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THE POLISH SECURITIES AND EXCHANGE COMMISSION

Consolidated Annual Report RS 2005

Pursuant to
Article 86 Para 2 and Article 87 Para 1 of the Ordinance of the Council of Ministers of 19 October 2005
(Dz. U. No. 209, Item 1744)
For issuers of securities managing production, construction, trade or services activities.
For the accounting year 2005 covering the period from 01 January 2005 to 31 December 2005.
Including the consolidated financial statement pursuant to International Financial Reporting Standards (ISFA)
In currency: PLN
Submitted on: 05 June 2006

COMARCH S.A. (Full name of the issuer)	
COMARCH S.A. (Abbreviated name of the issuer)	**IT** (Sector according to the Warsaw Stock Exchange classification)
31-864 (Postcode)	**Krakow** (City)
Al. Jana Pawła II (Street)	**39A** (No.)
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inwestor@comarch.pl (Email)	**comarch.pl** (Website)
677-00-65-406 (NIP)	**350527377** (REGON)

PricewaterhouseCoopers Sp. z o.o.
(Entity authorised for auditing)

SELECTED FINANCIAL DETAILS	in PLN thou.		in EUR thou.	
	2005	2004	2005	2004
Details related to the abbreviated consolidated financial statement				
I. Net proceeds from sales of products, merchandise and materials	443,990	328,357	110,355	72,674
II. Profit (loss) on operational activities	27,356	16,140	6,799	3,572
III. Gross profit (loss)	24,294	10,325	6,038	2,285
IV. Net profit (loss)	27,763	9,765	6,901	2,161
V. Net cash flows on operational activities	48,703	12,534	12,105	2,774
VI. Net cash flows on investment activities	–36,178	–27,039	–8,992	–5,984
VII. Net cash flows on financial activities	7,608	–1,616	1,891	–358
VIII. Net cash flows, total	20,133	–16,121	5,004	–3,568
IX. Assets, total	346,847	272,909	89,861	66,906
X. Liabilities and provisions for liabilities	185,475	140,474	48,053	34,438
XI. Long-term liabilities	62,836	52,322	16,280	12,827
XII. Short-term liabilities	122,639	88,152	31,773	21,611
XIII. Equity, total	161,372	132,435	41,808	32,468
XIV. Initial capital	6,955	6,852	1,802	1,680
XV. Number of shares (in pcs.)	6,955,095	6,852,387	6,955,095	6,852,387
XVI. Profit (loss) per one regular stock (in PLN / EUR)	4.06	1.67	1.01	0.37
XVII. Diluted profit (loss) per one regular stock (in PLN / EUR)	4.06	1.67	1.01	0.37
XVIII. Book value per one regular stock (in PLN / EUR)	23.20	19.33	6.01	4.74
XIX. Diluted book value per one regular stock (in PLN / EUR)	23.20	19.33	6.01	4.74

Euro exchange rates used for calculation of the selected financial details:

Arithmetical average of NBP average exchange rates as of the end of each month for the period 01 January 2005 to 31 December 2005: 4.0233

Arithmetical average of NBP average exchange rates as of the end of each month for the period 01 January 2004 to 31 December 2004: 4.5182

Total equity value was calculated into EUR according to the average NBP exchange rate as of the last day in the period:

31 December 2005: 3.8598

31 December 2004: 4.0790

REPORT CONTENTS

File **Polish**	File **English**	Description
Skonsolidowany raport roczny.pdf	Consolidated annual report.pdf	Consolidated annual report, Appendix No. 1
Sprawozdanie Zarządu.pdf	Report of Board of Directors.pdf	Report of the Board of Directors, Appendix No. 2
Oświadczenie Zarządu w sprawie podmiotu uprawnionego do ba…	Statement of Board of Directors on entity authorised for auditing...	Statement of the Board of Directors on the entity authorised for auditing financial statements, Appendix No. 3
Oświadczenie Zarządu w sprawie rzetelności sporządzenia sp….pd	Statement of Board of Directors on integrity of preparation...	Statement of the Board of Directors on integrity of financial statement preparation, Appendix No. 4
Pismo Prezesa Zarządu.pdf	Letter of President Board of Directors.pdf	Letter of President, the Board of Directors, Appendix No. 5
Opinia biegłego rewidenta.pdf	Opinion of expert auditor.pdf	Opinion the entity authorised for auditing financial statements, Appendix No. 6
Raport biegłego rewidenta.pdf	Report of expert auditor.pdf	Report the entity authorised for auditing financial statements, Appendix No. 7

SIGNATURES OF ALL MEMBERS OF THE BOARD OF DIRECTORS

Date	First and last name	Post / Function	Signature
05 June 2006	Janusz Filipiak	President, the Management Board	
05 June 2006	Rafał Chwast	Deputy President, the Management Board	
05 June 2006	Paweł Prokop	Deputy President, the Management Board	
05 June 2006	Paweł Przewięźlikowski	Deputy President, the Management Board	
05 June 2006	Zbigniew Rymarczyk	Deputy President, the Management Board	

SIGNATURE OF THE PERSON WHO WAS ENTRUSTED WITH MANAGING BOOKS OF ACCOUNTS

Date	First and last name	Post / Function	Signature
05 June 2006	Maria Smolińska	chief Accountant	

Krakow, 5 June 2006

Dear Shareholders,

The ComArch Group achieved record proceeds from sales in 2005 and very high net profit. Increase in sales by over 35% and increase in net profit by over 140% are the best indicators of what ComArch achieved last year. The fact is of special emphasis that this increase is entirely organic. At the same time, the ComArch Group significantly improved operational profitability from the level of 4.9% to 6.16% and return on equity from 8.6% to 17%.

In the times of globalisation, competitiveness of the offered products is the key factor deciding about market position and the achieved results. The ComArch brand, after several years of international expansion, is gradually better recognised in the world, not only in the neighbouring Central European countries, but also in Western Europe, both Americas and in the Near East. ComArch systems support clients in over twenty countries in four continents. Along with expansion of the client base, volume of contracts grows and client types change, with the largest world companies appearing among them.

ComArch is not only focused on achieving the best possible current financial results, but is all the time systematically investing in long-term development. Finding and employing the best graduates from Polish academic centres is an important element of this process. In 2005, the Group increased employment by over three hundred employees. R&D work is continued all the time, financed from both own means and the acquired European funds. These expenses are a certain burden on short-term financial results, yet in the perspective of several years they will give effects in a stronger market position for ComArch among international companies in the IT field.

Enjoying tax holidays on account of activities in the Special Economic Zone in Krakow, ComArch initiated construction of a new production building for its IT needs in the end of 2004. The building was commissioned in the second quarter of 2005 and completely filled with employees within several months. Therefore, in the end of the pervious year, the company decided to erect another building. Its completion is planned for the end of 2006.

The Board of Directors of ComArch S.A. is aware of risks related to dynamic growth of the company. In parallel to efforts related to acquiring new clients and developing new products, management procedures are continuously enhanced so as to correspond with size and structure of the Group.

Professor Janusz Filipiak
President, Board of Directors
ComArch S.A.

Table of contents

I. Consolidated balance sheet

	Note	31 December 2005	31 December 2004
ASSETS			
Fixed assets			
Tangible fixed assets	4.2	90 848	74 801
Goodwill	4.3	3 284	3 284
Other intangibles	4.4	35 024	34 058
Long-term accruals	4.5	6 885	5 004
Investments in affiliated units	4.6	9 444	4 075
Other investments		121	43
Assets on account of deferred income tax	4.19	7 272	1 489
Other receivables		138	380
		153 016	**123 134**
Current assets			
Inventory	4.7	26 115	14 991
Trade receivables and other receivables	4.10	93 003	80 013
Receivables on account of current income tax		-	400
Due proceeds on account of long-term contracts	4.15	25 521	23 626
Financial assets available for sale	4.8	-	2 000
Other financial assets appraised at fair value : derivatives	4.9	225	-
Cash and equivalents	4.11	48 967	28 745
		193 831	**149 775**
Total assets		**346 847**	**272 909**
EQUITY			
Equity for Company shareholders			
Initial capital	4.12	6 955	6 852
Other capitals	4.13	128 731	118 650
Exchange rate differences		(663)	(52)
Net profit for the current period		28 052	11 372
Undivided financial result		(16 056)	(18 400)
		147 019	**118 422**
Minority shares	4.13	14 353	14 013
Total equity		**161 372**	**132 435**
OBLIGATIONS			
Long-term obligations			
Credits and loans	4.16	17 300	8 149
Obligations on account of deferred income tax	4.19	5 649	5 601
Obligations on account of convertible bonds	4.17	39 849	38 472
Provisions for other obligations and charges		38	100
		62 836	**52 322**
Short-term obligations			
Trade obligations and other obligations	4.14	99 991	76 146
Obligations on account of current income tax		1 488	-
Obligations on account of long-term contracts	4.15	14 335	7 172
Obligations on account of convertible bonds	4.17	1 097	781
Credits and loans	4.16	2 880	958
Provisions for other obligations and charges	4.20	2 848	3 095
		122 639	**88 152**
Total obligations		**185 475**	**140 474**
Equity and obligations in total		**346 847**	**272 909**

II. Consolidated profit and loss account

	Note	12 months 2005	12 months 2004
Proceeds on sale	4.21	443 990	328 357
Costs of sold products, services, merchandise and materials	4.22	(353 952)	(254 724)
Gross profit		**90 038**	**73 633**
Other operational proceeds	4.23	845	1 441
Costs of sale and marketing	4.22	(33 560)	(33 022)
Overhead costs	4.22	(26 463)	(23 670)
Other operational costs	4.24	(3 504)	(2 242)
Operational profit		**27 356**	**16 140**
Net financial costs	4.25	(4 181)	(4 982)
Share in profits / (losses) of affiliated units	4.6	1 119	(833)
Profit before taxation		**24 294**	**10 325**
Income tax	4.26	3 469	(560)
Net profit for the period		**27 763**	**9 765**
Including :			
Net profit for Company shareholders		28 052	11 372
Net loss for minority shareholders		(289)	(1 607)
		27 763	9 765
Profit per share for Company shareholders for the period (in PLN per share)			
– Basic	4.28	4,06	1,67
– Diluted		4,06	1,67

III. Consolidated summary of changes in equity

	For Company shareholders					Minority shares	Total equity
	Initial capital	Other capitals	Exchange rate differences	Net profit for the current period	Undivided financial result		
As of 1 January 2004	6 727	106 681	(89)	-	(9 259)	18 732	122 792
Allocation of result for 2003	-	12 263	-	-	(12 263)	-	-
Increase in capital	125	-	-	-	-	-	125
Reduction of capital in reference to buying out bonds	-	(294)	-	-	-	-	(294)
Adjustments in capital in reference to change in ownership structure in MKS Cracovia SSA[1]	-	-	-	-	3 122	(3 122)	-
Net proceeds / (costs) directly given in equity[2]	-	-	-	-	-	10	10
Profit for the period [3]	-	-	-	11 372	-	(1 607)	9 765
Exchange rate differences [4]	-	-	37	-	-	-	37
Sum of proceeds given in capitals (1-4)	-	-	37	11 372	3 122	(4 719)	9 812
As of 31 December 2004	**6 852**	**118 650**	**(52)**	**11 372**	**(18 400)**	**14 013**	**132 435**
As of 1 January 2005	6 852	118 650	(52)	-	(7 028)	14 013	132 435
Increase in capital	103	-	-	-	-	-	103
Capital from appraisal of the managerial option	-	1682	-	-	-	-	1682
Allocation of result for 2004	-	8 399	-	-	(8 399)	-	-
Increase of ComArch share in the Global subsidiary to 100%[1]	-	-	-	-	(629)	629	-
Profit for the period [2]	-	-	-	28 052	-	(289)	27 763
Exchange rate differences [3]	-	-	(611)	-	-	-	(611)
Sum of proceeds given in capitals (1-3)	-	-	(611)	28 052	(629)	340	27 152
As of 31 December 2005	**6 955**	**128 731**	**(663)**	**28 052**	**(16 056)**	**14 353**	**161 372**

IV. Consolidated cashflow statement

	12 months 2005	12 months 2004
Incoming cash on operational activities		
Net profit	27 763	9 765
Total adjustments	21 693	4 999
Share in net (profits) losses of subsidiary units appraised with the ownership rights method	(1 119)	833
Depreciation	11 264	9 744
(Profits) losses on account of exchange rate differences	297	(1 688)
Interest and share in profits (dividend)	2 750	4 621
(Profit) loss on investment activities	(158)	(141)
Change in inventory	(11 127)	(3 253)
Change in receivables	(18 131)	2 628
Change in obligations and provisions, except for loans and credits	37 917	(7 745)
Net profit less total adjustments	49 456	14 764
Paid income tax	(753)	(2 230)
Net cash on operational activities	**48 703**	**12 534**
Cashflows on investment activities		
Acquisition of an affiliated unit	(4 283)	-
Acquisition of tangible fixed assets	(32 765)	(25 204)
Incoming cash on sale of tangible fixed assets	1 050	475
Acquisition of intangibles	(2 150)	(732)
Acquisition of financial assets available for sale	(1 578)	(105 582)
Incoming cash on sale of financial assets available for sale	3 548	104 004
Net cash on investment activities	**(36 178)**	**(27 039)**
Cashflows on financial activities		
Payment on account of capital issue	103	125
Incoming cash on account of contracted credits and loans	33 186	12 482
Payment back of credits and loans	(22 337)	(5 489)
Buying out debt securities	-	(5 905)
Interest on bonds	(2 641)	(2 914)
Other interest	(703)	-
Other expenses	-	(84)
Other financial results	-	169
Net cash (used in) / from financial activities	**7 608**	**(1 616)**
Change in net cash	**20 133**	**(16 121)**
Cash as of the beginning of the period	28 745	45 104
Positive (negative) exchange rate differences in cash	89	(238)
Cash as of the end of the period	**48 967**	**28 745**

V. Supplementary information

1. Information about Group structure and activities

The basic subject matter of activities of the ComArch Group ("Group"), in which the company of ComArch SA with the office in Krakow, Al. Jana Pawła II 39 A is the dominant unit, includes production, trading and service activities in the field of IT and telecommunications, PKD 72.20. The registration court for ComArch S.A. is the District Court for Krakow Śródmieście in Krakow, the XI Department for Commercial Issues of the national Court Register. KRS number: 0000057567. The ComArch SA Company owns the dominant share in the Group in view of the achieved proceeds, value of assets and number and volume of executed contracts. The shares of the ComArch S.A. company are admitted to exchange trading in the Warsaw Stock Exchange. Duration of the dominant unit is not limited.

On 31 December 2005, the following entities formed the ComArch Group (in parentheses: share of votes for ComArch SA):

- ComArch Spółka Akcyjna with the office in Krakow,
- ComArch Global, Inc. with the office in Miami (100.00%),
- ComArch Software AG with the office in Dresden (100,00%),
- ComArch Middle East FZ-LCC with the office in Dubai (100.00%),
- ComArch Sp. z o.o. with the office in Kiev (100.00%),
- ComArch s.r.o. with the office in Bratislava (100.00%),
- ComArch Panama, Inc. with the office in Panama (**100.00% subsidiary to ComArch Global, Inc.),
- OOO ComArch with the office in Moscow (100.00%),
- UAB ComArch with the office in Vilnius (100.00%),
- ComArch Services Sp. z o.o. with the office in Krakow (99.90%),
- MKS Cracovia SSA with the office in Krakow (*49.15%).

*) The MKS Cracovia SSA company is a subsidiary to ComArch S.A. on the basis of IAS 27 Section 13 d).

**) On 27 April 2005, ComArch became owner of 100% of the ComArch Global, Inc. stock.

Moreover, the following are units affiliated to the dominant unit:

- INTERIA.PL SA with the office in Krakow (***49.95%),

NetBrokers Sp. z o.o. with the office in Krakow (40.00%).

***) By assuming the new issue of INTERIA.PL shares in march 2005, the ComArch S.A. temporarily had over 50% of votes in the GAS. However, due to regulations of the public trading in securities, the Company could not execute the voting rights of the owned shares before disposing of one share, so as to be below the 50% votes in the GAS threshold. On 12 May 2005, the ComArch S.A. company disposed of 1 share of Interia.pl and at the same time Interia.pl, on the motion of shareholders, released privileges of 305,119 registered shares. By virtue of this resolution, 195,556 registered shares owned by ComArch S.A. were converted so that the company of ComArch S.A. had 2,888,369 shares as of 12 May 2005, which constituted 49.95% of votes in the GAS. Throughout the time, the Interia.pl company remained a company affiliated to ComArch S.A.

On 19 January 2006, ComArch S.A. sold 350,000 shares in the INTERIA.PL S.A. company at PLN 28 per share, as a result of which, as of the date of preparation of this statement, the ComArch S.A. company has 2,538,369 shares in INTERIA.PL S.A., which constitutes 36.08% of the initial capital of the Company. These shares give rights for execution of 11,609,625 votes in the General Assembly, which constitutes 48.48% of the total number of votes

The structure of activities of the ComArch Group is as follows: the dominant entity acquires majority of contracts, largely executing them, with companies of ComArch Global, ComArch Software AG, ComArch Middle East FZ-LCC, ComArch Sp. z o.o. (Ukraine), ComArch Panama, Inc., OOO ComArch, UAB ComArch acquiring contracts in foreign markets and executing them in entirety or in part. The ComArch s.r.o. Company deals with producing software to the order of the ComArch Group. ComArch Services Sp. z o.o. conducts tele-IT activities consisting in providing tele-IT connections for own needs of the ComArch Group companies and contracts executed by ComArch, as well as providing outsourcing services. MKS Cracovia SSA is a sport joint stock company.

2. Description of the applied accounting principles

This consolidated financial statement has been prepared pursuant to the International Standards or Financial Reporting (ISFA, Polish abbreviation ISFA), as approved by the European Union.

Accounting principles adopted by the Group presented below were applied to all periods covered by this financial statement.

The Group enjoyed the following optional exemptions from the obligation of retrospective application of some IASs in the first financial statement prepared according to ISFA (pursuant to ISFA 1, Para 1):

1) Merging commercial units

The Group took advantage of this exemption and did not transform connections between commercial units, which were in place before the date of adopting ISFA, i.e. before 1 January 2004.

2) Assuming fair value or re-assessment as the basis for depreciation of fixed assets as of the date of adopting ISFA.

   The Group did not take advantage of this exemption.

3) Employee allowances.

   The Group did not take advantage of this exemption.

4) Cumulated differences on account of calculation into a foreign currency.

   The Group did not take advantage of this exemption.

5) Complex financial instruments.

   The Group did not take advantage of this exemption.

6) Defining the financial instruments presented earlier.

   The Group did not take advantage of this exemption.

7) Re-classification of assets and financial obligations as of the date of adopting IAS 32 and 39.

   The Group did not take advantage of this exemption.

8) Transactions of payment in the form of own shares.

   Transactions of payment in the form of own shares present in the Group were established before 7 November 2002 and pursuant to ISFA 2 they are not recognised in the financial statement prepared according to ISFA.

9) Insurance agreement.

   There are no insurance agreements in the Group.

10) Obligations on account of withdrawing tangible fixed assets from operational use included in acquisition price or cost of generation.

    There are no obligations of this type in the Group.

11) Leasing.

    The Group did not take advantage of this exemption.

12) Appraisal of assets or financial obligations at fair value in the initial presentation.

    The Group did not take advantage of this exemption.

The Group followed obligatory exceptions related to retrospective application of some ISFAs set forth in ISFA 1 (pursuant to ISFA 1, Para 26):

1) Removing financial assets and obligations from the balance sheet.

   In the period covered by the statement there were no transactions, which would result in adjustments in reference to application of IAS 32 and IAS 39.

2) Accounting of collateral.

   In the period covered by the statement there were no transactions, which would result in adjustments in reference to application accounting of collateral.

3) Assets classified as allocated for sale and discontinued activities.

   In the period covered by the statement there were no assets classified as allocated for sale and discontinued activities.

4) Book estimates.

   In the period covered by the statement there was no need to change estimates so that they are adjusted to ISFA requirements.

The Group did not take advantage of the possibilities offered by ISFA 1.36 a.

This statement is the first annual consolidated financial statement of the Group compliant with ISFA as of the date of assuming ISFA regulations on 1 January 2004.

The consolidated financial statements of the ComArch Group which were prepared before 31 December 2004 were prepared pursuant to the Polish Accounting Principles (PZR) and differ in some areas from the statements which would be prepared pursuant to ISFA. The Group executed reconciliation of the balance sheet, of the profit and loss account and of the summary of changes in total equity between the statements prepared pursuant to PZR and the statements prepared pursuant to ISFA. Notes 3.2.1-3.2.5 present the detailed reconciliation and explanation of the differences.

These financial statements were prepared pursuant to the principle of historical cost with the exception of these items, which are appraised in another way pursuant to these principles.

Preparation of the statement pursuant to ISFA requires a number of estimates to be done and application of own judgement. Note 2.3.2 presents these areas of the financial statement which require significant estimates or for which significant judgement is required.

The financial statement was prepared with the assumption of continuing commercial activities by the ComArch Group in the foreseeable future. According to the Board of Directors of the Company, there are no circumstances suggesting any threat to continuing activities.

The consolidated financial statement of the ComArch Group for the year 2005 includes statements of the following companies:

	Relationship	Consolidation method	Share of ComArch SA in the initial capital
ComArch SA	Dominant unit	Full	
ComArch Software AG	Subsidiary unit	Full	100,00%
ComArch Global, Inc.	Subsidiary unit	Full	100,00%
ComArch Middle East FZ-LCC	Subsidiary unit	Full	100,00%
ComArch Sp. z o.o. (Ukraine)	Subsidiary unit	Full	100,00%
ComArch s.r.o.	Subsidiary unit	Full	100,00%
ComArch Panama, Inc.	Subsidiary unit	Full	100,00%
OOO ComArch	Subsidiary unit	Full	100,00%
ComArch Services Sp. z o.o.	Subsidiary unit	Full	99,90%
UAB ComArch	Subsidiary unit	Full	100,00%
MKS Cracovia SSA	Subsidiary unit	Full	*49,15%

*) The MKS Cracovia SSA company is a subsidiary to ComArch S.A. on the basis of IAS 27 Section 13 d).

2.1. Principles for appraisal of assets and liabilities and determining the financial result

2.1.1. Reporting concerning segments

The industry segment means a group of assets and activities committed to providing products and services, which are subject to risks and returns on the incurred investment expenditures other than in other industry segments. The geographical segment provides products or services in a certain economic milieu, which is subject to risks and returns other than in case of segments functioning in other economic milieus. The Group chose reporting according to industry segments as the basic segment. The basic segments are: IT and sport.

2.1.2. Consolidation

a) Subsidiary units

Subsidiary units are any units in reference to which the Group has the capacity of managing their financial and operational policies, which is usually related to owning majority of the total number of votes in the deciding bodies. In the assessment, whether the Group controls the given unit, existence and effect of voting rights, if any, which at the given time may be realised or converted, are taken into account. Subsidiary units are subject to full consolidation starting with the date of taking control over them by the Group. Consolidation ends on the cessation of the control.

Taking over subsidiary units by the Group is settled with the acquisition method. The cost of taking over is determined as fair value of the provided assets, issued capital instruments and obligations contracted or taken over as of the exchange date, increased by the costs directly related to taking over. Identifiable assets acquired and obligations and conditional obligations taken over within the merging of commercial units are appraised initially according to their fair value as of the date of taking over, irrespective of the values of minority shares, if any. Surplus of taking over cost over the fair value of the Group share in identifiable taken over net assets is included as goodwill. If taking over cost is lower from fair value of net assets of the taken over subsidiary unit, the difference is given directly in the profit and loss account.

Transactions, settlements and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also subject to elimination unless the transaction provides proofs for loss in value by the provided asset item. The accounting principles applied by the subsidiary unit were changed where necessary to ensure compliance with accounting principles applied by the Group.

b) Affiliated units

Affiliated units are all units on which the Group exert significant effect, but which are not controlled by it, which is usually associated with owning 20 to 50% of the total number of votes in the deciding bodies.

Investments in affiliated units are settled with the ownership rights method and are initially given according to the cost. Investment of the Group in affiliated units covers goodwill defined on acquisition.

The share of the Group in the financial result of affiliated units starting with the acquisition date is given in the profit and loss account, while its share in changes in other capitals starting with the acquisition date are given in other capitals. The balance sheet value of investments is adjusted with the total change since the acquisition date. When the share of the Group in losses of an affiliated unit is equal to or higher than the share of the Group in this affiliated unit, covering possible other receivables without collaterals, the Group stops including further losses, unless it takes over the obligation or made payment on behalf of the given affiliated unit.

Unrealised profits in transactions between the Group and its affiliated units are eliminated in proportion to the share of the Group in affiliated units. Unrealised losses are also eliminated unless the transaction provides proofs for existence of loss in value of the submitted item of assets. Accounting principles applied by the affiliated unit were, where necessary, changed to ensure compliance with the accounting principles used by the Group.

2.1.3. Appraisal of items expressed in foreign currencies

a) Functional currency and presentation currency

Items given in financial statements of particular units of the Group are appraised in the currency of the basic economic milieu in which the given unit conducts its activities (the “functional currency”). The consolidated financial statement is presented in Polish Zloty (PLN), which is the functional currency and the currency of presentation in the dominant unit.

b) Transactions and balance values expressed in foreign currencies

Transactions expressed in foreign currencies are calculated into the functional currency according to the exchange rate in force on the date of the transaction. Exchange rate profits and losses on account of settlement of these transactions and the balance sheet appraisal of financial assets and obligations expressed in foreign currencies are given in the profit and loss account unless they are referred to the total equity, when they qualify to be recognised as cashflow collateral and collateral for shares in net assets.

Exchange rate differences on account of non-cash items such as capital instruments appraised according to fair value in correspondence with the profit and loss account are given within profits and losses on account of changes in fair value. Exchange rate differences on account of such non-cash items as capital instruments classified into financial assets available for sale are taken into account in capital from appraisal at fair value.

c) Companies within the Group

The result and financial standing of all units of the Group (none of which conducts activities under hyperinflation conditions) whose functional currencies are different from the presentation currency are calculated at presentation currency as follows:

(i) Assets and obligations in each presented balance sheet are calculated according to the closing rate in force on the balance sheet day,

(ii) Proceeds and costs in each profit and loss account are calculated according to average exchange rates (unless the average exchange rate constitutes satisfactory approximation of the cumulated effect of exchange rates as of the transaction date, when proceeds and costs are calculated according to exchange rates as of the transaction date), and all the resulting exchange rate differences are given as a separate item in the total equity.

In consolidation, exchange rate differences on account of calculating net investments in foreign units and credits, loans and other currency instruments set as collateral for such investments are given in the total equity. For sale of a unit managing activities abroad, such exchange rate differences are given in the profit and loss account as part of profit or losses from sales.

Goodwill and adjustments to the fair value level, which arise in acquisition of a foreign unit, are regarded as assets and obligations of a foreign unit and are calculated according to the closing rate.

2.1.4. Investments

a) Financial assets and obligations given at fair value, with profits or losses settled by the profit and loss account

This category includes two sub-categories: financial assets allocated for trading and financial assets allocated at the time of their initial including for appraisal according to fair value, with profits or losses given in the profit and loss account. An item of financial assets is included in this category if it was acquired first of all for sale in a short time or if it was included in this category by the Management. Derivative instruments are also included into “allocated for trading” if they were not allocated for collateral. This type of instruments is given separately in the balance sheet in the items “Derivative financial instruments.” Assets in this category are included in current assets if they are allocated for trading or their realisation is expected within 12 months of the balance sheet date.

b) Loans and receivables

Loans and receivables are financial assets with defined or definable payments not included in derivative instruments, not registered in the active market. These arise when the Group gives cash, merchandise or services directly to the debtor, without the intention of introducing its receivables into trading. They are included in current assets if their maturity period does not exceed 12 months of the balance sheet date. Loans and receivables with maturity period exceeding 12 months of the balance sheet date are included in fixed assets. Loans and receivables are included in the receivables on account of deliveries and services and other receivables given in the balance sheet.

c) Investments maintained until maturity date

Investments maintained until maturity date are financial assets with defined or definable payments and a defined maturity date, not included in derivative instruments, which the Management of the Group intends to maintain and is capable of maintaining until maturity date.

d) Financial assets available for sale

Financial assets available for sale are financial instruments allocated to this category or not included in any other category, not included in derivative instruments. These are included in fixed assets if the Management does not intend to dispose of the investment within 12 months of the balance sheet date.

Transactions of purchase and sale of investments are given as of the date of the transaction, the date, when the Group undertakes to purchase or sell the given asset item. Investments are given initially at fair value increased, in case of items of assets not qualified as appraised at fair value by the financial result, by transaction costs. Investments are excluded from books of account when the rights to obtain cashflows on their account have expired or were assigned and the Group has transferred basically the entire risk and all benefits on account of their ownership.

Financial assets available for sale and financial assets given according to fair value, with profits or losses given in the profit and loss account, are given after the initial inclusion at fair value. Loans and receivables and investments maintained until maturity date are given according to the adjusted acquisition price (depreciated cost) with the effective interest rate method. Realised and unrealised profits and losses on account of changes in fair value of financial assets given according to fair value, with profits or losses settled in correspondence with the profit and loss account, are given in the profit and loss account in the period in which they have originated. Unrealised profits and losses on account of changes in fair value of non-cash securities included in “available for sale” are given in the total equity. In case of selling securities included in “available for sale” or loss of their value, the total current adjustments up to the level of the current fair value are given in the profit and loss account as profits and losses in investment securities.

Fair value of registered investments results from their current purchase price. If the market for the given item of financial assets is not active (and also in reference to unregistered securities), the Group determines fair value with appraisal techniques. They cover using recently conducted transactions on standard market rules, reference to other instruments which are basically identical, analysis of discounted cashflows and commonly regarded as correct models of appraisal of derivative instruments based on input data from the active market.

The Group performs the assessment on each balance sheet date, whether there are objective proofs that an item of financial assets or a group of financial assets lost value. In reference to capital securities included in “available for sale,” significant or prolonged loss in fair value of the given security below its cost is taken into account in determining whether securities lost value. If such proofs appear in case of financial assets available for sale, the total current losses (defined as difference between acquisition price and the current fair value less possible losses on account of the loss in value given earlier in the profit and loss account) are excluded from the total equity and are given in the profit and loss account. Losses on account of loss in value given earlier in the profit and loss account on account of capital instruments are not subject to reversing in correspondence with the profit and loss account.

2.1.5. Fixed assets

a) Intangibles

Intangibles are given in the register according to acquisition prices less the current redemption and, possibly, write-offs on account of permanent loss in value. The Group makes depreciation write-offs with the linear method. The following depreciation rates have been adopted:

- computer software 30%
- licenses 30%
- copyright 30%
- other rights 10-20%

The adopted depreciation rates correspond with economic usability of intangibles. In case of intangibles acquired in order to be used in a specific project, the depreciation period is defined as equal to the project duration.

The perpetual usufruct for land related to SSA Cracovia is regarded as an item of intangibles with unspecified period of use, therefore it is not depreciated. Land in perpetual usufruct of the MKS Cracovia SSA company is not subject to depreciation, as its term of use is unspecified due to the fact that the company expects renewal of perpetual usufruct rights and that it will happen without incurring major costs, as the company is not obliged to meet any conditions, upon which extension of this right would depend.

Perpetual usufruct is considered in Poland as synonymous to ownership, and not lease after which the user releases the land back. The company does not expect incurring major costs for renewal of perpetual usufruct rights in the context of current activities of the Club's co-owner, that is the Krakow Municipality. The city supports sport activities, including those of SSA Cracovia, by such initiatives as:

– Providing additional financing for the sport infrastructure,
– redemption of real estate tax,
– Providing fees for perpetual usufruct as contribution.

b) Goodwill

Goodwill constitutes surplus of the taking over cost over fair value of the share of the Group in identifiable net assets of the taken over subsidiary / affiliated unit as of the date of the taking over. Goodwill from taking over subsidiary units is given within intangibles. Goodwill from taking over affiliated units is given within investments in affiliated units. Goodwill is annually tested for loss in value and is given in the balance sheet according to the cost less cumulated write-offs on account of possible loss in value. Profits and losses from disposal of a unit take into account balance sheet value of goodwill related to the sold unit.

In order to conduct a test for the possible loss in value, goodwill is allocated into centres generating cash.

c) Tangible fixed assets

Fixed assets

These were appraised according to acquisition prices or costs of generation less current redemption and possible write-offs on account of permanent loss in value. The adopted depreciation rates correspond with economic usability of fixed assets.

The detailed principles of depreciation for fixed assets adopted by the Company are as follows:

Assets are depreciated with the linear method with application of depreciation rates corresponding with periods of their economic usability. In particular, depreciation rates are 2.5% (for buildings and building objects), 30% (for machines and equipment: computer units) and 20% (for means of transport, equipment and devices). In case of fixed assets acquired in order to be used in a specific project, the depreciation period is set as equal to the project duration.

Fixed assets under construction

Fixed assets under construction are appraised according to acquisition price less possible write-offs on account of permanent loss in value. The Company applies the rule that interest on the investment credit during the period of investment execution are posted in the fixed assets in progress item. Interest on the investment credit after taking over a fixed asset financed from the credit are charged on the result of the year in the financial cost item.

Improvements in third party fixed assets

Improvements in third party fixed assets are appraised according to acquisition price less current redemption and possible write-offs on account of permanent loss in value.

d) Leasing

The Group uses vehicles on leasing principles. As, according to the agreements made, basically all risk and benefits resulting from the title of ownership to the subject matter of leasing has been transferred, these are given in the books on principles of financial leasing. They have been entered into the books as assets and liabilities in the amounts equal to minimum leasing fees set forth as of the date of opening the leasing. Leasing fees are divided into financial costs and reductions of the unpaid balance of obligations. The interest part of financial costs is charged to the profit and loss account throughout the leasing term so as to obtain fixed interest rate against the unpaid balance. The means used on leasing principles are subject to depreciation within a shorter period of time of either the term of the agreement or the period of use.

e) Long-term accrued settlements

These refer to the perpetual usufruct rights for land by the ComArch S.A. dominant unit. It has a specified term of use, and that is why it is subject to depreciation. The depreciation period has been decided on 85 years, so the depreciation is calculated at the rate of 1.2%.

f) Loss in asset value

Assets with unspecified period of use are not subject to depreciation but are annually tested for possible loss in value. Assets subject to depreciation are analysed for loss in value whenever an event or change in circumstances indicate possibility of not realising their balance sheet value. The loss on account of loss in value is given in the amount by which the balance sheet value of the given item of assets exceeds its reconstruction value. Reconstruction value is the higher from fair value less costs of sale and fair value. For the needs of analysis for loss in value, assets are grouped at the lowest level in reference to which there are separately identifiable cash flows (centres generating cash).

2.1.6. Current assets

a) Inventory, products in progress and merchandise

Production in progress given in the statement refers to software produced by the Group and allocated for repeated sales. Production in progress is appraised according to direct technical costs of generation.

Applications produced by the Group and allocated for repeated sales is appraised in the period of bringing about economic benefits by them, not longer than 36 months since opening sale, in the amount of surplus of generation costs over net proceeds obtained from sales of these products within the following 36 months. Costs of generation not written off after this period of time increase other operational costs.

