

PROKOM SOFTWARE S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION
30 JUNE 2002

Independent Review report of the auditors

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

We have reviewed the accompanying condensed consolidated interim balance sheet of Prokom Software S.A. and its subsidiaries (the "Group") as of 30 June 2002 and the related condensed consolidated interim statements of income, changes in shareholders equity and cash flows for the six months then ended. This condensed consolidated interim financial information is the responsibility of the Group's management. Our responsibility is to issue a report on this condensed consolidated interim financial information based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance about whether the condensed consolidated interim financial information is free of material misstatement. A review is limited primarily to inquiries of the Group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

As discussed in note 2 to the accompanying condensed consolidated interim financial information for the six months ended 30 June 2002, the Group held an amount receivable as at 31 December 2001 of PLN 27,600 thousand relating to the sale in March 2001 of a non exclusive, time unlimited licence to PUP Spin Sp. z o.o., with the further right to on-sale for a fee sub-licences to end users in respect of software. We referred to this in our audit report dated 30 April 2002 on the financial statements at 31 December 2001 which contained a qualification that we were unable to determine whether any provision should be made in respect of this receivable, which if required, would decrease results of operations for the year ended 31 December 2001 and retained earnings as at 31 December 2001 by PLN 27,600 thousand. During the six months period ended 30 June 2002 the Group cancelled the transaction and decreased revenues and receivables by the amount of PLN 27,600 thousand. As a result, the opening balance of retained earnings is overstated and results of operations for the six months period ended 30 June 2002 are understated by PLN 27,600 thousand respectively. The cancellation of the transaction does not have an impact on retained earnings as at 30 June 2002.

Except for the effect of the matter referred to in the preceding paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information for the six months ended 30 June 2002 has not been properly prepared, in all material respects, in accordance with International Accounting Standard No. 34 "Interim Financial Reporting".

PricewaterhouseCoopers Sp. z o.o.
Warsaw, Poland
4 November 2002

Prokom Software S.A.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR 6 MONTHS PERIODS ENDED 30 JUNE 2002 AND 2001

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The accompanying condensed consolidated interim financial information has been approved by the Board of Directors of Prokom Software S.A. on 4 November 2002.

On behalf of the Board of Directors:

Bogdan Bartkowski
Member of the Board of Directors

Krzysztof Wilski
Vice President

Prokom Software S.A.
Condensed Consolidated Balance Sheet
(Expressed in Polish Złoty (PLN), all amounts in thousands unless stated otherwise)

	Note	30 June 2002	31 December 2001
ASSETS			
CURRENT ASSETS			
Cash at bank and in hand		23,521	73,173
Held for trading investments		37,807	72,555
Held to maturity investments			
Related parties	3	77,013	314,617
Trade accounts receivable			
Related parties	3	5,883	55,192
Other		158,868	282,388
		<u>164,751</u>	<u>337,580</u>
Other receivables			
Related parties	3	55,778	56,217
Other		22,462	29,898
		<u>78,240</u>	<u>86,115</u>
Inventories		63,998	71,273
Prepaid expenses		8,141	6,394
TOTAL CURRENT ASSETS		453,471	961,707
NONCURRENT ASSETS			
Held to maturity investments			
Related parties	3	234,000	-
Long term receivables			
Related parties	3	11,322	11,322
Other		21,550	12,444
		<u>32,872</u>	<u>23,766</u>
Deferred tax asset		21,417	11,520
Available for sale investments		71,351	68,342
Investments in associated undertakings		12,836	17,820
Goodwill on consolidation		117,399	1,431
Intangible fixed assets	4	7,398	9,670
Tangible fixed assets	4	57,745	44,229
		<u>555,018</u>	<u>176,778</u>
TOTAL NONCURRENT ASSETS		555,018	176,778
TOTAL ASSETS		1,008,489	1,138,485
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short term borrowings	7	135,646	135,276
Accounts payable and accruals			
Trade		56,765	198,550
Taxation		30,425	34,344
Employees		2,480	1,022
Accruals and other		22,024	28,663
Deferred income		9,605	10,408
		<u>256,945</u>	<u>408,263</u>
TOTAL CURRENT LIABILITIES		256,945	408,263
NONCURRENT LIABILITIES			
Long term borrowings	6	225,162	240,687
Provisions		800	800
Minority interests		21,354	10,831
		<u>247,316</u>	<u>252,318</u>
TOTAL NONCURRENT LIABILITIES		247,316	252,318
SHAREHOLDERS' EQUITY			
Share capital	5	13,756	13,756
Share premium		195,348	195,348
Retained earnings		295,124	268,800
		<u>504,228</u>	<u>477,904</u>
TOTAL SHAREHOLDERS' EQUITY		504,228	477,904
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,008,489	1,138,485

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Condensed Consolidated Income Statement
(Expressed in Polish Złoty (PLN), all amounts in thousands unless stated otherwise)

