

COMARCH SA  
SA-R 2004

**COMMISSION OF SECURITIES AND STOCK EXCHANGE**

**Annual report SA-R 2004**

(Pursuant to Article 57 Para 1 Clause 3 of the Ordinance of the Council of Ministers of 16 October 2001 – Dz. U. Vol. 139, Item 1569, as amended.)

(For issuers of securities managing production, construction, trade or services activities.)

For accounting year 2004 covering the period from 2004-01-01 to 2004-12-31

And for the previous accounting year 2003, covering the period from 2003-01-01 to 2003-12-31.

Submitted: 2005-04-05

<b>ComArch Spółka Akcyjna</b>	
(Full name of the issuer)	
<b>COMARCH SA</b>	<b>Telecommunications and IT</b>
(Abbreviated name of the issuer)	(Sector according to the Warsaw Stock Exchange classification)
<b>31-864</b>	<b>Krakow</b>
(Postal code)	(City)
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(The entity authorised for auditing.)

The annual report includes:

<input type="checkbox"/> The opinion and report of the entity authorised for auditing financial statements from auditing the annual financial statement	
<input type="checkbox"/> Letter from the President, the Management Board	
<input type="checkbox"/> Annual financial statement	
<input type="checkbox"/> Introduction	<input type="checkbox"/> Summary of changes in own capital
<input type="checkbox"/> Balance sheet	<input type="checkbox"/> Cashflow statement
<input type="checkbox"/> Profit and loss account	<input type="checkbox"/> Supplementary information and explanations
<input type="checkbox"/> Report of the Management Board (a report on the activities of the issuer)	
<input type="checkbox"/> Annual financial statement according to MSR/US GAAP in case of an issuer who is a leasing company along with	
<input type="checkbox"/> Opinion on the audited annual financial statement (Article 59 Para 2 of the above Ordinance)	

SELECTED FINANCIAL DETAILS	in PLN thou.		in EUR thou.	
	2004	2003	2004	2003
I. Net proceeds from sales of products, goods and materials	249 831	185 056	55 294	41 610
II. Profit (loss) on operational activities	14 921	15 878	3 302	3 570
III. Gross profit (loss)	8 589	12 251	1 901	2 755
IV. Net profit (loss)	8 399	11 661	1 859	2 622
V. Net cash flows on operational activities	11 637	24 182	2 576	5 437
VI. Net cash flows on investment activities	-19 566	15 856	-4 330	3 565
VII. Net cash flows on financial activities	-819	-27 586	-181	-6 203
VIII. Total net cash flows	-8 748	12 452	-1 936	2 800
IX. Total assets	252 283	231 808	61 849	49 143
X. Obligations and reserves for obligations	123 641	104 519	30 312	22 158
XI. Long-term obligations	45 937	42 290	11 262	8 965
XII. Short-term obligations	53 735	44 425	13 174	9 418
XIII. Own capital	128 642	127 289	31 538	26 985
XIV. Initial capital	6 852	6 727	1 680	1 426
XV. Number of stock (in pcs.)	6 852 387	6 726 600	6 852 387	6 726 600
XVI. Profit (loss) per one regular stock (in PLN / EUR)	1,24	1,69	0,27	0,38
XVII. Diluted profit (loss) per one regular stock (in PLN / EUR)	1,22	1,66	0,27	0,37
XVIII. Book value per one stock (in PLN /EUR)	18,77	18,92	4,60	4,01
XIX. Diluted book value per one stock (in PLN / EUR)	18,50	18,57	4,54	3,94

**OPINION OF THE ENTITY AUTHORISED FOR AUDITING FINANCIAL STATEMENTS OF THE AUDITED ANNUAL FINANCIAL STATEMENT**

File	Description
opinia bieglego rewidenta.pdf	Opinion of an independent expert auditor – Appendix No. 1

**REPORT OF THE ENTITY AUTHORISED FOR AUDITING FINANCIAL STATEMENTS FROM AUDITING THE ANNUAL FINANCIAL STATEMENT**

File	Description
raport bieglego rewidenta.pdf	The report supplementing the opinion from auditing the financial statement – Appendix No. 2

**LETTER OF THE PRESIDENT, THE MANAGEMENT BOARD**

File	Description
pismo do akcjonariuszy.pdf	The letter of the President, the Management Board – Appendix No. 3

**THE ANNUAL FINANCIAL STATEMENT: INTRODUCTION TO THE FINANCIAL STATEMENT**

File	Description
wprowadzenie do SAR 2004.pdf	Introduction to the financial statement – Appendix No. 4

**BALANCE SHEET**

	Notes	in PLN thou.	
		2004	2003
<b>ASSETS</b>			
1. Fixed assets		115 946	102 820
1. Intangibles, including:	1	1 873	2 025
2. Tangible fixed assets	2	79 680	34 026
3. Long-term investments	3	34 393	66 580
3.1. Long-term financial assets		34 350	66 580
a) In affiliated units, including:		33 970	66 250
b) In other units		380	330
3.2. Other long-term investments		43	
4. Long-term accruals	4		189
4.1. Other accruals			189
II. Current assets		136 337	128 988
1. Inventory	5	14 185	8 439
2. Short-term dues	6 7	74 100	64 780
2.1. From affiliated units		8 123	12 106
2.2. From other units		65 977	52 674
3. Short-term investments		24 242	45 311
3.1. Short-term financial assets	8	24 242	45 311
a) In affiliated units		368	13 960
b) In other units		2 370	350
c) Cash and other cash assets		21 504	31 001
4. Short-term accruals	9	23 810	10 458
Total assets		252 283	231 808
<b>LIABILITIES</b>			
I. Own capital		128 642	127 289
1. Initial capital	10	6 852	6 727
2. Supplementary capital	11	96 714	96 714
3. Capital from appraisal updating	12	71	1 723
4. Other reserve capitals	13	21 948	9 685
5. Profit (loss) from previous periods		1 992	779
6. Net profit (loss)		8 399	11 661
7. Capital from merger settlement		-7 334	
II. Obligations and reserves for obligations		123 641	104 519
1. Reserves for obligations	14	100	
1.1. Other reserves		100	
a) Short-term		100	
2. Long-term obligations	15	45 937	42 290
2.1. To other units		45 937	42 290
3. Short-term obligations	16	53 735	44 425
3.1. To affiliated units		982	2 271
3.2. To other units		51 532	41 257
3.3. Special funds		1 221	897
4. Accruals	17	23 869	17 804
4.1. Other accruals		23 869	17 804
a) Short-term		23 869	17 804
Total liabilities		252 283	231 808
Book value		128 642	127 289
Number of stock (in pcs.)		6 852 387	6 726 600
Book value per one stock (in PLN)	18	18,77	18,92
Diluted number of stock (in pcs.)		6 955 095	6 852 387
Diluted book value per one stock (in PLN)	18	18,50	18,57

**NOMINAL ITEMS**

	Note	in PLN thou.	
		2004	2003
1. Conditional obligations	19	27 608	23 287
1.1. For affiliated units (on account of)		1 499	
– provided guarantees and pledges		1 499	
1.2. For other units (on account of)		26 109	23 287
– provided guarantees and pledges		26 109	23 287
Total nominal items		27 608	23 287

**PROFIT AND LOSS ACCOUNT**

	Notes	in PLN thou.	
		2004	2003
I. Net proceeds from sales of products, goods and materials, including:		249 831	185 056
– From affiliated units		12 380	17 912
1. Net proceeds from sales of products	20	139 188	97 653
2. Net proceeds from sales of goods and materials	21	110 643	87 403
II. Costs of sold products, goods and materials, including:		195 028	144 002
– To affiliated units		20 496	19 476
1. Cost of generation of sold products	22	90 270	61 532
2. Value of sold goods and materials		104 758	82 470
III. Gross profit (loss) on sales		54 803	41 054
IV. Costs of sales	22	18 363	10 270
V. Overheads	22	20 321	14 614
VI. Profit (loss) on sales		16 119	16 170
VII. Other operational proceeds		933	437
1. Profit from disposal of non-financial fixed assets		45	
2. Subsidies			12
3. Other operational proceeds	23	888	425
VIII. Other operational costs		2 131	729
1. Loss on disposal of non-financial fixed assets			4
2. Updating value of non-financial assets		62	33
3. Other operational costs	24	2 069	692
IX. Profit (loss) on operational activities		14 921	15 878
X. Financial proceeds	25	1 474	4 970
1. Interest, including:		1 052	1 191
– From affiliated units		357	327
2. Profit from disposal of investments		422	1 589
3. Updating value of investments			2 184
4. Other			6
XI. Financial costs	26	7 806	8 597
1. Interest, including:		4 789	4 544
2. Updating value of investments		57	
3. Other		2 960	4 053
XII. Profit (loss) on commercial activities		8 589	12 251
XIII. Gross profit (loss)		8 589	12 251
XIV. Income tax	27	190	590
a) Deferred part		190	590
XV. Net profit (loss)		8 399	11 661
Net profit (loss) (annualised)		8 399	11 661
Average weighted number of regular stock (in pcs.)		6 793 961	6 875 602
Profit (loss) per one regular stock (in PLN)	29	1,24	1,69
Average weighted diluted number of regular stock (in pcs.)		6 894 918	6 998 162
Diluted profit (loss) per one regular stock (in PLN)	29	1,22	1,66

**SUMMARY OF CHANGES IN OWN CAPITAL**

	in PLN thou.	
	2004	2003
I. Own capital as of the beginning of the period (OB)	127 319	138 761
a) Changes in the adopted accounting principles (policy)	-30	572
I.a. Own capital as of the beginning of the period, after conciliation with comparable data	127 289	139 333
1. Initial capital as of the beginning of the period	6 727	7 228
1.1. Changes in the initial capital	125	
a) Increase (on account of)	125	
- Stock issue (release of share)	125	
b) Reduction (on account of)		501
- stock (shares) redemption		501
1.2. Initial capital as of the end of the period	6 852	6 727
2. Own stock (shares) as of the beginning of the period		0
a) Increase (on account of)		20 643
- Purchase of own stock for redemption		20 643
b) Reduction (on account of)		20 643
- Own stock redemption		20 643
2.1. Own stock (shares) as of the end of the period		0
3. Supplementary capital as of the beginning of the period	96 714	96 714
3.1. Supplementary capital as of the end of the period	96 714	96 714
4. Capital from appraisal updating as of the beginning of the period	1 723	282
4.1. Changes in capital from appraisal updating	-1 652	1 441
a) Increase (on account of)		1 441
- Capital on account of shares appraisal in foreign currencies		1 441
b) Reduction (on account of)	1 652	
- Balance sheet appraisal of shares in foreign currencies	1 357	
- Negative capital related to buying out of bonds	295	
4.2. Capital from appraisal updating as of the end of the period	71	1 723
Capital from merger of companies as of the beginning of the period		
Increase		
Change in the method of appraisal, ComArch Krakow SA capital		
a) Reduction	-7 334	
- Capital from merger of ComArch SA, ComArch Krakow, CDN-ComArch SA	-7 334	
4.3. Capital from merger as of the end of the period	-7 334	
5. Other reserve capitals as of the beginning of the period	9 685	24 560
5.1. Changes in other reserve capitals	12 263	-14 875
a) Increase (on account of)	12 263	5 734
- 2003/2002 profit distribution	12 263	5 734
b) Reduction (on account of)		20 609
- Own stock redemption		20 142
- Settlement of costs related to redemption of own stock		467
5.2. Other reserve capitals as of the end of the period	21 948	9 685
6. Profit (loss) from previous periods as of the beginning of the period	12 470	9 977
6.1. Profit from previous periods as of the beginning of the period	12 470	9 977
a) Changes in the adopted accounting principles (policy)	-30	572
6.2. Profit from previous periods as of the beginning of the period after achieving comparability	12 440	10 549
a) Increase (on account of)	1 815	
- Taking over result for 8 months of 2004 from companies included in the merger	1 815	
b) Reduction (on account of)	12 263	9 770
- Carrying over profit for years 2003 and 2002 into the reserve fund	12 263	5 734
- Payment of dividend from 2002 profit		4 036
6.3. Profit from previous periods as of the end of the period	1 992	779
6.4. Profit (loss) from previous periods as of the end of the period	1 992	779
7. Net result	8 399	11 661
a) Net profit	8 399	11 661
II. Own capital as of the end of the period (CB)	128 642	127 289
III. Own capital, including the proposed profit distribution (coverage of loss)	128 642	127 289

**CASHFLOW STATEMENT**

	in PLN thou.	
	2004	2003
<b>A. Cash flows on operational activities</b>		
I. Net profit (loss)	8 399	11 661
II. Total adjustments	3 238	12 521
1. Depreciation	6 925	6 863
2. (Profits) losses on account of exchange rate differences	238	
3. Interest and shares in profits (dividend)	2 821	2 991
4. (Profit) loss on investment activities	-151	-5 228
5. Change in the state of reserves	100	
6. Change in the state of inventory	-3 424	-1 835
7. Change in the state of receivables	4 494	-10 054
8. Change in the state of short-term obligations, excluding loans and credits	-1 409	10 026
9. Change in the state of accruals	-6 307	10 225
10. Other adjustments	-49	-467
III. Net cash flows on operational activities (I+/-II) - indirect method	11 637	24 182
<b>B. Cash flows on investment activities</b>		
I. Proceeds	112 524	80 452
1. Disposal of intangibles and tangible fixed assets	376	174
2. From financial assets, including:	112 148	80 278
a) In affiliated units	8 144	940
- payment of provided long-term loans	6 340	940
- Funds taken over from merger	1 804	
b) In other units	104 004	79 338
- Disposal of financial assets	104 004	79 338
II. Expenses	-132 090	-64 596
1. Acquisition of intangibles and tangible fixed assets	-20 512	-7 890
2. For financial assets, including:	-111 578	-56 706
a) In affiliated units	-5 996	-14 809
- Acquisition of financial assets	-4 955	-5 327
- Provided long-term loans	-1 041	-9 482
b) In other units	-105 582	-41 897
- Acquisition of financial assets	-105 582	-41 897
III. Net cash flows on investment activities (I-II)	-19 566	15 856
<b>C. Cash flows on financial activities</b>		
I. Proceeds	12 598	522
Net proceeds from stock issue (release of share) and other capital instruments and additional payments to capital	125	
2. Credits and loans	12 380	513
3. Other financial proceeds	93	9
II. Expenses	-13 417	-28 108
1. Acquisition of own stock (shares)		-20 643
2. Dividend and other payments for owners		-4 036
3. Payments of credits and loans	-4 598	-429
4. Buying out debt securities	-5 905	
5. Interest	-2 914	-3 000
III. Net cash flows on financial activities (I-II)	-819	-27 586
<b>D. Total net cash flows (A.III+/-B.III+/-C.III)</b>	<b>-8 748</b>	<b>12 452</b>
<b>E. Balance sheet change in the state of cash, including:</b>	<b>-8 986</b>	<b>12 452</b>
- Change in the state of cash on account of exchange rate differences	238	
<b>F. Cash as of the beginning of the period</b>	<b>30 487</b>	<b>18 035</b>
<b>G. Cash as of the end of the period (F+/-D), including:</b>	<b>21 501</b>	<b>30 487</b>
- With limited disposal capacity	404	435

## SUPPLEMENTARY INFORMATION AND EXPLANATIONS

### A. EXPLANATION NOTES

#### EXPLANATION NOTES FOR THE BALANCE SHEET

##### Note 1 a

INTANGIBLES	in PLN thou.	
	2004	2003
a) Costs of completed development work	290	701
b) licenses, patents and similar values, including:	1 573	1 314
- Computer software	549	899
c) Other intangibles	10	10
Total intangibles	1 873	2 025

##### Note 1b

CHANGES IN THE VALUE OF INTANGIBLES (ACCORDING TO TYPE GROUPS)							
in PLN thou.							
	a	b	c		d	e	Total intangibles
	costs of completed development work	goodwill	licenses, patents and similar values, including:	computer software	other intangibles	prepayments for intangibles	
a) Gross value of intangibles as of the beginning of the period	2 057		4 134	1 879	102		6 293
b) Gross value of intangibles taken over from merger			4 032	423	10		4 042
c) Increase (on account of)			732	10			732
- Acquisition			732	10			732
s) Gross value of intangibles as of the end of the period	2 057		8 898	2 312	112		11 067
e) Accumulated depreciation (amortisation) as of the beginning of the period	1 356		2 820	980	92		4 268
f) Accumulated depreciation (amortisation) taken over from merger			3 604	325	10		3 614
g) Depreciation for the period (on account of)	411		901	458			1 312
- Increase	411		901	458			1 312
- Planned depreciation	411		901	458			1 312
h) Accumulated depreciation (amortisation) as of the end of the period	1 767		7 325	1 763	102		9 194
i) Net value of intangibles as of the end of the period	290		1 573	549	10		1 873

##### Note 1 c

INTANGIBLES (OWNERSHIP STRUCTURE)	in PLN thou.	
	2004	2003
a) Own	1 873	2 025
Total intangibles	1 873	2 025



## Note 2 a

TANGIBLE FIXED ASSETS	in PLN thou.	
	2004	2003
a) Fixed assets, including:	67 208	33 677
- Land (including perpetual usufruct rights)	7 245	604
- Buildings, premises and objects of civil and water engineering	43 190	24 772
- Technical equipment and machines	11 468	5 740
- Means of transport	4 488	2 151
- Other fixed assets	817	410
b) Fixed assets in the construction phase	12 472	149
c) Prepayments against fixed assets in the construction phase		200
Total tangible fixed assets	79 680	34 026

## Note 2b

CHANGES IN FIXED ASSETS (ACCORDING TO TYPE GROUPS)						
in PLN thou.						
	- land (including perpetual usufruct rights)	buildings, premises and objects of civil and water engineering	- technical equipment and machines	means of transport	- other fixed assets	total fixed assets
a) Gross value of fixed assets as of the beginning of the period	736	27 019	15 082	3 751	2 034	48 622
b) Gross value of fixed assets adopted from merger	1 929	21 572	10 749	3 335	811	38 396
c) Increase (on account of)	4 727	79	4 926	1 149	201	11 082
-	4 727	79	4 926	1 149	201	11 082
d) Reduction (on account of)		27	210	344		581
-		27	210	344		581
e) Gross value of fixed assets as of the end of the period	7 392	48 643	30 547	7 891	3 046	97 519
f) Accumulated depreciation (amortisation) as of the beginning of the period	132	2 247	9 342	1 600	1 624	14 945
g) Accumulated depreciation (amortisation) adopted from merger	15	2 306	6 116	1 219	394	10 050
h) Depreciation for the period (on account of)		908	3 669	825	211	5613
Increase						
i) Reduction in depreciation		8	48	241		297
j) Accumulated depreciation (amortisation) as of the end of the period	147	5 453	19 079	3 403	2 229	30 311
k) Net value of fixed assets as of the end of the period	7 245	43 190	11 468	4 488	817	67 208

## Note 2 c

<b>BALANCE SHEET FIXED ASSETS (OWNERSHIP STRUCTURE)</b>	in PLN thou.	
	2004	2003
a) Own	66 790	33 677
b) Used on the basis of an agreement of rental, lease or another agreement, including an agreement of leasing, including:	418	
Total balance sheet fixed assets	67 208	33 677

## Note 2 d

<b>FIXED ASSETS PRESENTED IN NOMINAL ITEMS</b>	in PLN thou.	
	2004	2003
Used on the basis of an agreement of rental, lease or another agreement, including an agreement of leasing, including:	883	699
- Value of leasing cars	883	699
Total fixed assets presented in nominal items	883	699

## Note 3 a

<b>LONG-TERM FINANCIAL ASSETS</b>	in PLN thou.	
	2004	2003
a) In subsidiary units	22 962	55 242
- Shares or stock	17 109	55 242
- Granted loans	5 288	
- Other long-term financial assets (by type)	565	
- Interest due on long-term loans	565	
b) In affiliated units	11 008	11 008
- Shares or stock	11 008	11 008
In the dominant investor		
Shares or stock		
Debt securities		
Other securities (by type)		
Granted loans		
Other long-term financial assets (by type)		
In the dominant unit		
Shares or stock		
debt securities		
Other securities (by type)		
Granted loans		
Other long-term financial assets (by type)		
c) In other units	380	330
Shares or stock		
Debt securities		
Other securities (by type)		
- Granted loans	380	330
Other long-term financial assets (by type)		
Total long-term financial assets	34 350	66 580

## Note 3 b

<b>CHANGE IN THE STATE OF LONG-TERM FINANCIAL ASSETS (ACCORDING TO TYPE GROUPS)</b>	in PLN thou.	
	2004	2003
a) State as of the beginning of the period	66 580	58 397
Shares and stock		
b) State as of the beginning of the period	66 250	57 298
c) Increase (on account of)	4 955	8 952
- Acquisition of stock in subsidiary units	4 955	5 242
- Acquisition of stock in affiliated units		85
- Updating value of Interia.pl SA stock		2 184
- Updating value of shares in foreign currencies		1 441
d) Reduction (on account of)	43 088	
- Reduction of shares in reference to merger	41 675	
- Balance sheet appraisal of shares	1 413	
e) State as of the end of the period	28 117	66 250
Long-term loans and other long-term assets in affiliated units		
f) State as of the beginning of the period		762
g) Increase (on account of)	5 853	
- Change in classification into long-term loans granted to ComArch Software and ComArch Global companies	5 288	
- Interest due on long-term loans	565	
h) Reduction (on account of)		762
Change in classification into short-term financial asset loans granted to subsidiary units		762
i) State as of the end of the period	5 853	
Other loans		
j) State as of the beginning of the period	330	337
k) Increase (on account of)	280	277
- Loans granted to other units	280	277
l) Reduction (on account of)	230	284
- Change in classification into short-term	230	172
- Payment of loans by other units		112
m) State as of the end of the period	380	330
n) State as of the end of the period	34 350	66 580

## Note 3c

SHARES OR STOCK IN SUBSIDIARY UNITS												
Item	in PLN thou.											
	a	b	c	d	e	f	g	h	i	j	k	l
	name (companies) of the unit, including legal form	office	subject matter of the company	nature of affiliation (subordinate unit, co-subordinate unit, affiliated unit, including direct and indirect relationships)	the applied method of consolidation / appraisal with the method of ownership, or indication that the unit is not subject to consolidation / appraisal with the method of ownership rights	date of assuming control / co-control / obtaining major share	value of shares /stock by purchase price	adjustments updating value (total)	balance sheet value of shares /stock	percentage of initial capital owned	share in total number of votes in general assembly	indication of basis for control / co-control / major share different than the one specified under clauses j) or k)
1.	ComArch Global, Inc.	Miami, Florida	Sales of software and services in the US market	subsidiary	consolidated	24.06.1999	139	11	150	90,00	90,00	
2.	ComArch Software AG	Frankfurt am Mein	Sales of software and services in the European market	subsidiary	consolidated	13.09.1999	8 949	73	9 022	100,00	100,00	
3.	ComArch Middle East FZ-LCC	Dubai	Sales of IT systems in the Near East and support for the delivered IT systems	subsidiary	consolidated	08.04.2004	203	-41	162	100,00	100,00	
4.	ComArch s.r.o.	Sliac	Production of software	subsidiary	consolidated	31.08.2004	494	-15	479	100,00	100,00	
5.	ComArch Sp. z o.o. (Ukraine)	Kiev	Sales of IT systems in Ukraine and support for the delivered IT systems	subsidiary	consolidated	31.06.2004	34	-1	33	100,00	100,00	

6.	ComArch Panama Inc.	Panama	Sales and production IT systems in the Central and South America market	2 <sup>nd</sup> degree subsidiary (subsidiary to ComArch Global, Inc.)	consolidated	22.11.2004				90,00	90,00	
7.	ComArch Services Sp. z o.o *	Krakow	Delivery of tele-IT connections	subsidiary	consolidated	18.06.2004	53		53	99,90	99,90	
8.	Interia.pl SA	Krakow	Managing media and trade activities over the Internet (electronic commerce) and providing all services with the Internet network	affiliated	ownership rights method	13.08.1999	10510		10510	37,50	49,87	
9.	NetBrokersSp. z o.o.	Krakow	Intermediation in trading in the goods market, Internet activities	affiliated	ownership rights method	29.06.2000	497		497	40,00	40,00	
10.	MKS Cracovia SSA	Krakow	Activities in the scope of physical education and sport	subsidiary	consolidated	29.09.2003	7 209		7 209	49,15	49,15	The company is a subsidiary of ComArch SA due to Article 3. Clause 37 Para d) of the Accounting Act
11.	Fideltronik-ComArch Sp. z o.o.	Krakow	Sales and development of network computers and Web TV sets	affiliated	not consolidated	25.11.1998	2		2	50,00	50,00	

\* Formerly CIV Sp. z o.o.

