COMARCH SA QSr 2/2005

☐ Adjusted

# THE POLISH SECURITIES AND EXCHANGE COMMISSION

**Consolidated Quarterly Report QSr 2/2005**

(Pursuant to Article 93 Para 2 and Article 94 Para 1 of the Ordinance of the Council of Ministers
Of 21 March 2005 – Dz. U. No. 49, Item 463.)
(For issuers of securities managing production, construction, trade or services activities.)

For the 1 quarter of the accounting year 2005 covering the period from 01 April 2005 to 30 June 2005.
Including the abbreviated consolidated financial statement pursuant to International Financial Reporting Standards (MSSF)
In currency: PLN
And the abbreviated financial statement pursuant to International Financial Reporting Standards (MSSF) in currency: PLN
Submitted on: 16 August 2005


**COMARCH S.A.**
(Full name of the issuer)

| | |
|---|---|
| **COMARCH SA** | **Telecommunications and IT** |
| (Abbreviated name of the issuer) | (Sector according to the Warsaw Stock Exchange classification) |
| **31-864** | **Krakow** |
| (Postcode) | (City) |
| **Al. Jana Pawła II** | **39A** |
| (Street) | (No.) |
| **+48 12 646-1000** | **+48 12 646-1100** |
| (Phone) | (Fax) |
| **inwestor@comarch.pl** | **www.comarch.pl** |
| (Email) | (Website) |
| **677-00-65-406** | **350527377** |
| (NIP) | (REGON) |


| SELECTED FINANCIAL DETAILS | in PLN thou. | | in EUR thou. | |
|---|---|---|---|---|
| | 2 Qs cumulated / 2005 period from 1 Jan 2005 to 30 June 2005 | 2 Qs cumulated / 2004 period from 1 Jan 2004 to 30 June 2004 | 2 Qs cumulated / 2005 period from 1 Jan 2005 to 30 June 2005 | 2 Qs cumulated / 2004 period from 1 Jan 2004 to 30 June 2004 |
| Data referring to the consolidated financial statement | | | | |
| I. Net proceeds from sales of products, merchandise and materials | 175,895 | 135,770 | 43,106 | 28,697 |
| II. Profit (loss) on operational activities | 4,464 | 8,092 | 1,094 | 1,710 |
| III. Profit (loss) before taxation | 3,551 | 6,030 | 870 | 1,275 |
| IV. Net profit per Company shareholders | 9,384 | 6,178 | 2,300 | 1,306 |
| V. Net cash flows on operational activities | (8,812) | 3,103 | (2,160) | 656 |
| VI. Net cash flows on investment activities | (22,925) | (16,002) | (5,618) | (3,382) |
| VII. Net cash flows on financial activities | 11,076 | 1,369 | 2,714 | 289 |
| VIII. Total net cash flows | (20,661) | (11,530) | (5,063) | (2,437) |
| IX. Number of shares (in pcs.) | 6,955,095 | 6,852,387 | 6,955,095 | 6,852,387 |
| X. Profit (loss) per one regular stock per Company shareholders (in PLN / EUR) | 1.37 | 0.92 | 0.34 | 0.19 |
| Data referring to the abbreviated financial statement | | | | |
| I. Net proceeds from sales of products, merchandise and materials | 165,171 | 81,321 | 40,478 | 17,189 |
| II. Profit (loss) on operational activities | 7,487 | 5,257 | 1,835 | 1,111 |
| III. Profit (loss) before taxation | 6,016 | 4,012 | 1,474 | 848 |
| IV. Net profit per Company shareholders | 11,756 | 4,012 | 2,881 | 848 |
| V. Net cash flows on operational activities | (6,611) | 2,940 | (1,620) | 621 |
| VI. Net cash flows on investment activities | (22,012) | (8,784) | (5,394) | (1,857) |
| VII. Net cash flows on financial activities | 11,076 | 1,993 | 2,714 | 421 |
| VIII. Total net cash flows | (17,547) | (3,851) | (4,300) | (814) |
| IX. Number of shares (in pcs.) | 6,955,095 | 6,852,387 | 6,955,095 | 6,852,387 |
| X. Profit (loss) per one regular stock (in PLN / EUR) | 1.71 | 0.60 | 0.42 | 0.13 |

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

Arithmetical average of NBP average exchange rates as of the end of each month for the period 01 January 2005 to 30 June 2005 – 4.0805

Arithmetical average of NBP average exchange rates as of the end of each month for the period 01 January 2004 to 31 March 2004 – 4.7311

The report should be submitted to the Polish Securities and Exchange Commission, to the Warsaw Stock Exchange S.A. and to the information agency pursuant to the regulations of the law.

**REPORT CONTENTS**

| File | Description |
|---|---|
| QSr_2_2005_COMARCH_S.A.pdf | Expanded consolidated quarterly report |

**SIGNATURES OF PERSONS REPRESENTING THE COMPANY**

| Date | First and last name | Post / Function | Signature |
|---|---|---|---|
| 16 August 2005 | Rafał Chwast | Deputy President, the Management Board | |
| 16 August 2005 | Paweł Prokop | Deputy President, the Management Board | |

CONSOLIDATED QUARTERLY REPORT QSr 2/2005 COMARCH SA

**TABLE OF CONTENTS**

# 1. Consolidated financial statement for 2 Quarters 2005

## 1.1. Consolidated balance sheet

| | Note | As of 30 June 2005 | As of 31 Dec 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Tangible fixed assets | | 88,905 | 74,801 |
| Goodwill | | 3,466 | 3,466 |
| Intangibles | | 40,166 | 39,162 |
| Investments in affiliated units | 3.2 | 8,772 | 3,891 |
| Other Investments | | 51 | |
| Assets on account of deferred income tax | | 7,202 | 1,489 |
| Financial receivables | | 254 | 425 |
| | | 148,816 | 123,234 |
| **Current assets** | | | |
| Inventory | 3.3 | 13,909 | 14,991 |
| Receivables on account of deliveries and services and other receivables | 3.4 | 111,793 | 80,013 |
| Receivables on account of current income tax | | | 400 |
| Due proceeds on account of long-term contracts | | 28,923 | 23,626 |
| Financial receivables | | 323 | |
| Other financial assets appraised by fair value settled in the profit and loss account | | 175 | 2,000 |
| Cash and equivalents | | 8,569 | 28,745 |
| | | 163,692 | 149,775 |
| **Total assets** | | **312,508** | **273,009** |
| **TOTAL EQUITY** | | | |
| **Total equity for Company shareholders** | | | |
| Initial capital | 3.5 | 6,955 | 6,852 |
| Other capitals | | 127,049 | 118,650 |
| Exchange rate differences | | (413) | (52) |
| Net profit for the current period | | 9,384 | |
| Undivided financial result | | (15,327) | (6,928) |
| | | 127,648 | 118,522 |
| Minority shares | | 13,751 | 14,013 |
| **Total equity** | | **141,399** | **132,535** |
| **OBLIGATIONS** | | | |
| **Long-term obligations** | | | |
| Credits and loans | 3.8 | 18,684 | 8,149 |
| Obligations on account of deferred income tax | | 5,705 | 5,601 |
| Obligations on account of convertible bonds | 3.8 | 39,152 | 38,472 |
| Provisions for other obligations and charges | | 13 | 100 |
| | | 63,554 | 52,322 |
| **Short-term obligations** | | | |
| Obligations on account of deliveries and services and other obligations | 3.6 | 77,302 | 56,236 |
| Invoiced proceeds related to long-term contracts | | 6,461 | 5,762 |
| Obligations on account of convertible bonds | 3.8 | 923 | 781 |
| Credits and loans | 3.8 | 2,498 | 958 |
| Derivative financial instruments | | | |
| Provisions for other obligations and charges | | 20,371 | 24,415 |
| | | 107,555 | 88,152 |
| **Total obligations** | | **171,109** | **140,474** |
| **Total liabilities** | | **312,508** | **273,009** |

## 1.2. Consolidated profit and loss account

| | Note | 2 Q 2005 | 1-2 Q 2005 | 2 Q 2004 | 1-2 Q 2004 |
|---|---|---|---|---|---|
| Proceeds from sales | | 101,874 | 175,895 | 69,386 | 135,770 |
| Costs of sold products, merchandise and materials | | (83,086) | (142,234) | (52,712) | (100,854) |
| **Gross profit** | | 18,788 | 33,661 | 16,674 | 34,916 |
| Other operational proceeds | | 506 | 573 | 764 | 1,113 |
| Costs of sale and marketing | | (9,025) | (16,317) | (8,120) | (15,881) |
| General and administrative costs | | (5,602) | (11,302) | (5,108) | (11,165) |
| Other operational costs | | (1,734) | (2,151) | (568) | (891) |
| **Operational profit** | | 2,933 | 4,464 | 3,642 | 8,092 |
| Net financial costs | | (966) | (1,542) | (1,292) | (1,660) |
| Share in profits of affiliated units | | 500 | 629 | (227) | (402) |
| **Profit before taxation** | | 2,467 | 3,551 | 2,123 | 6,030 |
| Income tax | 3.10 | 5,601 | 5,571 | (219) | (725) |
| Net profit for the period | | 8,068 | 9,122 | 1,904 | 5,305 |
| **Including:** | | | | | |
| **Net profit for Company shareholders** | | 8,125 | 9,384 | 2,558 | 6,178 |
| Net profit for minority shareholders | | (57) | (262) | (654) | (873) |
| | | 8,068 | 9,122 | 1,904 | 5,305 |
| **Profit for the period for Company shareholders per share (expressed in PLN per one share)** | | | | | |
| – basic | 3.11 | | 1.37 | | 0.92 |
| – diluted | | | | | |
| Net profit for Company shareholders for the period without appraisal of the asset on account of deferred income tax on account of investment allowance | | *2,385* | *3,644* | *2,558* | *6,178* |

