# POLISH SECURITIES AND EXCHANGE COMMISSION

## Consolidated Quarterly Report QSr 1 / 2006

quarter / year

(pursuant to §86 sec.2 and §87 sec. 1 of the Regulation issued by the Minister of Finance on 19 Oct. 2005 - Journal of Laws No. 209 Item 1744)
for issuers of securities managing production, construction, trade or services activities

| | |
|---|---|
| for 1 quarter of financial year 2006 | from 2006-01-01 to 2006-03-31 |
| including consolidated financial statement according to | International Financial Reporting Standards (IFRS) |
| in currency | PLN |
| and summary of financial statement according to | Act on Accounting (Journal of Laws 02.76.694) |
| in currency | PLN |
| date of publication | 2006-05-15 |

**COMARCH SA**
(full name of an issuer)

| | |
|---|---|
| **COMARCH** (abbreviated name of issuer) | **Information Technology (IT)** (sector according to WSE classification) |
| **31-864** (postal code) | **Kraków** (city) |
| **Al. Jana Pawła II** (street) | **39A** (number) |
| **012 646 10 00** (telephone number) | **012 646 11 00** (fax number) |
| **inwestor@comarch.pl** (e-mail) | **www.comarch.pl** (www) |
| **677-00-65-406** (NIP) | **350527377** (REGON) |

| SELECTED FINANCIAL DATA | thousands of PLN | | thousands of EURO | |
|---|---|---|---|---|
| | Q1 2006 | Q1 2005 | Q1 2006 | Q1 2005 |
| data related to the consolidated financial statement | | | | |
| I. Net revenues from sales | 96,454 | 74,021 | 25,082 | 18,435 |
| II. Operating profit (loss) | 9,526 | 1,531 | 2,477 | 381 |
| III. Profit before income tax | 16,962 | 1,084 | 4,411 | 270 |
| IV. Net profit attributable to shareholders | 15,395 | 1,259 | 4,003 | 314 |
| V. Cash flows from operating activities | -17,742 | -11,049 | -4,614 | -2,752 |
| VI. Cash flows from investing activities | 1,993 | -12,616 | 518 | -3,142 |
| VII. Cash flows from financing activities | -459 | 7,333 | -119 | 1,826 |
| VIII. Total net cash flows | -16,208 | -16,332 | -4,215 | -4,067 |
| IX. Equity attributable to shareholders | 201,383 | 133,594 | 51,168 | 32,714 |
| X. Number of shares | 7,518,770 | 6,852,387 | 7,518,770 | 6,852,387 |
| XI. Earnings per single share (PLN/EURO) | 2.05 | 0.18 | 0.53 | 0.04 |
| data related to the financial statement | | | | |
| XII. Net revenues from sales of products, goods and materials | 88,928 | 79,992 | 23125 | 19,922 |
| XIII. Profit (loss) on operating activities | 9,130 | 2,569 | 2374 | 640 |
| XIV. Gross profit (loss) | 15,209 | 2,005 | 3955 | 499 |
| XV. Net profit (loss) | 14,012 | 2,005 | 3644 | 499 |
| XVI. Cash flows from operating activities | -16,619 | -12,926 | -4322 | -3,219 |
| XVII. Cash flows from investing activities | 3,005 | -12,344 | 781 | -3,074 |
| XVIII. Cash flows from financing activities | -775 | 7,327 | -202 | 1,825 |
| XIX. Total net cash flow | -14,389 | -17,993 | -3742 | -4,481 |
| XX. Equity | 210,256 | 130,372 | 53423 | 31,925 |
| XXI. Number of shares | 7,518,770 | 6,852,387 | 7518770 | 6,852,387 |
| XXII. Earnings (losses) per single share (PLN/EURO) | 5.48 | 0.29 | 1.43 | 0.07 |

| |
|---|
| Euro exchange rates used for calculation of the selected financial data:<br>- arithmetical average of NBP average exchange rates as of the end of each month for the period 01.01.2006 to 31.03.2006 – 3.8456;<br>- arithmetical average of NBP average exchange rates as of the end of each month for the period 01.01.2005 to 31.03.2005 – 4.0153;<br>The balance sheet items were presented based on NBP average exchange rates as of the end of the period:<br>- 31.03.2006: 3.9357;<br>- 31.03.2005: 4.0837. |

This report should be presented to the Polish Securities and Exchange Commission, the Warsaw Stock Exchange and press agency pursuant to the law.

**REPORT INCLUDES:**

| File | Description |
|---|---|
| QSr_1_2006.pdf | Consolidated financial statement for the first three months of 2006 |

| **SIGNATURES** | | | |
|---|---|---|---|
| Date | Name and surname | Position | Signature |
| 2006-05-15 | Rafał Chwast | Vice-president of the Management Board | |
| 2006-05-15 | Paweł Prokop | Vice-president of the Management Board | |

# ComArch Capital Group
# Consolidated Financial Statement
# for the period from 1 January 2006 to 31 March 2006

**Statement in accordance with the International Financial Reporting Standards**

# I. Consolidated Balance Sheet

| | Note | At 31 March 2006 | At 31 December 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 94,563 | 90,848 |
| Goodwill | | 3,284 | 3,284 |
| Intangible assets | | 35,317 | 35,024 |
| Long-term accruals | | 8,106 | 6,885 |
| Investments in associates | 3.2 | 7,388 | 9,444 |
| Other investments | | 107 | 121 |
| Deferred income tax assets | 3.13 | 5,994 | 7,272 |
| Other receivables | | 92 | 138 |
| | | **154,851** | **153,016** |
| **Current assets** | | | |
| Inventories | 3.3 | 24,086 | 26,115 |
| Trade and other receivables | 3.6 | 87,957 | 93,891 |
| Current income tax receivables | | - | - |
| Long-term contracts receivables | 3.9 | 28,237 | 23,794 |
| Available-for-sale financial assets | 3.4 | 3,034 | - |
| Other financial assets at fair value – derivative financial instruments | 3.5 | - | 225 |
| Cash and cash equivalents | | 32,919 | 48,967 |
| | | **176,233** | **192,992** |
| **TOTAL ASSETS** | | **331,084** | **346,008** |
| **EQUITY** | | | |
| **Capital and reserves attributable to the company's equity holders** | | | |
| Share capital | 3.7 | 7,519 | 6,955 |
| Other capitals | | 167,458 | 128,731 |
| Exchange differences | | (317) | (663) |
| Net profit for the current period | | 15,395 | 27,371 |
| Retained earnings | | 11,328 | (16,056) |
| | | **201,383** | **146,338** |
| Minority interest | | 14,672 | 14,464 |
| **Total equity** | | **216,055** | **160,802** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Credit and loans | 3.10 | 16,500 | 17,300 |
| Deferred income tax liabilities | | 5,668 | 5,649 |
| Convertible bonds liabilities | 3.11 | - | 39,849 |
| Provisions for other liabilities and charges | | 24 | 38 |
| | | **22,192** | **62,836** |
| **Current liabilities** | | | |
| Trade and other payables | 3.8 | 71,592 | 102,174 |
| Invoiced income related to long-term contracts | 3.9 | 10,995 | 12,608 |
| Convertible bonds liabilities | 3.11 | 3,040 | 1,097 |
| Credit and loans | 3.10 | 2,745 | 2,880 |
| Derivative financial instruments | | 282 | - |
| Provisions for other liabilities and charges | | 4,183 | 3,611 |
| | | **92,837** | **122,370** |
| **Total liabilities** | | **115,029** | **185,206** |
| **TOTAL EQUITY AND LIABILITIES** | | **331,084** | **346,008** |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

# II. Consolidated Income Statement

| | Note | 3 months ended 31 March 2006 | 3 months ended 31 March 2005 |
|---|---|---|---|
| **Revenue** | | **96,454** | **74,021** |
| Cost of sales | | (66,918) | (59,148) |
| **Gross profit** | | **29,536** | **14,873** |
| Other operating income | | 286 | 67 |
| Sales and marketing costs | | (9,640) | (7,292) |
| Administrative expenses | | (7,186) | (5,700) |
| Other operating expenses | | (3,470) | (417) |
| **Operating profit** | | **9,526** | **1,531** |
| Finance costs-net | | 6,918 | (576) |
| Share of profit/(loss) of associates | | 518 | 129 |
| **Profit before income tax** | | **16,962** | **1,084** |
| Income tax expense | | (1,359) | 30 |
| Net profit for the period | | 15,603 | 1,054 |
| **Attributable to:** | | | |
| **Equity holders of the company** | | **15,395** | **1,259** |
| Minority interest | | 208 | (205) |
| | | 15,603 | 1,054 |
| **Earnings per share for profit attributable to the equity holders of the company during the period (expressed in PLN per share)** | | | |
| – basic | 3.14 | 2.05 | 0.18 |
| – diluted | 3.14 | 2.05 | 0.18 |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

# III. Consolidated Statement of Changes in Equity

| | Attributable to equity holders | | | | Minority interest | Total equity |
|---|---|---|---|---|---|---|
| | Share capital | Other capitals | Exchange differences | Retained earnings | | |
| **Balance at 1 January 2005** | 6,852 | 118,650 | (52) | (7,028) | 14,013 | 132,435 |
| Increase in capital | 103 | - | - | - | - | 103 |
| Capital from valuation of the managerial option | - | 1,682 | - | - | - | 1,682 |
| Currency translation differences | - | - | (611) | - | - | (611) |
| 2004 profit-sharing | - | 8,399 | - | (8,399) | - | - |
| Increase (up to 100 %) in ComArch's shares in ComArch, Inc. | - | - | - | (629) | 629 | - |
| Profit for the period | - | - | - | 27,371 | (178) | 27,193 |
| **Balance at 31 December 2005** | **6,955** | **128,731** | **(663)** | **11,315** | **14,464** | **160,802** |
| **Balance at 1 January 2006** | 6,955 | 128,731 | (663) | 11,315 | 14,464 | 160,802 |
| Increase in capital* | 564 | - | - | - | - | 564 |
| Increase in capital due to the conversion of convertible bonds | - | 38,727 | - | - | - | 38,727 |
| Correction of profit for previous years- subsidiaries | - | - | - | 13 | - | 13 |
| Currency differences | - | - | 346 | - | - | 346 |
| Profit for the period | - | - | - | 15,395 | 208 | 15,603 |
| **Balance at 31 March 2006** | **7,519** | **167,458** | **(317)** | **26,723** | **14,672** | **216,055** |

*) Conditional increase in capital due to conversion of convertible bonds into shares in the first quarter of 2006. As at the date of the report's preparation, there was no registration of this fact in court.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

# IV. Consolidated Cash Flow Statement

| | 3 months ended 31 March 2006 | 3 months ended 31 March 2005 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net profit | 15,603 | 1,054 |
| Total adjustments | (31,863) | (12,103) |
| Share in net (gains) losses of related parties valued using the equity method of accounting | (518) | (129) |
| Depreciation | 3,103 | 2,576 |
| Exchange gains (losses) | (56) | 265 |
| Interest and profit-sharing (dividends) | - | - |
| (Profit) loss on investing activities | (7,151) | 118 |
| Change in inventories | 1,976 | 880 |
| Change in receivables | (3,943) | 3,153 |
| Change in liabilities and provisions excluding credits and loans | (25,274) | (18,966) |
| Net profit less total adjustments | (16,260) | (11,049) |
| Income tax paid | (1,482) | - |
| **Net cash used in operating activities** | **(17,742)** | **(11,049)** |
| **Cash flows from investing activities** | | |
| Acquisition of associates | - | (4,250) |
| Purchases of property, plant and equipment | (4,801) | (9,571) |
| Proceeds from sale of property, plant and equipment | 86 | 31 |
| Purchases of intangible assets | - | (726) |
| Purchases of available-for-sale financial assets | (3,092) | (500) |
| Proceeds from sales of available-for-sale financial assets | 9,800 | 2,400 |
| **Net cash used in investing activities** | **1,993** | **(12,616)** |
| **Cash flows from financing activities** | | |
| Proceeds from equity issue | - | - |
| Proceeds from credits and loans | 327 | 7,662 |
| Repayments of credits and loans | (786) | (329) |
| Redemption of bonds | - | - |
| Bond interest | - | - |
| Other expenses | - | - |
| Other financial proceeds | - | - |
| **Net cash (used in)/generated from financing activities** | **(459)** | **7,333** |
| **Net change in cash, cash equivalents and bank overdrafts** | **(16,208)** | **(16,332)** |
| Cash, cash equivalents and bank overdrafts at beginning of the period | 48,968 | 28,745 |
| Positive (negative) exchange differences in cash and bank overdrafts | 159 | 28 |
| **Cash, cash equivalents and bank overdrafts at end of the period** | **32,919** | **12,385** |

# V. Supplementary Information

## 1. Information about Group Structure and Activities

The basic activities of the ComArch Group (the "Group"), in which ComArch S.A. with its registered seat in Krakow at Al. Jana Pawła II 39 A is the dominant unit, include production, trade and services in the fields of IT and telecommunications, PKD 72.20. The registration court for ComArch S.A. is the District Court for Krakow Śródmieście in Krakow, XI Economic Division of the National Court Register. The company's KRS number is 0000057567. ComArch S.A. holds the dominant share in the Group regarding realised revenues, value of assets and number and volume of executed contracts. ComArch S.A. shares are admitted to public trading on the Warsaw Stock Exchange. The duration of the dominant unit is not limited.
On 31 March 2006, the following entities formed the ComArch Group (in parentheses, the share of votes held by ComArch S.A.):

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

**) MKS Cracovia SSA is ComArch S.A.'s subsidiary according to IAS 27 pt 13.

The dominant unit's associates are:

- INTERIA.PL S.A. with its registered seat in Krakow (48.48 %),
- NetBrokers Sp. z o.o. with its registered seat in Krakow (40.00 %).