## Note 3d

SHARES OR STOCK IN SUBSIDIARY UNITS																	
Item	in PLN thou.																
	a unit name	m own capital of the unit, including:						n obligations and reserves for obligations, including:			o receivables, including:		p assets, total	r proceeds on sales	s value of shares / stock in the unit unpaid by the issuer	t dividend from units received or due for the last accounting year	
		- initial capital	- due payments into the initial capital (negative value)	- supplementary capital	other own capital, including:		Long-term obligations	Short-term obligations	- long-term receivables	- short-term dues							
					profit (loss) from previous periods	Net profit (loss)											
1.	ComArch Global, Inc.	-5 840	154				-5 101	-2 497	10 799	2 564	6 466	2 810		2 810	4 959	8 382	
2.	ComArch Software AG	-863	222		8 125		-8 992	176	8 224	3 289	1 656	3 203		3 203	7 361	17 609	
3.	ComArch Middle East FZ-LCC	311	200					157	1 068		747	880		880	1 379	2 616	
4.	ComArch s.r.o.	471	487					-1	73		73	244		244	544	221	
5.	ComArch Sp. z. o.o. (Ukraine)	373	14					411	1 949		1 949	2 318		2 318	2 322	3 498	
6.	ComArch Panama Inc.***																
7.	ComArch Services Sp. z o.o.**	83	50					33	552		374	382		382	635	2 795	
8.	Interia.pl SA	7 246	6 569		41 625		-37 640	-3 308	5 493	850	4 298	4 054		4 054	12 739	8 528	
9.	NetBrokers Sp. z o.o.	2 972	750		1 096			1 126	517		517	1 712		1 712	3 489	32 963	
10.	MKS Cracovia SSA	28 636	14 557		11		-6 838	-2 243	9 179	684	2 729	1 652		1 652	37 815	9 464	
11.	Fideltronik-ComArch Sp. z o.o.*																

\* The company did not commence its activities, financial details irrelevant

\*\* Formerly CIV Sp. z o.o.

\*\*\* The initial capital of the company is USD 10,000 and is divided into 10,000 stock with the nominal value of USD 1 each, no financial data received, details irrelevant

## Note 3 e

<b>SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (CURRENCY STRUCTURE)</b>	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			18 271	55 721
b) In foreign currencies (by currencies and after calculation into PLN)			10411	10 529
b1. In currency	in thou.	USD	172	
After calculation into PLN thou.			484	
b2. In currency	in thou.	EUR	2 285	2 186
After calculation into PLN thou.			9 449	10 343
Other currencies in PLN thou.			478	186
Securities, shares and other long-term financial assets, total			28 682	66 250

## Note 3 f

<b>SECURITIES, SHARES AND OTHER LONG-TERM FINANCIAL ASSETS (BY DISPOSABILITY)</b>	in PLN thou.	
	2004	2003
c1)....		
c2)....		
c1)....		
c2)....		
a. Stock (balance sheet value) – allowed to public trading	10 510	10510
b. Adjustments updating value (for the period)		2 184
- Value as of the beginning of the period	10 510	8 326
- Value by acquisition price	10 510	10510
c. Other stock (balance sheet value):	16 381	55 242
- Adjustments updating value (for the period)	-1 413	1 441
- Reduction in value of shares related to merger	-41 675	
- Value as of the beginning of the period	55 740	48 559
- Value by acquisition price	16 352	53 801
d. Shares in limited liability companies (sp. z o.o.)	1 226	498
- Value as of the beginning of the period	1 226	413
- Value by acquisition price	1 226	498
e. Other – by type groups (balance sheet value):	565	
d1) interest due on long-term loans	565	
c2)....		
c1)....		
c2)....		
Value by acquisition price, total	28 653	64 809
Value as of the beginning of the period, total	66 250	57 298
Adjustments updating value (for the period), total	-40 262	3 625
Balance sheet value, total	28 682	66 250

## Note 3 g

GRANTED LONG-TERM LOANS (CURRENCY STRUCTURE)	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			380	330
b) In foreign currencies (by currencies and after calculation into PLN)			5 288	
b1. In currency	in thou.	EUR	710	
after calculation into PLN thou.			2 896	
b2. In currency	in thou.	USD	800	
After calculation into PLN thou.			2 392	
Securities, shares and other long-term financial assets, total			5 668	330

## Note 3 h

OTHER LONG-TERM INVESTMENTS (BY TYPE)	in PLN thou.	
	2004	2003
- Art	43	
Other long-term investments, total	43	

## Note 3i

CHANGE IN THE STATE OF OTHER LONG-TERM INVESTMENTS (BY TYPE GROUPS)	in PLN thou.	
	2004	2003
a) Increase (on account of)	43	
- Purchase of art	43	
b) state as of the end of the period	43	

## Note 3j

OTHER LONG-TERM INVESTMENTS (CURRENCY STRUCTURE)	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			43	
b1. In currency				
-				
Other long-term investments, total			43	

## Note 4a

CHANGE IN THE STATE OF ASSETS ON ACCOUNT OF DEFERRED INCOME TAX	in PLN thou.	
	2004	2003
1. State of assets on account of deferred income tax as of the beginning of the period, including:		590
2. Increase	200	
a) Taking over assets after merger on account of deferred tax set forth in CDN-ComArch SA	200	
3. Reduction	200	590
a) Referring to the financial result of the period in reference to negative temporary differences (on account of)	200	590
incapacity of settling assets in ComArch SA due to tax exemption because of Special Economic Zone activities	200	



In 2004, in reference to Poland joining the European Union and the necessity of adjusting Polish regulations to European regulations, change of the current functioning of tax allowances in Special Economic Zones (public aid) has occurred, from allowances unlimited in value into allowances limited in value and subsidiary to on value of the investments completed. In reference to the above, in 2004, the company for the first time since initiation of its activities in the Special Economic Zone calculated deferred income tax on account of temporary differences in income tax. As of 31 December 2004, this calculation presents asset on account of deferred income tax in the amount of PLN 2,169 thou. As the company manages both activities taxed on general principles and activities in which income is exempt from taxation up to the limit resulting from Special Economic Zone regulations, temporary differences may appear in both of the above types of activities, with the final determination as to in which of the activities (taxed or tax-exempt) temporary differences were included, is made on the basis of annual settlement of income tax for the accounting year ending on 31 December 2005, the company does not present deferred tax on account of temporary differences in its financial statement for 2004.

## Note 4b

<b>OTHER ACCRUALS</b>	in PLN thou.	
	2004	2003
a) Other accruals, including:		189
- Non-redeemed part of costs of company expansion		189
Other accruals, total		189

## Note 5a

<b>INVENTORY</b>	in PLN thou.	
	2004	2003
a) Materials	718	81
b) Semi-finished products and products in progress	7 764	6 756
c) Goods	5 703	1 602
Inventory, total	14 185	8 439

## Note 6a

<b>SHORT-TERM DUES</b>	in PLN thou.	
	2004	2003
a) From affiliated units	8 123	12 106
- On account of deliveries and services, with payment period of:	8 108	12 043
- Up to 12 months	8 108	12 043
- Other	15	63
b) Receivables from other units	65 977	52 674
- On account of deliveries and services, with payment period of:	64 798	52 588
- Up to 12 months	64 798	52 024
- More than 12 months		564
- On account of taxes, subsidies, customs, social and health insurance and other benefits	404	
- Other	775	86
Net short-term dues, total	74 100	64 780
c) Write-offs updating value of receivables	1 057	537
Gross short-term dues, total	75 157	65 317

## Note 6b

<b>SHORT-TERM DUES FROM AFFILIATED UNITS</b>	in PLN thou.	
	2004	2003
a) On account of deliveries and services, including:	8 108	12 043
- From subsidiary units	8 007	12 020
- From affiliated units	101	23
b) Other, including:	15	63
- From subsidiary units	15	63
Net short-term dues from affiliated units, total	8 123	12 106
Gross short-term dues from affiliated units, total	8 123	12 106

## Note 6c

<b>CHANGE IN THE STATE OF WRITE-OFFS UPDATING VALUE OF SHORT-TERM RECEIVABLES</b>	in PLN thou.	
	2004	2003
State as of the beginning of the period	537	517
a) Increase (on account of)	1 017	143
- Write-offs taken over from merger	466	143
- Establishing write-offs for questionable receivables	551	
b) Reduction (on account of)	497	123
- Dissolution of reserves	15	70
- Liquidation of write-offs (payment of receivables)	156	53
- Writing off time-barred receivables	326	
State of write-offs updating value of short-term receivables as of the end of the period	1 057	537

## Note 6d

<b>GROSS SHORT-TERM DUES (CURRENCY STRUCTURE)</b>	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			56 380	54 792
b) In foreign currencies (by currencies and after calculation into PLN)			18 777	10 525
b1. In currency	in thou.	EUR	2 543	1 651
After calculation into PLN thou.			10 268	7 733
b2. In currency	in thou.	USD	2 663	749
After calculation into PLN thou.			8 069	2 792
b3. In currency	in thou.	CHF	165	
After calculation into PLN thou.			436	
Other currencies in PLN thou.			4	
Short-term dues, total			75 157	65 317

**Note 6e**

<b>(GROSS) RECEIVABLES ON ACCOUNT OF DELIVERIES AND SERVICES, WITH PAYMENT PERIOD FROM THE BALANCE SHEET DATE:</b>	in PLN thou.	
	2004	2003
a) Less than 1 month	38 506	44 980
b) More than 1 month and less than 3 months	18 537	9 042
c) More than 3 months and less than 6 months	345	442
d) More than 6 months and less than 1 year	557	417
e) More than 1 year	185	564
f) Time-barred receivables	15 833	9 723
(Gross) receivables on account of deliveries and services, total	73 963	65 168
g) Write-offs updating value of receivables on account of deliveries and services	1 057	537
(Net) receivables on account of deliveries and services, total	72 906	64 631

With the regular course of sales, receivables listed in items a) to e) are related.

Payment deadline is one of integral elements of the financial offer of the ComArch Group. The Group applies different payment deadlines depending on agreement type and contractor. In particular, long payment deadlines result from using by public institutions of the so-called guarantee deposits settled after completion of a contract (i.e. withholding part of payment of each invoice until the contract is completely executed).

**Note 6f**

<b>(GROSS) TIME-BARRED RECEIVABLES ON ACCOUNT OF DELIVERIES AND SERVICES, BY RECEIVABLES UNPAID IN THEIR PAYMENT PERIOD</b>	in PLN thou.	
	2004	2003
a) Less than 1 month	7 511	5 531
b) More than 1 month and less than 3 months	85	2 247
c) More than 3 months and less than 6 months	3 963	870
d) More than 6 months and less than 1 year	2 656	632
e) More than 1 year	1 618	443
(Gross) time-barred total receivables on account of deliveries and services	15 833	9 723
f) Time-barred write-offs updating value of receivables on account of deliveries and services	1 057	537
(Net) time-barred total receivables on account of deliveries and services	14 776	9 186

**Note 7a**

Disputable and time-barred receivables (broken down by titles) as of 31.12.2004:

a) Disputable receivables: covered by updating write-offs	
b) Time-barred gross receivables	15 833
Including:	
- On account of deliveries of goods and services	15 833
Time-barred receivables on which updating write-offs were not made	14 776
Time-barred receivables covered by updating write-offs	1 057
Litigated receivables - covered by updating write-offs	

**Note 8a**

<b>SHORT-TERM FINANCIAL ASSETS</b>	in PLN thou.	
	2004	2003
a) In subsidiary units	368	13 960
- Loans granted	368	13 960
b) In other units	2 370	350
- Loans granted	370	350
- Other short-term financial assets (by type)	2 000	
c) Cash and other cash assets	21 504	31 001
- Cash at hand and in bank accounts	21 501	30 487
- Other cash assets	3	514
Short-term financial assets, total	24 242	45 311

**Note 8b**

<b>SECURITIES, SHARES AND OTHER SHORT-TERM FINANCIAL ASSETS (CURRENCY STRUCTURE)</b>	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			2 000	
b1. In currency				
–				
Securities, shares and other short-term financial assets, total			2 000	

**Note 8c**

<b>SECURITIES, SHARES AND OTHER SHORT-TERM FINANCIAL ASSETS (BY DISPOSABILITY)</b>	in PLN thou.	
	2004	2003
c1)....		
c2)....		
c1)....		
c2)....		
A. With unlimited disposability, not registered in the controlled market (balance sheet value)	2 000	
a. Other, according to type groups (balance sheet value):	2 000	
c1)....		
- Market value	2 000	
- Value by acquisition price	2 000	
c2)....		
c1)....		
c2)....		
Balance sheet value, total	2 000	

## Note 8d

GRANTED SHORT-TERM LOANS (CURRENCY STRUCTURE)	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			370	3 320
b) In foreign currencies (by currencies and after calculation into PLN)			368	10 990
b1. In currency	in thou.	USD	123	800
After calculation into PLN thou.			368	2 981
b2. In currency	in thou.	EUR		1 710
After calculation into PLN thou.				8 009
Other currencies in PLN thou.				
Granted short-term loans, total			738	14 310

## Note 8e

CASH AND OTHER CASH ASSETS (CURRENCY STRUCTURE)	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			11 772	28 364
b) In foreign currencies (by currencies and after calculation into PLN)			9 732	2 637
b1. In currency	thou.	EUR	1 818	361 238
After calculation into PLN thou.			7415	1 692
b2. In currency	thou.	USD	773	250 179
After calculation into PLN thou.			2 313	932
–				
Other currencies in PLN thou.			4	13
Cash and other cash assets, total			21 504	31 001

## Note 9a

SHORT-TERM ACCRUALS	in PLN thou.	
	2004	2003
a) Deferred costs, including:	2 785	2 597
- Costs of organisation and expansion of the joint stock company	189	1 100
- Costs related to of sales in future	1 628	1 155
- Property and traffic insurance	489	342
- Other	479	
b) Other accruals, including:	21 025	7 861
- Accruals on account of determining proceeds related to long-term contracts	20 631	7 861
- Proceeds from accruals	239	
- Deliveries without invoices	145	
- Other	10	
Short-term accruals, total	23 810	10 458

## Note 10a

INITIAL CAPITAL (STRUCTURE)								
in PLN thou.								
Series / issue	Stock type	Stock privilege type	Type of limitation of rights to stock	Number of stock	Value of series / issue by nominal value	Capital coverage	Registration date	Right to dividend (from)
A	registered preferential	vote 5:1	unlimited	883 600	883 600	company transformation	1994-12-20	1994-12-20
A	regular bearer's		unlimited	56 400	56 400	company transformation	1994-12-20	1994-12-20
B	registered preferential	vote 5:1	unlimited	883 600	883 600	cash	1995-03-24	1994-12-20
B	regular bearer's		unlimited	56 400	56 400	cash	1995-03-24	1994-12-20
C	regular bearer's		unlimited	3 008 000	3 008 000	cash	1997-06-20	1996-11-01
D	regular bearer's		unlimited	1 200 000	1 200 000	cash	1999-03-01	1997-11-01
E	regular bearer's		unlimited	638 600	638 600	cash	2000-03-08	1999-01-01
G	regular bearer's		unlimited	125 787	125 787	cash	2004-06-29	2004-01-01
Number of stock, total				6 852 387				
Initial capital, total					6 852 387			
Nominal value of one stock (w PLN)			1,00					

As of 31.12.2004, the married couple of Elżbieta and Janusz Filipiak were shareholders directly or indirectly through subsidiary to entities owning at least 5% of the total number of votes in the ComArch SA general assembly. Elżbieta and Janusz Filipiak own the total of 3,122,685 shares, with 9,702,685 votes in the GAS, which is 69.70% of all votes in the GAS. On 25 January 2005, Chairwoman of the Supervisory Board sold 30,000 regular bearer's shares of ComArch SA at PLN 68.

Execution of the manager option program due for the President, the Management Board, for 2003:

The Supervisory Board of the company on 29 March 2004 passed Resolution on execution of the manager option programme due for the President, the Management Board of the company on the basis of Resolution No. 6 of the Extraordinary General Assembly of Shareholders ComArch SA of 21 December 2001. Pursuant to Article 1 Clause 3 of this resolution, the option for 2003 was calculated in the amount of 5% of the increase in company capitalisation, between the average capitalisation of December 2002 and the average capitalisation of December 2003. Increase in capitalisation in this period was PLN 122,994,538.00, that is the option value was PLN 6,149,726.90. At the same time, the Board decided that in order to execute the option, 125,787 regular bearer's shares of series G shall be issued at issue price equal to nominal value, i.e. at PLN 1 each.

The ComArch SA Management, authorised by the Supervisory Board, passed Resolution No. 1 on 26 April 2004 on increasing the initial capital by way of a public issue of 125,787 regular bearer's shares of series G at nominal value of PLN 1 on change in the company Bylaws. The issue of series G shares excluded the collection right for current shareholders of the company. The issue price was PLN 1. The shares were covered solely with cash and shall participate in dividend starting with payments from profit to be allocated for distribution for the accounting year 2004, that is beginning with 1 January 2004.

The series G shares issue was conducted by way of private subscription referred to in Article 431 Para 2 Clause 1 of the Code of Trade Companies managed under conditions of public trading, while series G shares will be introduced into trading in the Warsaw Stock Exchange. All series G shares were offered to the President of the company.

Subscription to series G shares was conducted in 17 and 18 June 2004. On 17 June 2004, allocation of the shares was executed.

District Court for Krakow Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register issued a decision on 29 June 2004, by virtue of which registration was completed for 125,787 regular bearer's series G shares of the company. The said registration resulted in change in wording of the current Article 7 Para 1 of the Bylaws. The initial capital of the company after registration is PLN 6,852,387. The total number of votes for all the shares is 13,921,187.

Execution of the manager option program due for the President, the Management Board of the company for 2004:

The Supervisory Board of the company passed Resolution No. 1/3/2005 on 23 March 2005 on execution of the manager option program due for the President, the Management Board of the company on the basis of Resolution No. 6 of the Extraordinary General Assembly of ComArch SA Shareholders of 21 December 2001. Pursuant to Article 1 Clause 3 of this resolution, the option for 2004 is calculated in the amount of 5% increase in company capitalisation, between the average capitalisation of December 2003 and the average capitalisation of

December 2004. Increase in capitalisation in this the period was PLN 140,587,330.11, and option value is PLN 7,029,366.51. At the same time, the Board decided that in order to execute the option, 102,708 regular bearer's series G3 shares shall be issued at issue price equal to nominal value, i.e. at PLN 1 each. The Supervisory Board obliged the Management to pass a resolution within 30 days on issue of series G3 shares at enhanced conditions and expressed consent in reference to objectives of the program to exclude the collection right due for the current shareholders. The ComArch SA Management informs that issue of series G shares shall be conducted on principles of the target capital pursuant to Article 9 Para 3 of the Bylaws of the company.

## Note 11a

<b>SUPPLEMENTARY CAPITAL</b>	in PLN thou.	
	2004	2003
a) From sales of shares above nominal value	84 448	84 448
b) Statutory	2 409	2 409
c) Established pursuant to the bylaws / contract above the statutory (minimum) value	9 857	9 857
Supplementary capital, total	96 714	96 714

## Note 12a

<b>CAPITAL FROM APPRAISAL UPDATING</b>	in PLN thou.	
	2004	2003
a) Exchange rate differences from calculation of shares in foreign currencies	83	1 441
b) Other (by type)	-12	282
- The capital part of bonds convertible into shares	282	282
- The negative capital arising in buying out bonds	-294	
Capital from appraisal updating, total	71	1 723

## Note 13a

<b>OTHER RESERVE CAPITALS (BY TARGET ALLOCATION)</b>	in PLN thou.	
	2004	2003
- The investment capital	79	79
- The capital from profit distribution	21 203	8 940
- The supplementary capital for covering tax obligations	666	666
Other reserve capitals, total	21 948	9 685

## Note 14 a

<b>CHANGE IN THE STATE OF RESERVES ON ACCOUNT OF DEFERRED INCOME TAX</b>	in PLN thou.	
	2004	2003
1. Increase	11	
a) Taking over reserves established in CDN-ComArch SA (merger)	11	
2. Reduction	11	
a) Referred to the financial result of the period in reference to positive temporary differences (on account of)	11	

In 2004, in reference to Poland joining the European Union and the necessity of adjusting Polish regulations to European regulations, change of the current functioning of tax allowances in Special Economic Zones (public aid) has occurred, from allowances unlimited in value into allowances limited in value and subsidiary to on value of the investments completed. In reference to the above, in 2004, the company for the first time since initiation of its activities in the Special Economic Zone calculated deferred income tax on account of temporary differences in income tax. As of 31 December 2004, this calculation presents asset on account of deferred income tax in the amount of PLN 2,169 thou. As the company manages both activities taxed on general principles and activities in which income is exempt from taxation up to the limit resulting from Special Economic Zone regulations, temporary differences may appear in both of the above types of activities, with the final determination as to in which of the activities (taxed or tax-exempt) temporary differences were included, is made on the basis of annual settlement of income tax for the accounting year ending on 31 December 2005, the company does not present deferred tax on account of temporary differences in its financial statement for 2004.