	Note	6 months ended 30 June 2002	6 months ended 30 June 2001
Revenues	8	402,398	456,028
Cost of sales		(235,492)	(309,002)
GROSS MARGIN		166,906	147,026
Selling costs		(17,012)	(15,440)
General and administrative expenses		(80,318)	(70,111)
Other operating (expenses)/income, net		(15,948)	13,999
OPERATING PROFIT	8	53,628	75,474
Financial (expenses)/income, net		(2,615)	(67,293)
Share of results of associates	8	(4,060)	(13,177)
Dilution gain on associate		997	-
PROFIT/(LOSS) BEFORE INCOME TAXES		47,950	(4,996)
Corporate income taxes		(17,867)	(18,842)
PROFIT/(LOSS) FROM ORDINARY ACTIVITY		30,083	(23,838)
Minority interest		(3,759)	5,079
NET PROFIT/(LOSS)	2	26,324	(18,759)
Basic and diluted earnings per share (not in thousands):	10	1.93	(1.41)

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 unless stated otherwise)

	Note	Number of shares	Share Capital	Share Premium	Retained earnings	Total Shareholders Equity
Balance at 1 January 2001	5	12,787,264	13,081	195,348	245,434	453,863
Effect of adopting IAS 39 at January 2001		-	-	-	4,774	4,774
Share issue series D		674,736	675	-	-	675
Net (Loss) for 6 month ended 30 June 2001		-	-	-	(18,759)	(18,759)
Newly consolidated entities		-	-	-	3,384	3,384
Balance at 30 June 2001	5	13,462,000	13,756	195,348	234,833	443,937
Balance at 1 January 2002	5	13,462,000	13,756	195,348	268,800	477,904
Net Profit for 6 month ended 30 June 2002		-	-	-	26,324	26,324
Balance at 30 June 2002	5	13,462,000	13,756	195,348	295,124	504,228

The accompanying notes are an integral part of these financial statements

Prokom Software S.A.
Condensed Consolidated Cash Flow Statement
(Expressed in Polish Złoty (PLN), all amounts in thousands unless stated otherwise)

	Note	Six month ended 30 June 2002	Six month ended 30 June 2001
Net cash flow from operating activities:			
Net profit/(loss) before taxation		47,950	(4,996)
Adjustments to reconcile net profit to net cash generated by operating activities			
Depreciation and amortization		28,099	24,983
Loss on associated undertakings		4,060	13,177
Changes in working capital		64,144	18,671
Interest expense		16,349	14,738
Investment (income)/expense, net		(19,204)	47,856
Net cash generated by operating activities		141,398	114,429
Interest paid		(14,832)	(14,217)
Tax paid		(27,764)	(30,823)
Net cash from operating activities		98,802	69,389
Cash flow used in investing activities:			
(Purchase)/sales of short term securities, net		33,567	(19,687)
(Purchase)/sales of tangible fixed assets, net		(22,797)	(9,635)
(Purchase)/sales of intangible fixed assets, net		(870)	(4,333)
(Purchase)/sales of investments, net		(4,469)	(20,157)
Purchase of subsidiaries, net of cash acquired	9	(131,059)	-
Loans (given)/repaid, net		(23,844)	1,280
Guarantee payment		-	12,584
Purchases of short term securities from related parties		(1,590,929)	(70,903)
Receipts from sales of short term securities issued by related parties		1,584,029	-
Interest received from loan and commercial papers to related parties		29,203	15,770
Bank interest received		2,246	-
Interest received from loans to non related parties		758	2,880
Net cash used in investing activities		(124,165)	(92,201)
Cash flow from financing activities:			
Increase/(decrease) in long term borrowings		(23,301)	6,120
Increase/(decrease) in short term borrowings		(1,147)	-
Other changes		159	762
Net cash provided/(used) by financing activities		(24,289)	6,882
Net change in cash and cash equivalents		(49,652)	(15,930)
Cash and cash equivalents at the beginning of the period		73,173	37,541
Cash and cash equivalents at the end of the period		23,521	21,611

The Group's policy is not to include bank overdraft in cash and cash equivalents balance for the purpose of cash flow statement.

The Group has changed the presentation of cash flows connected with purchases of securities of related parties and loans to related parties. In financial statements for previous accounting periods cash flows related to purchases of short term securities from related parties, receipts from sales of short term securities issued by related parties, interest received from loan and commercial papers to related parties were presented as financing activities. Starting from January 2002 the Group presents these cash flows as investing activities. Comparative cash flows were restated.

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

1. Basis of preparation of the interim financial statements

This interim condensed consolidated financial information for the 6 months period ended 30 June 2002 is 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 2001.

These interim condensed financial statements should be read in conjunction with the financial statements for the year ended 31 December 2001.

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.

All purchases and sales of investments are recognized on the trade date, which is the date that Prokom Software S.A. Group (The Group) commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortized cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise.

Long term receivables are recognized initially at the consideration given. In subsequent periods, receivables are stated at amortized cost using the effective yield method; any difference between the consideration and the redemption value is recognized in the income statement over the period of the receivables.

Long term debt is recognized initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortized cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings.

Accounting for derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative transaction qualifies for hedge accounting under the specific rules of IAS 39. For derivative transactions that do not qualify for such hedge accounting, changes in the fair value are recognized in the income statement.

During the six months period ended 30 June 2002 there were no hedging activities in the Group which should be accounted for under IAS 39.

Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based on quoted market prices at the balance sheet date.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

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

2. Operating profit

The following items of unusual nature have been included in the operating profit:

	6 months ended 30 June 2002	6 months ended 30 June 2001
Sale of licence (i)	(27,600)	27,600
Income from related parties - sales of services and products (note 3b)	22,915	2,483
Financial income from related parties (note 3c)	19,712	22,674
Purchases of services from related parties (note 3d)	(13,274)	(4,741)
Non recurring revenues (ii)	65,981	-

- (i) As at 31 December the Group held an amount receivable of PLN 27,600 thousand relating to the sale in March 2001 of a non exclusive, time unlimited licence to PUP Spin Sp. z o.o., with the further right to on-sale for a fee sub-licences to end user in respect of software. The transaction was cancelled by corrective invoice in the 6 months period ended 30 June 2002. The Group purchased 51.1% of shares in PUP Spin Sp. z o.o. in the first quarter of 2002 (see note 9).
- (ii) Non-recurring revenues relate to services rendered in years 1999-2001 for Zakład Ubezpieczeń Społecznych (ZUS). As at 29 November 2001 the Group put a claim in the court against this customer in the amount of PLN 129,164 thousand in relation to rendered services. As at 31 December 2001 it was not probable that the customer would settle the amount therefore no revenue was recognised. In the 6 months period ended 30 June 2002 two agreements were signed by the Group with the customer concerning settlement of the claimed amount. As a result, the customer paid the Group the amount of PLN 65,981 thousand and this was recognised as revenue. As at 26 September 2002 a third agreement was signed with the customer concerning the outstanding claim. As a result of this agreement, the customer is obliged to pay the Group additional amount of PLN 20,800 thousand and by this all claims of the Group will be satisfied.

3. Related party transactions

a. Related party receivables and investments

	30 June 2002	31 December 2001
Amounts due from Prokom Investments S.A.	378,266	381,698
Trade receivables from other related parties - included in trade receivables	5,718	53,620
Other balances with non-consolidated subsidiaries - included in trade receivables	12	2,030
	383,996	437,348
Less long term portion - held to maturity investments	(234,000)	-
Less long term portion - receivables	(11,322)	(11,322)
	138,674	426,026

Prokom Investments S.A. is a minority shareholder of the Group (see note 4e). The chairman of the management board of Prokom Software S.A. – Mr Ryszard Krauze is also the chairman of the management board of Prokom Investments S.A. and is a majority shareholder of this company (including indirect interest). The principal activity of Prokom Investments S.A. is investing in real estate and equity instruments.

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

3. Related party transactions (cont.)

Amounts due from Prokom Investments S.A. are as follows:

	<u>30 June 2002</u>	<u>31 December 2001</u>
Prokom Investments S.A. commercial papers - included in held to maturity investments (i)	311,013	314,617
Amounts due arising from the partial sale of interest in real estate project – included in other current receivables (ii)	30,709	30,595
Funding for joint real estate projects - included in long term receivables (ii)	9,720	9,720
Advance for lease of office space - included in other current receivables (iii)	19,796	19,796
Deposit for space rental - included in long term receivables	1,602	1,602
Other - included in other current receivables (iv)	5,426	5,368
	<u>378,266</u>	<u>381,698</u>
Less long term portion - held to maturity investments	(234,000)	-
Less long term portion - receivables	(11,322)	(11,322)
	<u>132,944</u>	<u>370,376</u>

(i) Prokom Investments S.A. commercial papers

Prokom Investments S.A. commercial papers are presented as held to maturity investments. As at 31 December 2001 the Group presented these investments as short term assets as they were expected to be settled within 12 months. Prokom Investments S.A. commercial papers are short term as far as maturity of each individual paper is concerned. However redeemed issues were replaced by new ones and the level of total investments in these commercial papers remained at 30 June 2002 at the similar level as compared to 31 December 2001. In the six months period ended 30 June 2002 Prokom Software S.A. and Prokom Investments S.A. renegotiated payment terms relating to commercial papers. On 4 November 2002 the Prokom Investments S.A. signed a statement in which it proposed new payment terms relating to commercial papers. Prokom Software S.A. accepted proposed payment terms. According to this statement the liabilities of Prokom Investments S.A. will be gradually reduced till the end of 2004. As a result the amount of PLN 77,013 thousand of Prokom Investments S.A. commercial papers will be paid within 12 months therefore they are presented as current assets and the remaining balance of PLN 234,000 thousand was reclassified to long term assets.