Depending on the nature of the produced software and assessment of its possible sales, appropriate principles are applied for writing off into own costs the expenditures incurred for generation from 50% to 100% of the invoiced amount in the above period of sale, provided that 50% is used as the basic rate. If the company knew earlier about limiting the selling capacity, it immediately makes a write-off updating value of production in progress in the amount of the expenditures in reference to which there is probability of not regaining, or makes a one-time write-off of the entire unsettled expenditures (depending on the degree of risk assessment) in own cost of sales.

The register of materials and merchandise is managed at actual purchase prices. Expenditures are appraised with the FIFO principle. Merchandise is appraised according to actual purchase prices, not higher than net selling prices.

b) Receivables

As of the date of their origination, these are given in the books according to fair value, and according to adjusted acquisition price (depreciated cost) in subsequent periods.

Receivables, depending on their maturity date (up to 12 months of the balance sheet date or more than 12 months of the balance sheet date) are given as short-term or long-term items.

In order to make their value real, write-offs updating value of bad receivables were made for receivables. Write-offs on account of loss in value correspond with the difference between the balance sheet value and current value of actual cashflows from the given item of assets. Due to the specific nature of activities (limited scope of receivables from the so-called mass contractors), appropriate updating write-offs are made by way of detailed identification of receivables and assessment of risk to inflow of funds resulting from contractual and business conditions.

c) Cash and equivalents

This category includes cash at hand and in bank accounts, bank deposits payable on demand, other short-term investments with the original maturity period of up to three months and featuring high liquidity, and liquid short-term securities.

d) Settlement of long-term contracts

Costs related to long-term contracts are given at the time of their occurrence. The result in contracts is determined according to the progress of work if reliable determination of it is possible. The progress is measured based on the ratio of costs incurred by the balance sheet date to the total estimated costs on account of contracts, expressed in per cents. If it is probable that total costs on account of an agreement exceed total proceeds, the expected loss is posted immediately.

The Group gives in the assets an item of “Due proceeds on account of long-term contracts” in case when there is surplus in incurred costs and posted profits on account of long-term contracts over the value of invoiced sales for contractors. Otherwise, when there is surplus of the invoiced sales to contractors over the value of incurred costs and posted profits on account of long-term contracts, the Group presents an item in obligations called “Obligations on account of invoiced proceeds from long-term contracts.” The above surpluses are determined for each contract separately and are presented separately without balancing particular items.

2.1.7. Total equity

Total equity includes, among others:

a) The initial capital of the dominant unit given at the nominal value,
b) Other capitals established:

- From allocation of profit,
- From surplus of shares sold above their nominal value,
- As a consequence of appraising the capital part of a long-term obligation on account of the issued own bonds and redeeming part of own bonds convertible into stock,

c) Undivided profit resulting from adjustments on account of changes in accounting principles and from the results achieved by the Group, which were not transferred to other capitals.

d) Net profit for the current year.

2.1.8 Employee benefits

a) Benefits based on shares

The Group runs a programme of remuneration based on shares and regulated with shares. The fair value of the work provided by employees increases costs in return for allocating options. The total amount to be settled into costs in the period of acquiring rights by employees to execute the option is determined based on the fair value of the allocated options, with exclusion of the impact of the terms and conditions for acquiring rights, if any, not related to the capital market (e.g. targets in the scope of profitability and increase in sales). Terms and conditions for acquiring rights for execution are taken into consideration in the assumptions for the planned number of options, which may be executed. The Unit verifies its assessments as of each balance sheet date. The impact of the possible verification of original assessments is taken into account by the Group in the profit and loss account, in reference to the equity.

The proceeds obtained on account of execution of the option, i.e. proceeds on account of assuming the shares (less transaction costs directly related to the execution) are referenced to the initial capital (nominal value) and to the supplementary capital on sale of shares above the nominal value.

2.1.9. Obligations and provisions for obligations

a) Trade obligations and other obligations

They are given in the books as of the origination date according to the value of adjusted nominal acquisition price (depreciated cost), and in the due amount as of the balance sheet date. Obligations, depending on maturity (up to 12 months of the balance sheet date or more than 12 months of the balance sheet date) are given as short-term or long-term items.

b) Financial obligations

At the time of the initial posting of financial obligations they are appraised at fair value, increased (in case of an item of obligations not qualified as appraised at fair value by the financial result) by transaction costs. After the initial posting, the unit appraises financial obligations according to the depreciated cost with application of the effective interest rate method, with the exception of derivative instruments, appraised at fair value. Financial obligations set as items with collateral are subject to appraisal pursuant to accounting principles of providing collateral.

c) Provisions for obligations

Provisions for restructuring costs, guarantee repairs and legal claims are given if:

- The Group has current legal or customary obligations resulting from past events;
- Probability is high that expending funds of the Group may be necessary to settle these obligations, and
- The value has been reliably assessed.

Restructuring provisions cover mostly employee severance pays. These provisions are not given in reference to future operational losses.

If there is a number of similar obligations, probability of the necessity for expending funds for settlement is assessed for the whole group of similar obligations. The provision is given even if probability of expending funds in reference to one item within the group of obligations is small.

The provisions are appraised at the current value of costs assessed according to the best knowledge by the Company’s management, incurring such costs being necessary in order to settle the current obligation as of the balance sheet date. The discount rate applied for determining the current value reflects the current market assessment of cash value in time and increases related to the given obligation.

2.1.10. Deferred income tax

The general principle is applied, pursuant to IAS12, that, due to temporary differences between the value of assets and liabilities given in the books of account and their tax value and tax loss deductible in the future, provision is established and assets are defined on account of deferred income tax.

Assets on account of deferred income tax are defined in the amount foreseen in the future to be deducted from income tax in reference to negative temporary differences which would result in the future in reducing the amount taxable with income tax and deductible tax loss defined with the safe care principle taken into account.

The provision on account of deferred income tax is established in the amount of income tax payable in the future in reference to positive temporary differences, that is differences, which would result in increasing the income tax taxable amount in the future.

Deferred income tax is determined with tax rates (and regulations) legally or actually in force as of the balance sheet date, which, in accordance with expectations, will be in force at the time of execution of the corresponding assets on account of deferred income tax or settlement of the obligation on account of deferred income tax.

The difference between obligations and assets on account of deferred tax as of the end and as of the beginning of the reporting period affects the financial result, and obligations and assets on account of deferred income tax related to operations settled with total equity, are also referred into the total equity.

2.2. Recognising proceeds and costs

Activities conducted by the ComArch Group mostly consist in producing software for repeated sales and in execution of IT integration contracts. Within the integration contracts, ComArch offers execution of IT turn-key systems consisting of: (own and third party) software and/or computer hardware and/or providing services such as:

- Implementation services,
- Installation services,
- Guarantee and post-guarantee services,
- Technical Assistance services,
- Software customisation services,
- Other IT and non-IT services necessary for execution of the system.

In determining the total proceeds from contracts, the following are taken into account:

- Proceeds from own software (irrespective of the form of availability, that is licences, property rights, etc.),

Proceeds from services referred to above.

The unit manager may make a decision on including the estimated proceeds for which probability is high that they shall be realised into total proceeds from a contract (e.g. during execution of the contract, project modification is done for technical reasons and probability is justified that the ordering party accepts the modification and the amount of proceeds resulting from this modification).

For integration contracts, under which software allocated for repeated sales by the ComArch Group is supplied, proceeds and costs related to this software and proceeds and costs related to the other part of the integration contract are given separately in the books.

Various integration contracts are combined and recorded in the books as one contract, if:

- The agreements are realised at the same time or in continuity and precise differentiating costs of their execution is impossible, or
- The agreements are so closely inter-related that they are actually parts of a single project with the profit margin common for the entire project.

Proceeds on account of other services (e.g. technical service, technical assistance) are recognised equally during the term of the agreement / providing services. Proceeds on account of sales of computer hardware and other merchandise are recognised in accordance with the agreed delivery terms and conditions.

Proceeds from sales of other services, products, merchandise and other property items include sums of fair value from due invoiced proceeds, with account for discounts and rebates, without value added tax.

Costs of sale include costs of marketing and costs of acquisition of new orders by centres (departments) of sale in the ComArch Group.

General costs include costs of the ComArch Group functioning as a whole and include in particular costs of management and costs of departments operating for general needs of the Group.

Exchange rate differences related to receivables are given in the item 'Proceeds from sales' and those related to obligations are given in the item 'Cost of sold products, services and merchandise.'

Subsidies

The Group receives subsidies for financing research and development work within European Union support programmes. These subsidies are given systematically as proceeds in particular periods of time, so as to ensure their correspondence with the referenced costs to be compensated by these subsidies, according to the purpose of their settlement. These subsidies reduce the corresponding direct costs, these costs, after compensation with the subsidy being given in the cost of sold products, services and materials.

a) Other operational proceeds and costs

These include proceeds and costs not directly related to regular activities of the units and include mostly: result on sale of tangible fixed assets and intangibles, gifts, established provisions, consequences of updating asset value.

b) Financial proceeds and costs

These include mostly proceeds and costs on account of interest, the result achieved on account of exchange rate differences in financial activities, from disposal of financial assets, consequences of updating value of investments.

Cost of the interest paid on the investment credit is given in financial costs since the time of receiving the asset financed with the credit into use.

2.3. Managing financial risk

The Company is exposed to the following major types of financial risk:

The risk of contractors' insolvency. The Company analyses financial credibility of prospective clients before concluding agreements for delivery of IT systems and adjusts conditions of each agreement to the prospective risk depending on assessment of the financial standing.

The risk of fluctuating interest rates. The Company is exposed to the risk of changes in interest rates in reference to the concluded long-term investment credit allocated for financing a new production building in the Special Economic Zone in Krakow. This credit has interest based on variable interest rate based on the WIBOR index. The Company has not established any collateral for risk of interest rate in this area.

The risk of changing currency exchange rates. In reference to export sales or sales denominated in foreign currencies, the Company is exposed to currency exchange risk. At the same time, part of the company costs is also expressed in or related to exchange rates for foreign currencies. In individual cases, the company provides collateral for future payments with forward contracts.

2.3.1 Accounting of derivative financial instruments and activities in collaterals

Derivative instruments constituting an instrument of collateral in the meaning of IAS 39, which are collateral for fair value, are appraised at fair value, and the change in the appraisal is referenced to the result on financial operations.

Derivative instruments constituting an instrument of collateral in the meaning of IAS 39, which are collateral for cashflows, are appraised at fair value, and the change in the appraisal is referenced to:

a) The capital from updating the appraisal (in the part constituting effective collateral),

b) The result from financial operations (in the part not constituting effective collateral).

Derivative instruments not constituting an instrument of collateral in the meaning of IAS 39 are appraised at fair value, and the change in the appraisal is referenced to the result from financial operations.

2.3.2. Important estimates and assumptions

Estimates and judgements are continuously verified. They result from current experience and other factors, including forecasts events which seem justified in the given situation.

The Group makes estimates and accepts assumptions for the future. The obtained accounting estimates by definition shall rarely correspond with the actual results. Estimates and assumptions, which bear significant risk of the necessary introduction of major adjustments in the balance sheet value of assets and obligations during the following accounting year, are given below.

a) Estimates of the total costs of execution of projects related to appraisal of long-term contracts, pursuant to IAS 11.

   Pursuant to the accounting principles adopted by the company, the company determines degree of progress for long-term contracts by way of determining the ratio of currently incurred costs for the given project to the total estimated project costs. Due to the long-term nature of projects under way and their complex structure, as well as the possibility of unexpected difficulties coming into existence, related to execution of the project, it may happen that the actual total costs for project execution differ from the estimates made for specific balance sheet dates. Changes in estimates of total project execution costs could result in defining the project progress as of the balance sheet date, or the recognised proceeds, in different amount.

b) Estimates related to determining and recognising assets on account of deferred income tax, pursuant to IAS 12.

   Due to managing operations in the Special Economic Zone and enjoying investment allowances by the dominant Unit, the dominant Unit determines value of assets on account of deferred income tax on the basis of forecasts related to shaping of the tax-exempt income and the period, in which such income may be noted. Due to high fluctuation of market perspectives in the IT field, in which the dominant Unit is active, situation is possible when actual results and tax-exempt income may differ from the dominant Unit's forecasts.

c) Estimates of possible costs related to the current court proceedings against the company, pursuant to IAS 37.

As of the balance sheet date, the Group is the plaintiff and the defendant in a number of court proceedings. Preparing the financial statement, the Group always assesses chances and risks related to the conducted court proceedings and, in accordance with the results of such analyses, establishes provisions for prospective losses. However, there is always a risk that the court announces a sentence different from expectations of the company and the established provisions prove to be insufficient or excessive against the actual results of the proceedings.

d) Estimate related to running the annual test on goodwill loss pursuant to ISFA 3 and IAS 36.

The Group, at the end of each accounting year, runs a test for goodwill loss, pursuant to the policy of accounting set forth in Note 2.1.5. b). In order to run the test for the possible goodwill loss, the goodwill is allocated to the centres generating cash funds. The recoverable value was determined on the basis of the usable value calculation. These calculations require use of estimates for the projection of cashflows in the IT segment in the following accounting year and the expected development of the IT market in Poland in the years to come. Due to high fluctuation of market response in the IT industry, in the Group is active, a situation may occur when the actual flows may differ from those forecast by the Group.

2.4 New standards of accounting and interpretations of CIISFA

In the assessment of the Capital Group Management, particular new published standards of accounting, appropriate for reporting periods starting with 2006 and further on, will not affect the financial statement and the financial standing of the Group.

Interpretation CIISFA 4 ("Determining whether an Assets Contains a Lease") applies to annual periods starting with 2006. It is not expected that application of recommendations resulting from the said interpretation could affect the financial statement or the financial standing of the Group.

Interpretation CIISFA 5 "Rights to shares in funds established for financing withdrawal from use, land reclaiming and restoring previous condition of natural environment." This interpretation will not affect the financial statement of the Group.

Interpretation CIISFA 6 “Obligations resulting from participation in a specific market: scrapped electric and electronic hardware.” This interpretation will not affect the financial statement of the Group.

Interpretation CIISF 7 "Application of the approach concerning transformation pursuant to IAS 29: Financial reporting under hyperinflation.” The interpretation does not affect the Group’s financial statement.

Interpretation CIISF 8, Scope of ISFA 2, “Payments settled with shares,” these interpretations will not affect the financial statement and the financial standing of the Group.

Interpretation CIISF 9, "Re-assessment of integrated derivative instruments” (becoming effective on 1 June 2006). The Group will proceed in accordance with the requirements of the interpretation.

ISFA 6, "Exploration and assessment of mineral deposits.” The Group has no assets related to exploration and assessment of mineral resources. Other provisions of this standard will not affect the financial statement of the Group.

ISFA 7, "Financial instruments: Disclosing,” changes to IAS 1: "Presentation of financial statements: disclosing capitals.” Applicable for annual periods starting on 1 January 2007 or afterwards. The Group will proceed pursuant to new requirements related to disclosing this information.

Changes to IAS 1, " Presentation of financial statements: disclosing capitals.” Change refers to annual periods starting on 1 January 2007. The Group will proceed pursuant to new requirements related to disclosing this information.

Change to IAS 19, "Employee benefits." The interpretation will not affect financial statements of the Group."

Changes to IAS 39, "Financial instruments, disclosure and assessment.” The option of assessing fair value. The Group decided not to use the possibility of appraisal of its assets and financial obligations at fair value.

Changes to IAS 39, "Financial instruments, disclosure and assessment." Accounting of collateral: securing forecast cashflows on intra-group transactions. This change is applicable to periods beginning on 1 January 2006. The effect of this interpretation on change in the applied accounting principles in reference to any of already concluded agreements of the Group is not expected.

Changes to IAS 39 "Financial instruments, disclosure and assessment" and ISFA 4 "Insurance agreements." Agreements for financial guarantees. Changes refer to agreements of financial guarantees and require inclusion of corresponding obligations resulting from such agreements in the balance sheet from the parties of agreements, which provide financial guarantees. Provisions of this standard will not affect the financial statement of the Group.

3. Transformation notes for the consolidated financial statement according to ISFA

3.1 The basic information

(1) Re-classification of land perpetual usufruct right from tangible fixed assets to intangibles and long-term accruals

The Group presents, in the statement prepared pursuant to ISFA, non-depreciated perpetual usufruct right for land as “intangibles,” while depreciated perpetual usufruct right for land as "long-term accrued settlements.” The principles for depreciated and non-depreciated perpetual usufruct right for land are given in Notes 2.1.5 e and 2.1.5 a, respectively.

((2) Costs of organisation and expansion of a joint stock company

IAS 38 prohibits capitalisation of costs related to establishing or expanding activities, ordering their inclusion in the result of the period or pursuant to Interpretation SIC 17, in case when they are directly related to acquisition of capital, directly in the capitals. Pursuant to Article 36 Para 2b of the Accounting Act of 29 September 1994, costs of issuing shares related to expansion of activities of a joint stock company up to the amount of surplus in the issue value above the nominal value of shares are deducted from the supplementary capital. However, in the temporary period, the not redeemed part of the above costs given previously in the intangibles, was given in accruals and was settled with the result of the current period.

(3) Negative goodwill

According to ISFA 3, negative goodwill arising in acquisition is settled with the result at the time of the transaction. Pursuant to the Accounting Act, the part of negative goodwill arising in acquisition of MKS Cracovia SSA up to the amount of future, credibly assessed costs, was settled in the period of actual incurring of these costs.

(4) Presentation of the capital of minority shareholders

Pursuant to ISFA, the capital of minority shareholders constitutes part of Group capitals and is given in the “Total equity” item.

(5) Positive goodwill

Pursuant to the Accounting Act, positive goodwill defined at acquisition of shares is subject to depreciation. According to ISFA 3, positive goodwill is given as an item in assets which is not subject to depreciation. Positive goodwill is subject to regular verification for permanent loss of value.

(6) Settlement of the result of acquisition of a new issue of MKS Cracovia SSA shares in July 2004 with the capital

In the third quarter of 2004, ComArch SA assumed 40,000 of a new issue of Series D shares of MKS Cracovia SSA and additionally acquired 1,549 shares of the Company, as a result of which the share of ComArch SA in the MKS Cracovia SSA capital was increased up to 49.15%. Pursuant to Article 60 Para 4 of the Accounting Act, in case of change in the capital of a subsidiary unit as a result of assuming shares of a new issue in the subsidiary unit, the surplus fair value of the assets in the share in the subsidiary unit above the acquisition price for this share constitutes financial proceeds. ISFA do not regulate directly the transaction of assuming shares between entities in one capital group. However, due to the fact that, pursuant to ISFA, capitals of minority shareholders are included in own capitals of the Group, and with a view on the fact that capital transactions between shareholders of the Group should not affect the financial result, therefore in the statement prepared according to ISFA the profit achieved in this transaction was settled by capitals.

3.2 Conciliation between the currently applied accounting principles and ISFA

The following are figure conciliation resulting from transformation of financial statements prepared according to the Polish Accounting Principles (PZR) to the requirements of the International Financial Reporting Statements (ISFA). In the beginning, a general effect of conciliation is given on the total equity as of 01 January 2004 and 31 December 2004. Then, the detailed analysis is given of the effect of conciliation on:

- Total equity as of 1 January 2004 (Note 3.2.2)
- Total equity as of 31 December 2004 (Note 3.2.3)
- Net profit for 2004 (Note 3.2.4)
- Cashflow statement for 2004 (Note 3.2.5)

3.2.1. Combined summary of changes in the consolidated total equity

	1 January 2004	Note	31 December 2004	Note
Total equity according to previously applied standards	103 497	3.2.2	117 391	3.2.3
Capital of minority shareholders	18 732	3.2.2	14 013	3.2.3
Undivided profit	563	3.2.2	1 031	3.2.3
Total adjustments	19 295	3.2.2	15 044	3.2.3
Total equity according to ISFA	122 792	3.2.2	132 435	3.2.3

IAS 29 requires re-assessment of capitals in reference to hyperinflation. The Management has prepared appropriate calculations so as to assess the effect of the re-assessment on the value of particular items in capitals. Due to the fact of establishment of ComArch S.A. (the dominant Unit) in 1990s (a very short period of time when ComArch S.A. operated under hyperinflation) and the low value of the initial capital, the result of re-calculation was insignificant from the viewpoint of the entire financial statement.

3.2.2. Conciliation of total equity as of 1 January 2004

	Note	Previously applied accounting principles	Results of transformation to ISFA	ISFA
ASSETS				
Fixed assets	a	91 244	(32 566)	58 678
Tangible fixed assets				
Goodwill	b	3 466	(182)	3 284
Other intangibles	a	3 220	31 650	34 870
Long-term accruals	a	-	816	816
Investments in affiliated units		4 726	182	4 908
Other investments	c	200	(189)	11
Assets on account of deferred income tax		1 571	-	1 571
Other receivables		545	-	545
		104 972	**(289)**	**104 683**
Current assets				
Inventory		11 738	-	11 738
Trade receivables and other receivables	c	93 813	(1 100)	92 713
Due proceeds on account of long-term contracts		10 006	-	10 006
Financial receivables		351	-	351
Cash and equivalent		45 105	-	45 105
		161 013	**(1 100)**	**159 913**
Total assets		**265 985**	**(1 389)**	**264 596**
TOTAL EQUITY				
Capital for shareholders of the Company				
Initial capital		6 727	-	6 727
Other capitals		106 681	-	106 681
Exchange rate differences		(89)	-	(89)
Undivided financial result and other capitals	d	(9 822)	563	(9 259)
Minority shares	d	-	18 732	18 732
Total equity		**103 497**	**19 295**	**122 792**
Negative goodwill	d	1 952	(1 952)	-
Minority shares	d	18 732	(18 732)	-
		124 181	**(1 389)**	**122 792**
LIABILITIES				
Long-term liabilities		1 238	-	1 238
Credits and loans				
Obligations on account of deferred income tax		5 920	-	5 920
Obligations on account of the issue of securities		42 292	-	42 292
Provisions for other obligations and charges		98	-	98
		49 548	**-**	**49 548**
Short-term obligations				
Short-term obligations and other obligations	e	63 257	13 054	76 311
Obligations on account of long-term contracts		9 325	-	9 325
Obligations on account of current income tax	e	-	1 295	1 295
Obligations on account of the issue of securities		752	-	752
Credits and loans		610	-	610
Provisions for other obligations and charges	e	18 312	(14 349)	3 963
		92 256	**-**	**92 256**
Total obligations		**141 804**	**-**	**141 804**
Total liabilities		**265 985**	**(1 389)**	**264 596**

Assets:

a)

Transfer from tangible fixed assets to intangibles and long-term accrual settlements for perpetual usufruct rights to land (1)

Tangible fixed assets

Other intangibles

Long-term accruals

Long-term accruals: amortisation of the perpetual usufruct right

b)

Goodwill: reduction by the part constituting investment in the NetBrokers affiliated unit

Investment in affiliated units: goodwill of the NetBrokers company

c)

Posting out unsettled costs of expansion of the Company (2)

Total assets

Liabilities

d)

Equity

Posting out amortisation of the perpetual usufruct right

Posting out unsettled negative goodwill related to acquisition of MKS Cracovia SSA shares (3)

Posting out unsettled costs of expansion of the Company (2)

Transfer of capital of minority shareholders to equity (4)

Total equity

Settlement of negative goodwill (3)

Capital of minority shareholders (4)

Total liabilities

e)

Re-classification of deferred costs into other obligations

Presentation of obligations on account of income tax in a separate line

3.2.3. Conciliation of total equity as of 31 December 2004

	Note	Previously applied accounting principles	Results of transformation to ISFA	ISFA
ASSETS				
Fixed assets	j	**111 555**	**(36 754)**	**74 801**
Tangible fixed assets				
Goodwill	k, l	2 256	1 028	3 284
Other intangibles	j	2 408	31 650	34 058
Long-term accruals	j	-	5 004	5 004
Investments in affiliated units		3 893	182	4 075
Other investments		380	-	380
Other receivables		43	-	43
Assets on account of deferred income tax		1 489	-	1 489
		122 024	**1 110**	**123 134**
Current assets				
Inventory		14 991	-	14 991
Trade receivables and other receivables	l	79 832	(189)	79 643
Receivables on account of current income tax		400	-	400
Due proceeds on account of long-term contracts		23 626	-	23 626
Financial receivables		370	-	370
Other financial assets at fair value settled with profit and loss account		2 000	-	2 000
Cash and equivalent		28 745	-	28 745
		149 964	**(189)**	**149 775**
Total assets		**271 988**	**921**	**272 909**
TOTAL EQUITY				
Capital for shareholders of the Company				
Initial capital		6 852	-	6 852
Other capitals		118 650	-	118 650
Exchange rate differences		(52)	-	(52)
Undivided financial result and other capitals	m	(8 059)	1 031	(7 028)
Minority shares	m	-	14 013	14 013
Total equity		**117 391**	**15 044**	**132 435**
Negative goodwill	m	110	(110)	-
Minority shares	m	**14 013**	**(14 013)**	**-**
		131 514	**921**	**132 435**
LIABILITIES				
Long-term liabilities				
Credits and loans		8 149	-	8 149
Obligations on account of deferred income tax		5 601	-	5 601
Obligations on account of the issue of securities		38 472	-	38 472
Provisions for other obligations and charges		100	-	100
		52 322	**-**	**52 322**
Short-term obligations				
Trade obligations and other obligations	n	54 826	21 320	76 146
Obligations on account of long-term contracts		7 172	-	7 172
Obligations on account of the issue of bonds		781	-	781
Credits and loans		958	-	958
Provisions for other obligations	n	24 415	(21 320)	3 095
		88 152	**-**	**88 152**
Total obligations		**140 474**	**-**	**140 474**
Total liabilities		**271 988**	**921**	**272 909**

Assets:

j)

Transfer from tangible fixed assets to intangibles and long-term accrual settlements for perpetual usufruct rights to land (1)

Tangible fixed assets

Other intangibles

Long-term accruals

Amortisation of the perpetual usufruct right

k)

Goodwill: transfer of goodwill of the NetBrokers affiliated unit

Investment in affiliated units: adjustment of transfer of goodwill of the NetBrokers company

l)

Adjustment of settlement of positive goodwill (5)

Posting out unsettled costs of expansion of the Company (2)

Total assets

Liabilities

m)

Equity

Posting out amortisation of the perpetual usufruct right

Posting out depreciation of positive goodwill of the company for 2004 (5)

Posting out negative goodwill of the company as of 31 December 2004 (3)

Posting out unsettled costs of expansion of the Company as of 31 December 2004 (2)

Presenting capital of minority shareholders in equity (4)

Total equity

Adjustment of settlement of negative goodwill (3)

Capital of minority shareholders (4)

Total liabilities

n)

Re-classification of deferred costs into other obligations

3.2.4. Conciliation of profits and losses for 2004

	Note	Previously applied accounting principles	Results of transformation to ISFA	ISFA
Proceeds on sale	r	329 979	(1 622)	328 357
Cost of sold products, merchandise and materials	r	254 860	(136)	254 724
Gross profit		**75 119**	**(1 486)**	**73 633**
Other operational proceeds	r	3 467	(2 026)	1 441
Cost of sale and marketing	r	(30 233)	(2 789)	(33 022)
Overhead costs	r	(27 402)	3 732	(23 670)
Other operational costs	r	2 924	682	(2 242)
Operational profit (loss)		**18 027**	**(1 887)**	**16 140**
Net financial costs	r	(3 146)	(1 836)	(4 982)
Write-off of goodwill	r	(1 210)	1 210	-
Write-off of negative goodwill	r	141	(141)	-
Share in profits of affiliated units	s	-	(833)	(833)
Profit before taxation		**13 812**	**(3 487)**	**10 325**
Income tax		(560)	-	(560)
Share in profits of affiliated units	s	(833)	833	-
Profit / loss / minority	r	1 607	(1 607)	-
Net profit on regular operations		14 026	(4 261)	9 765
Net profit for the period	r	14 026	(4 261)	9 765
Including, for:				
Shareholders of the dominant unit				11 372
Minority shareholders				(1 607)

r) Effect of adjustments on net result

Presentation of exchange rate differences on receivables in proceeds	1 622
Presentation of exchange rate differences on obligations and bank commissions in costs of sold products, merchandise and services	(477)
Change in presentation of overhead costs and cost of sale	(157)
Change in presentation (transfer of costs of Union projects)	498
Total costs of sold products, merchandise and materials	**(136)**
Adjustment in settlements of negative goodwill related to MKS Cracovia SSA for 2004 (3)	(1 842)
Change in presentation (offset of dissolved and established write-offs updating receivables)	(184)
Total other operational proceeds	**(2 026)**
Change in presentation of costs of sale and marketing	(2 789)
Adjustment of settled costs of expansion of the Company for 2004 (2)	1 100
Change in presentation of overhead costs	2 632
Total overhead costs	**3 732**
Change in presentation (transfer of costs of Union projects)	498
Change in presentation (offset of dissolved and established write-offs updating receivables)	184
Total changes in representation of other operational costs	**682**
Adjustment of the result of assuming the new issue of MKS Cracovia SSA in July 2004 by ComArch S.A. for 2004 (6)	(2 981)
Exchange rate differences on receivables	1 622
Exchange rate differences on obligations	(897)
Bank commissions	420
Total financial costs	**(1 836)**
Adjustment of depreciation of positive goodwill of the company arising in acquisition of shares in affiliated companies for 2004 (5)	1 210
Adjustment of settlements of negative goodwill related to MKS Cracovia SSA for 2004	(141)
Adjustment by share in the result of minority shareholders for 2004 (6)	(1 607)
Total adjustments of net profit	**(4 261)**
s) Change in presentation of share in profits of affiliated units	(833)

3.2.5. Conciliation of the cashflow statement for 12 months of 2004

	Note	Previously applied accounting principles	Results of transformation to ISFA	ISFA
A. Cashflows on operational activities				
I. Net profit (loss)	O	14 026	(4 261)	9 765
II. Total adjustments	T	(1 492)	(6 491)	4 999
1. Minority profits (losses)		(1 607)	1 607	-
2. Share in net (profits) losses of subordinate units appraised with the ownership rights method		833	-	833
3. Depreciation, including		8 971	773	9 744
- write-offs of goodwill of subordinate units or negative goodwill of subordinate units		(632)	632	-
4. (Profits) losses on account of exchange rate differences		(1 688)		(1 688)
5. Interest and shares in profits (dividend)		4 621	-	4 621
6. (Profit) loss on investment activities		(141)	-	(141)
7. Change in provisions		(317)	317	-
8. Change in inventory		(3 253)		(3 253)
9. Change in receivables		11 964	(9 336)	2 628
10. Change in short-term obligations, except for loans and credits		(10 717)	(2 972)	(7 745)
11. Change in accruals		(9 336)	9 336	-
12. Other adjustments: funds from merger		(822)	(882)	-
III. Net profit less total adjustments		12 534	2 230	14 764
IV. Paid income tax		-	(2 230)	(2 230)
III. Net cashflows on operational activities (I +/- II): the indirect method		12 534	-	12 534
B. Cashflows on investment activities				
I. Proceeds		104 479	-	104 479
1. Disposal of intangibles and tangible fixed assets		475	-	475
2. From financial assets, including:		104 004	-	104 004
a) in other units		104 004	-	104 004
- disposal of financial assets		104 004	-	104 004
II. Expenses		(131 518)	-	(131 518)
1. Acquisition of intangibles and tangible fixed assets		(25 936)	-	(25 936)
2. For financial assets, including:		(105 582)	-	(105 582)
a) in other units		(105 582)	-	(105 582)
- acquisition of financial assets		(105 582)	-	(105 582)
3. Other investment expenses:				
III. Net cashflows on investment activities (I - II)		(27 039)	-	(27 039)
C. Cashflows on financial activities				
I. Proceeds		12 776	-	12 776
1. From issue of shares		125	-	125
2. Credits and loans		12 482	-	12 482
3. Other		169	-	169
II. Expenses		(14 392)	-	(14 392)
1. Payment of credits and loans		(5 489)	-	(5 489)
2. Buying out debt securities		(5 905)	-	(5 905)
3. Interest		(2 914)	-	(2 914)
4. Other		(84)	-	(84)
III. Net cashflows on financial activities (I - II)		(1 616)	-	(1 616)
D. Total net cashflows (A.II +/-B.II +/- C.III)		(16 121)	-	(16 121)
E. Balance change in cash,		(16 389)	-	(16 389)
including:				
Change in funds on account of exchange rate differences		(238)	-	(238)
F. Cash as of the beginning of the period		45 104	-	45 104
G. Cash as of the end of the period (F+/- D)		28 745	-	28 745

t) Specification of the total adjustment item:

Adjustment of minority profits	1 607
Adjustment of settlement of negative goodwill	1 983
Adjustment of write-off of positive goodwill	(1 210)
Adjustment of settlement of costs of Company expansion	(1 100)
Adjustment of the result of assuming the new issue of MKS Cracovia by COMARCH S.A.	2 981
Re-posting paid tax	2 230
Total adjustments	**6 491**

Presentation change was also done: the provisions item (317,000) and the other item (822,000) was transferred to obligations.

4. Notes to the consolidated financial statement

4.1. Reporting by segments

2004

For the ComArch capital group, the basic type of reporting by segments is reporting according to industry segments. The units of the ComArch Capital Group covered by the consolidation conduct the following types of activities: sale of IT systems (called hereafter the "IT segment") and sport activities (called hereafter the "sport segment") conducted by MKS Cracovia SSA. The IT segment has the dominant share in proceeds from sale, results and assets.

Detailed data related to the segments are given below.

Item	**IT segment**	**Sport segment**	**Exclusions**	**Total**
Proceeds of the segment				
– sale to external clients	318 893	9 464	-	328 357
including:				
Proceeds on sale	318 893	9 464	-	328 357
Other operational proceeds	1 228	397	-	1 625
Proceeds of the segment				
– sale to other segments	-	4 513	(4 513)	-
Total proceeds of the segment*	320 121	14 374	(4 513)	329 982
Costs of the segment related to sale to external clients	306 731	12 093	-	318 824
Costs of the segment related to sale to other clients	-	4 513	(4 513)	-
Total costs of the segment*	306 731	16 606	(4 513)	318 824
Current tax	(796)	-	-	(796)
Assets on tax on account of tax holiday and other accounts	236	-	-	236
Share of the segment in the result of units appraised with the ownership right method	(833)	-	-	(833)
Net result	11 997	(2 232)	-	9 765

* The items include proceeds and costs from all types, which could be directly allocated to particular segments.

Sales between specific segments is done on market principles.

Share of industry segments in assets and obligations and investment expenditures

Assets and obligations of segments as of 31 December 2004 and investment expenditures and depreciation in 2004 are as follows:

	IT segment	**Sport segment**	**Total**
Assets	235 521	37 388	272 909
Obligations	131 438	9 036	140 474
Investment expenditures	28 632	1 028	29 660
Depreciation	9 212	391	9 603

2005

Item	IT segment	Sport segment	Exclusions	Total
Proceeds of the segment				
– sale to external clients	435 839	8 151	-	443 990
including:				
Proceeds on sale	435 839	8 151	-	443 990
Other operational proceeds	1 330	353	-	1 683
Proceeds of the segment				
– sale to other segments	-	5 499	(5 499)	445 673
Total proceeds of the segment*	437 169	14 003	(5 499)	445 673
Costs of the segment related to sale to external clients	413 596	8 902	-	422 498
Costs of the segment related to sale to other clients	-	5 499	(5 499)	-
Total costs of the segment*	413 596	14 401	(5 499)	422 498
Current tax	(2 267)	-	-	(2 267)
Assets on tax on account of tax holiday and other accounts	5 736	-	-	5 736
Share of the segment in the result of units appraised with the ownership right method	1 119	-	-	1 119
Net result	28 161	(398)	-	27 763

* The items include proceeds and costs from all types, which could be directly allocated to particular segments.

