	4,263	2,091
	<u>174,787</u>	<u>86,317</u>
Less long term portion	(56,249)	(46,374)
	<u>118,538</u>	<u>39,943</u>

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.

Amounts due from Prokom Investments S.A.:

	<u>30.06.2000</u>	<u>31.12.1999</u>
Funding for joint real estate projects (i)	31,604	29,376
Prokom Investments S.A. commercial papers (ii)	91,370	13,168
Advance for lease of office space (iii)	19,680	19,680
Other long term loans (iv)	5,388	5,027
Other short-term	3,225	-
	<u>151,267</u>	<u>67,251</u>
Less long term (i), (iv)	(36,992)	(34,403)
	<u>114,275</u>	<u>32,848</u>

(i) During the 6 month period ended 30 June 2000 the Company advanced an additional PLN 2,228 to Prokom Investments S.A. to provide funding for a real estate project undertaken by that company. As at 30 June 2000, the total amount invested in this project was PLN 31,604. The amount 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.

(ii) The commercial papers issued by Prokom Investments S.A. bear interest at market rates.

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

3. Related party transactions (cont.)

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

	6 months 30 June 2000	12 months 31 December 1999
1 January	13,168	24,072
Commercial papers purchased	79,199	111,229
Interest accrued	4,003	4,912
Commercial papers redeemed including accrued interest paid	(5,000)	(127,045)
30 June / 31 December	91,370	13,168

The commercial papers issued by Prokom Investments as at 30 June 2000 are to be redeemed as follows:

Redemption date between 1 July and 30 October 2000	18,579
Redemption date between 1 November and 31 December 2000	9,387
Redemption date between 1 January and 30 June 2001	63,404

In addition, the Company purchased the following commercial papers from Prokom Investments S.A. after 30 June 2000:

On 10 July 2000 for consideration of PLN 13,255, interest of 18.50%, redemption date 04 July 2001
On 17 July 2000 for consideration of PLN 19,249, interest of 18.50%, redemption date 11 July 2001
On 25 July 2000 for consideration of PLN 5,572, interest of 18.50%, redemption date 19 July 2001
On 28 July 2000 for consideration of PLN 8,957, interest of 18.50%, redemption date 20 July 2001
On 7 August 2000 for consideration of PLN 10,060, interest of 18.50%, redemption date 1 August 2001
On 12 October 2000 for consideration of PLN 15,024, interests 19,45%, redemption date 12 December 2000

On 10 July 2000, the Company redeemed a commercial paper issued by Prokom Investments S.A. of PLN 13,200 which included interest of PLN 1,100.

On 25 July 2000, the Company redeemed a commercial paper issued by Prokom Investments S.A. of PLN 5,500 which included interest of PLN 418.

As at 17 October 2000, the total amount of receivables from Prokom Investments S.A. in relation to commercial papers not yet redeemed is PLN 147,451 including accrued interest.

- (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 in regards to additional costs incurred by Prokom Investments S.A. in relation to the office space. As at 30 June 2000 the amount of 4,297 is treated as a prepayment and will be expensed by the Company in the second half of 2000.
- (iv) Other long term loans include loans to companies which are not related parties but where the repayment of the loans is guaranteed by Prokom Investments S.A. The interest rate charged on these loans approximates market terms.

Long term amounts due from NKA Investments

During the period under review the Company advanced an additional PLN 4,200 to NKA Investments in order to construct an office building in Warsaw. The Company's further commitments relating to this project were as at 30 June 2000 USD 6,450. On 31 August 2000 the Company canceled its agreement with NKA Investments. Pursuant to the cancellation of this agreement amounts previously advanced to NKA

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

3. Related party transactions (cont.)

Investments and totaling PLN 16,171 as at 30 June 2000 are to be repaid in full to the Company before 31 December 2000.

b. Financial income from related parties

	6 months 30 June 2000	6 months 30 June 1999
Prokom Investments S.A.	4,363	4,537
Nihonsvi AG	81	358
Other	278	122
	<hr/> 4,722	<hr/> 5,017

Financial income from Prokom Investments S.A. comprise:

