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I. The consolidated balance sheet

	Note	As of 31 Dec 2005	As of 31 Dec 2004
ASSETS			
Fixed assets			
Tangible fixed assets		92,262	74,801
Goodwill		3,284	3,284
Intangibles		35,021	34,058
Long-term accrued settlements		6,635	5,004
Investments in affiliated units	4.2	9,579	4,075
Other investments		137	43
Assets on account of deferred income tax	4.13	7,269	1,489
Other receivables		121	380
		154,308	123,134
Current assets			
Inventory	4.3	26,150	14,991
Trade receivables and other receivables	4.6	92,521	80,013
Receivables on account of current income tax			400
Proceeds due on account of long-term contracts	4.9	23,843	23,626
Financial assets available for sale	4.4	–	2,000
Other financial assets appraised at fair value: derivatives	4.5	225	–
Cash and equivalent		48,947	28,745
		191,686	149,775
Total assets		345,994	272,909
TOTAL EQUITY			
Total equity for Company shareholders			
Initial capital	4.7	6,955	6,852
Other capitals		128,731	118,650
Exchange rate differences		(690)	(52)
Net profit for the current period		27,287	9,765
Undivided financial result		(16,056)	(16,793)
		146,227	118,422
Minority shares		14,464	14,013
Total equity		160,691	132,435
OBLIGATIONS			
Long-term obligations			
Credits and loans	4.10	17,300	8,149
Obligations on account of deferred income tax		5,661	5,601
Obligations on account of convertible bonds	4.11	39,849	38,472
Provisions for other obligations and charges		38	100
		62,848	52,322
Short-term obligations			
Trade obligations and other obligations	4.8	102,241	76,146
Invoiced proceeds related to long-term contracts	4.9	12,643	7,172
Obligations on account of convertible bonds	4.11	1,097	781
Credits and loans	4.10	2,880	958
Derivative financial instruments		–	–
Provisions for other obligations and charges		3,594	3,095
		122,455	88,152
Total obligations		185,303	140,474
Total liabilities		345,994	272,909

II. The consolidated profit and loss account

	Note	4Q 2005	2005 12 months	4Q 2004	2004 12 months
Proceeds from sales		194,955	443,95,	103,063	328,357
Costs of sold products, services, merchandise and materials		(160,766)	(354,303)	(77,410)	(254,226)
Gross profit		34,189	89,652	25,653	74,131
Other operational proceeds		509	1,743	322	1,625
Costs of sales and marketing		(9,952)	(33,567)	(10,737)*	(33,022)*
Administration costs		(8,354)	(26,420)	(7,701)*	(23,670)*
Other operational costs		(2,096)	(4,691)	(1,705)	(2,924)
Operational profit		14,296	26,717	5,832)	16,140
Net financial costs		(851)	(4,181)	(440)	(4,982)
Share in profits / (losses) of affiliated units		203	1,254	(58)	(833)
Profit before taxation		13,648	23,790	5,334	10,325
Income tax		(1,609)	3,319	(270)	(560)
Net profit for the period		12,039	27,109	5,064	9,765
Including:					
Net profit for Company shareholders		12,018	27,287	5,342	11,372
Net profit for minority shareholders		21	(178)	(278)	(1,607)
		12,477	27,547	5,064	9,765
Profit per share for Company shareholders for the period (in PLN per share)					
– basic	4.14		3.95		1.67
– diluted			3.95		1.67

*) Costs of sales and marketing and Administration costs for the period of 12 months in 2004 given in this statement differ from those given in the SARS_2004 statement due to adjusting to presentation principles in force in 2005.

III. The consolidated summary of changes in total equity

	For Company shareholders				Minority shares	Total equity
	Initial capital	Other capitals	Exchange rate differences	Undivided financial result		
As of 1 January 2004	**6,727**	**106,681**	**(89)**	**(9,259)**	**18,732**	**122,792**
Allocation of the 2003 result	-	12,263	-	(12,263)	-	-
Adjustments in the capital due to	-	-	-	2,980	(142)	2,838
change in the ownership structure						
in MKS Cracovia SSA	-	-	-	142	(2,980)	(2,838)
Net proceeds / (costs) given directly in total equity					10	10
Reduction in the capital due to buying out bonds		(294)				(294)
Profit for the period				11,372	(1,607)	9,765
Increase in the capital	125					125
Exchange rate differences			37			37
As of 31 Dec 2004	**6,852**	**118,650**	**(52)**	**(7,028)**	**14,013**	**132,435**

As of 1 January 2005	**6,852**	**118,650**	**(52)**	**(7,028)**	**14,013**	**132,435**
Increase in the capital	103	-	-	-	-	103
Exchange rate differences	-	-	(638)	-	-	(638)
Capital from appraisal of the managerial option	-	1,682	-	-	-	1,682
Allocation of the 2004 result	-	8,399	-	(8,399)	-	-
Increase of ComArch shares in the ComArch Global subsidiary to 100%	-	-	-	(629)	629	-
Profit for the period	-	-	-	27,287	(178)	27,109
As of 31 Dec 2005	**6,955**	**128,731**	**(690)**	**11,231**	**14,464**	**160,691**

Net profit for 2004 was transferred into capitals in entirety. Dividend was not paid for the year 2004.

IV. The consolidated cashflow statement

	12 months 2005	12 months 2004
Cash flows from operational activities		
Net profit	27,109	9,765
Total adjustments	22,290	4,999
Share in net (profits) losses of subsidiary units appraised with the ownership rights method	(1254)	833
Depreciation	11,276	9,744
(Profits) losses on account of exchange rate differences	(285)	(1,688)
Interest and shares in profits (dividend)	2,745	4,621
(Profit) loss from investment activities	(218)	(141)
Change in inventory	(11,163)	(3,253)
Change in receivables	(16,901)	2,639
Change in obligations and provisions, except for loans and credits	38,090	(7,756)
Net profit less total adjustments	49,399	14,764
Income tax paid	(753)	(2,230)
Net cash from operational activities	**48,646**	**12,534**
Cash flows from investment activities		
Acquisition of an affiliated unit	(4,283)	–
Acquisition of tangible fixed assets	(33,488)	(25,204)
Proceeds from sales of tangible fixed assets	1,050	475
Acquisition of intangibles	(2,150)	(732)
Acquisition of financial assets available for sales	(1,578)	(105,582)
Proceeds from sales of financial assets available for sales	3,548	104,004
Net cash from investment activities	**(36,901)**	**(27,039)**
Cash flows from financial activities		
Payment on account of capital issue	103	126
Proceeds on account of contracted credits and loans	33,186	12,482
Payment of credits and loans	(22,337)	(5,489)
Buying out of debt securities		(5,905)
Interest on bonds	(2,636)	(2,914)
Other expenditures	(19)	(85)
Other financial proceeds	–	169
Net cash (used in) / from financial activities	**8,297**	**(1,616)**
Change in net cash	**20,042**	**(16,121)**
Cash as of the beginning of the period	28,745	45,104
Positive (negative) exchange rate differences in cash	(160)	(238)
Cash as of the end of the period	**48,947**	**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, 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 (three hundred and fifty thousand) 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. (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. 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.