The structure of activities of the ComArch Group is as follows: the dominant entity acquires the majority of contracts and in large part executes them. ComArch Inc., ComArch Software AG, ComArch Middle East FZ-LCC, ComArch Sp. z o.o. (Ukraine), ComArch Panama, Inc., OOO ComArch, UAB ComArch acquire contracts in foreign markets and execute them in their entirety or in part. ComArch s.r.o. produces software on order for the ComArch Group. Interia.pl is a web portal that provides information, communication and search services to web communities. ComArch Services S.A. specialises in data communications relating to the provision of connections for the own needs of the ComArch Group and for contracts executed by ComArch, as well as the provision of outsourcing services. NetBrokers Sp. z o.o. operates in the e-commerce sector, offering its customers a virtual commodities market and an information platform functioning on the internet. MKS Cracovia SSA is a sport joint stock company.

## 2. Description of the Applied Accounting Policies

This consolidated financial statement for the 3 months ended 31 March 2006 was prepared pursuant to the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and interpretations published by the Committee for Interpretation of International Financial Reporting, as approved by the European Union.

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

Preparation of the statement pursuant to IFRS requires a number of estimates to be done and the application of individual judgement. Note 2.3.2 presents those 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 the continuation of commercial activities by the ComArch Group in the foreseeable future. According to company management, there are no circumstances suggesting any threat to the continuation of activities.

The ComArch Group prepares its income statement in the calculation version, whereas the cash flow statement is prepared according to the indirect method.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

The consolidated financial statement of the ComArch Group for the 3 months ended 31 March 2006 comprises the financial statements of the following companies:

| | Relationship | Consolidation method | % interest held by ComArch S.A. in subsidiary's share capital |
|---|---|---|---|
| ComArch S.A. | dominant unit | full | |
| ComArch Software AG | subsidiary | full | 100.00 % |
| ComArch Global, Inc. | subsidiary | full | 100.00 % |
| ComArch Middle East FZ-LCC | subsidiary | full | 100.00 % |
| ComArch Sp. z o.o. (Ukraine) | subsidiary | full | 100.00 % |
| ComArch s.r.o. | subsidiary | full | 100.00 % |
| ComArch Panama, Inc. | subsidiary | full | 100.00 % |
| OOO ComArch | subsidiary | full | 100.00 % |
| UAB ComArch | subsidiary | full | 100.00 % |
| ComArch Services S.A. | subsidiary | full | 99.90 % |
| MKS Cracovia SSA | subsidiary | full | 49.15 % |

## 2.1 Methods of Valuation of Assets and Liabilities and the Determination of Financial Results

### 2.1.1. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Group has chosen to report using business segment as a basic segment. The basic segments are IT and sport.

### 2.1.2. Consolidation

**a) Subsidiaries**

Subsidiaries are all entities (including special purpose entities), over which Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired this difference is recognised directly in the income statement.

Transactions, settlements and unrealised gains on transactions among the Group's entities are eliminated. Unrealised losses are also eliminated, unless the transactions provide evidence for a loss in the value of a provided asset. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**b) Associates**

Associates are all entities over which the Group has significant influence but not control; this generally accompanies a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised as costs. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of the post-acquisition profits or losses of its associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.1.3. Foreign Currency Translation

**a) Functional and Presentation Currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Polish zlotys (PLN), which is the company's functional and presentation currency.

**b) Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of their fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale assets, are included in the available-for-sale reserve in equity.

**c) Group Companies**

The results and financial position of all group entities (none of which operates in a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
(i) assets and liabilities for each balance sheet presented are translated at the closing rate of the date of the balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expense are translated at the dates of the transactions); and
(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of credits and loans and other currency instruments designated as hedges of such investments, are included in shareholder equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.1.4. Investments

**a) Financial Assets and Liabilities at Fair Value through Profit or Loss**

This category comprises two subcategories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of sale in the short term or if so designated by management. Derivatives are also classified as held for trading unless they are designated as hedges. This type of derivative is classified separately in 'Derivative financial instruments' in the balance sheet. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months from the balance sheet.

**b) Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. These arise when the Group gives cash, goods or services directly to the debtor, without the intention of introducing its receivables into trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

**c) Held-to-Maturity Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

**d) Available-for-Sale Financial Assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are no longer recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets available-for-sale and financial assets carried at fair value, through profit or loss are initially recognised at fair value. Loans, receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Unrealised gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other (losses)/gains – net, in the period in which they arise. Unrealised gains or losses arising from changes in the fair value of the non monetary securities classified as 'available-for-sale' are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (or if a security is unlisted), the Group establishes fair value by using valuation techniques. These comprise the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis and models (commonly regarded as correct) of the valuation of derivative instruments based on input data from the active market.

The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance sheet date. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

### 2.1.5. Non-Current Assets

**a) Intangible Assets**

Intangible assets are recorded at their acquisition prices less the current redemption as well as possible write-offs due to permanent loss in value. The Group carries out depreciation write-offs using the straight-line method. The following depreciation rates have been adopted:

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

Adopted depreciation rates are related to the estimated useful life of intangible assets. In the case of intangible assets that were acquired for a particular project, the depreciation period is established as the duration of the project. The right of perpetual usufruct of land relating to SSA Cracovia is classified as an intangible asset with an undefined useful life, therefore it is not depreciated. Lands that MKS Cracovia SSA holds in perpetual usufruct are not depreciated, because of an undefined useful life, since the company expects that the perpetual usufruct rights will be renewed without any major costs, as it is not obliged to meet any conditions, upon which the extension of these rights depends.

In Poland, perpetual usufruct is considered synonymous to ownership, as opposed to a lease after which a user releases land. The company does not expect to incur any major costs for the renewal of perpetual usufruct rights as the co-owner of MKS Cracovia SSA is the City of Krakow. The city supports sports activities, including those of SSA Cracovia through initiatives that include:

- refinancing sports infrastructure
- redeeming real estate taxes
- providing fees for perpetual usufruct

**b) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill recognised separately is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carriage of an amount of goodwill relating to the entity sold.
Goodwill is allocated to cash-generating units for the purpose of impairment testing.

**c) Property, Plant and Equipment**

**Non-Current Assets**
Non-current assets were valuated according to acquisition prices or production costs less current redemption and possible write-offs due to losses in value. The adopted depreciation rates correspond to the economic utility of non-current assets. The following detailed principles of depreciation of non-current assets have been adopted by the company: assets are depreciated with the straight-line method with application of depreciation rates corresponding with periods of their economic utility. In most cases, depreciation rates are: 2.5 % (for group number I), 30 % (for group number IV) and 20 % (for groups number VII and VIII). In case of non-current assets acquired in order to be used in a specific project, the depreciation period is set as equal to the project duration.

**Non-Current Assets under Construction**
Fixed assets under construction are valuated according to the acquisition price less any possible write-offs due to permanent loss in value. The company applies the rule that interests on investment credit, in the period when the investment is realised, are recognised as non-current assets under construction. Interests on investment credit decrease the annual result within finance costs, after non-current asset, financed by credit, was brought to use.

**Improvements in Third Party Non-Current Assets**
Improvements in third party non-current assets are valuated according to the acquisition price less any current redemptions and possible write-offs due to loss in value.

**d) Leases**

The Group uses leased vehicles. As, according to the agreements made, practically all risks and benefits resulting from the title of ownership of the subject matter leased have been transferred, these are classified as finance leases. They have been classified as assets and liabilities in the amounts equal to the minimum leasing fees set forth as at the date of lease initiation. Leasing fees are divided into liabilities (reductions of the unpaid balance of liabilities) and finance charges. The interest part of finance costs is charged to the income statement throughout the lease term so as to obtain a constant periodic interest rate on the remaining balance of the liability for each period. The means used on lease principles are subject to depreciation within a shorter period of time of either the asset's useful life or the lease term.

**e) Long-Term Accruals**

Long-term accruals refer to the perpetual usufruct rights for land used by the ComArch S.A. dominant unit. It has a defined useful life, therefore it is depreciated. The depreciation period is 85 years, which means that it is calculated at a rate of 1.2 %.

**f) Impairment of Assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the amount carried may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less sales costs and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 2.1.6. Current Assets

**a) Inventories, Products in Progress and Finished Goods**

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

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

The register of materials and finished goods is managed at current purchase prices. Expenses are appraised according to the FIFO principle. Finished goods are appraised according to actual purchase prices, no higher than net selling prices.

**b) Receivables**

Receivables are recognised initially at fair value and subsequently according to adjusted acquisition prices (at amortised cost). Receivables are recognised as current or non-current receivables depending on maturity (depending on whether this is less than or over 12 months from the balance sheet date).
In order to make their value real, receivables are decreased by write-offs revaluating bad debts. Write-offs due to loss in value correspond with the difference between balance sheet value and the current value of actual cash flows from the given item of assets. Due to the specific nature of activities (limited scope of receivables from mass contractors), appropriate updating of write-offs is carried out by way of a detailed identification of receivables and an assessment of risk of the inflow of funds resulting from contractual and business conditions.

**c) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, cash at banks and liquid current securities.

**d) Settlement of Long-Term Contracts**

Costs related to long-term contracts are given when they occur. The result in contracts is determined according to the progress of work if a reliable determination of such is possible. The progress of work is measured based on the value of costs incurred by the balance sheet date divided by the total estimated costs due to contracts, expressed as a percentage. If it is probable that the total costs due to an agreement exceed total revenues, the anticipated loss is recognised immediately.

In assets, the Group presents 'Long-term contracts receivables' for cases where there is a surplus in incurred costs and recognised profits due to long-term contracts over the value of invoiced sales for contractors. Otherwise, when there is a surplus of the invoiced sales to contractors over the value of incurred costs and recognised profits due to long-term contracts, the Group presents an item in the liabilities called 'Long-term contracts liabilities'. The above surpluses are determined for each contract separately and are presented separately without balancing particular items.

### 2.1.7. Equity

Equity includes:

a) the share capital of the dominant unit presented at nominal value,
b) other capitals established:
   - from profit-sharing,
   - from surpluses of shares sold above their nominal value (premium share),
   - from the valuation of managerial options,
c) retained profit resulting from adjustments resulting from changes to accounting principles and from the results achieved by the Group, which were not transferred to other capitals

### 2.1.8. Employee Benefits

**a) Share-Based Plans**

The Group has a share-based reward scheme. The fair value of employee services received in exchange for every grant of options increases costs. The total amount to be spent over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.
The proceeds received when the option is exercised, i.e. proceeds from comprising shares (less transaction costs related directly to option exercising) are credited to share capital (nominal value) and the share premium is credited to supplementary capital.

### 2.1.9. Liabilities and Provisions for Liabilities

**a) Trade Liabilities and Other Liabilities**

Initially trade and other liabilities are recognised at their fair value and at the balance sheet date they are recognised at adjusted acquisition prices (depreciated cost). Liabilities, depending on maturity (up to or over 12 months from the balance sheet date) are recorded as current or non-current items.

**b) Financial Liabilities**

At the time of initial recognition, financial liabilities are valuated at fair value, increased (in case of an item of liabilities not qualified as valuated at fair value by the financial result) by transaction costs. After the initial recognition, the unit appraises financial liabilities according to depreciated costs using the effective interest method, with the exception of derivative instruments, which are valuated at fair value. Financial liabilities set as items being hedged are subject to appraisal pursuant to hedge accounting principles.

**c) Provisions for Liabilities**

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

- The Group has current legal or customary liabilities resulting from past events;
- There is a high probability that expending Group funds may be necessary to settle these liabilities, and
- Their value has been reliably assessed.

Restructuring provisions mostly comprise employee severance payments. These provisions are not recognised in reference to future operational losses. If there are a number of similar liabilities, the probability of the necessity for expending funds for settlement is assessed for the whole group of similar liabilities. The provision is recognised even if the probability of expending funds in reference to one item within the group of liabilities is small.

The provisions are appraised at the current value of costs assessed according to the best knowledge of company management. Incurring such costs is necessary in order to settle the current liability at the balance sheet date. The discount rate applied for determining current value reflects the current market assessment of the time value of money and impairments relating to a given liability.

### 2.1.10 Deferred Income Tax

The general principle, pursuant to IAS12, is applied. It states that due to temporary differences between the presented value of assets and liabilities as well as their tax value and tax loss it will possible to deduct in the future, a provision is established and deferred income tax assets are defined.
Deferred income tax assets are defined in the amount that it is anticipated will have to be deducted from income tax in the future in reference to negative temporary differences which shall result in the future in reducing the amount of the basis of taxation and the deductible tax loss defined using the precautionary principle.
Deferred income tax liabilities are established in the amount of income tax payable in the future in reference to positive temporary differences, which would result in increasing the basis of taxation in the future.
Deferred income tax is established using fiscal rates (and regulations) which are legally binding at the balance sheet date, which according to expectations shall be in force at the moment of realisation of relevant deferred income tax assets or settlement of deferred income tax liability.