Share of industry segments in assets and obligations and investment expenditures

Assets and obligations of segments as of 31 December 2005and investment expenditures and depreciation in the period of 12 months of 2005 are as follows:

	IT segment	Sport segment	Total
Assets	309 010	37 837	346 847
Obligations	181 330	4 145	185 475
Investment expenditures	39 358	2 120	41 478
Depreciation	10 727	537	11 264

Due to geographical breaking down of the activities, considering location of assets, the ComArch Group defines the following market segments: Poland, Europe, America, and Other Countries. The “Sport” segment conducts activities solely in the territory of Poland.

Due to the fact that only the IT segment manages activities abroad and at the same time the costs incurred in the IT segment are largely common for export and domestic sales, defining separate results for export and domestic activities is pointless.

Sales between specific segments is done on market principles.

Breakdown of proceeds from sales, assets and total investment expenditures into geographical segments is as follows:

Proceeds from sales

	12 months of 2005	12 months of 2004
Domestic (Poland)	377 002	261 377
Europe	41 181	54 735
America	14 428	9 497
Other Countries	11 379	2 748
TOTAL	**443 990**	**328 357**

Total assets

	31 December 2005	31 December 2004
Domestic (Poland)	332 667	256 232
Europe	7 375	10 004
America	3 844	5 306
Other Countries	2 961	1 367
TOTAL	**346 847**	**272 909**

Investment expenditures

	12 months 2005	12 months 2004
Domestic / Poland	40 786	29 424
Europe	310	129
America	375	60
Other Countries	7	47
TOTAL	**41 478**	**29 660**

4.2 Tangible fixed assets

	Land, buildings and building objects	Means of transport and equipment	Furniture, equipment and devices	Total
As of 1 January 2004				
Cost or value from appraisal (gross)	50 670	29 608	2 821	83 099
Amortisation	(5 804)	(16 837)	(1 780)	(24 421)
Net book value	44 866	12 771	1 041	58 678
2004 accounting year				
Net book value at the beginning of the year	44 866	12 771	1 041	58 678
Increase	13 778	9 804	485	24 067
Reduction	(19)	(297)	-	(316)
Depreciation	(1 283)	(5 968)	(377)	(7 628)
Net book value as of 31 December 2004	57 342	16 310	1 149	74 801
As of 31 December 2004				
Cost or value from appraisal (gross)	64 421	38 781	3 297	106 499
Amortisation	(7 079)	(22 471)	(2 148)	(31 698)
Net book value	57 342	16 310	1 149	74 801
2005 accounting year				
Net book value at the beginning of the year	57 342	16 310	1 149	74 801
Increase	11 430	13 539	1 250	26 219
Reduction	(12)	(212)	(550)	(774)
Depreciation	(1 556)	(7 367)	(475)	(9 398)
Net book value as of 31 December 2004	67 204	22 270	1 374	90 848
As of 31 December 2005				
Cost or value from appraisal (gross)	75 839	52 108	3 997	131 944
Amortisation	(8 635)	(29 838)	(2 623)	(41 096)
Net book value	67 204	22 270	1 374	90 848

Bank credits secured with land and buildings up to the value of PLN 32,288 thou. (regular and deposit mortgages for the benefit of Fortis Bank Polska S.A. and Bank Handlowy in Warsaw S.A.).

	2005	**2004**
Interest on capitalised credits	1 137	16
Capitalisation rate	7,05 %	7,73 %

The net balance sheet value for tangible fixed assets includes expenditures for fixed assets in progress:

	31 December 2005	**31 December 2004**
Buildings	2 519	12 646
Equipment	136	97

Depreciation write-offs were given in the profit and loss account, increasing the costs of sold products, merchandise and materials in the amount of PLN 9,112 thou. (PLN 7,026 thou. in 2004), costs of sale – PLN 582 thou. (PLN 644 thou. in 2004) and overhead costs – PLN 1,570 thou. (PLN 2,074 thou. in 2004).

Assets in financial leasing

The Group has cars used on the principle of financial leasing. The value of these items given in the statement is (in PLN thou.):

Gross	437
Amortisation	274
Net value	163

Agreements are concluded for the period of up to three years. The value of obligations on account of leasing as of 31 December 2005 is PLN 270 thou.

In the 2005 books, depreciation is given for the amount of PLN 252 thou. and interest in financial costs in the amount of PLN 25 thou. The amount of net leasing fees for 2005 (net principal amount + interest) is PLN 217 thou., including:

Net principal amount	PLN 192 thou.
Interest	PLN 25 thou.

The amount of payable leasing fees is PLN 270 thou., including:

Interest	PLN 13 thou.
Net principal amount	PLN 257 thou.

Definite majority of payable leasing fees will be executed within a year of the balance sheet date.

4.3 Goodwill

I. Includes goodwill determined at acquisition of shares in the following companies:

	31 December 2005
ComArch Krakow	99
CDN ComArch	1 227
ComArch Software	1 900
ComArch Global	58
Total	**3 284**

In 2005, goodwill of the company will not change.

Goodwill determined at acquisition of shares in the above companies was allocated to the centre generating cash, corresponding with the whole IT segment of the Group. In 2005, goodwill was not changed. As of 31 December 2005, the Group ran a test for loss in goodwill in reference to the goodwill. The test did not show any loss in goodwill. In the test for loss in goodwill in reference to the goodwill, the recoverable amount was determined on the basis of calculations of the usable value. These calculations use projections of results and cashflows in the IT segment in another accounting year and the expected development of the IT market in Poland in subsequent years. The Board of Directors of the dominant unit ran also the analysis of the P/E index for companies in the IT sector registered with the Warsaw Stock Exchange and assessed on this basis the estimated market value of the IT segment in the ComArch Group. As of 31 December 2005, the above analyses did not show any loss in value in reference to the goodwill.

4.4 Other intangibles

	Costs of completed R&D work	Perpetual usufruct right	Licences and software	Other	Total
As of 1 January 2004					
(Gross) cost	2 057	31 650	6 498	1 233	41 438
Amortisation and total write-offs so far on account of loss in value	(1 356)	-	(4 653)	(559)	(6 568)
Net book value	701	31 650	1 845	674	34 870
2004 accounting year					
Net book value at the beginning of the year	701	31 650	1 845	674	34 870
Reductions	-	-	(428)	518	90
Increases	-	-	1 393	(320)	1 073
Depreciation	(411)	-	(1 241)	(323)	(1 975)
Net book value as of 31 December 2004	290	31 650	1 569	549	34 058
As of 31 December 2004					
(Gross) cost	2 057	31 650	7 891	913	42 511
Amortisation and total write-offs so far on account of loss in value	(1 767)	-	(6 322)	(364)	(8 453)
Net book value	290	31 650	1 569	549	34 058
2005 accounting year					
Net book value at the beginning of the year	290	31 650	1 569	549	34 058
Reductions	-	-	2 165	670	2 835
Increases	-	-	(3)	-	(3)
Depreciation	(290)	-	(1 269)	(307)	(1 866)
Net book value as of 31 December 2005	-	31 650	2 462	912	35 024
As of 31 December 2005					
(Gross) cost	2 057	31 650	10 053	1 583	45 343
Amortisation and total write-offs so far on account of loss in value	(2 057)	-	(7 591)	(671)	(10 319)
Net book value	-	31 650	2 462	912	35 024

I.

Other intangibles include activated costs related to the Cracovia trademark in the amount of PLN 504 thou.

The costs of completed research and development work were ran in the Group's own scope. All other items of the intangibles were acquired.

The entirety of the general amount of depreciation given in the profit and loss account is given in the overhead costs.

The perpetual usufruct right for land related to SSA Cracovia is considered the intangible with unspecified period of use and is not depreciated. Land of the company of MKS Cracovia SSA in perpetual usufruct is not subject to depreciation, as it is of unspecified period of use due to the fact that the company expects renewal of perpetual usufruct right which will occur without incurring any major costs, as the company is not obliged to meet any conditions, which would decide about extension of this right.

The company does not expect incurring major costs in renewal of perpetual usufruct right in the context of the previous activities of the co-owner of the Club, that is the Commune of Krakow. The city supports sport activities, including SSA Cracovia, by way of, among others:

– additional financing of sport infrastructure

– amortisation of real estate tax

– contributing fees for perpetual usufruct in non-cash contribution

II. Test for loss of value in perpetual usufruct right as of 1 January 2004

Appraisal of the perpetual usufruct right to land done by an expert as of the date of acquisition of shares in MKS Cracovia SSA, i.e. as of 29 September 2003, is very close to the date of transformation into IAS (1 January 2004), therefore it was determined that the appraisal as of the acquisition date is current when in the period of time between the acquisition date and the date of transformation no major events occurred, whether related to these specific rights of perpetual usufruct to land or to the real estate properties market in Krakow, which would lead to changes in price.

III. Test for loss in value of perpetual usufruct right to land as of 31 December 2005

As of 31 December 2005, analysis was performed on changes in prices of real estate properties in Krakow in 2005, based on articles and reports published by “Krajowy Rynek Nieruchomości” (www.krn.pl), "Krakowski Serwis Mieszkaniowy" (www.dominium.pl) and the company of "REAS Konsulting,” from which it follows that average price of land in Krakow in 2005 increased by 10-15%. It was determined on this basis that no loss occurred in the value of perpetual usufruct right to land owned by ComArch S.A. in 2005.

4.5 Long-term accruals

	12 months in 2005	**12 months in 2004**
As of the beginning of the year	5 004	816
Increase on account of:		
– acquisition of perpetual usufruct right to land by ComArch S.A.	1 631	4 188
– long-term deferred costs	250	
As of the end of the year	**6 885**	**5 004**

4.6 Investments in affiliated units

This item applies to shares in two companies appraised with the ownership rights method: INTERIA.PL S.A. and NetBrokers Sp. z o.o.

As of 1 January 2004	**4 908**
Share in the result for 2004	(833)
As of 31 December 2004	**4 075**
As of 1 January 2005	**4 075**
Increase in net assets on account of acquisition shares in INTERIA.PL	1 928
Share in the result for 2005	1 119
Other capital changes: determination of goodwill in reference to assuming shares in the new issue of INTERIA.PL	2 322
As of 31 December 2005	**9 444**
Including:	
INTERIA.PL S.A.	7 797
NetBrokers Sp. z o.o.	1 647

Name	Country of registration	Assets	Obligations	Owned shares in capital (%)
As of 31 December 2004				
INTERIA.PL S.A.	Poland	12 508	5 376	37,50
NetBrokers Sp. z o.o.	Poland	3 379	523	40,00
		15 887	**5 889**	
As of 31 December 2005				
INTERIA.PL S.A.	Poland	19 095	5 754	41,05
NetBrokers Sp. z o.o.	Poland	4 851	1 371	40,00
		23 946	**7 125**	

		Proceeds	Profit / (loss)	Owned shares in capital (%)
12 months of 2004				
INTERIA.PL S.A.	Poland	26 434	(3 421)	37,50
NetBrokers Sp. z o.o.	Poland	32 963	1 010	40,00
		59 397	(2 411)	
12 months of 2005				
INTERIA.PL S.A.	Poland	39 711	2 117	41, 05
NetBrokers Sp. z o.o.	Poland	41 102	1 053	40,00
		80 813	3 170	

Fair value of shares owned on 31 December 2005 by ComArch S.A. in the INTERIA.PL company, determined based on the average of stock exchange rates from the period of three months preceding the date of preparation of the statement is PLN 68,975 thou. On 31 December 2005, the closing rate of INTERIA.PL was PLN 18.60. On that day, value of the shares of the INTERIA.PL S.A. company owned by ComArch S.A. was PLN 53,724 thou.

On 30 March 2005, increase in the initial capital of the INTERIA.PL.S.A. company was registered. In total, 466,549 shares in Series F were issued, of which 425,000 shares were assumed by ComArch S.A. The issue price of the allocated shares is PLN 10 per share. As a result of assuming the new issue of the INTERIA.PL shares, the ComArch S.A. company temporarily owned over 50% of votes in the GAS, however, due to regulations related to the law of public trading in securities, the Company could not execute the voting right on the owned shares until disposal of one share to reach below the 50% threshold votes in the GAS. On 12 May, the ComArch S.A. Company disposed 1 share in INTERIA.PL and at the same time INTERIA.PL released privilege rights on 305,119 registered shares following a motion of its shareholders. By virtue of the above resolution, 195,556 registered shares owned by ComArch S.A. were converted so that on 12 May, the ComArch S.A. Company had 2.888,369 shares, which was 49.95% of votes in the GAS. Throughout the time, the Interia.pl company was thus a company affiliated to ComArch S.A.

As a result of assuming the new issue of INTERIA.PL shares, the share of ComArch S.A. in the capital of this company increased from 37.5002% to 41.0542%, i.e. by 3.554%. Therefore, goodwill of the company was determined as follows:

Net assets corresponding with the shares owned by ComArch S.A.:

Before the issue	2 720
After the issue	4 648
Increase in net assets	1 928
Acquisition price for shares	4 250
Goodwill	2 322

Assets and obligations acquired as a result of increasing share in the INTERIA.PL company:

	Fair value
Fixed assets	223
Current assets	1 899
Provisions on obligations and obligations	(194)
Total	**1 928**

Share of ComArch S.A. in the result of the INTERIA.PL S.A. company before the issue was PLN 41 thou., and PLN 824 thou. after the issue.

As a result of disposal of 350,000 shares in the INTERIA.PL company by ComArch S.A. on 19 January 2006, the ComArch S.A. company has 2,538,369 shares in INTERIA.PL S.A., which constitutes 36.08% of the initial capital of the company. These shares give rights to execute 11,609,625 votes in the General Assembly, which constitutes 48.48% of the total number of votes.

4.7. Inventory

	31 December 2005	31 December 2004
Materials and raw materials	777	719
Production in progress	13 121	7 994
Merchandise	11 787	6 278
Prepayments against merchandise	430	-
	26 115	**14 991**

Cost of the inventory given in the item “Costs of sold products, merchandise and materials” was PLN 311,586 thou. (12 months of 2005) and PLN 209,375 thou. (12 months of 2004).

The Group restored the 2004 write-off updating the value of the inventory in the amount of PLN 12 thou. in reference to use of the inventory in current operations. The restored amount was given in the item of other operational proceeds.

The Group made write-offs updating the value of merchandise in the amount of PLN 243 thou. The write-off was given in the item of other operational costs.

No collateral was made on the inventory owned by the Company.

On the basis of the current trend in reference to settlement of production in progress, the Group estimates that after 12 months of the balance sheet date, the amount of ca. PLN 3.9m shall remain for settlement. Other inventory shall be settled in entirety within the period of less than 12 months.

4.8. Financial assets available for sale

	12 months of 2005	12 months of 2004
As of the beginning of the year	2 000	-
Increase	1 507	6 865
Disposal	(3 507)	(4 865)
As of the end of the year	**-**	**2000**
The short-term part	-	2000

In the periods covered by this statement, no write-offs were made on account of loss in value of assets available for sale.

Financial assets available for sale include:

	31 December 2005	31 December 2004
Participation units in trust funds	-	2000
	-	**2000**

The “participation units” item refers to the acquired participation units in financial investment funds. Participation units in financial investment funds were appraised at fair value, i.e. in accordance with the daily appraisal of net assets value per participation unit as done by the investment fund association.

4.9. Derivative financial instruments

	31 December 2005		31 December 2004	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Foreign currency future contracts – allocated for trading	227	2	-	-
Total	**227**	**2**	**-**	**-**
The short-term part	227	2	-	-

The financial statement gives the items after compensation, as an asset in the amount of PLN 225 thou. Profits and losses on account of foreign currency future contracts as of 31 December 2005 were given in the profit and loss account. Their execution shall be done in the period of up to 3 months of the balance sheet date.

The Group had forward future contracts made in order to limit the effect on the financial result of changes in cash flows related to probable and planned transactions, resulting from the risk of fluctuating currency exchange rates. As of 31 December 2005, the above forward contracts were appraised at fair value determined by assessing price of financial instruments with methods of estimation commonly accepted as correct, and changes in the appraisal were referenced on the result from financial operations. The total value of forward contracts as of 31 December 2005 was Euro 1,066 thou. and USD 44 thou.

4.10. Trade receivables and other receivables

	31 December 2005	31 December 2004
Trade receivables	88 906	75 294
Write-off updating value of receivables	(2 795)	(1 057)
Net trade receivables	86 111	74 237
Other receivables	3 080	2 049
Accrued settlements	2 704	3 256
Accrued settlements for proceeds	759	-
Loans	322	370
Receivables from related entities	27	101
	93 003	**80 013**
The short-term part	93 003	80 013

The fair value of trade receivables and other receivables is close to their balance sheet value given above.

There is no concentration of credit risk on account of trade receivables, because the Group has a large number of clients. The Group included a write-off on account of loss of value of trade receivables in the amount of PLN 2,795 thou. (12 months of 2005) and PLN 1,057 thou. (12 months of 2004).

This write-off was included in other operational costs in the profit and loss account.

4.11. Cash and equivalent

	31 December 2005	31 December 2004
Cash at hand and in bank	13 660	18 750
Short-term bank deposits	35 307	9 995
Total funds and equivalent	**48 967**	**28 745**

Effective interest rate for short-term bank deposits was in 2005: 5.27% for PLN, 1.78% for EURO and 2.04% for USD. The average maturity period for these deposits was 1.60 day.

For the needs of the cashflow account, cash includes cash at hand, deposits and equivalent. Credit in the current account is included in financial operations.

The company has no cash with limited disposal rights.

4.12. Initial capital

	Number of shares (pcs.)	Regular shares	Own shares	Total
As of 1 January 2004	6 726 600	6 726 600	-	6 726 600
Series G shares issue	125 787	125 787	-	125 787
As of 31 December 2004	6 852 387	6 852 387	-	6 852 387
Series G3 shares issue	102 708	102 708	-	102 708
As of 31 December 2005	6 955 095	6 955 095	-	6 955 095

The nominal value of each share is PLN 1.

The initial capital of ComArch SA consists of:

1) 883,600 preferential registered shares Series A,
2) 56,400 regular bearer's shares in Series A,
3) 883,600 preferential registered shares Series B,
4) 56,400 regular bearer's shares in Series B,
5) 3,008,000 regular bearer's shares in Series C,
6) 1,200,000 regular bearer's shares in Series D,
7) 638,600 regular bearer's shares in Series E,
8) 125,787 regular bearer's shares in Series G,
9) 102,708 regular bearer's shares in Series G3.

Registered shares in Series A and B are privileged for vote rights so that 5 votes in the General Assembly corresponds with each share. Conversion of registered shares into bearer's shares is allowed. In case of conversion of registered shares into bearer's shares, they lose all privileges. In case of disposing a privileged registered share for benefit of persons who are not shareholders of the Company as of 18 March 1998 all detailed rights related to them expire as regards voting rights in the General Assembly. Disposal of registered shares requires consent of the Management granted in writing. Disposal of shares without consent of the Management is possible on terms and conditions set forth in the Bylaws of ComArch SA.

Bearer's shares are entitled to 1 vote in the GAS. Conversion of bearer's shares into registered shares is not allowed.

1) The shareholders owning directly or indirectly through subsidiary entities at least 5% of the total number of votes in the general assembly of ComArch SA as of the date of preparing the statement.

- The married couple of Elżbieta and Janusz Filipiak had 3,239,393 shares in total, which gave 10,195,393 votes in the GA, which constituted 69.89% of all votes in the GA.
- To the best knowledge of the Company, clients of BZ WBK AIB Asset Management S.A. as of 6 February 2006 owned 1,417,770 shares, which gave 1,417,770 votes in the GA, constituting 9.72% of the total number of votes in the GAS.

2) Changes in the initial capital in 2005

On 20 October 2005, an agreement was signed on disposing 94,000 preferential registered shares of ComArch SA. As a result of the above transaction, the married couple of Janusz and Elżbieta Filipiak acquired from Mr. Tomasz Maciantowicz 47,000 shares in Series A and 47,000 shares in Series B at the price of PLN 60 per share. The total value of the transaction is PLN 5,640,000. Due to the fact that registered shares of the Company are admitted to public trading and are not registered in the Stock Exchange, the transaction was made outside of the regulated market. The Management of ComArch SA expressed consent for disposal by Mr. Tomasz Maciantowicz of 94,000 registered shares of ComArch SA for the benefit of Elżbieta and Janusz Filipiak. In reference to the fact that Elżbieta and Janusz Filipiak have been shareholders of the Company as of 18 March 1998, privileges for the above shares in reference to voting rights shall not change.

In reference to the above transaction, on 02 November 2005, ComArch SA was notified by Elżbieta and Janusz Filipiak that as a result of acquiring 94,000 preferential registered shares of the Company, settled on 28 October 2005, they have become owners of 3,289,393 shares securing 10,245,393 votes in the GAS. The owned shares constituted 47.29% of the initial capital of the Company and give rights to 73.06% votes in the GAS. Prior to the acquisition, Elżbieta and Janusz Filipiak owned 3,195,393 shares securing 9,775,393 votes in the GAS, which was 45.94% of the initial capital of the Company and gave rights to 69.71% votes in the GAS.

3) In reference to execution of the managerial option programme due for the President, the Management of the Company, on the basis of the resolution No. 6 of the EGAS of 21 December 2001 and in reference to the Resolution of the Supervisory Board of the Company of 23 March 2005 obliging the Management to pass the resolution on the issue of shares in Series G3, about which the Company informed in the current report No. 9/2005, the Management of ComArch SA on 11 April 2005 passed the resolution No. 1 on increasing the initial capital by way of a public issue of 102,708 regular bearer's shares in Series G3 at the nominal value of PLN 1 and about changing the Bylaws of the Company. The issue of shares in Series G3 was conducted with exclusion of the subscription right for the current shareholders of the Company. The issue price was PLN 1. The shares in Series G3 were covered solely with cash and shall participate in the dividend beginning with payments from profits to be allocated for division for the accounting year 2005, that is beginning with 1 January 2005. The issue of shares in Series G3 was conducted by way of a private subscription, referred to in Article 431 Para 2 Clause 1 of the Code of Trade Companies conducted under conditions of public trading, while the shares in Series G3 shall be introduced into trading in the Warsaw Stock Exchange. All the shares in Series G3 were offered to the President of the Company. In reference to increasing the initial capital of the Company, Article 7 Para 1 of the Bylaws of the Company shall be worded as follows: "1. The initial capital of the Company shall be not more than PLN 7,655,095 (say: seven million six hundred and fifty five thousand ninety five Polish Zloty) and is divided into not more than 7,655,095 (say: seven million six hundred and fifty five thousand ninety five) shares, including: 1,767,200 (one million seven hundred and sixty seven thousand two hundred) preferential registered shares at the nominal value of PLN 1.00 each and not more than 5,887,895 (five million eight hundred and eighty seven thousand eight hundred and ninety five) regular bearer's shares at the nominal value of PLN 1.00 each, including: 1) 883,600 preferential registered shares in Series A, 2) 56,400 regular bearer's shares in Series A, 3) 883,600 preferential registered shares in Series B, 4) 56,400 regular bearer's shares in Series B, 5) 3,008,000 regular bearer's shares in Series C, 6) 1,200,000 regular bearer's shares in Series D, 7) 638,600 regular bearer's shares in Series E, 8) 125,787 regular bearer's shares in Series G, 9) 102,708 regular bearer's shares in Series G3, 10) not more than 700,000 regular bearer's shares in Series H."

4) On 30 June 2005, the General Assembly of Shareholders passed the resolution No. 51 on passing the programme of managerial options for members of the Management and key employees of the Company (17 persons in total).

The objective of the Programme is to create additional motivation for Members of the Management and for Key Employees by way of allocating boni (called hereafter the "Option") to the appropriate persons, dependent on increase in the value of the Company and on the increase in net profit of the Company. The Program shall be executed by way of offering to Members of the Management and Key Employees in the consecutive years 2006, 2007 and 2008 the newly issued shares of the Company so that every time the value of the Option was equivalent to the difference between the average stock exchange closing rate of the shares of the Company as of December of each consecutive year of execution of the Programme, beginning with 2005, and the issue price of shares offered to Members of the Management and key employees. The basis for calculation of the Option value shall be increase in Company capitalisation, calculated:

a) For 2006 as the difference between the average capitalisation of the Company of December 2005 and the average capitalisation of the Company of December 2004, which shall be calculated with the average stock exchange closing rate for shares of the Company of December 2004 taken into account, that is PLN 69.53 (sixty nine Polish Zloty point fifty three),
b) For 2007 as the difference between the average capitalisation of the Company of December 2006 and the average capitalisation of the Company of December 2005, which will be calculated with the average closing rate for Company shares as of December 2005, being PLN 63.51 (sixty nine Polish Zloty point fifty three).
c) For 2008 as the difference between the average capitalisation of the Company of December 2007 and the average capitalisation of the Company of December 2006, where the average capitalisation of the Company is the number of shares of the Company multiplied by the average stock exchange closing rate for shares of the Company of December in the given year.

The option shall be defined in each successive year of the Programme, separately for each of the entitled persons, as set forth in the Resolution No. 51 of GAS, and the total value of the option shall be

9.2% of the increase in capitalisation in the periods set forth in Clauses a), b) and c) (for options No. 1, No. 2 and No. 3, respectively).

Pursuant to ISFA2, the Company is obliged to calculate the value of the option, and then to give it as cost in the profit and loss account in the period of the given option, that is starting with the date of its allocation and ending on the date of expiry. Beginning with the third quarter of 2005, the Company shall include the value of particular options in the profit and loss account. The Company notes that despite the fact that the value of the option decreases the net profit of the Company and of the Group, this operation does not affect the value of cash flows in the Company. Moreover, the economic cost of the option shall be given in the profit and loss account by way of including in the "diluted net profit" of newly issued shares for participants in the Programme.

Pursuant to requirements of ISFA 2, the appraisal of the option value was done as of the date of the resolution on the option programme, that is 30 June 2005. For appraisal of the option, the Monte Carlo simulation technique was used combined with the process of discounting non-negative financial flows with the option calculated on the basis of the MAX() function. Apart from the premises resulting from the nature of the option programme described above, the following additional premises were adopted for the needs of the appraisal:

a) 4.6% rate free of risk (the interest rate for 52 weekly treasury notes);
b) 0% dividend rate (the dividend rate in the period forecast as of the date of passing the programme)
c) 17% expected fluctuation (expected fluctuation based on historical fluctuation from the last 200 rates recorded prior to the date of passing the programme on the basis of the average price of shares from opening and closing rates).

The determined value for particular options is:

a) Option No. 1, i.e. the option on account of increase in capitalisation in 2005: PLN 44 thou.;
b) Option No. 2, i.e. the option on account of increase in capitalisation in 2006: PLN 3,054 thou.;
c) the option No. 3 i.e. the option on account of increase in capitalisation in 2007: PLN 3,104 thou.

The total value of the option is PLN 6,202 thou.

The value of the option for the Management of the Company and key employees (as of the date of passing the programme):

a) The value of the option for the Management of the Company: 78.26%, i.e. PLN 4,854 thou.
b) The value of the option for key employees of the Company: 21.74%, i.e. PLN 1,348 thou.

Due to passing of the option programme on the last day of the first six months in 2005, the value of the option recognised in the profit and loss account in the first six months of 2005 was PLN 0, with PLN 1,682 thou. in the second half of 2005, including PLN 841 thou. in Q4. The effect of the recognition of costs of the option on the profit and loss account in successive periods is estimated by the Company as follows:

2006 – PLN 3,278 thou.

2007 – PLN 1,242 thou.

Pursuant to the conditions of the program, the Company has determined that:

a) The average capitalisation of ComArch S.A. as of December 2004 was PLN 476.5 m

b) The average capitalisation of ComArch S.A. as of December 2005 was PLN 441.7 m

The difference between the average capitalisation in December 2005 and the average capitalisation in December 2004 is negative, which means that the basic condition of the Program is not met. As a result, shares for Members of the Management and Key Employees will not be issued in 2006.

5) After the balance sheet date:

On 25 January 2006, with the Resolution No. 31/2006, the Management of the Warsaw Stock Exchange S.A. decided to enter 125,787 regular bearer's shares in Series G of the ComArch S.A. company as of 02 February 2006 in the standard mode for stock exchange trading in the primary market. These shares are marked with the PLCOMAR00087 code in the National Deposit of Securities. Introduction to stock exchange trading followed the process of assimilation of the said shares with the shares already in trading under the code PLCOMAR00012, completed by the National Deposit of Securities on 02 February 2006.

On 27 January 2006, ComArch S.A. was notified about disposal transactions of 25,000 bearer's shares of the Company by a member of the Supervisory Council of ComArch S.A. on 20-25 January 2006 at prices in the range from PLN 66 to PLN 67.10 per share. The transactions were completed in the regulated market through the Warsaw Stock Exchange S.A.

On 03 February 2006, ComArch S.A. was notified about disposal of 25,000 regular bearer's shares of the Company by a member of the Supervisory Council of ComArch S.A. on 03 February 2006 at the price of PLN 71 per share. The transaction was completed in the regulated market through the Warsaw Stock Exchange S.A.

From 22 February to 24 march 2006, ComArch S.A. received a statement of conversion of 3,221 bearer's convertible bonds issued by the Company into shares. The total nominal value of the bonds provided for conversion is PLN 32,210,000. 563,675 of regular bearer's shares in Series H were released for Series A convertible bonds covered by the provided statement.

4.13. Other capitals

I. Capital of Company shareholders

	Convertible bonds capital element	Capital from appraisal of the managerial option	Investment capital and capital for covering obligations to the budget	Reserve capital from the profit for the years 2000-2003	Supplementary capital from sale of shares above nominal value, statutory and from the profit of 2004	**TOTAL**
As of 1 January 2004	282	-	745	8 940	96 714	106 681
Settlement of ComArch S.A. profit for 2003	-	-	-	12 263	-	12 263
Reduction in capital in reference to buying out bonds	(294)	-	-	-	-	(294)
As of 31 December 2004	**(12)**	**-**	**745**	**21 203**	**96 714**	**118 650**
As of 1 January 2005	(12)	-	745	21 203	96 714	118 650
Allocation of profit for 2004	-	-	-	-	8 339	8 339
Appraisal of managerial option		1 682	-	-	-	1 682
As of 31 December 2005	**(12)**	**1682**	**745**	**21 203**	**105 113**	**128 731**

Net profit for 2004 was in entirety transferred to the supplementary capital. No dividend was paid for the 2004 accounting year.

II. Capital of minority shareholders

Capital of minority shareholders	**TOTAL**
As of 1 January 2004	18 732
Adjustment of capital in reference to change in MKS Cracovia ownership structure	(3 112)
Share in the result for 2004	(1 607)
As of 31 December 2004	**14 013**
As of 1 January 2005	14 013
Share of minority shareholders in the result for 2005	(289)
Reduction in capital of ComArch Global (assuming 100% shares by ComArch S.A.)	629
As of 31 December 2005	14 353

4.14. Trade obligations and other obligations

	31 December 2005	31 December 2004
Trade obligations	64 909	36 238
Financial obligations	-	812
Prepayments received against services	1 839	6 601
Obligations to related entities	42	201
Obligations on account of social insurance and other tax charges	2 138	9 016
Investment obligations	736	3 959
Subsidies received	2 206	-
Provisions for leaves	5 406	4 947
Provisions for costs related to the current period, to be incurred in the future	19 163	12 729
Other obligations	2 472	599
Special funds (ZFŚS and the Company's Settlement Fund)	1 080	1 245
Total	99 901	76 146

The fair value of trade obligations and other obligations is close to their balance sheet value given above.

4.15. Long-term contracts

	12 months 2005	**12 months 2004**
Proceeds on account of long-term contracts given in the reporting period	107 652	74 169
a) Proceeds from completed contracts given in the reporting period	24 196	13 540
b) Proceeds from incomplete contracts given in the reporting period	83 456	60 629

Due to the fact that the Company applies the principle of determining the degree of work progress in proportion to the share of incurred costs in the entire costs of the contract, the sum of the incurred costs and results given corresponds to the proceeds.

As of the end of the reporting period, long-term contracts were appraised in accordance with the degree of work progress. Change in settlements on account of long-term contracts given in assets and liabilities between 31 December 2004 and 31 December 2005 was PLN 5,268 thou.

4.16 Credits and loans

	31 December 2005	**31 December 2004**
Long-term		
Bank credits	17 000	7 465
Loans	300	684
	17 300	**8 149**
Short-term		
Credit in current account	275	52
Loans	581	513
Bank credits	2 204	393
	2 880	**958**
Total credits and loans	**20 180**	**9 107**

Investment credit

ComArch SA takes advantage of the investment credit in Fortis Bank Polska SA with the office in Warsaw for financing construction of a new production and office building in the Special Economic Zone in Krakow (Investment Stage I). The credit period is 10 years, i.e. by 2015, with the interest based on variable rate. As of 31 December 2005, the value of the used credit was PLN 19m (PLN

7.53m as of 31 December 2004). The collateral for the credit is composed of a blank promissory note, mortgage on the erected building and assignment of the insurance policy for the building. The value of the obligation on account of the credit was given in the amount of the depreciated cost determined with the application of effective interest rate. The maximum value of the credit was PLN 20m, not more than 85% of the investment.

Fair value of the obligations on account of credits and loans is not significantly different from the balance sheet value.

Charging the Group credits with the interest rate risk refers to the investment credit (with the variable interest rate). In reference to decreasing interest rates in Poland and decreasing charges on account of interest payments, the Group did not make any transactions to secure against the risk of changes in interest rates. The Group manages optimisation of interest rate costs by way of continuous monitoring of the interest rate structure and appropriate adjustment of the base interest rate for the credit.

Charging the credits of the Group with the interest rate risk is as follows:

	less than 6 months	**6-12 months**	**1-5 years**	**above 5 years**	**Total**
As of 31 December 2005					
Investment credit	1 000	1 000	8 000	9 000	19 000
Interest	4	-	-	-	4
	1 004	**1 000**	**8 000**	**9 000**	**19 004**

The structure of maturity for credits, loans and long-term financial obligations is as follows:

	31 December 2005	**31 December 2004**
1 to 2 years	2 300	753
2 to 5 years	6 000	2 944
Above 5 years	9 000	4 452
	17 300	**8 149**

Effective interest rates as of the balance sheet date were as follows:

	31 December 2005				**31 December 2004**			
	PLN	USD	EURO	Other	PLN	USD	EURO	Other
Bank credits	6,61 %	-	-	-	7,10 %	-	-	-
Loans	2,95 %	-	-	-	2,67 %	-	-	-

The currency structure of the balance sheet value for credits, loans and financial obligations of the Group is as follows:

	31 December 2005	**31 December 2004**
In Polish currency	20 180	9 107
Total	**20 180**	**9 107**

The Group has the following unused and allocated credit limits:

	31 December 2005	**31 December 2004**
Variable interest rate:		
– Expiring within one year	10 000	22 465
Total	**10 000**	**22 465**

4.17 Convertible bonds

On 12 April 2002, ComArch SA issued 4,000 pcs. of 5-year bonds convertible into shares. Conversion price is PLN 57.10, or each bond may be converted into 175 shares of the Company. Issue price was set at the level of 100.3%, and interest for the bonds is 7.5% per annum. If bonds cannot be converted into shares, on 12 April 2007 an additional coupon shall be paid in the amount of 21.84% of the nominal value of bonds. On 14 July 2004, the company acquired 486 own bonds in Series A convertible into Series H shares. Purchase of the above bonds was completed in order to redeem them. On 14 July 2004, the Management passed a resolution on redeeming 486 bonds in Series A convertible into Series H shares issued by ComArch SA. After redemption, the number of bonds Series

A convertible into Series H shares issued by ComArch SA is 3,514. Obligation on account of the issued bonds was given in the books at the adjusted acquisition price. Effective interest rate applied for appraisal of obligations is 11%. As of 31 December 2005, the fair value of obligations was PLN 42,491m.