2. Description of the applied accounting principles

This consolidated financial statement was prepared for the four quarters of 2005. It was prepared pursuant to the International Accounting Standards (IAS, Polish abbreviation MSR), the International Standards or Financial Reporting (ISFA, Polish abbreviation MSSF) and interpretations published by the Committee for Interpretation of International Financial Reporting, as approved by the European Union.

Accounting principles adopted by the Group presented below were applied to all periods covered by this financial statement, with the exception of those areas, in which they were applied beginning with the day of entering ISFA, i.e. 01 January 2004, within the optional exemptions and obligatory exceptions set forth in ISFA 1.

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.

The Group followed obligatory exceptions related to retrospective application of some MSSFs 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 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 3.2.1-3.2.4 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 Company Management, there are no circumstances suggesting any threat to continuing activities.

The ComArch Group prepares the profit and loss account in the calculative version, whereas the cashflow statement is prepared with the indirect method.

The consolidated financial statement of the ComArch Group for 12 months of 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	90,00 %
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	90,00 %
OOO ComArch	Subsidiary unit	Full	100,00%
UAB ComArch	Subsidiary unit	Full	100,00%
ComArch Services Sp. z o.o.	Subsidiary unit	Full	99,90 %
Interia.pl SA	Affiliated unit	Ownership rights	41.05% *
NetBrokers Sp. z o.o.	Affiliated unit	Ownership rights	40,00%
MKS Cracovia SSA	Subsidiary unit	Full	49,15%

*) On 19 January 2006, ComArch S.A. sold 350,000 (three hundred and fifty thousand) 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.

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 (including special 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 prospective voting rights, 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 contracted obligations 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 most cases, depreciation rates are: 30% (for the group of machines and equipment) and 20% (for the groups of means of transport and other fixed assets). 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.

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 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,
- From appraisal of the managerial option.

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.

2.1.8. Obligations and provisions for obligations

a) Trade obligations and other obligations

As of the origination date these are given in the books at fair value, and as of the balance sheet date they are given at adjusted acquisition price (depreciated cost). Obligations depending on 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-time or long-time items.

2.1.8. 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.

2.1.9. 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. The amount of the provision and assets on account of deferred income tax is determined with income tax rates taken into account as of the year of the tax obligation. The difference between the provision 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 provisions 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.’

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.

The Group receives subsidies for financing research work within European Union help 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 other operational costs.

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.

2.3. Managing financial risk

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

1. 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;
2. The risk of changing 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;
3. 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 company, the company 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 company is active, situation is possible when actual results and tax-exempt income may differ from the company'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.

2.4 Information related to mid-year values

The IT industry features seasonal nature of sales. The highest turnover is noted in the third and fourth quarters of the calendar year. Percentage share of sales for the fourth quarter of 2005 constituted 44% of the sales executed throughout 2005, whereas proceeds from sales for the fourth quarter of the preceding year constituted 31% of the 2004 sales. The current income tax is calculated on monthly basis, based on current financial details, in accordance with regulations applicable in the country of the head office of the Capital Group.

The costs, which are incurred unevenly during the accounting year of the economic unit are anticipated or transferred into settlements over time as of the mid-year date when and only when their anticipation or transfer into settlement over time is also appropriate as of the end of the accounting year.

2.5 New standards of accounting and interpretations of KIMSSF

In the assessment of the Capital Group Management, particular new published standards of accounting, appropriate for reporting periods starting with 2006, ISFA 6 ("Exploration for and Evaluation of Mineral Resources"), IKIMSSF 5 ("Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds") shall not affect the financial statement and the financial standing of the Group.

Interpretation KIMSSF 4 ("Determining whether an Assets Contains a Lease") is applicable to annual periods starting with 2006. Application of recommendations resulting from the said interpretation is not expected to affect the financial statement and the financial standing 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 way of giving land perpetual usufruct right in ISFA is not unanimously specified and opinions in this respect differ. The Company in the statement prepared according to ISFA gives un-depreciated land perpetual usufruct right as "intangibles," while depreciated perpetual usufruct right is given as "long-term accrued settlement."

(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 giving 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, 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 ego 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 conciliations 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)

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
Result of the period	–	3.2.2	–	3.2.3
Undivided profit	563	3.2.2	1,031	3.2.3
Exchange rate differences	–	3.2.2	–	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 the Company in 1990s (a very short period of time when the Company operated under hyperinflation) and the low value of the initial capital, the result of re-calculation was meaningless from the viewpoint of the entire financial statement.

3.2.2. Conciliation of total equity as of 1 January 2004

	Note	Previously applied principles	Result of transformation into ISFA	ISFA
ASSETS				
Fixed assets				
Tangible fixed assets	a	91,244	(32,566)	58,678
Goodwill	b	3,466	(182)	3,284
Intangibles	a	3,220	31,650	34,870
Long-term accrued settlements	a	–	816	816
Investments in affiliated units	b	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				
Total equity per Company shareholders				
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
OBLIGATIONS				
Long-term obligations				
Credits and loans		1,238	–	1,238
Obligations on account of deferred income tax		5,920	–	5,920
Obligations on account of convertible bonds 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				
Trade obligations and other obligations	e	63,257	13,054	76,311
Invoiced proceeds related to long-term contracts		9,325	–	9,325
Obligations on account of current income tax	e		1,295	1,295
Obligations on account of convertible bonds		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 of perpetual usufruct rights for land from tangible fixed assets to intangibles and long-term accrued settlements (1):	
Tangible fixed assets	(32,566)
Intangibles	31,650
Long-term accrued settlements	916
Long-term settlements: amortisation of perpetual usufruct rights	(100)
b)	
Goodwill – reduction by the part invested in the NetBrokers affiliated unit	(182)
Investments in affiliated units – NetBrokers goodwill	182
c)	
Posting out unsettled costs of company expansion (2)	(1,289)
Total assets	**(1,389)**
Liabilities:	
d)	
Total equity	
Posting out amortisation of perpetual usufruct rights	(100)
Posting out unsettled negative goodwill related to acquisition of MKS Cracovia SSA shares (3)	1,952
Posting out unsettled costs of company expansion (2)	(1,289)
Transfer of minority shares into total equity (4)	18,732
Total equity	**19,295**
Settlement of negative goodwill (3)	(1,952)
Capital of minority shareholders (4)	(18,732)
Total liabilities	**(1,389)**
e)	
Re-classification of accrued settlements into other obligations	(14,349)
Presentation of obligations on account of income tax in a separate line	1,295

3.2.3. Conciliation of total equity as of 31 December 2004

	Note	Previously applied principles	Result of transformation into ISFA	ISFA
ASSETS				
Fixed assets				
Tangible fixed assets	j	111,555	(36,754)	74,801
Goodwill	k, l	2,256	1,028	3,284
Intangibles	j	2,408	31,650	34,058
Long-term accrued settlements	j	–	5,004	5,004
Investments in affiliated units	k	3,893	182	4,075
Other investments		380	–	380
Other receivables		43	–	43
Assets on account of deferred 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
Dues 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 the 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				
Total equity per Company shareholders				
Initial capital		6,852	–	6,852
Other capitals		118,650	–	118,650
Exchange rate differences		(52)	–	(52)
Undivided financial result	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
OBLIGATIONS				
Long-term obligations				
Credits and loans		8,149	–	8,149
Obligations on account of deferred income tax		5,601	–	5,601
Obligations on account of issue of bonds		38,472	–	38,472
Provisions for other obligations		100	–	100
		52,322	–	52,322
Short-term obligations				
Trade obligations and other obligations	n	54,826	21,320	76,146
Obligation on account of invoiced proceeds related to long-term contracts		7,172	–	7,172
Obligations on account of 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 of perpetual usufruct rights for land from tangible fixed assets to intangibles and long-term accrued settlements (1):

