

***Directors' Report on the Activities of the Softbank Capital  
Group and the Principles Applied in the Preparation of  
the 2002 Consolidated Financial Statements***

## TABLE OF CONTENTS

<b>Introduction .....</b>	<b>3</b>
<b>Discussion of Key Financial and Economic Indicators.....</b>	<b>6</b>
Financial Results.....	6
Shareholders' Equity .....	6
Current Assets.....	8
Debt and Liquidity .....	8
Basic Data from Cash-Flow Statement.....	9
Return on Equity and Book Value of Shares .....	9
Profitability.....	9
<b>Material Off-Balance-Sheet Items (by Company, Item and Value) .....</b>	<b>9</b>
<b>Structure of Main Equity Investments and Placements in the Capital Group .....</b>	<b>10</b>
Description of Material Risk Factors and Threats .....	10
<b>Products, Goods, and Services. Sales and Supplies .....</b>	<b>11</b>
<b>Major Events which Materially Affected the Company's Operations and Financial Results in the Fiscal Year or which May Affect It in the Future.....</b>	<b>12</b>
<b>Changes in the Capital Group's Organisation.....</b>	<b>12</b>
<b>Key Events Reported by the Company in 2002.....</b>	<b>13</b>
<b>Key Events Reported by the Company Subsequent to the Balance-Sheet Date.....</b>	<b>19</b>
<b>Explanation of Differences Between the Financial Results Disclosed in the SA-RS 2002 Report and Result Projections Published Earlier.....</b>	<b>20</b>
<b>Changes in Organisational or Capital Links and Material Equity Investments.....</b>	<b>21</b>
<b>Capital Group's Development Policy.....</b>	<b>23</b>
<b>Transactions with Related Undertakings .....</b>	<b>23</b>
<b>Loans, Loan Agreements, Guarantees and Sureties.....</b>	<b>24</b>
Bank Guarantees and Letters of Credit.....	24
Sureties .....	26
Loans, Borrowings and Debt Securities Issues.....	26
Loan Agreements.....	28
<b>Assessment of the Capital Group's Current and Future Financial Standing – Management of Financial Resources.....</b>	<b>29</b>
<b>Use of Proceeds from Issues between May 1998 and December 2002.....</b>	<b>30</b>
<b>Feasibility of Investment Plans, including Equity Investments, against the Funds Owned, including Possible Changes in the Structure of Financing of Investment Activities .....</b>	<b>30</b>
<b>The Softbank Capital Group on the IT Market.....</b>	<b>30</b>
Forecasts for the Polish IT Market in Next Years .....	30
Forecasts for the Banking and Finance Sector until 2006.....	31
<b>Internal and External Factors Material to the Development of the Capital Group and Growth Prospects for Softbank's Activities at least until the End of 2003, including the Elements of the Market Strategy Developed by the Company .....</b>	<b>31</b>
<b>Achievements and Development Prospects of the Softbank Capital Group.....</b>	<b>32</b>
<b>Changes in the Softbank's and the Capital Group's Management Policies .....</b>	<b>33</b>
<b>Composition of the Governing Bodies of the Member Undertakings as at December 31st 2002 .....</b>	<b>34</b>
<b>Remuneration of the Members of the Capital Group's Governing Bodies .....</b>	<b>34</b>
<b>Outstanding Loans to the Members of the Capital Group's Governing Bodies .....</b>	<b>35</b>
<b>Softbank Shares Held by the Members its Corporate Bodies as at December 31st 2002.....</b>	<b>35</b>
<b>Softbank's Shareholder Structure as at December 31st 2002.....</b>	<b>35</b>
<b>Agreements and Events Affecting the Proportions of Shares held by Existing Shareholders .....</b>	<b>35</b>

## ***Introduction***

The annual consolidated financial statements have been prepared in accordance with the provisions of the Polish Accountancy Act, dated September 29th 1994 (Dz. U. No. 121, item 591), as amended by the Act dated November 9th 2000 (Dz. U. No. 113, item 1186), and the Directive of the Polish Council of Ministers, dated October 16th 2001, concerning current and periodic reports by issuers of securities registered in public trading (Dz. U. No. 139, item 1569), as amended, hereinafter referred to as the Directive of the Polish Council of Ministers.

As a result of the amended Accountancy Act, taking effect as of January 1st 2002, the Softbank Capital Group was under an obligation to choose and adapt its accounting principles (policies) to the amended Act. This led to restatements made by the Capital Group in its financial statements for the previous years, with a view to maintaining data comparability and adapting the data to the new accounting principles (policies) adopted by the Executive Board of the Parent Undertaking. Therefore, the data in the consolidated 2001 financial statements of Softbank, SA-RS 2001, differ from comparable data disclosed in this Directors' Report.

The most important changes in the accounting policies adopted by the Capital Group as of the beginning of this year, which had an effect on the financial result for the current year and the previous years, were:

### **1. Deferred Income Tax**

Pursuant to the amended Polish Accountancy Act, the member undertakings of the Softbank Capital Group were obliged to calculate the value of assets and liabilities resulting from deferred income tax. In the previous consolidated financial statements, the Company did not disclose such items. The calculation of deferred tax resulted in a PLN 8,257,000 increase in the 2001 net financial result. The 2001 retained profit/accumulated loss grew by PLN 1,920,000.

### **2. Provisions for Employee Benefits**

In aligning the accounting policies effective at the Softbank Capital Group to the amended Polish Accountancy Act, the Group has to compute the value of the provision for retirement severance pays for its employees. This lowered the 2001 net profit by PLN 231,000.

### **3. Change in the Method of Valuation of Associated Undertakings**

The Parent Undertaking used the equity method to value associated undertakings in the non-consolidated financial statements. As a result, in addition to other associated undertakings, the Parent Undertaking had to consolidate NetPower SA (which due to its meagre impact had not been consolidated in 2001); this valuation reduced the 2001 net consolidated result by PLN 337,000.

### **4. Software Development Costs**

In order to adjust the accounting policies adopted by the Capital Group to the provisions of the amended Polish Accountancy Act, the costs of development of the ABR computer software, classified as at the end of 2001 as intangible fixed assets, were settled in accordance with the provisions of Art. 34.3 of the Act and transferred to stocks, while the value of amortisation in the amount of PLN 799,000 increased the 2001 net financial result.

### **5. Financed Leasing**

Pursuant to the amended Polish Accountancy Act, the Capital Group disclosed financed leasing of tangible fixed assets. This increased the gross value of fixed assets by PLN 1,144,000 and depreciation by PLN 413,000, while decreasing the interest expense incurred under financed leases by PLN 488,000. The 2001 result was decreased by the depreciation and improved by the lower interest expense.

### **6. Valuation of Long-Term Contracts**

Pursuant to the amended Polish Accountancy Act, the Capital Group valued its long-term contracts. Thus, revenue on the provision of services which has not been completed were computed as at the balance-sheet with the percentage-of-completion method. Following the valuation, the revenue on the contracts was increased by PLN 77,000 and PLN 2,341,000 was charged to the cost of work in progress.

#### 7. Valuation of the Call Option in Softbank Serwis.

In restating the comparable data for 2001, the Group valued the call option on shares in the Parent Undertaking owned by Aleksander Lesz, its main shareholder, in order to execute the stock option scheme for Softbank's management personnel. Following the valuation, financial expenses were increased by PLN 10,227,000.

#### 8. Minority Interests

The adjustments introduced into the non-consolidated financial statements of the subsidiary undertakings increased the 2001 loss attributable to minority interests by PLN 1,174,000; and thus, the 2001 result improved by that same amount.

In addition, PLN 487,000 in losses attributable to minority interests which were not subject to the guaranteed coverage of the shareholders' equity attributable to minority interests, were settled with the Capital Group's shareholders' equity. This reduced the 2001 net result.

The Capital Group also made a number of reclassification adjustments, which had no effect on the results for the current and previous years. The impact of all of the adjustments on the structure of the consolidated balance sheet is presented below:

*a) Fixed assets decreased by PLN 14,750,000 as a result of the following adjustments:*

Intangible fixed assets – decreased by PLN 19,295,000

- Reclassification of costs incurred for the development of ABR software from intangible fixed assets to stocks (PLN 15,169,000) and reversal of amortisation of the portion of this software corresponding to the stocks (PLN 799,000) – PLN 15,968,000 in total,
- Reclassification of the costs of organisation of the Company to long- and short-term prepayments and accrued income – decrease of PLN 4,056,000 as at the end of 2001,
- Reclassification of the perpetual usufruct right to land to fixed assets (PLN 70,000).

Fixed assets – increased by PLN 801,000

- Reclassification of the perpetual usufruct right to land to fixed assets (PLN 70,000),
- Disclosure of financed leasing of fixed assets with a net value of PLN 731,000.

Long-term accounts receivable – decreased by PLN 14,066,000

- Reclassification of trade debtors maturing in more than a year to short-term accounts receivable (PLN 14,012,000),
- Reclassification of the short-term portion of a loan to short-term financial assets (PLN 54,000).

Long-term investments – decreased by PLN 337,000

- Valuation of NetPower SA, associated undertaking, decreased long-term investments and 2001 net results in the consolidated balance sheet by PLN 337,000.

Long-term accruals and deferrals – increased by PLN 18,147,000

- Transfer of PLN 5,149,000 in short-term accruals and deferrals to long-term accruals and deferrals, increasing fixed assets as at the end of 2001,
- Reclassification of the costs of organisation of the Company from intangible fixed assets increased long-term prepayments and accrued income by PLN 2,283,000,
- Computation of deferred tax assets increased fixed assets as at the end of 2001 by PLN 10,717,000.

*b) Current assets as at the end of 2001 increased by PLN 24,762,000 as a result of the following adjustments:*

Stocks – increased by PLN 16,238,000

- Transfer of the unamortised portion of development costs of ABR software from stocks (PLN 15,169,000) and reversal of amortisation costs of this software (PLN 799,000),
- Transfer from short-term prepayments and accrued income of the value of licenses representing goods for resale and costs of new production (PLN 2,611,000),

- As a result of the valuation of long-term contracts, the Group had to charge PLN 2,341,000 to the cost of work in progress.

Short-term accounts receivable – increased by PLN 14,012,000

- Reclassification of trade debtors maturing in more than a year (PLN 14,012,000) to short-term accounts receivable.

Short-term investments – increased by PLN 54,000

- Reclassification of the short-term portion of a loan from long-term accounts receivable (PLN 54,000).

Short-term accruals and deferrals – decreased by PLN 5,542,000

- Transfer to stocks of the value of licenses representing goods for resale and costs of new production (PLN 2,611,000),
- Transfer of PLN 5,149,000 in short-term prepayments and accrued income to long-term prepayments and accrued income,
- Reclassification of the costs of organisation of the Company from intangible fixed assets increased long-term prepayments and accrued income by PLN 1,773,000,
- Valuation of long-term contracts created an unrealised cost of PLN 445,000 which was capitalised into short-term prepayments and accrued income.

The above adjustments increased the value of assets by PLN 10,012,000.

Shareholders' equity – decreased by PLN 1,321,000

- Deferred income tax for 2000 and previous years increased shareholders' equity by PLN 1,920,000,
- Adjustments concerning the 2001 result reduced shareholders' equity by PLN 3,241,000 (see: overview of adjustments affecting the Capital Group's results).

Minority interests – decreased by PLN 683,000

- Adjustments in the non-consolidated financial statements of subsidiary undertakings reduced 2001 shareholders' equity attributable to minority interests by PLN 1,170,000,
- Additional transfer of the portion (PLN 487,000) of shareholders' equity attributable to minority interests which did not have guaranteed equity coverage to the 2001 result.

Liabilities and provisions for liabilities – increased by PLN 12,016,000

- Provision for deferred income tax increased liabilities by PLN 539,000,
- Provision for retirement severance pays for the Group's employees increased liabilities by PLN 231,000,
- Disclosure of financed leasing of fixed assets created long-term liabilities of PLN 215,000,
- Disclosure of financed leasing of fixed assets created short-term liabilities of PLN 437,000,
- Valuation of liabilities under the call option on Softbank shares to execute the stock option scheme for Softbank's management personnel increased short-term liabilities by PLN 10,229,000,
- Valuation of long-term contracts increased short-term accruals and deferred income by PLN 367,000,
- Reclassification of trade creditors maturing in more than a year (PLN 13,780,000) from long-term liabilities to short-term liabilities.

The Director's Report on the Activities of Softbank and the Principles Applied in the Preparation of the Annual Financial Statements have been prepared in accordance with Par. 62.1.1, 2 and 4 and Par. 64.6 and 7 of the Directive of the Polish Council of Ministers.

## Discussion of Key Financial and Economic Indicators

In 2002, the Softbank Capital Group reported a net loss of PLN 154,755,000. Its balance-sheet total stood at PLN 302,221,000, and the cash-flow statement showed a net increase in cash of PLN 13,934,000.

### Financial Results

In 2002, as was true of most companies of the IT sector, the Softbank Capital Group recorded materially weaker financial performance than of a year before. In 2002, Polish economy showed signs of stagnation, and, as a consequence, further decreases in expenditure on information technology. This phenomenon was also evident in the banking and financial sector and had a direct impact on the financial results of the Softbank Capital Group, which derives most of its revenue from this sector. Despite the stagnation in the sector, the Capital Group signed several medium-sized contracts with financial and banking institutions, of which the largest was an export contract with the National Clearing Centre of the Republic of Belarus for the development of a clearing and transactional system. Softbank also concluded a master maintenance service agreement with Nordea Bank Polska, as well as a subcontracting agreement with Fiserv, which manages IT systems of ING Bank Śląski SA, BZ WBK SA, Bank Millennium SA, AIG Bank Polska SA and GE Bank Mieszkaniowy SA.

No major IT tenders (i.e. PESEL (Universal Electronic System for Registration of Population), CEPIK (Central Register of Vehicles and Drivers), Land and Mortgage Registers), expected by the market for several years, were completed in the public administration sector. Nevertheless, the Capital Group managed to sign a high-value contract with the Polish Agency for Restructuring and Modernisation of Agriculture (*Agencja Restrukturyzacji i Modernizacji Rolnictwa*), the Centrum Municipality of Warsaw, and several smaller ones.

Maintaining the production potential of the Capital Group, especially of FinFin SA (sold in February 2003) represented a significant financial burden in that difficult year. Given the assumption of the role of the Capital Group's strategic investor by Prokom Software SA, the restatement of the value of the Capital Group's assets to real terms and closing of the sale of the shares in TDC Internet Polska SA with a loss caused a decrease in the Softbank Capital Group's results by over PLN 140m (financial expenses, provisions and revaluation write-offs).