## Note 14b

<b>CHANGE IN THE STATE OF OTHER SHORT-TERM RESERVES (BY TITLES)</b>	in PLN thou.	
	2004	2003
a) Increase (on account of)	100	
- Establishing reserves - amicable agreement with the contractor	100	
b) State as of the end of the period	100	

## Note 15 a

<b>LONG-TERM OBLIGATIONS</b>	in PLN thou.	
	2004	2003
a) To other units	45 937	42 290
- Credits and loans	7 465	
- On account of issue of debt securities	38 472	42 290
Long-term obligations, total	45 937	42 290

## Note 15 b

<b>LONG-TERM OBLIGATIONS WITH PAYMENT PERIOD FROM THE BALANCE SHEET DATE OF</b>	in PLN thou.	
	2004	2003
a) More than 1 year and less than 3 years	38 472	
b) More than 3 years and less than 5 years		42 290
c) More than 5 years	7 465	
Long-term obligations, total	45 937	42 290

## Note 15 c

<b>LONG-TERM OBLIGATIONS (CURRENCY STRUCTURE)</b>	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			45 937	42 290
b1. In currency				
Long-term obligations, total			45 937	42 290



Note 15 d

LONG-TERM OBLIGATIONS ON ACCOUNT OF CREDITS AND LOANS													
in PLN thou.													
Name (companies) of the unit, including legal form	Office	credit / loan amount according to the agreement				remaining due credit / loan amount				Interest terms	Payment deadline	Collateral	Other
		in PLN thou.	in currency	unit	currency	in PLN thou.	in currency	unit	currency				
Fortis Bank Polska SA	Warsaw	20 000				7 465				variable rate	10 years	a blank bill of exchange, mortgage, assignment of the policy	

Note 15 e

LONG-TERM OBLIGATIONS ON ACCOUNT OF THE ISSUED DEBT FINANCIAL INSTRUMENTS							
in PLN thou.							
Debt financial instruments by type	Nominal value	Interest terms	Buying out deadline	Guarantees / collateral	Additional rights	Quoted at	Other
bonds convertible into shares	40 000	7.5% p.a., payable in half-year periods and 21.84% payable at buying out bonds not converted into shares	2007-04-12	no collateral	possible conversion into ComArch SA shares in the ratio 175 shares per 1 bond, possible earlier buying out	Warsaw Stock Exchange	

## Note 16 a

SHORT-TERM OBLIGATIONS	in PLN thou.	
	2004	2003
a) To subsidiary units	779	2 107
- On account of deliveries and services, with due payment period of:	779	2 100
- Up to 12 months	779	2 100
- Other (by type)		7
- Investment obligations		7
b) To affiliated units	203	164
- On account of deliveries and services, with due payment period of:	203	164
- Up to 12 months	203	164
c) To other units	51 532	41 257
- Credits and loans	445	128
- Other financial obligations, including:	781	1 184
- On account of issue of debt securities	781	752
- On account of appraisal of fair value of derivative instruments		242
- On account of appraisal of fair value of built-in derivative instruments		190
- On account of deliveries and services, with due payment period of:	30 852	32 182
- Up to 12 months	30 852	32 182
- Prepayments received for deliveries	6 295	1 864
- On account of taxes, customs, insurance and other benefits	8 357	4 889
- On account of salaries	16	
- Other (by titles)	4 786	1 010
- Investment obligations	3 959	409
- Obligations on account of subsidies	223	563
- Obligations to employees	109	38
- Settlements on account of leasing	487	
- Other	8	
d) Special funds (by titles)	1 221	897
- Company Fund for Social Benefits and Company Fund for Residential Housing Loans	1 221	897
Short-term obligations, total	53 735	44 425

## Note 16 b

SHORT-TERM OBLIGATIONS (CURRENCY STRUCTURE)	unit	currency	in PLN thou.	
			2004	2003
a) In the Polish currency			42 408	38 459
b) In foreign currencies (by currencies and after calculation into PLN)			11 327	5 966
b1. In currency	in thou.	EUR	2 093	145
After calculation into PLN thou.			8 713	686
b2. In currency	in thou.	USD	804	1 401
After calculation into PLN thou.			2 397	5 275
b3. In currency	in thou.	GBP		13 900
After calculation into PLN thou.				93
Other currencies in PLN thou.			217	5
Short-term obligations, total			53 735	44 425

Note 16 c

<b>SHORT-TERM OBLIGATIONS ON ACCOUNT OF CREDITS AND LOANS</b>													
in PLN thou.													
Name (companies) of the unit	Office	Credit / loan amount according to an agreement				Remaining credit / loan amount				Interest terms	Payment deadline	Collateral	Other
		in PLN thou.	currency	unit	currency	in PLN thou.	in currency	unit	currency				
Fortis Bank Polska SA	Warsaw			in thou.		393							

Note 16d

<b>SHORT-TERM OBLIGATIONS ON ACCOUNT OF ISSUED DEBT FINANCIAL INSTRUMENTS</b>						
in PLN thou.						
Debt financial instruments by type	Nominal value	Interest terms	Buying out deadline	Guarantees / collateral	Additional rights	Other
Bonds convertible into shares	40 000	7.5% p.a., payable in half-year periods and 21.84% payable at buying out bonds not converted into shares	April 2005	Not secured	Possible conversion into ComArch SA shares at the ratio 175 shares per 1 bond, possible earlier buying out	
The amount of PLN 781 thou. given in the statement applies to current interest on bonds calculated for the period from 12.10.2004 to 31.12.2004. Interest due for the period to 12.10.2004 was paid.						

## Note 17a

OTHER ACCRUALS	in PLN thou.	
	2004	2003
a) Accrued settlements	18 055	9 493
- Short-term (by titles)	18 055	9 493
- Reserves for holiday leaves	4 179	1 548
- Costs related to the current period, which will be incurred in future	10 849	6 926
- Reserves for contract costs	924	1 012
- Costs without invoices	2 103	
- Other		7
b) Proceeds from accruals	391	
- Short-term (by titles)	391	
- Unearned income	391	
c) Accruals on account of long-term contracts	5 423	8 311
Other accruals, total	23 869	17 804

## Note 18 a

Book value per 1 share in column "2004" was calculated as book value (own capitals) divided by the number of shares as of 31.12.2004. Book value per 1 share in column "2003" was calculated as book value (own capitals) divided by the number of stock as of 31.12.2003.

Diluted book value per 1 share in column "2004" was calculated as book value as on 31.12.2004 divided by the number of shares as of 31.12.2004 increased by the hypothetical issue of 102,708 shares, which may be issued pursuant to the manager option program due for the President, the Management Board of the company.

In reference to the manager program passed by the Extraordinary General Assembly of Shareholders on 21.12.2001, the option for purchase of company shares is due for the President, the Management Board of ComArch SA, whose value according to calculations of the Management is PLN 7,029,367, i.e. 5% of the amount of PLN 140,587,330, which is the value of increase in the company capitalisation in 2004. The final determination of the amount of increase in capitalisation value remains with the Supervisory Board of the company. As of today, the Supervisory Board has not specified this amount and has not made the decision on the number and issue price of the issued stock. According to Management calculations, if the issue price for shares is PLN 1, 102,708 shares of the new issue should be issued.

Diluted book value per 1 share in column "2003" was calculated as book value of the company as of 31.12.2003 and the number of shares issued as of 31.12.2003, increased by the issue of 125,787 series G shares.

Pursuant to MSR 33, in calculation of diluted profit per 1 share (diluted book value per 1 share), regular shares should be regarded as diluting only when their conversion into regular shares would reduce net profit (book value). Analysis of terms and conditions for convertible bonds issued by the company concludes that for 2004, if bonds were converted into shares (which means at the same time reduction of financial costs on account of interest), diluted profit (book value) per share would increase, thus these shares are not regarded as diluting pursuant to MSR 33.

File	Description

## EXPLANATION NOTES TO NOMINAL ITEMS

## Note 19a

CONDITIONAL OBLIGATIONS FOR AFFILIATED UNITS (ON ACCOUNT OF)	in PLN thou.	
	2004	2003
a) Provided guarantees and pledges, including:	1 499	
- For affiliated units	1 499	
Conditional obligations for affiliated units, total	1 499	

## EXPLANATION NOTES TO THE PROFIT AND LOSS ACCOUNT

## Note 20a

<b>NET PROCEEDS FROM SALES OF PRODUCTS (MATERIAL STRUCTURE – TYPES OF ACTIVITIES)</b>	in PLN thou.	
	2004	2003
- Sales of IT services	94 208	78 213
- Including: from affiliated units	1 944	4 740
- Sales of licenses and own software	40 577	18 698
- Including: from affiliated units	8 642	5 070
- Sales of finished goods	2 395	
Including: from affiliated units		
- Remaining sales	2 008	742
- Including: from affiliated units	704	122
Net proceeds from sales of products, total	139 188	97 653
- Including: from affiliated units	11 290	9 932

## Note 20b

<b>NET PROCEEDS FROM SALES OF PRODUCTS (TERRITORIAL STRUCTURE)</b>	in PLN thou.	
	2004	2003
a) Country	106 350	83 263
- Including: from affiliated units	1 158	2 359
b) Export	32 838	14 390
- Including: from affiliated units	10 132	7 573
Net proceeds from sales of products, total	139 188	97 653
- Including: from affiliated units	11 290	9 932

## Note 21 a

<b>NET PROCEEDS FROM SALES OF GOODS AND MATERIALS (MATERIAL STRUCTURE - TYPES OF ACTIVITIES)</b>	in PLN thou.	
	2004	2003
- Computer hardware	65 194	62 574
- Including: from affiliated units	739	5 801
- Software and foreign licenses	38 245	18 686
- Including: from affiliated units	201	1 314
- Other	7 204	6 143
- Including: from affiliated units	150	865
Net proceeds from sales of goods and materials, total	110 643	87 403
- Including: from affiliated units	1 090	7 980

## Note 21 b

<b>NET PROCEEDS FROM SALES OF GOODS AND MATERIALS (TERRITORIAL STRUCTURE)</b>	in PLN thou.	
	2004	2003
a) Country	109 208	87 041
- Including: from affiliated units	977	7 980
Including: from affiliated units		
Including: from affiliated units		
b) Export	1 435	362
- Including: from affiliated units	113	
Including: from affiliated units		
Including: from affiliated units		
Net proceeds from sales of goods and materials, total	110 643	87 403
- Including: from affiliated units	1 090	7 980

## Note 22 a

<b>COSTS BY TYPE</b>	in PLN thou.	
	2004	2003
a) Depreciation	6 925	6 863
b) Consumption of materials and energy	2 719	2 041
c) Foreign services	44 817	36 009
d) Taxes and fees	768	880
e) Salaries	54 400	30 875
f) Social insurance and other benefits	8 142	4 962
g) Other type costs (on account of)	7 974	4 556
Costs by type, total	125 745	86 186
Change in the state of inventory, products and accruals	3 209	230
Costs of sales (negative value)	-18 363	-10 270
Overheads (negative value)	-20 321	-14 614
Cost of generation of sold products	90 270	61 532

## Note 23 a

<b>OTHER OPERATIONAL PROCEEDS</b>	in PLN thou.	
	2004	2003
a) Dissolved reserves (on account of)	156	70
- Dissolution of updating write-offs – payment	156	
- Dissolution of updating write-offs – receivables		70
b) Other, including:	732	355
- Received traffic damages	55	75
- Time-barred obligations	126	62
- Received boni	55	
- Refunding VAT paid abroad	282	
- Received contractual indemnities, damages	39	
- Refunding from US tax on civil and legal activities		140
- Other	175	78
Other operational proceeds, total	888	425

## Note 24 a

<b>OTHER OPERATIONAL COSTS</b>	in PLN thou.	
	2004	2003
a) Other, including:	2 069	692
- Membership fees	179	164
- Donations	231	180
- Penalties paid	181	
- Costs of work financed with subsidies	498	
- Receivables written off not covered with an earlier updating write-off		11
- Write-off updating receivables	551	143
- Other	429	194
Other operational costs, total	2 069	692

## Note 25 a

<b>FINANCIAL PROCEEDS ON ACCOUNT OF INTEREST</b>	in PLN thou.	
	2004	2003
a) On account of granted loans	357	327
- From affiliated units, including:	357	327
- From subsidiary units	357	327
b) Other interest	695	864
- From other units	695	864
Financial proceeds on account of interest, total	1 052	1 191

## Note 25 b

<b>OTHER FINANCIAL PROCEEDS</b>	in PLN thou.	
	2004	2003
a) Other, including:		6
- Sales of claims		6
Other financial proceeds, total		6

## Note 26 a

<b>FINANCIAL COSTS ON ACCOUNT OF INTEREST</b>	in PLN thou.	
	2004	'003
a) Other interest	4 789	4 544
- For other units	4 789	4 544
Financial costs on account of interest, total	4 789	4 544

## Note 26 b

<b>OTHER FINANCIAL COSTS</b>	in PLN thou.	
	2004	2003
a) Negative exchange rate differences, including:	2 292	3 015
- Executed	-405	2 798
- Not executed	2 697	217
b) Other, including:	668	1 038
- Commission on guarantees	420	570
- Result in forward transactions	66	
- Appraisal of fair value of built-in derivative instruments		432
- Other	182	36
Other financial costs, total	2 960	4 053

## Note 27 a

<b>CURRENT INCOME TAX</b>	in PLN thou.	
	2004	2003
1. Gross profit (loss)	8 589	12 853
2. Permanent differences between gross profit (loss) and taxable amount for income tax	4 162	1 810
3. Temporary differences between gross profit (loss) and taxable amount for income tax	4 072	10 705
4. Other differences between gross profit (loss) and taxable amount for income tax, including	-16 823	-25 368
- Income exempt on account of activities run in a Special Economic Zone	-16 823	-25 368
Income tax at the rate of 19%		
- Presented in the profit and loss account	190	590
- Deferred	190	590

## Note 27 b

<b>DEFERRED INCOME TAX PRESENTED IN THE PROFIT AND LOSS ACCOUNT:</b>	in PLN thou.	
	2004	2003
- Reduction (increase) on account of arising and inversion of temporary differences		590
- Increase on account of taking over from CDN-ComArch SA	190	
Deferred income tax, total	190	590

## Note 28 a

The General Assembly Shareholders on 30.06.2004 decided that net profit generated in the accounting year from 1 January 2003 to 31 December 2003 in the amount of PLN 12,263,482.20 is allocated in entirety for the reserve capital. The ComArch SA Management has not made a decision until the publication date of this report concerning a proposed distribution of profit for 2004.

File	Description



## Note 29 a

Net profit per 1 share in column "2004" was calculated as net profit achieved in the period 1.01.2004-31.12.2004 divided by the average weighted number of shares in the period 1.01.2004-31.12.2004, where the number of days is the weight. Net profit per 1 share in column "2003" was calculated as net profit achieved in the period 1.01.2003-31.12.2003 divided by the average weighted number of shares in the period 1.01.2003-31.12.2003, where the number of days is the weight.

Diluted net profit per 1 share in column "2004" was calculated as net profit achieved in the period 1.01.2004-31.12.2004 divided by the average weighted number of shares in the period 1.01.2004-31.12.2004 calculated according to MSR 33. Diluted net profit per 1 share in column "2003" was calculated as net profit achieved in the period 1.01.2003-31.12.2003 divided by the average weighted diluted number of shares for the period 1.01.2003-31.12.2003 calculated according to MSR 33.

Pursuant to MSR 33, in calculation of diluted profit per 1 share (diluted book value per 1 share), regular shares should be regarded as diluting only when their conversion into regular shares would reduce net profit (book value). Analysis of terms and conditions for convertible bonds issued by the company concludes that for 2004, if bonds were converted into shares (which means at the same time reduction of financial costs on account of interest), diluted profit (book value) per share would increase, thus these shares are not regarded as diluting pursuant to MSR 33.

File	Description

**EXPLANATION NOTES TO THE CASHFLOW STATEMENT**

File	Description
noty objasniajace do rachunku przeplywow.pdf	Explanation notes to the cashflow statement – Appendix No. 5

CASH FLOWS ON OPERATIONAL ACTIVITIES (INDIRECT METHOD)	in PLN thou.	
	2004	2003

**B. ADDITIONAL EXPLANATION NOTES**

File	Description
dotatkowe noty objasniajace.pdf	Additional explanation notes – Appendix No. 6

**SIGNATURES**

SIGNATURES OF ALL MANAGEMENT MEMBERS			
Date	First and last name	Post / Function	Signature
2005-04-04	Janusz Filipiak	President, the Management Board	
2005-04-04	Rafał Chwast	Deputy President, the Management Board	
2005-04-04	Tomasz Maciantowicz	Deputy President, the Management Board	
2005-04-04	Paweł Prokop	Deputy President, the Management Board	
2005-04-04	Paweł Przewięźlikowski	Deputy President, the Management Board	
2005-04-04	Christophe Debou	Member, the Management	
2005-04-04	Zbigniew Rymarczyk	Member, the Management	

SIGNATURE OF THE PERSON ENTRUSTED WITH MANAGING BOOKS OF ACCOUNT			
Date	First and last name	Post / Function	Signature
2005-04-04	Maria Smolińska	Chief Accountant	

**REPORT OF THE MANAGEMENT BOARD (REPORT ON ACTIVITIES OF THE ISSUER)**

File	Description
sprawozdanie zarzadu.pdf	Report of the Management Board – Appendix No. 7

In this report, the following notes have not been filed in:

3. Long-term receivables, change in the state of long-term receivables (by titles), change in the state of write-offs updating value of long-term receivables, long-term receivables (currency structure).
4. Change in the state of real estate properties (according to type groups), change in the state of intangibles (according to type groups), shares or stock in subsidiary units appraised with the ownership rights method, including: change in the state of goodwill – subsidiary units, change in goodwill – co-subsidiary to units, change in the state of goodwill – affiliated units, change in the state of negative goodwill – subsidiary units, change in the state of negative goodwill – co-subsidiary to units, change in the state of negative goodwill – affiliated units, shares or stock in other units.
9. Other short-term investments (by type), other short-term investments (currency structure).
11. Updating write-offs.
13. Own stock (shares), stock (shares) of the issuer owned by subsidiary units.
17. Write-offs from net profit during the accounting year (on account of).
18. Change in the state of long-term reserves for old-age pension benefits and similar (by titles), change in the state of short-term reserves for old-age pension benefits and similar (by titles), change in the state of other long-term reserves (by titles).
21. Change in the state of negative goodwill.
23. Conditional receivables from affiliated units (on account of).
29. Financial proceeds on account of dividend and shares in profits.
31. Profit (loss) on sales of entirety or part of shares in subsidiary units.
32. Extraordinary profits.
33. Extraordinary losses.
34. Total amount of deferred tax, income tax presented in the related profit and loss account.
35. Other obligatory reductions in profit (increase in losses), on account of.
36. Share in net profits (losses) in subsidiary units appraised with the ownership rights method, including.

## Opinion of an independent expert auditor

For Shareholders and Supervisory Board of ComArch S.A.

We have audited the attached financial statement of the company of ComArch S.A. (called hereafter the Company), with the office in Krakow, Al. Jana Pawła II 39a, consisting of:

- (a) The introduction;
- (b) The balance sheet prepared as of 31 December 2004, which in assets and liabilities gives the sum of PLN 252,283 thou.;
- (c) The profit and loss account for accounting year from 1 January to 31 December 2004, presenting net profit in the amount of PLN 8,399 thou.;
- (d) The summary of changes in own capital for accounting year from 1 January to 31 December 2004, presenting increase in own capital by the amount of PLN 1,323 thou.;
- (e) The cashflow statement for accounting year from 1 January to 31 December 2004, presenting net cash outflows in the amount of PLN 8,748 thou.;
- (f) The supplementary information and explanations.

Preparing the financial statement and the statement on activities compliant with regulations in force is the responsibility of the Management of the Company. Our responsibility was to express, on the basis of the conducted audit, an opinion about the financial statement.

We have conducted the audit pursuant to the following regulations in force in the territory of the Republic of Poland:

- (a) Regulations of Chapter 7 of the Accounting Act of 29 September 1994 (the "Act," the unified text in Dz.U. 2002, Vol. 76 Item 694 as amended);
- (b) Standards for executing the profession of expert auditor, issued by the National Board for Expert Auditors in Poland.

The audit was planned and conducted so as to obtain satisfactory assurance that the financial statement is free of material errors and omissions. The audit included, inter alia, verification, on the basis of a random set, of proofs confirming amounts and information given in the financial statement. The audit included also assessment of accounting principles used by the Company and significant estimates made in preparation of the financial statement, as well as general assessment of its presentation. We believe that our audit provides a satisfactory basis for our opinion.

Information given in the statement of activities of the Company for accounting year from 1 January to 31 December 2004 take into account regulations of the Ordinance of the Council of Ministers of 16 October 2001 on current and periodical information submitted by issuers of securities (Dz.U. 2001, Vol. 139, Item 1569 as amended) and are compliant with information given in the audited financial statement.

In our opinion, the attached financial statement in all its significant aspects:

- (a) Has been prepared on the basis of properly managed books of account and pursuant to accounting principles in force in the territory of the Republic of Poland used in a consistent manner, specified with the aforementioned Act and with regulations taken into account which are included in the Ordinance of the Council of Ministers of 16 October 2001 on current and periodical information submitted by issuers of securities and in the Ordinance of the Council of Ministers of 11 August 2004 on detailed conditions which should be met by any issuing prospectus and by any prospectus summary (Dz.U. 2004, Vol. 186, Item 1921);
- (b) Is consistent in form and content with regulations of the law binding the Company and Bylaws of the Company;
- (c) Presents gives a true and fair view on the equity and financial situation of the Company as of 31 December 2004 and on the financial result for accounting year from 1 January to 31 December 2004.

Acting on behalf of PricewaterhouseCoopers Sp. z o.o. and auditing:

Mirosław Szmigielski  
Member, the Management  
Expert Auditor  
Registration No. 90045/7397

The company entered in the list of entities authorised for auditing financial statements under item 144

Warsaw, 4 April 2005

ComArch S.A.

**The report supplementing the opinion on auditing the financial statement for accounting year from 1 January to 31 December 2004**

## The report supplementing the opinion from auditing the financial statement

For Shareholders and Supervisory Board of ComArch S.A.

This report was prepared in reference to auditing the financial statement of ComArch S.A. with the office in Krakow, Al. Jana Pawła II 39a, (called hereafter the "Company"). Auditing covered the financial statement including:

- a) The introduction;
- b) The balance sheet prepared as of 31 December 2004, which in assets and liabilities gives the sum of PLN 252,283 thou.;
- c) The profit and loss account for accounting year from 1 January to 31 December 2004, presenting net profit in the amount of PLN 8,399 thou.;
- d) The summary of changes in own capital for accounting year from 1 January to 31 December 2004, presenting increase in own capital by the amount of PLN 1,323 thou.;
- e) The cashflow statement for accounting year from 1 January to 31 December 2004, presenting net cash outflows in the amount of PLN 8,748 thou.;
- f) The supplementary information and explanations.