From 22 February to 24 March 2006, ComArch S.A. received statements about conversion of 3,221 convertible bearer's bonds issued by the Company into shares. The total nominal value of bonds reported for conversion is PLN 32,210,000. 563,675 regular bearer's shares in Series H were issued for Series A convertible bonds covered by the submitted conversion statements. With the above conversion statements taken into account, there were 293 convertible bonds in Series A, which were not converted into Series H shares.

On 28 February 2006, due to the fact that the average closing rte for ComArch S.A. stock in the Warsaw Stock Exchange of the recent 31 quoting was higher from the Conversion Price by 30.70%, pursuant to Section 8.3.1 of the Terms and Conditions for Bond Issue, which constitute Appendix to the resolution of the Management of 9 April 2002 on the issue of Company bonds issued on the basis of the resolution of the Extraordinary General Assembly of the Company of 27 February 2002 (published in Chapter X Section 4 of the Prospectus of Bonds Convertible into Series H Stock), ComArch S.A. first called bond owners to Early Bond Buy-out. The bonds will be bought out within w 30 days of the date when the second call is published, at the price calculated according to Section 8.3.4 of the aforementioned Terms and Conditions for Bond Issue.

	31 December 2005	31 December 2004
Long-term		
Convertible bonds	39 849	38 472
	39 849	**38 472**
Short-term		
Convertible bonds	1 097	781
	1 097	**781**
Convertible bonds total	**40 946**	**39 253**

The structure of maturity for convertible bonds in the long-term part is as follows:

	31 December 2005	31 December 2004
1 to 2 years	39 849	-
2 to 5 years	-	38 472
	39 849	**38 472**

4.18. Conditional obligations

As of 31 December 2005, the value of guarantees and letters of credit issued by banks to the order of ComArch S.A. in reference to the executed agreements and participation in tender proceedings was PLN 35,718 thou.

As of 31 December 2005, the value of ComArch S.A. warranties for obligations of the Interia.pl S.A. company on account of leasing agreements was PLN 555 thou.

The ComArch Group is a party sued in court proceedings, in which the prospective combined amount of claims from third parties is PLN 623 thou. According to the Management, based on opinions of legal advisors, there are no circumstances suggesting arising of any significant obligations on this account, thus there are no provisions for the amount of respective claims given in the financial statement.

The Group, as of 31 December 2005, did not have any contractual obligations for investment purchases or fees on account of operational leasing agreements.

ComArch S.A. has an investment credit granted by Fortis Bank Polska S.A. with the office in Warsaw for financing construction of a new production and office building in the Special Economic Zone in Krakow. The collateral for the credit constitutes of a blank promissory note, mortgage on the plots where the building will be built and assignment of the insurance policy for the building. Apart from that, ComArch has a limit on bank guarantees in Bank Handlowy, with the collateral of mortgage on the real estate property located in os. Teatralne in Krakow.

4.19. Deferred income tax

	31 Dec 2005	31 Dec 2004
Assets on account of deferred income tax	**1 489**	**1 570**
As of the beginning of the period:		
- referenced to the financial result	1 489	1 570
Change in asset on account of deferred income tax referenced to the financial result:		
- establishing an asset in reference to tax loss from previous periods	1 197	-
- establishing an asset in reference to tax holiday of the dominant unit on account of activities in a Special Economic Zone	4 750	-
- dissolution / establishing an asset on account of appraisal of shares of the INTERIA.PL company	(166)	244
- establishing / dissolution of an asset on account of temporary differences related to costs (depreciation and exchange rate differences)	2	(325)
As of the end of the period:	**7 272**	**1 489**
- referenced to the financial result	7 272	1 489
Obligations on account of deferred income tax	**5 601**	**5 920**
As of the beginning of the year:		
- referenced to the capital	5 430	5 586
- referenced to the financial result	171	334
Change in obligations on account of deferred tax referenced to the financial result:		
- establishing obligation on account of appraisal of shares of the NetBrokers company	48	85
- obligation on account of temporary differences related to costs	-	(248)
Change in obligations on account of deferred tax referenced to the capital:		
- Effect of appraisal updating on deferred tax	-	(156)
As of the end of the period:	**5 649**	**5 601**
- referenced to the capital	5 430	5 430
- referenced to the financial result	219	171

Asset on account of deferred tax

	Asset on account of tax loss	Depreciation	Provisions for costs, updating write-offs	Asset on account of Interia.pl appraisal	Asset on account of tax holiday in income tax (zone)	TOTAL
As of 1 January 2004	**-**	**72**	**253**	**1 245**	**-**	**1 570**
- referenced to the result	-	72	253	1 245	-	1 570
(Debit) / credit of the 2004 result	-	(72)	(253)	244	-	(81)
As of 31 December 2004	**-**	**-**	**-**	**1 489**	**-**	**1 489**
(Debit) / credit of the 2005 result	1 197	-	2	(166)	4 750	5 783
As of 31 December 2005	**1 197**	**-**	**2**	**1 323**	**4 750**	**7 272**
- referenced to the result	1 197	-	2	1 323	4 750	7 272

Asset on account of deferred tax

	Depreciation	Provisions	Provision on account of NetBrokers appraisal	Provision on account of fair value appraisal on Cracovia equity	TOTAL
As of 1 January 2004	**45**	**359**	**86**	**5 430**	**5 920**
- referenced to the result	45	203	86	-	334
- referenced to the capital	-	156	-	5 430	5 586
Debit / (credit) of the 2004 result	(45)	(359)	85	-	(319)
As of 31 December 2004	**-**	**-**	**171**	**5 430**	**5 601**
Debit / (credit) of the 2005 result	-	-	48	-	48
As of 31 December 2005	**-**	**-**	**219**	**5 430**	**5 649**
- referenced to the result	-	-	219	-	219
- referenced to the capital	-	-	-	5 430	5 430

In reference to Poland joining the European Union, the Law was passed of 2 October 2003 on changing the law on special economic zones and some other laws (Dz. U. No. 188 Item 1840), which changed the conditions for tax holidays for entities acting in special economic zones. Pursuant to the provision of Article 6 Para 1 of the Law, these entities may apply for changing the terms and conditions of the permit in order to adjust it to the principles for granting public aid in force in the European Union. Pursuant to the provision of Article 5 Para 2 Clause 1 b), Clause 2, Clause 3 of the Law, the maximum amount of public aid for entities, which manage operations in a special economic zone on the basis of a permit issued before 1 January 2000, cannot exceed 75% of the value of investments incurred in the period from the date of obtaining the permit to 31 December 2006, provided that in determining the maximum amount of public aid, the total amount of public aid obtained since 1 January 2001 is taken into consideration. It means a change in the current method of functioning of tax holidays (public aid), from unlimited by value into limited by value and dependent on the value of investments made. In case of ComArch SA, the maximum value of public aid shall not exceed 75% of the value of investment expenditures, which the Company has incurred / shall incur in the period since obtaining the permit, i.e. 22 March 1999, till 31 December 2006.

Costs of investments and amount of the aid are subject to discounting pursuant to Para 9 of the Ordinance of the Council of Ministers of 14 September 2004 on the Krakow special economic zone (Dz.U. 220 Item 2232) in wording changed pursuant to Para 1 of the Ordinance of the Council of Ministers of 8 February 2005, changing the Ordinance on the Krakow special economic zone (Dz.U. No. 32 Item 270), with Para 2 of the latter Ordinance taken into consideration.

ComArch SA approached the Minister of Economy for changing the terms and conditions of the permit. On 1 July 2004, it received the decision of the Minister of Economy of 24 June 2004 referring to changes in the terms and conditions of the permit for the quoted above and compliant with the Law. At the same time, in the changed permit, the period was extended by 31 December 2017 for which the permit for ComArch SA was issued. It means extension of the period, in which the Company can use the limit of public aid due on account of the investments incurred in the special economic zone.

Pursuant to ISA12, unused tax relief as of 31 December 2005 constitutes an asset on account of deferred income tax. The limit of the unused investment relief as of 31 December 2005, discounted as of the permit date, is PLN 20,963 thou. Due to the fact that the relief may be used solely in reference to tax income achieved on account of exempt operations, and applying the principle of safe appraisal and forecasts in reference to shaping of tax income on account of exempt operations, the Company recognised in the financial statement prepared as of 31 December 2005, the asset on account of deferred tax on account of the investment relief for activities conducted in a SEZ (called hereafter the Asset) in the amount of PLN 4,750 thou. The Asset as of the day preceding the balance sheet day, i.e. as of 30 September 2005, was PLN 5,193 thou., with PLN 4,726 thou. used up (realised) in the fourth quarter by the Company and it at the same time performed periodical verification of the value of the Asset remaining in the balance sheet, recognising as a result PLN 4,283 thou. as of 31 December 2005 on account of assets from deferred tax on account of activities in a SEZ. As a result of the above operations, the effect of change in the Asset on the result of the fourth quarter 2005 was minus PLN 443 thou., and plus PLN 4,750 thou. on the result of the whole 2005. The value of the asset was determined on the basis of forecasts of the dominant Unit in reference to the possible shaping of tax income on account of exempt operations in the period by the end of 2006. As the dominant Unit cannot prepare reliable financial projections for more than 1 year, recognition of the asset is based on the budgeted tax result for 2006.

The asset shall be successively realised (in the form of write-offs reducing net profit of the Company), in proportion to generating by ComArch S.A. of tax income achieved from exempt operations. At the same time, pursuant to ISA12, the dominant Unit shall regularly verify the appraisal of the recognised asset on account of deferred income tax for the possibility of its execution and further recognition in further periods. At the same time, the dominant Unit notes that recognition of the asset on account of the unused relief does not affect cash flows in the dominant Unit (both the recognised asset and its execution). Thus, it is a purely formal operation, resulting from application by the he Company of International Accounting Standards for preparation of the consolidated financial statement for the ComArch Group.

At the same time, the dominant Unit determined the temporary difference in tax income and appraised the assets on account of deferred income tax, resulting from the above difference for the amount of PLN 4,841 thou. Due to fact that the dominant Unit manages both operations taxed on general principles and tax-exempt, the temporary difference in tax income may be executed within both of these operations. At the same time, the final determination within which of these operations (taxed or tax-exempt) the temporary difference was executed, is done on the basis of the annual settlement of income tax, after the end of the accounting year. With the above taken into account and with the principle of safe appraisal, the Company, as of 31 December 2005, recognised only the value of the assets on account of deferred tax for the amount of PLN 1,197 thou., i.e. in the amount, which in the opinion of the dominant Unit may be settled in 2006 as a result of profit in taxed activities generated (profit on financial operations). The effect of recognising these assets on the result of the fourth quarter, as well as on the result of the whole 2005, was plus PLN 1,197 thou.

4.20. Provisions for other obligations and charges

	Costs related to the current period, which will be incurred in the future	Provisions for costs of contracts	Other provisions	Total
As of 1 January 2005	-	2 604	491	3 095
Given in the consolidated profit and loss account				
– Establishing additional provisions	146	6 448	218	6 812
Provisions used during the year		(6 568)	(491)	(7 059)
As of 31 December 2005	**146**	**2 484**	**218**	**2 848**

Structure of the total provisions:

	31 December 2005	31 December 2004
Short-term items	2 848	3 095

All provisions were calculated based on credible estimate as of the balance sheet date. They are expected to be executed within 12 months of the balance sheet date.

Costs of the current period refer to provisions established for costs on account of unsettled prepayments. Other provisions refer to the provision for probable payments of severance benefits for former employees. Provisions for costs of contracts refer to recognition of the forecast losses in contracts.

4.21. Proceeds from sale

	12 months in 2005	**12 months in 2004**
Proceeds from sale of products and services		
Proceeds from sale of IT services	136 100	131 506
Proceeds from sale of licences and own software	76 069	46 603
Proceeds from other sales	10 829	7 303
Total	**222 998**	**185 412**
Proceeds from sale of merchandise and materials		
Proceeds from sale of computer hardware	136 611	74 890
Proceeds from sale of licences and foreign software	58 847	52 634
Proceeds from other sales	25 534	15 421
Total	**220 992**	**142 945**
Total proceeds on sale	**443 990**	**328 357**

4.22. Costs of sold products, services, merchandise and materials

	12 months in 2005	12 months in 2004
I/1 Costs by type		
Depreciation of fixed assets and intangibles	11 264	9 603
Costs of employee benefits	124 694	101 430
Change in products and production in progress	2 775	- 9 769
Consumption of raw materials and auxiliary materials	7 421	6 320
Foreign services	41 338	48 176
Taxes and fees	2 406	1 821
Other fees	16 874	20 936
Costs of sold products, services, marketing and distribution and overhead costs, including:	**206 772**	**178 040**
- cost of generation	146 644	121 825
- costs of sale	33 560	33 022
- overhead costs	26 463	23 670
- exchange rate differences on obligations	105	(477)
I/2 Cost of sold merchandise and materials	**206 732**	**132 878**
I/3 Cost of execution of work under Union projects	**471**	498
I/4 Total costs of sold products, services, marketing, overhead costs, merchandise and materials and execution of work under Union projects	**413 975**	**311 416**

II. Costs of employee benefits	**12 months in 2005**	**12 months in 2004**
Costs of salaries	106 714	87 139
Costs of social insurance	16 149	13 455
Company's Fund for Social Benefits (ZFŚS)	466	199
Training	439	242
HSSE costs	-	34
Other	926	361
Total	**124 694**	**101 430**

4.23. Other operational proceeds

Other operational proceeds and profits	**12 months in 2005**	**12 months in 2004**
Received traffic damages	-	158
Time-barred obligations	119	126
Received contractual damages	-	107
Profit on disposal of non-financial fixed assets	177	45
VAT tax refunded	114	-
Other	435	1005
Total	**845**	**1 441**

4.24. Other operational costs

Other operational costs and losses	**12 months in 2005**	**12 months in 2004**
Write-off updating value of assets (loss in value)	276	109
Membership fees	150	179
Donations	176	278
Loss on disposal and liquidation of fixed assets	7	-
Write-off updating value of receivables	2 120	367
Other	775	1 309
Total	3 504	2 242

4.25. Net financial costs

	12 months in 2005	12 months in 2004
Costs of interest		
– convertible bonds	(4 329)	(4 475)
– interest on loans	(23)	(146)
– other	(508)	(372)
Profits from interest on deposits	350	1 000
Profits from disposal of securities	40	422
Net exchange rate profits / (losses) (Note 4.27)	348	227
Appraisal of fair value of financial instruments and investments	186	-
Other	(245)	(1 638)
Financial damages and penalties	(47)	(93)
Costs related to the issue of bonds	(60)	(206)
Other	(138)	(1 339)
Total	**(4 181)**	**(4 982)**

4.26. Income tax

	12 months in 2005	12 months in 2004
Current tax	2 266	796
Deferred tax	(5 735)	(236)
Total	**(3 469)**	**560**

Income tax on gross profit of the Group, before taxation, differs in the following way from the theoretical amount, which would be obtained with the average weighted tax rate applicable to profits of the consolidated companies:

	12 months in 2005	12 months in 2004
Consolidated gross profit before taxation	24 294	10 325
Tax calculated with the nominal rate on gross profit	4 615	1 961
Differences between gross profit and taxable amount:		
Consolidation adjustments	1 543	(2 922)
Exclusions of losses in consolidated companies	4 659	5 594
Sum of gross profits in consolidated companies (nominal taxable amount for income tax with the assumption of correspondence of balance sheet profit with the taxable amount)	30 496	12 997
Permanent and temporary differences between gross profit and the actual taxable amount, including:	(18 570)	(8 985)
Use of previously recognised tax losses	(11 850)	-
Differences between the taxable amount and gross profit	23 693	7 838
Tax-exempt income on account of managing activities in SEZ	(30 384)	(16 823)
Other	(29)	-
Taxable amount for income tax	**11 926**	**4 012**
Tax calculated at tax rate for the Group	2 266	796
Effective tax rate scale	9,6 %	7,7 %

The applicable tax rate was 19% in 2004 and resulted mostly from the rate used in the country of the dominant unit. The appropriate rule applies to year 2005.

Tax authorities can run inspections for books of account and tax settlements within 5 years of the end of the year, in which tax returns were filed and can charge additional tax on the Group along with penalties and interest. In the opinion of the Board of Directors of the dominant Unit, there are no circumstances indicating possibility of arising significant obligations on this account.

4.27. Net exchange rate profits (losses)

Exchange rates increasing (costs) / proceeds in the profit and loss account were included in the following items:

	12 months in 2005	12 months in 2004
Proceeds from sales	539	(1 622)
Costs of sold products, merchandise and materials	(105)	(897)
Net financial costs	348	227
Total	**782**	**2 292**

Exchange rate differences on long-term loans granted by the dominant unit to subsidiary companies are given as an element of capital in the exchange rate differences item:

- 2005 – PLN 85 thou.

- 2004 – PLN 985 thou.

4.28. Profit per share

Basic

	12 months in 2005	12 months in 2004
Net profit for the period for Company shareholders	28 052	11 372
Average weighted number of regular shares (in thou. pcs.)	6 910	6 794
Profit per regular share (in PLN)	4,06	1,67
Diluted profit per regular share (in PLN)	4,06	1,67

The basic net profit per 1 share in the "12 months of 2005" column was calculated as net consolidated profit for Group shareholders achieved in the period from 1 January 2005 to 31 December 2005 divided by the average weighted number of shares in the period from 1 January 2005 to 31 December 2005, where the number of days is the weight. Net profit per 1 share in the "12 months of 2004" column was calculated as net consolidated profit for Group shareholders achieved in the period from 1 January 2004 to 31 December 2004 divided by the average weighted number of shares in the period from 1 January 2004 to 31 December 2004, where the number of days is the weight.

Pursuant to IAS 33, shares convertible into stock should be treated as diluting in calculation of diluted profit per share when and only when their conversion into regular shares would reduce net profit (book value). Analysis of conditions for the convertible bonds issued by ComArch SA leads to the conclusion that in 2005, if bonds were converted into stock (which means at the same time reducing financial costs on account of interest), the diluted profit per share would increase, and thus, pursuant to IAS 33, such shares are not regarded as diluting.

In accordance with conditions of the programme, the dominant Unit determined that:

a) The average capitalisation of ComArch S.A. as of December 2004 was PLN 476.5 m

b) The average capitalisation of ComArch S.A. as of December 2005 was PLN 441.7 m

As the difference between the average capitalisation in December 2005 and the average capitalisation in December 2004 is negative, it means that the basic condition of the Programme was not met. Therefore, shares for Members of the Board of Directors of the dominant Unit and Key Employees will not be issued in 2006, thus net profit for 2005 will not be diluted.

4.29. Transactions with related entities

I. Proceeds from sale of merchandise and services

	12 months in 2005	12 months in 2004
Proceeds from sales of merchandise		
INTERIA.PL	325	11
NetBrokers	12	-
Proceeds from sales of services		
INTERIA.PL	459	94
NetBrokers	73	119
	869	**224**

Price for services is determined depending on the type of transaction, according to one of three methods:

1) Comparable market price,

2) The cost plus method (2-3% mark-up on merchandise, 5% on services)

3) Mark-up on sale of services (10-40% mark-up)

II. Purchase of merchandise and services

	12 months in 2005	12 months in 2004
Purchase of merchandise		
INTERIA.PL affiliated unit	610	923
Purchase of services		
INTERIA.PL affiliated unit	322	310
	932	**1 233**

Price for services and merchandise is usually negotiated with affiliated entities with one of the above methods.

In the reporting period, there were no significant transactions with affiliated entities other than those listed above.

III. Balance of settlements as of the balance sheet date resulting from the result of sale / purchase of merchandise / services

	12 months in 2005	12 months in 2004
Receivables from affiliated units		
NetBrokers	14	92
INTERIA.PL	13	38
	27	**130**
Obligations towards affiliated units		
INTERIA.PL	42	203
	42	**203**

As of 31 December 2005, there were no write-offs updating receivables from affiliated entities. During 2005, no write-offs updating receivables from affiliated entities were made.

IV. Remuneration of managing and supervising persons in 2005 and 2004

Remuneration of Members of the Board of Directors in ComArch S.A. in 2005 were PLN 6,783 thou. Remuneration of Members of the Board of Directors of ComArch SA in 2005 paid by subsidiary and affiliated companies were PLN 150 thou. Remuneration of Members of the Supervisory Board in ComArch S.A. in 2005 were PLN 423 thou. Subsidiary and affiliated companies paid no remuneration to Members of the Supervisory Board of ComArch S.A. in 2005.

2004 (PLN)

Board of Directors, ComArch S.A.

Item		paid by ComArch S.A.	paid by subsidiary and affiliated companies	Total
1	Zbigniew Rymarczyk	123 569,27	125 299,11	248 868,38
2	Tomasz Maciantowicz	295 188,70	0,00	295 188,70
3	Christophe Debou	295 167,36	45 204,60	340 371,96
4	Rafał Chwast	347 446,64	0,00	347 446,64
5	Robert Chwastek	585 529,08	0,00	585 529,08
6	Paweł Prokop	812 837,34	0,00	812 837,34
7	Paweł Przewięźlikowski	1 131 768,04	0,00	1 131 768,04
8	Janusz Filipiak	2 967 223,54	31 537,98	2 998 761,52
	Total for the Board of Directors	**6 558 729,97**	**202 041,69**	**6 760 771,66**

Supervisory Board, ComArch S.A.

Item		paid by ComArch S.A.	paid by subsidiary and affiliated companies	Total
1	Tadeusz Włudyka	15 000,00	0,00	15 000,00
2	Marian Noga	15 000,00	0,00	15 000,00
3	Wojciech Kucharzyk	15 125,00	0,00	15 125,00
4	Anna Ławrynowicz	15 125,00	0,00	15 125,00
5	Maciej Brzeziński	30 000,00	0,00	30 000,00
6	Krzysztof Zieliński	31 000,00	0,00	31 000,00
7	Elżbieta Filipiak	300 000,00	0,00	300 000,00
	Total for the Supervisory Board	**421 250,00**	**0,00**	**421 250,00**

2005 (PLN)

Board of Directors, ComArch S.A.

Item		paid by ComArch S.A.	paid by subsidiary and affiliated companies	Total
1	Chwast Rafał	732 055,29	0,00	732 055,29
2	Chwastek Robert	260 379,53	0,00	260 379,53
3	Debou Christophe	327 927,76	149 586,29	477 514,05
4	Filipiak Janusz	2 759 383,25	0,00	2 759 383,25
5	Maciantowicz Tomasz	148 292,40	0,00	148 292,40
6	Prokop Paweł	374 023,36	0,00	374 023,36
7	Przewięźlikowski Paweł	1 378 552,80	0,00	1 378 552,80
8	Rymarczyk Zbigniew	802 000,41	0,00	802 000,41
	Total for the Board of Directors	**6 782 614,80**	**149 586,29**	**6 932 201,09**

Supervisory Board, ComArch S.A.

Item		paid by ComArch S.A.	paid by subsidiary and affiliated companies	Total
1	Filipiak Elżbieta	303 117,07	0,00	303 117,07
2	Brzeziński Maciej	30 000,00	0,00	30 000,00
3	Zieliński Krzysztof	30 000,00	0,00	30 000,00
4	Ławrynowicz Anna	30 000,00	0,00	30 000,00
5	Kucharzyk Wojciech	30 000,00	0,00	30 000,00
	Total for the Supervisory Board	**423 117,07**	**0,00**	**423 117,07**

On 29 March 2005, Robert Chwastek submitted resignation of the performed function of Member of the Board of Directors, ComArch S.A. Mr. Robert Chwastek reported personal issues as reasons for submitting resignation. On 23 January 2006, Mr. Christophe Debou submitted resignation from the performed function of Member, the Board of Directors of ComArch S.A. On 11 May 2006, Mr. Tomasz Maciantowicz, performing the function of Deputy President, the Board of Directors of ComArch S.A., submitted resignation from the performed function of Deputy President, the Board of Directors of the Company. Deputy President Tomasz Maciantowicz did not give any reasons for the resignation decision.

As of 31 December 2005, there are no unpaid prepayments, credits, loans or guarantees and pledges by ComArch S.A. subsidiary companies for Members of the Board of Directors, the Supervisory Board and their spouses, relatives and next of kin up to the second degree.

In reference to execution of the programme of managerial option, due for President, the Board of Directors of the dominant Unit on the basis of resolution No. 6 NWZA of 21 December 2001 and in reference to the resolution of the Supervisory Board of ComArch S.A. of 23 March 2005, obliging the Board of Directors to pass resolution on the issue of shares in Series G3, of which the dominant Unit informed in the current report No. 9/2005, the Board of Directors of ComArch S.A. passed resolution No. 1 on 11 April 2005 on increasing the initial capital by way of a public issue of 102,708 regular bearer's shares in Series G3 with the nominal value of PLN 1 and change in the Bylaws of ComArch S.A. The issue of shares in Series G3 was completed with exclusion of subscription right for the current shareholders of the dominant Unit. The issue price was PLN 1. The shares in Series G3 were covered solely with cash and will participate in t dividend beginning with payment from profit, which will be allocated for distribution for the 2005 accounting year, that is starting with 1 January 2005. The issue of shares in Series G3 was completed by way of a private subscription referred to in Article 431 Para 2 Clause 1 of the Code of Trade Companies conducted under public trading conditions, while shares in Series G3 will be released for trading in the Warsaw Stock Exchange. All shares in Series G3 were offered for the President of the dominant Unit.

The closing rate for ComArch S.A. shares on 31 December 2005 was PLN 64.10, which means that the difference between market value of the shares allocated for President of the Company and their issue price was PLN 6,481 thou.

On 30 June 2005, the managerial programme was passed in the form of option for shares, described in detail in Note 4.12 Clause 4 of the Statement. the option value is PLN 6,202 thou., of which 78.26% or PLN 4,854 thou. is the part of the Board of Directors. The cost of the option will be recognised in the profit and loss account in the period from July 2005 to December 2007.

4.30. Information about shareholders and shares owned by managing and supervising persons

a) Shareholders owning directly or indirectly by way of subsidiary entities at least 5% of the total number of votes in the general assembly of ComArch SA, as of the date of preparing the semi-annual report.

As of 5 June 2006, the shareholders owning directly or indirectly by way of subsidiary entities at least 5% of the total number of votes in the general assembly of ComArch SA are:

– The married couple of Elżbieta and Janusz Filipiak, who have the total of 3,239,393 shares, which give 10,195,393 votes in the GA, which constitutes 69.89% of all votes in the GAS;

– BZ WBK AIB Asset Management SA, whose clients, to the best knowledge of the Company, on 6 February 2006 became owners of 1,417,770 shares of the ComArch SA Company, which is 9.72% of all the votes in the GAS;

b) Changes in ownership of shares of ComArch SA by persons managing and supervising ComArch SA in the period from 15 May 2006 to 05 June 2006.

The following table presents ownership of ComArch SA shares by managing and supervising persons as of the date of publishing the consolidated quarterly report for Q1 2006, i.e. 15 May 2006 and on 05 June 2006, pursuant to the information owned by the Company.

Managing and supervising persons	Function	As of 05 June 2006		As of 15 May 2005	
		Shares (pcs.)	Share in votes in the GAS (%)	Shares (pcs.)	Share in votes in the GAS (%)
Elżbieta and Janusz Filipiak	Chairwoman of the Supervisory Board and President of the Board of Directors	3 239 393	69,89	3 239 393	69,89
Tomasz Maciantowicz	Deputy President of the Board of Directors	92 131	0,63	92 131	0,63
Paweł Prokop	Deputy President of the Board of Directors	24 440	0,43	24 440	0,43
Paweł Przewięźlikowski	Deputy President of the Board of Directors	24 440	0,43	24 440	0,43
Rafał Chwast	Deputy President of the Board of Directors	6 566	0,05	6 566	0,05
Zbigniew Rymarczyk	Member of the Board of Directors	370	0,00	370	0,00
Number of the issued shares		**7 518 770**	**100**	**7 518 770**	**100**

4.31. Factors and events of unusual nature, with significant effect on the achieved financial result

The dominant Unit has given in the financial statement prepared as of 31 December 2005, the asset on account of deferred tax on account of the investment relief for activities conducted in a SEZ (called hereafter the Asset) in the amount of PLN 4,750 thou. The Asset as of the day preceding the balance sheet day, i.e. as of 30 September 2005, was PLN 5,193 thou., with PLN 4,726 thou. used up (realised) in the fourth quarter by the Company and it at the same time performed periodical verification of the value of the Asset remaining in the balance sheet, recognising as a result PLN 4,283 thou. as of 31 December 2005 on account of assets from deferred tax on account of activities in a SEZ. As a result of the above operations, the effect of change in the Asset on the result of the fourth quarter 2005 was minus PLN 443 thou., and plus PLN 4,750 thou. on the result of the whole 2005. The value of the asset was determined on the basis of forecasts of the dominant Unit in reference to the possible shaping of tax income on account of exempt operations in the period by the end of 2006. As the dominant Unit does not perform financial projections for more than 1 year, recognition of an asset is based on the budgeted tax result for 2006. The asset shall be successively realised (in the form of write-offs reducing net profit of the Group), in proportion to generating by the Company of tax income achieved from exempt operations. At the same time, pursuant to ISA12, the dominant Unit shall regularly verify the appraisal of the recognised asset on account of deferred income tax for the possibility of its execution and further recognition in further periods. At the same time, the dominant Unit notes that recognition of the asset on account of the unused relief does not affect cash flows in the dominant Unit (both the recognised asset and its execution). Recognition of the asset referred to in this note results from application by the Group of International Accounting Standards for preparation of the consolidated financial statement for the ComArch Group.

The dominant Unit, as of 31 December 2005, recognised the value of the assets on account of deferred tax for the amount of PLN 1,197 thou., i.e. in the amount, which in the opinion of the dominant unit may be settled in 2006 as a result of profit in taxed activities generated (profit on financial operations). The effect of recognising these assets on the result of the fourth quarter, as well as on the result of the whole 2005, was plus PLN 1,197 thou.

The combined effect of both these operations on the result of the fourth quarter 2005 was plus PLN 754 thou., and plus PLN 5,947 thou. on the result of the whole 2005.

The detailed principles concerning the deferred tax are given in section 4.18 of this statement.

4.32. Events after the balance sheet date

On 19 January 2006 ComArch S.A. disposed of 350,000 shares of the INTERIA.PL S.A. company. After the transaction, the ComArch S.A. Company has 2,538,369 pcs. of shares in INTERIA.PL S.A., which constitutes 36.08% of the initial capital of the Company. These shares give rights to execution of 11,609,625 votes in the General Assembly, which constitutes 48.48% of the total number of votes. The Company achieved balance sheet income in the above transaction in the amount of PLN 6,300 thou. Gross balance sheet income of the Group achieved in the above transaction is higher and reaches PLN 7,226 thou..

On 23 January 2006, Mr. Christophe Debou submitted resignation of the performed function of Member, the Board of Directors of ComArch S.A.

On 25 January 2006, with Resolution No. 31/2006, the Board of Directors of the Warsaw Stock Exchange S.A. decided to introduce as of 2 February 2006 in the regular mode into stock exchange trading in the primary market 125,787 of regular bearer's shares in Series G of the ComArch S.A. Company. These shares are marked in the National Deposit of Securities PLCOMAR00087. The introduction depended on the condition of assimilating the above shares with the shares already in trading, marked PLCOMAR00012, by the National Deposit of Securities on 2 February 2006.

On 27 January 2006, member of the Supervisory Board of ComArch S.A. informed about disposing 25,000 regular bearer's shares of the Company on 20-25 January 2006 at prices from PLN 66 to PLN 67.10 per share.

On 3 February 2006, member of the ComArch S.A. Supervisory Board informed about disposing 25,000 regular bearer's shares of the Company on 03 February 2006 at PLN 71 per share. The transactions were completed in the controlled market through the Warsaw Stock Exchange S.A.

As a result of acquisition of the shares, settled on 6 February 2006, clients of BZ WBK AIB Asset Management S.A. became owners of ComArch S.A. shares providing more than 10% of the total number of votes in the General Assembly of ComArch S.A. shareholders. On 6 February 2006, there were 1,417,770 shares of the ComArch S.A. company in securities accounts with management agreements of BZ WBK AIB Asset Management S.A. clients, which constituted 20.38% of the initial capital of the Company. These shares gave right to 1,417,770 votes, which constituted 10.11% of the total number of votes in the General Assembly of ComArch S.A.

From 22 February to 24 March 2006, ComArch S.A. was notified about conversion into shares of 3,221 pcs. of convertible bearer's bonds issued by the Company. The total nominal value of the bonds submitted for conversion is PLN 32,210,000. For convertible bonds in Series A covered with the submitted statement of conversion, 563,675 pcs. of regular bearer's shares in Series H were released.

After the above conversion statements are taken into account, the number of convertible bonds in Series A, which were not converted into shares in Series H, was 293.

As the average closing rate for ComArch S.A. shares in the Warsaw Stock Exchange of the recent 31 quotations was on 28 February 2006 higher from the Conversion Price by 30.70%, ComArch S.A., pursuant to section 8.3.1 of the Conditions for Bond Issue, constituting appendix to resolution of the Board of Directors of 9 April 2002 on the issue of bonds of the Company issued on the basis of resolution of the Extraordinary General Assembly of the Company of 27 February 2002 (published in chapter X section 4 of the Prospectus of Bonds Convertible into Shares in Series H) called on 28 February and 7 March for Advance Buying Out the bonds.

With Resolution No. 88/2006 of 3 April 2006, the Board of Directors of the Warsaw Stock Exchange S.A. suspended and excluded from stock exchange trading 293 bonds in Series A of the shares of the ComArch S.A. company.

The Board of Directors of the Stock Exchange, on the basis of Article 30 Para 1 Clause 1) of the Stock Exchange Regulations suspended trading in Series A bonds of the ComArch S.A. Company starting with 4 April 2006.

On the basis of Article 110 Para 1 of the Stock Exchange Regulations and Article 5 in Chapter VI of the Detailed Principles for Stock Exchange Trading, the Board of Directors of the Stock Exchange decided that:

a) brokerage orders for bonds in Series A of the ComArch S.A. Company would not be accepted starting with 4 April 2006, b) brokerage orders for bonds in Series A of the ComArch S.A. Company, which were not realised by 3 April 2006 (including) become invalid.

On the basis of Article 31 Para 2 Clause 3) of the Stock Exchange Regulations, the Board of Directors of the Stock Exchange decided to exclude bonds in Series A of the ComArch S.A. Company from stock exchange trading as of 6 April 2006.

To justify the decision, the Board of Directors of the Stock Exchange declared submission by the ComArch S.A. Company on 31 March 2006 of the application for suspension and exclusion from stock exchange trading of bonds in Series A in reference to the coming Date for Advance Buying Out bonds of the Company in Series A.

