

**PROKOM SOFTWARE S.A.**  
**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**30 JUNE 1999**

## **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 sheet of Prokom Software S.A. (the Company) as at 30 June 1999 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 1999 and 1998, 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 1998 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 10 May 1999, 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, 1998, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

Warsaw, Poland  
29 September 1999

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

	<u>30 June 1999</u>	<u>31 December 1998</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash at bank and in hand	8,049	27,274
Short term securities	74,030	87,832
Related parties	62,105	59,384
Accounts receivable		
Trade	156,379	91,257
Other	12,617	7,604
Inventories	30,703	25,116
Prepaid expenses	<u>15,633</u>	<u>18,264</u>
<b>TOTAL CURRENT ASSETS</b>	359,516	316,731
<b>PREPAID EXPENSES</b>	5,896	-
<b>LONG TERM DEBTORS</b>	8,596	15,213
<b>RELATED PARTIES</b>	37,557	21,761
<b>DEFERRED TAX</b>	12,100	9,071
<b>INVESTMENTS, AT COST</b>	6,281	6,521
<b>INTEREST IN ASSOCIATED UNDERTAKING</b>	7,374	7,476
<b>GOODWILL ON CONSOLIDATION</b>	573	763
<b>INTANGIBLE FIXED ASSETS, NET</b>	6,560	2,052
<b>TANGIBLE FIXED ASSETS, NET</b>	<u>37,212</u>	<u>30,322</u>
<b>TOTAL ASSETS</b>	<u><u>481,665</u></u>	<u><u>409,910</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Short term borrowings	431	946
Accounts payable and accruals		
Trade	62,948	63,135
Government	21,997	10,786
Employees	788	181
Unpaid dividends	12,700	-
Accruals and other	7,727	5,534
Deferred income	<u>14,126</u>	<u>10,690</u>
<b>TOTAL CURRENT LIABILITIES</b>	120,717	91,272
<b>LONG TERM BORROWINGS</b>	122	-
<b>MINORITY INTEREST</b>	2,824	2,399
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	12,994	12,994
Share premium	188,847	188,847
Retained earnings	156,161	114,398
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>358,002</u>	<u>316,239</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>481,665</u></u>	<u><u>409,910</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 1999</b>	<b>6 months 30 June 1998</b>
REVENUES	313,887	107,048
COST OF SALES	<u>(184,786)</u>	<u>(57,409)</u>
GROSS MARGIN	129,101	49,639
SELING COSTS	(9,238)	(5,010)
GENERAL AND ADMINISTRATIVE COSTS	(36,184)	(23,838)
OTHER OPERATING EXPENSES, NET	(7,886)	(3,678)
INTEREST IN ASSOCIATED UNDERTAKING	<u>(7)</u>	<u>(124)</u>
OPERATING PROFIT	75,786	16,989
FINANCIAL INCOME, NET	<u>10,453</u>	<u>26,112</u>
PROFIT BEFORE INCOME TAXES	86,239	43,101
CORPORATE INCOME TAXES	(31,344)	(15,838)
MINORITY INTEREST	<u>(432)</u>	<u>(185)</u>
NET PROFIT	<u><u>54,463</u></u>	<u><u>27,078</u></u>
EARNINGS PER SHARE (not in thousands)	<u><u>4.29</u></u>	<u><u>2.13</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 1999</b>	<b>12,700,000</b>	<b>12,994</b>	<b>188,847</b>	<b>114,398</b>	<b>316,239</b>
Net profit for the 6 months ended 30 June 1999	54,463	54,463	-	-	
Dividend declared			-	(12,700)	(12,700)
<b>Balance as at 30 June 1999</b>	<b><u>12,700,000</u></b>	<b><u>12,994</u></b>	<b><u>188,847</u></b>	<b><u>156,161</u></b>	<b><u>358,002</u></b>
				<b>Total</b>	
	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	27,078	27,078	-	-	
Increase in share issue costs			(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>

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)**

	<b>6 months 30 June 1999</b>	<b>6 months 30 June 1998</b>
<b>Net cash flow from operating activities:</b>		
Net profit before taxation	86,239	43,101
<b>Adjustments to reconcile net profit to net cash generated by operating activities</b>		
Depreciation and amortisation	7,972	4,311
Loss in associated undertaking	7	124
Write down on investments	240	-
Changes in working capital	(64,978)	(10,381)
Interest expense	64	266
Investments income, net	(10,516)	(26,154)
<b>Net cash generated by operating activities</b>	<b>19,028</b>	<b>11,267</b>
<b>Interest paid</b>	<b>(64)</b>	<b>(266)</b>
<b>Tax paid</b>	<b>(24,427)</b>	<b>(28,234)</b>
<b>Cash flow from investing activities:</b>		
Sales/(purchases) of short-term securities, net	20,132	(106,553)
Purchase of tangible fixed assets	(13,514)	(19,535)
Purchase of intangible fixed assets	(5,176)	(641)
Purchase of investment	-	(50)
Capital contributions in associated undertaking	-	(2,113)
Interest income received	864	8,465
Contribution to real estate project with related parties	(14,795)	-
Other	-	57
<b>Net cash used in investing activities</b>	<b>(12,489)</b>	<b>(120,370)</b>
<b>Cash flow from financing activities:</b>		
Increase/(decrease) in short term borrowings	(515)	83
Dividend payment	-	(11,412)
Share issue costs paid	-	(764)
Payments for short term securities from related parties	(1,200)	-
Receipts/(payments) on related party loans and other receivables	442	(17,405)
<b>Net cash used in financing activities</b>	<b>(1,273)</b>	<b>(29,498)</b>
<b>Net change in cash and cash equivalents</b>	<b>(19,225)</b>	<b>(167,101)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>27,274</b>	<b>218,341</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>8,049</b>	<b>51,240</b>
<b>Changes in working capital and long term operating items:</b>		
Trade receivables	(65,122)	36,149
Other receivables	(4,580)	1,849
Inventories	(5,587)	(9,071)
Prepaid expenses	(3,265)	(301)
Long term debtors	6,617	-
Trade creditors	(187)	(23,541)
Due to government	1,265	(11,536)
Due to employees	607	(3,431)
Due to related parties	78	(5,479)
Accruals and other payables	1,954	(572)
Deferred income	3,242	5,552
<b>Total</b>	<b>(64,978)</b>	<b>(10,381)</b>