However, the Capital Group managed to achieve positive results by reducing its operating expenses and improving its sales margin by avoiding unattractive contracts. The proceeds from the sale of the convertible bonds were used for the restructuring of the Company's debt, which was practically repaid in full, and for investments in the development of the Capital Group, and in particular for the purchase of Wonlok SA, a transaction whose finalisation is planned for mid 2003. This investment is another step towards expanding the Capital Group's activities in the banking sector, through the acquisition of a new big customer, BGŻ SA.

<i>(PLN '000)</i>	<i>Dec 31 2000</i>	<i>Dec 31 2001</i>	<i>Dec 31 2002</i>
<b>Net sales</b>	431,759	445,684	349,313
<b>Operating profit (loss)</b>	37,280	-2,952	-28,452
<b>Pre-tax profit (loss)</b>	38,809	-13,983	-154,595
<b>Net profit (loss)</b>	21,045	-18,466	-154,755

In order to maintain comparability, the data from previous years was restated following the coming into force of the amended Accountancy Act and the adoption of new accounting policies by the Capital Group.

### Shareholders' Equity

As at December 31st 2002, the shareholders' equity stood at PLN 94,182,000.

As at December 31st 2002, the following shareholders held shares conferring the rights to at least 5% of the total vote at the Softbank's General Shareholders Meeting:

22.97%      A. Lesz (4,000,268 shares representing the same number of votes at the GM),

19,21% Prokom Software SA (3,344,398 shares representing the same number of votes at the GM).

In the reporting period, the court registered one increase in Softbank's share capital, which was connected with the conversion of Series B bonds into Series O shares by the persons entitled under the stock option scheme for Softbank's management personnel.

On March 4th 2002, the District Court for the Capital City of Warsaw registered an increase in the share capital of Softbank. As from that moment, the Softbank share capital amounted to PLN 17,413,992 and was divided into 17,413,992 shares with a par value of PLN 1 per share.

On January 2nd 2003, the court registered an increase in Softbank's share capital following the conversion of convertible bonds into shares. Currently, the Softbank share capital amounts to PLN 20,613,992 and is divided into 20,613,992 shares with a par value of PLN 1 per share. The total number of votes conferred by all the outstanding shares is 20,613,992.

Following the registration of the share capital increase, according to Softbank's knowledge regarding shareholders holding more than 5% shares, the current shareholder structure is as follows:

1. Aleksander Lesz	4,000,268
2. Prokom Software SA	3,344,398
3. Nihonswi AG	3,200,000.

The structure of shareholders' equity has been set forth in the table below:

<i>(PLN '000)</i>	<i>Dec 31 2000</i>	<i>Dec 31 2001</i>	<i>Dec 31 2002</i>
<b>Share capital</b>	16,558	17,414	17,414
<b>Reserve funds and capital reserve</b>	185,565	247,987	232,766
<b>Revaluation capital reserve</b>	101	82	78
<b>Retained profit (loss) brought forward</b>	0	1,920	1,321
<b>Net profit (loss)</b>	21,045	-18,466	-154,755
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>223,269</b>	<b>248,937</b>	<b>94,182</b>
<b>Unregistered capital increase</b>	0	0	32,000

In order to maintain comparability, the data from previous years was restated following the coming into force of the amended Accountancy Act and the adoption of new accounting policies by the Capital Group.

## Fixed Assets

As at the December 31st 2002, fixed assets represented 23.87% of the balance-sheet total. This ratio is higher than it had been earlier due to a relative decrease in the value of current assets. Fixed assets include: intangible fixed assets – 19.76% of fixed assets (mostly comprising acquired patents, licenses and software), goodwill of subordinated undertakings – 12.93%, tangible fixed assets – 46.55% (mostly comprising the value of buildings and plant and equipment), long-term accounts receivable – 0.51%, long-term investments – 1.40% and long-term accruals and deferrals – 18.84 % (almost entirely comprising deferred tax assets).

The table below sets forth the key financial ratios used for the assessment of the efficiency of fixed assets:

<i>(in PLN '000)</i>	<i>Dec 31 2002</i>	<i>Dec 31 2001</i>	<i>Dec 31 2002</i>
<b>Fixed assets cycle<sup>1</sup></b>	5.65	5.37	4.84
<b>Return on fixed assets<sup>2</sup></b>	0.28	-0.22	-2.14
<b>Equity to fixed assets ratio</b>	2.92	3.00	1.31

<sup>1</sup> Fixed assets cycle: sales revenue to fixed assets

<sup>2</sup> Return on fixed assets: net profit to fixed assets

In order to maintain comparability, the data from previous years was restated following the coming into force of the amended Accountancy Act and the adoption of new accounting policies by the Capital Group

## Current Assets

As at December 31st 2002, the Capital Group's current assets represented 76.13% of total assets. Current assets comprised: short-term accounts receivable, representing 49.77% of current assets, short-term financial assets, representing 44.01% of current assets (cash – 36.28%, corporate bonds and shares held in IASiE SA – 7.73%, of total current assets), short-term prepayments and accrued income, representing 3.63% of current assets, and stocks, representing 2.59% of current assets.

Short-term financial assets included primarily corporate bonds, which were an alternative way of investing free funds, generating yields higher than those offered by standard bank deposits. The corporate bonds served partially as a security for the issued bank guarantees. Shares worth PLN 100,000 held in Instytut Analiz Społecznych i Ekonomicznych SA, a subsidiary undertaking, are an exception. Upon their disposal in 2003, they were reclassified to short-term investments.

## Debt and Liquidity

As at the end of December 2002, the Softbank Capital Group maintained adequate current liquidity. The Capital Group's liabilities accounted for 56.10% (\*) of the balance-sheet total and 134.36% (\*) of its shareholders' equity. The significant increase in the ratio of the Capital Group's liabilities to shareholders' equity was caused by a substantial decrease in the value of shareholders' equity relative to the previous years. This change was due to the review of the fair value of the Capital Group's assets carried out in the second half of 2002, and as a result of a loss recorded by the Company for 2002.

The Capital Group's liabilities comprised almost exclusively short-term items which represented more than 98% of the Group's liabilities. Short-term liabilities comprised mainly trade creditors, which represented more than 60% of all liabilities, liabilities under a call option held on Softbank shares, held to execute the stock option scheme for Softbank's management personnel – more than 9% of total liabilities and accruals and deferred income, which represented more than 13% (main item – provision for overdue tax withholding – representing close to 50% of accruals) in total liabilities.

A noteworthy fact is that the financial leverage ratio in 2002 amounted to 0.06. This was the ratio's lowest value in the last three years, which was achieved thanks to the disposal of TDC Internet Polska SA and a new issue of convertible bonds.

(\*) An assumption was made in the calculation of the ratio of short-term liabilities to the balance-sheet total and shareholders' equity that the obligation to increase share capital as a result of conversion of convertible bonds into shares in the amount of PLN 32m (the Registration Court registered the share capital increase on January 2nd 2003) increases the value of share capital. Such a decision was made because of the date of the registration and the dividend rights incorporated in the new shares.

The financial liquidity ratios recorded by the Softbank Capital Group have been set forth below:

	<i>Dec 31</i> <i>2001</i>	<i>Dec 31</i> <i>2001</i>	<i>Dec 30</i> <i>2002</i>
<i>Current ratio</i> <sup>1</sup>	2.01	1.82	1.58
<i>Financial leverage</i> <sup>2</sup>	0.29	0.41	0.06
<i>% share of liabilities in balance-sheet total</i>	43.77	48.01	56.10

<sup>1</sup> Current ratio: current assets to short-term liabilities.

<sup>2</sup> Financial leverage: total liabilities on loans, borrowings, security issues, etc. to shareholders' equity.

An assumption was made in the calculations of the above ratios that the amount of PLN 32m is part of the shareholders' equity. Such a decision was made because of the date of the registration and the dividend rights incorporated in the new shares.

In order to maintain comparability, the data from previous years was restated following the coming into force of the amended Accountancy Act and the adoption of new accounting policies by the Capital Group



## Basic Data from Cash-Flow Statement

<i>(PLN '000)</i>	<i>Dec 31 2000</i>	<i>Dec 31 2001</i>	<i>Dec 31 2002</i>
<i>Operating cash flow</i>	28,750	-66,506	76,508
<i>Investing cash flow</i>	-58,142	44,406	11,891
<i>Financing cash flow</i>	6,513	75,329	-74,465

The figures contained in the above table show that in the reporting period the Capital Group's external debts were repaid almost exclusively with inflows from operating activities, supported only with an additional issue of shares in the amount of PLN 32m. A positive balance was recorded with respect to investment activities due to the disposal of shares in TDC Internet Polska. An analysis of cash flows indicated that the Company's assets generated positive operating cash flows – the highest in the last three years.

## Return on Equity and Book Value of Shares

As at December 31st 2002, ROE (return on equity: net profit to shareholders' equity (\*)) was -123% (\*) and its value was significantly lower relative to the previous years, which was due to the net loss recorded by the Capital Group in 2002. As at December 31st 2002, the net book value per share was PLN 6.12 (\*). Return on equity ratios are presented in the table below:

	<i>Dec 31 2000</i>	<i>Dec 31 2001</i>	<i>Dec 31 2002</i>
<i>Net book value (PLN '000) (*)</i>	223,269	248,937	126,182
<i>including capital increase registered on January 2nd 2003 (*)</i>	0	0	32,000
<i>Number of ordinary shares (pcs) (*)</i>	16,557,540	17,413,992	20,613,992
<i>including capital increase registered on January 2nd 2003 (*)</i>	0	0	3,200,000
<i>Net book value per share (PLN) (*)</i>	13.48	14.30	6.12
<i>Earnings per ordinary share (PLN)</i>	1.31	-1.07	-7.51

(\*) An assumption was made in the calculations of the above ratios that the amount of PLN 32m is part of the shareholders' equity. Such a decision was made because of the date of the registration and the dividend rights incorporated in the new shares.

In order to maintain comparability, the data from previous years was restated following the coming into force of the amended Accountancy Act and the adoption of new accounting policies by the Capital Group

## Profitability

As at the end of December 2002, the Capital Group's profitability ratios decreased in relation to the previous years. The main cause of such a sharp decline of the presented ratios was a number of revaluation write-offs and provisions made in the third and fourth quarter of 2002. These changes were aimed at restating the book value of assets and liabilities to real terms. The table below presents the profitability ratios.

	<i>Dec 31 2000</i>	<i>Dec 31 2001</i>	<i>Dec 31 2002</i>
<i>Operating margin</i>	0.09	-0.01	-0.08
<i>Gross margin</i>	0.09	-0.03	-0.44
<i>Net margin</i>	0.05	-0.04	-0.44

In order to maintain comparability, the data from previous years was restated following the coming into force of the amended Accountancy Act and the adoption of new accounting policies by the Capital Group.

## Material Off-Balance-Sheet Items (by Company, Item and Value)

As at the end of 2002, off-balance-sheet commitments and liabilities totalled PLN 41,862,000. In their structure, 13.53% comprised guarantees and sureties mainly issued on behalf of related undertakings as

guarantee for liabilities contracted by those undertakings. Other commitments and liabilities represented 86.47% and resulted from:

- Purchase of Wonlok SA – PLN 26,508,000,
- Conclusion of intangible fixed asset lease agreements – PLN 9,684,000,
- Other – PLN 8,000.

### ***Structure of Main Equity Investments and Placements in the Capital Group***

In 2002, the Softbank Capital Group invested its financial surplus in bank deposits, treasury bills and corporate bonds. When deciding which commercial papers represent sound investment opportunities, the Company only considered those deemed highly safe. Most often these were high-investment-grade bonds guaranteed by parent undertakings of the issuers. In selecting bonds, the Capital Group looked not only at the level of their safety but also at their liquidity. The member undertakings of the Group invested usually several, and in the case of the Parent Undertakings, several hundreds of million of zloty, in treasury bills and bonds for periods of one to two months. Funds which remained in bank accounts represented amounts which a given undertaking could not invest for longer periods of time and which instead were placed in bank deposits bearing interest negotiated with a given bank.

Meanwhile, the main equity placements made by the Softbank Capital Group represent foremost investments made by the Parent Undertaking in the member undertakings of the Capital Group. These included share capital increases and conversions of loans advanced to related undertakings in/to such companies as: TDC Internet Polska, Sawan, Mediabank, bezpieczenstwo.pl, and Saba. The equity so placed was entrusted to the undertakings mainly within the framework of the execution of concluded investment agreements for the development and strengthening of the market position of the Capital Group's member undertakings. The main equity placements in the Capital Group included: conclusion of an agreement for the purchase of shares in Wonlok SA, which should be executed in 2003. The purchase of Wonlok SA is part and parcel of the Capital Group's strategy to strengthen the Softbank Capital Group's position and expand further on the IT market in the banking sector.

### **Description of Material Risk Factors and Threats**

Starting in 2000, Polish companies began to materially curtail their expenditure on IT. Such steps were initiated not only by financial institutions but also by companies from other sectors of the economy. These companies suspended large projects (such as implementation of CRM, new ERP modules and data warehouses) to concentrate their efforts on projects yielding quick costs cuts and improving their return on sales.

Furthermore, in the banking sector, consolidation and the increase of equity interests in the shareholding structures of Polish banks by foreign financial institutions means that Polish IT solutions now have to face the challenge represented by corporate solutions.

In turn, in the cooperative banking sector, the Capital Group has to face the challenge following from uncertainty related to effectiveness of protection awarded to cooperative banks once Poland becomes part of the European Union, organisational problems of associations, and very intense price competition among IT providers.

The following factors may also be detrimental to the Capital Group's market position:

- Government's efforts focused on vitalisation of SMEs may prove ineffective,
- Public administration limiting its investments in projects and undertakings improving its IT infrastructure,
- Entrusting to Polish representatives of foreign companies the execution of IT projects within the framework of PPP (Private-Public Partnerships) programmes, where Polish companies most often act as sub-contractors.

**Products, Goods, and Services. Sales and Supplies**

Net sales revenue by type of products, goods and services in 2002:

<i>Type</i>	<i>Sales revenue in 2002 (in PLN '000)</i>	<i>Sales revenue in 2001 (in PLN '000)</i>	<i>% share in total sales revenue in 2002</i>	<i>% share in total sales revenue in 2001</i>
<i>Company's own services</i>	76,217	88,694	21.82%	19.90%
<i>Own licences</i>	52,157	40,156	14.93%	9.01%
<i>Third-party services and licences</i>	94,537	89,844	27.06%	20.16%
<i>Hardware</i>	126,402	226,990	36.19%	50.93%
<b>TOTAL SALES:</b>	<b>349,313</b>	<b>445,684</b>	<b>100%</b>	<b>100%</b>

In 2002, the Softbank Capital Group derived 99.98% of its sales revenue from the domestic market. Exports represented merely a marginal portion of sales and concerned partnership programmes with the Capital Group's main business partners. In 2002, the structure of the Capital Group's customers for IT solutions remained significantly diversified. PKO BP SA remained the main customer for the products, goods and services offered by Softbank (the value of IT solutions delivered to PKO BP SA accounts for over 45% of the total sales). The Capital Group's major customers also included: Bank Zachodni WBK SA (5% of sales), PEKAO SA (5%), Hewlett Packard Sp. z o.o. (5%), the PZU Group (4%), WASKO Sp. z o.o. (3%), and TDC Internet Polska SA (3%).