Bonds, for which a statement was not submitted on conversion into shares, were bought out on 6 April a 2006 at the price calculated pursuant to section 8.3.4 of the aforementioned Conditions for Bond Issue.

The Board of Directors of the National Deposit of Securities on 20 March 2006 decided to accept to the NDS 543,025 pcs. of regular bearer's shares in Series H of the ComArch S.A. Company, with the nominal value of PLN 1.00 each and mark them PLCOMAR00095.

The Board of Directors of the Warsaw Stock Exchange S.A., with Resolution No. 80/2006 of 27 March 2006, declared that pursuant to Article 19 Paras 1 and 2 of the Stock Exchange Regulations, 543,025 regular bearer's shares in Series H of the ComArch S.A. Company was admitted into stock exchange trading in the primary market, with the nominal value of PLN 1 each, marked by the National Deposit of Securities S.A. with the code "PLCOMAR00095" and on the basis of Article 37 Para 2 of the Stock Exchange Regulations decided to introduce the above shares of the ComArch S.A. Company in the regular mode into stock exchange trading in the primary market as of 31 March 2006.

The Board of Directors of the National Deposit of Securities S.A. (KDPW), with Resolution No. 145/06 of 28 March 2006 decided to assimilate on 31 March 2006 543,025 shares of the company marked PLCOMAR00095 (shares in Series H) with 5,085,187 shares of the Company marked PLCOMAR00012. KDPW declared that 5,628,212 shares of the Company would be covered by the PLCOMAR00012 code as of 31 March 2006.

The Board of Directors of the Warsaw Stock Exchange S.A., with Resolution No. 112/2006 of 19 April 2006, declared that pursuant to Article 19 Paras 1 and 2 of the Stock Exchange Regulations, 20,650 (twenty thousand six hundred and fifty) regular bearer's shares in Series H of the ComArch S.A. Company is admitted into stock exchange trading in the primary market, with the nominal value of PLN 1 (one Polish Zloty) each, marked by National Deposit of Securities S.A. with the code "PLCOMAR00095" and on the basis of Article 37 Para 2 of the Stock Exchange Regulations decided to introduce the above shares of the ComArch S.A. Company in the regular mode into stock exchange trading in the primary market as of 26 April 2006.

The Resolution became effective after the Board of Directors of the National Deposit of Securities S.A. (KDPW) assimilated 20,650 shares of the company marked PLCOMAR00095 (shares in Series H) with 5,730,920 shares of the Company marked PLCOMAR00012 with Resolution No. 202/06 of 26 April 2006. The shares under assimilation were marked PLCOMAR00012. NDS declared that 5,751,570 shares of the Company were covered with the code PLCOMAR00012 as of 26 April 2006.

After examining the application of ComArch S.A., the Board of Directors of the National Deposit decided to accept 102,708 regular bearer's shares in Series G3 of the ComArch S.A. Company in the National Deposit of Securities as of 24 March 2006 with the nominal value of PLN 1.00 each and mark them PLCOMAR000103.

The Board of Directors of the Warsaw Stock Exchange S.A., with Resolution No. 91/2006 of 4 April 2006, declared that pursuant to Article 19 Paras 1 and 2 of the Stock Exchange Regulations, 102,708 regular bearer's shares in Series G3 of the ComArch S.A. Company were admitted into stock exchange trading in the primary market, with the nominal value of PLN 1 each, marked by the National Deposit of Securities S.A. "PLCOMAR00103" and on the basis of Article 37 Para 2 of the Stock Exchange Regulations decided to introduce the above shares of the ComArch S.A. Company in the regular mode into stock exchange trading in the primary market as of 12 April 2006. The Resolution became effective after assimilating the above shares of the ComArch S.A. company, marked "PLCOMAR00103," with the shares of the Company already in stock exchange trading, marked "PLCOMAR00012" by the Board of Directors of the National Deposit of Securities S.A. (KDPW) with Resolution No. 166/06 of 12 April 2006.

On 28 March 2006, ComArch S.A. signed an agreement for an investment credit with Kredyt Bank S.A. with the office in Warsaw for financing the second stage of construction of new production and office buildings in the Special Economic Zone in Krakow. The amount of the credit is 80% of the investment value, PLN 26,823,970 as maximum. The crediting period is 16 years, with interest based on variable rate. The credit should be used by 31 March 2007. The collateral for the credit is mortgage on the plots, in which the building will be built and assignment of the insurance policy for the building. The Company informed about opening the investment and signing a contract with the general contractor in its current report No. 41/2005.

In the first quarter of 2006, the ComArch Global, Inc. subsidiary company, with the office in Miami, signed an agreement for delivery to one of agencies in the US federal government license for the ComArch Operations Support System for managing network infrastructure along with services of software maintenance and consulting. Contract value is USD 1m. Pursuant to the agreement, the client is entitled to purchase within the coming 4 years additional services at the value of ca. USD 1.5m. This is another agreement made with a government agency in the US. ComArch solutions will be implemented in all US states.

On 27 April 2006, ComArch S.A. signed an agreement with the Polkomtel S.A. company for implementation of the system for billing settlements for providers and partners, ComArch InterPartner Billing. The ComArch InterPartner Billing system will be used for making settlements between providers and for support of settlements with virtual operators (MVNO) and suppliers of services (Service Providers and ESP) co-operating with Polkomtel S.A. Contract value is PLN 12.4m. The entire project is planned to be completed in May 2007. The contract calls for contractual damages, whose maximum amount is limited to the amount of PLN 1,750,000. Payment of contractual penalties does not exclude the right to make damages claims exceeding the amount of the penalty. The value of the Company's equity was adopted as the criterion for the agreement.

The District Court for Krakow Śródmieście in Krakow, Department XI for Commercial Issues of the National Court Register, with the decision of 28 April 2006, transformed the ComArch Services sp. z o.o. company into the ComArch Services S.A. joint stock company. The initial capital of the ComArch Services S.A. company is PLN 1,050,000 and is divided into 5,250 shares with the nominal value of PLN 200 each, with 5,250 votes on them.

On 11 May 2006, Mr. Tomasz Maciantowicz, performing the function of Deputy President of the Board of Directors, ComArch S.A., submitted resignation from the performed function of Deputy President, the Board of Directors of the Company. Deputy President Tomasz Maciantowicz did not give reasons for the decision of resignation.

The Board of Directors of ComArch S.A. on 22 May 2006 was informed about registration on 16 May 2006 by the District Court for Krakow Śródmieście in Krakow, Department XI for Commercial Issues of the National Court Register the increase in the initial capital of the ComArch S.A. Company up to the amount of PLN 7,518,770. After the increase, the initial capital of the Company is divided into 7,518,770 shares, with 14,587,570 votes in the GAS of the company corresponding to them. the initial capital of ComArch S.A. consists of:

1) 883,600 registered privileged shares in Series A,

2) 56,400 of regular bearer's shares in Series A,

3) 883,600 registered privileged shares in Series B,

4) 56,400 of regular bearer's shares in Series B,

5) 3,008,000 of regular bearer's shares in Series C,

6) 1,200,000 of regular bearer's shares in Series D,

7) 638,600 of regular bearer's shares in Series E,

8) 125,787 of regular bearer's shares in Series G,

9) 102,708 of regular bearer's shares in Series G3,

10) 563,675 of regular bearer's shares in Series H.

As a result of the increase in the initial capital, Ms. Elżbieta and Mr. Janusz Filipiak now own 3,239,393 shares of the ComArch S.A. company, constituting 43.08% of the initial capital, with 10,195,393 votes in the GAS of the Company corresponding with these shares, which constitutes 69.89% of votes in the GAS of the company.

Before increasing the initial capital, Ms. and Mr. Filipiak owned the total of 3,239,393 shares of the company, constituting 46.58% of the initial capital, with 10,195,393 votes in the GAS of the Company corresponding to them, which constituted 72.70% votes in the GAS of the Company.

4.33 Significant proceedings in court, bodies appropriate for arbitration proceedings or bodies of public administration

In the fourth quarter 2005, companies of the Group did not initiate any legal actions and were not sued in proceedings meeting the criteria set forth in Article 91 Para 6 Clauses 7a) and 5b) of the Ordinance of the Council of Ministers of 19 October 2005 on current and periodical information submitted by issuers of securities.

The ComArch Group is party sued in court proceedings in which the prospective combined amount of claims by third parties is PLN 623 thou. According to the Management, based on opinions of legal advisors, there are no circumstances suggesting arising of significant obligations on this account, therefore provisions for the amount of prospective claims were not given in the financial statement.

Opinion of an independent expert auditor for the General Assembly of Shareholders and the Supervisory Board of ComArch S.A.

We have reviewed the enclosed consolidated financial statement of the ComArch S.A. Capital Group (called hereafter the "Group"), in which ComArch S.A. is the dominant unit (called hereafter the "Dominant Unit") with the office in Krakow, Al. Jana Pawła II 39a, including:

(a) The consolidated balance sheet prepared as of 31 December 2005, in which the amount of PLN 346,847 thou. is given on the side of assets and total equity and obligations;
(b) The consolidated profit and loss account for the accounting year from 1 January to 31 December 2005, giving the net profit in the amount of PLN 27,763 thou.;
(c) The consolidated summary of changes in the total equity for the accounting year from 1 January to 31 December 2005, giving increase in the total equity by the amount of PLN 28,937 thou.;
(d) The consolidated cashflow statement for the accounting year from 1 January to 31 December 2005, giving net incoming cash in the amount of PLN 20,133 thou.;
(e) The supplementary information of the adopted accounting principles and other explanatory information.

The Board of Directors of the Dominant Unit is responsible for preparation of the consolidated financial statement compliant with the regulations in force along with the report on activities of the Group. Our task was to express opinion about the consolidated financial statement on the basis of the performed review.

The audit was performed pursuant to the following regulations in force in the territory of the Republic of Poland:

(a) Provisions of chapter 7 of the Accounting Act of 29 September 1994 ("Act:" Dz.U. 2002, No. 76 Item 694 as amended);
(b) Standards for performance of the expert auditor profession, issued by the National Board of Expert Auditors in Poland.

The audit was planned and conducted so as to have sufficient certainty that the consolidated financial statement does not include significant errors and omissions. The audit included, among others, verification, on the basis of the sample, proofs confirming amounts and information given in the consolidated financial statement. The audit included also assessment of the accounting principles applied by the Group and significant assessments performed in preparation of the consolidated financial statement, as well as the general assessment of its presentation. We believe that our audit constituted sufficient basis for expressing the opinion.

The information included in the report on activities of the Group take into consideration the decisions of the Ordinance of the Minister of Finances of 19 October 2005 on current and periodical information provided by issuers of securities and are compliant with the information included in the audited consolidated financial statement.

In our opinion, the enclosed consolidated financial statement in all significant aspects:

(a) Was prepared on the basis of properly managed consolidation documentation;
(b) Is compliant in form and content with the regulations of the law in force for the Group;
(c) Reliably and clearly presents the equity and financial situation of the Group as of 31 December 2005 and the financial result for the accounting year from 1 January to 31 December 2005 in accordance with International Standards for Financial Accounting approved by the European Union.

Acting on behalf of PricewaterhouseCoopers Sp. z o.o. and conducting the audit:

Mirosław Szmigielski

Member of Management

Expert Auditor

Licence No. 90045/7397

Warsaw, 5 June 2006

The Company entered in the list of entities

Authorised for auditing financial statements

Under Item 144

ComArch S.A. Capital Group

The report supplementing the opinion from auditing the consolidated financial statement for the accounting year from 1 January to 31 December 2005

The report supplementing the opinion

From auditing the consolidated financial statement

For the General Assembly of Shareholders and the Supervisory Board

ComArch S.A.

This report was prepared in reference to the audit of the consolidated financial statement of the ComArch S.A. Capital Group (called hereafter the "Group"), in which ComArch S.A. is the dominant unit (called hereafter the "Dominant Unit") with the office in Krakow, Al. Jana Pawła II 39a. The audit covered the consolidated financial statement including:

(a) The consolidated balance sheet prepared as of 31 December 2005, which gives the sum of PLN 346,847 thou. on the side of assets and total equity and obligations;

(b) The consolidated profit and loss account for the accounting year from 1 January to 31 December 2005, giving net profit in the amount of PLN 27,763 thou.;

(c) The consolidated summary of changes in the total equity for the accounting year from 1 January to 31 December 2005, giving increase in the total equity by the amount of PLN 28,937 thou.;

(d) The consolidated cashflow statement for the accounting year from 1 January to 31 December 2005, giving net incoming cash in the amount of PLN 20,133 thou.;

(e) The supplementary information of the adopted accounting principles and other explanatory information.

The consolidated financial statement was signed by the Board of Directors of the Dominant Unit on 5 June 2006. The report should be read along with the opinion of an independent expert auditor for the General Assembly of Shareholders and the Supervisory Board of ComArch S.A. of 5 June 2006 related to the above described consolidated financial statement. The opinion about the consolidated financial statement expresses a general conclusion resulting from the conducted audit. This conclusion does not constitute a sum of assessments of the results from auditing particular items of the consolidated statement or issue, but assumes providing specific weight (significance) to particular findings, taking into consideration the effect of the facts found on reliability and properness of the consolidated financial statement.

The report includes 14 numbered pages and consists of the following parts:

Page

Acting on behalf of PricewaterhouseCoopers Sp. z o.o. and conducting the audit:

Mirosław Szmigielski

Member of Management

Expert Auditor

Licence No. 90045/7397

Warsaw, 5 June 2006

The Company entered in the list of entities

Authorised for auditing financial statements

Under Item 144

I. General characteristics of the Group

(a) The Dominant Unit started its operations in 1991 as a limited liability company on the basis of the deed of establishment of 9 May 1991. On 30 November 1994, the Assembly of Partners of ComArch Sp. z o.o. passed resolution No. 2/94 on transformation of the company in a joint stock company.

On 30 October 2001, District Court for Krakow Śródmieście in Krakow, Department XI for Commercial Issues of the National Court Register entered the Dominant Unit to the Register of Entrepreneurs under item KRS 0000057567.

(b) For the purpose of settlements on account of taxes, the Dominant Unit was given identification number NIP 677-00-65-406. For the purpose of statistics, the Dominant Unit was given identification number REGON 350527377.

(c) The registered initial capital of the Dominant Unit as of 31 December 2005 was PLN 6,955,095 and consisted of 6,955,095 shares with the nominal value of PLN 1 each.

(d) In the audited period of time, the following constituted the subject matter of activities of the Group:

- Activities in the scope of tele-IT and IT fields;
- Producing sub-assemblies and software, computer hardware and network, telecommunications and other IT equipment;
- Technical and scientific advising in the scope of computer and telecommunications hardware, systems and networks;
- Intermediation in the scope of purchase and installation of computer and telecommunications hardware, systems, networks;
- Organisation of promotion for computer and telecommunications hardware, systems and networks and organisation of training in this scope;
- Commercial activities, production, construction, trade and services in the scope of IT and telecommunications;
- Sport activities.

(e) In the accounting period, the following were members of the Board of Directors of the Dominant Unit:

• Janusz Filipiak	President, the Board of Directors
• Rafał Chwast	Deputy President, the Board of Directors
• Tomasz Maciantowicz	Deputy President, the Board of Directors
• Paweł Prokop	Deputy President, the Board of Directors
• Paweł Przewięźlikowski	Deputy President, the Board of Directors
• Robert Chwastek	Member, the Board of Directors, by 29 March 2005
• Christophe Debou	Member, the Board of Directors
• Zbigniew Rymarczyk	Member, the Board of Directors

On 23 January 2006, Christophe Debou resigned of performing the function of Member, the Board of Directors. On 11 May 2006, Tomasz Maciantowicz resigned of performing the function of Deputy President, the Board of Directors.

(f) The following units are included in the ComArch S.A. Capital Group as of 31 December 2005:

Unit name	Characteristics of capital relationship (% ownership)	Consolidation method	Entity auditing the financial statement	Opinion	Balance sheet date, for which the financial statement was prepared
ComArch S.A.	Dominant	n/a	PricewaterhouseCoopers Sp. z o.o.	no objections	31 December 2005
ComArch Global Inc. (USA)	Subsidiary (100%)	Full	The Company was not subject to auditing	n/a	31 December 2005
ComArch Software AG (Germany)	Subsidiary (100%)	Full	Alexander Enders, Expert Auditor	no objections	31 December 2005
ComArch Middle East FZ-LCC (UAE)	Subsidiary (100%)	Full	The Company was not subject to auditing	n/a	31 December 2005
ComArch Sp. z o.o. (Ukraine)	Subsidiary (100%)	Full	The Company was not subject to auditing	n/a	31 December 2005
ComArch s.r.o. (Slovakia)	Subsidiary (100%)	Full	The Company was not subject to auditing	n/a	31 December 2005
ComArch Panama Inc. (Panama)	2° subsidiary (100%)	Full	The Company was not subject to auditing	n/a	31 December 2005
OOO ComArch (Russia)	Subsidiary (100%)	Full	The Company was not subject to auditing	n/a	31 December 2005
UAB ComArch (Lithuania)	Subsidiary (100%)	Full	The Company was not subject to auditing	n/a	31 December 2005
ComArch Services Sp. z o.o.	Subsidiary (99.90%)	Full	The Company was not subject to auditing	n/a	31 December 2005
MKS Cracovia SSA	Subsidiary (49.15%)	Full	A.M. Jesiołowscy - Finanse Sp. z o.o.	no objections	30 June 2005 *

** The MKS Cracovia S.S.A. accounting year ended on 30 June 2005. As of 31 December 2005, MKS Cracovia S.S.A. ensured preparation of financial data, which would enable including this unit in the consolidated financial statement.*

(g) The Dominant Unit is issuer of securities allowed for trading in the Warsaw Stock Exchange and in accordance with the requirements of the Accounting Act prepares the consolidated financial statement in accordance with the International Standards for Financial Accounting (ISFA) approved by the European Union. The audited consolidated financial statement for the accounting year from 1 January to 31 December 2005 is the first consolidated statement prepared according to these standards, and consequences of transformation to the new accounting standards are described in Note 3.2 to the consolidated financial statement. Comparative data included in the audited consolidated financial statement were transformed appropriately and differ from the data resulting from the approved consolidated financial statement for the previous accounting year.

(h) The Dominant Unit, ComArch S.A., operates in the Special Economic Zone "Krakowski Park Technologiczny" ("SEZ"). ComArch S.A., on 1 July 2004, received the decision from the Minister of Economy concerning change in the conditions of permit for activities in the SEZ based on the changes introduced in the act regulating principles of enjoying benefits in the SEZ: the previous holiday without value limits, only limited in time, was transformed into a holiday limited in value and dependent on the value of the executed investments. In case of ComArch S.A., the maximum value of public support cannot exceed 75% of the value of investment expenditures, which ComArch S.A. incurred / will incur in the period of time since obtaining the permit, i.e. 22 March 1999, to 31 December 2006. 2017 is the last year, in which ComArch S.A. can take advantage of the obtained holiday.

II. Information on the conducted audit

(a) PricewaterhouseCoopers Sp. z o.o. was selected the expert auditor for the Group with resolution No. 16/VI/2005 of the Supervisory Board of 22 June 2005 on the basis of Article 19 Para 2 Clause e) of the Company Bylaws.

(b) PricewaterhouseCoopers Sp. z o.o. and the Expert Auditor conducting the audit are independent of units constituting the Group in the meaning of Article 66 Para 2 of the Accounting Act.

(c) The audit was conducted on the basis of the agreement made on 25 June 2005 in the following periods of time:

- Preliminary audit 5 to 29 September and 12 to 16 December 2005
- Final audit 6 March to 5 June 2006

III. Characteristics of results and financial situation of the Group

The following comments are given based on the knowledge obtained during reviewing the consolidated financial statement.

The consolidated financial statement does not take into consideration the effect of inflation. The general index of changes in the level of prices for goods and consumer services (from December to December) was 0.7% in the audited year (2004: 4.4%).

ComArch S.A. is the dominant unit in the Group, which included in the audited year ten subsidiary companies consolidated with the full method: ComArch Software AG (Germany), ComArch Global Inc. (USA), ComArch Middle East FZ-LCC (UAE), ComArch Sp. z o.o. (Ukraine), ComArch s.r.o. (Slovakia), ComArch Panama Inc. (Panama), OOO ComArch (Russia), ComArch UAB (Lithuania), ComArch Services Sp. z o.o. and MKS Cracovia S.S.A. The data from two affiliated companies were appraised in the consolidated financial statement with the ownership rights method (Interia.PL S.A. and NetBrokers Sp. z o.o.).

In the year preceding the audited year, the Group was composed of seven subsidiary companies consolidated with the full method: ComArch Software AG (Germany), ComArch Global Inc. (USA), ComArch Middle East FZ-LCC (UAE), ComArch Sp. z o.o. (Ukraine), ComArch s.r.o. (Slovakia), ComArch Services Sp. z o.o. and MKS Cracovia S.S.A. In the current year, new subsidiary companies were established: OOO ComArch (Russia) and ComArch UAB (Lithuania). Moreover, in the audited accounting year, for the first time the ComArch Panama, Inc. (Panama) subsidiary company was consolidated, which was not consolidated in the previous year, because its initial capital was paid after the balance sheet date. In the previous year, affiliated companies (Interia.PL S.A. and NetBrokers Sp. z o.o.) were also appraised with the ownership rights method.

In the audited period, the following events had significant effect on the financial result and on the equity and financial situation of the Group:

The basic activity of the Group in the current accounting period, as in previous periods, was sale of IT services and computer hardware. During the audited period, total proceeds on sale were PLN 443,990 thou. and were higher by PLN 115,633 thou. (35%) against proceeds obtained in the previous year. These proceeds were mostly achieved by the Group on sale of IT services, in the amount of PLN 135,771 thou. (PLN 133,128 thou. in the previous year), own licences and software in the amount of PLN 75,885 thou. (PLN 47,011 thou. in the previous year), as well as on sale of merchandise and materials in the amount of PLN 220,992 thou. (in the previous year: PLN 142,945 thou.). Total proceeds on sale of merchandise and materials increased by PLN 78,047 thou. (i.e. by 55%) and included mostly sale of computer hardware (PLN 136,611 thou.) and foreign software and licences (PLN 58,847 thou.). The increase of the share of proceeds on sale of computer hardware in total proceeds from 23% to 31% was related to execution of major contracts for delivery of computer hardware.

The basic market for products and merchandise was still the domestic market, in which 85% of the total proceeds on sale was executed. Export sale was PLN 66,988 thou. and was not significantly changed against the previous year.

In the audited year, the Group executed the 20% gross margin on sale (in the previous year: 22%),, measured with the ration of gross profit on sale to sale. The obtained margin on sale of products was 34%, similarly to the previous year, whereas margin on sale of merchandise was 6% (7% in the previous year). In absolute numbers, the significant increase in proceeds on sale contributed to the increase in gross profit by PLN 16,405 thou., i.e. by 22% against the previous year. Costs of sale, marketing and overhead costs increased slightly against the comparable period (in total by the amount of PLN 3,331 thou., i.e. by 6%).

In the structure of costs, apart from the value of sold merchandise and materials, the top item was costs of employee benefits, amounting in the audited period to PLN 124,694 thou. The increase against the previous year was by PLN 23,264 thou., i.e. 23%, mostly resulting from the increase of the average employment against the previous year; boni on account of the achieved results of sales and execution of new agreements also contributed to this increase.

Other net operational proceeds and costs resulted in the loss in the amount of PLN 2,659 thou., i.e. higher by PLN 1,858 thou. than in the previous year. This was due to, among others, net costs of write-offs updating receivables in the audited year against the previous period, higher by PLN 1,753 thou.

The result in the financial activities in 2005 was negative and amounted to PLN 4,181 thou. (in 2004: PLN 4,982 thou.). This was due to, mostly and similarly to the previous year, the costs of external financing incurred by the Group, in the form of bonds convertible into shares; the interest related to these obligations constituted the most significant element of financial costs (PLN 4,329 thou. and PLN 4,475 thou. for the audited year and the previous accounting year, respectively).

As of the end of the accounting year, the assets of the Group were PLN 346,847 thou. During the year, the balance sheet sum increased by PLN 73,938 thou., i.e. by 27%. In the structure of assets, major changes resulted from the increase in the balance of tangible fixed assets (by PLN 16,047 thou.), the increase in the level of inventory (by PLN 11,124 thou.), the increase in short-term receivables (by PLN 12,990 thou.) and the increase in cash and equivalent (by PLN 20,222 thou.). These increases were financed with the net profit in the amount of PLN 27,763 thou., the increase in short-term trade obligations by PLN 23,845 thou. and long-term obligations by PLN 10,514 thou.

In the audited year, the General Assembly of Shareholders of the Dominant Unit passed the programme of managerial options for members of the Board of Directors of the Dominant Unit and key employees. Also, in the audited year, shares in Series G3 were issued by way of private subscription, offered to President of the Dominant Unit in reference to execution of the managerial option. Detailed information about the programme of managerial options are given in Note 4.12 of the supplementary information and explanations to the consolidated financial statement. In the consolidated financial statement prepared in accordance with ISFA approved by European Union, the Dominant Unit included costs of the programme of managerial options in the profit and loss account of the audited year, in the amount of PLN 1,682 thou.

After the balance sheet date, there were significant events related to conversion of bonds convertible to shares in the Dominant Unit, as given in Note 4.17 of the supplementary information and explanations to the consolidated financial statement.

IV. Characteristics of selected items of the consolidated financial statement

CONSOLIDATED BALANCE SHEET as of 31 December 2005

	Note	31 Dec 2005 PLN thou.	31 Dec 2004 PLN thou.	Change PLN thou.	Change (%)	31 Dec 2005 Structure (%)	31 Dec 2004 Structure (%)
ASSETS							
Fixed assets							
Tangible fixed assets	1	90.848	74.801	16.047	21,5	26,3	27,4
Goodwill		3.284	3.284	-	-	0,9	1,2
Other intangibles		35.024	34.058	966	2,8	10,1	12,5
Long-term accruals		6.885	5.004	1.881	37,6	2,0	1,8
Investments in affiliated units	2	9.444	4.075	5.369	131,8	2,7	1,5
Other investments		121	43	78	181,4	-	-
Assets on account of deferred income tax		7.272	1.489	5.783	388,4	2,1	0,6
Other receivables		138	380	(242)	(63,7)	0	0,1
		153.016	**123.134**	**29.882**	**24,3**	**44,1**	**45,1**
Current assets							
Inventory	3	26.115	14.991	11.124	74,2	7,5	5,5
Trade receivables and other receivables	4	93.003	80.013	12.990	16,2	26,8	29,3
Receivables on account of current income tax		-	400	(400)	(100,0)	-	0,2
Due proceeds on account of long-term contracts		25.521	23.626	1.895	8,0	7,4	8,7
Financial assets available for sale		-	2.000	(2.000)	(100,0)	-	0,7
Other financial assets appraised at fair value: derivatives		225	-	225	-	0,1	-
Cash and equivalent		48.967	28.745	20.222	70,3	14,1	10,5
		193.831	**149.775**	**44.056**	**29,4**	**55,9**	**54,9**
Total assets		**346.847**	**272.909**	**73.938**	**27,1**	**100,0**	**100,0**

IV. Characteristics of selected items of the consolidated financial statement (contd.)

CONSOLIDATED BALANCE SHEET as of 31 December 2005

	Note	31 Dec 2005 PLN thou.	31 Dec 2004 PLN thou.	Change PLN thou.	Change (%)	31 Dec 2005 Structure (%)	31 Dec 2004 Structure (%)
EQUITY							
Initial capital	5	6,955	6.852	103	1,5	2,0	2,5
Other capitals		128.731	118.650	10.081	8,5	37,1	43,5
Exchange rate differences		(663)	(52)	(611)	1.175,0	(0,2)	-
Net profit for the current period for Company shareholders		28.052	11.372	16.680	146,7	8,1	4,2
Undivided financial result		(16.056)	(18.400)	2.344	(12,7)	(4,6)	(6,8)
Minority shares	6	14.353	14.013	340	2,4	4,1	5,1
		161.372	**132.435**	**28.937**	**21,8**	**46,5**	**48,5**
OBLIGATIONS							
Long-term obligations							
Credits and loans	7	17.300	8.149	9.151	112,3	5,0	3,0
Obligations on account of deferred income tax		5.649	5.601	48	0,9	1,6	2,1
Obligations on account of convertible bonds		39.849	38.472	1.377	3,6	11,5	14,1
Provisions for other obligations and charges		38	100	(62)	(62,0)	-	-
		62.836	**52.322**	**10.514**	**20,1**	**18,1**	**19,2**
Short-term obligations							
Trade obligations and other obligations	8	99.991	76.146	23.845	31,1	28,9	27,9
Obligations on account of current income tax		1.488	-	1.488	-	0,5	-
Obligations on account of long-term contracts		14.335	7.172	7.163	99,9	4,1	2,6
Obligations on account of convertible bonds		1.097	781	316	40,5	0,3	0,3
Credits and loans		2.880	958	1.922	200,6	0,8	0,4
Provisions for other obligations and charges		2.848	3.095	(247)	(8,0)	0,8	1,1
		122.639	**88.152**	**34.487**	**39,1**	**35,4**	**32,3**
Equity and obligations combined		**346.847**	**272.909**	**73.938**	**27,1**	**100,0**	**100,0**

IV. Characteristics of selected items of the consolidated financial statement (contd.)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the accounting period from 1 January to 31 December 2005

	2005 PLN thou.	2004 PLN thou.	Change PLN thou.	Change (%)	2005 Structure (%)	2004 Structure (%)
Proceeds on sale	443.990	328.357	116.633	35,2	100,0	100,0
Costs of sold products, services, merchandise and materials	(353.952)	(254.724)	(99.228)	39,0	(79,7)	(77,6)
Gross profit	**90.038**	**73.633**	**16.405**	**22,3**	**20,3**	**22,4**
Other operational proceeds	845	1.441	(596)	(41,4)	0,2	0,4
Costs of sale and marketing	(33.560)	(33.022)	(538)	1,6	(7,6)	(10,0)
Overhead costs	(26.463)	(23.670)	(2.793)	11,8	(5,9)	(7,2)
Other operational costs	(3.504)	(2.242)	(1.262)	56,3	(0,8)	(0,7)
Operational profit	**27.356**	**16.140**	**11.216**	**69,5**	**6,2**	**4,9**
Net financial costs	(4.181)	(4.982)	801	(16,1)	(0,9)	(1,5)
Share in profits / (losses) of affiliated units	1.119	(833)	1.952	-	0,2	(0,3)
Profit before taxation	**24.294**	**10.325**	**13.969**	**135,3**	**5,5**	**3,1**
Income tax	3.469	(560)	4.029	-	0,8	(0,1)
Net profit	**27.763**	**9.765**	**17.998**	**184,3**	**6,3**	**3,0**
including:						
for Company shareholders	28.052	11.372	16.680	146,7	6,3	3,5
for minority shares	(289)	(1.607)	1.318	(82,0)	(0,1)	(0,5)
	27.763	**9.765**	**17.998**	**184,3**	**6,2**	**3,0**

IV. Characteristics of selected items of the consolidated financial statement (contd.)

Selected indexes featuring equity and financial situation and financial results of the Group

The following indexes feature commercial activities of the Group, its financial result for the accounting year and the equity and financial situation as of the balance sheet date against the preceding period:

	2005	2004
Indexes of activity		
- turnover of receivables	55 days	75 days
- turnover of the inventory	21 days	19 days
Indexes of profitability		
- net profitability on sale	6.2%	3.0%
- gross profitability on sale	20.3%	22.4%
- general capital profitability	18.9%	8.3%
Indexes of indebtedness		
- indebtedness rate	53.6%	51.5%
- turnover of obligations	42 days	49 days
	31 Dec 2005	**31 Dec 2004**
Indexes of liquidity		
- index of liquidity I	1.6	1.7
- index of liquidity II	1.4	1.5

Consolidated balance sheet as of 31 December 2005

1. **Tangible fixed assets**

Tangible fixed assets come mostly from the Dominant Unit. In the audited year, net value of tangible fixed assets increased by PLN 16,047 thou., i.e. by 22%. Increase referred mostly to land, buildings and building objects (increase in gross value by PLN 11,430 thou.) due to investment expenses incurred by the Dominant Unit in the area of the Special Economic Zone, as well as means of transport and equipment (increase in gross value by PLN 13,539 thou.), mostly related to computer hardware and equipment.

2. **Investments in affiliated units**

Investments in affiliated units come exclusively from the Dominant Unit. The increase in their balance as of 31 December 2005 against the end of the previous period by PLN 5,369 thou. resulted mostly from acquisition of shares in the Interia.pl S.A. affiliated unit and share in the profits of this company.

3. **Inventory**

Inventory comes mostly from the Dominant Unit. The increase in the inventory against the end of the previous year by PLN 11,124 thou., i.e. by 74%, resulted from purchases in reference to execution of significant agreements for delivery of computer hardware, as well as expenditures incurred for development of own software.

4. **Trade receivables and other receivables**

Trade receivables and other receivables mostly come from the Dominant Unit. The increase in proceeds on sale reported in the audited year affected shaping of the balance of trade receivables and other receivables (increase by PLN 12.990 thou.), as well as the index of turnover in receivables (dropped from 75 days to 55 days).

5. **Initial capital of the Dominant Unit**

In the audited year, the registered initial capital was increased by the amount of PLN 102,708. The Board of Directors of ComArch S.A. authorised by the Supervisory Board passed resolution No. 1 on 11 April 2005 on increasing the initial capital by way of issuing 102,708 shares in Series G3 with the nominal value and the issue price of PLN 1 each. The issue of shares in Series G3 was conducted by way of a private subscription. All shares in Series G3 were offered to President of the Dominant Unit in reference to execution of the managerial option, which was presented in more detail in Note 4.12 in the supplementary information and explanations to the consolidated financial statement.

In accordance with the information in the consolidated financial statement as of the date of preparation of the consolidated financial statement, the shareholders of the Dominant Unit with at least 5% votes in the General Assembly were:

Shareholder	Number of owned shares	Nominal value of owned shares	% of shares (votes) owned
Elżbieta and Janusz Filipiak	3.289.393	3.289.393	47,3% (69,69%)
Clients of BZ WBK AIB Asset Management S.A., including BZWBKAIB Towarzystwo Funduszy Inwestycyjnych S.A.	1.417.770	1.417.770	20,4% (9,72%)

Information about changes in structure of ownership, which occurred in the audited accounting year and by the date of completion of the audit were included in Note 4.12 in the supplementary information and explanations to the consolidated financial statement.

6. Minority shares

Minority shares increased against the previous accounting year from PLN 14,013 thou. to PLN 14,353 thou. The increase was mostly related to buying out minority shareholders of the subsidiary unit, ComArch Global Inc., by the dominant Unit. The capital comes from the share of minority shareholders in the following companies:

	31 Dec 2005 – PLN thou.	**31 Dec 2004 – PLN thou.**
MKS Cracovia S.S.A.	14.353	14.561
ComArch Global Inc.	-	(548)
TOTAL	14.353	14.013

7. Credits and loans

Credits and loans come mostly from the Dominant Unit. The balance as of 31 December 2005 included mostly the obligation on account of the investment credit of the Dominant Unit. The increase in balance of credits and loans against the end of the previous year by PLN 9,151 thou. was mostly related to initiating by the dominant Unit further portions of the investment credit dedicated for financing investments in the production and office building in the Special Economic Zone in Krakow.

