INTRODUCTION TO THE COMARCH S.A.'S FINANCIAL STATEMENT SA-R 2005

1) The basic activities of the ComArch Group (the "Group"), in which ComArch S.A. with its registered seat in Krakow at Al. Jana Pawła II 39 A is the dominant unit, include production, trade and services in the fields of IT and telecommunications, PKD 72.20. The registration court for ComArch S.A. is the District Court for Krakow Śródmieście in Krakow, XI Economic Division of the National Court Register. The company's KRS number is 0000057567.

The duration of the dominant unit is not limited.

In the tables of this statement:
- the previous period means period 01 January 2004 - 31 December 2004 and refers to 12 months,
- current period means period 01 January 2005 – 31 December 2005 and refers to 12 months.

As at 31 December 2005, members of ComArch S.A.'s Board of Supervisors were:

• Elżbieta Filipiak - Chairman of the Board of Supervisors,
• Krzysztof Zieliński – Vice-Chairman of the Board of Supervisors,
• Maciej Brzeziński – Member of the Board of Supervisors,
• Anna Ławrynowicz- Member of the Board of Supervisors,
• Wojciech Kucharzyk - Member of the Board of Supervisors.

As at 31 December 2005, members of ComArch S.A.'s Management Board were:

• Janusz Filipiak - President of the Management Board,
• Rafał Chwast - Vice-President of the Management Board,
• Tomasz Maciantowicz - Vice-President of the Management Board,
• Paweł Prokop - Vice-President of the Management Board,
• Paweł Przewięźlikowski - Vice-President of the Management Board,
• Christophe Debou – Member of the Management Board,
• Zbigniew Rymarczyk - Member of the Management Board.

On 23 January 2006, Mr. Christophe Debou submitted his resignation from the position of ComArch S.A. Management Board Member. Mr. Debou declared personal reasons as the reasons of his resignation.

ComArch S.A. is the dominant unit and it prepares the consolidated financial statements according to IFRS.

The company's Management Board indicates that comparability of data for 2005 against previous year is limited, as on 31 August 2004 ComArch S.A. took over the companies of ComArch Kraków S.A. and CDN-ComArch S.A. In reference to the fact, that financial data of ComArch S.A. for 2004 include financial data of the taken over companies only for the period September-December 2004, comparison with data of the company for previous years may lead to false conclusions. Consolidated data are much more adequate to analyse annual results of ComArch.

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

2) There were no reservations in the opinion of an auditor entitled to audit financial statements of ComArch S.A. for 2004.

3) Principles of valuation of assets and liabilities and measure of financial result.

This financial statement was prepared according to the Act passed on 29 September 1994 on Accounting and the Regulation issued by the Minister of Finance on 18 October 2005 concerning information presented in financial statements and consolidated financial statements, required in a prospectus for issuers with its registered seat in Poland, to whom Polish accounting principles are proper ones, and the Regulation issued by the Minister of Finance on 19 October 2005 concerning current and periodical information pertaining to companies traded on the stock exchange.

I. Non-Current Assets

A/ Intangible Assets
Intangible assets are recorded at their acquisition prices with reference to the current redemption. The Group carries out depreciation write-offs using the straight-line method. The following depreciation rates have been adopted:

- computer software 30 %
- licences 30 %
- copyrights 30 %
- other rights 10-20 %

Adopted depreciation rates are related to the estimated useful life of intangible assets. In the case of intangible assets that were acquired for a particular project, the depreciation period is established as the duration of the project.

B/ Property, Plant and Equipment

B1. Proprietary property, plant and equipment in use

Proprietary property, plant and equipment in use were valuated according to acquisition prices or production costs less depreciation write-offs in proportion to their useful life and write-offs due to permanent losses in value.

The following detailed principles of depreciation of proprietary property, plant and equipment in use have been adopted by the company: assets are depreciated with the straight-line method with application of depreciation rates corresponding with periods of their economic utility. In most cases, depreciation rates are: 2.5 % (for group number I), 30 % (for group number IV) and 20 % (for groups number VII and VIII). In case of proprietary property, plant and equipment in use that were acquired in order to be used in a specific project, the depreciation period is set as equal to the project duration.