The difference between deferred income tax liabilities and deferred income tax assets at the end and at the beginning of the reporting period affects the financial results. In addition, liabilities and assets due to deferred income tax related to operations settled with equity are referred into shareholders' equity.

## 2.2 Recognition of Revenues and Costs

The ComArch Group's operations mostly consist of producing software for multiple sales and implementing IT integration contracts. As part of its integration contracts, ComArch offers the implementation of IT turnkey systems consisting of (own and third party) software and/or computer hardware and/or services such as:

- implementation services,
- installation services,
- guarantee and post-guarantee services,
- technical assistance services,
- software customisation services,
- other IT and non-IT services necessary for system implementation.

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

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

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

- the agreements are executed at the same time or sequentially one after another and the precise separation of the costs of their execution is impossible, or
- the agreements are so closely inter-related that they are actually parts of a single project and share a single profit margin for the entire project.

Revenues from other services (e.g. technical services, technical assistance) are recognised equally during the term of an agreement/service provision. Revenues from hardware sales and the sale of other finished goods are recognised in accordance with agreed delivery terms.

Revenues from sales of other services, products, finished goods and property items comprise sums of fair values from due invoiced revenues taking into account discounts and rebates without commodity and services taxes.

Sales costs include marketing costs and the costs of order acquisition by sales centres (departments) in the ComArch Group.

General costs consist of the costs of the ComArch Group functioning as a whole and include administrative expenses and the costs of departments that operate for the general needs of the Group. Exchange rate differences related to receivables are presented in 'Revenues from sales' and those related to liabilities are presented in 'Cost of sales.'

Subsidies
The Groups receives subsidies for the financing of R&D projects within the framework of European Union aid programmes. These subsidies are systematically recognised as revenue in particular periods so as to ensure that they are adequate to incurred costs, which should be compensated by subsidies respectively to the reason of their settlement. These subsidies diminish the respective direct costs, which are presented in the cost of sales just after they are compensated with subsidies.

**a) Other Operational Revenues and Costs**

Other operational revenues and costs comprise revenues and costs not directly related to the regular activities of the units and mostly include: the result of the sale of property, plant and equipment and intangibles, subsidies, established provisions and the consequences of asset revaluation.

**b) Financial Revenues and Costs**

Financial revenues and costs mostly include: revenues and costs due to interest, those from the result achieved due to exchange rate differences in financial activities, those from disposal of financial assets and those arising as the consequences of the investment revaluation.

## 2.3 Financial Risk Management

The company's activities expose it to a variety of financial risks:

1. The risk of contractor insolvency. The company establishes the financial credibility of potential clients before signing contracts for the supply of IT systems and adjusts the conditions of each contract to the potential risk depending on its assessment of the financial standing of the client;

2. Interest rate risk. The company is exposed to the risk of changes in interest rates related to long-term investment credits to finance the construction of new production buildings in the Special Economic Zone in Krakow. These are

credits at variable interest rates based on the WIBOR index. The company has not been hedging this interest rate risk;

3. Foreign exchange risk. The company is exposed to foreign exchange risk in relation to export sales and sales denominated in foreign currencies. At the same time, part of the company's costs is also expressed in or related to exchange rates for foreign currencies. In individual cases, the company hedges future payments with forward contracts and currency options.

#### 2.3.1. Accounting for Derivative Financial Instruments and Hedging Activities

Derivative financial instruments designated as 'hedging instruments' according to IAS 39, qualified as fair value hedging, are recognised at fair value and changes in their valuation refer to the results of financial operations.

Derivative financial instruments designated as 'hedging instruments' according to IAS 39, qualified as cash flow hedging are recognised at fair value and change to their valuation refers to:
a) capital from the revaluation of prices (in the part constituting effective hedging),
b) the results of financial operations (in the part not constituting effective hedging).

Derivative financial instruments designated as 'non-hedging instruments' according to IAS 39 are valuated at fair value and changes in their valuation refers to the results of financial operations.

#### 2.3.2. Critical Accounting Estimates and Judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including anticipations of future events that are believed to be reasonable under given circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

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

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

b) Estimations related to the determination and recognition of deferred income tax assets, pursuant to IAS 12,

As the company operates in the Special Economic Zone and enjoys investment allowances as a result, the company determines the value of deferred income tax assets on the basis of forecasts relating to the shape of the tax-exempt income and the period, in which such income may be noted. Due to high business fluctuations in the IT industry (in which the company is active) it is possible that the actual results and tax-exempt income may differ from the company's anticipations.

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

At the balance sheet date, the Group is the plaintiff and the defendant in a number of court proceedings. Preparing the financial statement, the Group always assesses the opportunities and risks related to court proceedings and, in accordance with the results of such analyses, establishes provisions for potential losses. However, there is always a risk that the courts will pronounce verdicts different from the expectations of the company and the established provisions will be insufficient or excessive in comparison with the actual results of the proceedings.

### 2.4 Interim Measurement Note

The IT industry is subject to seasonal fluctuations, with peak demand in the fourth quarter of each year. The costs, which are incurred unevenly during the fiscal year of the economic unit are anticipated or transferred into settlements over time at the mid-year date if and only if their anticipation or transfer into settlement over time is also appropriate at the end of the fiscal year.

Current income tax is calculated on a monthly basis, based on current financial details, in accordance with regulations applicable in the country of the head office of the Capital Group.

### 2.5 New Standards and IFRIC Interpretations

In the opinion of Group's Management certain new accounting standards that are mandatory for accounting periods beginning on or after 1 January 2006, IFRS 6 („Exploration for and Evaluation of Mineral Resources"), IFRIC 5 („Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds") will not have any significant impact on the financial statement and financial situation of the Group.

The interpretation of IFRIC 4 („Determining whether an Arrangement Contains a Lease") is applied to annual periods beginning from 2006. It is not expected to have any impact on the Group's financial statement nor its financial situation.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

# 3. Notes to the Consolidated Financial Statement

In the financial statement the presented data as at the 31 December 2005 differ from analogical data presented in the report for four quarters of 2005. This is an effect of an audit and consequent changes in the dominant unit's as well as subsidiaries' and associates' reports.

## 3.1 Segment Information for the 3 Months Ended 31 March 2006

The Group has chosen to report using business segment as base segment. The operations of ComArch's subsidiary units comprise the following types of activities: the sale of IT systems (hereinafter referred to as the "IT segment") and professional sports (hereinafter referred to as the "sport segment"; MKS Cracovia SSA). The IT segment has a dominant share in sales revenues, profits and assets.

The detailed data are presented below:

**3 months ended 31 March 2005**

| Item | IT Segment | Sport Segment | Eliminations | TOTAL |
|---|---|---|---|---|
| Revenues per segment- sales to external clients | 73,039 | 1,694 | - | 74,733 |
| Revenues per segment- sales to other segments | - | 1,406 | (1,406) | - |
| Revenues per segment - total* | 73,039 | 3,100 | (1,406) | 74,733 |
| Costs per segment relating to sales to external clients | 71,881 | 1,927 | - | 73,808 |
| Costs per segment relating to sales to other segments | - | 1,406 | (1,406) | - |
| Costs per segment - total* | 71,881 | 3,333 | (1,406) | 73,808 |
| Share of segment in the result of parties valuated using the equity method of accounting | 129 | - | - | 129 |
| Net result | 1,287 | (233) | - | 1,054 |
| including: | | | | |
| result attributable to shareholders of the dominant unit | 374 | (115) | - | 1,259 |
| result attributable to minority interest | (87) | (118) | - | (205) |

*) items comprise revenues and costs of all types, which can be directly allocated to particular segments.

**3 months ended 31 March 2006**

| Item | IT Segment | Sport Segment | Eliminations | TOTAL |
|---|---|---|---|---|
| Revenues per segment- sales to external clients | 94,292 | 2,162 | - | 96,454 |
| Including: | | | | |
| Revenues from sales | 94,292 | 2,162 | - | 96,454 |
| Other revenues /operational/ | 256 | 30 | - | 286 |
| Revenues per segment - sales to other segments | - | 1,568 | (1,568) | - |
| Revenues per segment - total* | 94,548 | 3,760 | (1,568) | 96,740 |
| Costs per segment relating to sales to external clients | 78,514 | 1,782 | - | 80,296 |
| Costs per segment relating to sales to other segments | - | 1,568 | (1,568) | - |
| Costs per segment - total* | 78,514 | 3,350 | (1,568) | 80,296 |
| Current taxes | (61) | - | - | (61) |
| Assets for the tax due to investment allowances and other tax relief | (1,298) | - | - | (1,298) |
| Share of segment in the result of parties valuated using the equity method of accounting | 518 | - | - | 518 |
| Net result | 15,193 | 410 | - | 15,603 |
| including: | 15,193 | 202 | - | 15,395 |
| result attributable to shareholders of the dominant unit | - | 208 | - | 208 |
| result attributable to minority interest | 15,193 | 202 | - | 15,395 |

*) items comprise revenues and costs of all types, which can be directly allocated to particular segments.

Sales between specific segments are calculated based on market conditions.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

**Share of business segments in assets and liabilities and investment expenditures**

The following table presents the assets and liabilities of particular segments as well as investment expenditures and depreciation as at 31 March 2005 and 31 March 2006:

**3 months ended 31 March 2005**

| | IT Segment | Sport Segment | Total |
|---|---|---|---|
| Assets | 218,376 | 37,496 | 255,872 |
| Associates | 8,272 | - | 8,272 |
| **Total assets** | **226,648** | **37,496** | **264,144** |

| | IT Segment | Sport Segment | Total |
|---|---|---|---|
| Liabilities | 121,795 | 8,755 | 130,550 |
| Investment expenditures | 15,047 | - | 15,047 |
| Depreciation | 2,476 | 100 | 2,576 |

**3 months ended 31 March 2006**

| | IT Segment | Sport Segment | Total |
|---|---|---|---|
| Assets | 285,686 | 38,010 | 323,696 |
| Associates | 7,388 | - | 7,388 |
| **Total assets** | **293,074** | **38,010** | **331,084** |

| | IT Segment | Sport Segment | Total |
|---|---|---|---|
| Liabilities | 113,149 | 1,880 | 115,029 |
| Investment expenditures | 7,774 | 119 | 7,893 |
| Depreciation | 2,839 | 264 | 3,103 |

Due to the geographical distribution of its activities, the ComArch Group has defined the following market segments: Poland, Europe, the Americas, and other countries. The 'Sport' segment operates solely within the territory of Poland. Due to the fact that only the IT segment operates abroad and at the same time the costs incurred in the IT segment are largely common for export and domestic sales, defining separate results for export and domestic activities is futile. Sales between specific segments are calculated based on market conditions.
The following table presents the allocation of revenues from sales, assets and total investment expenditures into geographical segments:

**Revenues from basic sales by market location**

| | 3 months ended 31 March 2006 | 3 months ended 31 March 2005 |
|---|---|---|
| Poland | 69,891 | 60,206 |
| Europe | 16,477 | 10,619 |
| The Americas | 9,678 | 1,960 |
| Others | 408 | 1,236 |
| **TOTAL** | **96,454** | **74,021** |

**Assets – activities location**

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| Poland | 303,506 | 322,384 |
| Europe | 7,896 | 7,375 |
| The Americas | 9,407 | 3,844 |
| Others | 2,887 | 2,961 |
| Associates | 7,388 | 9,444 |
| **TOTAL** | **331,084** | **346,008** |

**Investments expenditures - activities location**

| | 3 months ended 31 March 2006 | 3 months ended 31 March 2005 | 2005 |
|---|---|---|---|
| Poland | 7,005 | 14,922 | 40,786 |
| Europe | 603 | 68 | 310 |
| The Americas | 284 | 55 | 375 |
| Others | 1 | 2 | 7 |
| **TOTAL** | **7,893** | **15,047** | **41,478** |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

## 3.2 Investment in Associates

Investment in associates refers to share in Interia.pl S.A and NetBrokers Sp. z o.o. valuated using the equity method of accounting.

| | |
|---|---|
| **At 1 January 2005** | **4,075** |
| Increase in net assets due to the acquisition of INTERIA.PL S.A. shares | 1,928 |
| Share in profit for the first the year of 2005 | 1,119 |
| Other equity changes – determination of goodwill due to coming into the possession new INTERIA.PL S.A. shares | 2,322 |
| **At 31 December 2005** | **9,444** |
| **At 1 January 2006** | **9,444** |
| Share in profit for the first quarter of 2006 | 518 |
| Other changes related to disposing of INTERIA.PL S.A. shares | (2,574) |
| **At 31 March 2006** | **7,388** |
| including: | |
| INTERIA.PL S.A. | 5,642 |
| NetBrokers Sp. z o.o. | 1,746 |

| | Country of incorporation | Assets | Liabilities | % shares held |
|---|---|---|---|---|
| **At 31 December 2005** | | | | |
| INTERIA.PL S.A. | Poland | 19,095 | 5,754 | 41.05 |
| NetBrokers Sp. z o.o. | Poland | 4,851 | 1,371 | 40.00 |
| | | 23,946 | 7,125 | |
| **At 31 March 2006** | | | | |
| INTERIA.PL S.A. | Poland | 19,716 | 5,214 | 36.08 |
| NetBrokers Sp. Z o.o. | Poland | 5,658 | 1,930 | 40.00 |
| | | 25,374 | 7,144 | |

| | Country of incorporation | Revenues | Profit /(Loss) | % shares held |
|---|---|---|---|---|
| **3 months ended 31 March 2005** | | | | |
| INTERIA.PL S.A. | Poland | 6,939 | 110 | 41.05 |
| NetBrokers Sp. z o.o. | Poland | 9,209 | 209 | 40.00 |
| | | 16,148 | 319 | |
| **3 months ended 31 March 2006** | | | | |
| INTERIA.PL S.A. | Poland | 11,048 | 1,161 | 36.08 |
| NetBrokers Sp. z o.o. | Poland | 8,654 | 248 | 40.00 |
| | | 19,702 | 1,409 | |

As at 31 March 2006 the fair value of INTERIA.PL shares held by ComArch S.A. based on average stock exchange prices from the three months preceding the date of the preparation of this statement is 67.93 million PLN. On 31 March 2006, the closing price of INTERIA.PL shares was 30.3 PLN. On this day, the value of INTERIA.PL S.A. shares held by ComArch S.A. was 76.91 million PLN.
On 19 January 2006, as a result of disposal of 350,000 INTERIA.PL shares by ComArch S.A., ComArch S.A. holds 2,538,369 shares of INTERIA.PL S.A., which constitute 36.08 % of company's share capital. These shares give ComArch S.A. 11,609,625 votes at the General Meeting, which constitutes 48.48 % of the total number of votes.