8. Trade obligations and other obligations

Trade obligations and other obligations refer mostly to the Dominant Unit. The increase in balance of trade obligations and other obligations against the previous year by PLN 23,845 thou., i.e. by 31%, resulted mostly from the recorded increase in operational activities of the Group and from significant purchases of merchandise by the dominant unit in the last quarter of the audited year, affecting increase in trade obligations.

V. Findings of an independent expert auditor

(a) The Board of Directors of the Dominant Unit provided during the audit the required information, explanations and statements and submitted a statement of completeness of including data in the consolidation documentation and reporting all conditional obligations, as well as informed about significant events, which occurred after the balance sheet date and before the date of submitting the statement.

(b) The scope of the audit was not limited.

(c) The consolidation documentation was complete and correct, and the method of its storage ensured appropriate protection.

(d) In all significant aspects, accounting principles specified by the manager of the Dominant Unit and presentation of details were compliant with the International Standards for Financial Accounting approved by the European Union. Continuity of the applied principles and method were maintained as in the previous period.

(e) In all significant aspects, consolidation of capitals and determination of minority shares were conducted properly.

(f) Exclusions of mutual settlements (receivables and obligations) and internal turnover (proceeds and costs) of units covered by the consolidation were completed in all significant aspects in accordance with the ISFA approved by the European Union.

(g) Exclusions of results not executed by the units covered by the consolidation, reported in the value of assets, were performed in all significant aspects in accordance with the ISFA approved by the European Union.

(h) Supplementary Information presents all significant information specified by the ISFA approved by the European Union.

(i) The report on activities of the Group takes into consideration the issues required by regulations of the Ordinance of the Minister of Finances of 19 October 2005 on current and periodical information provided by issuers of securities.

(j) During the audit, neither significant violations of the law were noted, which would affect the consolidated financial statement, nor significant violations of the Bylaws of the Dominant Unit.

(k) The consolidated financial statement for the preceding year was audited by PricewaterhouseCoopers Sp. z o.o. An Expert Auditor provided opinion with no objections.

(l) The consolidated financial statement of the Group for the accounting year from 1 January to 31 December 2004 was approved with resolution No. 7 of the General Assembly of Shareholders of the Dominant Unit of 30 June 2005 and submitted in the National Court Register in Krakow on 13 July 2005 and submitted for publication in Monitor Polski B on 15 December 2005.

Statement by the Board of Directors

On the entity authorised to auditing financial statements

The Board of Directors of ComArch S.A. declares that the entity authorised for auditing financial statements, performing the audit of the annual consolidated financial statement for the year 2005, was selected in accordance with the regulations of the law and that this entity and expert auditors performing the audit met the conditions for issuing an impartial and independent opinion of the audit, in accordance with the appropriate regulations of the national law.

Krakow, 5 June 2006

Janusz Filipiak

President

Board of Directors

Rafał Chwast

Deputy President

Board of Directors

Paweł Prokop

Deputy President

Board of Directors

Paweł Przewięźlikowski

Deputy President

Board of Directors

Zbigniew Rymarczyk

Deputy President

Board of Directors

Statement by the Board of Directors

On reliability of preparation of financial statements

The Board of Directors of ComArch S.A. declares that according to our best knowledge the annual consolidated financial statement for the year 2005 and the comparable data were prepared in accordance with the accounting principles in force and that they truly, reliably and clearly correspond with the equity and financial situation of the capital group of the issuer and its financial result, and that the report on activities of the capital group of the issuer includes the true image of development and achievements and situation of the capital group of the issuer, including description of the basic threats and risks.

Krakow, 5 June 2006

Janusz Filipiak

President

Board of Directors

Rafał Chwast

Deputy President

Board of Directors

Paweł Prokop

Deputy President

Board of Directors

Paweł Przewięźlikowski

Deputy President

Board of Directors

Zbigniew Rymarczyk

Deputy President

Board of Directors

REPORT OF THE BOARD OF DIRECTORS

COMARCH S.A.

FROM ACTIVITIES OF THE CAPITAL GROUP

IN 2005

Krakow, 5 June 2006

TABLE OF CONTENTS

1. THE BASIC INFORMATION ABOUT THE CAPITAL GROUP

1.1. Selected financial data

1.1.1. Consolidated financial data

	2005	2004
Proceeds on sale	443 990	328 357
Operational profit	27 356	16 140
Profit before taxation	24 294	10 325
Net profit for shareholders of the Company	28 052	11 372
Profit per share	4,06	1,67
Assets	346 847	272 909
Book value	161 372	132 435

The ComArch Group achieved in 2005 very good and best in its history financial results. It owes this to the continuing good situation in the Polish economy, expansion in international markets and increase in effectiveness of operations. The achieved proceeds on sale were record breaking at t amount of PLN 444m, that is as much as 35% more than in 2004. At the same time, significant increase in operational profit was recorded up to PLN 27.4m (from PLN 16.1m in 2004) and significant improvement in operational profitability from 4.9% to 6.2%.

Net profit of the Group (for shareholders of the Company) in 2005 achieved a record level of PLN 28.1m and was higher from net profit for 2004 by 146.7%. What is worth special emphasis is the return on capital achieved by the Group, in the amount of over 17%, which means doubling the increase of 2004, when return on capital was 8.6%.

Portfolio of orders			
	As of 30 April 2006	**As of 30 April 2005**	**Change**
Proceeds contracted for the current year	305 438	203 704	49,94%
including international contracts	66 837	47 318	41,25%
share of international contracts	21,9%	23,2%	

The portfolio of orders for the current year is at present PLN 305m and is 50% higher than in the corresponding period in 2005, which confirms further dynamic possibilities of organic development of the Group in t years to come. At the same time, the Board of Directors of the Company emphasises that the increase in operational profitability still remains one of the top priorities of the Group in the current year and in the years to come.

1.1.2. Stock exchange rate of the dominant Company shares (in PLN): ComArch S.A.

Period of time	**Highest**	**Lowest**
Q1 2005	71,00	57,00
Q2 2005	59,40	51,80
Q3 2005	62,00	55,00
Q4 2005	65,90	57,30

On 31 December 2005, the closing rate for ComArch S.A. shares in the Warsaw Stock Exchange was PLN 64.10. In 2004, the last closing rate for ComArch S.A. shares was PLN 71.50.

1.2. Organisational structure and characteristics of Group companies

ComArch

Domestic						
Krakow	Warsaw	Poznan	Gdansk	Szczecin	Katowice	Wroclaw

International				
USA	Germany	Finland	Belgium	France
Slovakia	Ukraine	Russia	UAE	Panama

MKS Cracovia SSA	INTERIA.PL SA	NetBrokers Sp. z o.o.

The basic subject matter of activities of the ComArch Group ("Group"), in which the company of ComArch SA with the office in Krakow, Al. Jana Pawła II 39 A is the dominant unit, includes production, trading and service activities in the field of IT and telecommunications, PKD 72.20. The registration court for ComArch S.A. is the District Court for Krakow Śródmieście in Krakow, the XI Department for Commercial Issues of the national Court Register. KRS number: 0000057567. The ComArch SA Company owns the dominant share in the Group in view of the achieved proceeds, value of assets and number and volume of executed contracts. The shares of the ComArch S.A. company are admitted to exchange trading in the Warsaw Stock Exchange. Duration of the dominant unit is not limited.

On 31 December 2005, the following entities formed the ComArch Group (in parentheses: share of votes for ComArch SA):

- ComArch Spółka Akcyjna with the office in Krakow,
- ComArch Global, Inc. with the office in Miami (100.00%),
- ComArch Software AG with the office in Dresden (100,00%),
- ComArch Middle East FZ-LCC with the office in Dubai (100.00%),
- ComArch Sp. z o.o. with the office in Kiev (100.00%),
- ComArch s.r.o. with the office in Bratislava, Slovakia (100.00%),
- ComArch Panama, Inc. with the office in Panama (100.00% subsidiary to ComArch Global, Inc.),
- OOO ComArch with the office in Moscow (100.00%),
- UAB ComArch with the office in Vilnius, Lithuania (100.00%),
- ComArch Services Sp. z o.o. with the office in Krakow (99.90%),
- MKS Cracovia SSA with the office in Krakow (*49.15%).

*) The MKS Cracovia SSA company is a subsidiary to ComArch S.A. on the basis of IAS 27 Section 13.

Moreover, the following are units affiliated to the dominant unit:

- INTERIA.PL SA with the office in Krakow (*49.95%),
- NetBrokers Sp. z o.o. with the office in Krakow (40.00%).

**) On 19 January 2006, ComArch S.A. sold 350,000 shares in the INTERIA.PL S.A. company, as a result of which, as of the date of preparation of this statement, the ComArch S.A. company has 2,538,369 shares in INTERIA.PL S.A., which constitutes 36.08% of the initial capital of the Company. These shares give rights for execution of 11,609,625 votes in the General Assembly, which constitutes 48.48% of the total number of votes.

The structure of activities of the ComArch Group is as follows: the dominant entity acquires majority of contracts, largely executing them, with companies of ComArch Global, ComArch Software, ComArch Middle East FZ-LCC, ComArch Sp. z o.o., ComArch Panama, Inc., OOO ComArch, UAB ComArch acquiring contracts in foreign markets and executing them in entirety or in part. The ComArch s.r.o. Company deals with producing software to the order of the ComArch Group. Interia.pl is a web portal providing services in information, communication, searching and services for web communities. ComArch Services Sp. z o.o. conducts tele-IT activities consisting in providing tele-IT connections for own needs of the ComArch Group and contracts executed by ComArch, as well as providing outsourcing services. NetBrokers Sp. z o.o. operates in the e-commerce sector, offering to its clients the virtual market of commodities, the information platform functioning in the Internet. MKS Cracovia SSA is a sport joint stock company.

1.2.1 Change in the organisational structure in 2005

A) Registration of OOO ComArch with the office in Moscow

On 26 January 2005, the company of OOO ComArch with the office in Moscow, Russia, was registered. OOO ComArch is a company 100% subsidiary to ComArch S.A. The initial capital of the company is RUB 1.2m and is divided into 1,200,000 shares with the nominal value of RUB 1 each (RUB 1 is about PLN 0.11). The general number of votes resulting from all the issued shares is 1,200,000. The initial capital, as of the date of preparation of this report, was paid in entirety in cash. The company deals with sale of ComArch products in Russia and partial support for the IT systems supplied to clients.

B) Acquisition of shares in the INTERIA.PL S.A. company by ComArch S.A.

On 18 March 2005, the Board of Directors of ComArch S.A. was informed by Dom Maklerski POLONIA NET S.A., offering shares in Series F of the Interia.pl S.A. company in public trading of securities, about allocation of 425,000 shares in the Interia.pl S.A. company to the ComArch S.A. company. The issue price for the allocated shares is PLN 10 per share. Interia.pl S.A. is a company affiliated to ComArch S.A. Transaction value is PLN 4,250 thou.

As a result of assuming the new issue of INTERIA.PL shares in March 2005, the ComArch S.A. Company temporarily had over 50% of votes in the GAS, however, due to regulations of the law on public trading in securities, the Company could not execute voting rights of the owned shares before disposing shares to reach the number of votes in the GAS of less than the 50% threshold. On 12 May, the ComArch S.A. Company disposed of 1 INTERIA.PL share and at the same time INTERIA.PL, on the motion of shareholders, converted 305,119 registered shares. By virtue of the above resolution, 195,556 registered shares owned by ComArch S.A. were converted so that on 12 May the ComArch S.A. Company had 2,888,369 shares, which constitutes 49.95% of votes in the GAS. Throughout the time, the INTERIA.PL company remained a company affiliated to ComArch S.A.

C) Change in the structure of shareholders in ComArch Global, Inc.

On 27 April 2005, as a result of redemption of 10% of shares of minority shareholders of the company, ComArch S.A. became the sole shareholder in ComArch Global, Inc.

D) Registration of UAB "ComArch" with the office in Vilnius

On 7 October 2005, a limited liability company of UAB "ComArch" with the office in Vilnius, Lithuania, was registered, which is an entity 100% subsidiary to ComArch S.A. The initial capital of the company was covered in cash and is LTL 70,000 (LTL 1 is about PLN 1.12). The initial capital is divided into 700 shares at LTL 100 each. The general number of votes from all shares is 700. The company deals with sale and support for IT systems supplied to clients.

1.2.2 Characteristics of companies in the Group

Firm of the Company:	**ComArch Spółka Akcyjna**
Address of the Company:	31-864 Krakow, Aleja Jana Pawła II 39 a, Poland
Phone:	+48 12 646-1000
Fax:	+48 12 646-1100
Regon:	350527377
NIP:	677-00-65-406

The dominant company, shares of the Company are allowed for trading in the Warsaw Stock Exchange and are owned, according to the knowledge of the Company as of the date of preparation of this report, by Janusz and Elżbieta Filipiak (43.08% of shares), members of the Board of Directors ComArch S.A. (1.97%), BZ WBK AIB Asset Management S.A. (18.86%), BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna (9.42%) (some shares owned by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna was acquired through BZ WBK AIB Asset Management S.A.).

The Company has branches in Krakow, Warsaw, Poznan, Gdansk, Wroclaw, Katowice, Bielsko-Biala, Lodz and Szczecin.

Firm of the Company:	**ComArch Global, Inc.**
Address of the Company:	1160 NW 159th Drive, Miami, FL 33169, USA
Phone:	+1 305 329 0010
Fax:	+1 305 329 0015
Document No.:	P02000099861

On 31 December 2005, ComArch S.A. had 100% shares in ComArch Global, Inc. On 27 April 2005, as a result of redemption of 10% of shares of minority shareholders of the company, ComArch S.A. became the sole shareholder of ComArch Global, Inc. In accordance with the Accounting Act of 29 September 1994, ComArch Global, Inc. is a company subsidiary to ComArch S.A.

Firm of the Company:	**ComArch Software AG**
Address of the Company:	"Bürozentrum Falkenbrunnen", Chemnitzer Str. 48a, 01187 Dresden, Germany
Phone:	+49 (0) 351 438 97 00
Fax:	+49 (0) 351 438 97 10
HRB:	48858

On 31 December 2005, the initial capital of ComArch Software AG was EUR 58,380.00. The initial capital consists of 11,676 registered shares with the nominal value of EUR 5 each. The general number of votes resulting from all the issued shares is 11,676. ComArch S.A. has 100% share in the capital and votes in the GAS of the Company. In 2005, there were no changes in the capital structure of ComArch Software. In accordance with the Accounting Act of 29 September 1994, ComArch Software AG is a company subsidiary to ComArch S.A.

Firm of the Company:	**ComArch Middle East FZ-LCC**
Address of the Company:	PO. Box 500398 Dubai, UAE
Phone:	+971 4 3913262
Fax:	+971 4 3918668
Register No.:	19879

On 31 December 2005, the initial capital of the company was AED 200 thou. and was divided into 200 shares at AED 1 thou. each (AED 1 is about PLN 1.08). ComArch S.A. is the sole shareholder in the company. The general number of votes resulting from all the issued shares is 200. In 2005, there were no changes in the capital structure of the company. In accordance with the Accounting Act of 29 September 1994, ComArch Middle-East FZ-LCC is a company subsidiary to ComArch S.A.

Firm of the Company:	**ComArch Sp. z o.o.**
Address of the Company:	18/7 Kutuzova Str., 01133 Kiev, Ukraine
Phone:	+(380) 44 492 28 42
Fax:	+(380) 44 492 28 43
Register No.:	32918282

On 31 December 2005, a limited liability company of "ComArch" with the office in Kiev, Ukraine, was 100% subsidiary to ComArch S.A. The initial capital of the company is UAH 20,500. The registered

company is a one-person limited liability company. In 2005, there were no changes in the capital structure of the company. In accordance with the Accounting Act of 29 September 1994, ComArch Sp. z o.o. is a company subsidiary to ComArch S.A.

Firm of the Company:	**ComArch s.r.o.**
Address of the Company:	821 05 Bratislava, Kladnianska 34, Slovakia
Phone:	+(421) 2 48210400
Fax:	+(421) 2 48210401
Regon:	36056715
NIP:	SK2020070558

On 31 December 2005, the sole shareholder in the company was ComArch S.A. The initial capital of ComArch s.r.o. is SKK 200,000. In 2005, there were no changes in the capital structure of the company. In accordance with the Accounting Act of 29 September 1994, ComArch s.r.o. is a company subsidiary to ComArch S.A.

Firm of the Company:	**ComArch Panama, Inc.**
Address of the Company:	Calle 50 y 54 Este, Ed. Frontenac, Panama City, Panama
Phone:	+507 263 25 69
Fax:	+507 263 25 69
Registration No.:	468218

On 31 December 2005, the sole shareholder of the ComArch Panama, Inc. company was ComArch Global, Inc. The initial capital of the company is USD 10 thou. and is divided into 10,000 shares with the nominal value of USD 1 each. The general number of votes resulting from all the issued shares is 10,000. In 2005, there were no changes in the capital structure of the company. In accordance with the Accounting Act of 29 September 1994, ComArch Panama, Inc. is a company subsidiary to ComArch S.A.

Firm of the Company:	**UAB ComArch**
Address of the Company:	Naugarduko 57, LT-03202 Vilnius, Lithuania
Phone:	+ 370 52 33 79 95
Register No.:	300150316

On 31 December 2005, the sole shareholder in the company was ComArch S.A. The initial capital of the company is LTL 70,000 (LTL 1 is about PLN 1.12) and is divided into 700 shares at LTL 100 each. The general number of votes from all shares is 700. The company deals with sale and support of IT systems supplied to clients. In accordance with the Accounting Act of 29 September 1994, UAB ComArch is a company subsidiary to ComArch S.A.

Firm of the Company:	**OOO ComArch**
Address of the Company:	Prechistensky Pereulok 14 building 1 "Ambasador Office House" Moscow, 119034, Russian Federation
Phone:	+7495 783 36 71 +7495 783 36 72 +7495 783 36 73
Register No.:	OKPO75603466

On 31 December 2005, the OOO ComArch company was 100% subsidiary to ComArch S.A. The initial capital of the company is RUB 1.2m and is divided into 1,200,000 shares with the nominal value of RUB 1 each (RUB 1 is about PLN 0.11). The company deals with sale of ComArch products in Russia and partial support for IT systems supplied to clients. In accordance with the Accounting Act of 29 September 1994, OOO ComArch is a company subsidiary to ComArch S.A.

Firm of the Company:	ComArch Services Sp. z o.o.*
Address of the Company:	31-946 Krakow, ul. Teatralne 9a, Poland
Phone:	+48 12 646-1800
Fax:	+48 12 646-1850
Regon:	356846563
NIP:	678-29-24-039

On 31 December 2005, the initial capital of the company was PLN 50 thou. and was divided into 1,000 shares at PLN 50 each. ComArch S.A. assumed 999 shares with the nominal value of PLN 1. The general number of votes resulting from all the issued shares is 1,000. In 2005, there were no changes in the capital structure of the company. In accordance with the Accounting Act of 29 September 1994, ComArch Services Sp. z o.o. is a company subsidiary to ComArch S.A.

*) With the decision of the District Court for Krakow Śródmieście in Krakow, Department XI for Commercial Issues of the National Court Register, of 28 April 2006, ComArch Services sp. z o.o. was transformed into a joint stock company ComArch Services S.A. The initial capital of the ComArch Services S.A. company is PLN 1,050 thou. and is divided into 5,250 shares with the nominal value of PLN 200 each, with the resulting 5,250 votes.

Firm of the Company:	**INTERIA.PL Spółka Akcyjna**
Address of the Company:	30-081 Krakow, ul. Królewska 57, Poland
Phone:	+48 12 646-2700
Fax:	+48 12 646-2710
Regon:	357054315
NIP:	677-21-18-727

On 31 December 2005, the initial capital of the company was PLN 7,035,498 and was divided into 7,035,498 shares with the nominal value of PLN 1 each. ComArch S.A. had 2,888,369*) shares of the company at the nominal value of PLN 1 each, which constituted 49.95% votes in the General Assembly and 41.05% share in the initial capital of the Company.

In the first half of the year, the company issued 466,549 regular bearer's shares in Series F with the nominal value of PLN 1 each. The issue price was PLN 10 per share. As a result of assuming 425,000 shares in the new issue of INTERIA.PL in March 2005, the ComArch S.A. Company had temporarily over 50% of votes in the GAS, however, due to regulations of the law on public trading in securities, the Company could not execute voting rights of the owned shares before disposing shares to reach the number of votes in the GAS of less than the 50% threshold. On 12 May, the ComArch S.A. Company disposed of 1 INTERIA.PL share and at the same time INTERIA.PL, on the motion of shareholders, converted 305,119 registered shares. By virtue of the above resolution, 195,556 registered shares owned by ComArch S.A. were converted so that on 12 May the ComArch S.A. Company had 2,888,369 shares, which constitutes 49.95% of votes in the GAS. Throughout the time, the INTERIA.PL company remained a company affiliated to ComArch S.A.

*) On 19 January 2006, ComArch S.A. sold 350,000 shares in the INTERIA.PL S.A. company as a result of which as the date of preparation of this report, the ComArch S.A. company has 2,538,369 shares in INTERIA.PL S.A., which constitutes 36.08% of the initial capital of the company. These shares give right to exercise 11,609,625 votes in the General Assembly, which constitutes 48.48% of the total number of votes.

Firm of the Company: **NetBrokers Sp. z o.o.**

Address of the Company: 31-946 Krakow, os. Teatralne 9a, Poland

Phone: +48 12 646-1868

Fax: +48 12 646-1870

Regon: 357140291

NIP: 679-26-07-441

On 31 December 2005, the initial capital of the company was PLN 750,000 and was divided into 750 shares with the nominal value of PLN 1,000 each. ComArch S.A. had 300 shares, which constituted 40.0% of the initial capital of the company. In 2005, there were no changes in the capital structure of the company. In accordance with the Accounting Act of 29 September 1994, NetBrokers Sp. z o.o. is a company affiliated to ComArch S.A.

Firm of the Company: **Miejski Klub Sportowy Cracovia Sportowa Spółka Akcyjna**

Address of the Company: 30-111 Krakow, ul. Kałuży 1, Poland

Phone: +48 12 292-9100

Fax: +48 12 292-9103

Regon: 351553230

NIP: 677-20-79-476

On 31 December 2005, the initial capital of MKS Cracovia SSA was PLN 14,557,000 and was divided into 145,570 shares. The initial capital consists of 70,570 shares in Series A, 5,000 shares in Series B, 30,000 shares in Series C and 40,000 shares in Series D. The total number of votes resulting from all the issued shares is 145,570. ComArch S.A. has 71,550 shares and votes in the MKS Cracovia SSA GAS, which constitutes 49.15% of the share in the initial capital of the company. In 2005, there were no changes in the structure of the initial capital of the company. In accordance with Article 3 Para 37 Clause d) of the Accounting Act, due to the fact that majority of members of the Supervisory Board of MKS Cracovia SSA is appointed by ComArch S.A., MKS Cracovia SSA is a company subsidiary to ComArch S.A.

Firm of the Company: **Fideltronik-ComArch** Limited liability company

The Company did not start its activities

The initial capital of the company is PLN 4,000.00 and is divided into 40 equal and indivisible shares at PLN 100 each. ComArch S.A. has 20 shares at the total value of PLN 2,000.00, which constitutes 50% of the initial capital and the same number of votes in the Assembly of Partners. In 2005, there were no changes in the structure of the initial capital of the company. In accordance with the Accounting Act of 29 September 1994, Fideltronik-ComArch Sp. z o.o. is a company affiliated to ComArch S.A. The Company did not start its activities.

1.3. Shareholders, managing and supervising entities

1.3.1. Shareholders with at least 5% of the total number of votes in the GAS of the dominant company

The initial capital of ComArch S.A. consists of 6,955,095 shares for the total nominal value of PLN 6,955,095. In accordance with the information of ComArch S.A., as of 31 December 2005, Ms. Elżbieta and Mr. Janusz Filipiak and BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. were shareholders with at least 5% of votes in the GAS of the company.

Shareholders	Number of shares	% of the initial capital	Number of votes in the GAS of the company	% of votes in the GAS of the company
Elżbieta and Janusz Filipiak	3 289 393*	47,29	10 245 393	73,06
Other members of the Board of Directors	147 947	2,13	223 147	1,59
Clients of BZ WBK AIB Asset Management S.A.	885 815**	12,74	885 815**	6,32
Including:				
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna	*708 629*	*10,19*	*708 629*	*5,05*
Other shareholders	2 631 940	37,84	2 669 540	19,03
Total***	6 955 095	100,00	14 023 895	100,00

*) On 27 January 2006, ComArch S.A. received a notice of transactions of disposal of 25,000 bearer's shares of the Company by a member of the Supervisory Board of ComArch S.A. from 20 to 25 January 2006 at prices from PLN 66 to PLN 67.10 per share. On 3 February 2006, ComArch S.A. received a notice of disposal of 25,000 regular bearer's shares of the Company by a member of the Supervisory Board of ComArch S.A. on 3 February 2006 at PLN 71 per share. The transactions were completed in the controlled market through the Warsaw Stock Exchange S.A.

From 22 February to 24 March 2006, ComArch S.A. received statements of conversion of 3,221 bearer's convertible bonds issued by the Company into shares. For convertible bonds in Series A covered by the submitted statements of conversion, 563,675 regular bearer's shares in Series H were released. On 16 May 2006, the District Court for Krakow Śródmieście in Krakow, Department XI for Commercial Issues of the National Court Register, registered increase of the initial capital of the ComArch S.A. Company to the amount of PLN 7,518,770. After the increase, the initial capital of the Company is divided into 7,518,770 shares. 14,587,570 votes in the GAS of the Company correspond to these shares.

As a result of the above events, as of the date of preparation of the report, the married couple of Elżbieta and Janusz Filipiak together owned 3,239,393 shares (43.08% of the initial capital), which gave 10,195,393 votes in the GAS, which constituted 69.89% of all votes in the GAS.

**) As a result of acquisition of shares, settled on 6 February 2006, in the accounts of BZ WBK AIB Asset Management S.A. clients covered by management agreements, there were 1,417,770 shares of the ComArch S.A. Company, which constituted, as of the date of preparation of the statement, 18.86% of the initial capital of the Company. 1,417,770 votes were due from these shares, which constituted 9.72% of the total number of votes in the General Assembly of ComArch S.A.

***) On 22 May 2006, ComArch S.A. was notified about registration, on 16 May 2006, by the District Court for Krakow Śródmieście in Krakow, Department XI for Commercial Issues of the National Court Register, of the increase in the initial capital of the ComArch S.A. Company up to the amount of PLN 7,518,770. After the increase, the initial capital of the Company is divided into 7,518,770 shares, with the corresponding 14,587,570 votes in the GAS of the Company.

1.3.2. Registered shares of the dominant company with voting privileges

The registered shares in Series A and B have voting privileges in the way that each share has 5 votes in the General Assembly of ComArch S.A. The married couple of Elżbieta and Janusz Filipiak together own 855,400 registered privileged shares in Series A with 4,277,000 votes in the GAS of the Company and together have 883,600 registered privileged shares in Series B with 4,418,000 votes in the GAS of the Company. Deputy President of the Board of Directors, Paweł Prokop, and Deputy President of the Board of Directors, Paweł Przewięźlikowski, have 9,400 registered privileged shares in Series A each, with the rights to 47,000 votes in the GAS of the Company.

Conversion of the registered shares of the Company into bearer’s shares is allowed. In case of conversion of registered shares into bearer’s shares, they lose all privileges. Conversion of bearer’s shares into registered shares is not allowed.

Conversion of the registered shares into bearer’s shares is performed by the Board of Directors on request of a shareholder who has such shares. Registered shares are subject to conversion into bearer’s shares following the principles in force in the public trading in securities.

In case of disposal of registered privileged shares for the benefit of persons who are not shareholders of the Company, all the related special rights as regards voting in the GAS expire as of 18 March 1998. Disposal of registered shares requires consent of the Board of Directors provided in writing.

1.3.3. The Supervisory Board and the Board of Directors of the dominant Company: ComArch S.A.

A) Composition of the Supervisory Board and the Board of Directors of ComArch as of 31 December 2005:

The Supervisory Board, ComArch S.A.

First and last name	Function
Elżbieta Filipiak	Chairwoman of the Board
Krzysztof Zieliński	Deputy Chairman of the Board
Maciej Brzeziński	Member of the Board
Anna Ławrynowicz	Member of the Board
Wojciech Kucharzyk	Member of the Board

According to the knowledge of the Company, only Chairwoman of the Board from among members of the Supervisory Board, Ms. Elżbieta Filipiak, has shares of the dominant company. On 31 December 2005, Ms. Elżbieta Filipiak had 869,749 shares, which constituted 12.51% of the initial capital of the Company, with 4,065,749 votes of these shares in the General Assembly of ComArch S.A., which constituted 28.99% of the total number of votes in the GAS of the Company.

The Board of Directors, ComArch S.A.

First and last name	Function
Janusz Filipiak	President, the Board of Directors
Rafał Chwast	Deputy President, the Board of Directors
Tomasz Maciantowicz	Deputy President, the Board of Directors
Paweł Prokop	Deputy President, the Board of Directors
Paweł Przewięźlikowski	Deputy President, the Board of Directors
Zbigniew Rymarczyk	Deputy President, the Board of Directors
Christophe Debou	Member, the Board of Directors

Proxies for the Company are: Jowita Gmytryk, Katarzyna Maurer, Tomasz Matysik, Tomasz Nakonieczny and Dariusz Durałek.

On 31 December 2005, Janusz and Elżbieta Filipiak together had 3,289,393 shares of ComArch S.A., Rafał Chwast had 6,566 shares, Tomasz Maciantowicz had 92,131 shares, Paweł Prokop had 24,440 shares, Paweł Przewięźlikowski had 24,440 shares and Zbigniew Rymarczyk had 370 shares.

B) Principles for appointing and dismissing the Board of Directors

In accordance with the Bylaws of the company, the Board of Directors of the company consists of 2 to 8 persons appointed and dismissed by the Supervisory Board. Members of the Board of Directors are appointed for the common term of office of three years. The Supervisory Board defines salaries for the Board of Directors as well as suspends in activities, on important reasons, particular or all members of the Board of Directors and delegates members of the Supervisory Board for temporary execution of the activities of members of the Board of Directors.

C) Rights of the Board of Directors

- The Board of Directors may appoint proxies.
- For making statements on behalf of the Company and representing the Company in Court and off Court, President of the Board of Directors single-handedly or two members of the Board of Directors acting jointly or one member of the Board of Directors acting jointly with a proxy are authorised.
- In agreements between the Company and members of the Board of Directors and in disputes with them, the Company is represented by the Supervisory Board or by a proxy appointed with a resolution of the General Assembly. The Supervisory Board may authorise, by way of a resolution, one or more members of the Supervisory Board to perform such legal actions.
- The Board of Directors defines internal organisation of the Company.
- The right to make decisions an issuing or buying out shares is granted to the Board of Directors on the basis of an authorisation by the General Assembly of Shareholders.

D) Agreements between the issuer and managing persons, which plan for compensation in case of resignation or discharge from the occupied post

N/a.

E) Value of salaries, awards or benefits separately for each of the managing and supervising persons in the Dominant Unit

Board of Directors ComArch S.A.

Item		Paid by ComArch S.A.	Paid by subsidiary and affiliated units	Total
1	Chwast Rafał	732 055,29	0,00	732 055,29
2	Chwastek Robert	260 379,53	0,00	260 379,53
3	Debou Christophe	327 927,76	149 586,29	477 514,05
4	Filipiak Janusz	2 759 383,25	0,00	2 759 383,25
5	Maciantowicz Tomasz	148 292,40	0,00	148 292,40
6	Prokop Paweł	374 023,36	0,00	374 023,36
7	Przewięźlikowski Paweł	1 378 552,80	0,00	1 378 552,80
8	Rymarczyk Zbigniew	802 000,41	0,00	802 000,41
	Board of Directors, Total	**6 782 614,80**	149 586,29	**6 932 201,09**

Supervisory Board ComArch S.A.

Item		Paid by ComArch S.A.	Paid by subsidiary and affiliated units	Total
1	Filipiak Elżbieta	303 117,07	0,00	303 117,07
2	Brzeziński Maciej	30 000,00	0,00	30 000,00
3	Zieliński Krzysztof	30 000,00	0,00	30 000,00
4	Ławrynowicz Anna	30 000,00	0,00	30 000,00
5	Kucharzyk Wojciech	30 000,00	0,00	30 000,00
	Supervisory Board, Total	**423 117,07**	0,00	**423 117,07**

On 29 March 2005, Mr. Robert Chwastek filed resignation from the performed function of Member of the Board of Directors, ComArch S.A. Mr. Robert Chwastek gave personal issues as reason for resignation. On 23 January 2006, Mr. Christophe Debou filed resignation from the performed function of Member, the Board of Directors, ComArch S.A. On 11 May 2006, Mr. Tomasz Maciantowicz filed resignation from the performed function of Member, the Board of Directors, ComArch S.A.

F) Procedures and principles for defining salaries for managing and supervising persons of the issuer

In accordance with Article 15 Para 10) of the ComArch S.A. Bylaws, defining principles and regulations of salary for members of the Board of Directors is competency of the General Assembly, provided that, in accordance with provisions of the Bylaws, this competency may be provided partly or in entirety to the Supervisory Board of the Company. Before 29 August 2004, this competency remained with the Supervisory Board.

At present, the resolution of the Supervisory Board of 20 August 2004 and the resolution No. 52 of the Assembly of Partners of 30 June 2005 are binding in the scope of defining principles for salary for members of the Board of Directors.

G) The incentive programme

On 30 June 2005, the General Assembly of Shareholders passed resolution No. 51 on establishing a programme of managerial options for Members of the Board of Directors and Key Employees of the Company. Theoretical value of the options for particular Members of the Board of Directors in 2005 is given in the following table:

First and last name	Theoretical value of options (in PLN thou.)
Janusz Filipiak	914
Rafał Chwast	73
Tomasz Maciantowicz	73
Paweł Prokop	73
Paweł Przewięźlikowski	73
Zbigniew Rymarczyk	73
TOTAL	1 279

More details on the above incentive programme are given in section 5.2.3.

1.4. Employment

On 31 December 2005, the dominant Company employed 1,755 persons, against 1,510 persons as of 31 December 2004, whereas the whole Capital Group employment increased to 2,027 persons (against 1,686 persons as of 31 December 2004) (without employment in MKS Cracovia SSA). The following table gives employment in the Capital Group as of 31 December 2005:

Company	Number of employees	Number of regular colleagues
ComArch S.A.	1 470	285
ComArch Global, Inc.	7	1
ComArch Software AG	8	10
ComArch Middle East FZ-LCC	1	-
ComArch Sp. z o.o.	10	-
ComArch s.r.o.	15	-
ComArch Panama, Inc.	20	-
OOO ComArch	2	-
UAB ComArch	5	-
NetBrokers Sp. z o.o.	12	-
ComArch Services Sp. z o.o.	9	2
INTERIA.PL S.A.	156	14
TOTAL	**1 715**	**312**
MKS Cracovia SSA	34	66
TOTAL	**1 749**	**378**

1.4.1. Control system for the programme of employee shares

N/a.