The financial statement has been signed by the Management of the Company and by the person entrusted with managing the books of account on 4 April 2005. The report should be read along with the opinion of an independent expert auditor for Shareholders and Supervisory Board of ComArch S.A. of 4 April 2005 concerning the aforementioned financial statement. The opinion on the financial statement expresses the general conclusion resulting from the conducted audit. This conclusion does not constitute a sum of assessments of results from auditing particular items or issues of the statement, but assumes giving appropriate significance (weight) to particular factors, taking into account the effect of the facts found out on true and fair expression of the financial statement.

The report has 16 consecutive numbered pages and consists of the following parts:

	Page
I. General Characteristics of the Company	2
II. Information Related to the Conducted Audit	4
III. Characteristics of Results and Financial Situation of the Unit	5
IV. Characteristics of Selected Items of the Financial Statement	7
V. Conclusions of the Independent Expert Auditor	15

Acting on behalf of PricewaterhouseCoopers Sp. z o.o. and auditing:

Mirosław Szmigielski  
Member, the Management  
Expert Auditor  
Registration No. 90045/7397

The company entered in the list of entities authorised  
for auditing financial statements under item 144

Warsaw, 4 April 2005

## I. General Characteristics of the Company

- (a) The Company started activities in 1991 as limited liability company on the basis of the deed of establishment of 9 May 1991.

On 30 November 1994, the Assembly of Partners of ComArch Sp. z o.o. passed Resolution No. 2/94 on transforming the company into a joint stock company. District Court for Krakow Srodmiescie, Department VI for Commercial and Registration Issues, with the decision of 20 December 1994 entered ComArch S.A. into the commercial register.

On 30 October 2001, District Court for Krakow Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register, entered the Company into the Register of Entrepreneurs under item KRS 0000057567.

- (b) For the purpose of settlements on account of taxes, on 1 August 2000 the Company was allocated NIP 677-00-65-406. For statistical purposes, on 14 July 2000 the unit received REGON 350527377.
- (c) The initial capital of the Company as of 31 December 2004 was PLN 6,852,387 and consisted of 6,852,387 shares with the nominal value of PLN 1 each.

- (d) In the audited period, the subject matter of activities were:

- Activities in the scope of tele-IT and IT;
- Producing subassemblies and software, computer hardware and networks, telecommunications and other IT hardware;
- Technical and scientific counselling in the scope of hardware, systems, computer and telecommunications networks;
- Intermediation in the scope of purchase and installation of hardware, systems, computer and telecommunications networks;
- Organisation of promotion for hardware, systems and computer and telecommunications networks and organisation of training in this scope;
- Commercial activities, production, construction, trade and services in the scope of IT and telecommunications;
- Research and development work.

- (e) In the accounting year, the following persons were members of the Company Management:

- |                          |   |
|--------------------------|---|
| • Janusz Filipiak        | President, the Management Board           |
| • Rafał Chwast           | Deputy President, the Management Board    |
| • Tomasz Maciantowicz    | Deputy President, the Management Board    |
| • Paweł Prokop           | Deputy President, the Management Board    |
| • Paweł Przewięźlikowski | Deputy President, the Management Board    |
| • Robert Chwastek        | Member, the Management                    |
| • Christophe Debou       | Member, the Management                    |
| • Zbigniew Rymarczyk     | Member, the Management since 18 June 2004 |

On 29 March 2005, Robert Chwastek resigned the function of Member, the Management.

- (f) As of 31 December 2004, the following units were related to the Company:

ComArch Software A.G.	subsidiary company
ComArch Global, Inc	subsidiary company
ComArch Middle East FZ-LCC	subsidiary company
ComArch s.r.o.	subsidiary company
ComArch Sp. z o.o. (Ukraine)	subsidiary company
ComArch Services Sp. z o.o.	subsidiary company
Fideltronik-ComArch Sp. z o.o.	subsidiary company
MKS Cracovia SSA	subsidiary company
ComArch Panama Inc.	2 <sup>nd</sup> degree subsidiary company
Interia.pl S.A.	affiliated company
NetBrokers Sp. z o.o.	affiliated company

- (g) ComArch S.A. is operating in the "Krakowski Park Technologiczny" Special Economic Zone ("SSE"). ComArch, on 1 July 2004, received a decision from the Minister of Economy concerning changes in conditions of permit for managing activities in the Special Economic Zone based on changes made in the act

regulating principles of taking advantage of allowances in the Special Economic Zone. The previous allowance was unlimited in value and only time-restricted, now it was transformed into an allowance limited in value and subsidiary to on value of the completed investments. In case of ComArch S.A., the maximum value of public aid may not exceed 75% of the value of investment expenditures, which ComArch S.A. has incurred / will incur in the period from obtaining the permit, i.e. from 22 March 1999, to 31 December 2006. 2017 is the last year, in which the Company may use the obtained allowance.

## II. Information Related to the Conducted Audit

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed the expert auditor of the Company with Resolution No. 13/6/2003 of the Supervisory Board of 23 June 2003 on the basis of Article 19 Para 2 Clause e) of the Bylaws of the Company.
- (b) PricewaterhouseCoopers Sp. z o.o. and an expert auditor managing the audit are independent of the audited unit in the meaning of Article 66 Para 2 of the Accounting Act.
- (c) Auditing was conducted on the basis of an agreement made on 27 June 2003 in the period of:
  - Preliminary audit from 13 September to 24 September 2004
  - Final audit from 7 March to 4 April 2005

## III. Characteristics of Results and Financial Situation of the Unit

The following comments are made based on the knowledge obtained during auditing the financial statement.

In the audited year, the following phenomena significantly affected the financial result and the equity and financial situation of the Company.

Comparability of financial statements for years 2003 and 2004, thus information value of financial indexes related to these periods, may be limited due to the merger of ComArch S.A. with ComArch Krakow S.A. and CDN-ComArch S.A. as of 31 August 2004. The merger transaction was settled in the books with the acquisition method. In reference to the above, balance sheet items as of the end of the audited year include assets and liabilities taken over from both of the above companies, and the profit and loss account includes results of the activities of the merged entities starting with 1 September 2004.

The basic activity of the Company in the current period, similarly to previous periods, was sales of IT services and computer hardware. During 2004, the Company generated proceeds from sales in the amount of PLN 249,831 thou. (in 2003: PLN 185,056 thou.). These proceeds were obtained mostly from sales of: IT services (PLN 94,208 thou.), computer hardware (PLN 65,194 thou.) and own and foreign licenses (for the total amount of PLN 78,822 thou.). As compared with the previous period, proceeds from sales were higher by PLN 64,775 thou. (i.e. by 35%). Structure of proceeds was not changed significantly. Proceeds from sales of products constituted in the current period 56% (53% in 2003), while proceeds from sales of goods constituted 44% of all the operational proceeds (47% in 2003). The domestic market was still the basic one, in which 86% of sales was generated. Share of export sales in all proceeds increased from 8% to 14% against the previous year.

In 2004, the Company obtained similar margins on sales of products against the previous period. The obtained margin on sales of products was 35% (in 2003 – 37%). Margin on sales of goods did not change significantly either against the previous period and was 5%. The obtained gross margin on total sales was maintained at the level of the previous year and was 22%.

Operational costs incurred in 2004 were PLN 233,712 thou. and were higher than in the previous year by PLN 64,826 thou. (38%). Costs increased by 3 per cents more than increase in sales in general.

Costs of sales increased against the previous period by 79%, mostly as a result of merging ComArch Krakow S.A. and CDN-ComArch S.A. Both companies were incurring significant costs of sales (costs of sales departments in both companies are given in the ComArch S.A. statement beginning with 1 September 2004) and higher expenses for advertising conducted through MKS Cracovia SSA. Increase in overhead costs by 39% results from increase in costs of salaries.

In the structure of costs, value of sold goods and materials takes the largest share (PLN 104,758 thou., i.e. 45%). Against the previous year, these costs are higher by PLN 22,288 thou. (i.e. 27%), due to increase in proceeds from sales of goods and materials.

Another significant item of type costs were salaries along with allowances for employees at PLN 62,542 thou. They were increased by 75% against the previous year, mostly due to higher average annual employment in the Company (1,045 persons against 874 persons in 2003).

Foreign services constituted in the audited period the third largest item of operational costs incurred by the Company (19% of these costs) and reached PLN 44,817 thou. (in 2003: PLN 36,009 thou.). Purchase of IT services by the Company for the needs of contracts formed the largest share in costs of foreign services.

Financial costs exceeded financial proceeds by PLN 6,332 thou. (in 2003: PLN 3,627 thou.). Financial proceeds were reduced from PLN 4,970 thou. in 2003 to PLN 1,474 thou. in the current year. In 2003, inverting write-off updating value of Interia.pl shares in the amount of PLN 2,184 thou. formed a significant part of financial proceeds.

As of the end of the accounting year, assets of the Company were PLN 252,283 thou. During the year, the balance sheet sum increased by PLN 20,475 thou., i.e. by 9%. Fixed assets constituted, as of the end of the audited period, 46% of all assets, including the most significant item of tangible fixed assets: 32% of all assets.

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Significant decrease in long-term investments was caused by the merger with subsidiary companies: ComArch Krakow S.A. and CDN ComArch S.A., and by excluding the settlement of shares owned in both companies as a result.

Major increase in tangible fixed assets is also a consequence of taking over equity from both companies for the total net value of PLN 28,346 thou. (as of the merger date).

In current assets, the most significant change is decrease in the balance of short-term investments to PLN 24,242 thou. (by PLN 21,069 thou.). This is due to extending payment deadlines for loans granted to affiliated entities and, in consequence, change in their classification into long-term assets and decrease in the cash balance by PLN 9,497 thou.

Cash was allocated for buying out part of bonds convertible into shares and for financing investment expenses. Short-term dues similarly the previous year constituted the most significant item in current assets (PLN 74,100 thou.), accounting for 29% of all assets as of the end of the audited period.

As a result of settlement of the ComArch Krakow S.A. and CDN-ComArch S.A merger, negative capital arose from settlement in the amount of PLN 7,334 thou. However, with the current profit obtained during the year in the amount of PLN 8,399 thou. and with allocation of the entire profit from 2003 into the reserve capital, own capital increased by PLN 1,323 thou. Moreover, in liabilities, short- and long-term obligations increased (in total by PLN 12,957 thou.), with accrued settlements (PLN 6,065 thou.).



## IV. Characteristics of Selected Items of the Financial Statement

## BALANCE SHEET as of 31 December 2004

	Notes	31.12.2004 PLN thou.	31.12.2003 PLN thou.	Change PLN thou.	Change %	31.12.2004 Structure (%)	31.12.2003 Structure (%)
<b>ASSETS</b>							
Fixed assets							
Intangibles		1.873	2.025	(152)	(7,5)	0,8	0,9
Tangible fixed assets	1	79.680	34.026	45.654	134,2	31,6	14,7
Long-term investments	2	34.393	66.580	(32.187)	(48,3)	13,6	28,7
Long-term accruals		-	189	(189)	(100,0)	-	0,1
		<u>115.946</u>	<u>102.820</u>	<u>13.126</u>	<u>12,8</u>	<u>46,0</u>	<u>44,4</u>
Current assets							
Inventory		14.185	8.439	5.746	68,1	5,6	3,7
Short-term dues	3	74.100	64.780	9.320	14,4	29,4	27,9
Short-term investments		24.242	45.311	(21.069)	(46,5)	9,6	19,5
Short-term accruals		23.810	10.458	13.352	127,7	9,4	4,5
		<u>136.337</u>	<u>128.988</u>	<u>7.349</u>	<u>5,7</u>	<u>54,0</u>	<u>55,6</u>
Total assets		<u>252.283</u>	<u>231.808</u>	<u>20.475</u>	<u>8,8</u>	<u>100,0</u>	<u>100,0</u>
<b>LIABILITIES</b>							
Own capital							
Basic capital	4	6.852	6.727	125	1,9	2,7	2,9
Supplementary capital	5	96.714	96.714	-	-	38,4	41,7
Capital from appraisal updating		71	1.723	(1.652)	(95,9)	-	0,8
Other reserve capitals		21.948	9.685	12.263	126,6	8,7	4,2
Capital from merger settlement		(7.334)	-	(7.334)	-	(2,9)	-
Profit from previous periods		1.992	779	1.213	155,7	0,8	0,3
Net profit	6	8.399	11.661	(3.262)	(28,0)	3,3	5,0
		<u>128.642</u>	<u>127.289</u>	<u>1.353</u>	<u>1,1</u>	<u>51,0%</u>	<u>54,9</u>
Obligations and reserves for obligations							
Reserves for obligations		100	-	100	-	-	-
Long-term obligations	7	45.937	42.290	3.647	8,6	18,2	18,2
Short-term obligations	8	53.735	44.425	9.310	21,0	21,3	19,2
Accruals		23.869	17.804	6.065	34,1	9,5	7,7
		<u>123.641</u>	<u>104.519</u>	<u>19.122</u>	<u>18,3</u>	<u>49,0</u>	<u>45,1</u>
Total liabilities		<u>252.283</u>	<u>231.808</u>	<u>20.475</u>	<u>8,8</u>	<u>100,0</u>	<u>100,0</u>

## PROFIT AND LOSS ACCOUNT

For accounting year from 1 January to 31 December 2004

	2004 PLN thou.	2003 PLN thou.	Change PLN thou.	Change %	2004 Structure (%)	2003 Structure (%)
Net proceeds from sales of products, goods and materials	249.831	185.056	64.775	35,0	100,0	100,0
Costs of sold products, goods and materials	(195.028)	(144.002)	(51.026)	35,4	(78,1)	(77,8)
Gross profit on sales	54.803	41.054	13.749	33,5	21,9	22,2
Costs of sales	(18.363)	(10.270)	(8.093)	78,8	(7,3)	(5,6)
Overheads	(20.321)	(14.614)	(5.707)	39,1	(8,1)	(7,9)
Profit on sales	16.119	16.170	(51)	(0,3)	6,5	8,7
Other operational proceeds	933	437	496	113,5	0,4	0,2
Other operational costs	(2.131)	(729)	(1.402)	192,3	(0,9)	(0,3)
Profit on operational activities	14.921	15.878	(957)	(6,0)	6,0	8,6
Financial proceeds	1.474	4.970	(3.496)	(70,3)	0,6	2,7
Financial costs	(7.806)	(8.597)	791	(9,2)	(3,1)	(4,7)
Gross profit	8.589	12.251	(3.662)	(29,9)	3,5	6,6
Income tax	(190)	(590)	400	(67,8)	(0,1)	(0,3)
Net profit	8.399	11.661	(3.262)	(28,0)	3,4	6,3

Presentation of the equity and financial situation and the financial result of the Company

The following indexes feature commercial operations of the Company, its financial result for the accounting year and its equity and financial situation as of the balance sheet date against previous periods:

	2004	2003	2002
Activity indexes			
- Receivables rotation	87 days	100 days	92 days
- Inventory rotation	21 days	19 days	21 days
Profitability indexes			
- Profitability of gross sales	22%	22%	24%
- Profitability of net sales	3%	6%	6%
- Profitability of gross sales	6%	9%	7%
- General profitability of capital	7%	9%	7%
Debt indexes			
- Debt ration	49%	45%	38%
- Rotation of obligations	50 days	63 days	56 days
Liquidity indexes			
	31.12.2004	31.12.2003	31.12.2002
- Liquidity index I	1,8	2,1	2,8
- Liquidity index II	1,6	1,9	2,6

## Balance sheet as of 31 December 2004

## 1. Tangible fixed assets

In the audited year, gross value of tangible fixed assets increased by PLN 48,897 thou. and reached PLN 97,519 thou. as of the end of 2004. Increase referred mostly to fixed assets taken over as a result of merger (PLN 38,396 thou. in gross value, PLN 28,346 thou. in net book value). Moreover, the company purchased perpetual usufruct rights in Krakow (in the amount of PLN 4,727 thou.), machines and equipment (in the amount of PLN 4,926 thou., including computer hardware in the amount of PLN 4,495 thou.) and means of transport (in the amount of PLN 1,149 thou.).

In the current year, the Company initiated investment in office buildings in Krakow and Warsaw. The total value of fixed assets in the construction phase as of the end was PLN 12,472 thou.

Depreciation was PLN 5,613 thou., with fixed assets sold and liquidated for the net book value of PLN 284 thou.

## 2. Long-term investments

Value of long-term investments as of the end of the audited year was PLN 34,393 thou. The balance includes mostly investments in shares in subsidiary companies in the amount of PLN 17,109 thou. and in affiliated companies in the amount of PLN 11,008 thou. along with long-term loans with interest charged for the total amount of PLN 6,233 thou. Against the previous year, it means decrease of long-term investments by PLN 32,187 thou. This decrease is mostly due to the conducted merger with ComArch Krakow S.A. and CDN-ComArch S.A companies and the settlement resulting from this transaction and exclusion of shares in both companies (for the total amount of PLN 41,675 thou.). The Company acquired shares in subsidiary units in the amount of PLN 4,955 thou., including the most significant purchase for value reason in the form of acquisition of new MKS Cracovia SSA shares for PLN 4,169 thou. Moreover, the Company extended payment deadline for loans provided to affiliated units, as a result of which PLN 5,853 thou. of loans along with interest was re-classified into long-term investments.

## 3. Short-term dues

The balance of short-term receivables as of 31.12.2004 includes receivables on account of deliveries and services in the amount of PLN 72,906 thou. (all with payment period of up to 12 months), receivables on account of taxes, subsidies, customs and social and health insurance in the amount of PLN 404 thou. and other receivables in the amount of PLN 790 thou. Increase in the balance of short-term receivables against the previous year by PLN 9,320 thou. results mostly from increase of sales.

## 4. Own capital

	31.12.2003 *	Change in accounting principles	Profit distribution	Result of the current year	Increasing capital	Other	31.12.2004
	PLN thou.	PLN thou.	PLN thou.	PLN thou.	PLN thou.	PLN thou.	PLN thou.
Initial capital	6.727				125		6.852
Supplementary capital	96.714						96.714
Capital from appraisal updating	1.723					(1.652)	71
Other reserve capitals	9.685		12.263				21.948
Profit from previous periods	207	572	(602)			1.815	1.992
Net profit	12.263	(602)	(11.661)	8.399			8.399
Capital from merger settlement	-					(7.334)	(7.334)
Total	<u>127.319</u>						<u>128.642</u>

In reference to changes in the Ordinance becoming effective in 2004 of the Minister of Finances of 12.12.2001 on detailed principles of approving, appraisal methods, the scope of disclosing and the method of presenting financial instruments in order to make adjustments to requirements of the Ordinance, the Company, starting with 2004, does not recognise the built-in derivative instrument in agreements expressed in foreign currency, in which in the domestic market agreements for delivery of specific goods and services are commonly concluded.

Thus, the Company changed the accounting principles, at the same time making 2003 data comparable. As a result of transformation of data for 2003, the net profit for this year was reduced by PLN 602 thou. and the profit from previous periods as of 31 December 2002 was increased by the amount of PLN 572 thou. (the total result from previous periods as of 31 December 2003 was reduced by PLN 30 thou.).

The detailed description of adjustments was given in Supplementary Information and Explanations to the financial statement.

In the audited year, the initial capital was increased by the amount of PLN 125 thou. with the issue of 125,787 series G shares for the nominal value and issue price equal to PLN 1 each as a result of execution

of the manager option for the President, the Management Board for 2003.

Reduction in the capital from appraisal updating by PLN 1,652 thou. includes update of shares in subsidiary companies appraisal expressed in foreign currencies and settlement of buying out part of bonds convertible into shares.

Profit from previous periods was increased by PLN 1,785 thou. including by PLN 30 thou. on account of changes in accounting principles and by PLN 1,815 thou. on account of financial results of the taken over companies, from 1 January 2004 until the merger date.

As a result of the merger, negative capital in the amount of PLN 7,334 thou. arose, which was the difference between the value of shares owned by the Company and the value of taken over net assets.

5. Initial capital – ownership structure

As of 31 December 2004, the following were shareholders of the Company with at least 5% of votes in the general assembly:

Name of the shareholder	Number of shares owned	Nominal value of owned shares	% of owned votes
Elżbieta and Janusz Filipiak	3.122.685	3.122.685	69,70%

6. Net financial result

Net profit for the audited year was PLN 8,399 thou. Pursuant to the information in the financial statement, the Management until the date of signing the financial statement did not make the decision concerning proposal for distribution of profit for the year 2004.

Pursuant to the Resolution of the General Assembly of Shareholders of 30 June 2004, profit for the previous year was allocated for reserve capital.

7. Long-term obligations

The balance of long-term obligations as of 31.12.2004 is PLN 45,937 thou. and includes obligations on account of credits in the amount of PLN 7,465 thou. and obligations on account of issued bonds convertible into shares along with interest calculated for payments at the time of buying out bonds in the amount of PLN 38,472 thou.

8. Short-term obligations

As of the balance sheet date, the balance of short-term obligations includes the following items: obligations on account of deliveries and services in the amount of PLN 31,631 thou. (all with due payment period of up to 12 months), obligations on account of credits and loans in the amount of PLN 445 thou., financial obligations on account of short-term interest on own bonds in the amount of PLN 781 thou., on account of taxes, customs and insurance in the amount of PLN 8,357 thou., on account of prepayments received for deliveries in the amount of PLN 6,295 thou. and other obligations in the amount of PLN 4,786 thou. (mostly: investments) and special funds (PLN 1,221 thou.).

The balance of short-term obligations increased against the previous year by PLN 9,310 thou. This is due, first of all, from the received prepayments for deliveries (increase by PLN 4,431 thou.) and from obligations on account of taxes, customs and social insurance (increase by PLN 3,468 thou., mostly on account of VAT).

9. Equity collateral established for third persons

Mortgage in the perpetual usufruct rights to land and the constructed real estate property (regular mortgage for PLN 20,000 thou.), deposit mortgage (PLN 4,700 thou.) in interest and a blank bill of exchange and assignment of the insurance policy for the construction serve as collateral for the investment credit.

V. Conclusions of the Independent Expert Auditor

- (a) The Management of the Company presented during the audit the requested information, explanations and statements and submitted a statement about complete inclusion of data in the books of account and detailing all conditional obligations, as well as informed about significant events, which occurred after the balance sheet date before the date of submitting the statement.
- (b) The scope of the audit was not limited.
- (c) The Company had current documentation, approved of by the Management, describing accounting principles (policy). The accounting principles adopted by the Company were adjusted to its needs and ensured selection from accounting of all significant events for assessment of the equity and financial situation and the financial result of the Company, with the due care principle maintained. Changes in the used accounting principles were properly given in additional information and explanations.
- (d) The closing balance sheet as of the end of the previous accounting year was, in all significant aspects, properly entered in the books of account as the opening balance sheet for the current period.
- (e) We have assessed proper functioning of the book-keeping system. Our assessment covered, in particular:
  - Proper documentation of commercial operations,
  - Fair, error-free and verification of books of account, including also those managed with a computer,

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- The applied methods of ensuring security of access to data and their processing system with a computer,
  - Protection of accounting documentation, books of account and financial statements.