## 1.3. Consolidated summary of changes in total equity

| | For Company shareholders | | | | | Minority shares | Total equity |
|---|---|---|---|---|---|---|---|
| | Initial capital | Reserve capital | Fair value and other capitals | Exchange rate differences | Undivided financial result | | |
| **As of 1 January 2004** | **6,727** | **96,714** | **9,967** | **(89)** | **(9,025)** | **18,732** | **123,026** |
| Exchange rate differences | | | | | | | |
| Allocation of the result for 2003 | | | 12,263 | | (12,263) | | |
| Net proceeds / (costs) given directly in total equity | | | | | (349) | 11 | (338) |
| Profit for the period | | | | | 6,178 | (873) | 5,305 |
| Exchange rate differences | | | | 27 | | | 27 |
| Given total proceeds and profits for the period | | | 12,263 | 27 | (6,434) | (862) | 4,994 |
| **As of 30 June 2004** | **6,727** | **96,714** | **22,230** | **(62)** | **(15,459)** | **17,870** | **128,020** |
| **As of 1 January 2005** | **6,852** | **96,714** | **21,936** | **(52)** | **(6,928)** | **14,013** | **132,535** |
| Capital increase | 103 | | | | | | 103 |
| Exchange rate differences | | | | (361) | | | (361) |
| Allocation of the result for 2004 | | 8,399 | | | (8,399) | | |
| Profit for the period | | | | | 9,384 | (262) | 9,122 |
| Given total proceeds and profits for the period | 103 | 8,399 | | (361) | 985 | (262) | 8,864 |
| **As of 30 June 2005** | **6,955** | **105,113** | **21,936** | **(413)** | **(5,943)** | **13,751** | **141,399** |

## 1.4. Consolidated cashflow statement

| | 1-2 Q 2005 | 1-2 Q 2004 |
|---|---|---|
| **Cash proceeds from operational activities** | | |
| Net profit (loss) | **9,122** | **5,305** |
| Total adjustments | (17,934) | 28 |
| Share in net (profits) losses subsidiary units appraised with the ownership rights method | (629) | 402 |
| Depreciation, including: | 5,343 | 4,940 |
| (Profits) losses on account of exchange rate differences | (211) | (165) |
| Interest and shares in profits (dividend) | 1,317 | 1,441 |
| (Profit) loss from investment activities | (42) | (318) |
| Change in inventory | 1,128 | (5,506) |
| Change in receivables | (23,625) | 36,332 |
| Change in obligations and provisions, with the exception of loans and credits | (1,215) | (37,098) |
| Net profit less total adjustments | (8,812) | 5,333 |
| Income tax paid | | (2,230) |
| Net cash from operational activities | (8,812) | 3,103 |
| | | |
| **Cash flows from investment activities** | | |
| Acquisition of an affiliated unit | (4,256) | |
| Acquisition of tangible fixed assets | (19,124) | (11,400) |
| Proceeds from sale of tangible fixed assets | 227 | 492 |
| Acquisition of intangibles | (1,797) | (512) |
| Acquisition of financial assets available for sale | (505) | (103,582) |
| Proceeds from sale of financial assets available for sale | 2,530 | 99,000 |
| Net cash from investment activities | (22,925) | (16,002) |
| | | |
| **Cash flows from financial activities** | | |
| Proceeds on account of contracted credits and loans | 12,852 | 3,723 |
| Payment back of credits and loans | (459) | (847) |
| Interest on bonds | (1,317) | (1,507) |
| Net cash (used in) / from financial activities | 11,076 | 1,369 |
| | | |
| **Increase in net cash and credits in bank accounts** | (20,661) | (11,530) |
| Cash and credits in bank accounts as of the beginning of the period | 28,745 | 45,104 |
| Positive (negative) exchange differences in cash and credits in bank accounts | (484) | |
| **Cash and credits in bank accounts as of the end of the period** | **8,568** | **33,574** |

# 2. Transformation notes for the consolidated financial statement according to MSSF

## 2.1 The basic information

### (1) Re-classification of land perpetual usufruct right from tangible fixed assets to intangibles.

The way of giving land perpetual usufruct right in MSSF is not unanimously specified and opinions in this respect differ. The Company in the statement prepared according to MSSF gives land perpetual usufruct right as “intangibles.”

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

MSR 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 period.

### (3) Negative goodwill

According to MSSF 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 MSSF, 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 MSSF 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. MSSF do not regulate directly the transaction of assuming shares between entities in one capital group. However, due to the fact that, pursuant to MSSF, 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 MSSF the profit achieved in this transaction was settled by capitals.

## 2.2 Conciliation between the currently applied accounting principles and MSSF

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 (MSSF). In the beginning, a general effect of conciliation is given on the total equity as of 01 January 2004, 30 June 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 2.2.1)
- Total equity as of 30 June 2004 (Note 2.2.2)
- Total equity as of 31 December 2004 (Note 2.2.3)
- Net profit for 2 quarters 2004 (Note 2.2.4)
- Net profit for 2004 (Note 2.2.5)

*Combined summary of changes in the consolidated total equity*

| | 1 January 2004 | Note | 30 June 2004 | Note | 31 December 2004 | Note |
|---|---|---|---|---|---|---|
| **Total equity according to previously applied standards** | **103,631** | **1** | **108,872** | **2** | **117,391** | **3** |
| Capital of minority shareholders | 18,732 | 1 | 17,870 | 2 | 14,013 | 3 |
| Result of the period | | 1 | | 2 | | 3 |
| Undivided profit | 663 | 1 | 1,125 | 2 | 1,131 | 3 |
| Exchange rate differences | | 1 | 153 | 2 | | 3 |
| Total adjustments | 19,395 | 1 | 19,148 | 2 | 15,144 | 3 |
| **Total equity according to MSSF** | **123,026** | **1** | **128,020** | **2** | **132,535** | **3** |

### *2.2.1. Conciliation of total equity as of 1 January 2004*

| | Note | Previously applied accounting principles | Consequences of transformation to MSSF | MSSF |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Tangible fixed assets | a | 91,244 | (32,566) | 58,678 |
| Goodwill | | 3,466 | | 3,466 |
| Intangibles | a | 3,220 | 32,566 | 35,786 |
| Investments in affiliated units | | 4,724 | | 4,724 |
| Investments in other companies | | 2 | | 2 |
| Other investments | b | 200 | (189) | 11 |
| Assets on account of deferred income tax | | 1,571 | | 1,571 |
| Financial receivables | | 545 | | 545 |
| | | 104,972 | (189) | 104,783 |
| **Current assets** | | | | |
| Inventory | | 11,738 | | 11,738 |
| Receivables on account of deliveries and services and other | b | 96,062 | (1,100) | 94,962 |
| Due proceeds on account of long-term contracts | | 9,876 | | 9,876 |
| Financial receivables | | 351 | | 351 |
| Cash and their equivalents | | 45,105 | | 45,105 |
| | | 163,132 | (1,100) | 162,032 |
| **Total assets** | | 268,104 | (1,289) | 266,815 |
| **TOTAL EQUITY** | | | | |
| **Total equity for 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 | c | (9,688) | 663 | (9,025) |
| Minority shares | c | | 18,732 | 18,732 |
| **Total equity** | | **103,631** | **19,395** | **123,026** |
| Negative goodwill | c | 1,952 | (1,952) | |
| **Minority shares** | **c** | **18,732** | **(18,732)** | |
| | | 124,315 | (1,289) | 123,026 |
| **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 issuing securities | | 42,292 | | 42,292 |
| Provisions for other obligations and charges | | 98 | | 98 |
| | | 49,548 | | 49,548 |
| **Short-term obligations** | | | | |
| Obligations on account of deliveries and services and other obligations | | 63,871 | | 62,576 |
| Invoiced proceeds related to long-term contracts | | 13,553 | | 13,553 |
| Obligations on account of current income tax | | | | 1,295 |
| Obligations on account of convertible bonds | | 752 | | 752 |
| Credits and loans | | 610 | | 610 |
| Provisions for other obligations and charges | | 15,455 | | 15,455 |
| | | 94,241 | | 94,241 |
| **Total obligations** | | **143,789** | | **143,789** |
| **Total liabilities** | | **268,104** | **(1,289)** | **266,815** |

| | |
|---|---|
| Assets: | |
| a) Transfer of land perpetual usufruct right from tangible fixed assets to intangibles (1): | |
| Tangible fixed assets | (32,566) |
| Intangibles | 32,566 |
| b) | |
| Posting out unsettled costs of company expansion (2) | (1,289) |
| **Total assets** | **(1,289)** |
| | |
| Liabilities: | |
| c) | |
| Total equity | |
| 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 shareholders capitals to total equity (4) | 18,732 |
| **Total equity** | **19,395** |
| Settlement of negative goodwill (3) | (1,952) |
| Capital of minority shareholders (4) | (18,732) |
| **Total liabilities** | **(1,289)** |

### *2.2.2. Conciliation of total equity as of 30 June 2004*

| | Note | Previously applied accounting principles | Consequences of transformation to MSSF | MSSF |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Tangible fixed assets | d | 98,200 | (32,566) | 65,634 |
| Goodwill | e | 2,879 | 610 | 3,489 |
| Intangibles | d | 2,426 | 32,566 | 34,992 |
| Investments in affiliated units | | 4,324 | | 4,324 |
| Other investments | | | | |
| Assets on account of deferred income tax | | 1,864 | | 1,864 |
| Financial receivables | | 219 | | 219 |
| | | 109,912 | 610 | 110,522 |
| **Current assets** | | | | |
| Inventory | | 17,244 | | 17,244 |
| Receivables on account of deliveries and services and other receivables | e | 57,904 | (732) | 57,172 |
| Due proceeds on account of long-term contracts | | 15,869 | | 15,869 |
| Financial assets available for sale | | 4,865 | | 4,865 |
| Financial receivables | | 295 | | 295 |
| Cash and their equivalents | | 33,796 | | 33,796 |
| | | 129,973 | (732) | 129,241 |
| **Total assets** | | **239,885** | **(122)** | **239,763** |
| **TOTAL EQUITY** | | | | |
| **Total equity for Company shareholders** | | | | |
| Initial capital | | 6,727 | | 6,727 |
| Other capitals | | 118,944 | | 118,944 |
| Exchange rate differences | f | (215) | 153 | (62) |
| Undivided financial result | f | (15,584) | 1,125 | (15,459) |
| Minority shares | f | | 17,870 | 17,870 |
| **Total equity** | | **108,872** | **19,148** | **128,020** |
| Negative goodwill | f | 1,400 | (1,400) | |
| **Minority shares** | **f** | **17,870** | **(17,870)** | |
| | | 128,142 | (122) | 128,020 |
| **OBLIGATIONS** | | | | |
| **Long-term obligations** | | | | |
| Credits and loans | | 600 | | 600 |
| Obligations on account of deferred income tax | | 6,024 | | 6,024 |
| Obligations on account of promissory notes | | 43,026 | | 43,026 |
| Provisions for other obligations and charges | f | 182 | | 182 |
| | | 49,832 | | 49,832 |
| **Short-term obligations** | | | | |
| Trading obligations and other obligations | | 35,771 | | 35,771 |
| Invoiced proceeds related to long-term contracts | | 7,746 | | 7,746 |
| Obligations on account of current income tax | | | | |
| Obligations on account of issuing bonds | | 823 | | 823 |
| Credits and loans | | 3,909 | | 3,909 |
| Provisions for other obligations and charges | | 13,662 | | 13,662 |
| | | 61,911 | | 61,911 |
| **Total obligations** | | **111,743** | | **111,743** |
| **Total liabilities** | | **239,885** | **(122)** | **239,763** |