## 3.3 Inventories

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| Raw materials | 1,296 | 777 |
| Work in progress | 13,148 | 13,121 |
| Finished goods | 9,574 | 11,787 |
| Advance due to finished goods | 68 | 430 |
| | **24,086** | **26,115** |

The cost of inventories included in 'cost of sales' amounted to 58.7 million PLN (3 months ended 31 March 2006) and

*All amounts are expressed in thousands of PLN unless otherwise indicated*

47.53 million PLN (3 months ended 31 March 2005) and 311.59 million PLN (2005).
The Group reversed a write-off worth 0.007 million PLN that revaluated inventories and was performed in 2006. The write-off was classified as an item in 'Other operating costs'. In the first quarter there were no reasons to perform write-offs revaluating the value of finished goods. No hedging was performed in inventories owned by the company.
On the basis of the current trend in reference to the settlement of production in progress, the Group estimates that after 12 months from the balance sheet date approximately 3.9 million PLN shall remain unsettled. Other inventories will be settled in their entirety within 12 months.

## 3.4 Available-For-Sale Financial Assets

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| **At the beginning of the year** | **0** | **2,000** |
| additions- first quarter | 3,034 | - |
| disposal- first quarter | - | - |
| **At 31 March** | **3,034** | **-** |
| additions-year | - | 1,507 |
| disposal-year | - | 3,507 |
| **At 31 December 2005** | **-** | **-** |
| *Current portion* | 3,034 | - |

In the periods related to this statement, no write-offs due to loss in value of available-for-sale financial assets were performed.

Available-for-sale financial assets comprise:

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| Shares in trust funds | 3,034 | - |
| | **3,034** | **-** |

## 3.5 Derivative Financial Instruments

| | 31 March 2006 | | 31 December 2005 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Forward foreign exchange contracts– held-for-trading | - | 254 | 227 | 2 |
| Currency options – held-for-trading | - | 28 | - | - |
| **TOTAL** | **-** | **282** | **227** | **2** |
| *Current portion* | - | 282 | 227 | 2 |

Derivative financial instruments are classified in the financial statement as a liability of 282,000 PLN. Profits and losses due to the valuation of forward contracts and currency options as at 31 March 2006 are recognised in income statements. They will be exercised within the period of 10 months from balance sheet date.
The Group uses forward contracts and currency options to reduce the effect of changes in cash flows on financial result, where cash flows are related to planned transactions and changes are the result of foreign exchange risk. As at 31 March 2006, the above-mentioned instruments were valuated at fair value according to the estimations method of valuation of financial instruments, that are generally recognised as correct methods and changes in valuation were referred into the results of financial operations. As at 31 March 2006, the total value of forward contracts was 2,520,000 EURO and the total value of current options was 1,020,000 USD.

## 3.6 Trade and Other Receivables

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| Trade receivables | 84,039 | 88,906 |
| Less provision for impairment of receivables | (4,075) | (2,720) |
| Trade receivables - net | 79,964 | 86,186 |
| Other receivables | 2,806 | 3,080 |
| Short-term accruals | 4,888 | 2,704 |
| Accruals of revenues | - | 1,572 |
| Loans | 233 | 322 |
| Receivables from related parties | 66 | 27 |
| | **87,957** | **93,891** |
| *Current portion* | 87,957 | 93,891 |

The fair value of trade and other receivables is close to the balance sheet value presented above.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of internationally dispersed customers. The Group has recognised a write-off worth 4.075 million PLN for the impairment of its trade receivables during the three months ended 31 March 2006 (2.72 million PLN during 12 months 2005).

This write-off was recognised in the other operating costs in the income statement.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

## 3.7 Share Capital

| | Number of shares | Ordinary shares | Own shares | TOTAL |
|---|---|---|---|---|
| At 1 January 2005 | 6,852,387 | 6,852,387 | - | 6,852,387 |
| At 31 March 2005 | 6,955,095 | 6,955,095 | - | 6,955,095 |
| Series G3 share issue | 102,708 | 102,708 | - | 102,708 |
| A 31 December 2005 | 6,955,095 | 6,955,095 | - | 6,955,095 |
| Registration of series H shares in the National Depository for Securities | 563,675 | 563,675 | - | 563,675 |
| **At 31 March 2006** | **7,518,770** | **7,518,770** | - | **7,518,770** |

The nominal value of one share is 1 PLN.

The share capital of ComArch S.A. consists of:
1) 883,600 series A registered preference shares,
2) 56,400 series A ordinary bearer shares,
3) 883,600 series B registered preference shares,
4) 56,400 series B ordinary bearer shares,
5) 3,008,000 series C ordinary bearer shares,
6) 1,200,000 series D ordinary bearer shares,
7) 638,600 series E ordinary bearer shares,
8) 125,787 series G ordinary bearer shares,
9) 102,708 series G3 ordinary bearer shares,
10) 563,675 series H ordinary bearer shares.

Registered shares in series A and B are preferential and each such share corresponds with 5 votes at the General Meeting. The conversion of registered shares into bearer shares is allowed. In case of that registered shares are converted into bearer shares, they lose all preferences. In case that registered preferential shares are disposed of for the benefit of persons who were not shareholders of the company on 18 March 1998, their specific voting rights at the General Meeting expire. The written consent of the Management Board is required to dispose of registered shares. The sale of shares without the permission of the Management Board is possible on the condition that it is stated in ComArch S.A.'s statute.
Every ordinary bearer share entitles its holder to one vote at the AGM. The conversion of bearer shares into registered shares is not permitted.

### 3.7.1 Information about Shareholders Holding Directly or Indirectly by Subsidiary Entities at least 5 % of the Total Number of Votes in the General Meeting of ComArch S.A., at the Date of Preparing the Quarterly Financial Report.

Elżbieta and Janusz Filipiak held 3,239,393 shares, which gave them 10,195,393 votes at the AGM and constituted 69.89 % of all votes at the AGM.

According to information on the day of the report, customers of BZ WBK AIB Asset Management S.A. held 1,417,770 shares, which gave 1,417,770 votes at AGM and constituted 9.72 % of the total number of votes at the AGM.

### 3.7.2 Changes in Share Capital in Q1 2006

**A) Disposal and Purchase of ComArch S.A. Shares**

On 27 January 2006, ComArch S.A. received an information that a member of ComArch S.A.'s Supervisory Board sold 25,000 company's ordinary bearer shares between 20-25 January 2006 at between 66 PLN to 67.10 PLN per share. These transactions took place on the market regulated through the Warsaw Stock Exchange.

On 3 February 2006, ComArch S.A. received an information that a member of ComArch S.A.'s Supervisory Board sold 25,000 company's ordinary bearer shares 71 PLN per single share. These transactions took place on the market regulated through the Warsaw Stock Exchange.

On 7 February 2006, BZ WBK AIB Asset Management S.A., with its registered seat in Poznań, announced that as result of a share purchase completed on 6 February 2006, customers of BZ WBK AIB Asset Management S.A. became holders of over 10 % of the total number of votes at the ComArch S.A. AGM.
As a result of a share purchase completed on 6 February 2006, customers of BZ WBK AIB Asset Management S.A. held 1,417,770 company's shares, which constituted 20.38 % of the company's share capital. This gave them 1,417,770 or 10.11 % of the total number of votes at the ComArch S.A. annual general meeting. Prior to the above-mentioned share increase, clients of BZ WBK AIB Asset Management S.A. held 1,385,570 of company's shares, which amounted to 19.92 % of the company's share capital. This gave 1,385,570 or 9.88 % of the total votes at ComArch S.A.'s annual general meetings.

**B) Conversion of Convertible Series A Bonds into Ordinary Bearer Series H Shares**

Between 22 February and 24 March 2007 ComArch received statements on conversion of 3,221 ordinary convertible bonds issued by the company. The total nominal value of bonds to be converted into shares amounted to 32,210,000 PLN. For series A convertible bonds, covered by submitted conversion statements, 563,675 series H ordinary bearer shares were issued.

In relation to the fact that on 28 February 2006 the average closing price of ComArch S.A. shares on the Warsaw Stock Exchange over the past 31 quotations had been higher than the conversion price by 30.7 %, on 28 February 2006 and 7 March 2006 ComArch S.A. called for anticipated redemption of bonds by Bondholders. The company announced details in the current report no 10/2006 and 12/2006.

On 20 March 2007, the Management Board of the National Depository for Securities decided to register 543,025 ordinary bearer series H ComArch S.A. shares of nominal value of 1.00 PLN each and mark them with the code PLCOMAR00095.
Due to the fact that the Management Board of the National Depository for Securities decided to assimilate 543,025 company's shares, marked with the code PLCOMAR00095, with 5,085,187 company's shares, marked with the code PLCOMAR00012, on 31 March 2006, the Management Board of the Warsaw Stock Exchange S.A. introduced the above-mentioned shares to trading on 31 March 2006. The company announced details in the current reports no. 16/2006 and 18/2006.

On 31 March 2006, the Operations Department of the National Depository for Securities has cleared the conversion of 118 ComArch SA series A bonds to series H ordinary bearer shares. As a result, as at the balance sheet date, there are:
a) 20,650 ComArch S.A. series H ordinary shares valued at 1 PLN each, marked with the code PLCOMAR00095;
b) 293 ComArch S.A. series A convertible bonds valued at 10,000 PLN each, marked with the code PLCOMAR00079.

### 3.7.3 Managerial Option Program for Members of the Management Board and Other Key Employees

On 30 June 2005, the Annual General Meeting of Shareholders passed Resolution no. 51 on the managerial options programme for members of the Management Board and the company's Key Employees (17 persons in total). The objective of the programme is to additionally motivate members of the Management Board and Key Employees by options on ComArch shares (hereinafter referred to as the "Option") dependent on increases in the value of the company and its net profit. The program will be executed through offers of newly-issued shares in the company in 2006, 2007 and 2008 to members of the Management Board and Key Employees. The value of the Option is to be at all times equivalent to the difference between the average closing price of the company's shares as of December of each year of the execution of the programme (beginning with 2005) and the issue price of shares offered to members of the Management Board and Key Employees. The basis for the calculation of the value of the Option shall be increases in company capitalisation, calculated as follows:

- For 2006 it will be the difference between the average capitalisation of the company in December 2005 and the average capitalisation of the company in December 2004; this will be calculated using the average closing price of ComArch shares in December 2004 as 69.53 PLN;
- For 2007 it will be the difference between the average capitalisation of the company in December 2006 and its average capitalisation in December 2005;
- For 2008 it will be the difference between the average capitalisation of the company in December 2007 and its average capitalisation in December 2006, where the average capitalisation is the number of shares multiplied by the average closing price for shares of the company in December of a given year.

The Option shall be defined in each successive year of the program separately for each entitled individual as set forth in Resolution no. 51 of the AGM. The total value of the option will be 9.2 % of the increase in capitalisation in the periods set forth in Clauses a), b) and c) (for options No. 1, No. 2 and No. 3, respectively)

Pursuant to IFRS2, the company is obliged to calculate the value of the Option and classify it as a cost in the income statement in the Option period, i.e. from its issue date until its expiry date. Beginning with the third quarter of 2005, the company classifies the value of particular Options in its income statement. The company notes that despite the fact that the value of the Option decreases the net profit of the company and of the Group, this operation does not affect the value of cash flows. Moreover, the economic cost of the Option shall be classified in the income statement through its inclusion in the "diluted net profit" of newly issued shares for the participants of the programme. Despite the fact that the IFRS2 standard was officially adopted by the European Union to companies listed on the stock exchange in the preparation of consolidated statements, many experts point out its controversial nature – in their opinion, placing the cost of the Option in the income statement results in the double inclusion of the effect of the Option programme (once by result and second by dilution).

