

**PROKOM SOFTWARE S.A.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**30 JUNE 1998**

## **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 1998 and 30 June 1997 and the related consolidated statements of operations, of consolidated changes in shareholders' equity and of consolidated cash flows for the six-month periods ended 30 June 1998 and 1997, 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 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.

The accompanying condensed consolidated financial information was prepared to comply with the Company's half year reporting requirements. Management of the Company has elected to omit substantially all of the informative disclosures required by International Accounting Standards to be presented in notes to financial statements. The accompanying condensed consolidated financial information is not intended to be a complete presentation of the financial position and results of operations of the Company in accordance with International Accounting Standards

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

Warsaw, Poland 30 September 1998

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

	<u>30 June 1998</u>	<u>30 June 1997</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash at bank and in hand	51,240	18,190
Short term securities	122,319	-
Accounts receivable		
Trade	37,775	42,562
Related parties	34,056	3,148
Other	2,086	4,120
Inventories	21,357	12,549
Prepaid expenses	<u>3,505</u>	<u>5,339</u>
<b>TOTAL CURRENT ASSETS</b>	272,338	85,908
<b>LONG TERM DEBTORS</b>	1,114	131
<b>RELATED PARTIES</b>	5,591	-
<b>DEFERRED TAX</b>	4,640	-
<b>INVESTMENTS, AT COST</b>	1,826	822
<b>INTEREST IN ASSOCIATED UNDERTAKING</b>	8,402	5,130
<b>GOODWILL ON CONSOLIDATION</b>	954	1,934
<b>INTANGIBLE FIXED ASSETS, NET</b>	7,069	9,151
<b>TANGIBLE FIXED ASSETS, NET</b>	<u>24,349</u>	<u>19,063</u>
<b>TOTAL ASSETS</b>	<u><u>326,283</u></u>	<u><u>122,139</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Short term borrowings	1,883	5,034
Accounts payable and accruals		
Trade	13,808	25,676
Government	3,199	8,257
Employees	735	278
Unpaid dividends	4,445	14,797
Accruals and other	3,717	4,129
Deferred income	<u>18,476</u>	<u>17,813</u>
<b>TOTAL CURRENT LIABILITIES</b>	46,263	75,984
<b>MINORITY INTEREST</b>	2,425	3,256
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	12,994	10,294
Share premium	188,566	-
Retained earnings	<u>76,035</u>	<u>32,605</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	277,595	42,899
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>326,283</u></u>	<u><u>122,139</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)**

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	<b>6 months 30 June 1998</b>	<b>6 months 30 June 1997</b>
REVENUES	107,048	101,011
COST OF SALES	<u>(57,409)</u>	<u>(68,520)</u>
GROSS MARGIN	49,639	32,491
SELING COSTS	(5,010)	(3,824)
GENERAL AND ADMINISTRATIVE COSTS	(23,838)	(14,346)
OTHER OPERATING INCOME/(EXPENSES), NET	(3,678)	2,687
INTEREST IN ASSOCIATED UNDERTAKING	<u>(124)</u>	<u>(439)</u>
OPERATING PROFIT	16,989	16,569
FINANCIAL INCOME/ (EXPENSE), NET	<u>26,112</u>	<u>195</u>
PROFIT BEFORE INCOME TAXES	43,101	16,764
CORPORATE INCOME TAXES	(15,838)	(3,814)
MINORITY INTEREST	<u>(185)</u>	<u>(160)</u>
NET PROFIT	<u><u>27,078</u></u>	<u><u>12,790</u></u>
EARNINGS PER SHARE	<u><u>2.13</u></u>	<u><u>1.29</u></u>

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

	Number of shares	Share capital	Share premium	Total Retained earnings	shareholders' equity
<b>Balance as at 1 January 1998</b>	<b>12,700,000</b>	<b>12,994</b>	<b>189,330</b>	<b>53,402</b>	<b>255,726</b>
Net profit for the 6 months ended 30 June 1998	-	-	-		
Increase in share issue costs	27,078	27,078	(764)	-	(764)
Dividend declared		-	-	(4,445)	(4,445)
<b>Balance as at 30 June 1998</b>	<b><u>12,700,000</u></b>	<b><u>12,994</u></b>	<b><u>188,566</u></b>	<b><u>76,035</u></b>	<b><u>277,595</u></b>

	Number of shares	Share capital	Share premium	Total Retained earnings	shareholders' equity
<b>Balance as at 1 January 1997</b>	<b>301</b>	<b>480</b>	<b>-</b>	<b>33,439</b>	<b>33,919</b>
Net profit for the 6 months ended 30 June 1997	-	-		12,790	12,790
Increase in share capital	9,999,699	9,814	-	-	9,814
Dividend declared	-	-	-	(22,000)	(22,000)
Funding injection by Prokom Investments SA into IT business	-	-	-	8,376	8,376
<b>Balance as at 30 June 1997</b>	<b><u>10,000,000</u></b>	<b><u>10,294</u></b>	<b><u>-</u></b>	<b><u>32,605</u></b>	<b><u>42,899</u></b>