This assessment, combined with auditing credibility of particular items in the financial statement, forms the basis for expressing the total, complete and unreserved opinion on fair and reliable nature of the statement. Our audit was not to express a comprehensive opinion on functioning of the above stated system.

- (f) Introduction and supplementary information and explanations present all significant information specified by the Ordinance of the Council of Ministers of 11 August 2004 on detailed conditions, which should be met by any issuing prospectus and any prospectus summary in a complete and proper way.
- (g) The report from activities of the unit takes into account the issue required by the Ordinance of the Council of Ministers of 16 October 2001 on current and periodical information submitted by issuers of securities. Financial information included in it correspond with information presented in the financial statement.
- (h) Stock-taking of assets and liabilities was conducted and settled pursuant to the Accounting Act, and its results were given in the books of account for the audited year.
- (i) During the audit, no significant violation of the law was found out, nor any significant violation of the Bylaws, which would affect the financial statement.
- (j) The financial statement for the previous year was audited by PricewaterhouseCoopers Sp. z o.o. The expert auditor issued an opinion without any qualifications.
- (k) The financial statement of the Company for the accounting year from 1 January to 31 December 2003 was approved of with Resolution No. 4 of the General Assembly of Shareholders of 30 June 2004 and filed in the National Court Register in Krakow on 21 July 2004 and published in Monitor Polski B No. 189/2004.

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Krakow, 4.04.2005

Dear Shareholders,

The year 2004 ended for the ComArch Group with record proceeds from sales and net profit. Almost 30% increase in proceeds and over 50% increase in net profit best reflect achievements of ComArch in the last year. The fact is of special importance that this increase is in entirety an organic one.

At the time of globalisation of economy, the key factor deciding about market position and results achieved is competitiveness of the offered products. The ComArch brand, after several years of expansion abroad, is better and better recognised in the world, not only in neighbouring countries of Central Europe, but also in Western Europe, both Americas and in the Near East. ComArch systems serve clients in over twenty countries in four continents. Simultaneously with extending the client base, volume of contracts concluded increases and client type changes, with the most significant global companies appearing among them.

ComArch is not only focused on current financial results being at satisfying level, but also all the time systematically builds long-term competitiveness. An important element of this process is finding and employing the best graduates of Polish higher schools. In 2004, the Group increased by over four hundred employees. All the time, R&D work is conducted, financed both from own means and from the obtained European funds. Although it encumbers financial results in a short-term span, in the perspective of several years these expenses will flourish with stronger position of ComArch among IT companies.

ComArch, enjoying tax allowances on account of activities in the Special Economic Zone in Krakow, commenced in 2004 construction of a new production building for the needs of the conducted IT activities. When it is completed, which is planned for the second quarter of 2005, over four hundred employees will be relocated from the now rented premises into a new, own location. With this, not only should work effectiveness increase, but also expenses incurred for renting premises should be cut down. The Company has plans for commencing construction of yet another building, as the now built one will not have enough space for all ComArch employees in Krakow.

Dynamic development of the Group and superb financial results do not hide the risk related to development rate for the Management of the Company. The Management is aware of it and fully controls the risk of dynamic increase. On parallel to efforts related to winning new clients and producing new products, the Management continuously improves the existing management procedures, so as they correspond with the Group scale and structure.

Professor Janusz Filipiak

President, the Management Board

ComArch SA

## INTRODUCTION TO THE FINANCIAL STATEMENT SA-R 2004 COMARCH SA

- 1) The basic subject matter of activities by ComArch SA with the office in Krakow, Al. Jana Pawła II 39 A, are production, trade and services activities in the scope of IT and telecommunications – PKD 72.20. Court designation: District Court for Krakow – Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register. KRS file: 0000057567.

Duration of the Company is not limited.

In the tables of the report:

- The previous period means the period of 01.01.2003 -31.12.2003 and includes 12 months,
- The current period means the period of 01.01.2004 - 31.12.2004 and includes 12 months.

On 31.12.2004, the following persons composed the Supervisory Board of ComArch SA:

- Elżbieta Filipiak - Chairwoman of the Board,
- Krzysztof Zieliński – Deputy Chairman of the Board,
- Maciej Brzeziński – Member of the Board,
- Anna Ławrynowicz – Member of the Board,
- Wojciech Kucharzyk – Member of the Board.

On 31.12.2004, the following persons were in the Management of ComArch SA:

- Janusz Filipiak - President, the Management Board,
- Rafał Chwast - Deputy President, the Management Board,
- Tomasz Maciantowicz - Deputy President, the Management Board,
- Paweł Prokop - Deputy President, the Management Board,
- Paweł Przewięźlikowski - Deputy President, the Management Board,
- Robert Chwastek - Member, the Management,
- Christophe Debou - Member, the Management,
- Zbigniew Rymarczyk - Member, the Management.

On 29.03.2005, Robert Chwastek filed resignation from the performed function of Member of the Management in ComArch SA. Mr. Robert Chwastek reported personal issues as reasons for this resignation.

ComArch SA is the dominant unit and prepares a consolidated financial statement.

This report is a statement prepared after merging ComArch SA, ComArch Krakow SA and CDN-ComArch SA companies, which occurred on 31.08.2004. The merger of the said companies in both cases occurred on the basis of the provision of Article 492 Para 1 Clause 1) in reference to Article 515 Para 1 of the Code of Trade Companies. The said companies merged in the mode referred to in Article 492 Para 1 Clause 1) of the Code of Trade Companies, i.e. in merger by acceptance.

All equity of the taken over companies, i.e. ComArch Krakow SA and CDN-ComArch SA, was assigned for the taking over company, i.e. ComArch SA. The merger was settled with the acquisition method.

The Management of the Company indicates that comparability of data for 2004 against earlier years is deformed, as on 31.08.2004 ComArch SA took over the companies of ComArch Krakow SA and CDN-ComArch SA. In reference to the fact that financial details of ComArch SA as of 31.12.2004 will include financial details of taken over companies, their comparing with data of the Company for previous years may lead to erroneous conclusions. Consolidated details are much more adequate for analysing annual results of ComArch.

The financial statement was prepared with the assumption of continuing commercial activities by ComArch SA in foreseeable future. According to the Management of the Company, there are no circumstances indicating threat to continuing activities.

- 2) Change in the adopted accounting principles

In reference to changes in the Ordinance of the Minister of Finances of 12.12.2001 becoming effective in 2004 on instruments, detailed principles of recognition, methods of appraisal, scope of disclosing and method of presentation of financial instruments (Dz. U. 2001 Vol. 149, Item 1674 and 2004 Vol. 31 Item 266) and in order to adjust to requirements of the Ordinance, the Company made changes in principles of recognition of built-in derivative instruments starting with 2004.

At the same time, to ensure comparability of data 2004 and 2003, the Company made changes in presentation of data for 2003 against the data given in the report SA-R 2003. The amended Ordinance defines situations, in which built-in derivative instruments are not recognised. Pursuant to Para 10 Clause 1a 5) c) of the Ordinance, built-in derivative instruments are not recognised in the situation when an agreement made is in currency, in which in the domestic market agreements are commonly made for delivery of specific goods and services.

Summary and explanation of differences is given in the supplementary explanation note.

- 3) The opinion issued by an entity authorised for auditing financial statements of ComArch SA for 2003 did not have any reservations.
- 4) Principles of appraisal of assets and liabilities and measuring financial result.

The financial statement was prepared pursuant to the Accounting Act and the Ordinance on prospectus and the Ordinance in periodical reports.

#### I. Fixed assets

##### A) Intangibles

Intangibles are given in the register by acquisition price with their depreciation taken into consideration. The Group makes depreciation write-offs with the linear method. The following depreciation rates are assumed:

- Computer software: 30%
- Licenses: 30%
- Copyright: 30%
- Other rights: 10-20%

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

##### B) Tangible fixed assets

###### B1. Own fixed assets

These were appraised according to acquisition price or costs of generation after deducting depreciation write-offs in proportion to the period of use and write-offs on account of permanent loss of value.

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

The means are depreciated with the linear method with application of depreciation rates corresponding with the period of their economic usability. In particular, depreciation rates are: 30% (group IV) and 20% (groups VII and VIII). In case of fixed assets acquired in order to be used in a specific project, the depreciation period is determined as the period of project duration.

Land and perpetual usufruct rights are not subject to depreciation.

In 2004, changes in estimate of periods of usability of computer hardware were made, which resulted in changing depreciation rates from 60% to 30%. Newly acquired low-price fixed assets, beginning with 1 January 2004, are subject to linear depreciation in the way corresponding with the period of their economic usability.

B2. Fixed assets in the construction phase: are appraised by purchase price less write-offs on account of permanent loss of value.

B3. Improvements in foreign permanent means are appraised by purchase price with reduction by depreciation taken into consideration. These apply to buildings and construction objects and are depreciated with the linear method in the period of their economic use.

B4. Fixed assets used on the basis of leasing agreements made after 01.01.2002 are included in groups of fixed assets if conditions are met resulting from Article 3 Para 4 of the Accounting Act and are appraised by fair value determined as of the beginning of the agreement or as of reception of the leasing object into use, or at the current value of minimum leasing fees, if it is lower from fair value.

##### C) Long-term investments

###### C1. Long-term financial assets

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

Shares are appraised in the books of account as of their acquisition or origination date at acquisition price, and as of balance sheet date according to acquisition price with write-offs deducted on account of permanent loss of value. In case of permanent loss of value, the updating write-off is made not later than as of the balance sheet date.

#### II. Current assets

##### A) Inventory, products in progress and goods

Production in progress given in the statement refers to software produced by ComArch SA and allocated for multiple sales. Production in progress is appraised at technical direct costs of generation.

Applications software produced by ComArch SA and allocated for multiple sales is appraised in the period of their providing economic benefits, not longer than 36 months, beginning with the sales date, in the amount of surplus of costs of their generation over net proceeds obtained from sales of these products within another 36 months. Costs of generation not written off after this period increase other operational costs.

Depending on the nature of the produced software and assessment of the possibility of its sale, the principle



is used of writing off into own costs the expenditures incurred for its generation in the amount of 50% to 100% invoiced in the above period of sales, provided that the rate of 50% is used as the basic one. If the company has earlier information about limiting the possibility of further sales, it immediately makes the write-off updating value of production in progress in the amount of expenditures, in reference to which the probability occurs of not regaining them, or makes a one-time write-off of the entirety of unsettled expenditures (depending on the degree of risk assessment) into own cost of sales.

Goods are appraised according to the actual purchase price, not higher from net sales price.

#### B) Receivables

As of the date of origination, they are given in the books at nominal value as of the balance sheet date in the payable amount.

Receivables on account of deliveries and services are included in short-term receivables.

Other receivables, depending on due payment date (to or more than 12 months) beginning with the balance sheet date are given as short- or long-term.

In order to make value of receivables real, they are reduced by write-offs updating value of questionable receivables.

Receivables in foreign currencies are appraised as of the balance sheet date at the NBP average exchange rate. Exchange rate differences realised and resulting from the balance sheet appraisal are referenced after compensation into proceeds or financial costs, respectively.

#### C) Short-term financial assets

Assets given in the statement include mostly cash assets and loans granted to other units.

Cash assets include cash at hand and in bank accounts and interest on financial assets calculated by notes.

Cash in national currency is appraised in nominal value, while cash in foreign currencies is appraised at NBP average exchange rates.

#### D) Deferred costs.

Deferred costs settle expenses incurred in advance, but related to future reporting periods. Settlement of costs longer than 12 months starting with the balance sheet date are regarded as a long-term item.

Accrued settlements include also surplus of sales in long-term contracts made according to Article 34 a Para 1 and Para 2 Clause 2 of the Accounting Act over value of sales invoiced to contractors.

### III. Own capital

Own capital includes, among others:

- The initial capital of the dominant unit presented at nominal value,
- The supplementary capital established from profit distribution with the principles and limits specified in the Code of Trade Companies and from the surplus of sales of stock above their nominal value,
- The capital from appraisal updating as a result of appraisal of the capital part of long-term obligations on account of the issued own bonds and depreciation of the part of own bonds convertible into shares, as well as consequences of appraisal of shares owned by ComArch SA in foreign currencies,
- Other reserve capitals established from profit distribution allocated for investment goals and other specified in the bylaws, appraised at nominal price,
- Undivided profit resulting from adjustments on account of changes in accounting principles in 2002 in reference to amendment of the Accounting Act and adjustments related to changes in principles for recognising built-in derivative instruments. Undivided profit includes also results for the period I-VIII 2004, for companies merging with ComArch SA,
- The capital from merger.

### IV. Obligations and reserves for obligations

#### A) Obligations

As of the origination date, they are given in the books at nominal value, and in the payable amount as of the balance sheet date.

Obligations on account of deliveries and services are regarded as short-term items, while other obligations, depending on the period of payment (to or over 12 months from the balance sheet date), as short- or long-term items. Obligations in foreign currencies are appraised as of the balance sheet date at average NBP exchange rates. Obligation on account of issue of own bonds convertible into shares are appraised as of the balance sheet date at depreciated cost.

B) Special funds include in entirety the Company Fund for Social Benefits and the Residential Housing Fund established from profit distribution for years 1998 and 1999.

#### C) Accrued costs and proceeds

Deferred costs include probable costs related to the audited accounting period, whose exact value is not yet known, including reserves for costs of contract completion, which find no coverage in proceeds.

Accrued proceeds include also surplus of sales invoiced to contractors over the value of proceeds from sales in long-term contracts determined according to Article 34 a Para 1 and Para 2 Clause 2 of the Accounting Act.

V. Appraisal of balance sheet assets and liabilities expressed in foreign currencies and principles for determining exchange rate differences:

A) During the accounting year

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

B) As of the balance sheet date

1. Items of assets and liabilities with exclusion of shares in subsidiary units appraised with the ownership rights method, at average exchange rates for currencies as determined by NBP for the given day.
2. Exchange rate differences related to long-term investments are settled against the capital from appraisal updating or financial proceeds and costs, respectively (pursuant to Article 35 Paras 2 and 4 of the Act).
3. Exchange rate differences related to other assets and liabilities and arising in payment of receivables and obligations are included in financial proceeds or costs, respectively.

Executed exchange rate differences related to receivables and obligations are determined on the current basis, while not executed exchange rate differences related to receivables and obligations and cash in bank accounts are appraised as of the end of each quarter (with the principle of significance).

VI. Financial instruments

Derivative instruments constituting a protection instrument in the meaning of Articles 27-30 of the Ordinance, which are securing fair value are appraised at fair value, and change in appraisal is referenced to the result on financial operations.

Derivative instruments constituting a protection instrument in the meaning of Articles 27-30 of the Ordinance, which are securing cash flows are appraised at fair value, and the change in appraisal is referenced:

- a) To the capital from appraisal updating (in the part constituting effective collateral),
- b) To the result from financial operations (in the part not constituting effective collateral).

Derivative instruments not constituting a protection instrument in the meaning of Articles 27-30 of the Ordinance are appraised at fair value, and the change in appraisal is referenced to the result on financial operations.

VII. Financial result

ComArch SA prepares the profit and loss account in the calculation version with the principle of coherence of proceeds and costs.

The activities conducted by ComArch SA mostly consists in producing software for multiple sales and for execution of IT integration contracts. Within integration contracts, ComArch offers execution of turn-key IT systems consisting of: software (own and foreign) and/or computer hardware and/or providing services such as:

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

Integration contracts executed by ComArch SA are given in the books pursuant to Article 34 a-d of the Act, with the degree of contract progression is measured with share of costs incurred against total costs of services.

The following items are taken into account for determining the total proceeds from the contract:

- Proceeds from own software (irrespective of its form of delivery, that is: licenses, equity rights, etc.),
- Proceeds from services referred to in the previous paragraph.

Unit manager may make a decision on including the estimated proceeds in total proceeds from the contract, for which probability is high that they will be executed (e.g. in execution of a contract, for technical reasons, project is modified and there is justified probability that the ordering party will accept the modification and amount of proceeds resulting from this modification).

For integration contracts, within which software by the ComArch Group allocated for multiple sales is delivered, proceeds and costs related to this software and proceeds and costs related to the remaining part

of the integration contract are given in the books separately.

Different integration contracts are combined and given in the books as one contract, if:

- a) Agreements are executed at the same time or in time continuity and precise separation of costs of their execution is impossible, or
- b) Agreements are so closely inter-related that in reality they are one part of a single project with a profit margin for the project.

A. Proceeds are given according to the note principle.

Proceeds from execution of unfinished long-term services (contracts) are defined in proportion to commitment of services pursuant to Article 34a Para 2 Clause 1.

Proceeds from sales of other services, products, goods and other items of equity include sums of due invoiced proceeds expressed in actual sales prices with discounts and rebates taken into consideration, without VAT tax.

B. Costs include:

1. In reference to long-term contracts - all expenditures incurred in the given period for execution of contracts are appraised at cost of generation.
2. In reference to other services, goods and other items of equity - value of sold (invoiced) products, goods and other items is appraised at cost of generation or at acquisition prices.
3. All the incurred overhead costs and costs of sales in the given period.

In the item "Costs of sold products, goods and materials from affiliated units," in the profit and loss account, the Company presents value of products, goods and materials purchased from affiliated units not covered by consolidation, excluding those, which are included in general costs, sales or other operational costs.

Costs of sales include costs of marketing and costs of acquiring new orders by ComArch SA sales centres (sections).

General costs include costs of ComArch SA functioning as an entirety and include in particular costs of management and costs of sections operating for the needs of the Company.

C. Other proceeds and operational costs

These include proceeds and costs not related directly to regular activities of the unit and include mostly: result on sales of tangible fixed assets and intangibles, donations, established reserves, consequences of asset value updating.

D. Proceeds and financial costs

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

The financial result is determined pursuant to Article 42 of the Accounting Act.

In reference to temporary differences between the value of assets and liabilities given in the books of account and their taxable value and taxable loss deductible in future, reserve is established and assets are determined on account of deferred income tax.

Assets on account of deferred income tax are determined in the amount foreseen to be deducted in future from income tax, in reference to negative temporary differences, which will result in the future reduction of the taxable income for income tax and deductible tax loss, determined with the principle of due care.

Reserve on account of deferred income tax is established in the amount of income tax required to be paid in future in reference to positive temporary differences, that is differences which will increase the taxable amount for the future income tax.

Amount of reserves and assets on account of deferred income tax is determined with income tax rates in force in the year when the tax obligation occurs.

The difference between reserves and assets on account of deferred tax as of the end and as of the beginning of the reporting period affects the financial result, with reserves and assets on account of deferred income tax related to operations settled with own capital, referring also to own capital.

ComArch SA on 01.07.2004 received the decision of the Minister of Economy of 24.06.2004 concerning changes in the conditions of the permit for managing activities in the Special Economic Zone into the conditions set forth in the Act on Amending the Act on Special Economic Zones and Some Other Acts of 02.10.2003 (DZ. U. Vol. 188 Item 1840). Pursuant to the provision of Article 5 Para 2 Clause 1 b), Clause 2 and Clause 3 of the Act, the maximum amount of public aid for entities managing activities in Special Economic Zones on the basis of the permit issued before 1 January 2000 may not exceed 75% of the value of investments incurred in the period from the day of obtaining the permit to 31.12.2006, provided that the total amount of public aid obtained from 1 January 2001 is taken into account in determination of the maximum amount of public aid. It means change in the current method of functioning of tax allowance on account of corporate income tax, from the allowance unlimited in value into an allowance limited in value and subsidiary to on the value of investments made. In case of ComArch SA, the maximum value of public aid may not exceed 75% of the value of investment expenditures which ComArch SA has incurred / will incur in

the period from obtaining the permit, i.e. from 22 March 1999, to 31.12.2006. Exemption on account of income tax is included within this limit.

The cashflow statement is prepared with the indirect method.

5) Principles for calculation of Polish Zloty in to Euro.

EURO exchange rates used for calculation of financial data:

The average NBP exchange rate of 31.12.2004 4,0790

The average NBP exchange rate of 31.12.2003 4,7170

The arithmetical average of NBP exchange rates as of the end of each month for the period 1.01-31.12.2004,5182

The arithmetical average of NBP exchange rates as of the end of each month for the period 1.01-31.12.2003 - 4,4474

Minimum NBP exchange rate in the period 1.01-31.12.2004 4,0518

Minimum NBP exchange rate in the period 1.01-31.12.2003 3,9773

Maximum NBP exchange rate in the period 1.01-31.12.2004 4,9149

Maximum NBP exchange rate in the period 1.01-31.12.2003 4,7170

The table "Selected financial details" points I-VIII and XVI-XVII give appraisals by the arithmetical average of exchange rates published by NBP in force as of the last day of each month in the given period, while points IX-XIV and XVIII-XX give details according to the NBP rate in force as of the end of the period.

6) Differences between Polish Principles of Accounting and the International Standards for Financial Reporting.

Specification of differences:

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

MSR 38 bans capitalisation of costs related to opening or expanding activities, ordering inclusion of it in the result of the period or, pursuant to Interpretation SIC 17, in case when they are directly related to acquiring capital, directly into capitals. Pursuant to Article 36 Para 2b of the Accounting Act, costs of stock issue related to expansion of activities of a joint stock company into surplus amount of value of the issue above the nominal value of shares reduce the supplementary capital. However, in the temporary period, the non-redeemed part of the above costs previously given in intangibles, is given in accruals and is settled with the result of the current period.

b) Managing activities in Special Economic Zones

The Company analyses inclusion in the financial statement according to MSSF of consequences resulting from changes in the nature of the exemption in the scope of corporate income tax from allowances unlimited in value into an allowance limited in value and subsidiary to on value of investments made, in reference to managing ComArch SA activities in the Special Economic Zone.

## EXPLANATION NOTES TO THE CASHFLOW STATEMENT TO THE REPORT SA-R 2004 COMARCH SA

Note 30.

### STRUCTURE OF CASH (CURRENT YEAR)

	31.12.2003	31.12.2004	Change in the state of
1	2	3	4 = 3 – 2
Cash at hand	70	173	103
Cash in bank account	30 417	21 328	-9 089
Total	30 487	21 501	-8 986
- Including exchange rate differences	37	-201	238

Note 31.

### SPECIFICATION OF SETTLEMENTS OF SELECTED ITEMS OF THE CASHFLOW STATEMENT (CURRENT YEAR)

Operational activities

Item A 2 Depreciation

Depreciation of intangibles 1 312

Depreciation of tangible fixed assets 5 613

Total: 6 925

Item A II 4.

Paid interest on own bonds 2 914

Paid interest on loans -93

2 821

Item A II 5.