Lands and the right of perpetual usufruct of land are not depreciated.

B2. Proprietary property, plant and equipment under construction are valuated according to acquisition prices less write-offs due to permanent losses in value.

B3. Improvements in third party's proprietary property, plant and equipment are valuated according to the acquisition price less depreciation. They are related to buildings and structures and depreciated with the straight-line method corresponding with periods of their economic utility.

B4. Proprietary property, plant and equipment, which are used according to the lease agreements concluded after 1 January 2002, are classified as company's non-current assets if conditions resulting from art. 3. sec. 4 of the Act on Accountancy are met and they are valuated at fair value established as at the date of the beginning of the agreement or as at reception of the lease object into use, or at the current value of minimum lease fees, if it is lower than the fair value.

C/ Non-Current Investments

C1. Non-current financial assets

As at the balance sheet date, financial assets are classified as non-current in the financial statement if the estimated period of their further owning exceeds 12 months from the balance sheet date. Shares are recognised at the acquisition or originate date according to acquisition price, and at the balance sheet date according to acquisition price less write-offs due to permanent loss in value. When permanent loss in value appear, the revaluation of write-offs is carried out no later than at the balance sheet date.

Loans are valuated according to value of depreciated cost using effective interest rate. In case of lack of differences that are significant for valuation, loans are classified at nominal value plus accrued interest based on interest rate resulting from contracts.

II. Current Assets

A/ Inventories, Products in Progress and Finished Goods

Production in progress given in the statement refers to software produced by the Group and allocated for multiple sales. Production in progress is valuated according to direct technical production costs.

Application software produced by the Group and allocated for multiple sales is valuated in the period when it benefits, no longer than 36 months from an initial sale, in the amount of surplus of software production costs over net revenues obtained from sales of these products within the following 36 months. Software production costs, not written off after this period of time, increase other operational costs.
Depending on the nature of the produced software and the assessment of its possible sales, expenditures incurred for software production, in the amount of 50 % to 100 % of the invoiced sale in the above time period of sales, are written off into its own costs, provided that the 50 % rate is the basic rate. If the company is aware of limits to sales capacity at an earlier point, it immediately performs a write-off revaluating production in progress in the amount of expenses in reference to which there is a probability that they will not be recovered, or does a one-time write-off of the entirety of unsettled expenses (depending on the degree of risk valuation) into its own cost of sales.

Finished goods are appraised according to actual purchase prices, no higher than net selling prices.

B/ Receivables

Receivables are recognised initially at nominal value and as at the balance sheet date in the amount of required payment. Receivables due to deliveries and services are classified as current receivables. Other receivables are recognised as current or non-current receivables depending on maturity (depending on whether this is less than or over 12 months from the balance sheet date).
In order to make their value real, receivables are decreased by write-offs revaluating bad debts. Receivables in foreign currencies were valuated as at the balance sheet date at NBP average exchange rates. The realised and resulting from balance valuation exchange differences are classified as revenues and financial costs respectively, after they were compensated.

C/ Current Financial Assets

Assets recognised in the financial statement consist mostly of monetary assets and loans to other entities.
Monetary assets consist of cash in hand, cash at banks and accrued interest on financial assets.
Cash in domestic currency was valuated at nominal value, while cash in foreign currencies was valuated at NBP average exchange rates.

D/ Current and Non-current Prepayments of Costs

Expenses incurred in advance, but related to future reporting periods are settled by prepayments of costs. Prepayments of costs that last longer than 12 months starting with the balance sheet date are regarded as a non-current item.
Prepayments include also surplus of sales in long-term contracts made according to article 34a, section 1 and section 2, point 2 of the Act on Accounting over value of sales invoiced to contractors.