The movement in commercial papers is as follows:

	<u>6 months ended 30 June 2002</u>	<u>6 months ended 30 June 2001</u>
As at the beginning of the period	314,617	226,989
Commercial papers purchased	1,590,929	198,693
Interest accrued	18,699	22,572
Commercial papers redeemed plus accrued interest paid	(1,613,232)	(139,100)
As at the end of the period	311,013	309,154

The commercial papers issued by Prokom Investments S.A. and outstanding as at the balance sheet date bear interest of 10-10.5%. In addition, the Group purchased the following commercial papers from Prokom Investments S.A. after 30 June 2002:

As at the 30 June 2002	311,013
Commercial papers purchased after balance sheet date	3,361,422
Interest accrued after balance sheet date	7,829
Commercial papers redeemed plus accrued interest paid	(3,396,700)
As at the 30 September 2002	283,564

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

3. Related party transactions (cont.)

- (ii) Until 29 December 2000 the Group was providing funding for a real estate project undertaken by Prokom Investments S.A. As at 29 December 2000, the total amount invested in this project by the Group was 33,558. As at 29 December 2000, the Group sold to Prokom Investments S.A. part of its interest in this project with a carrying value of 23,838 for 30,595. The profit on this transaction of 6,757 was recognised as other operating income in the year ended 31 December 2000. The amount of 30,709 due from Prokom Investments S.A. was still outstanding as at 30 June 2002. The remaining amount due of 9,720 does not bear interest and has no fixed repayment date. It relates to another real estate project undertaken by Prokom Investments S.A. The Group will receive a share in a property purchased by Prokom Investments S.A. in exchange for the advance paid.
- (iii) In July 1999, the Group signed an agreement with Prokom Investments S.A. to lease office space from 1 April 2000 for 10 years. The Group advanced 19,796 to Prokom Investments S.A. as a guarantee payment in respect of the lease contract. As new rental agreement with Prokom Investments S.A. was signed (see note 3e), the advanced amount will be paid back by Prokom Investments S.A. within 12 months since 30 June 2002. The amount bears no interest.
- (iv) Other receivables include loans to companies which are not related parties but where the repayment of the loans was guaranteed by Prokom Investments S.A. During the year ended 31 December 2000 these loans were ceded to Prokom Investment S.A.

b. Income from sale of products and services to related parties

	6 months ended 30 June 2002	6 months ended 30 June 2001
Postdata S.A. (associate)	19,797	361
Incenti S.A. (associate)	2,562	-
Wirtualna Polska S.A. (associate)	202	470
ce-market.com S.A. (associate)	-	1,497
Other	354	155
	22,915	2,483

c. Financial income from related parties

	6 months ended 30 June 2002	6 months ended 30 June 2001
Prokom Investments S.A. (interest on commercial papers) (note 3a)	18,699	22,572
Postdata S.A. (dividends received)	980	-
Other	33	102
	19,712	22,674

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

3. Related party transactions (cont.)

d. Services purchased from related parties

	6 months ended 30 June 2002	6 months ended 30 June 2001
Prokom Investment S.A. (this includes prepayments of PLN 3,200 thousands as at 30 June 2002)	16,451	4,729
Other	23	12
	16,474	4,741

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

	6 months ended 30 June 2002	6 months ended 30 June 2001
Rental of cars	482	439
Rental of office space (this includes prepayments of PLN 3,200 thousands as at 30 June 2002)	14,722	4,061
Marketing costs	174	-
Other	1,073	229
	16,451	4,729

e. Commitments and contingencies

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

	30 June 2002	31 December 2001
Amounts falling due:		
In less than 1 year	31,975	14,817
After 1 year and not later than 5 years	134,551	39,987
Later than 5 years	100,914	27,897
	267,440	82,701

The future minimum lease payments include the future lease commitments mainly for rental of office space from Prokom Investments S.A. The increase in lease commitments was caused by the higher office space rented and an increase in charge rates as a result of new rental agreement signed with Prokom Investments S.A. According to the new agreement Prokom Software S.A. committed to rent office space in a new building for a period of ten years commencing March 2003. Additionally, Prokom Software S.A. signed three agreements with a financing company which finances the construction of this building (the construction is performed by Prokom Investments S.A.). According to these agreements, the financing company is entitled to demand from Prokom Software S.A. to acquire the building for the maximum price of approximately PLN 110,000 thousand if Prokom Investments S.A. is not able fulfil its obligations resulting from contracts signed with the financing company.

There are no commitments to related parties for purchases of tangible fixed assets, intangible fixed assets or investments as at 30 June 2002 and 31 December 2001.

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

3. Related party transactions (cont.)

f. Other transactions with related parties

Prokom Software S.A. has made in the six months period ended 30 June 2002 a donation to the Foundation for Supporting of Modern Medical Treatments in the amount of PLN 5,000 thousand. The Foundation was set up by Bioton Sp. z o.o. – subsidiary of Prokom Investments S.A., together with an another non-related party.

Prokom Software S.A. has made in the six months period ended 30 June 2002 a donation to the Foundation of Ryszard Krauze in the amount of PLN 1,975 thousand. This foundation's principal activity is to support talented school children.

4. Capital expenditures

Six months ended 30 June 2002

	Property plant and equipment	Intangible assets
Opening net book value	44,229	9,670
Acquisition of a subsidiary (See note 9)	1,014	663
Additions	22,106	1,057
Disposals	(1,124)	-
Depreciation/amortisation, impairment and other movements	(8,480)	(3,992)
Closing net book value	57,745	7,398

5. Shareholders' equity

The number of shares in issue is as follows (not in thousand):

	30 June 2002	31 December 2001
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	762,000	762,000
	13,462,000	13,462,000

a. Nominal value of shares

All shares are issued at a nominal value of PLN 1 (not in thousand). As at 31 December 2001 and 30 June 2002 the share capital was adjusted by the hyperinflation effect in the amount of PLN 294 thousand.

b. Shareholders' rights

Each series A preferred share carries five voting rights. The shares series B, C and D carry one vote per share. All classes of issued shares rank equally for dividends and return on capital.

c. Series D shares

These shares were issued on 2 March 2001. The series D shares issue included an allocation of shares to The Polished Group S.A. (subsidiary) management (87,264 shares). The remaining shares (674,736 shares) were subscribed by employees of the Group. All series D shares had an exercise price of 1 PLN which was below the market value.