	6 months 30 June 2000	6 months 30 June 1999
Interest from commercial papers (see point 3 a (ii))	4,003	1,928
Interest on other long term loans (see point 3 a (iv))	360	360
Interest on bills of exchange drawn by Prokom Investments	-	1,054
Interest on short term loan	-	1,195
	<hr/> 4,363	<hr/> 4,537

c. Services purchased from related parties in 1999

	6 months 30 June 2000	6 months 30 June 1999
Prokom Investments S.A.	4,477	4,959
Baltway S.A.	2,769	1,546
Optix Polska Sp. z o.o.	2,309	-
Other	64	-
	<hr/> 9,619	<hr/> 6,505

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

Rental costs of aircraft	3,540	3,662
Rental of cars	319	961
Rental of office space	353	-
Other	265	336
	<hr/> 4,477	<hr/> 4,959

In July 1998, the Company signed an agreement to rent an aircraft from Prokom Investments S.A. until November 2000. In addition Prokom Investments S.A. has re-invoiced the insurance costs to the Company. The total amount outstanding under this rental agreement as at 30 June 2000 was PLN 4,379.

In October 1998, the Company signed an agreement to rent cars for business purposes from Prokom Investments S.A. until September 2000. The total amount outstanding under this rental agreement as at 30 June 2000 was PLN 221.

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

3. Related party transactions (cont.)

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 30 June 2000 was PLN 7,678.

d. Future lease commitments

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

	<u>30 June 2000</u>	<u>31 December 1999</u>
Amounts falling due:		
In less than 1 year	9,207	16,097
After 1 year and not later than 5 years	42,591	53,552
Later than 5 years	44,572	46,494
	<u>96,370</u>	<u>116,143</u>

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

In August 2000 the Company signed a further agreement with Prokom Investments to lease office space from 1 August 2001 for 10 years. The future minimum lease payments related to this non-cancelable operating lease agreement are as follows:

In less than 1 year	1,603
After 1 year and not later than 5 years	38,468
Later than 5 years	56,099
	<u>96,170</u>

Guarantees given

In addition the Company gave in 1999 guarantees to BIG Bank Gdański S.A. for a maximum amount USD 900 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.

4. Subsequent events

- (i) The Company issued a series of commercial papers after 30 June 2000. The underwriter of these commercial papers was ING bank NV. A summary of the subsequent movements in commercial papers is presented below:

30 June 2000	46,436
Commercial papers issued	224,623
Interest accrued	4,481
Commercial papers redeemed including interest paid	(185,989)

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

October 2000

89,551

4. Subsequent events (cont.)

All commercial papers included in the balance outstanding as at 17 October 2000 are due to be repaid before 31 December 2000.

- (ii) In July 2000 the Company signed an agreement with Telekomunikacja Korporacyjna Sp. z o.o. to sell all its shares held in Powszechna Agencja Informacyjna PAGI SA for a consideration of USD 8,637. Further the Company will sell to Telekomunikacja Korporacyjna Sp. z o.o. all its receivables due from Pagi for a consideration of PLN 3,200.
- (iii) In July 2000 Prokom Internet SA acquired a 25% interest in Centrum Rozliczeń Transakcji Internetowych SA, an e-commerce company, for a consideration of PLN 51.
- (iv) In August 2000 Prokom Internet SA acquired a 44% interest in ce-market.com SA, an e-commerce company, for a consideration of PLN 3,520. In addition Prokom Software S.A. acquired a 5% interest in ce-market.com SA for a consideration of PLN 400.
- (v) On 28 August 2000 the Company entered into an overdraft agreement with Raiffeisen Bank Polska SA. The overdraft facility has a limit of PLN 48,000 for the period from 28 August 2000 to 31 August 2001.
- (vi) On 2 September 2000 the Company acquired a 9.99% shareholding in Softbank S.A., a company listed on the Warsaw Stock Exchange and specializing in software integration, for a consideration of PLN 128,240. These shares were acquired from the President of Softbank S.A., Mr Aleksander Lesz. On 29 September 2000 the Company signed a credit agreement with Bank Austria Creditanstalt International AG for EURO 32,185 to finance the above transaction. Pursuant to this agreement, the Company subsequently drew down these funds.
- (vii) In September 2000 the Company signed a further contract with Telekomunikacja Polska SA to provide services for a consideration of PLN 44,900.
- (viii) In September 2000 the Company signed a further contract with TUiR Warta SA to provide services for a consideration of PLN 15,000.