The Softbank Capital Group's main market comprised financial sector institutions, such as banks and insurance companies. Public administration institutions and central government authorities were also among the customers for Softbank's products and services. The market of Poland's eastern neighbours has become an important direction of the search for new markets.

The rapidly changing market for IT solutions requires from the Softbank Capital Group efficient and effective cooperation with the world's leading hardware and software providers. The cooperation with these companies is mainly connected with sales of system hardware and software. The most important commercial partners of the Company are IBM and HP. Sales of servers and workstations, supplied by IBM, HP and Fujitsu-Siemens, as well as other infrastructure components (manufactured by CISCO, 3COM) supplement the application offering of the Capital Group. On this basis, Softbank is able to offer its customers a comprehensive range of services, which are a significant source of revenue for the member undertakings of the Capital Group, and for Softbank Serwis Sp. z o.o. in particular. The suppliers which helped the Capital Group to realise substantial sales also include BEA and Microsoft. The Capital Group expects the cooperation with these partners in the coming years to concentrate, in addition to hardware and operating system platforms, on other important infrastructure solutions, such as management of IT resources and network, mass memory system solutions and outsourcing services, as well as on ensuring continuity of operation of computation centres.

Given the anticipated growing trend to use ready-made software packages, the Capital Group has prepared appropriate implementation resources allowing the Company to effectively execute projects based on Oracle e-Business Suite, IFS and proprietary auxiliary applications. Softbank believes that the market for these solutions will be particularly attractive for the segment of medium-sized enterprises. For the Parent Undertaking this represents an important element of the Capital Group's cooperation with ORACLE, supplementing contacts with this partner at the technological level.

No formal or informal capital links exist between Softbank and any of the abovementioned companies that are the proprietors of the application solutions, tools and software offered by the Capital Group.

***Major Events which Materially Affected the Company's Operations and Financial Results in the Fiscal Year or which May Affect It in the Future***

The slowdown in the economic growth and the resulting stagnation seen on the Polish IT market forced the Group to accept less advantageous margins than in the past in order not to lose customers within the context of the closing or postponement of many large IT projects. The Capital Group saw its sales support costs rise as it obtained less and less large commissions and sought to execute smaller orders. Moreover, the forecasted sales to other sectors, in particular to the public administration sector, with which Softbank had tied significant plans did not come to pass. The combination of these factors meant that the entire Capital Group was strongly impacted by the adverse conditions prevailing on the market.

After a close to two and a half year period of preparations, in the third quarter of 2003, PKO BP SA, Softbank's strategic customer, decided to once again organise a tender for a central IT system. The Capital Group continues to maintain sufficient resources in order to be able to undertake and execute such a complex project. Softbank SA, which has entered in the tender as a member of a consortium organised together with Accenture Polska and Alnova System Technologies, is hoping to win and to play a material role in the execution of this project.

In the fourth quarter of 2002, Softbank concluded the largest Polish IT-related export contract for the development of the National Clearing Centre of the Republic of Belarus. This paves an important path for Softbank in its search for new markets among our eastern neighbours.

The entry of Prokom Software SA, Poland's largest IT company, into the Parent Undertaking as a strategic investor has ushered in new prospects for the Capital Group. Though the process of determining what place and role the Softbank Capital Group will have in Prokom Software SA's plans, the merger has materially improved the entire organisation's chances of success once Poland enters the European Union.

***Changes in the Capital Group's Organisation***

One of the key changes introduced in the Capital Group's organisational structure was its transformation into an entity specialised in the provision of defined types of IT services and products through development of competence centres. The Capital Group has also initiated processes whose objective is to define the future form of its functioning on defined markets in the IT sectors, including cooperative banking market. The changes introduced in the Group's organisation also related to the launching and finalising of the process related to the restructuring of some of the Group's resources in non-core areas, such as the disposal of Besta Sp. z o.o., an associated undertaking which operated as a Transfer Agent, and the commencement of a search for a strategic investor for FinFin SA (expander.pl), a subsidiary undertaking. Organisational changes have also meant the Parent Undertaking taking over a greater portion of the Capital Group's share capital and total votes at the GMs of some of the subsidiary undertakings. The Group hopes that this will give the Parent Undertaking greater control and executive influence over the activities conducted by the individual member undertakings of the Softbank Capital Group.

***Key Events Reported by the Company in 2002***

January 4, 2002

The Company Supervisory Board appointed Piotr Jeleński a member of the Executive Board. Mr Jeleński is 29 years of age. At Softbank, he has held the position of Chief Financial Officer. Mr Jeleński graduated from the University of Warsaw with a degree in Economics, and pursued further studies at Aston Business School in Birmingham, UK. In 1992-1993, he was employed as an analyst at the Warsaw offices of PriceWaterhouse. In 1994-1995, he held the position of Consultant at RTG. In 1996-2001, he was employed at CA IB Financial Advisers, and advanced to Deputy Chief Officer in charge of mergers and acquisitions, strategic consultancy, and corporate valuations. He joined Softbank in August 2001. Mr Jeleński does not conduct any activity competitive with that of Softbank SA.

January 10, 2002

Softbank signed the agreement with PKO BP net valued PLN 20.516.663 (approx. USD 5,180,976) for sale and implementation of Oracle software.

February 18, 2002

The Executive Board will propose to the GSM not to pay out the dividend for 2001.

May 10, 2002

Ppursuant to the agreement of May 9th 2002, the Company sold 23.6% of shares held in BESTA Sp. z o.o., an associated undertaking, to BIG Bank Gdański SA. The shares were sold for PLN 800,000 in total. BIG BG is a shareholder in BESTA Sp. z o.o. The Company and BIG BG are linked by a number of commercial agreements. The sold assets were recognised as material since they represent more than 20% of the share capital of BESTA Sp.z o.o.

June 7, 2002

Mr. Adam Polgrabia notified the Company of his resignation from the position of the Executive Board member due to personal considerations.

July 2, 2002

On July 2nd 2002, Softbank SA concluded with FinFin SA, its subsidiary, an agreement whereby it acquired from copyrights and property rights to the products developed by FinFin SA comprising computer software, based on BroadVision technology, for the creation and management of corporate portals. The aforementioned intangible assets have been valued at PLN 8,500,000. At the same time, the parties agreed that Softbank SA would take over all the contracts concluded by FinFin SA relating to the use of the software. The Issuer holds an 84% equity interest in FinFin SA.

July 3, 2002

On July 2, the Softbank SA's Executive Board made a decision on the intended issue of bonds convertible into the Company shares. Softbank SA plans to issue bonds of a total value of PLN 80m, with the maturity period of up to five years. The acquirers of the bonds will have a right to convert the bonds into Softbank SA shares. The maximum amount of the increase in the Company's share capital through the conversion of bonds into shares will be determined by the General Shareholders Meeting. The Company does not envisage any non-monetary benefits under the bonds other than the right to convert the bonds into Softbank SA shares. The detailed terms and conditions of the bond issue will be determined following examination of potential demand on part of investors. The ratio of the maximum value of the bond issue to the Company's equity as at July 2nd 2002 is approximately 26.9%. The ratio of the aggregate value of the planned bond issue and all outstanding bonds of the Company to the Company's equity as at July 2nd 2002 is approximately 27.1%. The Company will decide on a possible introduction of the bonds to public trading following consultations with potential investors. The proceeds from the issue will be used for investment purposes and debt restructuring.

July 12, 2002

The Executive Board of Softbank SA at its session on July 11th 2002 adopted a resolution on the appointment of the auditor of the Company's semi-annual and annual consolidated and non-consolidated financial statements. The Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. (PWC), with

registered offices in Warsaw at ul. Nowogrodzka 68. This firm is entered in the register of entities qualified to audit financial statements, under entry No. 144. PWC has audited Softbank's financial statements and provided financial consultancy services for many years. The parties are to execute the relevant agreement for the term necessary to perform the abovementioned actions, thus, for the audit of semi-annual financial statements -for a term ending before October 31, 2002 - and for the audit of annual financial statements - for a term ensuring sufficient time to meet the public disclosure requirements, which is to be set sometime in the future.

July 30, 2002

In connection with a decision of the Softbank SA Executive Board to issue convertible bonds and the announcement convening, on August 7th 2002, the General Shareholders Meeting, whose agenda includes the presentation and voting on a resolution concerning the issue of bonds convertible into Company shares and a resolution concerning a conditional increase in the Company's share capital, the Company Executive Board would hereby like to assure the shareholders that it is not its intention to reach the maximum limit of the par value of the convertible bonds to be issued, provided for at the level of PLN 80m in the draft resolutions attached, and thus to dilute, to the maximum extent, the share capital by issuing up to 3,200,000 new shares, unless the situation currently prevailing on the capital market has improved significantly.

While theoretically convertible bonds enable a conditional offering of shares at a price by far exceeding the current price, the Executive Board believes that the current market valuation of the Company stock remarkably deviates from its actual value and, consequently, gives no basis for offering convertible bonds on terms which would secure the shareholders' and the Company's interests. But the authorisation by the GM is only to create for the Executive Board a possibility of raising capital on favourable terms in the future, that is not earlier than in late September or early October 2002. The aforementioned limits will ensure flexibility in the management of the issue process and offering's structure, and enable the Company to fully take advantage of favourable market conditions.

If, however, the downtrend on the stock market continues until the initially projected time of the issue, the Company Executive Board will strive to minimise the dilution of the existing share capital through the reduction of the issue amount and/or the reduction of the conversion ratio, a postponement of the offering of convertible bonds, or an issue of alternative debt instrument.

August 29, 2002

The Company signed a maintenance agreement with Nordea Bank Polska SA. According to the agreement Softbank SA will render maintenance services for all the outlets of the bank. The revenue from this agreement will depend on the scope of works and is related to the strategic plans of Nordea Bank Polska SA. The Executive Board of Softbank SA expects that the co-operation with this client will be gradually developing and the revenue will be increasing according to the growth of the network and scale of bank's operations.

September 17, 2002

The Executive Board of Softbank SA was notified by Mr Aleksander Lesz, President of the Company's Executive Board, that on September 16th 2002 Mr Lesz and Prokom Software SA executed a letter of intent concerning Prokom Software's plan to become the strategic investor in Softbank. Mr Lesz is prepared to sell 10%-33% of shares in Softbank at the price of PLN 13 per share. In connection with the fact that Mr Lesz and Prokom Software together own 42% of shares in Softbank, on Tuesday, September 17th 2002, the Parties jointly submitted a request to the Polish Securities and Exchange Commission for permission to exceed the threshold of 33% of the total vote at the Company's General Shareholders Meeting. Since the acquisition by Prokom Software of the target equity interest in Softbank's share capital will be a long-term process, the Parties do not believe a tender offer for the Company shares needs to be announced. The executed document will serve as grounds for the initiation and development of a strategic partnership between the two companies focused on marketing IT projects, optimising costs of financing their activities, and capitalising on the synergies achieved through the implementation of the projected capital and operational links. The final agreement, to be signed by the end of September, will outline this partnership in detail.

September 30, 2002

Compliant with the recommendation of SEC (Act no. 586, 13.08.2002), Executive Board of Softbank declares that financial data included in the periodical reports are reliable, correct and are prepared and presented according to the respective regulations what has been confirmed by the auditor. At the same time,

the Board once again (message of 24 July, 2002) confirms that the Company has not been applying any accounting measures aimed at artificial improving of the image of the financial situation.

October 1, 2002

On September 30, 2002, the Company was notified by Mr. Marek Komosa of his resignation from the position of the Executive Board member due to his assignment on the Board of the NetPower SA subsidiary.

October 3, 2002

Softbank SA signed a general agreement with Fiserv for providing IT services as a sub-contractor in the region of operations of Fiserv (Europe) Ltd. - Europe and the territory of operations of BCP (Banco Comercial Portugues) Group. Fiserv IT solutions, i.a. ICBS system, currently run at five Polish banks: ING Bank Cielński S.A., BZ WBK S.A., BIG BG (Millennium) S.A., AIG Bank Polska S.A. and GE Bank Mieszkaniowy S.A. At the same time, Softbank SA offers Fiserv IT solutions, including ICBS system, in the tender for the banking system at BGK SA.

October 22, 2002

Softbank signed a general agreement with National Processing Centre of the Republic of Belarus for complex computerization, adjustment of the systems to the requirements of EUROPAY and VISA international standards and implementation of electronic transaction system on the retail market of the Republic of Belarus. Within the scope of agreement Softbank will provide IT and business consulting services as well as will supply and implement a set of IT systems (i.a. transaction management, POS and ATM network management, data warehouse, infrastructure monitoring and safety). The value of the contract which will be executed till October 2004 amounts to USD 8 m (PLN 33 m).

National Processing Centre - company established in order to process and settle card transactions within the network of banks, ATM's and POS' on the territory of the Republic of Belarus was founded in 2002 (with shareholder's equity of USD 3m) by National Bank of Belarus and five commercial banks. 51% of company's shares belongs to Joint-stock Savings Belarusbank, the biggest bank in the country with the total assets of USD 900 m (as of 31.12.2002) servicing over 40 thousand of corporate and 14.5 million of individual bank accounts.

October 25, 2002

Prokom Software SA and Mr Aleksander Lesz - a shareholder and President of the Executive Board of Softbank SA - concluded a shareholder agreement whereby Prokom Software is to become the strategic investor in Softbank.

Pursuant to the agreement, Prokom Software has the right to purchase, from the effective date of the agreement to December 6th 2003, all of the Softbank shares owned by Mr Lesz (5,741,666 shares), which represent more than 32% of Softbank's share capital (call option). In turn, Mr Lesz has the right to request, from March 31st 2003 to December 6th 2003, Prokom Software to purchase part of his entire shareholding in Softbank (put option). The size of the shareholding covered by the put option will depend on the market price of the shares as at the date of their acquisition (determined with the use of the mechanism for calculating the acquisition price described below) and it will be worth up to PLN 30.8m.

A tender offer for Softbank shares will not be necessary as the acquisition of the shares by Prokom Software will be spread over time.