III. Equity

Equity includes:

- share capital of the company presented at nominal value,
- supplementary capital from profit-sharing in compliance with principles and limitations specified in the Commercial Companies Code and from surpluses of shares sold above their nominal value,
- revaluation reserve from valuation of capital part of non-current liability due to bond issue and redemption of some convertible bonds, and also effects of valuation of shares in foreign currencies held by ComArch S.A,
- other reserve capitals from profit-sharing intended for investment targets and other specified in statute – valuated at nominal vale,
- retained profit from adjustments due to changes in accounting principles in 2002 resulting from amendments to the Act on Accounting and adjustments due to changes to the rules of recognising of built-in derivatives. Retained profit comprise also results for the periods I-VIII 2004 of companies which consolidated with ComArch S.A. in 2004,
  capital from merger

IV. Liabilities and Provisions for Liabilities

A/ Liabilities

At the time of initial recognition, financial liabilities are valuated at nominal value and as at the balance sheet date, in the amount of required payment. Liabilities due to deliveries and services are classified as current liabilities. Other liabilities are recognised as current or non-current receivables depending on maturity (depending on whether this is less than or over 12 months from the balance sheet date). Liabilities in foreign currencies were valuated as at the balance sheet date at NBP average exchange rates. Liability due to issuance of bonds convertible to shares is valuated as at the balance sheet date at depreciated cost.

B/ Special Funds consist of Social Services Fund and Residential Fund that was created from profit-sharing for 1998 and 1999

C/ Accruals

Accruals of costs include possible future liabilities, but related to the current reporting period. In particular, they are related to provisions for additional costs of contracts completion that are expected to incur and that exceed the amount of possible to achieve revenues. Accruals of revenues include also surplus of sales invoiced to contractors over the value of proceeds from sales in long-term contracts determined according to article 34a, section 1 and section 2, point 2 of the Act on Accounting.

V. Valuation of Assets and Equity and Liabilities Presented in Foreign Currencies and Principles of Determining Exchange Differences

A/ Within Reporting Year

1. Operations related to sales and purchase of currencies and payment of receivables and liabilities at purchase exchange rate or sales of currencies used by banks, whose services ComArch S.A. uses,
2. Other operations at the average NBP exchange rate, provided that import purchases requiring customs clearance and export sales of finished goods are appraised according to exchange rates set forth in proofs of customs clearance.

B/ As at Balance Sheet Date

1. Items of assets and equity and liabilities are valuated at binding NBP average exchange rates.
2. Exchange differences related to non-current investment are accounted for adequately with revaluation reserve or revenues and financial costs (according to art. 35 sec. 2 and 4 of the Act).
3. Exchange differences related to the other assets and equity and liabilities and those arising on payment of receivables and liabilities are classified to revenues and financial costs, respectively.
   Realised exchange differences, related to receivables and liabilities, are determined up to date, while unrealised exchange differences, related to receivables and liabilities and cash at banks are valuated at the end of the quarter.

VI. Financial Instruments

Derivative financial instruments designated as ‘hedging instruments’ according to §27-30 of the Regulation issued by Ministry of Finance on 12 December 2001 concerning detailed classification rules, valuation methods, scope of disclosure and presentation method of financial instruments, qualified as fair value hedging, are valuated at fair value and change in their valuation refers to the result from financial operations.

Derivative financial instruments designated as ‘hedging instruments’ according to §27-30 of the Regulation issued by Ministry of Finance on 12 December 2001 concerning detailed classification rules, valuation methods, scope of disclosure and presentation method of financial instruments, qualified as cash flow hedging, are valuated at fair value change in their valuation refers to:
a) the revaluation reserve (in the part that constitutes the effective hedging),
b) the result from financial operations (in part that doesn’t constitute the effective hedging).

Derivative financial instruments designated as ‘non-hedging instruments’ according to §27-30 of the Regulation issued by Ministry of Finance on 12 December 2001 concerning detailed classification rules, valuation methods, scope of disclosure and presentation method of financial instruments, are valuated at fair value and change in their valuation refers to the result from financial operations.

VII. Financial Result

ComArch S.A. prepares its income statement in calculation version in compliance with matching principle revenues and costs. ComArch S.A.’s operations mostly consist of producing software for multiple sales and implementing IT integration contracts. As part of its integration contracts, ComArch offers the implementation of IT turnkey systems consisting of (own and third party) software and/or computer hardware and/or 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 system implementation.

Integration contracts realised by ComArch S.A. are classified according to article 34 a-d of the Act, whereas degree of progress for contract is determined by share of incurred costs compared to total costs of service execution.