Pursuant to requirements of IFRS2, the valuation of the Option was carried out as at the date of the resolution on the option programme, i.e. as at 30 June 2005. The Monte Carlo simulation technique was used to valuate the Option. It was combined with the process of discounting non-negative financial flows related to the options calculated on the basis of the MAX () function. Apart from the assumptions resulting from the nature of the Option program described above, the following additional assumptions were adopted for the needs of the valuation:

- 4.6 % risk-free rate (the interest rate on 52-week treasury bills);
- 0 % dividend rate (the dividend rate in the period forecast as at the date of the passage of the programme);
- 17 % anticipated volatility (anticipated volatility based on historical volatility from the last 200 quotations prior to the date of the passage of the program on the basis of the average price of shares from opening and closing prices).

Initially, the determined total value of Options amounted to 6.20 million PLN including:
a) Option No. 1, i.e. the option due to increases in capitalisation in 2005: 0.04 million PLN;
b) Option No. 2, i.e. the option due to increases in capitalisation in 2006: 3.05 million PLN;
c) Option No. 3, i.e. the option due to increases in capitalisation in 2007: 3.1 million PLN.
Total value of Option is 6.2 million PLN.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

As at the date of the resolution on the option programme, value of the Option for the Management of the Board and Key Employees amounts to:
a) The value of the option for the Management Board: 78.26 %, i.e. 4.85 million PLN
b) The value of the option for Key Employees: 21.74 %, i.e. 1.35 million PLN
The value of the Option recognised in the income statement for the first quarter of 2006 amounted to 0.819 million PLN. The estimated effect of the recognition of the costs of the Option on the income statement in successive periods is as follows:
2.46 million PLN in Q2-Q4 of 2006 and 1.24 million PLN in 2007.
Pursuant to the conditions of the program, the company has determined that:
a) The average capitalisation of ComArch S.A. as of December 2004 was 476.5 million PLN
b) The average capitalisation of ComArch S.A. as of December 2005 was 441.7 million PLN
The difference between the average capitalisation in December 2005 and the average capitalisation in December 2004 is negative, which means that the basic condition of the programme has not been met. As a result, shares for members of the Management Board and Key Employees will not be issued in 2006.

### 3.7.4 After the Balance Sheet Date

**A) Conversion of Convertible Bonds into Series H Ordinary Bearer Shares and Anticipated Redemption of Bonds**

Beginning from 4 April 2006, The Management Board of the Warsaw Stock Exchange suspended trade of ComArch S.A. series A bonds and beginning from 6 April 2006, excluded them from trading. The company announced details in current report no. 20/2006.
On 6 April 2006, company made redemption of 293 series A bonds convertible to ComArch S.A. shares. This anticipated redemption was made according to pt. 8.3 of the Conditions of Bond Issue. The company announced details in current report no. 22/2006.

The Management Board of the National Depository for Securities decided to assimilate 20,650 series H company's shares (marked with the code PLCOMAR00095) with 5,730,920 company's shares (marked with the code PLCOMAR00012) on 26 April 2006. In consequence, the Management Board of Warsaw Stock Exchange introduced to trading the above mentioned company's shares beginning from 26 April 2006. The company announced details in current reports no. 25/2006 and 26/2006.

**B) Introduction of Series G3 Ordinary Bearer Shares to Trading**

The Management Board of the National Depository for Securities decided to assimilate 102,708 series G3 shares of ComArch S.A. (marked with the code PLCOMAR00103) with 5,628,212 company's shares (marked with the code PLCOMAR00012) on 12 April 2006. In consequence, the Management Board of Warsaw Stock Exchange introduced to trading the above mentioned company's shares beginning from 12 April 2006. The company announced details in current reports no. 21/2006 and 24/2006.

**C) Transformation of ComArch S.A.'s ComArch Services Sp. z o. o. (Ltd) into ComArch Services S.A. (Plc)**

ComArch S.A. received notice by Court for Kraków-Śródmieście, XI Economic Division of the National Court Register dated 28 April 2006 concerning transformation of ComArch Services Sp. z o. o. into ComArch Services S.A. ComArch Services S.A.'s share capital amounts to 1,050,000 PLN and is divided into 5,250 shares of the nominal value of 200 PLN each, giving 5,250 votes in total.

## 3.8 Trade and Other Payables

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| Trade payables | 27,645 | 63,581 |
| Financial liabilities | - | 128 |
| Advances received due to services | 3,055 | 1,839 |
| Liabilities to related parties | 54 | 42 |
| Liabilities due to social insurance and other tax charges | 10,882 | 3,626 |
| Liabilities due to income tax | 52 | 1,488 |
| Proceeds from the future periods | - | 718 |
| Investments liabilities | 2,533 | 736 |
| Subsidies received | - | 2,206 |
| Provision for leave | - | 5,406 |
| Reserve on costs relating to the current period, to be incurred in the future | 23,004 | 19,045 |
| Other payables | 2,870 | 2,279 |
| Special funds (Social Services Fund and Residential Fund) | 1,497 | 1,080 |
| **Total liabilities** | **71,592** | **102,174** |

The fair value of trade and other payables is close to the balance sheet value presented above.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

## 3.9 Long-term Contracts

| | 3 months ended 31 March 2006 |
|---|---|
| **Revenues due to long-term contracts recognised in the reporting period** | **23,031** |
| a) revenues from completed contracts recognised in the reporting period | 3,103 |
| b) revenues from contracts not completed recognised in the reporting period | 19,928 |

Due to the fact that the company applies the rule of determining the degree of work progress in proportion to the share of incurred costs in the entire costs of a contract, the sum of incurred costs and recognised results corresponds to revenues.
At the end of the reporting period, long-term contracts were valuated in accordance with the degree of work progress. Changes in settlements due to long-term contracts recognised in assets and liabilities between 31 December 2005 and 31 March 2006 amounted to 6.056 million PLN.

## 3.10 Credits and loans

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| **Non-current** | | |
| Bank credits | 16,500 | 17,000 |
| Loans | 300 | 300 |
| | 16,800 | 17,300 |
| **Current** | | |
| Bank overdraft | - | 275 |
| Loans | 585 | 581 |
| Bank credits | 1,860 | 2,024 |
| | 2,445 | 2,880 |
| **Total credit and loans** | **19,245** | **20,180** |

**Investments credits**

ComArch S.A. credit lines:

An investment credit from Fortis Bank Polska S.A. with its registered seat in Warsaw for the financing of the first construction stage of production and office buildings in the Special Economic Zone in Krakow. The crediting period may last a maximum of 10 years, i.e. until 2015. This credit has a variable interest rate. As at 31 March 2006 the value of drawn credit amounted to 18.5 million PLN (as at 31 March 2005 it amounted to 15.12 million PLN). A promissory note, the mortgage on land and the building insurance policy are security for this credit.

On 28 March 2006 an investment credit agreement with Kredyt Bank S.A. with its registered seat in Warsaw was signed. It is for the financing of the second construction stage of production and office buildings in the Special Economic Zone in Krakow. The credit amounts to 85 % of the investment value up to a maximum of 26,823,970 PLN. The crediting period may last a maximum of 16 years at a variable interest rate and should be taken out by 31 March 2007. A promissory note, the mortgage on land and the building insurance policy are security for this credit. As at 31 March 2006 there was no drawn credit.

The fair value of liabilities due to credits and loans does not differ significantly from the balance sheet value.

The exposure of the Group's bank credits to interest rate risk arises from investment credits (at variable interest rates). Due to decreasing interest rates in Poland the Group has not hedged the risk of interest rate changes. The Group optimises interest by continuously monitoring its interest rate structure and appropriately adjusting the basic interest rate of its credits.

**The exposure of the Group bank credits to interest rate changes:**

| | Amount of bank credits at 31 March 2006 | Capital to be repaid in the period | | | | |
|---|---|---|---|---|---|---|
| | | 6 months or less | 6-12 months | 1-5 years | Over 5 years | TOTAL |
| **At 31 March 2006** | | | | | | |
| Investments credits | 1,000 | 1,000 | 8,000 | 8,500 | 18,500 | **1,000** |
| Interest | -140 | - | - | - | -140 | **-140** |
| | **860** | **1,000** | **8,000** | **8,500** | **18,360** | **860** |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

**The maturity of non-current bank credits, loans and financial liabilities:**

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| Between 1 and 2 years | 2,300 | 2,300 |
| Between 2 and 5 years | 6,000 | 6,000 |
| Over 5 years | 8,500 | 9,000 |
| | **16,800** | **17,300** |

**The effective interest rates at the balance sheet date:**

| | 31 March 2006 | | | | 31 December 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | PLN | US$ | € | Others | PLN | US$ | € | Others |
| Bank credits | 5,95 % | - | - | - | 6,61 % | - | - | - |
| Loans | 2,95 % | - | - | - | 2,95 % | - | - | - |

**Currency structure of balance sheet values of credits, loans and financial liabilities:**

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| In Polish currency | 19,245 | 19,699 |
| **TOTAL** | **19,245** | **19,699** |

**Current credit lines** (available, undrawn at the balance sheet date)

| At variable interest: | 31 March 2006 | 31 December 2005 |
|---|---|---|
| – expiring within one year | 10,000 | 10,000 |
| **TOTAL** | **10,000** | **10,000** |

## 3.11 Convertible Bonds

On 12 April 2002 ComArch S.A. issued 4,000 five-year convertible bonds. The conversion price was 57.10 PLN, and every bond could have been converted into 175 shares. The issue price was set at 100.3 % and the interest on the bonds amounted to 7.5 % annually. In case of not executing conversion of the bonds 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 series A bonds convertible into series H shares. The mentioned-above shares were purchased to be redeemed. On 14 July 2004, the Management Board passed a resolution on redemption of series A bonds convertible into series H shares. ComArch S.A. was an issuer of these bonds. After redemption, the number of series A bonds convertible into series H shares issued by ComArch S.A. bonds was 3,514.

Between 22 February and 24 March 2007 ComArch received statements on conversion of 3,221 ordinary convertible bonds issued by the company. The total nominal value of bonds to be converted into shares amounted to 32,210,000 PLN. For series A convertible bonds, covered by submitted conversion statements, 563,675 series H ordinary bearer shares were issued. 293 series A convertible bonds were not converted into series H shares.

In relation to the fact that on 28 February 2006 the average closing price of ComArch S.A. shares on the Warsaw Stock Exchange over the past 31 quotations had been higher than the conversion price by 30.7 %, and according to pt 8.3.1 of the Conditions of Bond Issue that constitute an attachment to the company's Management Board resolution dated 09 April 2002 concerning issue of the company's bonds on the basis of the Annual General Meeting resolution dated 27 February 2002 (published in Chapter 10, point 4 of the Conversion of Bonds to Series H shares Prospectus), on 28 February 2006 and 7 March 2006 ComArch S.A. called for anticipated redemption of bonds by Bondholders. Bonds, which were not submitted by conversion statements, were extinguished on 6 April 2006 by the company before their expiry date at a price calculated according to pt. 8.3.4 of the Terms and Conditions for Bond Issue and were then redeemed by the company.

| | 31 March 2006 | 31 December 2005 |
|---|---|---|
| **Non-current** | | |
| Convertible bonds | - | 39,849 |
| | - | 39,849 |
| **Current** | | |
| Convertible bonds | - | 1,097 |
| **Total convertible bonds** | **-** | **40,946** |

## 3.12 Contingent Liabilities

On 31 March 2006, the value of bank guarantee and letters of credit issued by banks on order from ComArch S.A. in reference to executed agreements and participation in tender proceedings was 26.98 million PLN.
On 31 March2006 the value of ComArch S.A. suretyships for the debts of Interia.pl S.A. from lease agreements amounted to 0.36 million PLN.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

The ComArch Group is the defendant in legal proceedings, in which the potential total amount of third party claims is 0.62 million PLN. In the opinion of the Management Board and based on the opinions of legal advisors, there are no circumstances suggesting the appearance of significant obligations on this account and, as a result, provisions for the amount of potential claims were not recognised in the financial statement.
On 31 March 2006 the Group did not have any contractual liabilities for investment purchases or fees due to operational leasing agreements.

## 3.13 Deferred Income Tax

As a result of Poland joining the European Union, an act was passed on 2 October 2003 that changed the act on special economic zones and certain other acts (Journal of Laws No. 188 Item 1840) that changed the conditions for tax exemptions for entities operating in special economic zones. Pursuant to the art. 6, sec. 1 of this act, these entities may apply for changes to the terms and conditions of their permits in order to adjust them to the principles for granting public aid in force in the European Union. Pursuant to the art. 5 sec. 2 pt. 1 lit. b), pt. 2, pt. 3 of the act, the maximum amount of public aid for entities, which operate in a special economic zone on the basis of a permit issued before 1 January 2000, cannot exceed 75 % of the value of investments incurred in the period from the date of obtaining the permit until 31 December 2006, provided that in determining the maximum amount of public aid, the total amount of public aid obtained since 1 January 2001 is taken into consideration. This means a change in the current method of granting tax relief (public aid) from unlimited relief to relief that is limited in value and depends on the value of investments made. In the case of ComArch S.A., the maximum value of public aid will not exceed 75 % of the value of investment expenditures, which the company has incurred/shall incur since obtaining the permit, i.e. 22 March 1999, until 31 December 2006.