Prokom Software is to acquire the shares from Mr Lesz in block transactions at a price which will be calculated on a case-by-case basis as the arithmetic mean of the price per Softbank share during the 30 calendar days preceding the transaction, increased by 20%. The average price under all executed transactions may not exceed PLN 13.

Under the agreement, in January 2006 Prokom Software will pay to Mr Lesz a share premium whose amount will depend on Softbank' market value in the period March 31st 2003-December 31st 2005. This share premium is to amount to 17.92% of the amount representing the difference between the average market value of the Softbank shareholding acquired by Prokom Software (in the period March 31st 2003-December 31st 2005), and the amount actually paid for the shares by Prokom Software. The agreement stipulates that the average market price per Softbank share to be used in the calculation of the share premium (in the period March 31st 2003-December 31st 2005) shall not exceed PLN 80. Prokom Software will finance the transaction with its equity and external financing.

The shareholding agreement will come into force as at the date on which the Polish Anti-Trust and Consumer Protection Authority approves the takeover of Softbank and on which the Polish Securities and

Exchange Commission consents to Prokom Software independently acquiring Softbank shares conferring the right to more than 33% of the total vote at the General Shareholders Meeting of Softbank SA.

Pursuant to the agreement, as of the date on which Prokom Software's interest in Softbank's share capital exceeds 20%, it will have the right, under a relevant power-of-attorney, to exercise voting rights and other rights conferred by Softbank shares which it has yet to acquire from Mr. Lesz.

The concluded agreement stipulates for one representative of Prokom Software to be appointed to the Supervisory Board of Softbank at the upcoming Extraordinary General Shareholders Meeting of Softbank SA. As of the date on which Prokom Software's interest in Softbank's share capital exceeds the level ensuring the right to 25% of the votes at the General Shareholders Meeting of Softbank SA, the Supervisory Board will come to include - until the end of 2005 - two members designated by Prokom Software and Mr Lesz, or another person he designates in his stead. Moreover, by October 31st 2002, a new member designated by Prokom Software will be appointed to the Executive Board of Softbank SA.

October 31, 2002

The Executive Board of Softbank at a meeting held on October 31, 2002 appointed Adam Dąbkowski a member of the Executive Board. Mr Dąbkowski is 27 years old. He graduated from Warsaw School of Economics and University of Warmia and Mazury with a degrees in Economics and is highly qualified in the matters of analyses, audits and financial planning. Since 2000 he has been employed at Prokom Software SA in the Finance Department. Mr Dąbkowski does not conduct any activity competitive with that of Softbank SA.

November 14, 2002

The Executive Board of Softbank SA hereby reports that on November 13th 2002, Softbank, TDC Internet A/S and TDC Internet Polska SA executed a share purchase and settlement agreement. Under this agreement, Softbank agreed to sell and TDC Internet A/S agreed to buy on the date of closure all shares in TDC Internet SA held by Softbank, which represent 49% of the total vote at the General Shareholders Meeting of TDC Internet Polska SA. Under the agreement the shares were valued at PLN 64,217,864 and will be paid for by way of a bank transfer on the date of closure. In addition, as of that date, TDC Internet Polska SA will pay PLN 5,282,136 to Softbank, which represents the aggregate value of all accounts due to the Company from TDC Internet Polska SA. Transaction execution is contingent upon the Registration Court competent for the registered offices of TDC Internet Polska SA, registering the issues of Series J and K shares. The transaction is to be closed on December 2nd 2002. If the transaction is not closed, the said agreement will continue in force until December 31st 2002. TDC Internet A/S (subsidiary undertaking of TDC A/S - Danish operator) is the parent undertaking (with a 51% equity interest) of TDC Internet Polska SA. There are no links between Softbank and TDC Internet A/S except for the Shareholder Agreement concluded on February 13th 2001. The disposed assets are considered material for they represent more than 10% of Softbank's equity.

December 3, 2002

The Executive Board of Softbank SA was notified that as of December 3rd 2002 Mr Marek Roman, Mr Piotr Kotelnicki and Mr Stanisław Janiszewski resigned as members of Softbank's Supervisory Board.

December 4, 2002

The Executive Board of Softbank SA, following the receipt of the final report on the audit of Softbank SA's assets, adopted the following decisions concerning revaluation write-offs performed in order to verify the value of assets:

Revaluation write-offs: 1. AWiM Mediabank SA: PLN 2.8m, 2. Softbank Serwis SA: PLN 6.5m, 3. NetPower SA: PLN 0.4m, 4. Other: PLN 0.2m.

The total of revaluation write-offs thus performed will reduce the Company's net result by PLN 9.9m, which will be included in the next periodic report.

The Company's auditor has also found that the fair values of the following assets are higher than their respective current book values: 1. Sawan by PLN 19.1m, 2. Bezpieczeństwo.pl by PLN 2.5m, 3. Novum by PLN 2.7m.

The above decision complete the verification of assets presented in the Q3 2002 quarterly report.

December 5, 2002

The Company and IBM Polska Sp. z o.o. executed three subcontracting agreements totalling PLN 26,329,177 (excluding VAT) for delivery and installation of computer hardware and software, and



implementation of high-availability systems at one of the Polish financial institutions. Each of the agreements stipulates a contractual penalty equal to 10% of the value of the agreement (VAT-inclusive) and an additional penalty of PLN 50,000 in the event of the buyer terminating the agreement due to reasons attributable to Softbank. The payment of the contractual penalty does not exclude seeking additional damages. The agreements are deemed material for their aggregate value (PLN 12.6m) represents more than 10% of Softbank's equity.

December 5, 2002

The Company was notified that the District Court applicable to the registered offices of TDC Internet Polska (TDC) registered an issue of Series J TDC shares on November 29th 2002, and an issue of Series K TDC shares on December 3rd 2002. Thereby, the condition precedent for the agreement on the disposal of material assets - shares in TDC owned by Softbank - dated November 14th 2002, was fulfilled (see: Current Report No. 63/2002).

December 5, 2002

On December 5th 2002 the Company issued 3,200 Series E convertible bonds worth PLN 32m.

1. Objective of the bond issue: the Company plans to use the proceeds of the bond issue for investment purposes and debt restructuring.
2. Bond type: fixed-rate unsecured Series E bearer bonds convertible into Series S ordinary bearer shares.
3. Issue value: PLN 32m.
4. Par value per bond: PLN 10,000.

Issue price - the issue price of shares to be delivered in exchange for the bonds shall be equal to the average market price of Softbank shares as computed on the basis of closing prices from 20 WSE sessions directly preceding the date of the submission of a bond conversion notice, provided that the issue price shall be no higher than PLN 13 per share (Conversion Price). The number of shares allotted in exchange for one bond shall be equal to the quotient of the par value of bonds subject to conversion and Conversion Price, rounded down to the nearest integer. The difference between the par value of bonds and the multiple of the number of shares and Conversion Price shall not be paid out to bondholders.

#### 5. Terms and Conditions for Bond Redemption and Interest Payments

Softbank shall redeem the bonds on December 5th 2005 by payment of the amount equal to the par value of bonds plus a premium of 4.44% of the bonds' par value. In the event of early redemption, bondholders shall be entitled to receive a cash payment in the amount equal the par value of bonds plus a premium of 6.65% of the bonds' par value plus the amount of interest due for the incomplete interest period as calculated using the following formula:

Interest = 8% \* PLN 10,000 \* ND/365, where:

ND - number of days as counted from the first day (inclusive) after the last date on which Softbank paid interest, to the date of early bond redemption (exclusive).

The bonds shall bear interest from the first day of the first interest period, at 8% p.a. on the par value of the bonds.

#### 6. Security - the bonds shall not be secured.

7. The value of the incurred liabilities as at the last day of the quarter preceding the offer to acquire bonds and forecast amount of Softbank's liabilities until the full redemption of the offered bonds

As at the end of Q3 2002, Softbank's liabilities and provisions amounted to PLN 105,027,000. Based on the Company's projections, it may be assumed that during the bond term, the total debt to equity ratio will not remain at above 1.3 for a period of more than 90 days.

#### 8. Rules for converting a non-cash benefit into a cash benefit

It shall be possible to convert the right to a non-cash benefit - acquisition of shares - into a right to a cash benefit, if the Softbank's Executive Board fails to apply, by a specified deadline, to the Polish National Depository of Securities to register the shares in the number indicated in the submitted bond conversion notice. A cash benefit shall be a multiple of: (1) the number of shares indicated in the bond conversion notices in relation to which Softbank's Executive Board fails to the conversion application by a specified deadline, and (2) the arithmetic mean of the price of one Softbank share based on the closing prices from five consecutive sessions on the WSE primary market in the continuous quotations system preceding the day falling 30 days after the date of the submission of the bond conversion notice which was not covered by a conversion application.

9. If all the issued bonds are converted into shares, the acquired shares shall confer 3,200,000 votes at the General Shareholders Meeting of the Company.

10. If all the issued bonds are converted, the aggregate amount of votes at the General Shareholders Meeting of the Company shall total 20,613,992.

December 6, 2002

The Company and Hewlett-Packard Polska Sp. z o.o. executed an agreement worth PLN 14,715,524 (excluding VAT) for delivery and installation of computer hardware and software, and implementation of high-availability system at one of the Polish financial institutions. The agreement stipulates a contractual penalty equal to 10% of the value of the agreement (VAT-inclusive) and an additional penalty of PLN 50,000 in the event of the buyer terminating the agreement due to reasons attributable to Softbank. The payment of the contractual penalty does not exclude seeking additional damages. The agreement is deemed material for its value represents more than 10% of Softbank's equity.

December 6, 2002

On December 6th 2002 the Company received a notice of conversion of 3,200 Series E bonds convertible into Softbank's Series S shares. The number of shares to be delivered in return for the bonds will amount to 3,200,000.

One Series E bond is convertible into 1000 Series S shares. The shares to be delivered will incorporate the same rights which are attached to other Softbank shares listed on the Warsaw Stock Exchange. Following the conversion, Softbank's share capital will total PLN 20,613,992. The new shares will confer rights to 3,200,000 votes at Softbank's General Shareholders Meeting; the shares will represent 15.52% of Softbank's share capital and the total vote at the General Shareholders Meeting. All of the issued Series E bonds are subject to the conversion.

All other information relating to the issue and required for disclosure under applicable laws is presented in the issue prospectus prepared as at September 27th 2002.

December 10, 2002

The Consortium of Softbank SA and Softbank Serwis Sp. z o. o. signed an agreement as a result of the tender invited by the Agency for Restructuring and Modernisation of Agriculture (ARiMR) for the delivery of IT equipment (servers) together with software and consulting services for the implementation of the Integrated Administration and Control System (IACS). The net value of the agreement amounts to PLN 55,6 m (USD 14,1 m) and the period of execution is up to eight weeks from the date of conclusion of the agreement.

December 12, 2002

The transaction of sale of Softbank's 49% shares in TDC Internet Polska SA (agreement with TDC Internet A/S of 14 November 2002) was finally closed on 22 December 2002. All the conditions were fulfilled and Softbank SA received the amount of PLN 69.5 m on its bank account.

December 13, 2002

On December 12th 2002 Softbank SA concluded with CA IB Securities SA and NFI Hetman SA an agency agreement for the purchase of securities. Under this agreement, Softbank SA agreed to purchase from NFI Hetman SA, through the agency of CA IB Securities SA, 892,500 bearer shares of Wonlok SA, registered offices in Łódź (the "Company"), with a par value of PLN 1 per share, representing in total 100% of the Company's share capital and conferring the right to 100% of the total vote at the Company's General Shareholders Meeting. The price for the acquired shares was the total of PLN 25,707,990.70 and interest at 8% p.a., accrued in a period from the date of the shares' purchase by NFI Hetman SA to the date of the shares' sale to Softbank SA, plus PLN 800,000. The parties agreed that the transaction would be executed no later than June 30th 2003.

The Share Purchase Price includes, apart from the interest specified above, the price paid for the Company shares by NFI Hetman in an amount of PLN 23,207,900.70, and compensation of PLN 2,500,000.00 paid to European Experts Association Ltd., registered offices in Dublin, Ireland.

In order to enter into the transaction, Softbank SA, pursuant to the agreement referred to above, submitted to CA IB Securities SA, acting on its own behalf but for the benefit of NFI Hetman, an irrevocable offer to purchase all Company shares, and CA IB Securities SA, acting on its own behalf but for the benefit of NFI Hetman, submitted to Softbank SA an irrevocable offer to sell the Company shares.

No relationships exist between Softbank SA or its management and supervisory personnel and NFI Hetman SA and its management personnel.

The purchase of Wonlok SA represents an element of the strategy for strengthening Softbank SA's position and its further expansion in the banking segment of the IT market. Wonlok SA, present on the market since 1989, as the producer of the Eurobank On-line, system is a strategic partner of BGŻ SA and has a 20% market share in the cooperative bank sector. Given the existing market share in this sector of Novum and Saba, as a result of the transaction the Softbank Group has become a leading integrator in this market. As at December 31st 2001, the balance-sheet total of Wonlok SA amounted to PLN 3.9m. In 2001, the Company reported revenue of PLN 15m.

December 18, 2002

On 17 December 2002, Prokom Software SA, seated in Warsaw, 67/79 Jerozolimskie Ave concluded the transaction with Aleksander Lesz for the purchase of 1,741,398 shares constituting 9.99% of the share capital of Softbank SA.

Following the conclusion of the abovementioned transaction, the shareholder, Aleksander Lesz, holds 4,000,268 Softbank SA shares, which constitutes 22.97% of the Company's share capital. The aforementioned number of shares confers the right to 4,000,268 votes at the General Shareholders Meeting, which is 22.97% of the total number of votes.

Following the conclusion of the abovementioned transaction, the shareholder, Prokom Software SA, holds 3,344,398 Softbank SA shares, which constitutes 19.20% of the Company's share capital. The aforementioned number of shares confers the right to 3,344,398 votes at the General Shareholders Meeting, which is 19.20% of the total number of votes.

The share capital of Softbank SA amounts to PLN 17,413,992 and is divided into 17,413,992 shares entitling to the same number of votes at the General Shareholders Meeting.

December 30, 2002

According to the resolution of The Board of Warsaw Stock Exchange (no. 68/962/2002 of 20 Nov. 2002), the Executive Board of Softbank SA informs that upon thorough study of both the content of "Good practices in public companies 2002" and the mode of implementation thereof, the Executive Board passed a resolution fully supporting the idea of corporate governance. As the result, the Company will publish till 1 July 2003 a detailed declaration. Although Softbank SA already fulfills most of 48 points of the mentioned document, the subject will be consulted with particular statutory bodies in cases where the matter lays beyond the control of Executive Board and in all matters demanding adjustment to full compliance with the rules. Independently from the good practices currently being introduced in the administrative way, Softbank SA from the very beginning has been following commonly accepted good business practices.