| | |
|---|---|
| Assets: | |
| d) Transfer of land perpetual usufruct right from tangible fixed assets to intangibles (1): | |
| Tangible fixed assets | (32,566) |
| Intangibles | 32,566 |
| e) | |
| Adjustment of positive goodwill depreciation (5) | 610 |
| Posting out unsettled costs of company expansion (2) | (732) |
| **Total assets** | **(122)** |
| | |
| Liabilities: | |
| f) | |
| Total equity | |
| Posting out positive goodwill for 2004 | 610 |
| Adjustment of the result on exchange rate differences on long-term loans granted to companies, which constitute part of net investment in subsidiary units | 153 |
| Posting out negative goodwill for 2003 settled in 2004 | (552) |
| Adjustment of the result with unsettled costs of company expansion (2) | 557 |
| Adjustment of the result with costs of company expansion incurred and settled in 2004 | 43 |
| **Total (1)** | **811** |
| Adjustment of the capital on exchange rate differences on long-term loans granted to subsidiary companies, which constitute part of net investment in subsidiary units | (153) |
| Settlement of negative goodwill with the capital (3) | 1,952 |
| Posting out unsettled costs of company expansion (2) | (1,289) |
| Posting out unsettled costs of negative goodwill | (1,400) |
| Posting out expansion costs for companies acquired and settled in 2004 | (43) |
| **Total (2)** | **(933)** |
| | |
| **Total (1) and (2)** | |
| Posting out negative goodwill | (1,400) |
| Result of minority shareholders in total equity (4) | (17,870) |
| **Total equity, including:** | |
| Posting out negative goodwill (3) | 1,400 |
| Adjustment of minority shares (4) | 17,870 |
| Posting out costs of company expansion | (732) |
| Posting out positive goodwill | 610 |
| **Total liabilities** | **(122)** |

### *2.2.3. Conciliation of total equity as of 31 December 2004*

| | Note | Previously applied accounting principles | Consequences of transformation to MSSF | MSSF |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Fixed assets** | | | | |
| Tangible fixed assets | g | 111,555 | (36,754) | 74,801 |
| Goodwill | h | 2,256 | 1,210 | 3,466 |
| Intangibles | g | 2,408 | 36,754 | 39,162 |
| Investments in affiliated units | | 3,891 | | 3,891 |
| Other investments | | 425 | | 425 |
| Assets on account of deferred income tax | | 1,489 | | 1,489 |
| | | 122,024 | 1,210 | 123,234 |
| **Current assets** | | | | |
| Inventory | | 14,991 | | 14,991 |
| Receivables on account of deliveries and services and other receivables | | 80,202 | (189) | 80,013 |
| Receivables on account of current income tax | | 400 | | 400 |
| Due proceeds on account of long-term contracts | | 23,626 | | 23,626 |
| Other financial assets according to fair value settled with the profit and loss account | | 2,000 | | 2,000 |
| Cash and their equivalents | h | 28,745 | | 28,745 |
| | | 149,964 | (189) | 149,775 |
| **Total assets** | | **271,988** | **1,021** | **273,009** |
| | | | | |
| **TOTAL EQUITY** | | | | |
| **Total equity for Company shareholders** | | | | |
| Initial capital | | 6,852 | | 6,852 |
| Other capitals | | 118,650 | | 118,650 |
| Exchange rate differences | | (52) | | (52) |
| Undivided financial result and other capitals | i | (8,059) | 1,131 | (6,928) |
| Minority shares | i | | 14,013 | 14,013 |
| **Total equity** | | **117,391** | **15,144** | **132,535** |
| Negative goodwill | i | 110 | (110) | |
| **Minority shares** | **i** | **14,013** | **(14,013)** | |
| | | 131,514 | 1,021 | 132,535 |
| | | | | |
| **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 bond issuing | | 38,472 | | 38,472 |
| Provisions for other obligations | | 100 | | 100 |
| | | 52,322 | | 52,322 |
| **Short-term obligations** | | | | |
| Trading obligations and other obligations | | 56,236 | | 56,236 |
| Invoiced proceeds related to long-term contracts | | 5,762 | | 5,762 |
| Obligations on account of issuing bonds | | 781 | | 781 |
| Credits and loans | | 958 | | 958 |
| Provisions for other obligations | | 24,415 | | 24,415 |
| | | 88,152 | | 88,152 |
| **Total obligations** | | **140,474** | | **140,474** |
| **Total liabilities** | | **271,988** | **1,021** | **273,009** |

| | |
|---|---|
| Assets: | |
| g) Transfer of land perpetual usufruct right from tangible fixed assets to intangibles (1): | |
| Tangible fixed assets | (36,754) |
| Intangibles | 36,754 |
| h) | |
| Adjustment of positive goodwill settlement (5) | 1,210 |
| Posting out unsettled costs of company expansion (2) | (189) |
| **Total assets** | **1,021** |
| | |
| Liabilities: | |
| i) | |
| Total equity | |
| Settlement of the result of acquisition of the new issue shares of MKS Cracovia SSA in July 2004 with the capital (6) | 2,981 |
| Posting out negative goodwill for 2003 settled in 2004 (3) | (1,779) |
| Posting out costs of company expansion settled in 2004 (2) | 1,100 |
| Posting out the result of acquisition of the new issue shares of MKS Cracovia SSA in July 2004 given in the profit for 2004 (6) | (2,981) |
| Settlement of negative goodwill as of 1 January 2004 with the capital (3) | 1,952 |
| Posting out negative goodwill from 2004 (3) | (63) |
| Including in the capital unsettled costs of company expansion (2) | (1,289) |
| **Total result adjustments** | **1,131** |
| Including minority shareholders in total equity (4) | 14,013 |
| **Total equity** | **15,144** |
| Adjustment of negative goodwill settlement (3) | (110) |
| Minority shareholders capital (4) | (14,013) |
| **Total liabilities** | **1,021** |

### *2.2.4. Conciliation of profit or loss for 1-2 quarters 2004*

| | Note | Previously applied accounting principles | Consequences of transformation to MSSF | MSSF |
|---|---|---|---|---|
| Proceeds from sales | | 135,770 | | 135,770 |
| Costs of sold products, merchandise and materials | | 100,897 | | 100,897 |
| **Gross profit** | | **34,873** | | **34,873** |
| Other operational proceeds | j | 1,665 | (522) | 1,113 |
| Costs of sale and marketing | | (14,672) | | (14,672) |
| General and administrative costs | j | (12,931) | 600 | (12,331) |
| Other operational costs | | (891) | | (891) |
| **Operational profit (loss)** | | 8,044 | 48 | 8,092 |
| Net financial costs | j | (1,813) | 153 | (1,660) |
| Goodwill write-off | j | (610) | 610 | |
| Share in profits of affiliated units | | | (402) | (402) |
| **Profit before taxation** | | **5,621** | **409** | **6,030** |
| Income tax | | (725) | | (725) |
| Share in profits of affiliated units | | (402) | 402 | |
| Minority profit / loss | j | 873 | (873) | |
| **Net profit on regular activities** | | **5,367** | **(62)** | **5,305** |
| **Net profit for the period** | **j** | **5,367** | **(62)** | **5,305** |
| Including for: | | | | |
| Shareholders of the dominant unit | | | | 6,178 |
| Minority shareholders | | | | (873) |

| j) Adjustments affecting net result | |
|---|---|
| Adjustment of settlement of negative goodwill in reference to acquisition of MKS Cracovia SSA shares (3) | (552) |
| Adjustment of unsettled costs of company expansion (2) | 600 |
| Adjustment of the result of exchange rate differences on long-term loans granted to companies, constituting part of net investment in subsidiary units | 153 |
| Adjustment of the positive goodwill write-off (5) | 610 |
| Adjustment of the result of minority shareholders | (873) |
| **Adjustment of the total net profit** | **(62)** |

### *2.2.5. Conciliation of profit and loss for 2004*

| | Note | Previously applied accounting principles | Consequences of transformation to MSSF | MSSF |
|---|---|---|---|---|
| Proceeds from sales | | 329,979 | | 329,979 |
| Costs of sold products, merchandise and materials | | 254,860 | | 254,860 |
| **Gross profit** | | 75,119 | | 75,119 |
| Other operational proceeds | k | 3,467 | (1,842) | 1,625 |
| Costs of sale and marketing | | (30,233) | | (30,233) |
| General and administrative costs | k | (27,402) | (1,100) | (26,302) |
| Other operational costs | | (2,924) | | (2,924) |
| **Operational profit (loss)** | | 18,027 | (742) | 17,285 |
| Net financial costs | k | (3,146) | (2,981) | (6,127) |
| Goodwill write-off | k | (1,210) | 1,210 | |
| Negative goodwill write-off | | 141 | (141) | |
| Share in profits of affiliated units | l | | (833) | (833) |
| **Profit before taxation** | | 13,812 | (3,487) | 10,325 |
| Income tax | | (560) | | (560) |
| Share in profits of affiliated units | l | (833) | 833 | |
| Minority profit / loss | k | 1,607 | (1,607) | |
| **Net profit on regular activities** | | 14,026 | | 9,765 |
| **Net profit for the period** | **k** | 14,026 | (4,261) | 9,765 |
| Including for: | | | | |
| Shareholders of the dominant unit | | | | 11,372 |
| Minority shareholders | | | | (1,607) |

| | |
|---|---|
| k) Adjustments affecting net result | |
| Adjustment of settlements of negative goodwill in reference to MKS Cracovia SSA | (141) |
| Adjustment of settlements of negative goodwill in reference to MKS Cracovia SSA (3) | (1,842) |
| Adjustment of unsettled costs of company expansion (2) | 1,100 |
| Adjustment of the result of ComArch S.A. assuming the new issue of MKS Cracovia SSA shares in July 2004 (6) | (2,981) |
| Adjustment of settlement of positive goodwill arising at acquisition of shares of subsidiary companies (5) | 1,210 |
| Adjustment of the result of minority shareholders (6) | (1,607) |
| **Adjustment of the total net profit** | **(4,261)** |

| | |
|---|---|
| l) Change in presentation of share in profits of affiliated units | (833) |

# 3. Notes to the consolidated financial statement

## 3.1. Reporting by segments for 2 Quarters 2005 according to MSSF

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. Additionally, as a separate segment of "Internet and e-commerce," activities of the Interia.pl S.A. and Netbrokers sp. z o.o. companies is given, these companies being appraised in the consolidated statement with the ownership rights method. Detailed data about segments are given below. 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 | "Internet and e-commerce" Segment | Adjustments | Total |
|---|---|---|---|---|---|
| Proceeds of the segment | | | | | |
| – Sale to external clients | 173,796 | 4,019 | | | 177,815 |
| Proceeds of the segment | | | | | |
| – sale to other segments | | 2,763 | | (2,763) | |
| Total proceeds of the segment * | 173,796 | 6,782 | | (2,763) | 177,851 |
| Costs of the segment related to sale to external clients | 170,527 | 4,364 | | | 174,891 |
| Costs of the segment related to sale to other segments | | 2,763 | | (2,763) | |
| Total costs of the segment * | 170,527 | 7,127 | | (2,763) | 174,891 |
| Assets for tax on account of investment allowance | 5,569 | | | | 5,569 |
| Share of the segment in the result of units appraised with the ownership rights method | | | 629 | | 629 |
| Net result | 8,838 | (345) | 629 | | 9,122 |
| Including: | | | | | |
| The result for shareholders of the dominant unit | 8,923 | (169) | 629 | | 9,383 |
| The result for minority shareholders | (85) | (176) | | | (261) |

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

Due to geographical breaking down of the activities, the ComArch Group defines the following market segments: Poland, Europe, America, and Other countries. The "Sport" and "Internet and -commerce" segments conduct activities solely in the territory of Poland. Total proceeds by geographical segments are given below.