2. COMMERCIAL OPERATIONS

2.1 Products and services offered by ComArch in 2005

ComArch is a producer of innovative IT systems for key sectors of economy: telecommunications, finances, public administration, large companies and the sector of small and medium-sized companies. A wide range of the ComArch offer includes ERP-class and financial and accounting systems, CRM systems and loyalty software, sales support and electronic document exchange systems, knowledge management, Business Intelligence, security and protection of data and many other solutions. Apart from providing innovative IT solutions to its customers, ComArch is focused on professional customer service and on providing consulting, advisory and integration services as a uniform package, with which our customers can take full advantage of the possibilities offered by modern IT systems.

PRODUCTS

2.1.1 Solutions for the Telecommunications sector

ComArch BSS Suite is an innovative, modular billing platform supporting all areas related to settlements and customer services, as well as broadly understood suppliers and recipients of telecommunications services. Its task is to execute business objectives of the operator and preparing him for introduction of new-generation services. A comprehensive set of modules allows management of business in all telecommunications markets: stationary telephone networks, mobile telephone networks, Internet services, cable TV or contents providers. ComArch BSS Suite features flexible, scalable and open architecture which supports the complete billing process. The system, based on the latest technologies, is a very effective and reliable one, which can be integrated with other systems. ComArch BSS Suite received certificates of performance on Sun and HP platforms in international testing centres in the United Kingdom, Switzerland and Germany. With it, operators can handle the most difficult challenges, such as inter-operator billing, implementation of new-generation services or convergent billing.

ComArch OSS Suite is a complex platform for network and telecommunications services management. It enables operators to increase reliability and quality of their infrastructure and services. The platform is compliant with the NGOSS standard and consists of modules, which can be tailored to individual needs of the operator in order to increase return on investment (ROI) and operational costs. The platform supports all OSS areas. It has been built with modern technologies (J2EE, Corba and RMI), with the communication bus based on XML and SOAP, allowing perfect integration with other IT systems (e.g. BSS, OSS, CRM) and efficient flow of information between particular systems.

2.1.2 Solutions for the Finance and Banking sector

ComArch Internet Retail Banking provides 24/7 access to services offered by the bank to retail customers and „micro" companies over the Internet, WAP, SMS and other distribution channels. Due to excellent integration with various central systems, it is a versatile, complete, efficient and safe supplement of the IT bank environment. The ComArch Internet Banking Platform offers solutions for providing financial services through self-service channels, meeting high requirements of banks, brokerages, associations of investment funds and other financial institutions. It is also an integration platform, combining services and products offered by a financial institution or by an entire financial group into one solution.

ComArch Internet Corporate Banking is an innovative IT banking system specialised in services for corporate customers. It was created from the scratch and implemented for the first time in 2003 with all needs of medium-sized and large companies in mind. It is optimised for mass processing of payments, allocation of roles in a company, support of communication between the customer and the advisor appointed by the bank, as well as the highest security level available.

ComArch Credit Process Management. All stages of sale and management of credit products can be simplified and optimised with implementation of the ComArch Credit Process Management. The modular design of this system enables selection of an optimum set of functionalities and support for the most important processes related to management of any credit products for any customer segment: product design, simulations, preparing an application, support for the decision-making process, preparing an agreement, activation of funds, management of collateral, monitoring of active agreements, settlements of transactions, management of the sales network and calculation of commission, as well as vindication from unreliable customers.

The corporate version of the **ComArch Credit Process Management** system is its extension with additional tools, specific for this segment of customers, such as the rating engine, the index analysis module or the extended module of collateral management. As with CRM solutions, emphasis has been put on flexibility of the decision-making mechanism in designing the system supporting the crediting process for large companies, and the proposals generated automatically do not restrict the process management policy in the degree characteristic for the retail segment.

ComArch CRM Sales Management is an integrated application of the new generation front-end type. It ensures complex management of the relations with customers, from the moment of the acquisition action to the initiation of the sales programmes (cross- and up-selling) to the current operational services within the whole range of the product offer.

The system includes functionality for the front-office employees (the Salesman Application) providing direct customer services, and for middle- and back-office employees (the Branch Director Application, the Central Application), responsible for management of the sales process.

ComArch CRM Campaign Management is a system supporting the entire cycle of marketing campaign management: from planning to tests, execution and modification to tests of performance. The system allows reaching the target group of customers of a precisely defined profile, at a proper time, with appropriate information, and through an appropriate communication channel. The possibility of integration of mass Above The Line (ATL) campaigns and direct Below The Line (BTL) campaigns is a unique solution, allowing achievement of the synergy effect between the two types of activities and winning savings on costs of reaching the customer.

ComArch CRM Corporate is a system, which provides a complex support for work of people directly engaged in creation and maintenance of relations with the customers of the bank (relationship manager, adviser, assistant). It offers a similar range of functionalities as ComArch CRM Sales Management, with a full coverage of features specific for services provided for the corporate customer. Unlike the solution designed for the retail segment, emphasis has been put here not on the standardisation of procedures and processes, but on collecting comprehensive information about the customer, the industry of his activity and other factors essential for the relationship with the customer.

ComArch Internet Investments, as an independent system or a functional supplement for ComArch Internet Banking, ensures access to investment financial services through the Internet and other electronic channels of distribution (e.g. WAP, SMS and call centre) for customers of brokerages, trustees, Investment Fund Associations, Open Pension funds and other institutions operating in the capital market. This system, developed continuously since 1998, offers the widest functionality available in the market in the scope of access to the brokerage account, TFI registers and specialised investment products.

ComArch Portfolio is an application designed for managing investment portfolios and management of assets. The wide group of prospective users of this system includes, for example, managers of investment and pension funds, asset management companies, commercial and investment banks, as well as insurers. The system registers all operations affecting contents of the investment portfolio (orders, transactions, deposits, financial operations, operations on securities, rights from securities and others).

ComArch Depository is addressed to trust banks which perform the function of depository for assets of investment, pension or insurance funds. It is responsible for performing duties imposed on the depository by regulations of the law and provisions of agreements with particular clients of the bank.

ComArch Custody is an application designed for banks dealing with trading in securities. The system allows registering and quantitative as well as financial settlements of transactions with securities in NDS S.A. and foreign deposit and settlement chambers.

ComArch Risk Management automates risk control processes aiming at limitation (restriction) of the impact of fluctuation of risk factors on the elements of commercial operations. It also allows identification of the possibility of using the observed fluctuations for investment.

2.1.3 Universal solutions for Businesses

ComArch CRM Campaign Management is a system supporting the entire cycle of marketing campaign management: from planning to tests, execution and modification to tests of performance. The system allows reaching the target group of customers of a precisely defined profile, at a proper time, with appropriate information, and through an appropriate communication channel.

ComArch CRM Sales Management ensures complex management of relations with customers from the acquisition action to activation of the sales programmes (cross- and up-selling), building loyalty programmes, to termination the co-operation. The system includes functionalities for both salespeople who provide direct customer services (the Salesman Application) as well as back-office employees, responsible for management of the sales process (the Central Application: preparing information for salespeople, preparing the pricing policy, building sales plans, monitoring sales and analysing reports with results, etc.)

ComArch Loyalty Management is an advanced set of business applications with broad functionalities, designed for both simple and advanced loyalty programmes. The system features flexibility, an ergonomical user interface and ease of operation. Scalable architecture guarantees customising the loyalty program development to the pace of company's growth.

ComArch Commission is a commission system designed for institutions which use extended networks of agents, brokers and intermediaries in their businesses. The system enables integration of all data related to sales networks, commission policy for all distribution channels and settlements with sales network units in one place. Additionally, collecting all sales data in one system allows better control over sales and optimising incentive systems.

ComArch Debt Management is a system facilitating notice and vindication processes. It enables centralised management of all processes and vindication cases with attention paid to the specific nature of the process and products, in the context of which it is used. All contacts with the debtor and other entities in the case are registered and the system reminds users about deadlines of tasks to be performed, such as telephone notice calls or replying to correspondence.

ComArch Document & Workflow Management is a system supporting management of document and information flow in the company. The system is aimed at improving efficiency of the company especially in the scope of work organisation and access to information and documents.

ComArch Content Management System is a system for management of portal content and structure. It offers a set of tools enabling remote website updating and management.

ComArch Learning Management System is a platform for management of electronic training in the organisation.

ComArch Business Intelligence is a modern IT solution based on the data warehouse technology. Its basic role is to provide a well-organised and easy-to-understand information supporting the decision-making process at various levels of company management. ComArch Business Intelligence enables selection and application of different analysis areas, depending on user's needs, e.g. sales, finances, controlling and others.

ECOD Agent is a solution of the Sales Force Automation (SFA) type, ensuring communication support for sales teams, based on mobile devices such as palmtops. The solution has been designed to maximise effectiveness of sales. The solution is offered in two versions: for the producer and for wholesale organisations.

ECOD Operator is a complex solution of the EDI (Electronic Document Interchange) type, enabling automatic exchange of information and trade documents, e.g. orders, invoices, sales reports, in the form compliant with common electronic document standards. Due to the diversity of entities co-operating on the market, ECOD Operator is supplied in three versions, each tailored to specific client requirements.

ComArch Security Management allows creation, development and management of the security policy for all networks and devices used in any location and architecture. Apart from this solution, ComArch has a broad range of products, including authentication and authorisation, public key infrastructure, as well as management of security and content.

CDN systems is a complete line of ERP systems for all types of businesses.

- The **CDN Egeria** Integrated Management System is a modern Polish system of the ERP II class, supporting company management features. The system offers a balanced functionality, including all essential areas of business activity. It is a universal tool guaranteeing stable development of any company, flexible enough to satisfy diverse needs.
- **CDN XL** is a multi-module, fully integrated IT system of the ERP class, dedicated for medium-size and large trade, manufacturing and service companies.
- **CDN OPT!MA** is a program for management, handling sales, accounting, HR and salary departments. The program supports business management and it is a perfect working tool for an accounting office. The unique feature is the possibility of leasing the program over the Internet via the ASP - CDN Online platform.
- CDN Klasyka is a coherent and complete offer for small and medium-size trade, service and manufacturing companies. It consists of +10 programs supporting management and accounting, all working in the DOS environment.

2.1.4 Solutions for Public Administration

Electronic services platform built on the basis of the e-Urząd application and portal solutions, is a solution dedicated specifically for institutions with extensive and frequent interactions with a large number of external users (applicants, members of local communities or Customers). Wrota Regionalne is one of the most widely known implementations of the electronic services platform.

e-urząd portal application is a product dedicated mainly for customers from the public sector. The product meets the requirement of contacting offices and citizens in a simpler and more flexible way, through the introduction of electronic exchange of documents, shortening time for handling specific cases, and reducing the necessity for the applicants to appear in the office.

ERP-class systems customised to specific needs of the public sector, extended with modules, which take into consideration specific needs of administration. The standard version of the offered solution includes budget accounting (including RB documents in printable and electronic versions), managing the unit's budget, calculation of salaries according to detailed regulations for budget entities.

ComArch offer for Public Administration in the scope of management of documents and group work includes systems built around the **ComArch Document & Workflow Management** platform. It is an environment supporting management of document and information flow in the office. Implementation of this system increases efficiency of the office, especially in the scope of organisation of work, access to information and all types of documents.

Business Intelligence support constitutes data warehouses, reporting and analyses, these solutions being definitely proven with Clients, who manage large volumes of data, have many systems or regional locations. We offer complex performance of the BI project starting from the business analysis, to designing and construction of data warehouses and ETL procedures, to selection, supply, integration and implementation of data access tools as well as preparing reports, analyses and statistics, including data mining.

SERVICES

The strategic area of ComArch activity consists in taking advantage of the experience and knowledge of company's employees by providing a full range of IT services: from consulting, to implementation of individual solutions, to outsourcing. The services provided by ComArch form an important and effective way of applying competence of the employees of the company. Execution of numerous programming and integration projects allowed the company to gather unique experience and create a unique team of people. This experience is proven with numerous certificates and authorisations of leading suppliers of IT solutions. The broad range of ComArch IT services is provided in a highly competent and reliable way. The most important services provided by ComArch include:

- Business Process Management
- Integration of IT Systems and implementation projects
- Turnkey projects

- IT Outsourcing (Outsourcing Infrastructures and Body Leasing)
- IT Services
- Data Security and Protection
- Consulting and Training

Internet portal: Interia.pl

Interia.pl is an Internet portal offering the following services:

a) Information services: consisting in providing news and information in the following vortals: facts, sport, business and economy, entertainment, new technologies, cars, tourism, women, games, weather, TV program.

b) Communication services: the following services are available: email, virtual postcards (e-cards).

c) Browsing services: allowing users to browse Web resources, i.e. the search engine (the Polish and the international AltaVista search engine), the catalogue of websites, service search engines, business address bases (TeleAdreson), Encyclopedia Internautica, job service.

d) Services for Internet communities: new methods of communication over the Internet, resulting in the phenomenon of so-called Web communities, such as CZATeria, Hyde Park, Miasto WWW.

Electronic trade platform: NetBrokers

The NetBrokers Internet trading platform is the largest Polish platform for companies managing their operations in the agricultural and food market.

The NetBrokers platform is a professional business tool. With it, clients can easily and quickly present their latest offer to a wide group of trade partners, and they can make contacts with companies running business in the same industry, with complete information concerning the situation in the agricultural and food market combined in one website.

NetBrokers is a wide selection of sales and purchase offers for agricultural and food products. Every day there are over 2,000 current sales and purchase offers. At present, over 1,970 companies use the programme, including those from meat, corn, fruit and vegetables industries. The value of all merchandise placed in the table is between PLN 180m and 200m, 75% of which is in sale offers and 25% in purchase offers.

Sports activity

MKS Cracovia SSA carries out sports activity by participating in professional leagues and contests in several sport disciplines, with football and ice hockey being the key ones. The objective of investing in the company is promotion of the ComArch brand. It is an element of the marketing strategy of the ComArch Group, aimed at creating image of ComArch as the first-choice integrator for large and medium-size companies in Poland.

Proceeds from sports activity of MKS Cracovia SSA include proceeds on account of advertising services and other services, as well as proceeds from tickets for sports events organised by the company.

2.2 Position of the Group in the IT market and information about markets and sources of supply

Due to the type of IT systems offered by the Company, medium-size and large companies (who are the largest clients of advanced IT solutions all over the world) constitute the main group of clients. Majority of Company's products are addressed to specific groups of customers (e.g. the ORLANDO system for banks, funds; the TYTAN system for telecommunication operators), while IT services are of universal nature and are offered to all groups of customers. Sale in the Group is highly diversified, with no dependency on one major client. In 2005, the share of only one customer exceeded 10% of the sale in the ComArch Group: delivery for the Ministry of National Education amounted to PLN 74,046 thou.

Due to the specific nature of the industry, in which ComArch manages its operations, international concerns, which are producers of computer systems and programmers tools, Polish branches and representatives of such concerns, as well as Polish distributing companies and subcontractors for systems, have to be considered sources of supply. In 2005, suppliers who provided products and merchandise at the value exceeding 10% of ComArch S.A. proceeds on sale were: Ogólnopolska Fundacja Edukacji Komputerowej S.A (PLN 65,099 thou.) and Microsoft Ireland (PLN 62,709 thou.). The above suppliers are not formally related to the Company.

The ComArch group manages its operations in the IT services market. The Polish IT market is very fragmented, which means that the share of particular companies present in this market is small. Taking into consideration the criterion of proceeds on sale, the share of the ComArch Group in the IT market is over 2.5%. However, the dynamics of ComArch growth in recent years is higher than those in the entire market, which makes ComArch one of its leaders.

According to the TOP 200 Computerworld report for 2005, ComArch S.A. is the largest integrator of IT systems in Poland, ranked 6th in Poland in the value of proceeds from IT services and 2nd in gross profit. In proceeds from export, ComArch S.A. ranked 3rd among domestic companies. In 2005, ComArch was ranked 3rd in the Polish ERP market for income from sale of ERP systems. The share of ComArch in the ERP sector is 7.6% (6.3% in the previous year). INTERIA.PL is the third best recognised and visited portal in Poland.

Both at present and in the nearest future, most of proceeds will come from the domestic market, however, intensification of activities abroad should bring systematic increase in proceeds on sale of products and services in the Middle East, Western Europe and US markets.

2.2.1 Geographical structure of sales

	12 months 2005	%	12 months 2004	%
Poland	377 002	84,9	261 377	79,6
International	66 988	15,1	66 980	20,4
Proceeds on sale	**443 990**	**100,0**	**328 357**	**100,0**

In 2005, proceeds of the Company on sale increased by 35% against the previous year. Export sale remains at the same level of PLN 67m. In comparison with 2004, the geographical structure of proceeds changed. Due to good economic situation in 2005 in the domestic market, the ComArch Group achieved increase in domestic sale by 44.% against the previous year. The share of export in all sales was 15% and was lower than in the same period of the previous year. Over 60% of export sale reaches the European market, 20% the American market, and the remaining sale is directed to Middle East markets.

Proceeds on sale according to geographical segments for 2005:

	12 months 2005	12 months 2004
Domestic (Poland)	377 002	261 377
Europe	41 181	54 735
America	14 428	9 497
Other countries	11 379	2 748
TOTAL	**443 990**	**328 357**

2.2.2 Sale structure by recipients

	12 months 2005	%	12 months 2004	%
Finances and Banking	81 541	18,4	58 206	17,7
Services, trade	114 989	25,9	65 790	20,0
Industry	26 471	6,0	25 394	7,7
Telecommunications	78 420	17,7	90 189	27,5
Public sector	133 550	30,1	83 553	25,4
Other	9 019	2,0	5 225	1,6
TOTAL	**443 990**	**100,0**	**328 357**	**100,0**

Analysis of the sale structure by recipients of the Group indicates the continued balance between particular groups of recipients. Diversification of proceeds considerably reduces risk of operations in the ComArch Group. In recent years, sale to service and trade companies becomes more and more important, where the ComArch Group executes increasingly more contracts. The high share of sale for the "public" sector in 2005 (ca. 30%) is a result of the high level of sale of computer hardware for public institutions. The increase in the remaining sale is mostly the result of increase in proceeds on sale of MKS Cracovia SSA.

2.2.3 Sales structure by type

ComArch Group	12 months 2005	%	12 months 2004	%
Services	203 750	45,9	162 897	49,6
Software	88 101	19,8	89 287	27,2
Hardware	143 144	32,2	71 222	21,7
Other	8 995	2,0	4 951	1,5
TOTAL	443 990	100,0	328 357	100,0

Services continue to be the most important part of contracts executed by the ComArch Group, which together with sale of software constitute 65.7% of the sales value. Considerable share of hardware in proceeds on sale in 2005 is a result of major orders for computer hardware in the public sector.

2.3 The most important contracts signed in 2005

The most important contracts signed by ComArch in 2005 include:

2.3.1. Master contract with a world leading power engineering concern

On 17 October 2005, the Board of Directors of ComArch S.A. informed about signing a contract with a world leading power engineering concern for construction, implementation, integration and maintenance of a global loyalty system based on the ComArch AURUM Loyalty Care solution. Within the contract, the total value of which can reach EUR 20m (depending on the number of countries), ComArch will implement its system in geographic regions most important for the concern.

Within the master contract, on 14 October 2005, ComArch S.A. signed contracts with subsidiary companies of the concern, on implementation of the system in one of West European countries, for the total value of EUR 4.126m.

The system will be hosted in Poland, in the ComArch data centres. At present, negotiations with the representatives of the concern in further countries all over the world are held. The value of the contract is PLN 16,232 thou.

2.3.2 Contracts with the Ministry of National Education (MEN)

On 30 September 2005, ComArch S.A. signed a contract with the Ministry of National Education (MEN) for delivery, installation and integration of Internet classrooms in five provinces: lubuskie, pomorskie, zachodniopomorskie, kujawsko-pomorskie and warmińsko-mazurskie. The gross value of the contract is PLN 54,573 thou. Executing the signed contract, ComArch will deliver hardware to 648 primary and secondary schools and 405 high schools: 1,053 servers, 1,053 portable computers, 14,175 PCs, 1,458 scanners, 1,458 network printers and 1,053 video projectors. The total gross value of contracts with MEN during the last 12 months was PLN 56,979 thou.

On 28 October 2005, the consortium of ComArch S.A. and Ogólnopolska Fundacja Edukacji Komputerowej with the registered office in Wrocław (Consortium) signed a contract with the Ministry of National Education (MEN) for delivery, installation and integration of all elements of Internet multimedia information centres (ICIM) in school libraries, regional teaching libraries and branches of regional teaching libraries all over the country. The net value of the contract is PLN 19,473 thou.

Executing the contract, the Consortium will deliver ICIM systems to 1,124 schools, 49 regional teaching libraries and 273 branches of regional teaching libraries.

AFTER THE BALANCE SHEET DATE

2.3.3. Contract with one of US federal government agencies

In the first quarter of 2006, the ComArch Global, Inc. subsidiary company with the registered office in Miami, signed a contract for delivery of a license for the ComArch Operations Support System for management of network infrastructure to one of US federal government agencies along with services of software maintenance and consulting. The value of the contract is USD 1m. According to the contract, the customer is entitled to purchase additional services at the value of USD 1.5m in the coming 4 years. This is another contract with a government agency in the USA. ComArch solutions will be implemented in all states of the USA.

2.3.4 Contract with Polkomtel S.A.

On 27 April 2006, a contract was signed between the companies of ComArch S.A. and Polkomtel S.A. for implementation of inter-operator and partner settlements, ComArch InterPartner Billing. The ComArch InterPartner Billing System will be used for inter-operator settlements and for supporting settlements with virtual operators (MVNO) and providers of services (Service Providers and ESP) co-operating with Polkomtel S.A. The value of the contract is PLN 12.4m. The whole project is planned to be finished in May 2007.

2.4. Production capacity of the Group

Most of production by ComArch consists in developing computer software on the basis of customer orders and in production of company's own, versatile software products. The basic factor limiting the production capacity is human resources. The company flexibly manages teams of employees through continuous optimising of filling of posts in current commercial projects (for which contracts are signed) and internal projects (developing new products and updating the existing ones, not directly connected to contractual requirements).

As the company makes active investments in new products and technologies, and it strives to provide appropriately wide range of competencies for all its employees, there are no resources that are unused.

2.5 Activity in the Special Economic Zone

On 22 March 1999, ComArch S.A. obtained a permit for conducting activity in the Special Economic Zone in Krakow. According to the ordinance of the Council of Ministers of 14 October 1997 on establishment of a Special Economic Zone in Krakow (Dz.U. No. 135, item 912 as amended), the entities, which invested in the Krakow special economic zone at least EUR 2m, were granted the following tax allowances:

a) during the first 6 years of commercial operations in the zone, the income from such activity is free from income tax

b) after this period of time, but not later than until the date specified in the permit, half of the income obtained is free from income tax.

The allowance was applicable for the income tax from legal entities from the income obtained from the activity specified in the permit.

In reference to Poland joining the European Union, the Law was passed of 2 October 2003 on changing the law on special economic zones and some other laws (Dz. U. No. 188 Item 1840), which changed the conditions for tax allowance for entities acting in special economic zones. Pursuant to the provision of Article 6 Para 1 of the Law, these entities may apply for changing the terms and conditions of the permit in order to adjust it to the principles for granting public aid in force in the European Union. Pursuant to the provision of Article 5 Para 2 Clause 1 b), Clause 2, Clause 3 of the Law, the maximum amount of public aid for entities, which manage operations in a special economic zone on the basis of a permit issued before 1 January 2000, cannot exceed 75% of the value of investments incurred in the period from the date of obtaining the permit to 31 December 2006, provided that in determining the maximum amount of public aid, the total amount of public aid obtained since 1 January 2001 is taken into consideration. It means a change in the current method of functioning of tax allowance (public aid), from unlimited by value into limited by value and dependent on the value of investments made. In case of ComArch SA, the maximum value of public aid shall not exceed 75% of the value of investment expenditures, which the Company has incurred / shall incur in the period since obtaining the permit, i.e. 22 March 1999, till 31 December 2006. ComArch S.A. applied to the Minister of Economy for change in the conditions of the permit and on 1 July 2004 it obtained the decision of the Minister of Economy of 24 June 2004 on change in the conditions of the permit to those specified above and compliant with the Law. At the same time, the period of time for which the permit for ComArch S.A. was issued was extended to 31 December 2017 in the changed permit. This means extension of the period of time in which ComArch S.A. will be able to use the public aid limit, which it is entitled to use for the investments incurred in the special economic zone.

3. FINANCIAL SITUATION OF THE COMARCH GROUP IN 2005

3.1 Financial analysis of the Group

Balance sheet

ASSETS

	31 December 2005	%	31 December 2004	%	2005-2004	%
Fixed assets						
Tangible fixed assets	90 848	26,2	74 801	27,4	16 047	21,5
Goodwill	3 284	0,9	3 284	1,2	0	0,0
Other intangible assets	35 024	10,1	34 058	12,5	966	2,8
Long-term accruals	6 885	2,0	5 004	1,8	1 881	37,6
Investments in affiliated entities	9 444	2,7	4 075	1,5	5 369	131,8
Other investments	121	0,0	43	0,0	78	181,4
Assets on account of deferred income tax	7 272	2,1	1 489	0,5	5 783	388,4
Other receivables	138	0,0	380	0,1	-242	-63,7
	153 016	**44,1**	**123 134**	**45,1**	**29 882**	**24,3**
Current assets						
Inventory	26 115	7,5	14 991	5,5	11 124	74,2
Trade receivables and other receivables	93 003	26,8	80 013	29,3	12 990	16,2
Receivables on account of current income tax	-	0,0	400	0,1	-400	-100,0
Proceeds due on account of long-term contracts	25 521	7,4	23 626	8,7	1 895	8,0
Financial assets available for sale	-	0,0	2 000	0,7	-2 000	-100,0
Other financial assets appraised at fair value: derivatives	225	0,1	-	0,0	225	100,0
Cash and equivalents	48 967	14,1	28 745	10,5	20 222	70,3
	193 831	55,9	149 775	54,9	44 056	29,4
Total assets	**346 847**	**100,0**	**272 909**	**100,0**	**73 938**	**27,1%**

The value of ComArch Group assets increased against 2004 by 27.1%, up to PLN 346.8m. Fixed assets increased by over 20%, i.e. by PLN 29.9m. This increase resulted mostly from expenditures on tangible fixed assets (increase by PLN 16m), including mostly completion of construction of the new office building in the Special Economic Zone in Krakow (expenditures incurred for this purpose in 2005 exceeded PLN 13m, the building was completed and released for use in June 2005). Other expenditures are purchase of equipment and computer hardware. Purchase of the new issue of shares in the INTERIA.PL company resulted in increase of the value of investment in affiliated entities by PLN 5.4m. Apart from the above, increase in fixed assets resulted from establishing an asset on account of deferred income tax in ComArch S.A. in reference to the investment allowance on account of conducting commercial operations in the Special Economic Zone in the amount of PLN 5.7m.

Increase in the level of current assets in 2005 (by 29.4% against 2004) is proportional to increase in proceeds on sale (35%). Significant increase in the level of cash is noteworthy: by over PLN 20m, up to the level of PLN 49m, which proves good financial liquidity of the ComArch group. The largest percentage increase (74.2%) is apparent in inventory, which is related to a large number of contracts for delivery of computer hardware and software, executed in the fourth quarter. The level of other items in current assets remains at a stable level.

	31 December 2005	%	31 December 2004	%	2005-2004	%
EQUITY						
Equity for Company shareholders						
Initial capital	6 955	2,0	6 852	2,5	103	1,5
Other capitals	128 731	37,1	118 650	43,5	10 081	8,5
Exchange rate differences	-663	-0,2	-52	0,0	-611	1175,0
Net profit for the current period	28 052	8,1	11 372	4,2	16 680	146,7
Undivided financial result	-16 056	-4,6	-18 400	-6,7	2 344	-12,7
	147 019	**42,4**	**118 422**	**43,4**	**28 597**	**24,1**
Minority shares	14 353	4,1	14 013	5,1	340	2,4
Total equity	**161 372**	**46,5**	**132 435**	**48,5**	**28 937**	**21,8**
OBLIGATIONS						
Long-term obligations						
Credits and loans	17 300	5,0	8 149	3,0	9 151	112,3
Obligations on account of deferred income tax	5 649	1,6	5 601	2,1	48	0,9
Obligations on account of convertible bonds	39 849	11,5	38 472	14,1	1 377	3,6
Provisions for other obligations and charges	38	0,0	100	0,0	-62	-62,0
	62 836	**18,1**	**52 322**	**19,2**	**10 514**	**20,1**
Short-term obligations						
Trade obligations and other obligations	99 991	28,8	76 146	27,9	23 845	31,3
Obligations on account of current income tax	1 488	0,4	0	0,0	1 488	100,0
Obligations on account of long-term contracts	14 335	4,1	7 172	2,6	7 163	99,9
Obligations on account of convertible bonds	1 097	0,3	781	0,3	316	40,5
Credits and loans	2 880	0,8	958	0,4	1 922	200,6
Provisions for other obligations and charges	2 848	0,8	3 095	1,1	-247	-8,0
	122 639	**35,4**	**88 152**	**32,3**	**34 487**	**39,1**
Total obligations	**185 475**	**53,5**	**140 474**	**51,5**	**45 001**	**32,0**
Total equity and obligations	**346 847**	**100,0**	**272 909**	**100,0**	**73 938**	**27,1**

In 2005, the book value of the ComArch Group increased by PLN 28.9m, i.e. by 21.8%. This is a result of high net profit for Company shareholders (PLN 28m) generated in the accounting year. The structure of liabilities was not significantly changed against 2004. Due to the executed investments in fixed assets financed with a bank credit, increase in long-term obligations by 20% was recorded to the level of PLN 62.8m. Short-term obligations increased by PLN 34.5m, i.e. by 39.1%, mainly due to increase in trade obligations related to significant level of computer hardware and software sales in the fourth quarter of 2005.

Indexes of asset financing	**31 December 2005**	**31 December 2004**
Assets indebtedness to financial obligations	17,62%	17,70%
Equity indebtedness to financial obligations	41,58%	40,80%

Financial indebtedness indexes remained unchanged against 2004.

Profit and loss account	12 months 2005	%	12 months 2004	%	2004-2005	%
Proceeds on sale	443 990	100,0	328 357	100,0	115 633	35,2
Costs of sold products, services, merchandise and materials	-353 952	-79,7	-254 724	-77,6	-99 228	39,0
Gross profit	**90 038**	**20,3**	**73 633**	**22,4**	**16 405**	**22,3**
Other operational proceeds	845	0,2	1 441	0,4	-596	-41,4
Costs of sales and marketing	-33 560	-7,6	-33 022	-10,1	-538	1,6
Overhead costs	-26 463	-6,0	-23 670	-7,2	-2 793	11,8
Other operational costs	-3 504	-0,8	-2 242	-0,7	-1 262	56,3
Operational profit	**27 356**	**6,2**	**16 140**	**4,9**	**11 216**	**69,5**
Net financial costs	-4 181	-0,9	-4 982	-1,5	801	-16,1
Share in profits / (losses) of affiliated units	1 119	0,3	-833	-0,3	1 952	-234,3
Profit before taxation	**24 294**	**5,5**	**10 325**	**3,1**	**13 969**	**135,3**
Income tax	3 469	0,8	-560	-0,2	4 029	-719,5
Net profit for the period	**27 763**	**6,3**	**9 765**	**3,0**	**17 998**	**184,3**
Including:						
Net profit for Company's shareholders	28 052	6,3	11 372	3,5	16 680	146,7
Net loss to minority shareholders	-289	-0,1	-1 607	-0,5	1 318	-82,0

In 2005 the ComArch Group achieved record proceeds from sale in the amount of PLN 444m, i.e. as much as 35.2% more than in 2004. Profit on operational activities against the previous year increased by 69.5% to the level of PLN 27.4m, and net profit in 2005 was PLN 28.1m and increased against the previous year by 146.7%. Net profit was affected by establishment of an asset on account of deferred tax, however, even after exclusion of its value, net profit for 2005 would be higher by 88% against net profit in 2004. Significant increase in proceeds and profit is accompanied by increase in profitability at the operational and net levels, which is especially noteworthy. Return on capital achieved by the Group in the amount of over 17% presents very well, which means double increase against 2004, when return on capital was 8.6%. Profit per share achieved the value of PLN 4.06, which is increase by 143% from the level of PLN 1.67 in 2004.

Analysis of profitability	31 December 2005	31 December 2004
Margin on sales	20,28%	22,42%
Sales profitability on operational activity	6,16%	4,92%
Gross sales profitability	5,47%	3,14%
Net sales profitability on profit for Company shareholders	6,32%	3,46%

The fact is of special importance that significant increase in the Group proceeds and profits is accompanied by considerable increase in profitability at the operational level (from 4.92% to 6.16%) and net level (from 3.46% to 6,32%). Improvement in operational profitability was one of the most important priorities of the Group in 2005 and meeting the objective for 2005 is welcomed with satisfaction by the Board of Directors of the Group. It is worth noting that improvement in profitability was accompanied by increase in employment in the Group up to the level of 1,836 persons (not including employed in MKS Cracovia SSA and INTERIA.PL S.A.).

Financial liquidity and property use indexes

Liquidity ratios	31 December 2005	31 December 004
Current financial liquidity	1,05	1,70
Quick ratio	1,16	1,26
Increased liquidity	0,40	0,33

Turnover ratios	31 December 2005	31 December 2004
Turnover of current assets (multiple)	2,29	2,19
Turnover of receivables (days)	75	88
Turnover of inventory (days)	23	17
Turnover of liabilities (days)	148	153
Turnover of obligations without obligations on account of bonds and investment credit (days)	107	106

Analysis of liquidity indicates its slight worsening against the previous year, which is related to demand for cash in reference to the executed investments and the need of financing the increased merchandise turnover in the fourth quarter of 2005. The liquidity ratios, however, remain at a good level. The turnover ratios indicate more effective (quicker) use of Company's resources in 2005 against the previous year. Only the turnover of inventory ratio increased slightly.

According to the assessment of the Board of Directors, the Company has no problems with meeting the contracted financial obligations. Temporarily free funds are invested by the Company in safe instruments like bank deposits, treasury notes, participation units in financial investment funds.

3.2. Explanation of differences between financial results given in the annual report and forecasts of results for the given year published earlier

The Group did not publish forecasts of results for 2005.

3.3. Changes in the basic rules of management of the issuer's company and its capital group

None.

3.4. Transactions with related entities

Transactions with related entities, whose value exceeded EUR 500,000 in 2005, are transactions of purchase of goods and services from ComArch Services Sp. z o.o. for the amount of PLN 11,138 thou. and from MKS Cracovia SSA for the amount of PLN 5,500 thou., as well as transactions of sale of goods and services for ComArch Global, Inc. for the amount of PLN 5,603 thou. and for ComArch Software AG for the amount of PLN 4,657 thou. These are mainly transactions within subcontracting IT and tele-IT works under contracts executed by particular companies in the ComArch Group.

3.5. Financial obligations

3.5.1. Bank guarantees

Bank guarantees and letters of credit were issued for the total amount of PLN 35,718 thou. to the order of the ComArch Group, as of 31 December 2005.

3.5.2. Pledges

As of 31 December 2005, ComArch S.A. provided pledge for the INTERIA.PL company for obligations on account of leasing agreements for the amount of PLN 555 thou.

3.5.3. Credits

As of 31 December 2005, the ComArch S.A company had obligations on account of credits in the amount of PLN 19,000 thou.