The costs of investments and the amount of aid are subject to discounting pursuant to Par. 9 of the Regulation of the Ministry from 14 September 2004 on the Krakow Special Economic Zone (Journal of Laws 220 Item 2232) with wording changed pursuant to Par. 1 of the Regulation of the Ministry from 8 February 2005 that changed the Ordinance on the Krakow Special Economic Zone (Journal of Laws No. 32 Item 270) and with Par. 2 of the latter Ordinance taken into consideration.

ComArch S.A. approached the Minister of the Economy in order to change the terms and conditions of its permit. On 1 July 2004, it received a decision from the Minister of the Economy dated 24 June 2004 on the topic of changes to the terms and conditions of the permit (those mentioned above and those compliant with the act). The updated permit extended the period in which ComArch S.A. is entitled to use public aid for investments incurred in the special economic zone until 31 December 2017.

Pursuant to IAS 12, unused tax relief as at 31 March 2006 constitutes a deferred income tax asset. The limit of the unused investment relief as at 31 March 2006, discounted as at the permit date, is 21.59 million PLN. As at the 31 March 2006 the dominant unit recognised a deferred income tax asset due to activities in the SSE in the amount of 4.75 million PLN. The value of this asset was established according to estimates of the possible determination of income due to income tax on account tax-exempt activity.

At the same time a deferred income tax asset due temporary differences that was worth 1.12 million PLN and established as at 31 December 2005, was dissolved in relation to profit on financial activity (sale of INTERIA.PL S.A. shares).
Pursuant to the precautionary principle in 2006 the Group did not create an asset resulting from the tax loss of its subsidiaries, which amounted to 1.21 million PLN during the 3 months ended 31 March 2006.

## 3.14 Earnings Per Share

| | **3 months ended 31 March 2006** | **3 months ended 31 March 2005** |
|---|---|---|
| Net profit for the period attributable to equity holders of the company | 15,395 | 1,259 |
| Weighted average number of shares in issue (thousands) | 7,501 | 6,852 |
| **Basic earnings per share (PLN)** | 2.05 | 0.18 |

Basic earnings per share in the column ‘3 months ended 31 March 2006’ is calculated by dividing the net profit attributable to equity holders of the company for the period from 1 January 2006 to 31 March 2006 by the weighted average number of shares in issue between 1 January 2006 and 31 March 2006, where the number of days is the weight. Basic earnings per share in the column ‘3 months ended 31 March 2005’ is calculated by dividing the net profit attributable to equity holders of the company for the period from 1 January 2005 to 31 March 2005 by the weighted average number of shares in issue between 1 January 2005 and 31 March 2005, where the number of days is the weight.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

# 4. Additional Notes

## 4.1 Information About Shareholders and Shares Held by Members of the Management Board and the Board of Supervisors

a) Shareholders who directly or indirectly through subsidiary entities hold at least 5 % of the total number of votes at the ComArch S.A. general meeting as at data of preparation of this quarterly report

- Elżbieta and Janusz Filipiak held 3,239,393 shares, which gave them 10,195,393 votes at the AGM and constituted 69.89% of all votes at the AGM;
- Customers of BZ WBK AIB Asset Management S.A. held 1,417,770 shares, which gave them 1,417,770 votes at the AGM and constituted 9.72% of the total number of votes at the AGM.

b) Changes in holdings of ComArch S.A. shares by management and supervisors between 1 March 2006 and 15 May 2006

The following table presents the ownership of ComArch SA shares by management and supervisors as at the date on which the consolidated quarterly report for the four quarters of 2006 was published, i.e. 1 March 2006 and on 15 May 2006, pursuant to the information possessed by the company.

| Members of the Management Board and the Board of Supervisors | Position | As at 15 May 2006 Shares | As at 15 May 2006 Share of votes at the AGM (%) | As at 1 March 2006 Shares | As at 1 March 2006 Share of votes at the AGM (%) |
|---|---|---|---|---|---|
| Elżbieta and Janusz Filipiak | Chairman of the Board of Supervisors and President of the Management Board | 30,239,393 | 69.89 % | 3,239,393 | 72.70 % |
| Tomasz Maciantowicz | Vice-President of the Management Board | 92,131 | 0.63 % | 92,131 | 0.66 % |
| Paweł Prokop | Vice-President of the Management Board | 24,440 | 0.43 % | 24,440 | 0.44 % |
| Paweł Przewięźlikowski | Vice-President of the Management Board | 24,440 | 0.43 % | 24,440 | 0.44 % |
| Rafał Chwast | Vice-President of the Management Board | 6,566 | 0.05 % | 6,566 | 0.05 % |
| Zbigniew Rymarczyk | Vice-President of the Management Board | 370 | 0.00 % | 370 | 0.00 % |
| **Number of shares issued** | | **7,518,770** | **100 %** | **6,955,095** | **100 %** |

## 4.2 Factors and Events of Unusual Nature with Significant Effects on the Achieved Financial Results

On 19 January 2006, ComArch S.A. disposed 350,000 INTERIA.PL S.A. shares. After this transaction the company holds 2,538,369 INTERIA.PL S.A. shares, which constitute 36.08 % of share capital. They give 11,609,625 votes at the Annual General Meeting that constitute 48.48 % of the total number of votes. The above-mentioned transaction's result on ComArch S.A.'s balance sheet income amounted to 6.28 million PLN and gross balance sheet income of the Group achieved on the above-mentioned transaction is higher and amounts to 7.23 million PLN. Result on this transaction has been recognised in the income statement in 'net finance costs'.

We denote that financial result on this transaction recognised in the consolidated financial statement is higher than the one recognised in the financial statement of ComArch S.A. due to differences in valuation of INTERIA.PL S.A. SHARES. In the financial statement INTERIA.PL S.A. shares have been valuated according to the acquisition price but in the consolidated financial statement – according to the equity method, i.e. according to the share of the ComArch Group in equity of INTERIA.PL S.A. In the consolidated financial statement cost of sold INTERIA.PL S.A. shares is lower than in the financial statement due to the fact that equity of INTERIA. PL S.A. decreased as a result of net loss carried in 2005.

## 4.3 Events After the Balance Sheet Date

On 27 April 2006, an agreement was signed, between ComArch S.A. and Polkomtel S.A. for implementation of the ComArch InterPartner Billing system. The system will enable and support the provision of billing services between Polkomtel S.A. and its business partners, namely: MVNOs and Service Providers. The agreement is valued at 12.4m PLN, with a completion date of May 2007.

On 11 May 2006, Tomasz Maciantowicz, Vice-President of ComArch S.A.'s Management Board resigned from his position. He submitted his resignation on 11 May 2006 without stating reasons.

## 4.4 Significant Legal, Arbitration or Administrative Proceedings

In the first quarter of 2006 the Group's parties did not sue and were not sued in proceedings which fulfil the criterion specified in § 91 Act 6 pt 7a) and 7b) of the Regulation issued by the Minister of Finance on 19 October 2005 concerning current and periodical information pertaining to companies listed on the stock exchange.

The ComArch Group is the defendant in legal proceedings, in which the total amount of third party claims is 623,000 PLN. In the opinion of the Management Board and based on the opinions of legal advisors, there are no circumstances suggesting the appearance of significant obligations on this account and, as a result, provisions for the amount of potential claims were not recognised in the financial statement.

## 4.5 The Management Board's Position on the Execution of Previously-Published Forecasts

The Management Board did not forecast any results for the first quarter of 2006.

## 4.6 Information About Transactions with Related Parties Whose Total Amount from the Beginning of the Year Exceeds 500,000 EURO (other than routine transactions)

None present.

## 4.7 Information about Suretyship and Bank Guarantees Provided by the Company and Its Subsidiaries

In the first quarter of 2006, ComArch S.A. and its subsidiaries did not provide any suretyships nor bank guarantees referred to in § 91 sec. 6. pt. 9) of the Regulation issued by the Minister of Finance on 19 October 2005 concerning current and periodical information pertaining to companies listed on the stock exchange.

## 4.8 Other Information Significant for the Assessment of Means and Employees, Financial Rating, Financial Results and Their Changes and Information Significant for the Assessment of the Possibility of the Execution of Obligations by their Issuers

None present.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

## 5. Significant Achievements and Failures as well as Factors and Events with Considerable Impact on the Financial Results of the ComArch Group in the First Quarter of 2006 and Factors Which Will Substantially Impact Results Over the Course of at least the Next Quarter.

ComArch group achieved very good financial results in the first quarter of 2006. Revenues from sales were 96.45 million PLN (an increase of 30 % over the first quarter of 2005). Operating profit was 9.53 million PLN (an increase of 522 %) and net profit attributable to company's shareholders reached exceptional level of 15.4 million PLN (an increase of 1123 %). These financial results confirm the effectiveness of the Group's strategy – a strategy that is based on:

a) the sale of IT solutions, most of which are developed in-house;
b) the sale of an increasing number of products on international markets;
c) the stable improvement of operational performance through the ongoing improvement of procedures and cost rationalization.

The dynamic growth of the ComArch Group and the achieved financial results are a result of the competitive edge currently possessed by the Group. This competitive advantage also enables the further expansion and improvement of the suite of offered products as well as the employment of the best IT professionals, which further enhances the Group's future competitiveness.

It is noteworthy that operating profit increased by 522 %, from 1.53 million PLN in the first quarter of 2005 to 9.53 million PLN in the first quarter of 2006. Consequently operating margin improved from 2.07 % to 9.88 %. Permanent improvement of operating margin is one of the ComArch Group's priorities. The increase in operating margin coincided with a significant growth in employment in the ComArch Group in the first quarter of 2006, i.e. 89 persons from 1,836 persons as at 31 December 2005 to 1,925 persons as at 31 March 2006.

Net profit attributable to the company's shareholders increased by 1,123 % up to the level of 15.4 million PLN in the first quarter of 2006 compared to 1.05 million PLN in the first quarter of the previous year. In the first quarter profit per share was 2.05 PLN compared to 0.18 in the previous year.

The above-average financial results achieved by the ComArch Group and very good perspectives for future years have led to the increase in the price of ComArch shares from 64.60 PLN on 1 January 2006 to 111 PLN on 31 March 2006. In view of such a significant increase in the share price, most of holders of convertible bonds issued in 2002 decided to convert them into shares in the first quarter of 2006. As a consequence ComArch's long-term debt decreased significantly: from 62.84 million PLN as at 31 March 2005 to 22.19 million PLN as at 31 March 2006. The debt/equity ratio decreased from 39.1 % to 10.3 %.

The backlog for the current year was at a level of 305 million PLN and was up by over 50 % from the same period the previous year. This data confirms the capability of the ComArch Group for dynamic growth in the periods to come and also confirms the effectiveness of the Group's strategy and its focus on foreign markets

| **ComArch Group** | | | |
|---|---|---|---|
| | **As at 31 April 2006** | **As at 31 April 2005** | **Change** |
| Revenues contracted on the current year | 305,438 | 203,704 | 49.94 % |
| *including export contracts* | 66,837 | 47,318 | 41.25 % |
| *% of export contracts* | 21.9 % | 23.2 % | |

The revenues structure shows that the sales of the ComArch Group's are diversified and the Group is not dependant on only one sector, client or product sold. This structure of revenues significantly reduces the risk of operational activities related to possible heterogeneous growth rates of particular sectors in a given year. For several years, the shares of particular sectors and types of sales have remained at relatively the same level. In the first quarter of 2006, the share of export sales was 27.5 % in the total sales that means an increase from the level of 18.7 % in the same period of 2005.

| **ComArch Group** | | | | | | |
|---|---|---|---|---|---|---|
| | Q1 2006 | % | 2005 | % | Q1 2005 | % |
| Services | 41,898 | 43.4 % | 203,750 | 45.9 % | 32,687 | 44.2 % |
| Software | 27,049 | 28.0 % | 88,101 | 19.8 % | 19,159 | 25.9 % |
| Hardware | 24 099 | 25.0 % | 143,144 | 32.2 % | 20,492 | 27.7 % |
| Others | 3,408 | 3.5 % | 8,960 | 2.0 % | 1,683 | 2.3 % |
| **TOTAL** | **96,454** | **100 %** | **443,955** | **100 %** | **74,021** | **100 %** |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

| | Q1 2006 | % | 2005 | % | Q1 2005 | % |
|---|---|---|---|---|---|---|
| Finance and Banking | 15,526 | 16.1 % | 81,541 | 18.4 % | 10,789 | 14.60 % |
| Trade and services | 27,909 | 28.9 % | 114,989 | 25.9 % | 21,449 | 29.0 % |
| Industry & Utilities | 7,846 | 8.1 % | 26,471 | 6.0 % | 4,547 | 6.1 % |
| Telecommunications | 20,823 | 21.6 % | 78,420 | 17.7 % | 21,587 | 29.2 % |
| Public sector | 22,164 | 23.0 % | 133,550 | 30.1 % | 13,951 | 18.8 % |
| Others | 2,186 | 2.3 % | 8,984 | 2.0 % | 1,698 | 2.3 % |
| **TOTAL** | **96 454** | **100 %** | **443,955** | **100 %** | **74,021** | **100 %** |

| | Q1 2006 | % | 2005 | % | Q1 2005 | % |
|---|---|---|---|---|---|---|
| Domestic | 69,891 | 72.5 % | 376,968 | 84.9 % | 60,206 | 81.30 % |
| Export | 26,563 | 27.5 % | 66,987 | 15.1 % | 13,815 | 18.70 % |
| **TOTAL** | **96,454** | **100 %** | **443,955** | **100 %** | **74,021** | **100 %** |

The Group's results in the next quarters will depend in most part on continuing positive trends in the economy, the financial situation of medium-sized and large enterprises (which constitute the basis of the Group's clients) and the rate of increases in the remuneration of IT employees.