Proceeds from sale by geographical segments for 2 quarters 2005.

| | |
|---|---|
| Domestic | 146,924 |
| Europe | 18,053 |
| America | 6,903 |
| Other countries | 4,015 |
| Total* | 175,895 |

* This item covers solely proceeds from sale, without proceeds from other types of activities.

Due to the fact that only the IT segment conducts activities outside of the country and at the same time costs incurred in the IT segment are largely common for export and domestic sale, determining the result is not purposeful separately for export and domestic activities.

## 3.2 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** | **4,727** |
| Share in result for 2 Quarters 2004 | (403) |
| **As of 30 June 2004** | **4,324** |
| | |
| **As of 1 January 2005** | **3,893** |
| Increase in net assets on account of acquisition of shares of the INTERIA.PL company | 1,928 |
| Share in the result for 2 Quarters 2005 | 629 |
| Other changes in capital: determination of goodwill in reference to assuming INTERIA.PL shares of the new issue | 2,322 |
| **As of 30 June 2005** | **8,772** |
| Including: | |
| INTERIA.PL S.A. | 7,417 |
| NetBrokers Sp. z o.o. | 1,355 |

| **Name** | **Country of registration** | **Assets** | **Obligations** | **Shares in the capital (%)** |
|---|---|---|---|---|
| **As of 31 Dec 2004** | | | | |
| INTERIA.PL SA | Poland | 12,505 | 5,376 | 37.50 |
| NetBrokers Sp. z o.o. | Poland | 3,489 | 517 | 40.00 |
| | | 15,994 | 5,893 | |
| **As of 30 June 2005** | | | | |
| INTERIA.PL SA | Poland | 17,469 | 5,052 | 41.05 |
| NetBrokers Sp. z o.o. | Poland | 5,097 | 1,894 | 40.00 |
| | | 22,566 | 6,946 | |

| | | **Proceeds** | **Profit / (loss)** | **Shares in the capital (%)** |
|---|---|---|---|---|
| **As of 30 June 2004** | | | | |
| INTERIA.PL SA | Poland | 12,493 | (1,583) | 37.50 |
| NetBrokers Sp. z o.o. | Poland | 6,463 | 479 | 40.00 |
| | | 18,956 | (1,104) | |
| **As of 30 June 2005** | | | | |
| INTERIA.PL SA | Poland | 17,910 | 1,193 | 41.05 |
| NetBrokers Sp. z o.o. | Poland | 17,790 | 348 | 40.00 |
| | | 35,700 | 1,541 | |

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 |

## 3.3. Inventory

| | **30 June 2005** | **31 December 2004** |
|---|---|---|

| | | |
|---|---|---|
| Consumption of materials and raw materials | 592 | 719 |
| Production in progress | 11,956 | 7,994 |
| Merchandise | 1,361 | 6,278 |
| | 13,909 | 14,991 |

### 3.4. Receivables on account of deliveries and services and other receivables

| | 30 June 2005 | 31 December 2004 |
|---|---|---|
| Receivables on account of deliveries and services | 104,111 | 73,816 |
| Less write-off updating the value of receivables | (1,988) | (1,057) |
| Net receivables on account of deliveries and services | 102,123 | 72,759 |
| Other receivables | 2,632 | 2,737 |
| Prepayments and accruals | 7,038 | 4,416 |
| Receivables from related entities (Note) | | 101 |
| | 111,793 | 80,013 |

### 3.5. 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 30 June 2004 | 6,852,387 | 6,852,387 | | 6,852,387 |
| 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 30 June 2005 | 6,955,095 | 6,955,095 | | 6,955,095 |

1) As of 30 June 2005, 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 is the married couple of Elżbieta and Janusz Filipiak. Elżbieta and Janusz Filipiak have 3.195.393 shares in total, which give 9.775.393 votes in the GA, which constitutes 69.71% of all votes in the GA.

2) In reference to execution of the programme of managerial option due for President of the Company Management on the basis of Resolution No 6 of the Extraordinary General Assembly of Shareholders of ComArch SA 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 issuing the shares in Series G3, about which the Company informed in the current report No. 9/2005, the Management of ComArch SA passed on 11 April 2005 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 on amending the Bylaws of the Company. The issue of shares in Series G3 was completed with exclusion of subscription rights for the current shareholders of the Company. The issue price was PLN 1. Series G3 shares were covered entirely with cash and shall participate in the dividend beginning with payments from profit to be assigned for allocation for the accounting year 2005, that is beginning with 1 January 2005. The issue of shares in Series G3 was completed by way of a private subscription referred to in Article 431 Para 2 Clause 1 of the Code of Trading Companies managed under public trading conditions, whereas Series G3 shares shall be released into trading in the Warsaw Stock Exchange. All Series G3 shares were offered to President of the Company. In reference to the increase in the initial capital of the Company, Article 7 Para 1 of the Bylaws of the Company shall be worded as follows: "1. The initial capital of the Company is not more than PLN 7,655,095 (say: seven million six hundred and fifty five thousand ninety five Zloty) and is divided into not more than 7,655,095 (say: seven million six hundred fifty five thousand ninety five) shares, including: 1,767,200 (one million seven hundred and sixty seven thousand two hundred) 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 registered shares in Series A, 2) 56,400 regular bearer's shares in Series A, 3) 883,600 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."

3) 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.

The objective of the Programme is to create additional motivation for Members of the Management and for key employees by way granting bonus for the entitled persons (called hereafter the "Option") dependent on increase in value of the Company and increase in net profit of the Company. The Programme shall be executed by way of offering newly issued shares of the Company to Members of the Management and Key Employees in 2006, 2007 and 2008 so that each time value of the Option was the difference between the average stock exchange closing rate for Company shares from December of each successive year of the execution of the Programme beginning with 2005, and the issue price for shares offered to Members of the Management and key employees. The basis for calculation of the value of the Option shall be increase in capitalisation of the Company calculated: a) for 2006 as difference between the average capitalisation of the Company as of December 2005 and the average capitalisation of the Company as of December 2004, which shall be calculated with the average stock exchange closing rate for shares of the Company as of December 2004 which was PLN 69.53 (sixty nine point fifty three Zloty), b) for 2007 as difference between the average capitalisation of the Company as of December 2006 and the average capitalisation of the Company as of December 2005, c) for 2008 as difference between the average capitalisation of the Company as of December 2007 and the average capitalisation of the Company as of December 2006, where the average capitalisation of the Company is the product of the number of shares of the Company and the average stock exchange closing rate of shares of the Company as of December last year.

The option shall be determined in each successive year of the Programme separately for each of the entitled persons as set forth in the Resolution No. 51 of the GA, and the total value of the option shall be 9.2% of the increase in capitalisation in periods set forth in Clauses a), b) and c) (respectively for the options No. 1, No. 2 and No. 3).

Pursuant to MSSF2, the Company is obliged to calculate the option value and then to give it as cost in the profit and loss account in the given option's lifetime, i.e. from the beginning of allocation to the day of expiry. Beginning with the third quarter 2005, the Company shall give the value of particular options in the profit and loss account. At present, the Company is in course of determining the value for particular options. The Company pays attention that despite the fact that the value of the option decreases net profit of the Company and of the Group, the 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 the newly issued shares for members of the Programme in the "diluted net profit." Despite the fact that the MSSF2 standard was officially adopted by the European Union for application by stock exchange companies for preparation of consolidated statements, it is indicated by many experts as controversial, as in their assessment giving the cost of option in the profit and loss account results in double calculation of the effect of the option programme (by the result and by dilution).

4) After the balance sheet date:

The ComArch SA Management was notified by BZ WBK AIB Asset Management S.A. that as a result of acquisition of the shares settled on 4 July 2005, BZ WBK AIB Asset Management SA clients became owners of shares allowing more than 5% of the total number of votes in the general assembly of ComArch SA. On 4 July 2005, in securities accounts of BZ WBK AIB Asset Management S.A. clients, covered by agreements for management, there were 885,815 shares of the ComArch S.A. company, which was 12.74% of the initial capital of the Company. These shares allowed 885,815 votes, which was 6.32% of the total number of votes in the general assembly.

The ComArch SA Management was also notified by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna that 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 allowing 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 the ComArch S.A. company, which was 10.19% in the initial capital of the Company. These shares allowed 708,629 votes, which was 5.05% in the total number of votes in the general assembly. In the current report No. 29/2005 on acquisition of a major batch of shares by BZ WBK AIB Asset Management S.A. clients, sent by ComArch SA on 12 July 2005, shares were also taken into consideration which were then owned by investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

### 3.6. Obligations on account of deliveries and services and other obligations and provisions for obligations and charges

| | 30 June 2005 | 31 December 2004 |
|---|---|---|
| Obligations on account of deliveries and services | 68,287 | 47,020 |
| Obligations to related entities (Note) | 29 | 201 |
| Obligations on account of social insurance and other charges | 8,986 | 9,015 |
| | 77,302 | 56,236 |

### 3.7. Long-term contracts

| | 2 Quarter 2005 |
|---|---|
| Proceeds on account of long-term contracts given in the reporting period | 44,769 |
| a) Proceeds from completed contracts given in the reporting period | 24 |
| b) Proceeds from incomplete contracts given in the reporting period | 44,745 |

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 30 June 2005 was PLN 8,602 thou.