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

5. Shareholders equity (cont.)

d. Series E shares

On 17 September 2001 Shareholders passed a resolution for the issuance of 20,000 bearer bonds with a par value of PLN 10,000 (not in thousand) convertible to ordinary bearer shares series E.

These bonds were issued on 7 December 2001 based on the following terms:

Nominal value (in PLN per bond)	10,000
Exercise price (in PLN per bond)	10,000
Interest rate per annum (fixed)	9%
Interest period	semi annually
Date of final repurchase of the whole liability (if not converted to shares)	7 December 2004
Conversion rate to shares (in PLN per bond)	149.25
Conversion rate to shares (number of shares per bond)	67
Additional premium payable if bonds not converted till maturity	8%

Fair values of liability component and the equity conversion component were determined on the issue of convertible bonds. The fair value of the liability component, included in long term borrowings, was calculated using a market interest rate for equivalent non convertible bonds. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity. As at 30 June 2002 and 31 December 2001 fair value of the equity conversion component was nil.

e. Significant shareholders

The following shareholders held more than 5% of shares:

		30 June 2002	31 December 2001
Prokom Investments S.A.	% of ownership	26.26%	26.26%
	% of voting rights	26.97%	26.97%
Ryszard Krauze	% of ownership	13.58%	13.58%
	% of voting rights	14.18%	14.18%
Bank of New York	% of ownership	11.47%	13.70%
	% of voting rights	10.87%	12.98%

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

6. Long term borrowings

	30 June 2002	31 December 2001
Long term bank loans (i)	23,913	40,502
Long term convertible bonds (Note 5d)	200,064	200,052
Other	1,185	133
	225,162	240,687
Bank loans comprise:		
Bank loan from Powszechny Bank Kredytowy S.A.	70,657	81,514
Current portion of long term loan	(46,744)	(41,012)
	23,913	40,502

- (i) Bank loan from Powszechny Bank Kredytowy S.A. is denominated in Euro. As at 30 June 2002 the loan amounted to Euro 17,250 thousand (31 December 2001: Euro 23,000 thousand). Interest rate is three months EURIBOR plus 0.9%. The loan is secured on 1,603,000 shares of Softbank S.A. with a balance sheet value of PLN 36,228 thousand as at 30 June 2002 (presented in balance sheet as non current available for sale investments) and trade receivables from key customers amounting to maximum 135% of the loan balance outstanding. The loan is repayable in six quarterly instalments starting from July 2002 till October 2003.

7. Short term borrowings

	30 June 2002	31 December 2001
Bank loans (i)	69,398	45,687
Issued commercial papers (ii)	65,114	88,344
Interest accrued	1,134	1,184
Other	-	61
	135,646	135,276

The Group presents interest accrued on long term convertible bonds as at the balance sheet date in short term borrowings.

- (i) Bank loans

	30 June 2002	31 December 2001
Bank loan from Powszechny Bank Kredytowy S.A. - current portion of long term loan (note 6)	46,744	41,012
Bank overdraft from Raiffeisen Bank Polska S.A.	9,227	2,363
Bank overdraft from BRE Bank S.A.	11,623	-
Other	1,804	2,312
	69,398	45,687

Bank overdraft from Raiffeisen Bank Polska S.A. is denominated in PLN (maximum overdraft PLN 48,000 thousand) and bears interest rate of one week WIBOR plus 0.85%. The overdraft is secured on receivables with a value of 50% of the balance of the overdraft outstanding and blank promissory note.

Bank overdraft from BRE Bank S.A. is denominated in PLN (maximum overdraft PLN 15,000 thousand) and bears interest rate of one month WIBOR plus 0.91%. The overdraft is secured by blank promissory note issued by the Group up to the amount of PLN 17,000 thousand.

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7. Short term borrowings (cont.)

(ii) Commercial Papers

Commercial papers issued by the Group bear an annual interest rate of 9-11%. These commercial papers are short term in nature. The nominal value of commercial papers issued by the Group as at 30 June 2001 is PLN 66,000 thousand (31 December 2001: PLN 89,000 thousand).