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**

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 1998. These consolidated interim financial statements should be read in conjunction with the 1998 financial statements.

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

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

**2. Significant events occurred in the period of 6 months ended 30 June 1999**

- (i) On 30 June 1999 the Company declared a dividend out of retained earnings as at 31 December 1998 of PLN 12,700. On 3 August 1999 the Company paid the dividend.
- (ii) The Company made donations of PLN 5,245 in the 6 months ended 30 June 1999 for religious, health protection and charitable purposes. The cost of the donations is recorded as other operating expenses.

**3. Related party transactions**

In addition to related party transactions and balances disclosed in the 1998 financial statements, the Company undertook the following transactions with related parties after 1 January 1999.

- (i) In January 1999 the Company purchased a bill of exchange from Elterix S.A. for PLN 1,200. The bill of exchange bears interest of 16,48% annually and will be redeemed in January 2000.
- (ii) The Company advanced an additional PLN 6,900 to Prokom Investments S.A (“Prokom Investments”) to provide funding for real estate projects conducted by that company. As at 30 June 1999 the total amount receivable related to that project from Prokom Investments was PLN 23,070. 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 May 1999 the Company advanced PLN 7,595 to a development company NKA Investments Sp. z o.o., which is controlled by Ryszard Krauze, in order to construct an office building in Warsaw. In addition, the Company also reclassified the loans made to NKA Investments Sp. z o.o. in 1998 and related interest to advances for this real estate project. As of 30 June 1999 the total advance made to NKA Investments Sp. z o.o. was PLN 8,896 and is included as long term receivables from related parties. The Company’s further commitments relating to this project are USD 8,142.
- (iv) On July 1999 the Company signed an agreement with Prokom Investments to lease office space from 1 April 2000 for 10 years. The future minimum lease payments related to this non-cancellable operating lease agreement are as follows:

In less than 1 year	2,325
After 1 year and not later than 5 years	37,195
Later than 5 years	51,144
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	90,664

In August 1999 the Company advanced PLN 19,797 to Prokom Investments as a guarantee payment in respect of the lease contract.

**6 months**

**6 months**

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

	<u>30 June</u> <u>1999</u>	<u>30 June</u> <u>1998</u>
(v) Services purchased from related parties		
Rental costs of aircraft	3,662	-
Rental costs of cars	961	-
Rental of office space	1,546	-
Other	336	-
	<hr/> 6,505 <hr/>	<hr/> - <hr/>

- (vi) On 15 July 1999 the Company signed an agreement with Prokom Investments for that company to provide marketing services in the second half of 1999 for the amount of PLN 5,000.
- (vii) On 29 June 1999 Company redeemed commercial papers issued by Prokom Investments in the amount of 26,000 PLN. On the same date the Company purchased commercial papers issued by Prokom Investments for consideration of 25,941 PLN, with interest of 18.25% and which were redeemed on 23 August 1999. On 29 July 1999 the Company purchased commercial papers issued by Prokom Investments for consideration of PLN 4,934 which were redeemed on 23 August 1999. On 23 August 1999 the Company purchased commercial papers issued by Prokom Investments for consideration of PLN 31,771. These commercial papers will be redeemed on 22 June 2000 and bear interest of 18% per annum. On 29 September 1999, total amount of receivables from Prokom Investments in relation to the above transactions is PLN 31,771 plus accrued interest (PLN 25,941 as at 30 June 1999).
- (viii) On 24 August 1999 Prokom Investments repaid a long-term loan of PLN 5,591.
- (ix) On 24 August 1999 the Company redeemed bills of exchange from Prokom Investments of PLN 13,705 which included PLN 2,378 of interest. On 29 September 1999, the Company had no receivables from Prokom Investments for bills of exchange (PLN 13,403 as at 30 June 1999).
- (x) In July 1999 the Company purchased commercial papers issued by Baltway S.A. for consideration of PLN 1,905. These commercial papers will be redeemed at 10 December 1999 and bear interest of 12.93% per annum.

**5. Subsequent events**

In July the Company acquired 24.99% interest in Wirtualna Polska S.A., an e-commerce company, for consideration of PLN 14,411. In addition, the Company has an option to purchase after 31 December 2001, but not later than 30 September 2002, additional shares to take its interest up to not less than 40% in this company. Accordingly to the shareholders agreement, the total interest held by the Company should not exceed the interest of the other shareholder, Centrum Nowych Technologii Sp. z o.o.