### 3.8 Credits, loans, financial obligations

| | 30 June 2005 | 31 December 2004 |
|---|---|---|
| **Long-term** | | |
| Bank credits | 18,000 | 7,465 |
| Loans | 684 | 684 |
| Convertible bonds | 39,152 | 38,472 |
| | 57,836 | 46,621 |
| **Short-term** | | |
| Credit in current account | 193 | 52 |
| Loans with collaterals | 199 | 513 |
| Bank credits | 2,106 | 393 |
| Convertible bonds | 923 | 781 |
| Financial instruments | | |
| | 3,421 | 1,739 |
| **Total credits, loans and financial obligations** | **61,257** | **48,360** |

#### 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.

#### 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. The credit amount is 85% of the investment value, up to PLN 20m. The credit period is 10 years, with the interest based on variable rate. The usage of the credit was completed in entirety by 02 June 2005. The collateral for the credit is composed of a blank promissory note, mortgage on plots of land where the building is to be erected and assignment of the insurance policy for the building.

**Derivative instruments**

The Company had forward contracts concluded in order to provide collateral for future cashflows by way of limiting the effect of changes in cashflows related to probable planned transactions on the financial result, these changes resulting from the risk of change in exchange rates. As of 30 June 2005, the above forward contracts were appraised according to the fair value method and changes in their appraisal were referred to the capital from appraisal updating.

Charging credits of the Group with the risk of interest rate refers to the investment credit and is as follows:

| | < 6 months | 6-12 months | 1-5 years | > 5 years | Total |
|---|---|---|---|---|---|
| **As of 30 June 2005** | | | | | |
| Investment credit | 1,000 | 1,000 | 8,000 | 10,000 | 20,000 |
| Interest | 106 | | | | |
| | 1,106 | | | | |

The structure of credit, loan and long-term financial obligations maturity is as follows:

| | 30 June 2005 | 31 December 2004 |
|---|---|---|
| 1 – 2 years | 43,923 | 753 |
| 2 – 5 years | 6,000 | 41,416 |
| > 5 years | 7,913 | 4,452 |
| | 57,836 | 46,621 |

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

| | 30 June 2005 | | | | 31 December 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | PLN | USD | Euro | Other | PLN | USD | Euro | Other |
| Bank credits | 7.05% | – | – | – | 7.10% | – | – | – |
| Convertible bonds | 11% | – | – | – | 11% | – | – | – |

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

| | 30 June 2005 | 31 December 2004 |
|---|---|---|
| PLN | 57,836 | 46,621 |
| Total | 57,836 | 46,621 |

The Group has the following, unused allocated credit limits:

| | 30 June 2005 | 31 December 2004 |
|---|---|---|
| Variable interest rate | | |
| – Expiring within one year | 10,000 | 22,465 |
| Total | 10,000 | 22,465 |

## 3.9. Conditional obligations

As of 30 June 2005, the value of guarantees and letters of credit issued by banks to the order of ComArch S.A. in reference to the completed agreements and participation in tender proceedings was PLN 28,844 thou. As of 30 June 2005, the value of ComArch S.A. warranties for obligations of the Interia.pl S.A. company on account of leasing agreements was PLN 1,499 thou.

ComArch SA is a party sued in court proceedings, in which the prospective combined amount of claims from third parties is PLN 738 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.

## 3.10. Income tax

In reference to Poland joining the European Union, the Act was passed on 2 October 2003 on amending the Act on Special Economic Zones and Some Acts (Dz.U. No 188 Item 1840), which changed conditions for tax exemptions for entities operating in special economic zones. Pursuant to the provision of Article 6 Para 1 of the Act, such entities appeal for changing conditions of their permit in order to adjust it to the principles in force in the European Union for providing public aid. Pursuant to the provision of Article 5 Para 2 Clause 1 b), Para 2, and Para 3 of the Act, the maximum amount of public aid for entities which conduct activities in a special economic zone on the basis of a permit issued before 1 January 2000 may not exceed 75% of the value of investments incurred in the period from the date of obtaining the permit to 31 Dec 2006, and the total amount of public aid obtained since 1 January 2001 is taken into account in determining the maximum amount of public aid. It means a change in the current functioning of tax relief (public aid) from relief unlimited in value to relief limited in value and dependent on the value of investments made. In case of ComArch SA, the maximum value of public aid may not exceed 75% of the value of investment expenditures, which ComArch SA has incurred / will incur in the period from obtaining the permit, i.e. 22 March 1999, to 31 December 2006. ComArch SA has applied to the Minister of Economy for changing conditions of the permit and on 1 July 2004 received a decision of the Minister of Economy of 24 June 2004 referring to the change in conditions of the permit for the above and compliant with the Act. At the same time, the period for which the permit was issued for ComArch S.A. was extended by 31 December 2017 in the amended permit. It means extension of the period during which ComArch SA may use the limit of public aid due on account of the investments incurred in the special economic zone.

Pursuant to MSR12, the investment relief remaining for use as of 30 June 2005 constitutes an asset on account of deferred income tax. The limit of unused investment relief as of 30 June 2005 discounted as of the date of permit issuance is PLN 19.9m. Due to the fact that this relief may be used only in correspondence with tax income achieved on account of tax-exempt activities, and applying the principle of safe appraisal in reference to shaping of tax income on account of tax-exempt activities, the Company recognised asset on account of deferred income tax in the financial statement prepared as of 30 June 2005 in the amount of PLN 5.74m. The value of the asset was determined on the basis of Company forecasts as regards the possible shaping of tax income achieved on account of tax-exempt activities in the period of two tax years to come, i.e. 2005-2006. This asset shall be executed progressively (in the form of write-offs reducing the Company's net profit), in proportion to tax income achieved on account of tax-exempt activities. At the same time, pursuant to MSR12, the Company shall regularly verify appraisal of the recognised asset on account of deferred income tax for its possible execution and further recognition in future periods. At the same time, the Company declares that recognition of the asset on account of unused relief does not affect cashflows in the Company (both the asset's recognition and its execution). Thus, this operation is of purely accounting nature and results from the International Accounting Standards applied by the Company for preparation of the consolidated financial statement of the ComArch Group.

At the same time, the Company determined temporary differences on account of income tax and appraisal of the asset on account of deferred income tax resulting from the above differences for the amount of PLN 3,356 thou. Due to the fact that the Company conducts both taxed and tax-exempt activities, temporary differences in income tax may be executed in both types of activities. At the same time, the final determination within which activities (taxed or tax-exempt) such temporary differences are realised, is done on the basis of the annual settlement of income tax, after the end of the accounting year. Therefore, with a view on the above, and following the safe appraisal principle, the Company made the updating write-off as of 30 June 2005 in full amount.

## 3.11. Profit per share

| **Basic** | **1-2 Quarters 2005** | **1-2 Quarters 2004** |
|---|---|---|
| Net profit for the period for Company shareholders | 9,384 | 6,178 |
| Average weighted number of regular shares (in thou.) | 6,865 | 6,735 |
| Profit per regular share (in PLN) | 1.37 | 0.92 |

The basic net profit per 1 share in the "1-2 Quarters 2005" column was calculated as net consolidated profit for ComArch SA shareholders achieved in the period from 1 January 2005 to 30 June 2005 divided by the average weighted number of shares in the period from 1 January 2005 to 30 June 2005, where the number of days is the weight. Net profit per 1 share in the "1-2 Quarters 2004" column was calculated as net consolidated profit for ComArch SA shareholders achieved in the period from 1 January 2004 to 30 June 2004 divided by the average weighted number of shares in the period from 1 January 2004 to 30 June 2004, where the number of days is the weight.

# 4. Additional notes

## 4.1. 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 quarterly report.

As of 16 August 2005, 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. Elżbieta and Janusz Filipiak have the total of 3,195,393 shares, which give 9,775,393 votes in the GA, which constitutes 69.71% of all votes in the GA;
- BZ WBK AIB Asset Management SA, whose clients, to the best knowledge of the Company, on 4 July 2005 became owners of 885,815 shares of the ComArch S.A. company, which constitutes 6.32% of all votes in the GA;
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna, which manages investment funds resulting from acquisition of shares by Arka BZ WBK Zrównoważony FIO, settled on 28 July 2005, who became owner of 708,629 shares of the ComArch S.A. company, which constitutes 5.05% of all votes in the GA.

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

b) Change in the owned shares of ComArch SA by managing and supervising persons from ComArch SA in the period from 16 May 2005 to 16 August 2005.

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 1 Quarter 2005, i.e. 16 May 2005 and on 16 August 2005, pursuant to the information owned by the Company. On 08 June 2005, President of the Company was allocated 102,708 regular bearer's shares in Series G3 within the programme of managerial options at the price of PLN 1 each.

| Managing and supervising persons | Function | As of 16 August 2005 | | As of 16 May 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 | 3.195.393 | 69.71% | 3,092,685 | 69.48% |
| Tomasz Maciantowicz | Deputy President of the Management | 197,134 | 4.09% | 197,134 | 4.12% |
| Paweł Prokop | Deputy President of the Management | 24,440 | 0.44% | 24,440 | 0.45% |
| Paweł Przewięźlikowski | Deputy President of the Management | 24,440 | 0.44% | 24,440 | 0.45% |
| Rafał Chwast | Deputy President of the Management | 6,566 | 0.05% | 6,566 | 0.05% |
| Zbigniew Rymarczyk | Member of the Management | 370 | 0.00% | 250 | 0.00% |
| **Number of the issued shares** | | **6.955.095** | **100,00%** | **6.852.387** | **6,852,387** |

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

In reference to Poland joining the European Union, the Act was passed on 2 October 2003 on amending the Act on Special Economic Zones and Some Acts (Dz.U. No 188 Item 1840), which changed conditions for tax exemptions for entities operating in special economic zones. Pursuant to the provision of Article 6 Para 1 of the Act, such entities appeal for changing conditions of their permit in order to adjust it to the principles in force in the European Union for providing public aid. Pursuant to the provision of Article 5 Para 2 Clause 1 b), Para 2, and Para 3 of the Act, the maximum amount of public aid for entities which conduct activities in a special economic zone on the basis of a permit issued before 1 January 2000 may not exceed 75% of the value of investments incurred in the period from the date of obtaining the permit to 31 Dec 2006, and the total amount of public aid obtained since 1 January 2001 is taken into account in determining the maximum amount of public aid. It means a change in the current functioning of tax relief (public aid) from relief unlimited in value to relief limited in value and dependent on the value of investments made. In case of ComArch SA, the maximum value of public aid may not exceed 75% of the value of investment expenditures, which ComArch SA has incurred / will incur in the period from obtaining the permit, i.e. 22 March 1999, to 31 December 2006. ComArch SA has applied to the Minister of Economy for changing conditions of the permit and on 1 July 2004 received a decision of the Minister of Economy of 24 June 2004 referring to the change in conditions of the permit for the above and compliant with the Act. At the same time, the period for which the permit was issued for ComArch S.A. was extended by 31 December 2017 in the amended permit. It means extension of the period during which ComArch SA may use the limit of public aid due on account of the investments incurred in the special economic zone.