Changes in short term borrowings

	6 months ended 30 June 2002	6 months ended 30 June 2001
As at the beginning of the period	135,276	272,707
Commercial papers issued	249,759	525,457
Commercial papers repaid (including interest)	(277,000)	(501,000)
Bank loans obtained net of repayments of principal and interest	12,223	(32,378)
Interest on commercial papers accrued in the period	4,011	9,701
Interest on bank loans accrued in the period	11,377	4,861
As at the end of the period	135,646	279,348

8. Segmental information

Primary reporting format – business segments

	Software implementation, six months ended		Internet activities, six months ended		Total, six months ended	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001	30 June 2002	30 June 2001
Total sales	408,260	464,809	4,682	3,636	412,942	468,445
Inter-segmental sales	(10,544)	(12,417)	-	-	(10,544)	(12,417)
External sales	397,716	452,392	4,682	3,636	402,398	456,028
Segment result	74,603	85,847	(2,750)	(7,327)	71,853	78,520
Non allocated operating expenses					(18,225)	(3,046)
Operating profit					53,628	75,474
Share of result of associates	1,367	-	(5,427)	(13,177)	(4,060)	(13,177)
Financial revenue, net					(2,615)	(67,293)
Dilution gain on associate					997	-
Profit/(loss) before taxation					47,950	(4,996)
Taxation					(17,867)	(18,842)
Minority interest					(3,759)	5,079
Net profit/(loss)					26,324	(18,759)

The Group is not presenting geographical segments because it is not engaged in providing products or services within different economic environments and is not subject to different risks and returns related to these environments. Poland is the home country of the Group. The majority of the Group's trading revenue is generated in Poland and all of its operating assets are located in Poland.

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9. Acquisition of a subsidiary

In the first quarter of 2002 the Group acquired 51.1% of the share capital of PUP Spin Sp. z o.o. - company which produces and implements software. The acquired business contributed revenues of PLN 17,038 thousand and operating loss of PLN 1,085 thousand to the Group for the period from 1 January 2002 to 30 June 2002.

As a result of acquisition the Group will expand the range of offered products particularly in the telecommunication sector. PUP Spin Sp. z o.o. is a major supplier of billing systems for Telekomunikacja Polska S.A (the biggest telecommunication services provider in Poland).

Details of net assets acquired and goodwill are as follows:

Property plant and equipment	1,014
Intangibles	663
Receivables trade and other	30,488
Inventories	610
Cash	5,067
Trade liabilities	(6,689)
Governments liabilities	(7,963)
Other assets and liabilities	(9,360)
Fair value of net assets at the date of acquisition	<u>13,830</u>
Minority shareholders' interest	<u>(6,761)</u>
Fair value of net assets acquired	<u>7,069</u>
Goodwill	129,057
Total purchase consideration satisfied in cash	<u>136,126</u>
less cash acquired	<u>(5,067)</u>
Total purchase consideration net of cash acquired	<u>131,059</u>

10. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. The Group included 72,524 shares, issuable to management, in the calculation of the weighted average number of ordinary shares. These shares are issuable to the management of subsidiary The Polished Group S.A. without a corresponding change in resources (bonus issue). As at 1 January 2002, all conditions relating to the new issue were satisfied. Comparative calculations of earnings per share have been adjusted for this bonus issue.

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10. Earnings per share (cont.)

	6 months ended 30 June 2002	6 months ended 30 June 2001
BASIC EARNINGS PER SHARE		
Net profit attributable to shareholders	26,324	(18,759)
Number of ordinary shares in issue (not in thousand)	13,462,000	13,462,000
Weighted average number of ordinary shares (not in thousand)	13,606,559	13,307,919
Basic earnings per share (not in thousand)	1.93	(1.41)
DILUTED EARNINGS PER SHARE		
Net profit attributable to shareholders	26,324	-
Interest expense on convertible debt net of tax	6,480	-
Net profit used to determine diluted earnings per share	32,804	-
Weighted average number of ordinary shares (not in thousand)	13,606,559	-
Adjustment for assumed conversion of convertible bonds	1,340,000	-
Weighted average number of ordinary shares for dilutive earnings per share (not in thousand)	14,946,559	-
Diluted earnings per share - anti-dilutive (not in thousand)	2.19	(1.41)

No financial instruments generating dilutive earnings per share existed as at 30 June 2002 and 30 June 2001. The effects of convertible bonds were anti-dilutive.

11. Contingencies

Related parties contingencies are described in note 3e. There are no non-related parties contingencies.

12. Commitments

Commitments to related parties are disclosed in note 3e.

Commitments to non-related parties are future minimum lease payments under non-cancellable operating leases:

	<u>30 June 2002</u>	<u>31 December 2001</u>
Amounts falling due:		
In less than 1 year	8,862	8,757
After 1 year and not later than 5 years	-	105
	<u>8,862</u>	<u>8,862</u>

Additionally, the subsidiary The Polished Group S.A. signed a preliminary agreement concerning rental of office space with a non related party. According to the agreement, future rental payments will amount to approximately PLN 46,320 thousand within a period of 10 years. The agreement is under renegotiation.

There are no commitments to non related parties to purchase of property plant and equipment, intangible assets and investments as at 30 June 2002 and 31 December 2001.