Tangible fixed assets	(36,754)
Intangibles	31,650
Long-term accrued settlements	5,104
Amortisation of perpetual usufruct rights	(100)
k)	
Goodwill – transfer of goodwill of the NetBrokers affiliated unit	182
Investments in affiliated units – adjustment of the transfer of NetBrokers goodwill	(182)
l)	
Adjustment of positive goodwill (5)	1,210
Posting out unsettled costs of company expansion (2)	(189)
Total assets	**921**
Liabilities:	
m)	
Total equity	
Posting out amortisation of perpetual usufruct rights	(100)
Posting out depreciation of positive goodwill for 2004 (5)	1,210
Posting out negative goodwill as of 31 December 2004 (3)	110
Posting out unsettled costs of company expansion as of 31 December 2004 (2)	(189)
Including capital of minority shares in total equity (4)	14,013
Total equity	**15,044**
Adjustment of settlement of negative goodwill (3)	(110)
Capital of minority shareholders (4)	(14,013)
Total liabilities	**921**
n)	
Re-classification of accrued settlements into other obligations	(21,320)

3.2.4. Conciliation of profits and losses for 2004

		Previously applied principles	Result of transformation into ISFA	ISFA
Proceeds from sales	r	329,979	(1,622)	328,357
Costs of sold products, merchandise and materials	r	254,860	(477)	254,383
Gross profit		75,119	(1,145)	73,974
Other operational proceeds	r	3,467	(1,842)	1,625
Costs of sales and marketing		(30,233)	–	(30,233)
Costs of general management and administration	r	(27,402)	1,100	(26,302)
Other operational costs		(2,924)	–	(2,924)
Operational profit (loss)		18,027	(1,887)	16,140
Net financial costs	r	(3,146)	(1,836)	(4,982)
Goodwill write-off	r	(1,210)	1,210	–
Negative goodwill write-off		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	–
Minority profit / loss	r	1,607	(1,607)	–
Net profit from regular activities		14,026	–	9,765
Net profit for the period	r	14,026	(4,261)	9,765
Including, per:				
Shareholders of the dominant unit				11,372
Minority shareholders				(1,607)

r) Effect of adjustments on net result

Exchange rate differences on receivables given in proceeds	(1,622)
Exchange rate differences on obligations and commissions given in the cost of sold products, services and merchandise	(477)
Adjustment of negative goodwill settlement in reference to MKS Cracovia SSA for 2004 (3)	(1,842)
Adjustment of settled costs of company expansion for 2004 (2)	1,100
Adjustment of the result of acquisition by ComArch SA of a new issue of MKS Cracovia SSA shares in July 2004 for 2004	(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 positive goodwill depreciation arising in reference to acquisition of shares of subsidiaries in 2004 (5)	1,210
Adjustment of negative goodwill settlement in reference to MKS Cracovia SSA for 2004	(141)
Adjustment by the share in the result of minority shareholders in 2004 (6)	(1,607)
Total net profit adjustment	**(4,261)**

s) Change in presentation of share in profits of affiliated units **(833)**

4. Notes to the consolidated financial statement

4.1. Reporting by segments for 12 months of 2005 according to ISFA

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	Eliminations	Total
Proceeds of the segment – Sale to external clients	435,804	8,151	–	443,955
Including:				
Proceeds from sales	435,804	8,151	–	443,955
Other proceeds (operational and financial)	1,390	353	–	1,743
Proceeds of the segment – sale to other segments	–	5,499	(5,499)	–
Total proceeds of the segment *	437,194	14,003	(5,499)	445,698
Costs of the segment related to sale to external clients	414,478	8,684	–	423,162
Costs of the segment related to sale to other segments	–	5,499	(5,499)	–
Total costs of the segment *	414,478	14,183	(5,499)	423,162
Current tax	(2,401)	–	–	(2,401)
Assets for tax on account of investment allowance and other tax allowances	5,720	–	–	5,720
Share of the segment in the result of units appraised with the ownership rights method	1,254	–	–	1,254
Net result	27,289	(180)	–	27,109
Including:				
The result for shareholders of the dominant unit	27,375	(88)	–	27,287
The result for minority shareholders	(86)	(92)	–	(178)

* 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	231,446	37,388	268,834
Affiliated units	4,075	–	4,075
Total assets	**235,521**	**37,388**	**272,909**

	IT segment	Sport segment	Total
Obligations	131,438	9,036	140,474
Investment expenditures	28,632	1,028	29,660
Depreciation	9,353	391	9,744

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

	IT segment	Sport segment	Total
Assets	298,578	37,837	336,415
Affiliated units	9,579		9,579
Total assets	**308,157**	**37,837**	**245,994**

	IT segment	Sport segment	Total
Obligations	181,376	3,927	185,303
Investment expenditures	39,920	2,120	42,040
Depreciation	10,739	537	11,276

Due to geographical breaking down of the activities, 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. Therefore, 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)	376,967	261,377
Europe	41,181	54,735
America	14,428	9,497
Other countries	11,379	2,748
TOTAL	**443,955**	**328,357**

Total assets

	31 December 2005	31 December 2004
Domestic (Poland)	321,187	252,157
Europe	7,960	10,004
America	4,307	5,306
Other countries	2,961	1,367
Affiliated units	9,579	4,075
TOTAL	**345,994**	**272,909**

Investment expenditures

	12 months 2005	12 months 2004
Domestic / Poland	41,304	29,424
Europe	354	129
America	375	60
Other countries	7	47
TOTAL	**42,040**	**29,660**

4.2 Investments in affiliated units

These items refer to shares in two companies: INTERIA.PL SA and NetBrokers Sp. z o.o., appraised with the ownership rights method.

As of 1 January 2004	4,908
Share in the results for the first 6 months of 2004	(402)
As of 30 June 2004	4,506
Share in the results for the second 6 months of 2004	(431)
As of 31 December 2004	4,075
As of 1 January 2005	4,075
Increase in net assets on account of acquiring shares of INTERIA.PL company	1,928
Share in the result for 2005	1,254
Other capital changes – determination of the company result in reference to assuming shares from the new INTERIA.PL issue	2,322
As of 31 December 2005	9,579
Including:	
INTERIA.PL S.A.	7,814
NetBrokers S.A.	1,765

Name	Country of registration	Assets	Obligations	Shares in capital owned (%)
As of 31 December 2004				
INTERIA.PL S.A.	Poland	12,508	5,376	37.50
NetBrokers S.A.	Poland	3,379	523	40.00
		15,887	5,899	
As of 31 December 2005				
INTERIA.PL S.A.	Poland	19,138	5,756	41.05
NetBrokers S.A.	Poland	4,852	1,077	40.00
		23,990	6,833	

		Proceeds	Profit / (loss)	Shares in capital owned (%)
12 months 2004				
INTERIA.PL S.A.	Poland	26,434	(3,421)	37.50
NetBrokers S.A.	Poland	32,963	1,010	40.00
		59,397	(2,411)	
12 months 2005				
INTERIA.PL S.A.	Poland	39,733	2,158	41.05
NetBrokers S.A.	Poland	41,128	1,042	40.00
		80,861	3,200	

Fair value of shares owned by ComArch SA as of 31 December 2005 by ComArch S.A. in the INTERIA.PL company, determined based on average stock exchange rates from the period of three months preceding the date of preparing the statement is PLN 68,975. On 30 December 2005, the INTERIA.PL closing stock exchange rate was PLN 18.60. On this day, the value of INTERIA.PL SA stock owned by ComArch SA was PLN 53,724 thou.