Pursuant to MSR12, the investment relief remaining for use as of 30 June 2005 constitutes an asset on account of deferred income tax. The limit of unused investment relief as of 30 June 2005 discounted as of the date of permit issuance is PLN 19.9m. Due to the fact that this relief may be used only in correspondence with tax income achieved on account of tax-exempt activities, and applying the principle of safe appraisal in reference to shaping of tax income on account of tax-exempt activities, the Company recognised asset on account of deferred income tax in the financial statement prepared as of 30 June 2005 in the amount of PLN 5.74m. The value of the asset was determined on the basis of Company forecasts as regards the possible shaping of tax income achieved on account of tax-exempt activities in the period of two tax years to come, i.e. 2005-2006. This asset shall be executed progressively (in the form of write-offs reducing the Company's net profit), in proportion to tax income achieved on account of tax-exempt activities. At the same time, pursuant to MSR12, the Company shall regularly verify appraisal of the recognised asset on account of deferred income tax for its possible execution and further recognition in future periods. At the same time, the Company declares that recognition of the asset on account of unused relief does not affect cashflows in the Company (both the asset's recognition and its execution). Thus, this operation is of purely accounting nature and results from the International Accounting Standards applied by the Company for preparation of the consolidated financial statement of the ComArch Group. The net profit for shareholders of the ComArch Group without this operation in the 2 Quarter 2005 would have been PLN 2,385 thou.

### 4.3. Events after the balance sheet date

The ComArch SA management obtained a notice from BZ WBK AIB Asset Management S.A. that as a result of acquisition of shares, settled on 4 July 2005, clients of BZ WBK AIB Asset Management SA have become owners of shares securing more than 5% of all number of votes in the general assembly of ComArch SA. On 4 July 2005, in accounts of securities of BZ WBK AIB Asset Management S.A. clients covered by agreements there were 885,815 shares of the ComArch S.A. company, which constituted 12.74% in the initial capital of the Company. These shares allowed 885,815 votes, which constituted 6.32% of all number of votes in the general assembly.

The ComArch SA management obtained also a notice from BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna that as a result of acquisition of shares by Arka BZ WBK Zrównoważony FIO, settled on 28 July 2005 year, investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. became owners of shares securing more than 5% of all number of votes in the ComArch S.A. general assembly. On 28 July 2005, in accounts of securities of investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. there were 708,629 shares of the ComArch S.A. company, which constituted 10.19% in the initial capital of the Company. These shares allowed 708,629 votes, which constituted 5.05% of all number of votes in the general assembly. In the current report No. 29/2005 on acquisition of a major batch of shares by BZ

WBK AIB Asset Management S.A. clients, sent by ComArch SA on 12 July 2005, shares were also taken into consideration, which were then owned by investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

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

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

### 4.5. Significant proceedings in court, a body appropriate for arbitration proceedings or a body of public administration

In the 2 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 98 Para 6 Clauses 5a) and 5b) of the Ordinance of the Council of Ministers of 21 March 2005 on current and periodical information submitted by issuers of securities.

The ComArch SA Group is a party sued in court proceedings in which the prospective combined amount of claims by third parties is PLN 738 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.

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

Not present.

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

In the 2 Quarter 2005, ComArch SA and an entity subsidiary to it did not provide any warranties and guarantees referred to in Article 98 Para 6 Clause 7 of the Ordinance of the Council of Ministers of 21 March 2005 on current and periodical information submitted by issuers of securities.

### 4.8. 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.

## 5. Information about structure and activities of the Group

The basic subject matter of activities of the ComArch 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 services 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 has 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.

The structure of activities of the ComArch Group is as follows: the dominant entity obtains majority of contracts, largely executing them, and companies of ComArch Global, ComArch Software, ComArch Middle East FZ-LCC, ComArch Sp. z o.o. (Ukraine), ComArch Panama, Inc., OOO ComArch obtain contracts in international markets and execute them in entirety or in part. The ComArch s.r.o. company deals with production of software to the order of the ComArch Group. Interia.pl is a web portal providing information, communication, search and web community services. ComArch Services Sp. z o.o. manages tele-IT activities consisting in providing tele-IT connections for own needs of companies in the ComArch group and for contracts executed by ComArch. NetBrokers Sp. z o.o. operates in the e-commerce sector offering its clients a virtual commodity market – an information platform based in the Internet. MKS Cracovia SSA is a sport joint stock company.

On 30 June 2005, the ComArch Group included the following entities (in parentheses: the share of votes for ComArch SA):

- ComArch the Company Akcyjna with the office in Krakow,
- ComArch Global, Inc. with the office in Washington (100.00%),
- ComArch Software AG with the office in Frankfurt am Main (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 Sliač, 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%),
- ComArch Services Sp. z o.o. with the office in Krakow (99.90%),
- INTERIA.PL SA with the office in Krakow (*49.95%),
- NetBrokers Sp. z o.o. with the office in Krakow (40.00%),
- MKS Cracovia SSA with the office in Krakow (49.15%).

* As a result of assuming the new issue of INTERIA.PL shares in March 2005, the ComArch SA company owned temporarily more than 50% of votes in the GA, however, due to the regulations concerning the right for public trading in securities, the company could not enforce its voting rights with the owned shares until disposal of shares so as not to reach the 50% votes threshold in the GA. On 12 May, the ComArch SA company disposed 1 share in Interia.pl and at the same time Interia.pl cancelled preferences for some registered shares owned by ComArch S.A., and as of 12 May the ComArch S.A. company owned 49.95% of votes in the GA. Throughout the time, the Interia.pl company was thus an affiliated company towards ComArch S.A.

## 6. Description of the applied accounting principles

This consolidated financial statement was prepared for the first quarter 2005. It was prepared pursuant to the International Accounting Standards, the International Standards or Financial Reporting and interpretations issued no their basis. In particular, this quarterly financial statement was prepared pursuant to MSR 34 (mid-year reporting), as well as pursuant to MSSF 1 (the first application of International Standards for Financial Reporting). This statement was prepared pursuant to all accounting standards in force at the time of its preparation, although it cannot be stated with certainty that MSRs in force on this day shall be identical with those to be in force on 31 December 2005, i.e. on the last day of the year, for which the first annual statement pursuant to MSR is prepared.

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 MSSF, i.e. 01 January 2004, within the optional exemptions and obligatory exceptions set forth in MSSF 1.

The Group enjoyed the following optional exemptions from the obligation of retrospective application of some MSRs in the first financial statement prepared according to MSSF (pursuant to MSSF 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 MSSF, 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 MSSF.

   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 MSR 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 MSSF 2 they are not recognised in the financial statement prepared according to MSSF.

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 MSSF 1 (pursuant to MSSF 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 MSR 32 and MSR 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 MSSF 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 MSSF. 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 MSSF. Notes 2.2.1-2.2.5 present the detailed reconciliation and explanation of the differences.

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

Preparation of the statement pursuant to MSSF requires a number of estimates to be done and application of own judgement. Note 6.3.2 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.

This statement was prepared on 16 August 2005.

The consolidated financial statement of the ComArch Group for 2 Quarters 2005 covers statements of the following companies:

| | Relationship | Consolidation method | Share of ComArch SA in the initial capital |
|---|---|---|---|
| ComArch SA | Dominant unit | Full | |
| ComArch Software AG | Subsidiary unit | Full | 100.00% |
| ComArch Global, Inc. | Subsidiary unit | Full | 100.00% |
| ComArch Middle East FZ-LCC | Subsidiary unit | Full | 100.00% |
| ComArch Sp. z o.o. (Ukraine) | Subsidiary unit | Full | 100.00% |
| ComArch s.r.o. | Subsidiary unit | Full | 100.00% |
| ComArch Panama, Inc. | Subsidiary unit | Full | 90.00% |
| OOO 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% |

## 6.1 Principles for appraisal of assets and liabilities and determining the financial result

### 6.1.1. 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.

### 6.1.2 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.

### 6.1.3. 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.

**6.1.4. 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.

**6.1.5. 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 land perpetual usufruct is regarded as an item of intangibles with unspecified period of use.

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 group IV according to the Polish Classification of Fixed Asset Types, called hereafter PKRST) and 20% (for groups VII and VIII according to PKRST). 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) Loss in asset value

Assets with unlimited 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).

**6.1.6. 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.

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.

c) Cash and their 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 incurrence. 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.

#### 6.1.7. Total equity

Total equity includes, among others:

- The initial capital of the dominant unit given at the nominal value,
- The supplementary capital established from allocation of profit with principles and limits observed as specified in the Code of Trading Companies and from surplus of sale of shares above their nominal value,
- The capital from updating the appraisal as a result of appraisal of the capital part of long-term obligations on account of the issued own bonds and redemption of a part of own bonds convertible into shares, as well as from consequences of the appraisal of shares owned by ComArch SA in foreign currencies,
- Other reserve capitals established from division of profit allocated for investment and other objectives specified in the bylaws are appraised according to the nominal price,
- The undivided profit resulting from adjustments on account of changes in accounting principles in 2002 in reference to the amendment of the Accounting Act and adjustments related to the change in principles for recognising in-built derivative instruments. The undivided profit includes also results for the period from January to August 2004 for companies merging with ComArch SA,
- The capital from the merger.

#### 6.1.8 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

These cover possible costs and obligations related to the given reporting period, whose exact amount is not known as yet, including, among others, provisions for guarantee repairs.

### 6.2. 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.

The way of recording proceeds on account of integration contracts by the Group was described in “Settlement of long-term contracts.”

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 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.

a) Other operational proceeds and costs

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

b) Financial proceeds and costs

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

As a general rule, it is assumed, pursuant to MSR12, that in reference to temporary differences between the value of assets and liabilities given in the books of account, and their tax value and the tax loss possible for deduction in the future, a provision is established and assets are determined on account of deferred income tax. Assets on account of deferred income tax are determined in the amount foreseen to be deducted from income tax in the future, in reference to negative temporary differences which will cause reduction of the taxable amount in the future for calculation of income tax and deductible tax loss, defined with the safe calculation principle observed. 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 that will cause increase the taxable amount for calculation of income tax in the future. The amount of the provision and assets on account of deferred income tax are determined with rates of income tax in force in the year when tax obligation originated. 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 affect the financial result, and the provision and assets on account of deferred income tax related to operations settled with the total equity are also referenced to the total equity.