### ***Key Events Reported by the Company Subsequent to the Balance-Sheet Date***

January 3, 2003

On an initiative of the Executive Board, an internal tax audit was performed at the Company. As a result, on January 3rd 2003, the Chief Accountant at Softbank SA submitted - in accordance with the active repentance clause - a notification on the Company not withholding a flat-rate income tax from tax payers residing outside of Poland on account of the acquisition of copyrights and licenses in 1998-2002 to the Tax Office competent to the Company's registered offices.

Despite the fact that the Executive Board had material doubts concerning any fiscal obligation on part of the Company under the abovementioned title, it decided to submit the said notification in order to avoid any possible charges which may arise in the future.

A favourable ruling in an analogous case by the Supreme Administrative Court - determining that a tax payer is not obliged to withhold this tax - serves to reaffirm the Executive Board's doubts. Thus, it is possible that the relevant amount of tax liability paid to date by Softbank SA could be reimbursed and the Company shall promptly take all the steps provided for under law to this effect.

A tax liability that may become outstanding under this title has been estimated at PLN 6,646,274 plus interest in the amount of PLN 3,794,158. The Company paid the sum of these amounts to the competent Tax Office

January 6, 2003

On 6 January 2003, Nihonswi AG, seated in CH-8027 Zurich, Brandschenkestrasse 178, sent a notification about acquisition of 3,200,000 S series shares of Softbank SA, as the result of conversion of 3,200 E series convertible bonds. Following the conclusion of the abovementioned transaction, the shareholder, Nihonswi

AG, holds 3,200,000 Softbank SA shares, which constitutes 15.52% of the Company's share capital. The aforementioned number of shares confers the right to 3,200,00 votes at the General Shareholders Meeting, which is 15.52%% of the total number of votes. Prior to acquiring this stock, NIHONSWI AG did not own any Softbank shares and it does not plan to acquire any additional interests in Softbank in the next year.

January 8, 2003

Softbank was notified that on January 2nd 2003 the court registered an increase in the share capital of the Company. Currently, the share capital of Softbank SA stands at PLN 20,613,992 and is represented by 20,613,992 ordinary shares with a par value of PLN 1 per share. The total number of issued shares entitle to 20,613,992 votes.

According to the current knowledge of the Company regarding shareholders holding more that 5% of the share the current shareholder's structure is following (# of shares = # of votes): 1. Aleksander Lesz 4.000.268, 2. Prokom Software SA 3.344.398, 3. Nihonswi AG 3.200.000

31 January , 2003

On January 31st 2003 the Company and Ster-Projekt SA signed an agreement worth PLN 28,159,639 for purchase of IT hardware for the purpose of the contract with one of the Softbank's customers.

7 February, 2003

As the result of the won tender the Company signed an agreement with Zakład Ubezpieczeń Społecznych (ZUS) for the maintenance service of the BEA software. The contract worth PLN 21,780,000 will be executed proportionally within the period of 3 years. The agreement includes a number of penalties for delays in rendering of the service.

7 February, 2003

On February 5<sup>th</sup>, 2003 the Company and Mr. Maurycy Kuhn and Mr. Jarosław Augustyniak on one side (Sellers) and a domestic entity on the other side (Purchaser) signed an agreement for disposal of the whole stake hold by Sellers in FinFin SA, a subsidiary of the Company, for USD 250,000 out of which amount USD 225,000 will be paid to Softbank SA. The subjects of the agreement are not related to each other in any way.

21 February, 2003

On February 20, 2003 the Company on one side and two entities being private individuals on the other side (Purchasers) signed an agreement for disposal of the whole stake hold by the Company in Instytut Analiz Społecznych i Ekonomicznych SA, a 100% subsidiary of the Company, for PLN 100,000. The subjects of the agreement are not related to each other in any way.

31 March, 2003

The Company was informed that Aleksander Lesz on March 28<sup>th</sup>, 2002 received a representation confirming Prokom Software SA's acceptance of the sale offer concerning a block of Softbank shares under the Shareholders Agreement of October 24th 2002. The planned sale of Mr Lesz's 1,442,979 shares (6.99% of the total number of Softbank shares and capital) is to be executed on April 10<sup>th</sup>, 2003 through a block transaction at a price of PLN 13 per share. Prokom Software also informed Aleksander Lesz, that the right to accept a part of the sale offer concerning 618,419 shares (3% of the total number of Softbank shares and capital) is granted to NIHONSWI AG, seated in Zurich, 178 Brandschenkestrasse which acts as the Appointed Entity in the meaning of the Shareholders Agreement. At the same time NIHONSWI AG currently holding 3,200,000 shares of the company (representing 15,52% of the Company capital and entitling to 15,52% votes at the general meeting of shareholders) informed the Company that it intends within next 12 months to increase its stake in Softbank to the maximum of 21% of capital and 21% of the votes at the general meeting.

### ***Explanation of Differences Between the Financial Results Disclosed in the SA-RS 2002 Report and Result Projections Published Earlier***

The Capital Group did not publish any projections of the consolidated 2002 result.

### ***Changes in Organisational or Capital Links and Material Equity Investments***

On January 2nd 2002, the court registered an increase in the share capital of Softbank Serwis Sp. z o.o., a subsidiary undertaking of Softbank. Following the increase, the share capital of Softbank Serwis Sp. z o.o. amounts to PLN 34,297,500. Softbank holds 100% of Softbank Serwis Sp. z o.o.'s share capital. The total number of votes represented by all the outstanding shares following the registration of the share capital increase is 68,595.

On January 11th 2002, the court registered an increase in the share capital of NOVUM Sp. z o.o., a subsidiary undertaking of Softbank. Following the increase, the share capital of NOVUM Sp. z o.o. amounts to PLN 625,500. Softbank holds 51% of NOVUM Sp. z o.o.'s share capital, while the remaining 49% of the shares are held by three members of the Executive Board of NOVUM Sp. z o.o. The total number of votes represented by all the outstanding shares following the registration of the share capital increase is 1,251.

On February 5th 2002, the court registered an increase in the share capital of Agencja Wydawnicza i Marketingowa Mediabank SA, a subsidiary undertaking of Softbank. Following the increase, the share capital of AWiM Mediabank SA amounted to PLN 550,000. Softbank holds 100% of AWiM Mediabank SA's share capital. The total number of votes represented by all the outstanding shares following the registration of the share capital increase is 27,500.

On March 25th 2002, the court registered an increase in the share capital of SABA Grupa Softbank SA, a subsidiary undertaking of Softbank. Following the increase, the share capital of SABA Grupa Softbank SA amounts to PLN 546,010. Softbank holds 75% of SABA Grupa Softbank SA's share capital. The total number of votes represented by all the outstanding shares following the registration of the increase in the company's share capital is 54,601.

On April 11th 2002, the court registered an increase in the share capital of SAWAN Grupa Softbank SA, a subsidiary undertaking of Softbank. Following the increase, the share capital of SAWAN Grupa Softbank SA amounted to PLN 231,700. Softbank holds 13,170 shares, conferring the same number of votes at the General Shareholders Meeting and representing 56.84% of SAWAN Grupa Softbank SA's share capital. The total number of votes represented by all the outstanding shares following the registration of the share capital increase was 23,170.

Pursuant to the share purchase agreement dated May 9th 2002, Softbank sold to BIG Bank Gdański SA a 23.6% stake in BESTA Sp. z o.o., an associated undertaking of Softbank. The total price of the shares was PLN 800,000. BIG BG is a shareholder in BESTA. Softbank and BIG BG (the acquiring company) are linked under commercial agreements. The remaining 9.6% of shares in BESTA Sp. z o.o. held by Softbank were retired by virtue of a Notary Deed dated May 9th 2002.

On May 11th 2002, the court registered an increase in the share capital of bezpieczeństwo.pl Sp. z o.o., a subsidiary undertaking of Softbank. Following the increase, the share capital of bezpieczeństwo.pl Sp. z o.o. amounts to PLN 500,000. Softbank holds 100% of bezpieczeństwo.pl Sp. z o.o.'s share capital. The total number of votes represented by all the outstanding shares following the registration of the share capital increase is 1,000 (one thousand).

On June 28th 2002, the court registered an increase in the share capital of FinFin SA, a subsidiary undertaking of Softbank. Following the increase, the share capital of FinFin SA amounts to PLN 672,870. Softbank holds 54,287 shares, representing 80.7% of FinFin SA's share capital and conferring the rights to 64,287 votes at the General Shareholders Meeting, which accounts for 78.1% of the total vote. The total number of votes represented by all the outstanding shares following the registration of the increase in the FinFin SA's share capital is 82,287.

On October 29th 2002, the court registered an increase in the share capital of Agencja Wydawnicza i Marketingowa Mediabank SA, a subsidiary undertaking of Softbank. Currently, the share capital of AWiM Mediabank SA amounts to PLN 1,150,000. Softbank holds 11,500 of the company's shares, representing

100% of AWiM Mediabank SA's share capital and conferring the right to 23,000 votes at the General Shareholders Meeting, which accounts for 100% of the total vote.

On November 13th 2002, Softbank, TDC Internet A/S and TDC Internet Polska SA concluded a share purchase and settlement agreement. Under the provisions of the agreement, Softbank agreed to sell, and TDC Internet A/S agreed to buy, all the shares in TDC Internet SA held by Softbank as at the transaction closing date, representing 49% of the total number of votes at the General Shareholders Meeting of TDC Internet Polska SA.

On December 23rd 2002, the court registered an increase in the share capital of SAWAN Grupa Softbank SA, effected through the issue of 1,725 (one thousand, seven hundred and twenty-five) Series E registered ordinary shares with a par value of PLN 10 per share, i.e. by the amount of PLN 17,250 (seventeen thousand, two hundred and fifty zloty). Currently, the share capital of SAWAN Grupa Softbank SA amounts to PLN 248,950 (two hundred and forty-eight thousand, nine hundred and fifty zloty) and is divided into 24,895 (twenty-four thousand, eight hundred and ninety five) registered ordinary shares, representing 24,895 (twenty-four thousand, eight hundred and ninety five) votes. Softbank holds 14,895 (fourteen thousand, eight hundred and ninety five) shares in SAWAN Grupa Softbank SA, conferring 14,895 (fourteen thousand, eight hundred and ninety five) votes at the General Shareholders Meeting and representing 59.83% of the total vote.

As at December 31st 2002, the Parent Undertaking held equity interests in the following entities:

<b>No.</b>	<b>Name of subsidiary or associated undertaking</b>	<b>Parent Undertaking's equity interest (%)</b>
1.	<b>Softbank Serwis Sp. z o.o.</b>	100.0 %
2.	<b>Instytut Analiz Społecznych i Ekonomicznych SA (**)</b>	100.0 %
3.	<b>Mediabank SA</b>	100.0 %
4.	<b>bezpieczeństwo.pl Sp. z o.o.</b>	100.0 %
5.	<b>FinFin SA (*)</b>	80.7 %
6.	<b>Zeto-Rodan Sp. z o.o.</b>	51.0 %
7.	<b>CRM SA</b>	51.0 %
8.	<b>Zakład Usług Informatycznych NOVUM Sp. z o.o.</b>	51.0 %
9.	<b>SAWAN Grupa Softbank SA</b>	59.8 %
10.	<b>SABA Grupa Softbank SA</b>	75.0 %
11.	<b>NetPower SA</b>	49.0 %

(\*) On February 5th 2003, Softbank concluded an agreement under which it sold all the shares held in the company.

(\*\*) On February 20th 2003, Softbank concluded an agreement under which it sold all the shares held in the company.

On December 12th 2002, Softbank concluded an agreement with CA IB Securities SA and NFI Hetman SA for the provision of agency services in acquisition of securities. Under the agreement, Softbank agreed to purchase from NFI Hetman SA, through the agency of CA IB Securities SA, 892,500 bearer shares in Wonlok SA, registered offices in Łódź, Poland, with a par value of PLN 1 per share, representing in total 100% of the share capital of Wonlok SA and conferring the rights to 100% of votes at the General Shareholders Meeting of Wonlok SA. The parties agreed for the transaction to be finalised by June 30th 2003.

The changes in the capital links within the companies of the Softbank Group in 2002 were financed with profits earned by Softbank in the previous years and proceeds from Softbank's debt security issue programmes.

On December 17th, Prokom Software SA, registered office at Al. Jerozolimskie 67/79, Warsaw, Poland, purchased from Aleksander Lesz 1,741,398 Softbank shares representing 9.99% of the Company's share capital and conferring the right to 9.99% of total vote at the General Shareholders Meeting.

During the reporting period, The Bank of New York, which issues Global Depository Receipts (GDRs), reduced its holding in Softbank from 9.81% of the share capital and the total vote to less than 5%.

### ***Capital Group's Development Policy***

In order to continue strengthening Softbank's market position and to achieve synergies among the member undertakings of the Capital Group, in 2002 the Capital Group introduced a verification process for the individual products and services in each Group resource. The Group also invested into the development of some product lines, including products of business intelligence and enterprise knowledge management. The Group took an inventory and assessed work in progress. At the same time, the Parent Undertaking initiated steps in order to stop the financing of unprofitable or ineffective projects.

In terms of financial and accounting reporting, the member undertakings of the Softbank Capital Group used various IT systems, including Exact, IFS, and Symfonia. In this area, some companies of the Group also relied on the services provided by specialised companies and accounting firms. In 2002, Oracle Financials, a financial and accounting system, was implemented and launched at Softbank.

### ***Transactions with Related Undertakings***

On July 2nd 2002, Softbank concluded with its subsidiary, FinFin SA, an agreement under which Softbank acquired copyright and proprietary rights to products developed by FinFin SA in the form of computer software supporting the building and service of portals based on the BroadVision technology. These intangible fixed assets were valued at PLN 8,500,000. The Parties further agreed that Softbank would take over all contracts signed by FinFin SA and relating to the use of the software being the subject matter of the agreement. The Company holds 81% of FinFin SA shares.

On March 27th 2002, the Company signed with TDC Internet Polska SA an agreement with a value of approximately PLN 7m, for supply of IT solutions for the construction of a backbone network.