On 30 March 2005, ComArch SA registered increase of the initial capital of the INTERIA.PL company. The total issue was 466,549 shares in Series F, of which 425,000 shares were assumed by ComArch

SA. The issue price of the allocated shares was PLN 10 per share. As a result of assuming the new issue of INTERIA.PL shares, the ComArch SA company temporarily had over 50% of votes in the GA, however, due to regulations related to the law on public trading in securities, the company could not execute the voting rights on the owned shares until shares were disposed and the share of votes in the GA dropped below the threshold of 50%. On 12 May, the ComArch SA company disposed 1 share of INTERIA.PL and at the same time INTERIA.PL performed removal of privileges on 305,119 registered shares, following the motion of shareholders. By virtue of the above resolution, 195,556 registered shares owned by ComArch S.A. were converted, so that as of 12 May the ComArch S.A. company had 2,888,369 shares, which constitutes 49.95% of votes in the GA. Throughout the time, the Interia.pl company thus remained an affiliated company to ComArch SA.

As a result of assuming INTERIA.PL shares of a new issue, the share of ComArch SA in the capital of this company increased from 37.5002% to 41.0542%, i.e. by 3.554%. In reference to the above, goodwill was determined in the following way:

Net assets for the shares owned by ComArch SA:

Prior to the issue	2,720
After the issue	4,648
Increase in net assets	1,928
Share acquisition price	4,250
Goodwill	2,322

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

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

The share of ComArch SA as a result of the company of INTERIA.PL before the issue was PLN 41 thou., and after the issue: PLN 445 thou.

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

4.3. Inventory

	31 December 2005	**31 December 2004**
Materials and raw materials	781	719
Production in progress	13,121	7,994
Merchandise	11,818	6,278
Prepayments against merchandise	430	–
	26,150	14,991

Cost of the inventory given in the item “Costs of sold products, merchandise and materials” was PLN 301,491 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. 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 208 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.

4.4. Financial assets available for sale

	12 months of 2005	12 months of 2004
As of the beginning of the year	2,000	–
Increase – the first 6 months	500	4,865
Disposal – the first 6 months	2,489	–
As of 30 June	11	4,865
Increase – the second 6 months	1,007	2,000
Disposal – the second 6 months	1,018	4,865
As of 31 December	–	2,000
The short-term part	–	2,000

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	–	2,000
	–	2,000

4.5. Derivative financial instruments

	31 December 2005		31 December 2004	
	Assets	**Obligations**	**Assets**	**Obligations**
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 provide collateral for future cash flows, by way of limiting 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.

4.6. Trade receivables and other receivables

	31 December 2005	31 December 2004
Trade receivables	88,415	75,294
Less write-off updating the value of receivables	(2,651)	(1,057)
Net trade receivables	85,764	74,237
Other receivables	1,835	2,049
Accrued settlements	4,573	3,256
Loans	322	370
Receivables from related entities	27	101
	92,521	80,013
The short-term part	92,521	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 2,651 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.

4.7. 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 By-Laws 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. Elżbieta and Janusz Filipiak have 3,239,393 shares in total, which give 10,195,393 votes in the GA, which constitutes 72.70% of all votes in the GA.

Clients of BZ WBK AIB Asset Management S.A., following acquisition of shares settled on 6 February 2006, have become owners of shares securing more than 10% of the total number of votes in the ComArch S.A. General Assembly. On 6 February 2006, 1,417,770 shares of the ComArch S.A. company (20.38% of the initial capital) covered by managing contracts were in accounts of securities of BZ WBK AIB Asset Management S.A. clients. These shares gave 1,417,770 votes in the GAS, which constituted 10.11% of the total number of votes in the general assembly. Prior to increasing the share referred to above, BZ WBK AIB Asset Management S.A. clients had 1,385,570 shares of the Company in accounts covered by managing contracts, which constituted 19.92% of the initial capital of the Company. These shares gave rights to 1,385,570 votes, which constituted 9.88% of the total number of votes in the ComArch S.A. General Assembly.

As a result of acquiring shares by Arka BZ WBK Zrównoważony FIO, settled on 28 July 2005, investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. became owners of shares securing more than 5% of the total number of votes in the General Assembly of ComArch SA. On 28 July 2005, in securities accounts of investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., there were 708,629 shares of ComArch SA, which was 10.19% of the initial capital of the Company. These shares gave rights to 708,629 votes, which was 5.05% of the total number of votes in the General Assembly.

At the same time, ComArch S.A. indicates that 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.

2) Changes in the initial capital in the fourth quarter of 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 constitute 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 By-Laws 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 By-Laws 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 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,
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. Despite the fact that the ISFA2 standard was officially adopted by the European Union for application by stock exchange companies for preparation of consolidated statements, many experts point out its controversial nature, as in their opinion giving the cost of the option in the profit and loss account results in double inclusion of the effect of the option programme (once by the result and then by dilution).

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 as of 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 is PLN 0. 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:

The second six months of 2005 – PLN 1,682 thou., including in Q3 2005 – PLN 841 thou.

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
c) 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 mete. 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 January 2006, 24 January 2006 and 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.

4.8. Trade obligations, other obligations and provisions for obligations and charges

	30 September 2005	31 December 2004
Trade obligations	63 467	36,238
Financial obligations	-	812
Prepayments received against services	1 850	6,601
Obligations to related entities	42	201
Obligations on account of social insurance and other tax charges	4 463	9,016
Obligations on account of income tax	785	201
Investment obligations	736	3,959
Provisions for leaves	5 231	4,947
Provisions for costs related to the current period, to be incurred in the future	22 287	12,729
Other obligations	2 300	398
Special funds (ZFŚS and the Company's Settlement Fund)	1 080	1,245
	102 241	76,146

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

4.9. Long-term contracts

	12 months 2005
Proceeds on account of long-term contracts given in the reporting period	107,666
a) Proceeds from completed contracts given in the reporting period	24,196
b) Proceeds from incomplete contracts given in the reporting period	83,470

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 5,254 thou.

4.10 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 with collaterals	581	513
Bank credits	2,024	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.

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				
	1,104	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	19,699	9,888
Total	19,699	9,888

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

4.11 Convertible bonds

On 12 April 2002, ComArch SA issued 4,000 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 1 March 2006, ComArch S.A. received statements about conversion of 2,606 convertible bearer's bonds issued by the Company into shares. The total nominal value of bonds reported for conversion is PLN 26,060,000. 456,050 regular bearer's shares in Series H will be issued for Series A convertible bonds covered by the submitted conversion statements. With the above conversion statements taken into consideration, there will be 908 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 quotings 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
Above 5 years	–	–
	39,497	38,472

4.12. 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.