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

- revenues from proprietary software (irrespective of form, i.e. licences, property rights, etc.),
- revenues from services

Unit managers may decide to include estimated revenues that are highly probable to be realised into the total revenues from a contract (e.g. during the implementation of the contract, project modifications are carried out for technical reasons and it is justified to assume with some probability that the ordering party will accept the modifications and that there will be revenues flowing from them).
When integration contracts under which software is allocated for multiple sales are ComArch property, the revenues and costs related to this software and the revenues and costs related to the other part of the integration contract are recognised separately.

Several integration contracts are combined and recognised as one contract, if:
a) the agreements are executed at the same time or sequentially one after another and the precise separation of the costs of their execution is impossible, or
b) the agreements are so closely inter-related that they are actually parts of a single project and share a single profit margin for the entire project.

A. Revenues are classified according to accrual basis.

Revenues from uncompleted non-current services (contracts) are classified in proportion to the level of service according to article 34 a, section 2, point 1.
Revenues from sales of other services, products, finished goods and other item of assets are recognised at the moment of delivery of products, finished goods and other items of assets, if the entity transferred significant risk and benefits resulting from their ownership or at the moment of executing the service. Sales are presented in net value, i.e. without commodity and services taxes and taking into account all discounts.

B. Costs consist of:

1. Relating to long-term contracts, total expenditures incurred in the period, on execution of contracts that were valuated at production costs.
2. Relating to other services, finished goods and other assets – value of sold (invoiced) products, finished goods and other items valuated at production cost or acquisition price.
3. Total administrative costs and cost of sales incurred in the period.

In the item “Costs of sold products, finished goods and materials from related parties" in the income statement the company presents the value of products, finished goods and materials purchased from related parties excluding these included in administrative costs, cost of sales and other operating costs.

Costs of sales consist of marketing costs and the costs of order acquisition by sales centres (departments) in the ComArch S.A.

General costs consist of the costs of the ComArch S.A. functioning as a whole and include administrative expenses and the costs of departments that operate for the general needs of the company.

C. Other revenues and operating costs

These consist of revenues and costs not related directly to the ordinary activities of entities and comprise mostly: result from sale of property, plant and equipment and intangible assets, subsidies, provisions created, effects of revaluation of assets and result from research and development financed by union.

D. Revenues and financial costs

Revenues and financial costs consist of revenues and costs due to interest, result from exchange differences, from disposal of financial assets and effects of investment revaluation.

E. Deferred income tax

Due to temporary differences between the presented value of assets and liabilities as well as their tax value and tax loss it will possible to deduct in the future, a provision is established and deferred income tax assets are defined.
Deferred income tax assets are defined in the amount that it is anticipated will have to be deducted from income tax in the future in reference to negative temporary differences which shall result in the future in reducing the amount of the basis of taxation and the deductible tax loss defined using the precautionary principle.
Deferred income tax provisions are established in the amount of income tax payable in the future in reference to positive temporary differences, which would result in increasing the basis of taxation in the future.
Provisions and assets due to deferred income tax are established fiscal rates which are legally binding in the tax point year.
The difference between deferred income tax provisions and deferred income tax assets at the end and at the beginning of the reporting period affects the financial results. In addition, provisions and assets due to deferred income tax related to operations settled with equity are referred into equity.

On 1 July 2004, ComArch S.A. received a decision from the Minister of the Economy dated 24 June 2004 that changed the conditions for tax exemptions for entities operating in special economic zones to conditions included in the act that was passed on 2 October 2003 on changing the act on special economic zones and certain other acts (Journal of Laws No. 188 Item 1840). Pursuant to article 5, section 2, point 1, lit. b), point 2, point 3 of the act, the maximum amount of public aid for entities, which operate 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 until 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. This means a change in the current method of granting tax relief (public aid) from unlimited relief to relief that is limited in value and depends on the value of investments made. In the case of ComArch S.A., the maximum value of public aid will not exceed 75 % of the value of investment expenditures, which the company has incurred/shall incur since obtaining the permit, i.e. 22 March 1999, until 31 December 2006. Tax exempt due to income tax is included in this limit. Additional information on methods of recognition of a deferred income asset and tax exempt due to operations in Special Economic Zone are included in Note 4a of additional information and commentary to this financial statement.