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

	<b>6 months 30 June 1998</b>	<b>6 months 30 June 1997</b>
<b>Net cash flow from operating activities:</b>		
Net profit before taxation	43,101	16,764
<b>Adjustments to reconcile net profit to net cash generated by operating activities</b>		
Depreciation and amortisation	4,311	6,575
Loss in associated undertaking	124	439
Changes in working capital	(10,381)	(9,450)
Interest income	(9,291)	(1,116)
Interest expense	266	921
Gain on sales of short-term investments in land	(1,959)	-
Gain on sale of short-term securities	(10,935)	-
Unrealised net gain on revaluation of short term securities	(3,969)	-
<b>Net cash generated by/(used in) operating activities</b>	<b>11,267</b>	<b>14,133</b>
<b>Interest paid</b>	<b>(266)</b>	<b>(921)</b>
<b>Tax paid</b>	<b>(28,234)</b>	<b>(2,129)</b>
<b>Cash flow from investing activities:</b>		
Purchase of short-term securities	(409,833)	-
Disposal of short term securities	303,280	-
Purchase of tangible fixed assets	(19,535)	(7,880)
Purchase of intangible fixed assets	(641)	-
Purchase of investment	(50)	(554)
Capital contributions in associated undertaking	(2,113)	(4,134)
Purchase of subsidiaries	-	(13,348)
Interest income received	8,465	1,116
Other	57	-
<b>Net cash used in investing activities</b>	<b>(120,370)</b>	<b>(24,800)</b>
<b>Cash flow from financing activities:</b>		
Increase/(decrease) in short term borrowings	83	1,100
Dividend payment	(11,412)	(19,318)
Issue of shares	-	9,814
Share issue costs paid	(764)	-
Receipts/(payments) on related party loans and other receivables	(17,405)	26,660
Funding injection (withdrawals) by Prokom Investments SA into IT business	-	8,376
<b>Net cash (used in)/ provided by financing activities</b>	<b>(29,498)</b>	<b>26,632</b>
<b>Net change in cash and cash equivalents</b>	<b>(167,101)</b>	<b>12,915</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>218,341</b>	<b>5,275</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>51,240</b>	<b>18,190</b>
<b>Changes in working capital and long term operating items:</b>		
Trade receivables	36,149	(2,754)
Other receivables	1,849	(2,866)
Inventories	(9,071)	(147)
Prepaid expenses	(301)	2,520
Long term debtors	-	1,270
Trade creditors	(23,541)	(5,112)
Due to government	(11,536)	4,161
Due to employees	(3,431)	104
Due to related parties	(5,479)	-
Accruals and other payables	(572)	1,591
Deferred income	5,552	(7,192)
Long term liabilities	-	(1,025)
<b>Total</b>	<b>(10,381)</b>	<b>(9,450)</b>

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)**

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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)**

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**1. Basis of preparation of the interim financial statements**

There were no significant changes in the preparation of the interim consolidated financial statements for the period of 6 months ended 30 June as compared with those for 12 months ended 31 December 1997.

The interim financial statements comply with IAS 34 (Interim Financial Reporting).

**2. Summary of significant accounting principles**

There were no changes in the accounting principles applied in preparation of the interim consolidated financial statements for the period of 6 months ended 30 June 1998 as compared with those for the 12 months ended 31 December 1997.

In addition the Company applied the following principle:

Short-term securities include mostly government and commercial bonds and also shares of companies listed on the Warsaw Stock Exchange. 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.

**3. Significant events occurred in the period of 6 months ended 30 June 1998**

- a. The shareholders of the Company passed a resolution on 30 June 1998 to issue 381,000 new ordinary shares to the management of the Company. The Company has not yet decided on the terms of the new share issue.
- b. The Company made donations of PLN 5,227,700 for religious, health protection, sport, educational and charitable purposes. The cost of the donations is recorded as other operating expenses.

**4. Related party transactions**

Short term related party receivable at 30 June 1998 includes:

Receivables from Prokom Investments SA	29,471
Receivable from Nihonswi AG	3,000
Loan to Kompap SA	387
Receivables from non-consolidated subsidiaries	1,198
	<hr/>
	34,056

The receivables from Prokom Investments SA comprises the following:

- a. In February 1998 Prokom Software SA purchased land in Warsaw for total consideration of PLN 13,064 th. In June 1998 this land was sold to Prokom Investments SA, one of the shareholders of the Company in which Mr Ryszard Krauze, the chairman of the management board of the Company, has a dominant interest, for the total amount of PLN 15,024 th. zł. The gain on the sale of land is recorded as financial income. According to the agreement with Prokom Investments SA the receivable for this transaction will be settled before December 31, 1998.
- b. In February 1998 the Company advanced PLN 8,720 th. to Prokom Investments SA as the Company's share of a proposed joint real estate investment. As at 30 June 1998, this investment has not been completed, and the amount is expected to be repaid to the Company by 30 June 1999.
- c. In May and in June 1998 the Company purchased two bills of exchange issued by Prokom Investments SA for the total consideration of PLN 5,670 th. The bills of Exchange are due to be paid within 12 months from the date of issue and bear interest of 18% per annum. Total interest recorded in the first half of 1998 was 57 th. PLN.

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In July 1998 Nihonswi AG, one of the shareholders of the Company, issued a bill of exchange for the amount of PLN 3,000 th., bearing an interest of 19.39% per annum. The bill of exchange will be paid to the Company within 12 months from the date of issue. The bill of exchange has been issued in exchange for the amount previously prepaid for purchase of shares. As at the balance sheet date the above amount is included in receivables.

In February 1998 the Company made a loan to Kompap SA, a company in which Prokom Investments SA holds a financial interest, for the amount of PLN 350 th. The loan bears interest of 31% and is due to be repaid by 31 December 1998. Total interest recorded on the loan in the first half of 1998 was PLN 37 th.

Long term related party receivable of 5,591 th. includes a non-interest-bearing loan to Prokom Investments with no fixed repayment date, payable on call of the Company.

In June 1998 the Company signed an agreement with Baltway Sp. z o.o., a subsidiary of Prokom Investments SA, to lease office space from 1 July 1998 for 5 years at cost of 145,591 zł per month.

**5. Subsequent events**

In July 1998 the Company purchased two bills of exchange from Prokom Investments SA for total consideration of PLN 5,376 th. These bills of exchange are payable within 12 months from the date of issue and bear interest of 18% per annum.