4.13. Deferred income tax

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 reliefs 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 reliefs (public aid), from reliefs unlimited by value into reliefs 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. m. 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 Company in reference to the possible shaping of tax income on account of exempt operations in the period by the end of 2006. The asset shall be successively realised (in the form of write-offs reducing net profit of the Company), in proportion to generating by the Company of tax income achieved from exempt operations. At the same time, pursuant to ISA12, the Company 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 Company notes that recognition of the asset on account of the unused relief does not affect cash flows in the Company (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 Group has 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 3,987 thou. Due to fact that the Company 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 Company 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.

Following the safe appraisal principle, the Group has not established an asset in 2005 resulting from the tax loss in subsidiary companies, which was PLN 5,552 thou. in 2005.

4.14. Profit per share

Basic

	12 months 2005	12 months 2004
Net profit for the period for Company shareholders	27,287	11,372
Average weighted number of regular shares (in thou.)	6,910	6,794
Profit per regular share (in PLN)	3.95	1.67
Diluted profit per regular share (in PLN)	3.95	1.67

The basic net profit per 1 share in the "12 months of 2005" column was calculated as net consolidated profit for ComArch SA 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 ComArch SA 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.

5. Additional notes

5.1. 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 1 March 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 72.70% of all votes in the GA;

– 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 10.11% of all the votes in the GAS;

– BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna, the investment funds managed by which, as a result of acquisition of shares by Arka BZ WBK Zrównoważony FIO, settled on 28 July 2005, became owners of 708,629 shares of the ComArch SA Company, which was 5.05% of all the votes in the GAS.

At the same time, ComArch SA notes that the shares acquired by clients of BZ WBK AIB Asset Management SA include also the shares then owned by investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych SA.

b) Changes in ownership of shares of ComArch SA by persons managing and supervising ComArch SA in the period from 14 November 2005 to 01 March 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 3 Quarter 2005, i.e. 14 November 2005 and on 01 March 2006, pursuant to the information owned by the Company.

A Member of the Supervisory Council, on 20 to 25 January 2006, sold 25,000 bearer's shares of the Company at prices from PLN 66 to PLN 67.10 per share. On 03 February 2006, a Member of the Supervisory Council of ComArch S.A. sold 25,000 regular bearer's shares of the Company at the price of PLN 71 per share. The transaction was completed in the regulated market, through the Warsaw Stock Exchange S.A.

Managing and supervising persons	Function	As of 01 March 2006		As of 14 November 2005	
		Shares (pcs.)	Share in votes in the GA (%)	Shares (pcs.)	Share in votes in the GA (%)
Elżbieta and Janusz Filipiak	Chairwoman of the Supervisory Board and President of the Management	3,239,393	72.70%	3,289,393	73.06%
Tomasz Maciantowicz	Deputy President of the Management	92,131	0.66%	92,131	0.66%
Paweł Prokop	Deputy President of the Management	24,440	0.44%	24,440	0.44%
Paweł Przewięźlikowski	Deputy President of the Management	24,440	0.44%	24,440	0.44%
Rafał Chwast	Deputy President of the Management	6,566	0.05%	6,566	0.05%
Zbigniew Rymarczyk	Member of the Management	370	0.00%	370	0.00%
	Number of the issued shares	**6,955,095**	**100.00%**	**6,955,095**	**100.00%**

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

The Company 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 Company in reference to the possible shaping of tax income on account of exempt operations in the period by the end of 2006. The asset shall be successively realised (in the form of write-offs reducing net profit of the Company), in proportion to generating by the Company of tax income achieved from exempt operations. At the same time, pursuant to ISA12, the Company 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 Company notes that recognition of the asset on account of the unused relief does not affect cash flows in the Company (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.

The Company, 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 Company 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 4.13 of this statement.

5.3. Events after the balance sheet date

On 22 and 23 February 2006, ComArch S.A. received statements about conversion of 1,510 convertible bearer's bonds issued by the Company, at the nominal value of PLN 10,000 each. The total nominal value of bonds reported for conversion is PLN 15,100,000. 264,250 regular bearer's shares in Series H will be issued for Series A convertible bonds covered by the submitted conversion statement.

On 28 February 2006, ComArch S.A. received statements about conversion of 606 convertible bearer's bonds issued by the Company, at the nominal value of PLN 10,000 each. The total nominal value of bonds reported for conversion is PLN 6,060,000. 106,050 regular bearer's shares in Series H will be issued for convertible bonds in Series A covered by the submitted conversion statement.

On 1 March 2006, ComArch S.A. received statements about conversion of 490 convertible bearer's bonds issued by the Company, at the nominal value of PLN 10,000 each. The total nominal value of bonds reported for conversion is PLN 4,900,000. 85,750 regular bearer's shares in Series H will be issued for convertible bonds in Series A covered by the submitted conversion statement.

After conversion of Series A bonds into stock, covered by conversion statements submitted up to this day, the initial capital of ComArch S.A. shall be made up of the following:

1) 883,600 privileged registered shares in Series A,
2) 56,400 regular bearer's shares in Series A,
3) 883,600 privileged 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, and
10) 456,050 regular bearer's shares in Series H.

The initial capital of the Company after conversion shall be PLN 7,411,145 and shall be divided into 7,411,145 shares, which will give rights to 14,479,945 votes in the general assembly of the Company. Series H shares, covered by the statements about conversion, shall constitute 6.15% of the initial capital of ComArch S.A. and shall give rights to 3.15% of votes in the GAS of the Company. With the aforementioned statements about conversion taken into consideration, the number of convertible bonds in Series A, which were not converted into Series H shares, will be 908.

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 quotings 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.

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

On 23 January 2006, Mr. Christophe Debou filed resignation of the performed function of the Member of the ComArch S.A. Management.

5.4. 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.

ComArch SA is a 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.

5.5. Position of the Management in reference to executing the previously published forecasts

The Management did not give any forecast for results for 2005.

5.6. Information about transactions with related entities, whose total value exceeds Euro 500,000, since the beginning of the year (apart from typical and routine transactions)

Not present.

5.7. Information about warranties and guarantees provided by the Company and the subsidiary entity

In the fourth Quarter 2005, ComArch SA and an entity subsidiary to it did not provide any warranties and guarantees referred to in Article 91 Para 6 Clause 9 of the Ordinance of the Council of Ministers of 19 October 2005 on current and periodical information submitted by issuers of securities.

5.8. Other information significant for assessment of personnel, equity and financial situation, financial result and their changes and information which is significant for assessment of the possibility of execution of obligations by the issuer

Not present.

6. Description of significant achievements and failures and factors and events significantly affecting the achieved financial result of the ComArch Group in the IV Quarter 2005 and factors which shall have effect on the achieved results in the perspective of at least one future quarter.

The results for the fourth quarter and for the whole 2005 may be unanimously called very good. Proceeds from sales in the fourth quarter 2005 were PLN 195m and were higher by as much as 89% from those of the fourth quarter 2004. Proceeds from sales in the whole 2005 were PLN 444 m and were higher by 35% than in 2004.

At the same time, significant increase in operational profit was recorded up to the amount of PLN 26.7 m (from PLN 16.1 m in 2004) along with significant improvement in operational profitability from the level of 4.9% to the level of 6%. Improvement in operational profitability was one of the most important priorities of the Group in 2005 and the Management welcomes achievement of the objective for 2005. It is noteworthy that improvement in profitability came about with the simultaneous increase in employment in the Group by about 300 persons to the level of 1,836 persons (excluding those employed in MKS Cracovia SSA).