## 6.3. 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.

### 6.3.1 Accounting of derivative financial instruments and activities in collaterals

Derivative instruments constituting an instrument of collateral in the meaning of MSR 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 MSR 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 MSR 39 are appraised at fair value and the change in the appraisal is referenced to the result from financial operations.

### 6.3.2. 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 MSR 11,

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

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

## 7. Description of significant achievements and failures and factors and events significantly affecting the achieved financial result of the ComArch Group in 2 Quarter 2005 and factors which shall have effect on the achieved results in the perspective of at least one future quarter.

In the 2 Quarter 2005, the ComArch Group achieved proceeds from sales higher by 46.8% than in the 2 quarter of the previous year. Their value was PLN 101,874 thou., against PLN 69,386 thou. in 2 Quarter 2004. The profit before taxation in 2 Quarter was higher by 16.2% against the corresponding period of the previous year. Net profit for shareholders of the Group in 2 Quarter 2005 was PLN 8,125 thou., which means increase against 2 Quarter 2004 by 217.6%. The net profit obtained was affected by the operational activities of the Group as well as establishing an asset on account of deferred tax on account of the investment relief in reference to managing activities in the Special Economic Zone by ComArch SA (the detailed description is provided in section 3.10 of the quarterly report).

As of 30 June 2005, the companies within the ComArch Group (except for MKS Cracovia SSA) employed ca. 1,586 persons, or 35 persons more than as of the end of the first quarter of 2005. The Company Management believes that due to positive perspectives for the ComArch Group (21% increase in contracts), rise in employment will be fully consumed by increasing proceeds of the Group in the following periods.

The order portfolio for the current year is at present PLN 294.5m and is 21% higher than in the corresponding period of the last year. High dynamics of the increase in proceeds and a large portfolio of orders allow maintaining optimism for further results of the Group. The results of the Group in future quarters shall depend first of all on maintaining positive trends in economy, financial standing of medium-size and large companies (which constitute the major client base of the Group) and shaping of currency exchange rates.

The detailed structure of proceeds of the Group and the level of contracts were given in the following tables:

| ComArch Group | | | | |
|---|---|---|---|---|
| | 1-2 Quarters 2005 | % | 1-2 Quarters 2004 | % |
| Telecommunications | 38,671 | 22.0% | 45.308 | 33.5% |
| Finances and Banking | 34,545 | 19.6% | 26.264 | 19.4% |
| Services, Trade | 59,243 | 33.7% | 24.509 | 18.1% |
| Industry | 10,167 | 5.8% | 9.057 | 6.7% |
| Public sector | 29,435 | 16.7% | 28.409 | 21.0% |
| Other | 3,834 | 2.2% | 1.883 | 1.4% |
| TOTAL | 175,895 | 100.0% | 135.430 | 100.0% |
| | 1-2 Quarters 2005 | % | 1-2 Quarters 2004 | % |
| Domestic | 146,924 | 83.5% | 98,678 | 72.9% |
| International | 28,971 | 16.5% | 36,752 | 27.1% |
| TOTAL | 175,895 | 100.0% | 135,430 | 100.0% |

| ComArch Group | | | |
|---|---|---|---|
| | As of 31 July 2005 | As of 31 July 2004 | Change |
| Portfolio of orders for the current year | 294,524 | 243,447 | 21.0% |

The following events of significance for current activities of the ComArch Group occurred in the 2 Quarter 2005:

In the 2 quarter 2005, ComArch SA made an agreement with Consortia Sp. z o.o. with the office in Warsaw for delivery of computer hardware along with software. The agreement value was PLN 18,196.87 thou.

On 31 May 2005, the Company received the signed agreement for a multi-target credit line from Fortis Bank Polska SA with the office in Warsaw. On the basis of the above agreement Fortis Bank obliged to grant a credit limit to the Company in the amount of PLN 20m. The period of credit limit usage is 1 year, and the collateral is a blank promissory note. ComArch SA may use the limit in the form of performance bank guarantee, deposits, payment, refunding advance payment and letters of credit related to the executed contracts.

On 07 June 2005, ComArch SA received a signed agreement for a multi-target credit line with the Bank BPH SA with the office in Krakow. On the basis of the above agreement, Bank BPH granted a credit limit to the Company in the amount of PLN 26,401,216 for financing the current activities of the Company. The period of making the credit available is by 28 April 2006, and the collateral as a blank promissory note. ComArch SA may use the limit in the form of performance bank guarantees, deposits, payment, refunding advance payments and letters of credit related to the executed contracts and in the form of a credit in the current account.

On 4 April 2005, ComArch SA was notified by the District Court for Krakow Podgórze in Krakow, the IV Department of Land and Mortgage Register of 30 March 2005 on establishing mortgage for the benefit of Fortis Bank Polska SA on perpetual usufruct rights for the property for which the construction is executed of a new production and office building in the Special Economic Zone in Krakow. The mortgage was established in reference to the investment credit, about which the Company informed in the current report No. 47/2004. The entry refers to the contractual regular mortgage with the value of PLN 20m and to the deposit contractual mortgage for interest on the granted credit and other costs in the amount of PLN 4,788 thou. The register value of assets on which the mortgage was established in the books of account of the Company as of 28 February 2005 was PLN 16.2m. According to the best knowledge of the Company, Fortis Bank Polska SA and persons managing Fortis Bank Polska SA are not related to ComArch SA and to persons managing or supervising ComArch SA.

On 12 May 2005, the Management of INTERIA.PL SA changed the rights on 305,119 registered shares of the INTERIA.PL SA company to the motion of its shareholders. By virtue of the above resolution, conversion was executed for 195,556 registered Series C shares of the INTERIA.PL SA company owned by ComArch SA for regular bearer's shares. At the same time, on 12 May 2005, ComArch SA disposed of 1 regular bearer's share of the INTERIA.PL S.A. company. After the above change in rights on the shares and disposal of the share, ComArch SA has 2,888,369 shares in the INTERIA.PL S.A. company, which is 41.05% share in the initial capital of the Company and 11,959,625 votes, which is 49.95% of the total number of votes in the GA.

On 3 June 2005, the Company released for the public the abbreviated offering prospectus for Series G3 shares.

On 8 June 2005, 102,708 regular bearer's shares in Series G3 were allocated. The subscription lasted on 7 and 8 June 2005. The number of securities in the offer was 102,708. Reduction rates in particular tranches was 0%. The number of securities for which subscription was made was 102,708. The value of the subscription is PLN 102,708. The issue costs were PLN 63.00 thou. The shares were subscribed in the tranche addressed to President of the ComArch S.A. Management. The acquisition price was PLN 1.00. The number of persons who signed the subscription and who were allocated securities was 1. No submission agreements were made. The costs of issuing the shares in Series G3 consisted of offer preparation and management in the amount of PLN 10,000 and preparation of the offering prospectus in the amount of PLN 53,000. The average cost per one unit of securities is PLN 0.6. The costs of issuing the shares in Series G3 will be included in entirety in financial costs.

The ComArch SA Management released for the public the following report on the activities of the ComArch SA Supervisory Board in 2004, including assessment of the Company situation in 2004 pursuant to the rule No. 18 of the corporate order, resulting from "Good practices in public companies."

The report on activities of the ComArch S.A. Supervisory Board in 2004 was prepared. The Supervisory Board had 4 sessions in 2004 (29 March, 14 June, 20 August, 13 December). Moreover, the Supervisory Board passed resolutions in the correspondence mode on 6 May and 15 June. The average presence in the session of the Supervisory Board was 4 persons out of 5 (five) members of the Supervisory Board. The major issues in the sessions of the Supervisory Board were: a) monitoring and analysis of the financial situation of the Company and of the ComArch Group, b) Assessment of execution of the Company strategy by the Management, c) analysis and assessment of the risk related to activities of the Company, d) formal and legal issues. In the assessment of the Supervisory Board, the Group achieved very good financial results in 2004. Increase in net profit by over 50%, with increase in proceeds by 30% position ComArch as one of the best developing IT companies in Poland. It is noteworthy that the entire increase was achieved as a result of organic development of the Group. Along with increase in net profit, financial indexes were improved, including, most of all, increase of the ROE index (return on equity) from 8% to 12%. The Supervisory Board was satisfied to report that 2004 saw significant increase in the rate of ComArch shares from PLN 51.30 to PLN 71.50, giving for shareholders the return rate of 39%. The Supervisory Board positively assessed the strategy executed by the Company, in both domestic and international markets. ComArch as a product company has chances to improve its results radically due to increasing the scale of operations, therefore, in the assessment of the Board, geographical expansion is the proper direction for development of the Group. At the same time, maintaining industry diversification of proceeds is very important as a condition for minimising the risk of dependency on demand in one sector of economy. In the assessment of the Board, the level of diversification of Group proceeds is at the proper level. The Supervisory Board also continually analysed risk areas related to activities of the Company and analysed the method of managing these risks by the Management. The following were considered the most important risks, similarly to earlier periods: a) the risk related to the necessity of continuous establishing of new and modernising the current software products; b) the risk related to maintaining terms and conditions of agreements made, in particular related to keeping deadlines and maintaining quality of work (the risk of appropriate assessment of time-consumption of long-term contracts); c) the risk of a foreign legal and political milieu related to execution of export contracts; d) the risk of financial standing of foreign contractors (lesser possibility and difficulties in verifying and monitoring); e) the tax risk related to managing activities in a Special Economic Zone and instability of the legal and tax milieu in Poland; f) the risk of the proper functioning of in-house control in the Company. In the assessment of the Board, the Management properly identifies risks with the activities of the Company and manages them efficiently.

On 22 June 2005, the Supervisory Board of ComArch SA selected PricewaterhouseCoopers Sp. z o.o. as the entity authorised for auditing and reviewing financial statements and consolidated financial statements of ComArch SA. PricewaterhouseCoopers Sp. z o.o. with the office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw, has rights to audit financial statements No. 144. ComArch SA used services of PricewaterhouseCoopers Sp. z o.o. in the past in auditing and reviewing financial statements and consolidated financial statements for the years 1999-2004 and preparing part of the offering prospectus. The Supervisory Board of ComArch SA has chosen the entity authorised for auditing statements of the Company on the basis of Article 19 Para 2 Clause e) of the Bylaws of the Company, pursuant to the regulations in force and industry standards. The agreement with PricewaterhouseCoopers Sp. z o.o. is to be concluded for the period of 1 year and shall include auditing and reviewing financial statements and consolidated financial statements for the year 2005.