Proceeds from sales of tangible fixed assets -329

Cost of sold fixed assets 284

Proceeds from sales of securities -422

Updating value of shares of Interia.pl company 57

Costs of buying out bonds 259

Total: -151

Item A II 8

	Balance sheet	On account of merger	Total
Change in the state of receivables	- 9 320	13 861	4 541
Paid investment receivables	- 47		- 47
Total:	- 9 367	13 861	4 494

Item A II 9

	Balance sheet	On account of merger	Total
Change in the state of short-term obligations excluding loans, credits and other financial obligations	9 396	-7 262	2 134
Change of investment obligations	- 3 543		- 3 543
Total:	5 853	- 7 262	- 1409

Item A II 10

	Balance sheet	On account of merger	Total
Change in the state of accrued settlements	- 13 163	3 123	- 10 040
Change in the state of deferred costs	6 065	- 2 332	3 733
	-----	-----	-----
Total:	- 7 098	791	- 6 307

**Investment activities**

Proceeds

Item B.I.1. Proceeds from sales of tangible fixed assets 329

Receivables paid 47

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Total 376

Expenses

Item B.II.1. Acquisition of intangibles

And tangible fixed assets

-22 994

Payment of investment obligations

2 482

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Total

-20 512

Item B.II.3a. Granted loans

-1 041

Acquisition of shares

-4 955

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Total

-5 996

## ADDITIONAL EXPLANATION NOTES TO THE REPORT SA-R 2004

Note 32.

### FINANCIAL INSTRUMENTS

#### a. Changes in financial instruments by category

Changes in particular categories of financial assets (excluding cash and other cash assets) in the period from 01.01.2004 to 31.12.2004 were as follows:

Changes in financial instruments by category	Financial assets allocated for trading	Financial assets maintained until payment date	Loans granted and own receivables	Financial obligations
1 January 2004	60		14 640	43 474
+ increase	105 582		489	9 419
- reduction	103 642		8 723	5 783
30 December 2004	2 000		6 406	47 110
Balance sheet				
Long-term financial assets				
In affiliated units			5 288	
In other units			380	
Short-term financial assets				
In affiliated units			368	
In other units	2 000		370	
Short-term financial obligations				
To affiliated units				
To in other units				1 174
Long-term financial obligations				
To affiliated units				
To other units				45 937

#### Financial assets allocated for trading

This refers to the acquired units of participation in cash investment funds. Units of participation in cash investment funds are appraised according to fair value, i.e. pursuant to the daily appraisal of value of net assets into units of participation made by the association of investment funds.

#### Loans granted and own receivables

Loans granted are appraised according to the nominal value of increased by note calculated interest based on interest rate resulting from the agreement.

#### Financial obligations

On 12.04.2002, ComArch SA issued 4,000 5-year bonds convertible into shares. Conversion price is PLN 57.10, that is each bond may be converted into 175 shares of the Company. The issue price was set at the level of 100.3%, and the bond interest rate is 7.5% pa. In case conversion of bonds into shares cannot be effected, on 12 April 2007 additional coupon shall be paid in the amount of 21.84% of the nominal value of bonds. Obligation on account of the issued bonds is given in the books according to adjusted acquisition price. In the obligations, payable interest on own bonds is also given in the amount of PLN 4,254 thou. (including short-term obligations of PLN 781 thou.).

ComArch SA acquired 486 own bonds of series A convertible into shares series H on 14.07.2004. Purchase of the above bonds was done for redemption.

On 14 July 2004, the Management passed a resolution on depreciation of 486 bonds series A convertible into shares series H, issued by ComArch SA. After depreciation, the number of bonds series A convertible into shares series H issued by ComArch SA is 3,514.

Obligations refer also to the investment credit.

## b. Interest on financial obligations

	Executed	Not executed with due payment date				Interest
		less than 3 months	3-12 months	more than 12 months	total	
Interest on financial obligations allocated for trading	–	–	–	–	–	–
Interest on other short-term financial obligations	–	–	–	–	–	–
Interest on long-term financial obligations	2 914	–	781	1 416	2 197	5 111
<b>Total</b>	<b>2 914</b>		<b>781</b>	<b>1 416</b>	<b>2 197</b>	<b>5 111</b>

## c. Interest on provided loans and debt financial instruments

	Executed	Not executed with due payment date				Interest
		less than 3 months	3-12 months	more than 12 months	total	
Interest on loans granted	94		3	565	568	662
Interest on debt financial instruments	422					422
<b>Total</b>	<b>516</b>		<b>3</b>	<b>565</b>	<b>568</b>	<b>1,084</b>

Note 33.

## CONDITIONAL OBLIGATIONS

As of 31.12.2004, in reference to the executed agreements and participation in tenders, banks issued to the order of ComArch SA bank guarantees and letters of credit for the value of PLN 26,109 thou.

As of 31.12.2004, ComArch SA pledged for obligations of Interia.pl SA on account of leasing agreements for the amount of PLN 1,499 thou.

ComArch SA is the sued party in court proceedings in which the total prospective amount of claims from third parties is PLN 741 thou. According to the Management, based on opinions of legal advisors, there are no circumstances indicating origination of significant obligations on this account, thus reserves for the amount of prospective claims were not included in the financial statement.

ComArch SA enjoys the investment credit in Fortis Bank Polska SA with the office in Warsaw for financing construction of a new production and office building in the Special Economic Zone in Krakow. Collateral for the credit consists in a blank bill of exchange, mortgage in plots where the building is to be erected and assignment of insurance policy for the building. Apart from this, ComArch enjoys the limit for bank guarantees in Bank Handlowy, with collateral consisting in mortgage in the real estate property located in os. Teatralne in Krakow.

Note 34.

## PROCEEDS AND COSTS OF DISCONTINUED ACTIVITIES - NOT APPLICABLE

Note 35.

## PLANNED INVESTMENT EXPENDITURES

The most important investment intentions in this year include the new investment in the area of the special economic zone in Krakow in the form of a complex of new buildings with the area of ca. 8,000 m<sup>2</sup> in order to expand the production capacity of the Group by the value of ca. PLN 25m. Completion of this construction is planned for the end of the second quarter of 2005.



## Note 36.

## PROCEEDS OF COMARCH SA ON ACCOUNT OF SALES IN 2004 OF GOODS AND SERVICES FOR OTHER UNITS IN THE CAPITAL GROUP (in PLN thou.)

ComArch Krakow	1 114
CDN-ComArch	703
ComArch Global	4 573
ComArch Software	3 694
ComArch Middle East	1 561
ComArch s.r.o.	112
ComArch Sp. z o.o.	273
ComArch Services	2
Interia.pl	119
Net Brokers	105
MKS Cracovia	124
TOTAL	12 380

Trade receivables of ComArch SA in subsidiary and affiliated units as of 31.12.2004 are:

ComArch Services	2
ComArch Global	5 759
ComArch Software	1 376
ComArch Middle East	468
ComArch Sp. z o.o.	275
Interia.pl	38
Net Brokers	62
MKS Cracovia	143
TOTAL	8 123

## Note 37.

## PURCHASES OF COMARCH SA FROM OTHER UNITS IN THE CAPITAL GROUP IN 2004 (basic goods and services)

ComArch Krakow	14 500
CDN-ComArch	1 952
ComArch Services 2	552
ComArch Global	9
ComArch Software	5
ComArch s.r.o.	219
ComArch Sp. z o.o.	26
Interia.pl	1 233
MKS Cracovia	600
TOTAL	20 496

Trade obligations of ComArch SA to subsidiary and affiliated units as of 31.12.2004 are:

ComArch Services	121
ComArch Software	6
ComArch Global	8
ComArch s.r.o.	217
Interia.pl	203
MKS Cracovia	427
TOTAL	982

Note 38.

AVERAGE EMPLOYMENT IN COMARCH SA (CURRENT PERIOD)

Employees:		Full-time employees:	
- Full-time	874	- Direct production	425
- Affiliated	171	- Indirect production and sales	260
		- Management and administration	189
Total	1 045	Total	874

Note 39.

SALARIES OF MANAGING AND SUPERVISING PERSONS (CURRENT PERIOD) IN PLN

Management, ComArch SA

item		Paid by ComArch S.A.	Paid by subsidiary and affiliated units	Sum
1	Member, the Management	123 569,27	125 299,11	248 868,38
2	Member, the Management	295 188,70	0,00	295 188,70
3	Member, the Management	295 167,36	45 204,60	340 371,96
4	Member, the Management	347 446,64	0,00	347 446,64
5	Member, the Management	585 529,08	0,00	585 529,08
6	Member, the Management	812 837,34	0,00	812 837,34
7	Member, the Management	1 131 768,04	0,00	1 131 768,04
8	Member, the Management	2 967 223,54	31 537,98	2 998 761,52
	Management total	6 558 729,97	202 041,69	6 760 771,66

Supervisory Board

item		Paid by ComArch S.A.	Paid by subsidiary and affiliated units	Sum
1	Member of the Supervisory Board	15 000,00	0,00	15 000,00
2	Member of the Supervisory Board	15 000,00	0,00	15 000,00
3	Member of the Supervisory Board	15 125,00	0,00	15 125,00
4	Member of the Supervisory Board	15 125,00	0,00	15 125,00
5	Member of the Supervisory Board	30 000,00	0,00	30 000,00
6	Member of the Supervisory Board	31 000,00	0,00	31 000,00
7	Member of the Supervisory Board	300 000,00	0,00	300 000,00
	Supervisory Board total	421 250,00	0,00	421 250,00

ComArch SA, acting on the basis of provisions of Article 81c Para 1 Clause 2) of the Act of 21 August 1997 on Public Trading in Securities (unified text: Dz. U. 2002 Vol. 49 Item 447, as amended), on 5 April 2005 filed a motion with the Commission of Securities and Stock Exchange for release of the obligation of providing to other entities listed in Article 81 Para 1 of the Act and to the public the information not constituting confidential information included in the annual report, i.e. first and last names of management and supervisory persons in the scope of information about the amount of individual salaries given in Note No. 39 in the annual financial statement of ComArch SA (SA-R 2004).

As of 31.12.2004, there are no unpaid loans as well as guarantees and pledges granted by ComArch SA for Members of the Management, of the Supervisory Board and their relatives.

Pursuant to execution of the manager option programme due for the President, the Management Board of the Company, 125,787 regular bearer's series G shares were issued in 2004 at the issue price equal to nominal value, i.e. at PLN 1 each. Subscription to series G shares was conducted on 17 and 18 June 2004. District Court for Krakow Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register issued a decision on registration of series G shares on 29 June 2004. The ComArch SA shares closing rate on that day was PLN 56.50, which means that the difference between market value of shares allocated for the President of the Company and value of their acquisition was PLN 6,981,179.

The Supervisory Board of the Company passed Resolution No. 1/3/2005 on 23 March 2005 on execution of the manager option programme allocated for the President, the Management Board of the Company on the basis of Resolution No. 6 of the Extraordinary General Assembly of Shareholders of ComArch SA of 21 December 2001.

Pursuant to Article 1 Clause 3 of this resolution, the option for 2004 is calculated in the amount of 5% of the increase in capitalisation of the Company, between the average capitalisation of December 2003 and the average capitalisation of December 2004. Increase in capitalisation in this period was PLN 140,587,330.11, that is the option value is PLN 7,029,366.51. At the same time, the Board decided that in order to execute the option, 102,708 regular bearer's series G3 shares shall be issued at issue price equal to nominal value, i.e. at PLN 1 each. The Supervisory Board obliged the Management to pass a resolution within 30 days on issue of series G3 shares with the above conditions and expressed consent in reference to the objectives of the programme to exclude the collection right due for the current shareholders. The Management of ComArch SA informs that the series G shares issue will be conducted on principles of the target capital pursuant to Article 9 Para 3 of the Bylaws of the Company.

The ComArch SA shares closing rate on 04.04.2005 was PLN 57.50, which means that the difference between market value of the shares allocated to the President of the Company and their issue price was PLN 5,803,002.

Note 40.

#### SIGNIFICANT EVENTS RELATED TO PREVIOUS YEARS – NOT APPLICABLE

Note 41.

#### EVENTS AFTER THE BALANCE SHEET DATE

On 26.01.2005, the company of XXX ComArch was registered with the office in Moscow. XXX ComArch is a company in 100% subsidiary to ComArch SA. The initial capital of the Company is RUB 1.2m and is divided into 1,200,000 shares of the nominal value of RUB 1 each (1 RUB equals about 0.11 PLN). The total number of votes from all the issued shares is 1,200,000. The initial capital will be paid in entirety with cash. The Company deals with sales of ComArch products in Russia and partial support for the IT systems delivered to clients.

On 18.03.2005, the Management of ComArch SA was informed by Dom Maklerski POLONIA NET SA, offering series F shares of Interia.pl SA in public trading of securities, about allocation of 425,000 shares of Interia.pl SA for the ComArch SA company. The issue price of the allocated shares is PLN 10 per share. Interia.pl SA is an affiliated company to ComArch SA. Transaction value: PLN 4,250,000.

On 23.03.2005, ComArch SA received a signed change to the agreement of investment credit from Fortis Bank Polska SA with the office in Warsaw for financing construction of a new production and office building in the Special Economic Zone in Krakow, about which the Company informed a in the current report No. 47/2004. The change consists in extending the period of credit use by 3 months. At present, cash within the credit may be initiated by 30.06.2005. Agreement value: PLN 20m.

The Supervisory Board of the Company passed Resolution No. 1/3/2005 on 23 March 2005 on execution of the manager option programme due for the President, the Management Board of the Company, on the basis of Resolution No. 6 of the Extraordinary General Assembly of Shareholders, ComArch SA, of 21 December 2001. Pursuant to Article 1 Clause 3 of this resolution, the 2004 option is calculated in the amount of 5% of increase in Company capitalisation between the average capitalisation of December 2003 and the average capitalisation of December 2004. Increase in capitalisation in this period was PLN 140,587,330.11, that is the option value is PLN 7,029,366.51. At the same time, the Board decided that in order to execute the option, 102,708 regular bearer's series G3 shares shall be issued at issue price equal to nominal value, i.e. at PLN 1 each. The Supervisory Board obliged the Management to pass a resolution within 30 days on issue of series G3 shares at the above conditions and expressed consent for exclusion of the collection right due for the current shareholders in reference to the programme objectives. The ComArch SA Management informs that the series G shares issue will be conducted on the principles of the target capital pursuant to Article 9 Para 3 of the Bylaws of the Company.

On 29.03.2005, Robert Chwastek filed resignation of the performed function of Member, the Management, ComArch SA. Mr. Robert Chwastek gave personal reasons as causes of resignation.

Note 42.

#### MERGER OF COMPANIES

District Court for Krakow Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register on 31.08.2004 issued a decision on entering merger of the companies ComArch SA and ComArch Krakow SA and merger of the companies ComArch SA and CDN-ComArch SA in the National Court Register. 31.08.2004 is the merger date.

Merger of the said Companies was in both cases conducted on the basis of provisions of Article 492 Para 1 Clause 1) in reference to Article 515 Para 1 of the Code of Trade Companies. The said companies merged in the mode set forth in Article 492 Para 1 Clause 1) of the Code of Trade Companies, i.e. in the mode of merging by taking over. The entire equity of taken over companies, i.e. ComArch Krakow SA and CDN-ComArch SA, was assigned to the dominant company, i.e. ComArch SA.

The dominant company, ComArch Spółka Akcyjna with the office in Krakow is registered in the Register of Entrepreneurs managed by the District Court for Krakow – Srodmiescie in Krakow, Department XI for Commercial; Issues of the National Court Register under item KRS 0000057567. The basic subject matter of ComArch SA activities is activities in the scope of IT – PKD 72.

The taken over company of ComArch Krakow Spółka Akcyjna with the office in Krakow was registered in the Register of Entrepreneurs managed by the District Court for Krakow - Srodmiestcie in Krakow, Department XI for Commercial Issues of the National Court Register under item KRS 0000016330. The basic subject matter of ComArch Krakow S.A. activities was activities in the scope of IT – PKD 72. ComArch Krakow SA as of the merger date was a company subsidiary in 100% to ComArch SA.

The taken over company of CDN-ComArch Spółka Akcyjna with the office in Krakow, was registered in the Register of Entrepreneurs managed by the District Court for Krakow – Srodmiestcie in Krakow, Department XI for Commercial Issues of the National Court Register under item KRS 0000037947. The basic subject matter of CDN-ComArch SA activities was activities in the scope of IT - PKD 72. CDN-ComArch SA as of the merger date was a company subsidiary in 100% to ComArch SA.

Note 43.

#### CHANGES IN THE ADOPTED ACCOUNTING PRINCIPLES

In reference to changes in the Ordinance of the Minister of Finances of 12.12.2001 becoming effective in 2004 on detailed principles of recognition, methods of appraisal, scope of disclosing and method of presentation of financial instruments (Dz. U. 2001 Vol. 149 Item 1674 and 2004 Vol. 31 Item 266) and in order to adjust to requirements of the Ordinance, the Company made the changes in principles for recognition of built-in derivative instruments starting with 2004.

At the same time, to ensure comparability of data for 2004 and 2003, the Company made changes in presentation of data for 2003 against the data included in the report SA-R 2003. The amended Ordinance defines a situation in which built-in derivative instruments are not recognised. Pursuant to Para 10 Clause 1a 5) c) of the Ordinance, built-in derivative instruments are not recognised in a situation when the agreement is made in currency, in which agreements for delivery of specific goods and services are commonly made in the domestic market.

Balance sheet	Data for 2003 according to report SA- R 2003	Transforming data (change in the adopted accounting principles)	Data for 2003 after transformation
<b>ASSETS</b>	31.12.2003	Adjustment	31.12.2003 adjusted
Fixed assets	102 820		102 820
Current assets	131 003	-2 015	128 988
Including			
Short-term. accruals	12 473	- 2 015	10 458
Balance sheet sum	233 823	-2 015	231 808
Balance sheet			
<b>LIABILITIES</b>	31.12.2003	Adjustment	31.12.2003 adjusted
Own capital	127 319	-30	127 289
Including			
Initial capital	6 727		6 727
Supplementary capital	96 714		96 714
Capital from appraisal updating	1 723		1 723
Other reserve capitals	9 685		9 685
Profit from previous periods	207	572	779
Net profit	12 263	-602	11 661
Obligations and reserves	106 504	-1 985	104 519
Including			
Accruals	19 789	-1 985	17 804
Balance sheet sum	233 823	-2 015	231 808
Profit and loss account	31.12.2003	Adjustment	31.12.2003 adjusted
Proceeds from sales	183 948	1 108	185 056
Net proceeds from sales of products	96 545	1 108	97 653
Gross profit from sales	39 946	1 108	41 054
Profit from sales	15 062	1 108	16 170
Profit on operational activities	14 770	1 108	15 878
Financial proceeds	4 970		4 970
Financial costs	6 887	1 710	8 597
Gross profit	12 853	-602	12 251
Net profit	12 263	-602	11 661

## **REPORT OF THE MANAGEMENT BOARD**

COMARCH SA

FROM THE ACTIVITIES OF THE COMPANY IN 2004

Krakow, 04 April 2005

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### 1. Information about the company

Companies of the Company: ComArch Spółka Akcyjna  
 Address of the Company: 31-864 Krakow, Aleja Jana Pawła II 39 a  
 Phone: +48 (12) 646 10 00  
 Fax: +48 (12) 646 11 00  
 Regon: 350527377  
 NIP: 677-00-65-406

### 2. Shareholders

Pursuant to the information provided by the Company as of 31.12.2004, Elżbieta and Janusz Filipiak were shareholders with more than 5% of votes in the GAS of ComArch SA.

Shareholders	Number of shares	% of shares	% of votes
Elżbieta and Janusz Filipiak	3.122.685	45,57%	69,70%
Other Management members	252.830	3,69%	5,06%
Other shareholders	3.476.872	50,74%	25,24%
Total	6.852.387	100,00%	100,00%

### 3. The Supervisory Board

The ComArch Supervisory Board composition as of 31.12.2004:

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

On 30.06.2004, the General Assembly appointed the new composition of the Supervisory Board. New members of the Board became: Ms. Anna Ławrynowicz and Mr. Wojciech Kucharzyk, replacing members of the Board, Mr. Mr. Marian Noga and Tadeusz Włudyk. According to the knowledge of the Company, only Chairwoman of the Board, Ms. Elżbieta Filipiak, from among members of the Supervisory Board, owns shares of the Company.

### 4. The Management

Composition of the ComArch Management as of 31.12.2004:

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

In the meeting on 14.06.2004, the Supervisory Board of ComArch SA appointed as of 18.06.2004 the Management of the Company for the new term of office. From among all the appointed members of the Management, ComArch SA, Zbigniew Rymarczyk was appointed for the first time. As of 31.12.2004, Janusz Filipiak along with Elżbieta Filipiak owned 3,122,685 shares of ComArch SA, Rafał Chwast owned 6,566 shares, Tomasz Maciantowicz owned 197,134 shares, Paweł Prokop owned 24,440 shares, Paweł Przewięźlikowski owned 24,440 shares and Zbigniew Rymarczyk owned 250 shares.

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



## 5. The basic financial details

	2004	2003	2002
Proceeds from sales	249.831	185.056	156.205
Operational profit	14.921	15.878	11.133
Net profit	8.399	11.661	9.770
Profit per share	1,24	1,69	1,35
Assets	252.283	231.808	225.389
Book value	128.642	127.289	138.761
Book value per share	18,77	18,92	19,20

In 2004, the Company achieved record proceeds from sales in the amount of PLN 249.8m, which means increase by 35% against 2003 and by 60% against 2002. Assets and book value of the Company were of higher values than in the previous year. Other economic parameters, i.e. operational profit, net profit, profit per share were lower than in the previous year.

The Management of the Company indicates that comparability of data for 2004 against previous years is distorted, as on 31.08.2004 ComArch SA took over companies of ComArch Krakow SA and CDN-ComArch SA. In reference to this, financial details of ComArch SA as of 31.12.2004 include financial details of the taken over companies, so comparing them with the data of the Company for previous years may lead to erroneous results. Consolidated data are more relevant for analysis of annual results of ComArch.

## 6. Employment

On 31.12.2004, ComArch SA employed 1,510 persons against 607 persons on 31.12.2003. The major increase in employment resulted from two basic reasons. The first is systematic employment in 2004 of IT specialists and implementation specialists, graduates of higher schools in the age of 25-30, in order to increase production capacity in reference to the fast increasing number of projects. The second reason was taking over by ComArch SA of ComArch Krakow SA and CDN-ComArch SA companies, which increased employment level in the Company at one moment. The following tables give the average annual employment in ComArch SA:

Number of persons employed:	2004	2003
- Full-time	874	442
- Affiliates	171	60
Total	1 045	502

Full-time employees:	2004	2003
- Direct production	425	214
- Indirect production and sales	260	88
- Management and administration	189	140
Total	874	442

## 7. Stock Exchange rate

Period	Highest	Lowest
I quarter of 2004	54,00	45,70
II quarter of 2004	58,70	51,10
III quarter of 2004	69,00	54,90
IV quarter of 2004	72,00	64,0

On 31.12.2004, the closing rate for ComArch SA shares in the Warsaw Stock Exchange was PLN 71.50. In 2003, the last closing rate for ComArch S.A. shares was PLN 51.30. It means that in 2004, shares of ComArch brought about return rate of 39%.