The net profit of the Group (for Company shareholders) in 2005 was at the record level of PLN 27.3 m and was higher from the 2004 net profit by 140% (higher from the 2004 net profit by 88%, excluding the value of assets on account of deferred tax, referred to in section 4.13 of the statement). The return on capital achieved by the Group for the amount of more than 17% is especially significant, being twice as high as in 2004, with return on capital at 8.6 %. Profit per share reached the value of PLN 3.95, which means increase by 137% from the level of PLN 1.67 in 2004.

The order portfolio for the current year is at present PLN 210 m and is higher by 36% than in the same period of the last year, which confirms further dynamic possibilities of organic development of the Group in the years to come. At the same time, the Management of the Company emphasises that increase in operational profitability shall remain one of the most important priorities of the Group in the current year and in the years to come.

The ComArch Group			
	As of 28 February 2006	As of 28 February 2005	Change
Proceeds contracted for the current year	209,668	153,837	36.3%

The detailed structure of proceeds shows that sale in the ComArch Group is very well diversified and the Group is not dependent on any single sector or client. Such structure of proceeds significantly reduces the risk in operational activities related to the possible non-uniform development rate of a single sector in the given year. For several years, the share of particular sectors in sales has been maintained on a relatively stable level. The value of export sales measured in foreign currencies increased by about 15% (and measured in PLN was at a level similar to 2004 due to strengthening of the Polish currency in 2005).

ComArch Group

	1-4 Quarter 2005	%	1-4 Quarter 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	8,960	2.0%	4,951	1.5%
TOTAL	**443,955**	**100.0%**	**328,357**	**100.0%**

	1-4 Quarter 2005	%	1-4 Quarter 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	8,984	2.0%	5,225	1.6%
TOTAL	**443,955**	**100.0%**	**328,357**	**100.0%**

	1-4 Quarter 2005	%	1-4 Quarter 2004	%
Domestic	376,968	84.9%	261,377	79.6%
International	66,987	15.1%	66,980	20.4%
TOTAL	**443,955**	**100.0%**	**328,357**	**100.0%**

Results of the Group in future quarters shall depend mostly on continued positive trends in economy, on the financial standing of medium-size and large companies, which constitute the major base of clients of the Group and on shaping of currency exchange rates.

In the fourth quarter of 2005, there were the following events, which had major effect on the current activities of the ComArch Group:

ComArch S.A. signed a master contract with a leading global power engineering concern for construction, implementation, integration and maintenance of a global loyalty system based on the ComArch AURUM Loyalty Care solution. Within this contract, whose total value, depending on the number of countries supported, may reach the amount of EUR 20 m, ComArch will implement its system in the geographical area most important for the concern. Under this master contract, on 14 October 2005, ComArch S.A. signed contracts with companies subsidiary to the concern on implementation of the system in one of Western Europe countries, for the total value of EUR 4.126 m. The system will be hosted in Poland, in ComArch data centres. Negotiations are now under way with representative offices of the concern in further countries world-wide.

On 28 October 2005, the consortium of ComArch S.A. and All-Poland Foundation for Computer Education (Ogólnopolska Fundacja Edukacji Komputerowej) with the office in Wrocław (Consortium) signed an agreement with the Ministry of National Education (MEN) for delivery, installation and integration of all Web-related elements in multimedia information centres (ICIM) in school libraries, in province pedagogical libraries and in affiliate units of province pedagogical libraries throughout the country. The net agreement value is PLN 19,473 thou. Executing the signed agreement, the Consortium delivered ICIM systems to 1,124 schools, 49 province pedagogical libraries and 273 affiliate units of province pedagogical libraries.

On 30 December 2005, ComArch S.A. received a signed agreement with Budostal-2 S.A. with the office in Krakow for execution of Stage 2 of the investment in the Krakow Special Economic Zone, consisting in construction of a complex of buildings dedicated for work related to production of IT systems. The subject matter of this agreement is construction of an office and services building for the area of 14,000 sq.m along with the technical infrastructure. The agreement value is PLN 29,596 thou. The planned deadline for this investment is 30 December 2006.

After the balance sheet date.

From 22 February to 1 March 2006, ComArch S.A. received statements about conversion of 2,606 convertible bearer's bonds issued by the Company into shares. The total nominal value of bonds reported for conversion is PLN 26,060,000. 456,050 regular bearer's shares in Series H will be issued for Series A convertible bonds covered by the submitted conversion statements. With the above conversion statements taken into consideration, there will be 908 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 quotings 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.

On 23 January 2006, Mr. Christophe Debou filed resignation of his function as a Member of the Management, ComArch S.A.

VI. The abbreviated quarterly financial statement of ComArch S.A. for 4Q 2005

I. Balance sheet

(in PLN thou.)	31 December 2005	30 September 2005	31 December 2004
ASSETS			
I. Fixed assets	**139,237**	**135,745**	**115,946**
1. Intangibles	2,484	2,638	1873
2. Tangible fixed assets	97,086	94,248	79,680
3. Long-term investments	38,470	38,859	34,393
3.1 Long-term financial assets	38,428	38,816	34,350
a) in affiliated units	38,290	38,634	33,970
b) in other units	138	182	380
3.2 Other long-term investments	43	43	43
4. Assets on account of deferred tax	1,197	-	-
II. Current assets	**189,019**	**119,164**	**136,337**
1. Inventory	25,928	15,267	14,185
2. Short-term receivables	94,152	59,227	74,100
2.1. From affiliated units	12,858	7,948	8,123
2.2 From other units	81,294	51,279	65,977
3. Short-term investments	42,764	9,333	24,242
3.1. Short-term financial assets	42,764	9,333	24,242
a) in affiliated units	1,133	303	368
b) in other units	476	1,527	2,370
c) cash and other cash assets	41,155	7,503	21,504
4. Short-term accrued settlements	26,175	35,337	23,810
Total assets	**328,256**	**254,909**	**252,283**

(in PLN thou.)	31 December 2005	30 September 2005	31 December 2004
LIABILITIES			
I. Total equity	157,900	144,439	128,642
1. Initial capital	6,955	6,955	6,852
2. Due payments for the initial capital (negative)	-	-	-
2. Reserve capital	105,113	105,113	96,714
3. Capital from appraisal updating	12	12	71
4. Other reserve capitals	21,948	21,948	21,948
5. Capital from merger settlement	-7,334	-7,334	-7,334
6. Profit (loss) from previous years	1,992	1,992	1,992
7. Net profit (loss)	29,214	15,753	8,399
II. Obligations and provisions for obligations	170,356	110,470	123,641
1. Provisions for obligations	-	-	100
1.1. Provisions on account of deferred income tax	-	-	-
1.2. Other provisions	-	-	100
2. Long-term obligations	56,849	56,997	45,937
2.1. To other units	56,849	56,997	45,937
3. Short-term obligations	74,810	31,151	53,735
3.1. To related units	1,460	910	982
3.2. To other units	72,298	29,064	51,532
3.3. Special funds	1,052	1,177	1,221
4. Deferred costs	38,697	22,322	23,869
4.1 Other accrued settlements	38,697	22,322	23,869
a) short-term	38,697	22,322	23,869
Total liabilities	328,256	254,909	252,283
Book value	157,900	144,439	128,642
The number of shares (pcs.)	6,955,095	6,955,095	6,852,387
Book value per share (in PLN)	22.70	20.77	18.77
Diluted number shares (pcs.)	6,955,095	6,955,095	6,955,095
Diluted book value per share (in PLN)	22.70	20.77	18.50