On 30 June 2005, the Company received a decision of the District Court for Krakow Śródmieście in Krakow, the XI Department for Commercial Issues of the National Court Register of 23 June 2005, by virtue of which 102,708 regular bearer's shares in Series G3 of the Company were registered and Article 7 Para 1 of the Bylaws of the Company was amended. As a result of the said registration, the amount of the paid initial capital of the Company was changed, now being PLN 6,955,095. At the same time, in the report No. 25/2005, the Company published the unified text of its Bylaws.

On 30 June 2005, the GA of ComArch S.A. approved of the financial statement of ComArch S.A., the report of the Management on activities of the Company, the report of the Supervisory Board on activities and auditing of the financial statement of the Company and the report of the Management on activities of the Company for the accounting year from 01 January 2004 to 31 December 2004, the consolidated financial statement of ComArch S.A., the report of the Management on activities of the ComArch Capital group, the report of the Supervisory Board on auditing the consolidated financial statement of ComArch S.A. and the report of the Management on activities of the ComArch Capital Group for the accounting year from 01 January 2004 to 31 December 2004 and allocated net profit for the accounting year from 01 January 2004 to 31 December 2004 so that the generated net profit in the amount of PLN 8,399,088.83 was transferred into the supplementary capital in entirety.

The General Assembly:

- Acknowledged execution of duties of all members of the ComArch SA Management and members of managements in the taken over companies, i.e. ComArch Kraków SA and CDN-ComArch SA for the year 2004.

- Acknowledged execution of duties of all members of the ComArch SA Supervisory Board and members in supervisory boards in all taken over companies, i.e. ComArch Kraków SA and CDN-ComArch SA for the year 2004.
- Approved of the financial statement of ComArch Kraków S.A. and the report of the Management on activities of the Company for the accounting year 01 January 2004 to 31 August 2004.
- Approved of the financial statement of CDN-ComArch S.A. and the report of the Management on activities of the Company for the accounting year 01 January 2004 to 31 August 2004.
- Passed the programme of managerial options for members of the Management and key employees of the Company (the plenipotentiary of one of the shareholders, who, as reported, voted against passing the resolution, filed veto against it and requested its recording).
- Passed the resolution on changing the rules for remunerating members of the Management.
- Passed the resolution on amending Article 4 of the Bylaws of the Company related to the scope of activities of the Company.
- Considered it justified and beneficial for the Company and shareholders to observe by the Company and its bodies of the principles of the corporate order set forth in the document titled "Good practices in public companies 2005" and obliged the Management to submit an appropriate statement.

The Management of ComArch SA informs that pursuant to the list of shareholders participating in the General Assembly of ComArch SA Shareholders on 30 June 2005, two persons had more than 5% of the total number of votes in this Assembly:

1. Janusz Filipiak (privileged registered shares) with 4,230,000 votes and 41.80% share.
2. Elżbieta Filipiak (privileged registered shares) with 3,995,000 votes and 39.48% share.

The married couple of Elżbieta and Janusz Filipiak (regular bearer's shares) had 1,447,685 votes and 14.31% share. The total number of votes resulting from all the above issued shares was 14,023,895 votes.

The GA on 30 June 2005 was attended by shareholders representing 10,119,685 votes.

On 30 June 2005, to supplement the annual report released for the public on 5 April 2005, pursuant to Para 27 of the regulations of the Stock Exchange, the ComArch SA Management provided the current statement on observing the corporate order in the current report No. 28/2005.

# 8. The abbreviated quarterly financial statement of ComArch SA

## 8.1. Balance sheet

| | Note | As of 30 June 2005 | As of 31 Dec 2004 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| Tangible fixed assets | | 87,474 | 74,036 |
| Intangibles | | 8,553 | 7,517 |
| Investments in affiliated units | | 15,256 | 11,006 |
| Investments in other units | | 23,479 | 23,007 |
| Financial receivables | | 254 | 380 |
| | | 135,016 | 115,946 |
| **Current assets** | | | |
| Inventory | | 13,597 | 14,185 |
| Financial receivables | | 768 | 736 |
| Trading receivables and other receivables | | 105,342 | 75,992 |
| Receivables on account of long-term contracts | | 29,359 | 20,631 |
| Other financial assets at fair value settled with the profit and loss account | | 175 | 2000 |
| Cash and equivalent | | 4,209 | 21,504 |
| | | 153,450 | 135,048 |
| **Total assets** | | 288,466 | 250,994 |
| **TOTAL EQUITY** | | | |
| **Total equity per shareholders of the Company** | | | |
| Initial capital | | 6,955 | 6,852 |
| Other capitals | | 119,744 | 111,399 |
| Net profit for the current period | | 11,756 | |
| Undivided financial result | | 1,803 | 9,102 |
| **Total equity** | | 140,258 | 127,353 |
| **Obligations** | | | |
| **Long-term obligations** | | | |
| Credits and loans | | 18,000 | 7,465 |
| Obligations on account of bonds | | 39,152 | 38,472 |
| | | **57,152** | 45,937 |
| **Short-term obligations** | | | |
| Trading obligations and other | | 82,686 | 71,055 |
| Obligations on account of bonds | | 923 | 781 |
| Credits and loans | | 2,299 | 445 |
| Provisions and other obligations | | 5,148 | 5,423 |
| | | **91,056** | 77,704 |
| **Total obligations** | | **148,208** | 123,641 |
| **Total liabilities** | | **288,466** | 250,994 |

The abbreviated unit statement of the ComArch SA dominant unit given in this report was presented according to MSSF principles in order to give the share of ComArch SA in the consolidated statement of the Capital Group prepared according to MSSF. However, ComArch SA books are still managed according to principles following the accounting act, thus net profit for allocation is determined according to the accounting act.

## 8.2. Profit and loss account

| | 2 Q 2005 | 1-2 Q 2005 | 2 Q 2005 | 1-2 Q 2004 |
|---|---|---|---|---|
| Proceeds from sales | 95,974 | 165,171 | 44,094 | 81,321 |
| Costs of sold products, merchandise and materials | (75,690) | (130,623) | (29,514) | (52,347) |
| **Gross profit** | **20,284** | **34,548** | **14,580** | **28,974** |
| Other operational proceeds | 278 | 343 | 483 | 606 |
| Costs of sale and marketing | (8,016) | (14,637) | (7,290) | (13,588) |
| General and administrative costs | (5,941) | (10,634) | (4,793) | (10,196) |
| Other operational costs | (1,687) | (2,133) | (288) | (539) |
| **Operational profit** | **4,918** | **7,487** | **2,692** | **5,257** |
| Net financial costs | (907) | (1,471) | (874) | (1,245) |
| **Profit before taxation** | **4,011** | **6,016** | **1,818** | **4,012** |
| Income tax | **5,740** | **5,740** | | |
| **Net profit for the period** | **9,751** | **11,756** | **1,818** | **4,012** |
| Net profit for the period without asset appraisal on account of deferred income tax on account of investment allowance | **4,011** | **6,016** | **1,818** | **4,012** |
| **Profit per share for the period (expressed in PLN per one share)** | | | | |
| – Basic | | 1.71 | | 0.60 |
| – Diluted | | | | |

Net profit for ComArch S.A. for the period 1-2 Quarters 2005 determined pursuant to the Accounting Act was PLN 6,132 thou.

## 8.3. Summary of changes in total equity

| | For Company shareholders | | | | | Minority shares | Total equity |
|---|---|---|---|---|---|---|---|
| | Initial capital | Reserve capital | Fair value and other capitals | Exchange rate differences | Undivided financial result | | |
| **As of 1 January 2004** | **6,727** | **96,714** | **11,408** | | **11,151** | | **126,000** |
| Profit for the period | | | | | 4,012 | | 4,012 |
| Given total proceeds and profits for the period | | | | | 4,012 | | 4,012 |
| **As of 30 June 2004** | **6,727** | **96,714** | **11,408** | | **15,163** | | **130,012** |
| **As of 1 January 2005** | **6,852** | **96,714** | **14,685** | | **9,102** | | **127,353** |
| Increase in the initial capital | 103 | | | | | | 103 |
| Allocation of profit for 2004 | | 8,399 | | | (8,399) | | |
| Profits (losses) on account of fair value, after taxation: | | | (54) | | | | (54) |
| – collateral of cashflows | | | (54) | | | | (54) |
| Net proceeds (costs) given directly in total equity | | | (54) | | | | (54) |
| Profit for the period | | | | | 11,756 | | 11,756 |
| Given total proceeds and profits for the period | 103 | 8,399 | (54) | | 3,357 | | 11,805 |
| **As of 30 June 2005** | **6,955** | **105,113** | **14,631** | | **12,459** | | **139,158** |

## 8.4. Cashflow statement

| | 1-2 Q 2005 | 1-2 Q 2004 |
|---|---|---|
| **Cash proceeds from operational activities** | | |
| Net profit (loss) | 11,756 | 4,012 |
| Total adjustments | (18,367) | (2,521) |
| Depreciation, including: | 4,983 | 2,829 |
| (Profit) loss from investment activities | (35) | (355) |
| Change in inventory | 588 | (6,870) |
| Change in receivables | (27,482) | 28,429 |
| Change in obligations and provisions, with the exception of loans and credits | 3,713 | (26,554) |
| Exchange rate differences | (134) | |
| Net profit less total adjustments | (6,611) | 1,491 |
| Interest paid | | 1,449 |
| Income tax paid | | |
| Net cash from operational activities | (6,611) | 2,940 |
| | | |
| **Cash flows from investment activities** | | |
| Acquisition of an affiliated unit | (4,256) | (291) |
| Acquisition of tangible fixed assets | (18,189) | (8,345) |
| Proceeds from sale of tangible fixed assets | 227 | 428 |
| Acquisition of intangibles | (1,797) | (231) |
| Acquisition of financial assets available for sale | (500) | |
| Proceeds from sale of financial assets available for sale | 2,530 | |
| Proceeds from sale of short-term securities | | 99,000 |
| Acquisition of short-term securities | | (103,582) |
| Loans granted to related units | (119) | (600) |
| Payment of loans received from related units | 92 | 4,837 |
| Net cash from investment activities | (22,012) | (8,784) |
| | | |
| **Cash flows from financial operations** | | |
| Proceeds on account of contracted credits and loans | 12,849 | 3,779 |
| Payment of credits and loans | (1,773) | (1,786) |
| Net cash (used in) from financial operations | 11,076 | 1,993 |
| | | |
| **Increase in net cash and credits in bank accounts** | **(17,547)** | **(3,851)** |
| Cash and credits in bank accounts as of the beginning of the period | 21,502 | 30,487 |
| Positive (negative) exchange differences in cash and credits in bank accounts | (245) | |
| **Cash and credits in bank accounts as of the end of the period** | **4,200** | **26,636** |