## 8. Major events in 2004

### A) Contract

The following were the most important agreements signed by ComArch in 2004:

On 17.06.2004, ComArch received two agreements signed between a consortium of companies: ComArch SA and ComArch Krakow SA with the Minister of National Education and Sport with the office in Warsaw. The subject matter of these agreements was delivery installations to schools and integration of Internet rooms and connecting them to the existing Internet network in the provinces: wielkopolskie and zachodniopomorskie (the first agreement), śląskie and opolskie (the second agreement). The total value of all agreements made with the Minister of National Education and Sport since publication of the last report on agreements with MENiS, i.e. from 01.10.2003, was ca. PLN 16.6m. The highest value agreement was the one of 16.06.2004 for delivery of installations to schools and integration of computer rooms and connecting them to the existing Internet network in the provinces: wielkopolskie and zachodniopomorskie. Agreement value was ca. PLN 6.6m.

In reference to signing another agreement with Bank Przemysłowo-Handlowy PBK SA, the ComArch SA Management informed that within the last 12 months, ComArch SA along with subsidiary companies signed an agreement with Bank Przemysłowo-Handlowy PBK SA with the office in Krakow for the total value of ca. PLN 13.4m. The highest value agreement (PLN 4.8m) is the agreement of 09.04.2003 for delivery and implementation of the system supporting Bank's business operations.

The ComArch SA Management informed about signing an agreement with the Foundation "Fundusz Współpracy" the Financing and Contracting Unit, for designing and implementation of an IT System for Supporting Revenue Control for the Ministry of Finances. Agreement value is EUR 1,525,000.

ComArch SA informed about signing by the subsidiary company ComArch Krakow SA an agreement with Tesco Polska Sp. z o.o. with the office in Krakow for the value of PLN 7.5m. The subject matter of the agreement is designing, implementation and servicing a WAN network for the most significant retail network in Poland: TESCO. Under this agreement, ComArch will supply and configure equipment functioning in networks of this type and shall provide services of optimisation and consulting in the scope of implementing new technologies and services.

ComArch SA signed an agreement with the Czech Financing and Contracting Units for execution of an IT project for the Czech Trade Inspection financed from PHARE aid funds, which will enhance supervision and security of trade market in the Czech Republic. The IT system implemented by ComArch will be based on specialised database and will allow traditional and mobile communication between the headquarters, regional branches and local employees of the inspectorate. This is the first export agreement of ComArch with European public administration.

ComArch signed in Lviv an agreement on co-operation with the State University "Lviv Technical School." The common intention of ComArch and the Technical School is establishment of a centre for production of software in Lviv. For this purpose, ComArch will employ IT graduates from the Lviv Technical School. Both parties of the agreement will co-operate in the scope of creating software, shaping and scientific research.

The agreement was signed by President, the Management Board of ComArch, Professor Janusz Filipiak and Dean of the Lviv Technical School, Professor Jurij Rudawskij, in the presence of Małopolska marshal, Janusz Sepioł, and Chairman of the Lviv District and State Administration, Oleksandr Sendega.

Apart from this, ComArch informed about the following agreements:

The ComArch SA Management informs that on 28.09.2004 it received a signed agreement for limiting claims to the amount of PLN 30m with Raiffeisen Bank Polska SA with the office in Warsaw. ComArch SA may use the limit of claims in the form of bank guarantees for good performance, tenders, payments, refunding prepayments and letters of credit related to the executed contracts and in the form of a credit in the current account up to the amount of PLN 10m.

On 25.10.2004 ComArch SA signed an agreement for investment credit with Fortis Bank Polska SA with the office in Warsaw for financing construction of a new production and office buildings in the Special Economic Zone in Krakow. Credit amount is 85% of the investment value, with the maximum of PLN 20m. The crediting period is 10 years, credit interest rate is based on variable rate. Credit should be used by 31.03.2005. Collateral for the credit is composed of a blank bill of exchange, mortgage in plots, in which the building will be erected and assignment of an insurance policy for the building.

### B) Investments

The ComArch SA Management on 16 April learned about registration of the ComArch Middle East FZ-LLC company, with the office in Dubai, which is a subsidiary company to ComArch SA. The initial capital of the company is AED 200 thou. and is divided into 200 shares of AED 1 thou. each (1 AED is about 1.08 PLN). ComArch SA assumed all shares for cash at nominal value. The total number of votes resulting from all the issued shares is 200. The Company will deal with sales of ComArch products in the Near East and with partial support for IT systems delivered to clients.

On 27.05.2004, the ComArch SA Management informed about the intention of participation in increasing the MKS Cracovia SSA share capital by assuming shares of a new issue for the value of PLN 4m. MKS Cracovia SSA intends to obtain means from Union funds for expansion of the sports and recreation infrastructure in land in the club's perpetual usufruct. Funds from the issue will be used by MKS Cracovia SSA for preparation of investments and applications for additional financing from the European Fund for Regional Development under the task 1.4 of the Integrated Operational Program of Regional Development. After passing the issue by the MKS Cracovia SSA

GAS, participation of ComArch SA in the capital and votes of MKS Cracovia SSA increased to 48.09%. At the same time, the ComArch SA Management informed that in the current calendar year, companies of the ComArch capital group intend to allocate not more than 1.5% of consolidated proceeds of the Group (i.e. about PLN 4.5m) for promotional and marketing activities managed through MKS Cracovia SSA.

On 1 June 2004, a limited liability company of "ComArch" was registered with the office in Kiev, Ukraine, which is a 100% subsidiary to ComArch SA. The initial capital of the company was covered with cash and is UAH 20,500 (1 UAH is ca. 0.72 PLN). The registered company is a one-person limited liability company. The Company shall deal with sales of ComArch Group products in Ukraine, with partial support for IT systems delivered to clients.

On 18.06.2004, the District Court for Krakow Srodmiescie registered the CIV Sp. z o.o. company with the office in Krakow, which is a subsidiary to ComArch SA. The initial capital of the company is PLN 50 thou. and is divided into 1,000 shares of PLN 50 each. ComArch SA assumed 999 shares for cash at nominal value. The total number of votes resulting from all the issued shares is 1,000. CIV Sp. z o.o. shall manage tele-IT activities, consisting in delivery of tele-IT connections for own needs, for companies of the ComArch Group and executed under ComArch contracts.

The District Court for Krakow Srodmiescie on 19.07.2004 issued a decision on registration of increase in the initial capital of MKS Cracovia SSA by PLN 4m. As a result of this increase, ComArch SA assumed for cash 40,000 of registered regular series D shares at issue price equal to the nominal value of PLN 100 per share. After the above increase, the initial capital of MKS Cracovia SSA is PLN 14,557,000 and is divided into 145,570 shares. The initial capital is composed of 70,570 series A shares, 5,000 series B shares, 30,000 series C shares and 40,000 series D shares. The total number of votes resulting from all the issued shares is 145,570. After the above registration, ComArch SA had 70,001 shares and votes in the MKS Cracovia SSA GAS, which is 48.09% share in the initial capital of the Company.

In the III quarter of 2004, ComArch SA acquired from one of shareholders in Cracovia SSA 1,549 shares of the Company, as a result of which the ComArch SA share in the capital of Cracovia SSA increased to 49.15%.

On 31 August 2004, changes were registered in court in shareholders in MHTRADE s.r.o. limited liability company with the office in Sliač, Slovakia, and changes in the ComArch s.r.o. company. The initial capital of ComArch s.r.o. is SKK 200,000 (1 SKK is about 0.1105 PLN). ComArch SA acquired 1 share, constituting 100% capital of the Company, from 2 individuals for the amount of SKK 175,400. ComArch s.r.o. deals with production of software to the order of the ComArch Group.

On 22.11.2004, the public register of the city of Panama accepted registration of the company of ComArch Panama, Inc. ComArch Panama, Inc. is a 100% subsidiary to ComArch Global, Inc, which is subsidiary to ComArch SA. The initial capital of the Company is USD 10,000 and is divided into 10,000 shares of the nominal value of USD 1 each. The total number of votes resulting from all issued shares is 10,000. The initial capital was paid in entirety with cash. The Company deals with sales and production of IT systems in the Central and South American market.

### **C) Resolution of the GAS and of the Supervisory Board**

The Supervisory Board of the Company passed Resolution No. 2/3/2004 on 29 March 2004 on execution of the manager option programme due for the President, the Management Board of the Company on the basis of Resolution No. 6 of the Extraordinary General Assembly of Shareholders of ComArch SA of 21 December 2001. Pursuant to Article 1 Clause 3 of this resolution, the option for 2003 is calculated in the amount of 5% increase in Company capitalisation, between the average capitalisation of December 2002 and the average capitalisation of December 2003. Increase in capitalisation in this period was PLN 122,994,538.00, that is the value of option is PLN 6,149,726.90. At the same time, the Board decided that in order to execute the option, 125,787 regular bearer's series G shares shall be issued at issue price equal to nominal value, i.e. at PLN 1 each.

The Supervisory Board obliged the Management to pass a resolution within 30 days on issuing series G shares at the above conditions and expressed consent in reference to the objectives of the programme to exclude collection right due for the current shareholders. The issue of series G shares shall be conducted on the principle of target capital pursuant to Article 9 Para 3 of the Bylaws of the Company.

In the meeting on 14.06.2004, the Supervisory Board of the Company appointed as of 18.06.2004 the following persons:

- Mr. Janusz Filipiak to the post of President, the Management Board of the ComArch SA Company,
- Mr. Rafał Chwast to the post of Deputy President, the Management Board of the ComArch SA Company,
- Mr. Tomasz Maciantowicz to the post of Deputy President, the Management Board of the ComArch SA Company,
- Mr. Paweł Prokop to the post of Deputy President, the Management Board of the ComArch SA Company,
- Mr. Paweł Przewięźlikowski to the post of Deputy President, the Management Board of the ComArch SA Company,
- Mr. Robert Chwastek to the post of Member of the Management of the ComArch SA Company,
- Mr. Christophe Debou to the post of Member of the Management of the ComArch SA Company,
- Mr. Zbigniew Rymarczyk to the post of Member of the Management of the ComArch SA Company.

The Resolution of the Supervisory Board on appointing the Management of the Company results from the fact that appointments of members in the ComArch SA Management in reference to their term of office expire on

17.06.2004.

From among of all appointed members of the ComArch SA Management, Zbigniew Rymarczyk was appointed for the first time. Others (Janusz Filipiak, Rafał Chwast, Tomasz Maciantowicz, Paweł Prokop, Paweł Przewięźlikowski, Robert Chwastek, Christophe Debou) performed functions in the current Management of ComArch SA.

The ComArch S.A. Management in the current report No. 15/2004 released for the public information about activities of the Supervisory Board of ComArch SA in 2003, including assessment of the situation of the Company in 2003 pursuant to the rule No. 18 of the corporate order, resulting from "Good practices in public companies."

In reference to rule No. 2 of "Good practices in public companies," the current report No. 20/2004 of the ComArch SA Management presented Resolution No. 15/6/2004 of the Supervisory Board of ComArch SA on positive opinion on the resolution in the General Assembly of Shareholders on 30 June 2004.

The General Assembly of Shareholders passed a resolution on 30.06.2004 in the following issues, among others:

- Approving of the financial statement and of the consolidated financial statement of the Company for accounting year 1.01.2003 - 31.12.2003,
- Approving of the statement of the Management from activities of the Company and from activities of the ComArch Capital Group for accounting year 1.01.2003 - 31.12.2003,
- Approving of the statement of the Supervisory Board of activities for accounting year 1.01.2003 - 31.12.2003 and auditing the financial statement and the consolidated financial statement of the Company and the statement of the Management on activities of the Company and on activities of the ComArch Capital Group for accounting year 1.01.2003 - 31.12.2003,
- Net profit distribution of ComArch SA for accounting year 1.01.2003 - 31.12.2003, which was allocated in entirety into the reserve capital,
- Acknowledging fulfilment of duties by members of the Management and of the Supervisory Board in the accounting year 1.01.2003-31.12.2003,
- Merger of ComArch SA with ComArch Krakow SA and with CDN - ComArch SA,
- Appointing the following persons to the Supervisory Board of ComArch SA: Elżbieta Filipiak (chairwoman), Krzysztof Zieliński (deputy chairman), Maciej Brzeziński (member), Anna Ławrynowicz (member), Wojciech Kucharzyk (member),
- Changes in the Bylaws of the Company.

#### **D) Operations in ComArch SA shares and bonds**

In reference to execution of the manager option programme due for the President, the Management Board of the Company on the basis of Resolution No. 6 NWZA of 21 December 2001 and in reference to Resolution of the Supervisory Board of the Company of 29 March 2004 obliging the Management to pass a resolution on using series G shares, of which the Company informed in the current report No. 3/2004, the Management ComArch SA passed Resolution No. 1 on 26 April 2004 on increasing the initial capital by way of a public issue of 125,787 regular bearer's series G shares of the nominal value of PLN 1 and on changes in the Bylaws of the Company.

Issue of series G shares excluded the collection right of the current shareholders of the Company. The issue price was PLN 1. Series G shares were covered solely with cash and shall participate in dividend starting with payments from profit to be allocated for distribution for accounting year 2004, that is from 1 January 2004.

Issue of series G shares was conducted by way of private subscription, referred to in Article 431 Para 2 Clause 1 of the Code of Trade Companies run under public trading conditions, and series G shares will be introduced to trading in the Warsaw Stock Exchange. All series G shares will be offered for the President of the Company. The agreement on assuming series G shares will be concluded by 30 October 2004.

On 30.06.2004, the ComArch SA Management informed that it intended to acquire 1,100 series A bonds for redemption of the nominal value of PLN 10,000.00 each, convertible into series H shares. After depreciation, the expected number of series A bonds convertible into series H shares will be 2,900.

On the basis of Article 25 of the Bonds Act of 29 June 1995 (Dz. U. 2001, Vol. 120, Item 1300 as amended), ComArch SA acquired 486 own series A bonds convertible into series H shares on 14.07.2004. Purchase of the above bonds was made for redemption. The average acquisition unit price (without the broker's commission) was 121.50% of the nominal fee increased by due interest since the beginning of the current interest period until the time of acquisition of bonds by ComArch SA.

On 14 July 2004, the Management passed a resolution on depreciation of 486 series A bonds convertible into series H shares, issued by ComArch SA. After depreciation, the number of series A bonds convertible into series H shares issued by ComArch SA is 3,514.

Resolution No. 327/04 of 27 July 2004 of the Management of the National Security Deposit SA, after investigating the motion of the Company decided to accept for the National Security Deposit 125,787 regular bearer's series G shares of the company of ComArch SA at the nominal value of PLN 1 each and allocated code PLCOMAR00087 to them.

The ComArch SA Management filed an application for releasing into trading in the primary market of the Warsaw Stock Exchange of 125,787 regular bearer's series G shares at the nominal value of PLN 1 each, registered in

KDPW under code PLCOMAR00087. The date of releasing the above shares for stock exchange trading proposed by ComArch SA is 17.08.2004.

The Management of the National Security Deposit SA, with Resolution No. 349/04 of 4 August 2004, after investigating the application of the Company in reference to redemption of 486 ComArch SA bonds, decided that 3,514 bonds are allocated code PLCOMAR00079.

With Resolution No. 366/04 of 13 August 2004, the Management of the National Security Deposit SA refused assimilation of 125,787 ComArch SA shares allocated code PLCOMAR00087 with 4,959<400 Company shares allocated code PLCOMAR00012 on 17.08.2004. The reason for assimilation refusal is lack of a document confirming uniform status of the above shares in public trading of securities, i.e. a resolution of the Management of the Warsaw Stock Exchange SA in the issue of releasing series G shares into stock exchange trading. The ComArch SA Management did not receive resolution of the Management of the Warsaw Stock Exchange SA in the issue of releasing series G shares into stock exchange trading. The Management of the Company negotiated the issue of releasing series G shares into stock market trading with the Stock Exchange.

With Resolution No. 466/2004, the Management of the Warsaw Stock Exchange SA, on 22 December 2004, to the motion of the Company, allowed 125,787 regular bearer's series G shares of the company of ComArch SA for stock exchange trading in the primary market, at the nominal value of PLN 1 each. The resolution became effective on 29 December 2004.

#### **E) Operations on shares of companies subsidiary to ComArch SA**

On 01.03.2004, subsidiary companies ComArch Internet Ventures SA and CDN SA with offices in Krakow informed about 3 decisions made on 27.02.2004 by the District Court for Krakow Srodmiescie in Krakow.

By virtue of the first decision, increasing the share capital of the Company CDN SA was made from the amount of PLN 102,000 to the amount of PLN 250,000 by issuing 169,000 series D shares at the nominal value of PLN 1 and with simultaneous amortisation of 28,141 series A shares and 26,859 series B shares, i.e. own stock owned by CDN SA.

By virtue of the second decision, the CDN SA company was taken over by the ComArch Internet Ventures SA company by way of taking over the entire equity and changing the companies, under which the ComArch Internet Ventures SA company is operating into CDN Spółka Akcyjna.

By virtue of the third decision, the CDN SA company (i.e. the one taken over) was deleted from the National Court Register. After the above taking over, the initial capital of ComArch Internet Ventures SA (now: CDN-ComArch Spółka Akcyjna) was not changed and is PLN 12,840,000 and is divided into 12,840 registered preferential (for vote) shares (5 votes in the GAS) of the nominal value of PLN 1,000 each. ComArch SA now has 99.99% of the votes in the GAS of the Company. The total number of votes resulting from all the issued shares is 64,200.

On 30 April 2004, the ComArch SA Management passed a resolution on merger of the ComArch SA company with its subsidiary companies: ComArch Krakow SA and CDN-ComArch SA, in which ComArch SA had 99.99% capital on that day. The ComArch SA consolidated report for previous accounting years included financial details of both companies which were taken over. Equity of subsidiary companies of CDN-ComArch SA and ComArch Krakow SA was in entirety represented by the shares of ComArch SA in the companies being taken over. In reference to this issue, merger was completed without increasing capital of the ComArch SA taking over company and no shares were allocated of the taking over company of ComArch SA. The bylaws of ComArch SA were not changed in reference to the said merger.

Taking over companies subsidiary, CDN-ComArch SA and ComArch Krakow SA, by ComArch SA was aimed at increasing operational performance of the ComArch Group, by way of eliminating inadequacies of functioning as separate companies, increasing synergy of operation by selling specific sales people of the complete ComArch Group offer and reducing costs related to functioning of particular companies as separate legal entities. Taking over by ComArch SA of subsidiary companies: CDN-ComArch SA and ComArch Krakow SA, will allow better organisational use of human resources and equity of taken over companies and increasing potential of the dominant company.

The District Court for Krakow Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register on 31.08.2004 issued a decision on entering the merger of ComArch SA and ComArch Krakow SA and the merger of ComArch SA and CDN-ComArch SA in the National Court Register. 31.08.2004 is the merger date.

The merger of the said Companies was in both cases conducted on the basis of provisions of Article 492 Para 1 Clause 1) in reference to Article 515 Para 1 of the Code of Trade Companies. The said companies merged in the mode set forth in Article 492 Para 1 Clause 1) of the Code of Trade Companies, i.e. in the mode of merging by taking over. The entire equity of the taken over companies, i.e. ComArch Krakow SA and CDN-ComArch SA, was assigned to the dominant company, i.e. ComArch SA.

The dominant company of ComArch Spółka Akcyjna with the office in Krakow is registered in the Register of Entrepreneurs managed by the District Court for Krakow - Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register, under item KRS 0000057567. The basic subject matter of ComArch SA activities are the activities in the scope of IT - PKD 72.

The taken over company of ComArch Krakow Spółka Akcyjna with the office in Krakow was registered in the Register of Entrepreneurs managed by the District Court for Krakow - Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register, under item KRS 0000016330. The basic subject matter of ComArch Krakow S.A. activities was activities in the scope of IT - PKD 72. ComArch Krakow SA as of merger

became 100% subsidiary to ComArch SA.

The taken over company of CDN-ComArch Spółka Akcyjna with the office in Krakow was registered in the Register of Entrepreneurs managed by the District Court for Krakow - Srodmiestcie in Krakow, Department XI for Commercial Issues of the National Court Register, under item KRS 0000037947. The basic subject matter of CDN-ComArch SA activities was activities in the scope of IT - PKD 72. CDN-ComArch SA as of merger became 100% subsidiary company to ComArch SA.

#### **F) Other**

To supplement the annual report released for the public on 5 April 2004, pursuant to Para 22a Clause 3 of the Regulations of GPW, the ComArch SA Management provided the current statement related to observation of the corporate order.

The ComArch SA Company declared observation of all principles of the corporate order except for rule No. 20 related to composition of the Supervisory Board.

On 26.04.2004, the ComArch SA Management informed that in reference to issuing consent by the Commission of Securities and Stock Exchange for exceeding 50% of votes in the Interia.pl GAS and in reference to:

- a) The situation in the Web portal market in Poland in recent months and continuous and important increase of this market,
- b) The positive development of situation in Interia.pl, leading to achieving positive result by the Company,

ComArch SA believes that offering new products and services based on broadband technology (including UMTS) would be favourable for Interia.pl.

The ComArch SA Management in the current report No. 28/2004 informed about change in the permit for activities in the Special Economic Zone.

ComArch SA obtained the permit for managing activities in the Special Economic Zone in Krakow on 22 March 1999. Pursuant to the ordinance of the Council of Ministers of 14 October 1997 on establishing the Special Economic Zone in Krakow (Dz. U. Vol. 135, Item 912 as amended), entities, which invested in the Krakow Special Economic Zone at least Euro 2m, were granted the following tax allowances:

- a) In the period of the first 6 years of activities in the zone, income from such activities was free of income tax,
- b) After this period, but not later than to the date set forth in the permit, half of the achieved income was free of income tax.

The allowance refers to corporate income tax on income obtained from activities set forth in the permit.

In reference to Poland joining the European Union, the Act of 2 October 2003 was passed on Amending the Act on Special Economic Zones and Some Other Acts (Dz. U. Vol. 188, Item 1840), which changed conditions for tax exemptions for entities operating in special economic zones. Pursuant to the decision in Article 6 Para 1 of the Act, these entities may apply for changing conditions of their permits in order to adjust to the rules of providing public aid in force in the European Union.

Pursuant to provisions in Article 5 Para 2 Clause 1 b), Clause 2 and Clause 3 of the Act, the maximum amount of public aid for entities managing activities in Special Economic Zones on the basis of a permit issued before 1 January 2000 may not exceed 75% of the value of investments incurred in the period from the date of obtaining the permit by 31.12.2006, provided that the total amount of public aid obtained from 1 January 2001 is taken into account in determining the maximum amount of public aid. This means change in the current method of tax allowances (public aid) functioning, from allowances unlimited in value into allowances limited in value and dependent on value of investments completed. In case of ComArch SA, the maximum value of public aid may not thus exceed 75% of the value of investment expenditures, which ComArch SA has incurred / will incur in the period from obtaining the permit, i.e. from 22 March 1999, to 31.12.2006.