II. Profit and loss account

For the period from 01 October to 31 December and accrued from 01 January to 31 December (in PLN thou.)	IV quarter 2005	12 months 2005	IV quarter 2004	12 months 2004
I. Proceeds from sales of products, merchandise and materials, including:	189,850	425,184	94,603	249,831
- from affiliated units	7,911	14,536	5,516	12,380
1. Net proceeds from sales of products	74,048	223,042	57,810	139,188
2. Net proceeds from sales of merchandise and materials	115,802	202,142	36,793	110,643
II. Costs of sold products, merchandise and materials, including:	156,254	333,343	55,598	180,575
- to related units	3,208	11,822	3,175	20,496
1. Cost of generation of sold products	48,147	146,029	21,355	75,817
2. The value of sold merchandise and materials	108,107	187,314	34,243	104,758
III. Gross profit (loss) from sales	33,596	91,841	29,005	69,256
IV. Costs of sales	9,438	30,729	20,995*	30,026*
V. Costs of general management	7,551	23,477	10,761*	23,111*
VI. Profit (loss) from sales	16,607	37,635	7,249	16,119
VII. Other operational proceeds	586	1,390	241	933
1. Profit from disposing non-financial fixed assets	64	267	-16	45
2. Other operational proceeds	522	1,123	257	888
VIII. Other operational costs	1,424	4,199	1,497	2,131
1. Loss from disposing non-financial fixed assets	0	-	-	-
2. Updating value of non-financial assets	12	208	40	62
3. Other operational costs	1,412	3,991	1,457	2,069
IX. Profit (loss) from operational activities	15,769	34,826	5,993	14,921
X. Financial proceeds	579	1,807	-806	1,474
1. Interest, including:	424	827	244	1,052
- from affiliated units	52	208	70	357
2. Profit from disposing investments	-31	-	-	422
3. Updating the value of investments	-9	-	-	-
4. Other	195	980	-1,050	-
XI. Financial costs	1,755	6,287	1,434	7,806
1. Interest	1,531	5,138	972	4,789
3. Updating the value of investments	-	-	57	57
3. Other	224	1,149	405	2,960
XII. Profit (loss) from commercial activities	14,593	30,346	3,753	8,589
XV. Gross profit (loss)	14,593	30,346	3,753	8,589
XVI. Income tax	1,132	1,132	190	190
XIX. Net profit (loss)	13,461	29,214	3,563	8,399

Net (annualised) profit (loss)		29,214		8,399
The average weighted number of regular shares in the period 1 January – 31 December 2005 (pcs.)		6,910,354		6,793,961
Profit (loss) per regular share (in PLN)		4.23		1.24
The average weighted diluted number of regular shares in the period 1 October 2004 – 30 September 2005 (pcs.)		6,910,354		6,894,918
Diluted profit (loss) per regular share (in PLN)		4.23		1.22

*) Costs of sales and marketing and administration costs for the period of 12 months 2004 given in this statement differ from those given in the SAR_2004 statement due to adjusting to presentation principles in force in 2005.

III. Summary of changes in total equity (w thou. PLN)	**IV quarter 2005**	**12 months 2005**
I. Total equity as of the beginning of the period (BoP)	134,977	128,642
a) Changes in the adopted accounting principles (policy)		
I.a. Total equity as of the beginning of the period (BoP), after conciliation to comparable data	134,977	128,642
1. Initial capital as of the beginning of the period	6,955	6,852
1.1. Changes in the initial capital		103
a) increases (on account of)		103
- the issue of shares (release of shares)		103
1.2 Initial capital as of the end of the period	**6,955**	**6,955**
2. Due payments for the initial capital as of the beginning of the period		–
2.1. Changes in due payments for the initial capital		–
a) increases (on account of)		–
– unpaid issue of shares		–
b) reductions (on account of)		–
– payment of increasing the capital		–
2.2 Due payments for the initial capital as of the end of the period		**–**
3. Reserve capital as of the beginning of the period	105,113	96,714
a) increases (on account of)		8,399
– allocation of the result for 2004		8,399
3.1 Reserve capital as of the end of the period	**105,113**	**105,113**
4 Capital from appraisal updating as of the beginning of the period	17	71
4.1. Changes in the capital from appraisal updating	–5	–59
a) reductions (on account of)	5	59
– balance sheet appraisal of shares in foreign currencies	5	59
– negative capital related to buying out bonds		–
4.2. Capital from appraisal updating as of the end of the period	**12**	**12**
5. Capital from the merger as of the beginning of the period	**–7,334**	**–7,344**
a) increases on account of		–
– settlement of the merger of companies		–
b) reductions		–
- capital from the merger of ComArch SA, ComArch Krakow, CDN-ComArch SA		–
5.1 Capital from the merger as of the end of the period	**–7,334**	**–7,334**
6. Other reserve capitals as of the beginning of the period	21,948	21,948
6.1. Changes in other reserve capitals		–
a) increases (on account of)		–
– allocation of profit for 2003		–
6.2 Other reserve capitals as of the end of the period	**21,948**	**21,948**
7.1 Profit from previous years as of the beginning of the period	1,992	10,391
a) changes in the adopted accounting principles (policy)		–
7.2. Profit from previous years as of the beginning of the period, after conciliation to comparable data		10,391
a) increases (on account of)		–
– taking over the result for 8 months of 2004 from the companies in the merger		–
– taken over from the merger of the companies		–
b) reductions (on account of)		8,399
– transfer for the supplementary capital (ComArch SA profit for 2003)		–
– allocation of the profit for 2004 – increase in the supplementary capital		8,399
7.3 Profit from previous years as of the end of the period	**1,992**	1,992
8.1 Net result for 3 quarters 2005	15,753	
8.2 Net result for IV quarter 2005	13,461	**29,214**
a) net profit	13,461	29,214
II. Total equity as of the end of the period (CBS)	**157,900**	**157,900**
II. III. Total equity after the proposed division of profit (covering losses)	157,900	157,900