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13. Group companies

Entity's name	Business activity	Percentage owned 30 June 2002	Percentage owned 31 December 2001
SUBSIDIARIES			
Koma S.A.	Software trading, IT services	56.30%	56.30%
Combidata Poland Sp. z o.o.	Information technology training	83.80%	83.80%
Zeto Sp. z o.o.	Information technology services	100.00%	100.00%
The Polished Group S.A.	Information technology services	*95.0%	*95.0%
Edison S.A.	Data processing company	*49.59%	*49.59%
Prokom Internet S.A.	Holding company	95.00%	95.00%
Safe Computing Sp. z o.o.	Data coding and data security systems for internet and local networks	*49.6%	*49.6%
Stopklatka Sp. z o.o.	Internet portal operator	*76.0%	*76.0%
Internet Wizards S.A.	Internet portal operator	*91.2%	*91.2%
Optix Polska Sp. z o.o.	Software trading, IT services	60.00%	60.00%
PUP Spin Sp. z o.o.	Information technology services	51.10%	-
ASSOCIATES			
Postdata S.A.	Leasing, IT training and services	49.00%	49.00%
Wirtualna Polska S.A.	Internet portal operator	*20.52%	*20.52%
Ce-market.com. S.A.	E-commerce	**37.3%	**46.8%
Ad Net S.A.	E-commerce	*30.6%	*30.6%

* percentage owned via Prokom Internet S.A.

** 5% owned directly by Prokom Software S.A., the reminder via Prokom Internet S.A.

14. Subsequent events

- (i). On 1 July 2002, Prokom Internet S.A. purchased 19 shares (47.5% of share capital) of Safe Computing Sp. z o.o. for PLN 1,900 thousand. On 4 October 2002 Prokom Internet S.A. made additional contribution to the share capital of Safe Computing Sp. z o.o. in the amount of PLN 2,200 thousand. After these transactions Prokom Internet S.A. has 100% control over this company.
- (ii). On 2 July 2002, the Prokom Software S.A. extended a loan to Net Technology S.A. The loan amounted to PLN 40,000 thousand and is secured with a blank promissory note issued by the borrower. The loan is repayable in 12 months.
- (iii). On 31 July 2002, Prokom Software S.A. signed an annexe to the agreement with Powszechny Zakład Ubezpieczeń S.A. (PZU) of 10 February 2002 regarding the maintenance of PZU S.A.'s information system over a period of 3 subsequent years. Under the agreement, Prokom Software S.A. will provide system maintenance services consisting of adapting the INSURER and FKX software on a current basis to the changing PZU S.A. requirements, and will provide maintenance services to ensure proper functioning of the systems, as well as supervise the technical infrastructure in over 370 of the client's business units. The signed annexe determines remuneration only for the first year of providing the services. The guaranteed fee in the first year of services will not exceed PLN 58.3 million. Due to the fact that PZU S.A. intends to gradually take over some of the tasks related to the system operation, within the following 2 years counting from 1 August 2003, Prokom Software S.A. will provide services in a scope and for a remuneration determined by the parties at the request of the Management Board of PZU S.A. by 31 May of each year of the agreement, for a period from 1 August of a given year to 31 July of the following year, using the remuneration rates applicable to Prokom Software S.A. specialists determined for the full term of the agreement. The agreement may be terminated by each party after 18 months.
- (iv). On 23 August 2002, Prokom Software S.A. granted a bridge warranty in respect of the liabilities of Air Zentralschweiz AG with its registered office in Stans, Switzerland, to BRE Bank S.A., relating to a loan taken. The warranty limit is USD 8.0 million. The warranty will expire when Air Zentralschweiz AG sets up the target collateral. According to Prokom Software S.A. Management Board's best knowledge, such collateral will be set up before the end of the current year, and thus the