**In Q1 2006 the following events that greatly impacted the current activities of the ComArch Group took place:**

1) Introduction to trading ordinary bearer series G shares

The Management Board of the Warsaw Stock Exchange decided to introduce as of 2 February 2006 125,787 of ComArch Series G ordinary bearer shares to trading. These shares are marked with the code PLCOMAR00087 at the National Depository for Securities. The introduction to trading of these shares will take place on the condition that the National Depository for Securities will assimilate the above-mentioned shares with the already floated shares marked with the number PLCOMAR00012.

2) Conversion of Convertible Series A Bonds into Ordinary Bearer Series H Shares

Between 22 February and 24 March 2007 ComArch received statements on conversion of 3,221 ordinary convertible bonds issued by the company. The total nominal value of bonds to be converted into shares amounted to 32,210,000 PLN. For series A convertible bonds, covered by submitted conversion statements, 563,675 series H ordinary bearer shares were issued.

In relation to the fact that on 28 February 2006 the average closing price of ComArch S.A. shares on the Warsaw Stock Exchange over the past 31 quotations had been higher than the conversion price by 30.7 %, on 28 February 2006 and 7 March 2006 ComArch S.A. called for anticipated redemption of bonds by Bondholders.

On 20 March 2007, the Management Board of the National Depository for Securities decided to register 543,025 ordinary bearer series H ComArch S.A. shares of nominal value of 1.00 PLN each and mark them with the code PLCOMAR00095.

Due to the fact that the Management Board of the National Depository for Securities decided to assimilate 543,025 company's shares, marked with the code PLCOMAR00095, with 5,085,187 company's shares, marked with the code PLCOMAR00012, on 31 March 2006, the Management Board of the Warsaw Stock Exchange S.A. introduced the above-mentioned shares to trading on 31 March 2006. The company announced details in the current reports no. 16/2006 and 18/2006.

On 31 March 2006, the Operations Department of the National Depository for Securities has cleared the conversion of 118 ComArch SA series A bonds to series H ordinary bearer shares. As a result, as at the balance sheet date, there are:
a) 20,650 ComArch S.A. series H ordinary shares valued at 1 PLN each, marked with the code PLCOMAR00095;
b) 293 ComArch S.A. series A convertible bonds valued at 10,000 PLN each, marked with the code PLCOMAR00079.

3) Investment credit agreement with Kredyt Bank S.A.

On 28 March 2006 an investment credit agreement with Kredyt Bank S.A. with its registered seat in Warsaw was signed. It is for the financing of the second construction stage of production and office buildings in the Special Economic Zone in Krakow. The credit amounts to 80 % of the investment value up to a maximum of 26,823,970 PLN. The crediting period may last a maximum of 16 years at a variable interest rate and should be taken out by 31 March 2007. A promissory note, the mortgage on land and the building insurance policy are security for this credit. The company announced in current report no. 41/2005 that began the investment and signed an agreement with the general contractor.

4) Others

On 19 January 2006, ComArch S.A. disposed 350,000 INTERIA.PL S.A. shares. After this transaction the company holds 2,538,369 INTERIA.PL S.A. shares, which constitute 36.08 % of share capital. They give 11,609,625 votes at the Annual General Meeting that constitute 48.48 % of the total number of votes. The above-mentioned transaction's result on ComArch S.A.'s balance sheet income amounted to 6.28 million PLN and gross balance sheet income of the Group achieved on the above-mentioned transaction is higher and amounts to 7.23 million PLN. Result on this transaction has been recognised in the income statement in 'net finance costs'.

We denote that financial result on this transaction recognised in the consolidated financial statement is higher than the one recognised in the financial statement of ComArch S.A. due to differences in valuation of INTERIA.PL S.A. SHARES. In the financial statement INTERIA.PL S.A. shares have been valuated according to the acquisition price but in the consolidated financial statement – according to the equity method, i.e. according to the share of the ComArch Group in equity of INTERIA.PL S.A. In the consolidated financial statement cost of sold INTERIA.PL S.A. shares is lower than in the financial statement due to the fact that equity of INTERIA. PL S.A. decreased as a result of net loss carried in 2005.

On 23 January 2006, Christophe Debou, member of ComArch S.A.'s Management Board resigned from his position.

**After the balance sheet date:**

1) Agreement with Polkomtel S.A. for Implementation of ComArch S.A.'s Billing System

On 27 April 2006, an agreement was signed, between ComArch S.A. and Polkomtel S.A. for implementation of the ComArch InterPartner Billing system. The system will enable and support the provision of billing services between Polkomtel S.A. and its business partners, namely: MVNOs and Service Providers. The agreement is valued at 12.4m PLN, with a completion date of May 2007.

2) Conversion of Convertible Bonds into Series H Ordinary Bearer Shares

Beginning from 4 April 2006, The Management Board of the Warsaw Stock Exchange suspended trade of ComArch S.A. series A bonds and beginning from 6 April 2006, excluded them from trading. The company announced details in current report no. 20/2006.
On 6 April 2006, company made redemption of 293 series A bonds convertible to ComArch S.A. shares. This anticipated redemption was made according to pt. 8.3 of the Conditions of Bond Issue. The company announced details in current report no. 22/2006.

The Management Board of the National Depository for Securities decided to assimilate 20,650 series H company's shares (marked with the code PLCOMAR00095) with 5,730,920 company's shares (marked with the code PLCOMAR00012) on 26 April 2006. In consequence, the Management Board of Warsaw Stock Exchange introduced to trading the above mentioned company's shares beginning from 26 April 2006. The company announced details in current reports no. 25/2006 and 26/2006.

3) Introduction of Series G3 Ordinary Bearer Shares to Trading

The Management Board of the National Depository for Securities decided to assimilate 102,708 series G3 shares of ComArch S.A. (marked with the code PLCOMAR00103) with 5,628,212 company's shares (marked with the code PLCOMAR00012) on 12 April 2006. In consequence, the Management Board of Warsaw Stock Exchange introduced to trading the above mentioned company's shares beginning from 12 April 2006. The company announced details in current reports no. 21/2006 and 24/2006.

4) Transformation of ComArch S.A.'s ComArch Services Sp. z o. o. (Ltd) into ComArch Services S.A. (Plc)

ComArch S.A. received notice by Court for Kraków-Śródmieście, XI Economic Division of the National Court Register dated 28 April 2006 concerning transformation of ComArch Services Sp. z o. o. into ComArch Services S.A. ComArch Services S.A.'s share capital amounts to 1,050,000 PLN and is divided into 5,250 shares of the nominal value of 200 PLN each, giving 5,250 votes in total.

5) Others

On 11 May 2006, Tomasz Maciantowicz, Vice-President of ComArch S.A.'s Management Board resigned from his position. He submitted his resignation on 11 May 2006 without stating reasons.

*All amounts are expressed in thousands of PLN unless otherwise indicated*

# VI. Quarterly Summary of the ComArch S.A. Financial Statement for the First Quarter of 2006

## I. Balance Sheet

| (PLN thousands) | 31 March 2006 | 31 December 2005 | 31 March 2005 |
|---|---|---|---|
| **ASSETS** | | | |
| **I. Non-current assets** | **137,446** | **139,450** | **125,600** |
| 1. Property, plant and equipment | 2,475 | 2,484 | 2,235 |
| 2. Intangible assets | 99,948 | 97,049 | 84,562 |
| 3. Non-current investments | 35,023 | 38,471 | 38,803 |
| 3.1. Non-current financial assets | 34,980 | 38,428 | 38,760 |
| a) in related parties | 34,887 | 38,290 | 38,440 |
| b) in other entities | 93 | 138 | 320 |
| 3.2 Other non-current investment | 43 | 43 | 43 |
| 4. Long-term accruals | - | 1,446 | - |
| 4.1 Deferred income tax assets | - | 1,197 | - |
| 4.2 Other accruals | - | 249 | - |
| **II. Current assets** | **172,213** | **188,738** | **120,729** |
| 1. Inventories | 23,883 | 25,893 | 15,297 |
| 2. Current receivables | 86,465 | 94,152 | 72,894 |
| 2.1. from related parties | 16,136 | 12,858 | 8,436 |
| 2.2 from other entities | 70,329 | 81,294 | 64,458 |
| 3. Current investments | 31,532 | 42,764 | 4,459 |
| 3.1. Current financial assets | 31,532 | 42,764 | 4,459 |
| a) in related parties | 1,456 | 1,133 | 419 |
| b) in other entities | 3,228 | 476 | 480 |
| c) Cash and cash equivalents | 26,848 | 41,155 | 3,560 |
| 4. Short-term accruals | 30,333 | 25,929 | 28,079 |
| **Total assets** | **309,659** | **328,188** | **246,329** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **I. Equity** | **210,256** | **157,774** | **130,372** |
| 1. Share capital | 7,519 | 6,955 | 6,852 |
| 2. Due payments to share capital (negative value) | - | - | |
| 2. Supplementary capital | 143,008 | 105,113 | 96,714 |
| 3. Revaluation reserve | 24 | 12 | -180 |
| 4. Other reserve capitals | 21,948 | 21,948 | 21,948 |
| 5. Capital from merger settlement | -7,334 | -7,334 | -7,334 |
| 6. Previous years' profit (loss) | 31,079 | 1,992 | 10,391 |
| 7. Net profit (loss) | 14,012 | 29,088 | 1,981 |
| **II. Liabilities and provisions for liabilities** | **99,403** | **170,414** | **115,957** |
| 1. Provisions for liabilities | - | - | - |
| 1.1. Provision for deferred income tax | - | - | - |
| 1.2. Other provisions | - | - | - |
| 2. Non-current liabilities | 16,500 | 56,849 | 52,749 |
| 2.1. to other entities | - | 56,849 | 52,749 |
| 3. Current liabilities | 48,795 | 74,900 | 46,598 |
| 3.1. to related parties | 1,282 | 1,460 | 1,045 |
| 3.2. to other entities | 46,545 | 72,388 | 43,987 |
| 3.3. Special funds | 1,468 | 1,052 | 1,566 |
| 4. Accruals | 34,108 | 38,655 | 16,610 |
| 4.1 Other accruals | 34,108 | 38,665 | - |
| a) current | 34,108 | 38,665 | 16,610 |
| **TOTAL EQUITY AND LIABILITIES** | **309,659** | **328,188** | **246,329** |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

| | | | |
|---|---|---|---|
| Book value | 210,256 | 157,774 | 130,272 |
| Number of shares | 7,518,770 | 6,955,095 | 6,852,387 |
| Book value per single share (PLN) | 27.96 | 22.68 | 19.01 |
| Diluted number of shares | 7,518,770 | 6,955,095 | 6,852,387 |
| Diluted book value per single share (PLN) | 27.96 | 22.68 | 19.01 |

## II. Income Statement

| **For the periods 01.01 – 31.03.2006 and 01.01-31.03.2005 (PLN thousands)** | **Q1 2006** | **Q1 2005** |
|---|---|---|
| **I. Net revenues from the sale of products, goods and materials, including:** | **88,928** | **69,197** |
| - revenues from related parties | 5,283 | 2,700 |
| 1. Net revenues from the sale of products | 62,989 | 43,766 |
| 2. Net revenues from the sale of goods and materials | 25,939 | 25,431 |
| **II. Costs of products, goods and materials sold, including:** | **61,632** | **54,968** |
| - to related parties | 427 | 2,228 |
| 1. Manufacturing cost of products sold | 36,755 | 30,741 |
| 2. Value of products, goods and materials sold | 24,877 | 24,227 |
| **III. Gross profit (loss) on sales** | **27,296** | **14,229** |
| IV. Costs of sales | 9,656 | 6,585 |
| V. Administrative expenses | 6,264 | 4,882 |
| **VI. Profit/loss on sales** | **11,376** | **2,762** |
| VII. Other operating revenues | 256 | 65 |
| 1. Gain on disposal of non-financial non-current assets | 37 | 20 |
| 2. Other operating revenues | 219 | 45 |
| VIII. Other operating costs | 2,502 | 446 |
| 1. Loss on disposal of non-financial non-current assets | - | - |
| 2. Revaluation of non-financial assets | - | - |
| 4. Cost of works financed with subsidies | 1,167 | 318 |
| 5. Other operating costs | 1,335 | 128 |
| **IX. Profit (loss) on operating activities** | **9,130** | **2,381** |
| X. Financial revenues | 7,051 | 816 |
| 1. Interest, including: | 345 | 219 |
| - from related parties | 68 | 51 |
| 2. Gain on disposal of investments | 6,284 | 30 |
| 3. Revaluation of investments | 34 | 51 |
| 4. Other | 388 | 516 |
| XI. Finance costs | 972 | 1,216 |
| 1. Interest | 888 | 1,065 |
| 2. Revaluation of investments | - | 49 |
| 3. Other | 84 | 102 |
| **XII. Profit (loss) on business activities** | **15,209** | **1,981** |
| **XV. Gross profit (loss)** | **15,209** | **1,981** |
| XVI. Income tax | 1,197 | - |
| **XIX. Net profit (loss)** | **14,012** | **1,981** |

| | | |
|---|---|---|
| Net profit (loss) (annualised) | 41,119 | 8,355 |
| Weighted average number of shares 1.04.2005 - 31.03.2006 | 7,498,742 | 6,825,162 |
| Earnings (losses) per single share (PLN) | 5.48 | 1.22 |
| Diluted weighted average number of shares 1.04.2005 - 31.03.2006 | 7,498,742 | 6,825,162 |
| Diluted earnings (losses) per single share (PLN) | 5,48 | 1,22 |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