<i>No</i>	<i>Company name</i>	<i>Sale: Softbank to Group member (PLN '000, VAT excl.)</i>	<i>Sale: Group member to Softbank (PLN '000, VAT excl.)</i>
1.	<i>Softbank Serwis Sp. z o.o.</i>	464	19,120
2.	<i>bezpieczeństwo.pl Sp. z o.o.</i>	81	95
3.	<i>FinFin SA</i>	707	9,194
5.	<i>Bielpolsoft Joint Venture</i>	-	-
6.	<i>Mediabank SA of Warsaw</i>	350	381
7.	<i>Zeto-Rodan Sp. z o.o.</i>	14	-
8.	<i>CRM SA of Warsaw</i>	-	844
9.	<i>ZUI NOVUM Sp. z o.o.</i>	-	628
10.	<i>SAWAN Grupa Softbank SA</i>	-	76
11.	<i>SABA Grupa Softbank SA</i>	25	458
12.	<i>NetPower SA</i>	18	1
13.	<i>Besta Sp. z o.o.</i>	270	-
14.	<i>Instytut Analiz Społecznych i Ekonomicznych SA</i>	1	49
15.	<i>TDC Internet Polska SA (*)</i>	10,437	22

(\*) On November 13th 2002, Softbank, TDC Internet A/S and TDC Internet Polska SA concluded a share purchase and settlement agreement. Under that agreement, Softbank undertook to sell, and TDC Internet A/S undertook to purchase, all TDC Internet SA shares held by Softbank on the date of transaction closing, representing 49% of total vote at the General Shareholders Meeting of TDC Internet Polska SA. The Parties set up the price for these shares at PLN 64,217,864. The payment was made by a bank transfer on the transaction closing date.

## ***Loans, Loan Agreements, Guarantees and Sureties***

### **Bank Guarantees and Letters of Credit**

The Capital Group uses bank guarantees and letters of credit as instruments to secure business transactions with various organisations, companies, and public administration institutions.

As at December 31st 2002, the following guarantees were issued to the order of the Parent Undertaking by the bank managing its current account:

<i>Beneficiary</i>	<i>Amount and currency</i>	<i>Expiry date</i>	<i>Type of guarantee</i>
<i>Bielsko-Biala Municipality</i>	<i>PLN 300,000.00</i>	<i>March 3rd 2003</i>	<i>Security for contractual penalty payment</i>
<i>Pocztowy Fundusz Leasingowy Sp. z o.o.</i>	<i>PLN 879.35</i>	<i>March 6th 2003</i>	<i>Performance bond</i>
<i>IBM World Trade Corporation, USA</i>	<i>USD 400,000.00</i>	<i>July 14th 2003</i>	<i>Security for payment</i>
<i>Bielsko-Biala Municipality</i>	<i>PLN 17,354.92</i>	<i>September 23rd 2003</i>	<i>Security for warranty claims</i>
<i>Institute of Meteorology and Water Management</i>	<i>USD 125,528.75</i>	<i>September 26th 2003</i>	<i>Performance bond</i>
<i>Institute of Meteorology and Water Management</i>	<i>USD 634,264.90</i>	<i>September 26th 2003</i>	<i>Security for return of advance payment</i>



<i>Ministry of Finance</i>	<i>PLN 52,100.00</i>	<i>October 28th 2003</i>	<i>Performance bond</i>
<i>Ministry of Finance</i>	<i>PLN 65,222.00</i>	<i>October 28th 2003</i>	<i>Performance bond</i>
<i>Ministry of Education</i>	<i>PLN 180,360.00</i>	<i>November 10th 2003</i>	<i>Performance bond</i>
<i>Ministry of Education</i>	<i>PLN 168,360.00</i>	<i>November 10th 2003</i>	<i>Performance bond</i>
<i>P.P.U.P. Poczta Polska (Polish Post)</i>	<i>PLN 34,123.34</i>	<i>December 24th 2003</i>	<i>Performance bond</i>
<i>P.P.U.P. Poczta Polska</i>	<i>PLN 66,923.82</i>	<i>April 18th 2004</i>	<i>Performance bond</i>
<i>Ministry of Education</i>	<i>PLN 155,420.00</i>	<i>November 8th 2004</i>	<i>Performance bond</i>
<i>Ministry of Education</i>	<i>PLN 139,700.00</i>	<i>November 8th 2004</i>	<i>Performance bond</i>
<i>Bank Gospodarki Żywnościowej SA</i>	<i>PLN 16,576.80</i>	<i>November 12th 2004</i>	<i>Performance bond</i>
<i>Fundusz Współpracy Foundation</i>	<i>EUR 1,312.60</i>	<i>January 8<sup>th</sup> 2005</i>	<i>Performance bond</i>
<i>Fundusz Współpracy Foundation</i>	<i>EUR 1,551.25</i>	<i>January 8<sup>th</sup> 2005</i>	<i>Performance bond</i>
<i>Ministry of Finance</i>	<i>PLN 16,000.00</i>	<i>February 13th 2005</i>	<i>Performance bond</i>
<i>Fundusz Współpracy Foundation</i>	<i>EUR 7,452.42</i>	<i>February 28th 2005</i>	<i>Performance bond</i>
<i>P.P.U.P. Poczta Polska, Polish Post Central Management</i>	<i>PLN 208,934.67</i>	<i>March 16<sup>th</sup> 2005</i>	<i>Security for claims during warranty term</i>
<i>State Police Headquarters</i>	<i>PLN 88,522.26</i>	<i>March 24<sup>th</sup> 2005</i>	<i>Security for claims during warranty term</i>
<i>P.P.U.P. Poczta Polska, Polish Post Central Management</i>	<i>PLN 57,594.35</i>	<i>May 26th 2005</i>	<i>Security for claims during warranty term</i>
<i>Fundusz Współpracy Foundation</i>	<i>EUR 1,229.26</i>	<i>July 8th 2005</i>	<i>Performance bond</i>
<i>Miejskie Przedsiębiorstwo Komunikacyjne SA</i>	<i>PLN 211,657.78</i>	<i>January 3<sup>rd</sup> 2006</i>	<i>Performance bond</i>
<i>Wiśniowy Developments E Sp. z o.o.</i>	<i>USD 186,096.00</i>	<i>May 17th 2007</i>	<i>Security for payment</i>
<i>Agriculture Restructuring and Modernisation Agency</i>	<i>PLN 679,405.17</i>	<i>February 10th 2006</i>	<i>Performance bond and security for warranty claims and claims during warranty term</i>
<i>Agriculture Restructuring and Modernisation Agency</i>	<i>PLN 16,913.59</i>	<i>December 24th 2003</i>	<i>Performance bond and security for warranty claims and claims during warranty term</i>
<i>Bank Gospodarki Żywnościowej SA</i>	<i>PLN 30,071.66</i>	<i>January 12th 2003</i>	<i>Performance bond</i>

Moreover, on July 31st 2002, the Parent Undertaking concluded with TUiR Warta SA an agreement for granting insurance contract guarantees. As at December 31st 2002, the following insurance guarantees, issued at the Company's request by the insurance company cooperating with Softbank, were in effect:

<i>Beneficiary</i>	<i>Amount and currency</i>	<i>Expiry date</i>	<i>Purpose</i>
<i>Social Security Authority</i>	<i>PLN 150,000</i>	<i>January 10th 2003</i>	<i>Tender</i>
<i>Social Security Authority</i>	<i>PLN 900,000</i>	<i>January 4th 2003</i>	<i>Tender</i>
<i>Farmers Social Security Fund</i>	<i>PLN 500,000</i>	<i>February 24th 2003</i>	<i>Tender</i>
<i>Social Security Authority</i>	<i>PLN 442,000</i>	<i>January 31st 2003</i>	<i>Tender</i>
<i>Agriculture Restructuring and Modernisation Agency</i>	<i>PLN 50,000</i>	<i>February 4th 2003</i>	<i>Tender</i>

Softbank Serwis Sp. Z o.o. relies on the available bank guarantees and letters of credit in its retail activities as a means of securing commercial transactions with various organisations, companies and administrative institutions.

As at December 31st 2002, the following guarantees were issued to the order of the Parent Undertaking by the bank managing its current account:

<i>Beneficiary</i>	<i>Amount</i>	<i>Expiry date</i>	<i>Purpose</i>
<i>Medical Academy in Gdańsk</i>	<i>PLN 21,000.00</i>	<i>February 23rd 2003</i>	<i>Tender</i>
<i>Tax Chamber in Gdańsk</i>	<i>PLN 6,000.00</i>	<i>January 9th 2003</i>	<i>Tender</i>
<i>Mokotów District, Office of the Centrum Municipality of Warsaw</i>	<i>PLN 30,000.00</i>	<i>January 16th 2003</i>	<i>Tender</i>
<i>Katowice Health Care Finance Authority</i>	<i>PLN 11,900.00</i>	<i>January 12th 2003</i>	<i>Tender</i>
<i>Elektrownia Opole SA</i>	<i>PLN 12,000.00</i>	<i>January 31st 2003</i>	<i>Tender</i>
<i>Municipality of Wrocław</i>	<i>PLN 10,000.00</i>	<i>January 22nd 2003</i>	<i>Tender</i>
<i>Śródmieście District Office, Centrum Municipality of Warsaw</i>	<i>PLN 103,336.91</i>	<i>October 16th 2003</i>	<i>Performance bond</i>
<i>Śródmieście District, Centrum Municipality of Warsaw</i>	<i>PLN 8,497.37</i>	<i>November 15th 2003</i>	<i>Performance bond</i>

### Sureties

As at December 31st 2002, the following sureties granted by the Parent Undertaking were in effect:

- Surety for FinFin SA, concerning lease agreements for the amount of PLN 965,000; as at December 31st 2002, the balance of outstanding payment stood at PLN 477,000.
- Surety for Mediabank SA, concerning an agreement for a current-account loan with the value of PLN 1,000,000; as at December 31st 2002, Mediabank SA had used PLN 469,000 of the loan amount.
- Surety for Mediabank SA, concerning an investment loan agreement for PLN 1,200,000; as at December 31st 2002, the balance of outstanding payment stood at PLN 900,000.
- Surety for bezpieczenstwo.pl, concerning a lease agreement for EUR 87,000; as at December 31st 2002, the balance of outstanding payment stood at EUR 30,000.
- Surety for bezpieczenstwo.pl, concerning a PLN 200,000 borrowing contracted by that company.
- Surety for PIK NET Sp. z o.o., concerning a loan agreement for PLN 1,700,000; as at December 31st 2002, the balance of outstanding payment stood at PLN 400,000.

### Loans, Borrowings and Debt Securities Issues

In 2002, Softbank completed a commercial notes issue programme, executed under an agreement with Credit Lyonnais Bank Polska SA. As at December 31st 2002, the balance of liability under that agreement stood at PLN 0. Moreover, the Bond Issue Programme Agreement, concluded with Credit Lyonnais Bank Polska SA

in the second half of 2002, was terminated, and as at December 31st 2002, the outstanding liability under that agreement stood at PLN 0.

In 2002, the Company was still bound by an agreement with ING Bank Śląski SA, for the execution of a programme consisting in the issue of commercial notes/bonds. As at December 31st 2002, the par value of liabilities under commercial notes in issue stood at PLN 4,000,000.

The maturity dates for individual issues were as follows:

O	PLN 3,500,000	January 23rd 2003
R	PLN 500,000	January 13th 2003

The purpose of the issues was to raise funds to finance Softbank's activities as provided for in its Articles of Association. Softbank also used other forms of external financing of current activities:

- on April 2nd 2002, Softbank signed with ING Bank Śląski an agreement for a credit line supporting the programme of debt securities issue, with the total value of PLN 10,000,000. As at December 31st 2002, liabilities under the agreement stood at PLN 0.

Moreover, with a view to ensuring new sources of external financing, on September 13th 2002, Softbank signed a loan agreement with PKO BP. Under the agreement, Softbank may use a current-account loan up to PLN 5,000,000.

As at December 31st 2002, Softbank also had a credit line in the current account maintained by ING Bank Śląski SA, for up to PLN 10,000,000.

In 2002, the Parent Undertaking terminated a loan agreement with Credit Lyonnais Bank Polska SA. Under the agreement, the Company was entitled to use short-term drawdowns with a value of up to PLN 10,000,000. As at December 31st 2002, Softbank's liabilities under the agreement stood at PLN 0.

In the period September 16th - December 20th 2002, the Company used a loan of PLN 18,500,000, advanced by BPH PBK SA.

On December 5th 2002, the Parent Undertaking issued 3,200 convertible bonds, with total par value of PLN 32,000,000, maturing on December 5th 2005. The bonds bore interest at the rate of 4.44% *per annum* on the par value. The whole issue was acquired by NIHONSWI AG, registered offices in Switzerland. On December 6th 2002, NIHONSWI AG announced it had converted the bonds held into 3,200,000 Series S shares.

On March 30th 2002, CRM SA concluded an agreement on overdraft in current account for up to PLN 50,000. The debt has been secured with own promissory note. The agreement was concluded to secure short-term financing of the company's on-going operations. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 29,000.

On December 17th 2002, Mediabank SA concluded a loan agreement with BRE Bank SA for PLN 900,000. Fixed assets of up to PLN 232,000 and a surety issued by Softbank for up to PLN 1,023,000 serve as collateral. The loan was contracted to finance launching of media activities. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 900,000. The Borrower is obliged to repay the loan by December 31st 2005.

On June 1st 2001, Mediabank SA concluded a current account loan agreement for up to PLN 500,000. The agreement term was extended by way of an Annex of December 20th 2002. A surety issued by Softbank serves as collateral for the loan. The agreement was concluded to secure short-term financing of the company's on-going operations. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 468,000. The Borrower is obliged to repay the loan by June 30th 2002.

On October 27th 2000 (Annex of October 25th 2002), ZUI Novum Sp. z o.o. concluded a current account loan agreement with Kredyt Bank PBI, Łomża Branch, for up to PLN 800,000. A mortgage for up to PLN 1,100,000 on real estate serves as collateral for the loan. The agreement was concluded to secure short-

term financing of the company's on-going operations. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 0. The Borrower is obliged to repay the loan by October 27th 2003.

On September 28th 2000, Sawan Grupa Softbank SA concluded a current account loan agreement with BPH-PBK SA of Kraków, for up to PLN 1,000,000. Fixed assets, a blank own promissory note and an assignment of accounts receivable serve as collateral for the loan. The agreement was concluded to secure short-term financing of the company's on-going operations. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 1,000,000. The Borrower is obliged to repay the loan by October 30th 2003.

On January 24th 2002, Sawan Grupa Softbank SA concluded a loan agreement with BPH-PBK SA of Kraków for PLN 56,000. Fixed assets and an own blank promissory note serve as collateral for the loan. The agreement was concluded to finance the purchase of a fixed asset. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 28,000. The Borrower is obliged to repay the loan by June 30th 2004.

On June 4th 2003, Sawan Grupa Softbank SA concluded a loan agreement with BPH-PBK SA of Kraków for PLN 37,000. Fixed assets and an own blank promissory note serve as collateral for the loan. The agreement was concluded to finance the purchase of a fixed asset. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 37,000. The Borrower is obliged to repay the loan by February 6th 2004.