A) Fortis Bank Polska S.A. with the registered office in Warsaw

ComArch S.A. has an investment credit granted by Fortis Bank Polska S.A. with the registered office in Warsaw for financing of the construction of the first stage of production and office buildings in the Special Economic Zone in Krakow. Funds within the credit were activated by 30 June 2005. The value of the credit agreement is PLN 20,000 thou.

On 31 May 2005, ComArch received a signed contract of multi-purpose credit line from Fortis Bank Polska S.A. with the registered office in Warsaw. On the basis of the above-mentioned agreement, Fortis Bank undertakes to grant to the Company a credit limit in the amount of PLN 20m. The period for using the credit limit is 1 year and a blank promissory note constitutes collateral for the credit. ComArch S.A. can use the limit in the form of performance bank guarantees, bid bonds, payment guarantees, return of advance payment guarantees, and letters of credit related to the executed contracts. The value of the contract is PLN 20,000 thou.

On 7 December 2005, ComArch received a signed contract of multi-purpose credit line from Fortis Bank Polska S.A. with the registered office in Warsaw. On its basis, the value of the credit limit was increased to the amount of PLN 44m in the period from the date of signing the above-mentioned annex until 30 December 2005. On 31 December 2005, the value of the credit limit was reduced to the amount of PLN 24m. Within the above credit, ComArch S.A. could use the amount of PLN 20m solely as a renewable credit in the current account, which had to be paid back before 30 December 2005. At the same time, an additional collateral was established in the form of transfer of receivables from two contracts executed by ComArch S.A. up to the amount of the granted renewable credit along with interest, commissions and fees. The Company informed about conclusion of the multi-purpose credit line contract in the current report no. 16/2005.

B) Bank BPH S.A. with the registered office in Krakow

On 7 June 2005, ComArch received a signed contract on multi-purpose, multi-currency credit line in Bank BPH S.A. with the registered office in Krakow. On the basis of the above contract, Bank BPH grants to the Company a credit limit in the amount of PLN 26,401,216 for financing current operations of the Company. The period of credit availability ends on 28 April 2006 and the collateral for the credit is a blank promissory note. ComArch S.A. can use the limit in the form of bank performance guarantees, bid bonds, payment guarantees, return of advance payment guarantees, and letters of credit related to the executed contracts and in the form of credit in the current account.

AFTER THE BALANCE SHEET DATE

C) Kredyt Bank S.A.

On 28 March 2006, ComArch S.A. signed a contract of investment credit with Kredyt Bank S.A. with the registered office in Warsaw for financing the second stage of the construction of the new production and office buildings in the Special Economic Zone in Krakow. The amount of the credit is 80% of the investment value, for the maximum of PLN 26,823,970.00. The crediting period is 16 years, with interest based on variable interest rate. The credit should be used before 31 March 2007. The credit has collateral in the form of mortgage on plots where the building is going to be erected as well as transfer of insurance policy for the building. As a criterion for a significant contract, the value of own capitals of the Company was adopted. The Company informed about opening of the investment and signing the contract with the General Contractor in the current report no. 41/2005.

3.5.4. Bonds

On 12 April 2002, ComArch S.A. issued 4,000 pcs. of 5-year bonds convertible into shares. The conversion price was PLN 57.10, and each bond could be converted into 175 shares of the Company. The issue price was set at the level of 100.3%, with interest of bonds at 7.5% p.a. If conversion does not take place, on 12 April 2007, payment of an additional coupon would be arranged in the amount of 21.84% of the nominal value of bonds.

On 14 July 2004, the Company acquired 486 of own bonds in Series A convertible into Series H shares. The purchase of the above bonds was completed for their redemption. On 14 July 2004, the Board of Directors passed a resolution on redeeming 486 Series A bonds convertible into Series H shares issued by ComArch S.A. After the redemption, the number of Series A bonds convertible into Series H shares issued by ComArch S.A. was 3,514.

AFTER THE BALANCE SHEET DATE

Due to the fact that on 28 February 2006 the average closing rate of the shares of ComArch S.A. on the Warsaw Stock Exchange from the recent 31 quotations was higher from the Conversion Price by 30.70%, ComArch S.A., in accordance with Section 8.3.1 of the Bonds Issuing Conditions, which constitute Appendix to the resolution of the Board of Directors of 9 April 2002 on issuing of Company bonds issued on the basis of the resolution of the Extraordinary General Assembly of the Company of 27 February 2002 (published in chapter X section 4 of the Prospectus of Bonds Convertible into H Series Shares) called the bond holders twice for Early Bond Buying Out. The bonds, for which no statements were submitted about conversion into shares were bought out on 6 April 2006 at the price calculated according to section 8.3.4 of the above said Bonds Issuing Conditions. More information: see section 5.2.9 of this Statement of the Board of Directors.

3.6 Loans granted

3.6.1 Loans

As of 31 December 2005, the value of unpaid housing loans granted to employees of ComArch S.A. was PLN 389 thou. Maturity dates for them come in the years 2006-2007.

As of 31 December 2005, the following companies of the Capital Group were indebted towards ComArch S.A. for loans granted: ComArch Software AG (PLN 2,162 thou.), ComArch Global, Inc (PLN 2,837 thou.), ComArch Middle-East FZ-LCC (PLN 303 thou.), ComArch Sp. z o.o. (Ukraine) (PLN 130 thou.), ComArch Panama, Inc. (PLN 489 thou.), OOO ComArch (PLN 489 thou.), UAB ComArch (PLN 58 thou.) and MKS Cracovia SSA (PLN 250 thou.). Maturity dates for their payment come in the years 2006-2007.

3.6.2 Loans granted to managing and supervising persons

As of 31 December 2005, there are no unpaid loans as well as guarantees and pledges granted by ComArch S.A. for the benefit of Members of the Board of Directors, the Supervisory Board and their relatives.

3.7 Financial risk

The Group is exposed to the following main types of financial risk:

3.7.1 Risk of contractor insolvency

Due to the broad product offer of the Group and presence in many markets, the circle of clients extended considerably in comparison with previous years. In order to minimise increase of the credit risk related to this situation, the Group analyses financial credibility of prospective clients before concluding agreements for delivery of IT systems and it separately adjusts terms and conditions of each agreement to the prospective risk.

3.7.2 Risk of change in interest rates

The Group is exposed to the risk of change in interest rates as a result of the long-term investment credit allocated for financing of the new production building in the Special Economic Zone in Krakow. The credit interest is based on variable rates based on the WIBOR rate. The Company did not secure the risk of interest rate in this area due to the fact that the values of the reference interest rate decrease since signing the credit agreement.

3.7.3 Risk of fluctuation in the exchange rates

Because of export sales or sales denominated in foreign currencies, the Group is exposed to the risk related to fluctuations in exchange rates. At the same time, part of Company costs is also expressed or related to the exchange rate of foreign currencies. The Group manages continuous monitoring of the currency-related situation of the company and in individual cases it secures future payments with forward contracts.

4. PERSPECTIVES OF DEVELOPMENT

4.1 Factors essential for development of the Capital Group

4.1.1 Internal factors

a) increase in export sales,

b) position and reputation of the Company affecting the nature of clients acquired;

c) commercial operations of ComArch S.A. in the special economic zone in Krakow;

d) significant share of standard (repetitive) products offered for sale, which means:

- lower costs, especially variable costs related to a single contract,
- the possibility of significant increase in profitability of a single contract with simultaneous reduction in charges for clients (license fees),
- broader and more diversified circle of clients, which means a broader scale of activities;

e) attractive training policy and attractive work conditions offered for employees of the Group

f) increasing awareness of the ComArch brand among prospective clients by promotion managed through the MKS Cracovia SSA company

4.1.2 External factors

a) Enhanced requirements from clients for IT systems. There is an increase in demand for large, complex IT systems dedicated for specific users. This gives advantage to large IT companies such as ComArch, which offer a number of different technologies and products and which are able to provide technologically advanced solutions;

b) Development of Internet banking and more frequent usage of the Internet as a new distribution channel for financial products;

c) Change in business models in many branches as well as change in business strategies of many companies related to joining the European Union, which increases demand for new IT systems;

d) More common use of the Internet as a method of communication and a medium for trade transactions, with increased risk of hacking IT systems, thus stimulating demand for security services for IT systems;

e) Poland joining the European Union resulting in the necessity of modifying a number of systems, especially in public institutions. This will be related to allocation of major funds from both the State budget and European Union aid funds;

f) Growing competition, causing decrease in achieved margins; competition between IT companies, expressed in fighting for new orders and best employees.

4.2 Perspectives of development in the Group operations in 2006

Growth of the IT market in Poland, as well as increase of the pace of economic development in this country and all over the world, should positively affect development of ComArch and, likewise, financial results achieved by the Company. Consistently executed strategy of positioning in the market as a technological and product company brings results in the form of the client base growing annually; most of these being international companies. In the context of Poland's integration with the European Union, it should be expected that more and more international companies will start their commercial operations in Poland, thus broadening the circle of prospective clients for IT systems. At the same time, activity of ComArch in international markets should additionally increase sales volume and enhance the image of ComArch among international corporations, thus strengthening the competitive position of ComArch in Poland.

Execution of ComArch S.A. strategy largely depends on macroeconomic conditions, beyond the Company, especially on the level of IT investments in medium-size and large companies in Poland and abroad and on the fact that competition in the IT sector becomes more and more fierce. At the same time, effective management of operational risks is the necessary condition for execution of the strategy. The most important operational risks connected with the operations of the Company are:

a) Risks related to R&D work (developing proprietary software products);

b) Risks related to assessment of time requirements for long-term contracts;

c) Risks related to failure to observe contract terms and conditions and contractors taking advantage of the provided performance guarantees;

d) Risk of foreign legal and political environment related to execution of export contracts;

e) Risk of decreased possibility (difficulty) of controlling and monitoring financial standing of foreign contractors.

4.3 Investment plans

Globalisation of world economy, as well as liberalisation of trade, result in disappearance of barriers for companies and their products. The IT market becomes an open and global market where prices and quality of available products are continuously compared against each other. Along with increase in the presence of foreign capital in Poland, even IT companies conducting operations solely in the Polish market must offer competitive products from the point of view of the global market. ComArch, since the very beginning of its operations, has had reputation of a technological company developing and successfully selling products competitive internationally.

Therefore, the main strategic objectives of the Company are still development of new competitive products to enable further development of ComArch and, as a result, increasing its value. Maintaining dynamics of sales requires expenditures for development of products as well as their proper promotion and marketing. This applies to both modification of already existing products and technologies as well as developing new products.

The present policy of ComArch assumes running research and development work related to implementation of new products and standardisation of products from the very beginning of their preparation for the client. Thus, even in cases when a product was developed for the needs of a particular client, a part or whole of software / code may be then used for preparation of a standard product. This results in higher profitability of particular contracts and expansion of the client base.

ComArch does not restrict its interest to the territory of Poland alone. With products featuring international competitive edge, ComArch will consistently aim at increase in international sales. The sales will be executed directly to the final client (through ComArch S.A. or another company from the ComArch Group) or through partner companies.

Execution of the second stage of investment in the Special Economic Zone in Krakow in the form of construction of an office and service building with the area of 14,000 m2 with technical infrastructure is the most important investment plan for the present year. The planned time for completion of the investment is 30 December 2006. This investment is financed with a long-term bank credit. According to the Board of Directors, there is no risk of failure in execution of the investment from lack of financial resources.

5. COMARCH IN THE STOCK EXCHANGE

5.1 Resolutions of the Supervisory Board and the General Meeting of Shareholders of the dominating company

5.1.1 Resolutions of the Supervisory Board

A) The managerial option programme

The Supervisory Board of the Company passed resolution no. 1/3/2005 on 23 March 2005 on execution of the managerial option programme for President of the Board of Directors of the Company on the basis of Resolution no. 6 of the Extraordinary Meeting of Shareholders of ComArch S.A. of 21 December 2001. Pursuant to Article 1 Para 3 of this resolution, the option for 2004 is calculated in the amount of 5% increase in Company capitalisation between the average capitalisation as of December 2003 and the average capitalisation as of December 2004. The increase in capitalisation in this period was PLN 140,587,330.11, i.e. the value of the option is PLN 7,029,366.51. At the same time, the Board decided that in order to execute the option, 102,708 regular bearer's shares in Series G3 will be issued at the issue price equal to the nominal value, i.e. PLN 1 each. The Supervisory Board obliged the Board of Directors to pass, within 30 days, a resolution on issuing G3 Series shares on the above conditions, and it expressed consent, in reference to the objectives of the programme, to exclude subscription rights due for the current shareholders. The issue of Series G3 shares was conducted on the principle of the target capital pursuant to Article 9 Para 3 of the Bylaws of the Company.

B) Report from the activity of the Supervisory Board of ComArch S.A. in 2004

The Board of Directors of ComArch S.A., on 22 June 2005, presented for the public the report from the activities of the Supervisory Board of ComArch S.A. in 2004, containing assessment of the situation of the Company in 2004 in accordance with the principle no. 18 of corporate governance, following from the "Best practices in public companies." Its contents is presented in the current report 22/2005.

C) The choice of an entity authorised for auditing and reviewing financial statements and consolidated financial statements of ComArch S.A.

On 22 June 2005, the Supervisory Board of ComArch S.A. selected PricewaterhouseCoopers Sp. z o.o. as an entity authorised for auditing and reviewing financial statements and consolidated financial statements of ComArch S.A. PricewaterhouseCoopers Sp. z o.o. with the registered office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw, is entitled for auditing financial statements with license no. 144. ComArch S.A. employed services of PricewaterhouseCoopers Sp. z o.o. in the past concerning auditing and reviewing financial statements and consolidated financial statements for the years 1999-2004 and preparation of part of the Prospectus. The Supervisory Board of ComArch S.A. chose the entity authorised for auditing statements of the Company on the basis of Art. 19 Para 2 clause e) of the Company Bylaws, according to the regulations of the law in force and professional standards. The agreement with PricewaterhouseCoopers Sp. z o.o. was concluded for the period of one year, covering auditing and reviewing of financial statements and consolidated financial statements for 2005.

5.1.2 Resolutions of the General Assembly of Shareholders

In reference to the principle no. 2 of the "Best practices in public companies," the Board of Directors of ComArch with the current report no. 23/2005 presented resolution no. 14/6/2005 of the Supervisory Board of ComArch S.A. on positive opinion on resolutions for the General Assembly of Shareholders on 30 June 2005.

On 30 June 2005, the General Assembly of Shareholders passed resolutions on the following issues, among others:

A) Approving of the financial statement and the consolidated financial statement of the Company for the accounting year 1 Jan 2004 – 31 Dec 2004,

B) Approving of the report of the Board of Directors on operations of the Company and operations of the Capital Group for the accounting year 1 Jan 2004 – 31 Dec 2004,

C) Approving of the report of the Supervisory Board on operations in the accounting year 1 Jan 2004 – 31 Dec 2004 and the audit of the financial statement of the Company and the report of the Board of Directors on Company operations in the accounting year 1 Jan 2004 -31.12.2004,

D) Approving of the report of the Supervisory Board on the audit of the consolidated financial statement of ComArch S.A. and the report of the Board of Directors on operations of the ComArch Capital Group in the accounting year 1 Jan 2004 -31.12.2004,

E) Division of net profit of ComArch S.A. for the accounting year 1 Jan 2004 – 31 Dec 2004, which was allocated in entirety to the reserve capital,

F) Granting the vote of approval for members of the Board of Directors and the Supervisory Board of ComArch S.A. for performing their duties in the accounting year 1 Jan 2004 – 31 Dec 2004,

G) Passing resolution on changes in the principles of remuneration for members of the Board of Directors of ComArch S.A.,

H) Changes in the Company Bylaws of ComArch S.A.,

I) Approving of the financial statement of ComArch Krakow S.A. and CDN - ComArch S.A. as well as the report of the Board of Directors on operations of ComArch Krakow S.A. and CDN - ComArch S.A. in the accounting year 1 Jan 2004 – 31 Aug 2004,

J) Granting the vote of approval for members of the Board of Directors and the Supervisory Board of ComArch Krakow S.A. and CDN - ComArch S.A. for performing their duties in the accounting year 1 Jan 2004 – 31 Aug 2004.

K) Passing resolution on the managerial option programme for members of the Board of Directors and key employees of the Company (a plenipotentiary of one of shareholders who, as declared, voted against passing this resolution, raised objection and requested including it in the minutes),

L) The GAS found it justified and beneficial for the Company and its shareholders to observe by the Company and its bodies the principles of corporate governance specified in the document "Best practices in public companies in 2005" and obliged the Board of Directors to submit an appropriate statement.

5.2 Operations on shares and bonds of the Capital Group

5.2.1 Issue of G3 Series shares of the dominant Company

On 3 June 2005, the Company made a public release of an abridged prospectus of G3 Series shares.

On 8 June 2005, 102,708 G3 Series bearer shares were allocated. Subscription lasted from 7 to 8 June 2005. The offer consisted of 102,708 pcs. of securities. Reduction rates in particular tranches were 0%. The number of subscribed securities was 102,708. The value of the completed subscription is PLN 102,708 . The issue costs were PLN 63.00 thou. The shares were subscribed in a tranche addressed to President of the Board of Directors of ComArch S.A. The purchase price was PLN 1.00 . The number of persons who filed subscriptions and were assigned the securities was 1. No sub-issue agreements were made. The costs of shares in G3 Series consisted of: preparation and execution of the offer in the amount of PLN 10,000, preparation the prospectus PLN 53,000. The average cost of one unit of securities was PLN 0.61. The issuing costs of G3 Series shares will be entirely included into financial costs.

By virtue of the resolution of the District Court for Krakow Śródmieście in Krakow, XI Department for Commercial Issues of the National Court Register of 23 June 2005, 102,708 G3 Series bearer shares of the Company were registered along with changes in Article 7, Para 1 of the Company’s Bylaws. As a result of this registration, the amount of the paid initial capital of the Company was PLN 6,955,095 .

5.2.2 Other transactions on shares of the dominant Company

On 25 January 2005, the Chairwoman of the Supervisory Board of the Company sold 30,000 bearer shares of ComArch SA. at the price of PLN 68.

According to the information received on 17 March 2005, a member of the ComArch S.A. Board of Directors purchased 370 regular bearer shares of ComArch S.A. during the last 12 months in several transactions, at the average price of PLN 62.

As a result of acquisition of shares of the ComArch S.A. Company, settled on 4 July 2005, the clients of BZ WBK AIB Asset Management S.A. became owners of shares allowing for more than 5% of the total number of votes in the General Assembly of ComArch S.A. On 4 July 2005, 885,815 shares of the ComArch S.A. Company were in the accounts of securities of the clients of BZ WBK AIB Asset Management S.A. covered by management agreements, which constituted 12.74% of the initial capital of the Company. These shares gave rights to 885,815 votes, which constituted 6.32% of the total number of votes in the general assembly.

These transactions covered shares that were owned by investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., these funds becoming owners of the shares, which allowed more than 5% of the total number of votes in the general assembly of ComArch S.A. resulting from the purchase of shares of the Company by Arka BZ WBK Zrównoważony FIO, settled on 28 July 2005. On 28 July 2005, 708,629 shares of the ComArch S.A. Company were in the accounts of securities of investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., which constituted 10.19% of the initial capital of the Company. These shares gave rights to 708,629 votes, which constituted 5.05% of the total number of votes in the general assembly.

On 16 September 2005, the Deputy President of the Board of Directors of the Company sold 5,000 regular bearer shares of ComArch S.A. in the Warsaw Stock Exchange at the price of PLN 59.60 each.

During 23-30 September 2005, the Deputy President of the Board of Directors of the Company sold in the Warsaw Stock Exchange 5,151 regular bearer shares of ComArch S.A., at prices ranging from PLN 62 to PLN 62.20 each.

During 10-14 October 2005, the Deputy President of the Board of Directors of the Company sold in the Warsaw Stock Exchange 852 regular bearer shares of ComArch S.A., at the price of PLN 61.50 each.

According to the agreement of disposal of 94,000 registered preferential shares of ComArch S.A., which was signed on 20 October 2005, the married couple of Janusz and Elżbieta Filipiak acquired from Mr. Tomasz Maciantowicz 47,000 Series A shares and 47,000 Series B shares at the price of PLN 60 per share. Due to the fact that registered shares of the Company are allowed in public trading and are not quoted at the stock exchange, the transaction was made off the controlled market. Due to the fact that Mrs. Elżbieta and Mr. Janusz Filipiak were shareholders of the Company as of 18 March 1998, privilege rights for the above shares in reference to votes did not change. The dominant Company informed about details of the transaction in the current report no. 37/2005.

5.2.3 The incentive programme

On 30 June 2005, the General Assembly of Shareholders passed the resolution No. 51 on passing the programme of managerial options for members of the Management and key employees of the Company (17 persons in total). The objective of the Programme is to create additional motivation for Members of the Management and for key employees by way of allocating boni (called hereafter the "Option") to the appropriate persons, dependent on increase in the value of the Company and on the increase in net profit of the Company.

The Program shall be executed by way of offering to Members of the Management and Key Employees in the years 2006, 2007 and 2008 the newly issued shares of the Company so that every time the value of the Option was equivalent to the difference between the average stock exchange closing rate of the shares of the Company as of December of each consecutive year of execution of the Programme, beginning with 2005, and the issue price of shares offered to Members of the Management and key employees. The basis for calculation of the Option value shall be increase in Company capitalisation, calculated:

d) For 2006 as the difference between the average capitalisation of the Company of December 2005 and the average capitalisation of the Company of December 2004, which shall be calculated with the average stock exchange closing rate for shares of the Company of December 2004 taken into account, that is PLN 69.53 (sixty nine Polish Zloty point fifty three),

e) For 2007 as the difference between the average capitalisation of the Company of December 2006 and the average capitalisation of the Company of December 2005,

f) For 2008 as the difference between the average capitalisation of the Company of December 2007 and the average capitalisation of the Company of December 2006, where the average capitalisation of the Company is the number of shares of the Company multiplied by the average stock exchange closing rate for shares of the Company of December in the given year.

The option shall be defined in each successive year of the Programme, separately for each of the entitled persons, as set forth in the Resolution No. 51 of GAS, and the total value of the option shall be 9.2% of the increase in capitalisation in the periods set forth in Clauses a), b) and c) (for options No. 1, No. 2 and No. 3, respectively).

According to the Accounting Act of 29 September 1994, the managerial option programme is not included in the profit and loss account. The option will be presented as cost in the profit and loss account in the consolidated financial statement prepared according to ISFA. Specific principles of assessment and effect of the option on the financial results of the ComArch Group will also be presented in the consolidated statement.

5.2.4 The managerial option

The Supervisory Board of the Company, on 23 March 2005, passed resolution no. 1/3/2005 in reference to the programme of managerial option to which President of the Board of Directors of the Company is entitled on the basis of Resolution no. 6 of the Extraordinary General Assembly of Shareholders of ComArch S.A. of 21 December 2001. According to Article 1 Para 3 of this resolution, the option for 2004 is calculated in the amount of 5% of the increase in capitalisation of the Company between the average capitalisation of December 2003 and the average capitalisation of December 2004. The increase in capitalisation in that period was PLN 140,587,330.11, thus the option value was PLN 7,029,366.51. At the same time, the Board decided that in order to execute the option, 102,708 regular bearer shares in G3 Series will be issued at the issue price equal to nominal value, i.e. at the price of PLN 1 each.

The Board of Directors of ComArch S.A., authorised by the Supervisory Board, passed resolution no. 1 on 11 April in reference to increasing the initial capital by way of a public issue of 102,708 G3 Series regular bearer shares with nominal value of PLN 1, and to changing the Company Bylaws. The issue of G3 Series shares took place with exclusion of subscription rights of the current Company shareholders. The issue price was PLN 1. The G3 Series shares were covered solely with cash and will participate in the dividend, beginning with payments on the profit which will be allocated for division for the accounting year 2005, that is beginning with 1 January 2005. The issue of G3 Series shares was conducted by way of a private subscription referred to in Article 431 Para 2 Clause 1 of the Code of Trading Companies, run under public trading conditions, whereas G3 Series shares will be introduced into trading in the Warsaw Stock Exchange. All the G3 Series shares were offered to President of the Company.

Subscription of G3 Series shares took place on 7 and 8 June 2005. G3 Series shares were allocated on 8 June.

The District Court for Krakow Śródmieście in Krakow, XI Department for Commercial Issues of the National Court Register, made the decision on 23 June 2005 that 102,708 G3 Series regular bearer shares of the Company would be registered on 24 June 2005.

5.2.5 Allocation of shares of the INTERIA.PL S.A. company to the ComArch S.A. Company

On 18 March 2005, ComArch S.A. was informed by Dom Maklerski POLONIA NET S.A., offering F Series shares of the INTERIA.PL S.A. Company in public trading of securities, that 425,000 shares of the INTERIA.PL S.A. Company were allocated to the ComArch S.A. Company. The issue price of the allocated shares was PLN 10 per share. The transaction value was PLN 4,250 thou.

AFTER THE BALANCE SHEET DATE

5.2.6 Introducing G Series shares of the dominant Company into public trading

In reference to assimilation of 125,787 G Series regular bearer shares of the ComArch S.A. Company by the National Depository of Securities of 2 February 2006 with shares that had been in trading, marked PLCOMAR00012, the Board of Directors of the Warsaw Stock Exchange introduced on 2 February 2006 the above regular shares in stock trading in the primary market in the regular procedure. The dominant Company informed about details in the current report no. 2/2006.

5.2.7 Registration of G3 Series shares in the National Depository of Securities (Krajowy Depozyt Papierów Wartościowych S.A.) and introducing them in stock trading

The Board of Directors of the National Depository decided to accept on 24 March 2006 to the National Depository of Securities 102,708 G3 Series regular bearer shares of the ComArch S.A. Company at the nominal value of PLN 1.00, marked PLCOMAR000103.

Due to the fact that the Board of Directors of the National Depository of Securities (NDS) assimilated 102,708 shares of the ComArch S.A. Company, marked PLCOMAR00103 (G3 Series shares) with 5,628,212 shares of the Company, marked PLCOMAR00012, on 12 April 2006, the Board of Directors of the Warsaw Stock Exchange introduced on 12 April 2006, the above mentioned regular shares of the ComArch S.A. Company in stock trading in the primary market in the regular procedure. The dominant Company informed about details in the current reports nos. 21/2006 and 24/2006.

5.2.8 Other transactions on shares of the dominant Company

On 27 January 2006, ComArch S.A. received a notice of transactions of disposal of 25,000 bearer shares of the Company by a Supervisory Board member of ComArch S.A. during 20-25 January 2006, at prices in the range PLN 66 to PLN 67.10 per share. On 3 February 2006, ComArch S.A. received a notice of disposal of 25,000 bearer shares of the Company by a Supervisory Board member of ComArch S.A. on 3 February 2006 at the price of PLN 71 per share. The transactions were made in the controlled market through the Warsaw Stock Exchange S.A. The dominant Company informed about details in the current reports nos. 3/2006 and 5/2006.

As a result of acquisition of the shares of the ComArch Company, settled on 6 February 2006, the securities accounts of the clients of BZ WBK AIB Asset Management S.A., which were subject to management agreements, had 1,417,770 shares of the ComArch S.A. Company, which constituted 20.38% of the initial capital of the Company. These shares gave rights to 1,417,770 votes in the General Assembly of Shareholders, which constituted 10.11% in the total number of votes in the general assembly. The shares acquired by clients of BZ WBK AIB Asset Management S.A. include also the shares owned by investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

5.2.9 Operations on bonds convertible into shares

From 22 February to 24 March 2006, ComArch S.A. received statements about conversion of 3,221 convertible bearer bonds issued by the Company into shares. 563,675 regular H Series bearer shares were issued in return for convertible A Series bonds, which were covered by the statements of conversion. The dominant Company informed about details in the current reports nos. 8/2006, 9/2006, 11/2006, 13/2006 and 19/2006.

On 28 February 2006, in reference to the fact that the average closing rate of ComArch S.A. shares in the Warsaw Stock Exchange was higher during the recent 31 quotations than the Conversion Price by 30.70%, ComArch S.A., in accordance with section 8.3.1 of the Terms and Conditions for Issuing Bonds, which are included as an appendix to the resolution of the Board of Directors of 9 April 2002 on issuing bonds of the Company, issued on the basis of the resolution of the Extraordinary General Assembly of the Company of 27 February 2002 (published in chapter X section 4 of the Prospectus of Bonds Convertible into H Series Shares), called bond holders for Early Buying Out of bonds for the first time, and, on 7 March 2006, for the second time. ComArch S.A. informed about details in the current reports nos. 10/2006 and 12/2006.

The Board of Directors of the National Depository of Securities accepted 543,025 regular H Series bearer shares of the ComArch S.A. Company for NDS on 20 March 2006, with the nominal value of PLN 1, and marked them PLCOMAR00095. The dominant Company informed about details in the current report no. 14/2006.

In reference to assimilation of 543,025 shares of the dominant Company, marked PLCOMAR00095 (H Series shares) with 5,085,187 shares of the Company, marked PLCOMAR00012, concluded by the Board of Directors of the National Depository of Securities on 31 March 2006, the Board of Directors of the Warsaw Stock Exchange S.A. introduced the above mentioned shares of the ComArch S.A. Company into stock trading in the primary market in the usual procedure on 31 March 2006. The dominant Company informed about details in the current reports nos. 16/2006 and 18/2006.

On 31 March 2006, the ComArch S.A. Company received a notice from the Operations Department of the National Depository of Securities S.A. about settlement of the conversion operation in the deposit-settlement system of 118 A Series convertible bonds on 31 March 2006 into H Series bearer shares of the ComArch S.A. Company. ComArch S.A. informed about details in the current report no. 19/2006.

The Board of Directors of the Warsaw Stock Exchange S.A. suspended trading of 293 A Series bonds of the ComArch S.A. Company as of 4 April 2006. The Stock Exchange Board of Directors decided that:

a) Broker orders for A Series bonds of the ComArch S.A. Company would not be accepted as of 4 April 2006,

b) Broker orders for A Series bonds of the ComArch S.A. Company not sold by 3 April 2006 (incl.), would lose validity.

The Board of Directors of the Stock Exchange excluded A Series bonds of the ComArch S.A. Company from stock exchange trading with expiry on 6 April 2006.

The Board of Directors of the Stock Exchange provided justification of this decision with the fact that the ComArch S.A. Company submitted on 31 March 2006 an application for suspension and exclusion from stock exchange trading of A Series bonds in connection with the coming Date of Early Buying Out of A Series bonds of the Company. The dominant Company informed about details in the current report no. 20/2006.

ComArch S.A. concluded on 6 April 2006 Early Buying Out and amortisation of 293 A Series bonds convertible into shares of ComArch S.A. The early buying out of the bonds was performed in accordance with the procedure set forth in section 8.3 of the Terms and Conditions for Issuing Bonds. The Company informed about calling bond holders for early buying out of bonds in the current reports nos. 10/2006 and 12/2006.

In reference to the fact that the Board of Directors of the National Depository of Securities (NDS) assimilated 20,650 shares of the Company, marked PLCOMAR00095 (H Series shares), with 5,730,920 shares of the Company, marked PLCOMAR00012, on 26 April 2006, the Board of Directors of the Warsaw Stock Exchange S.A. introduced on 26 April 2006 the above mentioned shares of ComArch S.A. into stock exchange trading in the regular procedure. The dominant Company informed about details in the current reports nos. 25/2006 and 26/2006.

On 16 May 2006, the District Court for Krakow Śródmieście in Krakow, XI Department for Commercial Issues of the National Court Register, registered increase in the initial capital of the ComArch S.A. Company up to the amount of PLN 7,518,770. After the increase, the capital is divided into 7,518,770 shares. These shares correspond with 14,587,570 votes in the General Assembly of Shareholders of the dominant Company. ComArch S.A. informed about details in the current report no. 31/2006.

5.2.10 Disposal and change in rights of the shares of the INTERIA.PL S.A. company, owned by ComArch S.A.

On 19 January 2006, ComArch S.A. sold 350,000 shares of the INTERIA.PL S.A. company, as a result of which the ComArch S.A. Company owns 2,538,369 shares of INTERIA.PL S.A., which constitutes 36.08% of initial capital of the Company, on the day of preparing this report. These share entitle to execute 11,609,625 votes in the General Assembly, which constitutes 48.48% of the total number of votes.

5.3 Data referring to the agreement signed with the entity entitled to auditing financial statements

5.3.1 Resolution of the Supervisory Board of ComArch S.A.

On 22 June 2005, the Supervisory Board of ComArch S.A. selected PricewaterhouseCoopers Sp. z o.o. as an entity authorised for auditing and reviewing financial statements and consolidated financial statements of ComArch S.A.

PricewaterhouseCoopers Sp. z o.o. with the registered office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw, has license No. 144 for auditing financial statements. ComArch S.A. previously took advantage of the services of PricewaterhouseCoopers Sp. z o.o. in the scope of auditing and reviewing financial statements and consolidated financial statements for the years 1999-2004 and preparing part of the issue prospectus.

The Supervisory Board of ComArch S.A. has chosen the entity entitled for auditing statements of the Company on the basis of Article 19 Para 2 Clause e) of the Company Bylaws, in accordance with the regulations of the law in force and professional standards.

The agreement with PricewaterhouseCoopers Sp. z o.o. has been concluded for the period of one year and will cover audits and reviews of financial statements and consolidated financial statements for the year 2005.

5.3.2 Total remuneration

In 2005, the total remuneration resulting from the agreement with the entity entitled for auditing financial statements, due on account of auditing and reviewing the financial statement, was PLN 230,000. The above mentioned amount covers contractual remuneration, which is due for mid-year review and auditing the annual statement and review of and auditing the consolidated statement for 2005. The remuneration for review of the unit statement and consolidated statement was paid in 2005, with the remaining part of the remuneration to be paid in 2006.

The total remuneration for the scope of work corresponding with the above for the year 2004 was PLN 159,000.

5.4 Other information related to stock exchange trading

5.4.1 Principles of corporate governance

On 30 June 2005, in supplement to the annual report made available to the public on 5 April 2005, in accordance with section 27 of the Regulations of the Stock Exchange, the Board of Directors of ComArch S.A. submitted the current statement on observing corporate governance in the current report no. 28/2005.

5.4.2 List of shareholders participating in the GAS (2004)

Following the list of shareholders participating in the General Assembly of Shareholders of ComArch S.A. on 30 June 2005, two persons had more than 5% of the total number of votes in this Assembly:

1. Janusz Filipiak (preferential registered shares), 4,230,000 votes, 41.80% share,

2. Elżbieta Filipiak (preferential registered shares), 3,995,000 votes, 39.48% share,

3. The married couple of Elżbieta and Janusz Filipiak (regular bearer shares), 1,447,685 votes, 14.31% share.

The total number of votes from all the issued shares was 14,023,895. In the General Assembly of Shareholders on 30 June 2005, shareholders were present who represented 10,119,685 votes.

5.4.3 List of current and periodical information

In the current report no. 27/2006, the dominant Company provided a list of current and periodical information made available to the public in 2005.

Krakow, 5 June 2006

Janusz Filipiak

President

Board of Directors

Rafał Chwast

Deputy President

Board of Directors

Paweł Prokop

Deputy President

Board of Directors

Paweł Przewięźlikowski

Deputy President

Board of Directors

Zbigniew Rymarczyk

Deputy President

Board of Directors