## III. Changes in Shareholder Equity

| (PLN thousands) | Q1 2006 | 2005 | Q1 2005 |
|---|---|---|---|
| I. Opening balance of equity | 157,774 | 128,642 | 128,642 |
| a) changes to adopted accounting principles (policies) | - | - | - |
| I. a. Opening balance of equity after adjustments | 157,774 | 128,642 | 128,642 |
| 1. Opening balance of share capital | 6,955 | 6,852 | 6,852 |
| 1.1. Changes in share capital | 564 | 103 | - |
| a) increases (due to) | 564 | 103 | - |
| - share issue | - | 103 | - |
| - the conversion of convertible bonds | 564 | - | - |
| **1.2. Closing balance of share capital** | **7,519** | **6,955** | **6,852** |
| 2. Opening balance of due payments for share capital | - | - | - |
| 2.1. Changes of due payments for share capital | - | - | - |
| a) increases (due to) | - | - | - |
| - not paid share issue | - | - | - |
| b) decreases (due to) | - | - | - |
| - payment of capital increase | - | - | - |
| **2.2. Closing balance of due payments for share capital** | **-** | **-** | **-** |
| 3. Opening balance of supplementary capital | 105,113 | 96,714 | 96,714 |
| a) increases (due to) | 37,896 | - | - |
| - profit-sharing for the year 2004 | - | 8,399 | - |
| - surplus due to the conversion on convertible bonds | 37,896 | - | - |
| **3.1. Closing balance of supplementary capital** | **143,008** | **105,113** | **96,714** |
| 4. Opening balance of revaluation reserve | 12 | 71 | 71 |
| 4.1. Changes in revaluation reserve | 12 | - | - |
| a) increases (due to) | 12 | - | - |
| - correction of valuation due to bonds conversion | 12 | - | - |
| - correction of valuation due to the conversion of bonds | - | - | - |
| b) decreases (due to) | - | 59 | 251 |
| - valuation of shares at the balance sheet date | - | 59 | - |
| - negative capital from redemption of bonds | - | - | 251 |
| **4.2. Closing balance of revaluation reserve** | **24** | **12** | **-180** |
| 5. Opening balance of capital from merger | -7,334 | -7,334 | -7,334 |
| a) increases (due to) | - | - | - |
| - settlement of companies' merger | - | - | - |
| b) decreases (due to) | - | - | - |
| - capital from merger of ComArch S.A., ComArch Kraków and CDN-ComArch S.A. | - | - | - |
| **5.1. Closing balance of capital from merger** | **-7,334** | **-7,334** | **-7,334** |
| 6. Opening balance of other reserve capitals | 21,948 | 21,948 | 21,948 |
| 6.1. Changes of other reserve capital | - | - | - |
| a) increases (due to) | - | - | - |
| **6.2. Closing balance of other reserve capitals** | **21,948** | **21,948** | **21,948** |
| 7.1. Opening balance of previous years' profit | 1,991 | 10,391 | 10,391 |
| a) changes to adopted accounting principles (policies) | - | - | - |
| 7.2. Opening balance of previous years' profit after adjustments | 1,991 | 10,391 | 10,391 |
| a) increases (due to) | 29,088 | - | - |
| - retained profit from the previous year | 29,088 | - | - |
| - companies' merger | - | - | - |
| b) decreases (due to) | - | 8,399 | - |
| - transferring the result from the previous year to supplementary capital | **-** | **8,399** | **-** |
| **7.3. Closing balance of previous years' profit** | **31,079** | **1,992** | **10,391** |
| **8.1 Net result** | 14,012 | 29,088 | 1,981 |
| a) net result | **14,012** | **29,088** | **1,981** |
| **II. Closing balance of equity** | **210,256** | **157,774** | **130,372** |
| III. Equity including proposed profit-sharing (loss coverage) | 210 256 | 157 774 | 130 372 |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

## IV. Cash Flow Statement

| For the period 01.01– 31.03.2006 and 01.01-31.03.2005 (PLN thousands) | Q1 2006 | Q1 2005 |
|---|---|---|
| **A. Cash flows from operating activities** | | |
| I. Net profit (loss) | 14,012 | 1,981 |
| II. Total adjustments | -30,632 | -14,957 |
| 1. Depreciation | 2,715 | 2,435 |
| 2. Exchange gains (losses) | -56 | -45 |
| 3. Interest and profit sharing (dividends) | - | -1 |
| 4. (Profit) loss on investing activities | -6,331 | 110 |
| 5. Change in provisions | 1,197 | -100 |
| 6. Change in inventories | 2,010 | -1,112 |
| 7. Change in receivables | 7,354 | 1,058 |
| 8. Change in current liabilities, excluding credits and loans | -28,901 | -5,746 |
| 9. Change in prepayments and accruals | -8,620 | -11,556 |
| 10. Other adjustments | - | - |
| **III. Net cash used in operating activities (I+/-II) – indirect method** | **-16,619** | **-12,976** |
| **B. Cash flows from investing activities** | | |
| I. Inflows | 9,886 | 2,564 |
| 1. Disposal of property, plant and equipment and intangible assets | 86 | 72 |
| 2. From financial assets, including: | 9,800 | 2,492 |
| a) in related parties | 9,800 | 92 |
| - repayment of granted non-current loans | - | 92 |
| - sale of Interia shares | 9,800 | - |
| - from merger | - | - |
| b) in other entities | - | 2,400 |
| - sales of financial assets | - | 2,400 |
| II. Outflows | -6,881 | -14,908 |
| 1. Purchase of property, plant and equipment and intangible assets | -3,847 | -10,039 |
| 2. For financial assets, including: | -3,034 | -4,869 |
| a) in related parties | - | -4,369 |
| - purchase of shares in subsidiaries | - | -4,250 |
| - non-current loans granted | - | -119 |
| b) in other entities | -3,034 | -500 |
| - purchase of financial assets | -3,034 | -500 |
| **III. Net cash used in investing activities (I-II)** | **3,005** | **-12,344** |
| **C. Cash flows from financing activities** | | |
| I. Inflows | - | 7,661 |
| 1. Inflows from share issue | - | - |
| 2. Loans and credits | - | 7,661 |
| 3. Other inflows from financing activities | - | - |
| II. Outflows | -775 | -334 |
| 1. Repayment of loans and credits | -775 | -334 |
| 2. Redemption of bonds | - | - |
| 3. Interest | - | - |
| **III. Net cash (used in)/generated from financing activities (I-II)** | -775 | 7,327 |
| **D. TOTAL net cash flow (A.III+/-B.III+/-C.III)** | **-14,389** | **-17,993** |
| E. Balance sheet change in cash and cash equivalents, including: | -14,333 | -17,947 |
| - change in cash and cash equivalents due to exchange differences | 56 | 46 |
| F. Cash and cash equivalents opening balance | 41,140 | 21,502 |
| H. Closing balance of cash and cash equivalents (F+/- E), including: | 26,807 | 3,555 |
| - limited disposal | - | - |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

# V. Additional Information and Commentary

## 1. Adopted Accounting Policies

This financial statement was prepared according to the Act passed on 29 September 1994 on Accounting (unified text - Journal of Laws, 2002, No. 76 pos. 694 and subsequent changes).
A complete description of the adopted accounting principles was presented in the last annual financial statement, i.e. for the period from 1 January 2005 until 31 December 2005.
If this financial statement for the 3 months ended 31 March 2006 was prepared according to IFRS, the financial results would amount to 13.14 million PLN.

## 2. Selected Valuation Principles

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

**Current financial assets**
Assets recognised in the financial statement comprise monetary assets and loans to subsidiaries.
Monetary assets comprise cash in hand and at banks as well as accrued interest on financial assets. Cash in domestic currency was valuated at nominal value, while cash in foreign currencies was valuated at NBP average exchange rates at the balance sheet date.
Loans are valuated according to nominal value plus accrued interest.

## 3. Information about Significant Changes in Estimated Values, Including Information about Corrections due to Provisions, Provision and Deferred Income Tax Assets Mentioned in the Act on Accounting and about Write-Offs that Revaluated Asset Items

ComArch S.A. reversed a write-off worth 0.007 million PLN that revaluated inventories and was performed in 2005, because finished goods, which were included in a previous revaluation at an initial cost, were sold. The reversed amount was classified in the other operating revenues item.

In the first quarter of 2006, ComArch S.A. did not carry out any write-offs revaluating goods and materials.

No hedges were made on inventories owned by the company. In the first quarter of 2006, provisions for liabilities were not established.

Due to the fact that the company is taxed according to general principles and enjoys tax-exempt status, temporary differences in the tax yield may be realised within both of these activities. At the same time, the final determination within which of these activities (taxed or tax-exempt) the temporary differences will be realised on the basis of the annual settlement of income tax, after the end of the fiscal year. As at 31 March 2006, the company used value of deferred income tax asset in the amount of 1.2 million PLN that was recognised at 31 December 2005. The effect of reversing this asset on the first quarter's result was negative 1.2 million PLN.

## 4. Selected Notes to the Summary Financial Statement

| 4.1. NON-CURRENT FINANCIAL ASSETS | 31 March 2006 | 31 December 2005 | 31 March 2005 |
|---|---|---|---|
| a) in subsidiaries and correlated parties | 23,130 | 23,031 | 23,181 |
| - interest or shares | 16,865 | 16,864 | 17,138 |
| - loans granted | 5,616 | 5,586 | 5,421 |
| - other non-current financial assets | 649 | 581 | 622 |
| b) in associates | 11,758 | 15,259 | 15,259 |
| - interest or shares | 11,758 | 15,259 | 15,259 |
| c) in other entities | 92 | 138 | 320 |
| - loans granted | 92 | 138 | 320 |
| **Non-current financial assets, TOTAL** | **34,980** | **38,428** | **38,760** |

*All amounts are expressed in thousands of PLN unless otherwise indicated*

| **4.2. CHANGES IN NON-CURRENT FINANCIAL ASSETS (TYPES)** | **Q1 2006** | **Q1 2005** |
|---|---|---|
| a) Opening balance | 38,428 | 34,350 |
| - interests or shares | 32,123 | 28,117 |
| - loans | 6,305 | 6,233 |
| b) increases (due to) | 52 | 4502 |
| - purchases of shares in subsidiaries | - | - |
| - purchases of shares in associates | - | 4,250 |
| - reclassification to non-current loans to subsidiaries | - | - |
| - loans granted to other entities | - | - |
| - reclassification to non-current interest on loans | - | - |
| - loans granted to subsidiaries | - | 119 |
| - interest due to non-current loans | 31 | 21 |
| - balance sheet valuation of non-current loans | 21 | 112 |
| c) decreases (due to) | 3,500 | 92 |
| - decrease in shares due to merger | - | - |
| - disposal of shares of associates | 3,500 | - |
| - revaluation of shares in foreign currencies | - | - |
| - repayment of subsidiary loans | - | 92 |
| - repayment of other entities loans | - | - |
| - reclassification to current loans | - | - |
| **d) Closing balance** | **34,980** | **38,760** |

| **4.3. CURRENT FINANCIAL ASSETS** | **31 March 2006** | **31 December 2005** | **31 March 2005** |
|---|---|---|---|
| a) in subsidiaries and correlated parties | 1,456 | 1,133 | 419 |
| - loans granted | 1,456 | 1,133 | 419 |
| c) in other entities | 3,228 | 476 | 480 |
| - other securities (types) | 3,034 | - | - |
| - shares in funds | 3,034 | - | - |
| - treasury bills | - | - | - |
| - loans granted | 194 | 252 | 350 |
| - other current financial assets (types) | - | 224 | 130 |
| - assets due to the valuation of forward contracts | - | 224 | - |
| g) cash and cash equivalents | 26,848 | 41,155 | 3,560 |
| - cash in hand and at banks | 26,808 | 41,140 | 3,555 |
| - other cash | - | - | - |
| - other monetary assets | 40 | 15 | 5 |
| **TOTAL current financial assets** | **31,532** | **42,764** | **4,459** |