On October 24th 2002, Saba Grupa Softbank SA concluded a current account loan agreement with Bank Spółdzielczy of Bydgoszcz, for PLN 100,000. A mortgage on real estate serves as collateral for the loan. The agreement was concluded to secure short-term financing of the company's on-going operations. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 76,000. The Borrower is obliged to repay the loan by October 23rd 2003.

On September 12th 2002, Softbank Serwis Sp. z o.o. concluded a current account loan agreement with BIG Bank Gdański of Gdańsk, for up to PLN 1,800,000. An own blank promissory note serves as collateral for the loan. The agreement was concluded to secure short-term financing of the company's on-going operations. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 0. The Borrower is obliged to repay the loan by February 6th 2004.

On April 25th 2001, Zeto-Rodan Sp. z o.o. concluded a loan agreement with RODAN INVESTMENT Sp. Z o.o. for PLN 1,550,000. The agreement was concluded to secure short-term financing of the company's on-going operations. As at December 31st 2002, amounts outstanding under the loan amounted to PLN 1,266,000. The Borrower is obliged to repay the loan by December 31st 2003.

## Loan Agreements

As at December 31st 2002, the following loans advanced by Softbank were in effect:

- Under a custody agreement of December 27th 2000, the Parent Undertaking delivered PLN 300,000 to *bezpieczeństwo.pl Sp. z o.o.* The amount delivered will be returned within three days from the date of payment request. The agreement provides for no interest.
- Under an agreement of February 20th 2002, Softbank advanced to *bezpieczeństwo.pl Sp. z o.o.* a loan in the amount of PLN 1,000,000. The loan bears interest at WIBOR plus 2.5 percentage points *per annum*. The Borrower is obliged to repay the loan by December 31st 2002.
- Under an agreement of October 10th 2002, Softbank advanced to *bezpieczeństwo.pl Sp. z o.o.* a loan of PLN 80,000. The loan bears interest at WIBOR plus 2.5 percentage points *per annum*. The Borrower is obliged to repay the loan by December 31st 2002.
- Under an agreement of November 13th 2002, Softbank advanced to *bezpieczeństwo.pl Sp. z o.o.* a loan in the amount of PLN 80,000. The loan bears interest at WIBOR plus 2.5 percentage points *per annum*. The Borrower is obliged to repay the loan by December 31st 2002.
- Under an agreement dated December 4th 2002, Softbank advanced to *bezpieczeństwo.pl Sp. z o.o.* a loan in the amount of PLN 80,000. The loan bears interest at WIBOR plus 2.5 percentage points *per annum*. The Borrower is obliged to repay the loan by December 31st 2002.

As at December 31st 2002, the principal outstanding under the loans granted to *bezpieczeństwo.pl Sp. z o.o.* stood at PLN 1,540,000 and the interest at PLN 187,000, totalling PLN 1,727,000.

- Under an agreement of August 22nd 2002, Softbank advanced to Mediabank SA a loan of PLN 300,000. The loan bears interest at WIBOR plus 2.5 percentage points *per annum*. The Borrower is obliged to repay the loan by December 31st 2002.
- Under an agreement of October 16th 2002, and annexes thereto (of October 25th, November 4th, November 29th, and December 3rd 2002), Softbank advanced to Mediabank SA a loan of PLN 960,000. The loan bears interest at WIBOR plus 2.5 percentage points *per annum*. The Borrower is obliged to repay the loan by March 31st 2003.

As at December 31st 2002, the principal outstanding under the loans granted to Mediabank SA stood at PLN 1,260,000 and the interest at PLN 40,000, totalling PLN 1,300,000.

On April 6th 2001, Softbank advanced a PLN 401,000 loan to CA IB Financial Advisers SA. The loan has a three-year maturity and bears interest at a variable rate ranging from 14% to 18% *per annum*. The loan is to be used for the financing of a convertible bond programme for Softbank's management, organised by CA IB Financial Advisers Sp. z o.o. As at December 31st 2002, the amount outstanding under the loan amounted to PLN 426,000.

Under an agreement of July 22nd 2002, and annexes thereto (of August 23rd, September 27th and October 29th), Softbank Serwis Sp. z o.o. advanced to *bezpieczeństwo.pl Sp. z o.o.* a loan of PLN 300,000. The loan bears interest at 12% *per annum*. The Borrower is obliged to repay the loan by June 30th 2003. As at December 31st 2002, the amount outstanding under the loan amounted to PLN 316,000.

### ***Assessment of the Capital Group's Current and Future Financial Standing – Management of Financial Resources***

In 2002, the Capital Group repaid its investment-related liabilities towards its Danish partner, TDC Internet A/S, and towards Softbank's associated company, TDC Internet Polska SA (formerly Net2Net SA). This enabled Softbank to sell shares held in TDC Internet Polska to TDC Internet A/S. The transaction was worth PLN 64,214,000 in total.

On December 12th 2002, the Executive Board of the Parent Undertaking concluded an agreement with CA IB Securities SA and NFI Hetman SA for the provision of agency services in acquisition of securities. Under the agreement, Softbank agreed to purchase from NFI Hetman SA, through the agency of CA IB Securities SA, 892,500 bearer shares in Wonlok SA, registered offices in Łódź, Poland, with a par value of PLN 1 per share, representing in total 100% of the share capital of Wonlok SA, for a price equal to the aggregate of PLN 25,708,000 plus interest at the rate of 8% *per annum*, computed for a period from the day on which NFI Hetman SA purchases the shares to the day on which the shares are sold to Softbank, and PLN 800,000. The Parties plan to finalise the transaction mid 2003.

In 2002, the Company repaid its trade debtors and investment-related liabilities in a timely manner. The member undertakings of the Capital Group harnessed their operating cash flow to finance their liabilities, using external sources of financing, in the form of short-term credit lines on current accounts, loans and borrowings as additional support. Large capex projects were financed with funds contributed for this purpose in the form of share capital increases.

In the event that a liability was due in a foreign currency, the Capital Group tried to minimise the foreign exchange differences by seeking the best possible bid rate and using futures contracts to hedge against foreign exchange differences.

The member undertakings of the Capital Group invested free cash in highly secure and highly liquid securities or placed it in bank deposits to ensure high liquidity.

In order to execute the current and long-term capital expenditure, the member undertakings of the Capital Group were given extensive opportunities to raise external capital through banks. Given the planned

expansion and newly-signed commercial contracts, the Capital Group plans to broaden loan cooperation with its existing bank partners in 2003, in order to meet its working capital requirements.

Timely repayment by the Capital Group of its financial liabilities throughout 2002, winning a strategic investor (Prokom Software SA), as well as the existing and new commercial agreements, justify the statement that the Capital Group is fully able to repay its debt and its liquidity is not threatened.

### ***Use of Proceeds from Issues between May 1998 and December 2002***

All proceeds from the issues were used in the previous reporting periods.

### ***Feasibility of Investment Plans, including Equity Investments, against the Funds Owned, including Possible Changes in the Structure of Financing of Investment Activities***

The investment objectives of each member undertaking of the Capital Group were set at such a level as to provide for self-financing. There were a number of exceptions, including larger projects, such as the merger of Wonlok SA into the Capital Group, thanks to which the Softbank Capital Group has gained a major customer and a new product for the banking sector to the Company's portfolio. Thus, we should expect a portion of the expenditure to be applied towards the reorganisation and restructuring of the resources providing services to cooperative banks. In addition, the Capital Group plans to maintain its media potential, in the form of the radio activities conducted by Mediabank. Funds required to finance this objective will come from on-going operations, sale of shares held in TDC Internet Polska SA, and an issue of bonds which have been converted to shares.

The total capex projected for 2003 is remarkably lower than in 2002. The large figure in 2002 was an offspring of the capital contributed to finance the activities of TDC Internet Polska (PLN 37m).

Given the market situation, the Company has set conservative investment targets and should be able to achieve them with only a minimum of additional financing sources or financing restructuring.

### ***The Softbank Capital Group on the IT Market***

#### **Forecasts for the Polish IT Market in Next Years**

A major factor affecting the long-term development of the Softbank Capital Group and its member undertakings is the development of the Polish IT market and of the main customer group. The below evaluations summarise the information available through international research companies, Gartner, IDC, Polish specialist research companies, DiS and Pentor, as well as publications on the banking sector and prepared by the National Bank of Poland and Instytut Badań nad Gospodarką Rynkową (IBnGR, Institute for Market Economy Research) and other market and economic surveys.

Poland is assessed to be several years behind in terms of saturation with IT technologies, and the related *per capita* spending is in Poland approximately 25 times lower than in the developed countries. Average leading Polish companies allot approximately 0.5% of their revenue to IT investments, *versus* the European average of 2.5%. This figure is sufficient basis for the anticipation of a rapid IT market development, in such segments as telecommunications, services, machinery industry and administration. The application of Internet technologies goes hand in hand with a transformation of business models at enterprises. The evolution of communication processes ongoing in everyday life and business encourages increasingly widespread discussions on the development directions for information society. These discussions are vital, as in the process of Poland's integration with the European Union certain problems of obvious disproportions in main aspects of everyday life, which certainly include banking, finance, services and public administration, have to be removed. These sectors generate the highest demand for services provided by IT companies. Poland's further integration with the NATO structures and accession to the European Union require immediate large capital expenditure, including on IT. Also the offset agreements, despite their relatively low

value when compared with the total foreign investment in Poland, have been raising hopes in a group of companies related to the provider of the solution selected by the Polish government. These companies expect offset project to represent a stimulus for the development of certain economy branches, including IT.

### **Forecasts for the Banking and Finance Sector until 2006**

Banking and financial institutions are the key customer group for the Softbank Capital Group. Thus, the trends prevailing on the financial services market are of particular importance to the Capital Group's development forecasts. According to IBnGR's report, the most important trends for large commercial banks until 2006 include:

- Strategic partnerships with insurance companies with a view to developing cross-selling offerings,
- More mergers and acquisitions,
- Increased demand for IT tools enhancing efficient management,
- Preparatory work related to the introduction of new regulations pursuant to the recommendations of the Second Basle Committee,
- Integration of traditional and electronic forms of delivery of retail products.

After data centralisation, system integration and security are currently the most common priorities in IT strategies of individual financial institutions. Another manifestation of competition for customers is a growing declared interest in CRM systems and call centres, enhanced with document and workflow management systems.

The ATM network will be expanding. The number of ATMs in Poland is estimated to increase by approximately 4,000 to reach 9,500 by 2006; the number of issued ATM-supported cards is estimated to reach 26m in 2006. The introduction of microchip cards will significantly change the market. By 2006, the share of cards is estimated to reach approximately 40%. The development of this segment will be important, as these cards remarkably improve security and increase customers' trust.

Overcoming several obstacles, including concerns related to the security of transactions and deposited funds, lowering the cost of computer hardware and, foremost, reduction of high telecommunications costs, opens prospects of significant change in the model of use of delivery channels and dynamic development of Internet banking. If these barriers are quickly removed, the number of Polish customers of Internet banking may reach 3–4m by 2006.

With its appropriate experience and technology, the member undertakings of the Softbank Capital Group want to be optimally positioned to participate in major IT projects in the banking and finance sector. Application integration, information management systems (data warehouses and risk analysis), development of security systems and applications supporting electronic delivery channels are the Capital Group's priority areas of the banking IT development. These are the spheres where the member undertakings have and will develop their unique market experience and expertise. These may also be effectively harnessed to meet the needs of customers from other segments such as the industrial sector or public administration.

### ***Internal and External Factors Material to the Development of the Capital Group and Growth Prospects for Softbank's Activities at least until the End of 2003, including the Elements of the Market Strategy Developed by the Company***

The economic situation on the IT market will be the most important external factor with a bearing on the Capital Group's development. However, in the first quarters of 2003, no significant improvement should be expected, particularly in the public administration sector. There is also no reason to expect an upturn in the banking sector, where the Capital Group has been the unquestionable leader. Larger IT projects are expected to appear on the market in connection with Poland's accession to the EU, but it is not possible to say whether this will take place in 2003 or in 2004. The Capital Group has been strengthening its position in the banking sector and the Parent Undertaking has been included in the short list in the tender for the implementation of a central system at PKO BP. Another important factor is the member undertakings' possible participation, as sub-contractors, in the tender for a system for the PZU Group.

Internal factors influencing the Capital Group's development include the streamlining of the product and services offering and precise definition of the role of individual member companies of the Capital Group, which would enable the Capital Group to better compete in the field of IT solutions for the banking and finance sector.

The Capital Group's strategy will also be affected by the ongoing process of consolidation of its structures with the Prokom Software Capital Group, which follows from the Shareholders Agreement concluded between Prokom Software and Aleksander Lesz in October 2002.

### ***Achievements and Development Prospects of the Softbank Capital Group***

Last year was yet another year of the functioning of Softbank Serwis Sp. z o.o., registered offices in Gdańsk, an undertaking created upon four units of the NBP and the technical maintenance division of Softbank. The company specialises in what is broadly understood as technical maintenance, outsourcing services and the development and management of data processing centres. Softbank was Softbank Serwis' main customer, as this company rendered services as a sub-contractor in the execution of Softbank's large contracts. Its other important customers included PKO BP SA, Stocznia Północna (Northern Stockyards) and Warsaw-Śródmieście District Office. Softbank Serwis also executed contracts for commercial and cooperative banks as well as small and medium-sized enterprises. At the same time as executing large IT projects together with the Parent Undertaking, Softbank Serwis also marketed its own offering of services. The company focused its energies on expanding its know-how in the area of IT services through the development of new technologies in software and technical services. Softbank Serwis anticipates growth in sales as the maintenance services it provides for the family of IT equipment of large providers become more automated and as it gleans from the competitive edge it has thanks to its localisation in nine regions of Poland.

SAWAN Grupa Softbank SA used the months of 2002 to continue its operating activities in line with its mission statement whose objective is to strengthen its market position in the area of Business Intelligence. Its market activities focused on more than the execution of contracts with its existing customers, including Kredyt Bank SA, BPH-PBK, PKO BP, but also on attracting and signing agreements with new customers, such as Česká Spořitelna Banka (export contract), Citibank SA, and Pekao SA. Furthermore, in 2002, SAWAN Grupa Softbank SA was able to conclude agreements with existing customers for new products and IT solutions, which in turn attests to its growing competitive edge and gives it a change to enlarge its market niche. The company also attempted to diversify its market to include customers outside the financial segment. The company's development plans and prospects encompass foremost the execution of new contracts for the delivery of ready products developed on the basis of partnership agreements with Oracle and SAS for new customers, maintenance of market position, and upholding active contact with existing customers as well as broadening the scope of services rendered to customers newly attracted in 2002.