The accompanying notes are an integral part of these financial statements

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- warranty will expire. The whole amount of the loan warranted by Prokom Software S.A. was assigned by Air Zentralschweiz AG to purchase a specific fixed asset to be transferred for use by Prokom Software S.A.
- (v). On 9 September 2002, PUP Spin Sp. z o.o. concluded an agreement with Telekomunikacja Polska S.A. on centralising the SERAT 2 databases, including the provision of equipment. The agreement amounts to USD 5,980 thousand.
- (vi). On 19 - 20 September 2002, Prokom Investments S.A. sold 560,000 ordinary bearer shares of Prokom Software S.A. at an average unit price of PLN 99.0.
- (vii). As at 26 September 2002 a third agreement was signed with Zakład Ubezpieczeń Społecznych (ZUS) concerning the outstanding claim of Prokom Software S.A. (see note 2 (ii)). As a result of this agreement, the customer is obliged to pay the Group additional amount of PLN 20,800 thousand and by this all claims of the Group will be satisfied.
- (viii). On 22 October 2002, Prokom Software S.A. concluded an agreement with Zakład Ubezpieczeń Społecznych (ZUS) for administering and operating the Social Insurance Institute's Comprehensive Information System (Kompleksowy System Informatyczny - KSI). The purpose of the agreement is to continue the provision of services provided to ZUS by Prokom Software S.A. to ensure efficient operation of the KSI, including the technical and system infrastructure. The agreement will be executed over a period of 12 months. The value of the agreement will amount to PLN 113.8 million.
- (ix). On 23 October 2002, the public subscription of the F-series shares related to the public issue of 72,524 ordinary bearer shares of Prokom Software S.A. and assignment of the shares to the authorised entities was finalised.
- (x). On 24 October 2002, Prokom Software S.A. concluded a shareholder agreement with Aleksander Lesz, the shareholder and Chairman of the Management Board of Softbank S.A., in accordance with which Prokom Software S.A. will become the strategic investor in Softbank S.A. In accordance with the agreement concluded, Prokom Software S.A. is entitled to purchase all the shares in Softbank S.A. owned by Aleksander Lesz (i.e. 5,741,666 shares) which constitute over 32% of the share capital of the issuer from the date of the agreement coming into force to 6 December 2003. On his part, Aleksander Lesz is entitled to demand that Prokom purchase a portion of the total pool of Softbank S.A. shares he owns from 31 March 2003 to 6 December 2003. The size of the block of shares to be sold by Aleksander Lesz depends on the purchase price as at the date of purchasing the shares (taking into consideration the mechanism used to determine the purchase price described below), and its value will not exceed PLN 30.8 million. Prokom Software S.A. will purchase Softbank S.A. shares gradually over a period of time, therefore there will be no need to organise a public call. Prokom Software S.A. will purchase shares from Aleksander Lesz in block transactions at a price which will be each time determined as the arithmetical mean of the price of one Softbank S.A. share from a 30 calendar day period preceding the transaction date plus 20%. The average price from all transactions concluded cannot exceed PLN 13. The agreement stipulates that in January 2006, Prokom Software S.A. will pay Aleksander Lesz a share premium in an amount dependent on the market value of Softbank S.A. in the period from 31 March 2003 to 31 December 2005. The premium will amount to 17.92% of the difference between the average market value of the block of shares in Softbank S.A. purchased by Prokom Software S.A. (in the period from 31 March 2003 to 31 December 2005) and the amount paid for the shares purchased by Prokom Software S.A. The agreement stipulates that the average market price adopted for the calculation of the Softbank S.A. share premium (in the period from 31 March 2003 to 31 December 2005) will not exceed PLN 80. The transaction will be financed by Prokom Software S.A. with funds from the company's equity and from external sources of finance. In accordance with the agreement, on the date when Prokom Software S.A. will have acquired more than 20% of Softbank S.A. shares, based on a special authorisation the company will be entitled to exercise voting rights and other rights vested in the Softbank S.A. shares not yet purchased from Aleksander Lesz. The agreement concluded stipulates that at the nearest Extraordinary Shareholders' Meeting of Softbank S.A. one representative of Prokom Software S.A. will be appointed as member of the Supervisory Board. After the date when Prokom Software S.A. will have purchased the number of shares in Softbank S.A. which entitles it to exercise 25% of voting rights at the Company's General Shareholders' Meeting, two people indicated by Prokom Software S.A. and Aleksander Lesz or a person indicated by him will be appointed members of the Board until the end of 2005. Moreover, by 31 October 2002, a new member of the Management Board of Softbank S.A. indicated by Prokom Software S.A. will be appointed. By the date of signing these financial statements, Prokom Software S.A. received permits

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which were necessary for the shareholder Agreement concluded between Prokom Software S.A. and Mr Aleksander Lesz to come into force, i.e.:

- the decision of the Competition and Consumer Protection Bureau with regard to the permission for the share concentration resulting from Prokom Software S.A. taking over the control of Softbank S.A.;
- the permit of the Securities and Exchange Commission for the purchase of a block of shares in Softbank S.A. which authorises Prokom Software S.A. to exercise more than 33% voting rights at the General Shareholders' Meeting of the company.

- (xi). On 24 October 2002, Prokom Software S.A. and Softbank S.A. concluded a financing agreement. The subject of this agreement is to provide short-term financing to Softbank SA by Prokom Software S.A. or an entity indicated by the said in an amount of PLN 41.5 million (current loans and borrowings and short-term debt securities issued by Softbank S.A.) by 31 December 2002, and then to provide medium-term financing (convertible bonds, medium-term loans and borrowings, and short-term debt securities issued by Softbank S.A.). The medium term financing arranged by Prokom Software S.A. will be payable on 31 December 2003 at the earliest. The funds made available to Softbank S.A. will be used, if necessary, to finance investments in Group companies and for the purpose of financing current operations. During the term of the agreement, the parties shall be obliged to cooperate to properly carry out its provisions. The agreement stipulates that if Softbank S.A. violates its provisions it may be terminated by Prokom Software S.A.
- (xii). On 25 October 2002, Prokom Software S.A. concluded a loan agreement with Bank Przemysłowo-Handlowy PBK S.A. with its registered office in Kraków, for an amount of PLN 95 million, for the period ending 31 December 2005. The loan will be used to pay back the liabilities resulting from the agreements signed with Softbank S.A. and Mr Aleksander Lesz on 24 October 2002, including liabilities resulting from the potential purchase of Softbank S.A. shares. The remaining portion of the funds in an amount not exceeding 60% of the total loan amount will be used for debt restructuring and for financing current operations of Prokom Software S.A. The Loan Amount will be made available to Prokom Software S.A. in tranches by 31 December 2003. The loan bears an interest rate of 3 months WIBOR plus 0.95% per annum and the loan commission is 0.1% of the loan amount. The loan is payable in 8 equal principal instalments. The first instalment is payable on 31 March 2004 and the last on 31 December 2005.