Financial result is determined according to article 42 of the Act on Accounting dated 29 September 1994 r. Cash flow statement is prepared using the indirect method.

4) Principles of Conversion PLN to EURO

EURO rates used to financial data:

NBP average exchange rates as at 31.12.2005 -	3.8598
NBP average exchange rates as at 31.12.2004 -	4.0790
NBP arithmetic average exchange rates as at the end of every month for the period 1.01 - 31.12.2005 -	4.0233
NBP arithmetic average exchange rates as at the end of every month for the period 1.01 - 31.12.2004 -	4.5182
NBP minimum rate between 1.01 - 31.12.2005 -	3.8223
NBP minimum rate between 1.01 - 31.12.2004 -	4.0518
NBP maximum rate between 1.01 - 31.12.2005 -	4.2756
NBP maximum rate between 1.01 - 31.12.2004 -	4.9149

In the table “Selected financial data” points I-VIII and XVI-XVII are valuated at NBP arithmetic average exchange rates as at the end of every months in the period, while points IX-XIV and XVIII-XX at NBP rate binding at the end of the period.

5) Differences between Polish Accounting Principles and International Financial Reporting Standards

Differences:

a) Costs of Organizing and Expanding a Joint-Stock Company

IAS 38 prohibits the capitalisation of costs connected with establishing or expanding operations, and requires them to be presented in the financial statement for the period in question or, following SIC 17, when they are directly linked to capital acquisition, attributed directly to equity. In accordance with article 36, section 2b of the Act on Accounting the costs of a share issue to expand a joint stock company's operations reduces the supplementary capital by the difference between the nominal value and the issue value. However, during the transition period the part of the above costs not yet amortised that previously figured in intangible assets is shown in prepayments and is accounted for in the financial statement for the current period.
In financial statements drawn up in accordance with the act on accounting binding in Poland the value of the costs of expanding and organizing the company accounted for in the financial statement for 2005 amounts to 0.19 million PLN. As at the balance sheet date, the value of prepayments concerning the above-mentioned costs amounted to 0 (zero) PLN.

b) The Right of Perpetual Usufruct of Land

In IFRS, the method of presentation of the right of perpetual usufruct of land is not defined explicitly. There are different opinions in that case. ComArch S.A. as the dominant unit prepares consolidated financial statement according to IFRS and presents the right of perpetual usufruct of land as non-current prepayments settled in time. According to Act on Accounting the law of perpetual usufruct of land is presented as "lands" in property, plant and equipment and is not depreciated.

c) Operating in Special Economic Zone (SEZ).

As a result of Poland joining the European Union, there was a change within terms of income tax from legal persons from unlimited relief to relief that is limited in value and depends on the value of investments made. Pursuant to IAS 12, unused tax relief as at 31 December 2005 constitutes a deferred income tax asset. As at 31 December 2005, the company recognised the asset that is worth 4.75 million PLN in consolidated financial statement according to IFRS.

d) Managerial Option Programme

On 30 June 2005, the Annual General Meeting of Shareholders passed a resolution on the managerial options programme for members of the Management Board and the company's Key Employees. According to IFRS 2 the company is under an obligation to calculate option's value and afterwards recognise it the income statement as cost beginning from the date of execution till the date of extinction.
As at 30 June 2005, the company determined option's value. An estimated effect of recognition of option's costs on income statement in the second half of 2005 amounts to 1.682 million PLN.
In the financial statement prepared according to the Act on Accounting dated 29 September 1994 managerial option programme is recognised in the income statement.

e) Differences compared to IFRS

Item	Equity as at 31 December 2005	Net result for 2005
Corrections according to the Polish accounting principles:	157,774	29,088
a) costs of company's expansion	-	189
b) presentation of managerial option	-	-1,682*
c) an asset due to tax exemption in the SEZ	4,750	4,750
d) depreciation due to the right of perpetual usufruct of lands	-165	-65
e) exchange differences from non-current loans granted to subsidiaries	-	-88*
Equity and net result after adjusting above-mentioned differences:	162,359	32,192
Change	4,585	3,104

*) These items have an affect on the amount of result from the current year, however at the same time they are settled with equity.