As was true in the preceding years, the activities of Zakład Usług Informatycznych NOVUM Sp. z o.o. in 2002 focused on the maintenance and development of the NOVUM-BANK proprietary banking system for cooperative banks. In addition, the company continued the conservation of the system for the units of Bank Gospodarki Żywnościowej SA supported by the NOVUM BANK 4GL system. Work continued on the expansion of e-banking activities. The number of HOME-BANKING module users saw a systematic increase. The number of BANKOFON module – rendering customer service *via* the telephone – users also grew. Two new e-banking modules, SMS BANKING and PRZELEWY, were launched onto the market. The company continued its activities connected with the distribution and installation of ATMs and local networks in the FastEthernet shared and switch technology. Furthermore, the first wireless network was installed on the basis of the 802.11b standard with data transmission encryption. In terms of its future prospects, the company projects that the structure of products developed by it, and thus, its financing sources, will comprise the core NOVUM-BANK system and e-banking products.



In 2002, as in preceding years, SABA Grupa Softbank SA offered solutions, goods and services hand in hand with comprehensive IT servicing. In addition to the products the company has marketed to date, it began to provide customised solutions in response to individual orders. Its offering included proprietary solutions for the banking market (SABA, ETER, OSKAR, and SIZE), solutions for the industrial market and organisational solutions – Information Circulation Management System (EPM/QMS), and Program and Project Office, Value Protection Systems (SOW). Some of the company's main customers were: Bank Pocztowy and Associated Banks of Cooperative Banks (*Banki Zrzeszające Banki Spółdzielcze*). In 2002, the company continued in its market diversification strategy whose objective is to commence the sales and amass references for new products. SABA was awarded two medals for its QMS and EPM system in two editions of the European Medal for Services competition. The company plans to continue to fortify its know-how on the banking market and to maximise its efforts in the realm of sales of new products.

In 2002, Zeto Rodan Sp. z o.o. focused its activities on the sale of its own product – SIDOMA. It developed yet another version of the SIDOMA POWER system which was modernised through a far-reaching automation of processes. From a system used to keep records and settlements, SIDOMA POWER has evolved to become a business support tool. SIDOMA NEOMI system was also developed. It is designed to service new issues of securities. Zeto Rodan Sp. z o.o.'s main customers included: ING Securities SA, CA IB Securities SA, Credit Suisse First Boston (Polska) SA, HSBC Securities SA, Internetowy Dom Maklerski SA, Kredyt Bank SA, Raiffeisen Bank Polska SA, BRE BANK SA, and Societe Generale SA. The company's plans provide for further development of the SIDOMA software and searching for customers in the depositary bank and investment fund sector.

In 2002, bezpieczenstwo.pl executed contracts for developing and implementing IT systems supporting and coordinating the work of rescue services in such towns as Konin, Golub-Dobrzyń, Bydgoszcz, Nidzica, Mława, and Chełm.

In 2002, FinFin SA focused its activities mainly on the provision of financial services at Customer Service Points specially separated out for this purpose in order to render services countrywide. On February 5th 2003, Softbank concluded an agreement under which it sold its entire equity interest in FinFin SA.

The Capital Group's offering was supplemented by the publishing and printing services provided by Mediabank SA. The company worked to create a place for itself on the economic and financial news market by publishing monthlies – *Bank*, *Finansista* and *Nowoczesny Bank Spółdzielczy*. A breakthrough event for Mediabank SA in 2002 was the obtainment of a licence to operate a radio station. In September 2002, the company commenced the broadcasting of a radio programme (Radio PIN 102 FM) focused business and economic topics.

Centrum Rozwiązań Menedżerskich SA, owned by the Softbank Capital Group, offered its services of developing and modelling business processes and composing customised service packages comprising specialist training programmes, implementation of the PRINCE2 methodology and advisory services. The company's offering also included strategy development, Balanced Scorecard system implementation, know-how and project management. Its main customers in 2002 included: TDC Internet Polska, ORE SA, FW Gniewczyzna SA, and Polna SA.

In their plans for the future, the member undertakings of the Softbank Capital Group, will continue to implement the strategies which have been defined for each one of them individually. Steps will also be taken to optimise and achieve greater operating effectiveness as well as to transfer the know-how, experience and qualifications among the members of the Capital Group. The Capital Group also projects the establishment and strengthening of a complex offering in order to improve its competitive position on the market.

### ***Changes in the Softbank's and the Capital Group's Management Policies***

There were no material changes introduced in the management policies effective at the Capital Group during the reporting period. Softbank monitors the activities and performance of the member undertakings of the Capital Group through the agency of the Ownership Supervision Department, while in terms of the supervision of the undertakings' strategies it relies on its representatives on the supervisory boards of the individual undertakings. In the area of management reporting, the Company completed the implementation

of the state-of-the-art Oracle Financials financial and accounting system. Since it has no analogous tool for the entire Capital Group, work is underway to perfect the ownership supervision procedures.

### ***Composition of the Governing Bodies of the Member Undertakings as at December 31st 2002***

<i>Member Undertakings</i>	<i>Supervisory Board</i>	<i>Executive Board</i>
<b>Softbank Serwis Sp. z o.o.</b>	Marek Olekszyk Elżbieta Kalinowska Konrad Kuczmar	Andrzej Torebko Aleksandra Grześkowiak Ewa Preston Andrzej Dec Michał Szczęśniak
<b>SABA Grupa Softbank SA</b>	Zbigniew Wierzbicki Rafał Bułka Bożena Gralak Marek Olekszyk	Grzegorz Józefiak Zbigniew Jan Gralak Piotr Kotelnicki
<b>NOVUM Sp. z o.o.</b>	Grzegorz Józefiak Joanna Tołłoczko-Kulikowska Piotr Jakubowski	Witold Janikowski Krzysztof Zwierzchowski Krzysztof Tołłoczko
<b>SAWAN Grupa Softbank SA</b>	Robert Frączek Gabriela Kotulska Marek Komosa Tadeusz Gąsowski Tomasz Kuźmierz	Leszek Kotulski Dariusz Dymek Mariusz Gąsowski
<b>ZETO Rodan Sp. z o.o.</b>	Jarosław Ogorzałek Alicja Misarko Paweł Barnaś Roman Bratek	Władysław Bogucki Tomasz Bogucki
<b>bezpieczeństwo.pl Sp. z o.o.</b>	No Supervisory Board	Mariusz Michałek
<b>CRM SA</b>	Marek Komosa Bogusław Hadyniak Piotr Jakubowski Leszek Kropiwnicki Edward Mier-Jędrzejowicz	Leszek Kocięcki Wiesław Kosieradzki
<b>Mediabank SA</b>	Leszek Kropiwnicki Witold Galiński Andrzej Grzelec	Adam Dunalewicz Janusz Chajęcki
<b>FinFin SA</b>	Leszek Kropiwnicki Jarosław Adamski Ireneusz Mietelski	Jarosław Augustyniak
<b>NetPower SA</b>	Jay Diamont Steven Woghin Kinga Guzek Maurycy Jan Kuhn Venkatraman Subbarao	Marek Wiesław Komosa Izabela Beata Zimoch Jarosław Milewski
<b>Instytut Analiz Społecznych i Ekonomicznych SA</b>	Stanisław Rymar  Piotr Jakubowski Jerzy Bekker Wiktor Askanas	Zygmunt Bosiakowski  Zbigniew Bożyczko Jacek Wódz

### ***Remuneration of the Members of the Capital Group's Governing Bodies***

The remuneration, including distributions from profit, paid to the Executive Board of the Capital Group in 2002 amounted to PLN 7,598,000, and PLN 464,000 was paid to the members of Softbank's Supervisory Board.

The remuneration, including distributions from profit, paid to the members of the supervisory bodies of subsidiary undertakings of the Softbank Capital Group who were also the Parent Undertaking's employees amounted to PLN 146,000.

### ***Outstanding Loans to the Members of the Capital Group's Governing Bodies***

The value of outstanding advances, loans, guarantees, sureties and other agreements providing for performance for the Company and its subsidiary and associated undertakings, granted by the Capital Group, to the members of executive and supervisory bodies, their spouses, relatives and relations by affinity up to the second degree, adoptees and adopters, as well as other persons to whom the former are personally related, amounts to PLN 0.

### ***Softbank Shares Held by the Members its Corporate Bodies as at December 31st 2002***

To the best of Company's knowledge, the numbers and par values of the Softbank shares held by the members of its governing bodies as at December 31st 2002 was as follows:

	Number of Shares	Total par value
<u>Supervisory Board:</u>		
Stanisław Janiszewski	1,600	PLN 1,600
Alicja Kornasiewicz	0	PLN 0
Ryszard Krauze	0	PLN 0
<u>Executive Board</u>		
Aleksander Lesz	4,000,268	PLN 4,000,268
Jarosław Ogorzałek	9,720	PLN 9,720
Piotr Jeleński (*)	0	PLN 0
Adam Dąbkowski	0	PLN 0
Robert Smułkowski	6,000	PLN 6,000

(\*) Mr Jeleński purchased 20,000 shares after the balance-sheet date.

### ***Softbank's Shareholder Structure as at December 31st 2002***

As at December 31st 2002, Softbank's share capital amounted to PLN 17,413,992, and was divided into 17,413,992 shares with a par value of PLN 1 per share. Each share incorporates the right to one vote at the General Shareholders Meeting.

As at December 31st 2002, the following shareholders held at least 5% each of the total vote at the General Shareholders Meeting:

<i>Shareholder</i>	<i>Number of shares held</i>	<i>% share in share capital</i>	<i>Number of votes at GM</i>	<i>% of total vote at GM</i>
Aleksander Lesz	4,000,268	22.97%	4,000,268	22.97%
Prokom Software SA	3,344,398	19.21%	3,344,398	19.21%

### ***Agreements and Events Affecting the Proportions of Shares held by Existing Shareholders***

*Registration of more shares of the Parent Undertaking in stock-exchange trading (resulting from the conversion of convertible bonds)*

Twice in 2002, the Executive Board of the Warsaw Stock Exchange admitted Softbank shares into stock-exchange trading, which were issued in order to allocate them to the holders of convertible bonds. As of January 25th 2002, the total of 49,080 Series O ordinary bearer shares, including shares already listed in public trade, have been listed on the stock exchange, and as of May 6th also additional 15,000 Series O shares, have been listed. As at the end of 2001, there were 17,413,992 Softbank shares in stock-exchange trading.

#### *Parent Undertaking's share capital increase*

In the reporting period, the court registered only one increase in Softbank's share capital, which was connected with the conversion of Series B bonds into Series O shares by the persons entitled under the stock option scheme for the Softbank's management personnel.

As at the end of 2002, the share capital of Softbank amounted to PLN 17,413,992 and was divided into 17,413,992 shares with a par value of PLN 1 per share.

#### *Aleksander Lesz*

On October 24th 2002, Prokom Software SA and Aleksander Lesz, a shareholder in Softbank and President of its Executive Board, concluded a shareholder agreement, under which Prokom Software SA is to become the strategic investor in Softbank. Under the provisions of the agreement, Prokom Software SA has the right to purchase, as of the effective date of the agreement, all the Softbank shares owned by Mr Lesz (i.e. 5,741,666 shares), representing over 32% of the Company's share capital (call option), while Mr Lesz has the right to request Prokom, from March 31st 2003 to December 6th 2003, to purchase a portion of his shareholding in Softbank (put option). The size of the shareholding covered by the put option will depend on the market price of the shares as at the date on which the shares are purchased (determined with the use of the mechanism for calculating the purchase price described below), and its value will not exceed PLN 30.8m.

Prokom Software SA is to purchase the shares from Mr Lesz in block transactions at a price which will be calculated on a case-by-case basis as the arithmetic mean of the price per Softbank share during the 30 calendar days preceding the transaction, plus 20%. The average price in all executed transactions may not exceed PLN 13.

The concluded shareholder agreement will come into force on the date on which Prokom Software SA obtains the consent of the Polish Anti-Trust and Consumer Protection Authority to assume control over the Company and the consent of the Polish Securities and Exchange Commission to independently acquire Softbank shares conferring the right to more than 33% of the total vote at Softbank's General Shareholders Meeting. Pursuant to the agreement, as of the date on which Prokom Software SA's interest in the Company's share capital exceeds 20%, it will have the right, under relevant powers-of-attorney, to exercise voting rights and other rights conferred by Softbank shares which it is yet to acquire from Mr Lesz.

On December 17th 2002, the main shareholder in the Company, Aleksander Lesz, sold a total of 1,741,398 shares, reducing its shareholding in the Company from 32.99% to 22.97% (prior to the transaction Mr Lesz owned 5,741,666 shares, and after the transaction he holds 4,000,268 Softbank shares).

On April 10th 2003, Prokom Software SA, registered offices at Al. Jerozolimskie 67/79 in Warsaw, Poland, acquired 1,442,979 Softbank shares from Aleksander Lesz, representing 6.99% the share capital and conferring the rights to 6.99% of the total vote at the GM. Following the transaction, Mr Lesz holds 2,557,289 Softbank shares, representing 12.41% of the share capital and conferring the rights to 12.41% of the total vote at the GM.

#### *The Bank of New York*

During the reporting period, The Bank of New York, which issues Global Depository Receipts (GDRs), reduced its holding in Softbank from 9.81% of the share capital and the total vote to less than 5%.

*Prokom Software SA*

On December 17th 2002, Prokom Software SA purchased 1,741,398 Softbank shares and as a result of the transaction owned 3,344,398 Softbank shares, which represented 19.21% of the Company's share capital and conferred the rights to 19.21% of the total vote at the General Shareholders Meeting.

Prior to the transaction, Prokom Software SA held 1,603,000 Softbank shares representing 9.21% of the share capital and conferring the rights to 9.21% of the total vote at the General Shareholders Meeting.

On April 10th 2003, Prokom Software SA acquired 1,442,979 Softbank shares from Aleksander Lesz to own in total 4,787,377 Softbank shares, representing 23.22% of the share capital and conferring the rights to 23.22% of the total vote at the GM.

*Series E convertible bonds*

On December 30th 2002, the National Depository of Securities (NDS resolution of December 27th 2002) accepted a deposit of 3,200,000 Softbank Series S ordinary bearer shares with a par value of PLN 1 per share, issued under a conditional share capital increase. The conditional share capital increase (approved by the Ordinary General Shareholders Meeting on August 7th 2002) was connected with the issue of 3,200 Series E convertible bonds, which was carried out on December 5th 2002. The bonds were converted into 3,200,000 shares on December 6th.

*Registration of share capital increase after the balance-sheet date*

On January 2nd 2003, the court registered an increase in Softbank's share capital. Currently, the Softbank share capital amounts to PLN 20,613,992 and is divided into 20,613,992 shares with a par value of PLN 1 per share. The total number of votes conferred by all outstanding shares is 20,613,992.