IV. Cashflow statement

For the period from 01 October to 31 December and accrued from 01 January to 31 December (in PLN thou.)	IV quarter 2005	12 months 2005	IV quarter 2004	12 months 2004
A. Cash flows from operational activities				
I. Net profit (loss)	13,461	29,214	3,563	8,399
II. Total adjustments	27,316	16,527	11,286	3,238
3. Depreciation	2,810	10,596	2,486	6,925
4. (Profits) losses on account of exchange rate differences	-31	-265	238	238
5. Interest and share in profits (dividend)	1,201	2,514	1,325	2,821
6. (Profit) loss from investment activities	115	167	71	-151
7. Change in provisions	-1,197	-1,297	100	100
8. Change in inventory	10,661	-11,743	-1,507	-3,424
9. Change in receivables	35,471	-19,874	-28,032	4,494
10. Change in short-term obligations, except for loans and credits	44,993	23,945	25,172	-1,409
11. Change in accrued settlements	25,537	12,464	13,330	-6,307
12. Other adjustments	20	20	-1,897	-49
III. Net cash flows from operational activities (I +/- II) – the indirect method	40,777	45,741	14,849	11,637
B. Cash flows from investment activities			0	
I. Proceeds	2,443	5,419	1,675	112,524
1. Disposal of intangibles and tangible fixed assets	738	1,093	-129	376
2. From financial assets, including:	1,705	4,326	1,804	112,148
a) in related units	694	785	1,804	8,144
– payment of granted long-term loans	694	785	0	6,340
– funds taken over from the merger	-	-	1,804	1,804
b) in other units	1,011	3,541	0	104,004
– disposal of financial assets	1,011	3,541	0	104,004
II. Expenditures	-8,017	-40,540	-7,282	-132,090
1. Acquiring intangibles and tangible fixed	-6,720	-32,909	-4,586	-20,512
2. For financial assets, including:	-1,297	-7,631	-2,696	-111,578
a) in affiliated units	-1305	-6,131	-696	-5,996
– acquiring financial assets	-	-4,480	-474	-4,955
– granted long-term loans	-1,305	-1,651	-222	-1,041
b) in other units	8	-1,500	-2,000	-105,582
– acquiring financial assets	8	-1,500	-2,000	-105,582
III. Net cash flows from investment activities (I – II)	-5,574	-35,121	-5,607	-19,566
C. Cash flows from financial activities			0	
I. Proceeds	20,315	33,344	7,907	12,598
1.Payment for issue of shares	-	103	-1	125
2.Credits and loans	20,194	33,119	7,911	12,380
3. Other financial proceeds	121	122	-3	93
II. Expenditures	21,900	-24,366	-2,067	-13,417
3. Payment of credits and loans	20,578	-21,730	-745	-4,598
5. Buying out debt securities			0	-5,905
6. Interest	-1,322	-2,636	-1,322	-2,914
III. Net cash flows from financial activities (I – II)	-1,585	8,978	5,840	-819
D. Total net cash flows (A.III +/- B.III +/- C.III)	33,**618**	**19,598**	**15,082**	-8,**748**
E. Balance sheet change in cash flows, including:	33,646	19,638	14,844	-8,986
– Change in cash flows on account of exchange rate differences	-28	-40	238	238
F. Cash as of the beginning of the period	7,494	21,502	6,657	30,487
H. Cash as of the end of the period (F+/-D), incl.:	41,140	41,140	21,501	21,501
– with limited disposal possibilities			404	404

V. Additional information and explanations

1. The applied accounting principles

The financial statement was prepared pursuant to the Accounting Act of 29 September 1994 (the unified text in Dz.U. 2002, No. 76 Item 694 as amended).

The complete description of the applied accounting principles was given in the last annual financial statement of the Company, i.e. in the statement for the period from 1 January 2004 to 31 December 2004.

2. Selected appraisal principles

Long-term financial assets

As of the balance sheet date, financial assets are given in the financial statement as long-term items if the period of their further owning exceeds 12 months of balance sheet date.

The shares are appraised in the books of account as of the date of their acquiring or origination at acquisition prices, and as the balance sheet date at acquisition prices less write-offs on account of permanent loss of value. In case of permanent loss of value, an updating write-off is made, not later than on the balance sheet date.

Loans are appraised at nominal value plus the interest accrued.

Short-term financial assets

The assets given in the statement cover mostly cash assets and loans granted to subsidiary entities.

Cash assets include cash at hand and in bank accounts and interest accrued on financial assets.

Cash in the domestic currency is appraised at nominal value, while cash in foreign currencies is appraised as of the balance sheet date at the average NBP exchange rate.

Loans are appraised at nominal value plus accrued interest.

3. Information about significant changes in estimated values, including adjustments on account of provisions, provisions and assets on account of deferred income tax, referred to in the accounting act, the made write-offs updating value of items of assets

ComArch SA restored the 2004 write-off updating the value of the inventory in the amount of PLN 12 thou. and the 2005 write-off in the amount of PLN 15 thou., because merchandise was sold, which was included in the previous updating at the original cost. The restored amount was given in the item of other operational proceeds.

There are no collaterals on the inventory owned by the Company. In the IV quarter of 2005, provisions for obligations were not established.

Due to fact that the Company manages both operations taxed on general principles and tax-exempt, temporary differences in tax income may be executed within both these activities. At the same time, the final determination within which of these activities (taxed or tax-exempt) the temporary differences shall be 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 the value of the asset on account of deferred tax in the amount of PLN 1,197 thou., i.e. in the amount estimated by the Company as possible for settlement in 2006 as a result of generating profit on taxed activities (profit on financial operations). The effect of recognising the above asset on the result of the fourth quarter, as well as on the result of the whole 2005 was plus PLN 1,197 thou.

4. Selected notes to the abbreviated financial statement

3.1. LONG-TERM FINANCIAL ASSETS	31 December 2005	30 September 2005	31 December 2004
a) In subsidiary and co-subsidiary units	23,031	23,375	22,962
- interest or shares	16,864	16,985	17,109
- loans granted	5,586	5,745	5,288
- other long-term financial assets	581	645	565
b) In affiliated units	15,259	15,259	11,008
- interest or shares	15,259	15,259	11,008
c) in other units	138	182	380
- loans granted	138	182	380
Long-term financial assets, total	**38,428**	**38,816**	**34,350**

3.2. CHANGE IN LONG-TERM FINANCIAL ASSETS (BY TYPE GROUPS)	4 quarter 2005	12 months 2005	4 quarter 2004	12 months 2004
a) as of the beginning of the period	38,816	34,350	28,720	66,580
- interest or shares	32,244	28,117	28,398	66,250
- loans	6,572	6,233	322	330
b) increases (on account of)	679	5,839	6,290	11,088
- acquiring shares in subsidiary units	6	230	474	4,955
-acquiring shares in affiliated units	-	4,250	-	-
- reclassification into long-term loans for subsidiary units	-	-	5,288	5,288
- loans granted in other units	80	138	70	280
- reclassification into long-term interest on loans	-	-	565	565
- loans granted to subsidiary units	382	728	-	-
- interest due on long-term loans	10	90		
- balance sheet appraisal of long-term loans	201	403	-107	-
c) reductions (on account of)	1,067	1,761	660	43,318
- reductions in shares in reference to the merger	-	-	-	41,675
- updating value of shares in foreign currencies	127	474	755	1,413
- payment of loans in subsidiary units	816	907	-	-
- payment of loans in other units	124	380	-	-
- reclassification into short-term loans	-	-	-95	230
d) as of the end of the period	**38,428**	**38,428**	**34,350**	**34,350**

3.3. SHORT-TERM FINANCIAL ASSETS	**31 December 2005**	**30 September 2005**	**31 December 2004**
a) In subsidiary and co-subsidiary units	1,133	303	368
- loans granted	1,133	303	368
c) in other units	476	1,527	2,370
- other securities (by types)	-	-	2,000
- participation units in a fund	-	1,157	2,000
- treasury notes	-	-	-
- loans granted	252	370	370
- other short-term financial assets (by types)	224	-	-
- asset on account of appraisal of forward contracts	224	-	-
g) cash and other cash assets	41,155	7,503	21,504
- cash at hand and in accounts	41,140	7,494	21,501
- other cash	-	-	-
- other cash assets	15	9	3
Short-term financial assets, total	**42,764**	**9,333**	**24,242**