ComArch SA applied to the Minister of Economy for changes in the conditions of the permit and on 1 July 2004 received a decision by the Minister of Economy of 24 June 2004 concerning changes in the conditions of the permit into those set forth above and compliant with the Act. At the same time, in the amended permit, the period was extended to 31.12.2017 for which the permit for ComArch SA was issued. It means extension of the period, when ComArch SA may use the limit of public aid, due on account of investments incurred in the Special Economic Zone.

ComArch was awarded the prize of "Sieciowa firma 10-lecia" (Network Company of the Decade) and was ranked first in the "Integrator" category organised for anniversary of the NetWorld magazine. Choices were made by the magazine editors, while readers decided about the winner. NetWorld is issued by IDG and is regarded as one of the most important publications for IT specialists and managers of IT sections in Poland.

During the XIV Economic Forum in Krynica, ComArch was awarded the prize of "New Economy Company in Central and East Europe 2003," which is given to a company, which showed innovativeness, credibility and professional approach to clients in the given period.

Pursuant to Article 10 of the Regulations of Using Electronic System for Delivery of Information (ESPI), constituting Appendix No. 1 to the Ordinance No. 18/2004 of the General Director of the Office of Commission of Securities and Stock Exchange of 22 October 2004, the ComArch SA Management informed that from 28 December 2004 the Company has been delivering current and periodical reports with the Electronic System for Delivery of Information (ESPI) on the basis of regulations on public trading in securities.

## 9. Products and services offered by the Company in 2004

ComArch addresses its offer to middle-size and large companies, which are the most significant recipients of advanced IT systems. The ComArch offer includes software, computer and network hardware and implementation, training and operational use services. The Company has its own products (proprietary software), as well as solutions from partner companies. ComArch prepares software for the specific order of the client, and it also has a number of ready-made systems, which may be immediately implemented with the client or adjusted to its needs.

The basic products and services offered by the Group include:

### A. Systems for telecommunications operators

The leading ComArch products for the telecommunications sector are platforms: TYTAN Billing & Customer Care for settlements with telecommunications operators and the InsightNet platform for managing telecommunications services and infrastructure.

The TYTAN and InsightNet products belong to one of the most important groups of IT products of the OSS & BSS type (Operations Support Systems & Business Support Systems). With a variety of operation areas, in which modules from TYTAN and InsightNet platforms operate, building solutions is possible, which are capable of meeting the most refined needs of clients.

TYTAN Billing & Customer Care: the system for subscriber handling and settlements

The complete set of modules in the TYTAN platform allows supporting all areas of activities run by operators of stationary and mobile telephones, providers of Web services, content providers, as well as intelligent networks or cable television. Modules of the TYTAN platform, which may be implemented as a comprehensive solution or as separate elements, allow settlements for subscribers for their using telecommunications services, invoice generation, detecting abuses and significantly improve customer service quality. The system is adjusted to serving a mass customer with specific groups of subscribers taken into consideration and to serving business customers. TYTAN is a universal system, which allows defining complete websites with development of services offered to recipients by the operator. TYTAN supports all types of services based on GPRS, ISDN and services of the new generation of EGDE and UMTS. TYTAN obtained performance certificates in international test centres in the United Kingdom, Switzerland and Germany, in the latest hardware platforms by HP and SUN. Components of the TYTAN platform co-operate with the latest INTEL servers.

The most important modules included in the TYTAN platform are Billing System, Customer Care, Revenue Sharing, Web Care, Interconnect Billing, Mediation Device, Mobile Portal, 3ARTS, and Data Processing Server.

The latest module in the TYTAN platform is the system used for inter-operator and partnership settlements TYTAN InterPartner Billing, which enables settlement of services, in delivery of which many companies, suppliers of content, advertisements and other websites participate. The latest solution, which came about based on the TYTAN platform and InsightNet is the Solution for Revenue Assurance, which enables operators to liquidate uncontrolled outflows of cash from external and internal abuses, errors in tariff structure or defects.

The system for managing tele-IT networks: InsightNet Network Management

ComArch since the very beginning of its existence deals also with execution of systems for registering resources in telecommunications networks and systems for managing telecommunications networks. The basic system in this area is the InsightNet platform, that is the system for managing telecommunications and IT infrastructure. InsightNet, like TYTAN, is built around modules. The product is first of all dedicated for telecommunications companies, but is also often used for managing networks in other companies, such as power plants or corporations with wide-area tele-IT networks. Designed pursuant to the latest trends in the scope of managing networks, the InsightNet platform enables managing defects appearing in Customer's networks, and then efficient managing of problem solution. With ILOG visualisation solutions used in the system, its users have access to the network image available in special graphic consoles. Other modules of the system are responsible for managing configuration of Customer's networks, as well as for designing and activating telecommunications services. With their use, network resources may be optimally allocated, while new services are implemented in the shortest time possible. The system allows also defining and monitoring of SLA agreements, by which Clients may optimise profits executed on their basis. The InsightNet platform is also dedicated for managing network load, managing network efficiency and managing technical staff. InsightNet allows faster reaction to changing situation in the market and fast response to new customer needs, which in turn enables major increase in profits.

The most important modules in the InsightNet platform include Fault Management, Fraud Detection, Configuration Management, Performance Management, Service Level Agreement, Service Monitoring, Inventory Management, Service Provisioning, Trouble Ticketing, and Workforce Management.

The latest module in the InsightNet platform is the Service Management module, with which telecommunications operators are able to control and manage services provided for customers, as well as effectively and fast run new services, thus gaining advantage over competition. Recently, ComArch started the End-2-End Monitoring system in the InsightNet platform, which enables mobile operators to monitor quality of services directly from the level of the subscriber's mobile phone.

Now ComArch systems for telecommunications have several dozen perfect references world-wide with export strategy of the company based on them. Perfect quality of the system is also confirmed with awards regularly gained in world fairs and in industry conferences. The most important of them are appointments to the Billing

Awards in the category: "The most innovative billing product" in the Billing Systems 2001 in London, appointments in two categories: "The best new product" and "Billing services IP" in the Billing World fair in Orlando, USA. Implementation of the InsightNet platform with the most significant Polish mobile operator, Era, was awarded in the OSS Operational Excellence category in the Billing World fair in the US. In 2004, the TYTAN InterPartner Billing system was awarded with prestigious Billing World 2004 letter and OSS Today Magazine in the category "The best new product," while in the Billing Systems fair in London it was ranked second in the contest for the best new product. ComArch with TYTAN and InsightNet products is member of the most prestigious organisations gathering suppliers of OSS/BSS systems: TeleManagement Forum and GSM Association. Information about these systems is regularly placed in industry reports of the most important analytical companies such as IDC or Gartner.

### **B. Systems for the financial sector**

ComArch has a broad offer for companies in the financial and bank sector. The most important products for this group of customers are: the ORLANDO systems family, the SUBREA system and the AURUM CREDITS system. Below there is a brief description of particular products.

ORLANDO is a family of specialised systems responsible for managing a financial institution in the scope related to trading in securities. The ORLANDO platform includes six systems responsible for managing different market segments:

The ORLANDO family system has almost 50 implementations in Poland.

SUBREA is a new line of products, the family of applications for managing insurance companies. The system is dedicated for managing property and life insurance companies.

#### **AURUM CREDITS**

The Aurum Credits platform is a solution for financial institutions granting credits and loans, fitted with modules for generating products, management processes, rating, scoring, analysis of data and reporting. Processes of sales and credits are supported by branches, over the Internet, through a call centre and through credit intermediaries. The Aurum Credits System is compliant with Basel-2 standards.

### **C. CRM systems and systems for document management**

The AURUM System is a comprehensive CRM package, used for managing customer and trade partner relationships, allowing maximum use of the potential of Internet networks in daily business operations. It is composed of several modules: Aurum PartnerCare, Aurum CustomerCare, Aurum AgentCare, Aurum DataCare, Aurum CRM. They may work completely independent of each other. Aurum PartnerCare facilitates co-operation between the company central office and a local network of sales (own branches, trade partners, dealers, agents, etc.). PartnerCare handles sales, execution of orders, logistics processes, providing trade information for partners (price lists, inventory states, marketing information). It allows major increase in quality of services for partners at simultaneous reduction of costs. Aurum CustomerCare allows sales of products over the Internet to end clients, comprehensive after-sales services and providing information. Depending on customer needs and importance of provided information, CustomerCare ensures collateral appropriate for risk. Aurum AgentCare supports work of employees, trade representatives working locally. AgentCare ensures immediate access to trade information (price lists, promotions, inventory states, current state of settlements with contractors), allows reception of orders, issuing invoices. AgentCare allows possibility of collecting and sending important information from networks of sales to the central office: own and competitive prices, information about marketing actions, data featuring sales and distribution networks. Aurum DataCare based on the EDI standard supports exchange of information with large trade networks (super- and hypermarkets) and logistic companies. It allows exchange of any documents in electronic form directly between applications of partners (price lists, orders, invoices, warehouse documents, etc.). ComArch also has a centre of outsourcing EDI solutions, called "ECOD: Electronic Centre for Document Services."

Aurum CRM is a central module for collecting and analysing information obtained through PartnerCare, CustomerCare, AgentCare, DataCare. With flexibility of applied tools, each authorised user may gain access to current information concerning sales and marketing.

The viBank System (Aurum Customer Care) is a system of electronic banking, with which clients in banks, broker's offices and insurance companies may use services of these institutions on-line over the Internet network. The system is already a success in the market, which is proved with several contracts signed for its implementation. The viBank System is at present the most advanced system in the Polish market.

Within the Document Managing System, the Company provides comprehensive services in the scope of designing systems for data archiving, organisation of work and managing information in a company. Since 1996, ComArch has been co-operating with the US-based FileNET corporation, the world leader in the scope of imaging and workflow products.

The FileNET platform for managing business documents includes the following product lines:

- Electronic storage of document images – Document Imaging,
- Managing workflow – WorkFlow – software used for managing flow of tasks, is a solution allowing complete automation of business processes,
- Managing sets of document stored in electronic format – Document Management – this technology ensures possibility of creating efficient exchange of and control over electronic information.



#### **D. Professional Services**

The "ComArch Professional Services" (CPS) offer concentrates in ComArch competencies related to broadly understood advanced IT services and tele-IT security. It came about as a response to ever increasing market demand for this type of services and as a result of current experience of ComArch in this field. Execution of many programming and integration projects allowed collection of unique experience and building an exceptional team of people, which was additionally confirmed with certificates and authorisations from leading suppliers of IT solutions.

Within CPS, the following groups of services are offered: designing and implementing software, integration and managing systems, maintenance and outsourcing, services related to tele-IT security.

Competencies related to software refer to both database back-office systems, front-office systems using any communication channels (Intranet, Internet, WAP, call centre, etc.), integration of corporate solutions based on middleware, data warehouses or IT system migrations.

Centres responsible for integration specialise in projects combining products from many suppliers, execute turn-key projects requiring use of technologically advanced elements. Within its offer, they implement comprehensive solutions for ISP, ASP or call centre enterprises. Some of a very broad portfolio of services are: building intranet systems, adjusting client-server applications for use in thin client environment, integration of voice and data transmission in networks (VoIP - Voice over IP), implementing video conferencing systems, systems based on Infomats (the so-called Web kiosks), systems for registration of phone calls, GPS systems, to radio trunking systems.

Solutions which gain more and more popularity are those supporting IT management. They include elements responsible for managing resources and infrastructure, as well as for business level management. Managing resources and infrastructure includes managing networks, servers, personal computers or databases. Business management is understood as managing applications, problems (Help Desk, managing changes), support for decision-making processes or direct managing business processes. ComArch has special experience in this scope.

Another group of services within CPS refers to tele-IT infrastructure. ComArch undertakes installations, configuration, maintenance and servicing networks, servers, database and mass storage systems. In these fields outsourcing services are also provided. ComArch can maintain systems of customers working in their locations or in ComArch data centres. In the latter case, it means collocation of servers used for making ComArch resources available for the needs of customer's business applications. Any outsourcing contracts are of SLA (Service Level Agreement) agreements nature.

Services in the scope of tele-IT security include services in the scope of designing and construction of solutions used for securing tele-IT systems against unauthorised access and consequences of events of fate, with special attention to transmission of information in computer networks. These services are basic factor of success in offering products enabling electronic trading. The basic element of security systems are the access control system and the legalisation system. Their basic task is identification and confirmation of identity of persons using secured systems and protection of data send over networks in order to prevent overhearing. A broad scope of services offered by ComArch has to be emphasised, starting with analysis of using IT systems aimed at indication and assessment of prospective risks, creation of the so-called "security policy," to integration of services and implementation, to full assistance and maintenance.

Another class of offered solutions are installations allowing completely safe connection of corporate networks with public networks for data transmission, in particular with the Internet. Appropriate architecture of connections and use of the so-called firewalls guarantee comfort in using wide-area networks and at the same time provide security measures against breaking in from the outside. Additionally, ComArch offers cryptographic security of electronic mail and a solution allowing use of digital signature, used to sign document in electronic format.

The most important product in this area is the proprietary system for managing security: Protector. It is a solution allowing definition and centralisation of breaching security policy and immediate, automatic reaction to such events.

The CPS offer is not industry-specific, but is addressed to all customers. The reference list includes the telecommunications, banking and financial, services and public sectors.

#### **E. Systems for public use companies**

ComArch addresses a comprehensive offer of solutions and IT tools to companies of public use (power, heat, gas and water and sewerage) to support and enhance all strategic business processes in practice.

In the area of business management, these are systems supporting company management (ERP), systems for financial and operational controlling, as well as data warehouses, that is tools supporting analysis and making decisions.

Among business solutions supporting activities related to utility trading, we suggest the most modern and universal platform for recipient settlements: Egeria Utilities. Apart from the basic functionality, this system includes, among others, modules dedicated to customer services and document flow. Apart from billing, the ComArch Group offers a set of tools for modern trading, which are a response to rapid evolution of the market. These are, among others: Aurum Energia (wholesale trading in energy with electronic channels), Orlando Energia (managing risk in designing purchase and sales portfolios), the Internet Office for Customer Services (serving customers over electronic channels) or forecasting demand for energy and power supply temperature. These

tools may be regarded as modules of the billing system or as independent systems. Systems for managing relationships with customers (CRM) and Call Centre top the offer in the scope of trading.

For the critical area of operation in distribution companies, which is undoubtedly operational use of distribution networks, we offer an SID solution: the System of Information about Distribution, which is the first integrated system in Poland for comprehensive support for processes related to utility distribution. It is based on the concept of the Geographical Information Systems (GIS). This software enables managing a complete register of networks, registration of irregularities and failures, generating repair orders, collecting, storage, updating and providing data describing the distribution network, planning investments concerning networks and services for the process of recipient connection.

One has also mention infrastructural solutions supporting operation of a company in the time of common IT culture. These are, first of all, systems for archiving invoices, document flow and register of correspondence. These systems replace paper documents with electronic ones, which are easier for searching and archiving operations. Other solutions in this group are systems supporting the IT section in a company, such as Help Desk, or systems for managing tele-IT infrastructure and security.

## **F. Financial and accounting systems and ERP systems**

ComArch offers a complete range of financial and accounting systems, from solutions for small and medium-size companies (CDN Optima, CDN Klasyka) to ERP-class systems such as CDN XL and CDN Egeria. With expanded functionalities, such systems ensure full support for and automation of business processes in a company. They enable on-line/off-line work for multi-branch businesses who often have complex document flow. This software perfectly support work of sales representatives, vansellers and points of retail sales and company branches, allowing use of modern forms of electronic trading with co-operation with EDI systems. It is also possible to rent the system, i.e. to use it in the ASP model (Application Service Provision).

According to the IDC report on the Polish ERP market in 2003, ComArch has 16% share in the market of newly signed contracts for delivery of ERP systems.

Solutions supporting management have been developed for over 10 years and are now used by more than 40,000 companies all over Poland. ComArch branches and more than 650 authorised ComArch Partners sell them throughout the country.

CDN family ComArch products are marked with the Teraz Polska logo

CDN Egeria is a Polish ERP-class system supporting management, allocated for large and medium-size production companies, public administration, public use sector (distribution of heat, water) and financial sector (banks, leasing companies, etc.). The system functionality includes: Finances and Book-keeping, Controlling, HR, Production, Logistics / Forwarding. Expansion is possible with dedicated and industry modules to ensure adjusting to individual needs of the Customer. The system is also available over the Internet in the ASP model in the CDN Online platform.

CDN XL is a multi-module integrated ERP-class system addressed to dynamically developing companies applying the best customer service standards. This solution is dedicated for medium-size and large trade / distribution, service and production companies with one or more branches (the unique solution: CDN XL in the company headquarters, CDN OPTIMA in branches, representative offices and shops). The system is also available over the Internet in the ASP model in the CDN Online platform.

CDN OPT!MA is a modern integrated system for managing a company. Apart from services for sales, managing book-keeping, tax and ZUS calculation, it enables presentation of the complete image of operational and financial activities of the company. The system is addressed to small and medium-size companies without branches and to accounting offices. The system is also available over the Internet in the ASP model in the CDN Online platform.

CDN Klasyka is a perfect solution of low hardware requirements (DOS) for companies of any size, from a Social Insurance Company to small, single-person trade, services and production companies and accounting offices.

CDN Online

ComArch provides its financial and accounting software and ERP systems over the Internet. This is a perfect solution for multi-branch companies and accounting offices. With CDN Online, accounting offices may easily provide access to data to its clients. Several hundred clients already use services of CDN Online.

ComArch Business Intelligence (Data Warehouse) is an IT system made of many elements, collecting data from other (source) IT systems, ordering, integrating and composing collected data for their presentation in a clear and logical way to end users of the system, in the form of updated reports, analyses and summaries.

## **G. Turn-key systems**

Additionally, facing expectations of customers with specific requirements, not met by standard products, ComArch offers systems created on the basis of singular customer orders, the so-called turn-key systems. In creating such systems, knowledge of many various software and hardware technologies is required, which gives advantage to companies like ComArch, which may be proud with their broad knowledge and experience in many areas of IT technologies. usually, systems executed for public institutions sector are systems created for individual, single orders.

## 10. Position of the Company in the IT market and major recipients and suppliers

ComArch operates in the market of IT services. The Polish IT market is scattered, which means that share of particular companies active in the market is low. Share of ComArch in the IT market is ca. 1.9%. Dynamics of ComArch growth for the period of several recent years was higher than that of the entire market, which makes it one of its leaders. According to TOP 200 Computerworld Report for 2003, ComArch SA is the fourth largest IT systems integrator in Poland and is ranked 10 in Poland for value of proceeds from IT services. As regards proceeds from export, ComArch SA ranked 7 among domestic companies. Both at present and in near future, most of proceeds will come from the domestic market, however, intensification of foreign activities results in consistent increase in proceeds from sales of products and services into the Near East, Western and Eastern Europe and the US markets.

Due to the type of IT systems offered by the company, the major group of recipients are middle-size and large companies, which are the most significant recipients of advanced IT solutions all over the world. Majority of Company products are addressed to this group of recipients (e.g. the ORLANDO system for banks, funds; the TYTAN system for telecommunications operators), while IT services have universal nature and are offered to any group of recipients. Sales of the Group is strongly diversified and there is no dependency on one major recipient. In 2004, share of none of the recipients exceeded 10% of ComArch SA sales.

Due to the specific nature of the industry, in which ComArch is active, international concerns should be considered sources of supplies, which are producers of computer systems and programming tools, with Polish branches and representative offices of these concerns and Polish distribution companies as system sub-contractors. In 2004, one supplier (NTT System – PLN 25,143 thou.) provided products and goods, which exceeded 10% of proceeds from sales of ComArch SA.

## 11. Structure of sales

The Management of the Company indicates that comparability of data for 2004 against previous years is distorted, as 31.08.2004 saw taking over ComArch Krakow SA and CDN-ComArch SA by ComArch SA. As financial data of ComArch SA as of 31.12.2004 include financial data from the taken over companies, their comparing with data of the Company for previous years may lead to erroneous conclusions. Here is an analysis of annual results of ComArch, which is more adequate than consolidated data.

Proceeds from sales – geographical structure (PLN thou.)

	2004	% 2004	2003*	% 2003
Domestic	215 558	86,3%	170 304	92,0%
Export	34 273	13,7%	14 752	8,0%
Proceeds from sales	249 831	100,0%	185 056	100,0%

\* Data transformed against the SA-R 2003 report due to change in the adopted accounting principles

In 2004, proceeds from sales of the Company increased by 35%. Against previous year, geographical structure of the proceeds changed. The Company systematically executes strategy of increasing export sales, which at present is 13,7% of all proceeds.

Proceeds from sales - structure according to recipients (PLN thou.)

	2004	% 2004	2003	% 2003
Telecommunications operators	49 696	19,9%	41 143	22,2%
Banks and financial institutions	50 191	20,0%	40 182	21,7%
Services, trade and industry	58 854	23,6%	47 362	25,6%
Industry	15 892	6,4%	2 573	1,4%
Public sector	75 027	30,0%	52 688	28,5%
Other	171	0,1%	1 108	0,6%
Proceeds from sales	249 831	100,0%	185 056	100,0%

Analysis of sales structure according to recipients indicates balanced shares of particular groups of recipients in total Company sales. Only the “public” sector is different with its 30% share in sales. This is, first of all, a result of high level of computer hardware sales for public institutions.

Proceeds from sales - structure by type (PLN thou.)

	2004	% 2004	2003	% 2003
Services	103 420	41,4%	83 626	45,2%
Software	81 216	32,5%	37 384	20,2%
Hardware	65 195	26,1%	64 046	34,6%
Proceeds from sales	249 831	100,0%	185 056	100,0%

Sales of services is the most significant part of proceeds from sales of the Company. The ratio between sales of

services and software is more and more balanced. Definitely, sales of hardware is least significant, whose share in the structure of projects completed is decreasing.

## 12. Financial analysis of the Company

The Management of the Company indicates that comparability of data for 2004 against previous years is distorted, as 31.08.2004 saw taking over ComArch Krakow SA and CDN-ComArch SA by ComArch SA. As financial data of ComArch SA as of 31.12.2004 include financial data from the taken over companies, their comparing with data of the Company for previous years may lead to erroneous conclusions. Here is an analysis of annual results of ComArch, which is more adequate than consolidated data.

	2004	%	2003	%	2004/2003	%
I. Fixed assets	115 946	46,0%	102 820	44,4%	13 126	12,8%
1. Intangibles	1 873	0,8%	2 025	0,9%	-152	-7,5%
2. Tangible fixed assets	79 680	31,6%	34 026	14,7%	45 654	134,2%
3. Long-term receivables		0,0%		0,0%	0	
4. Long-term investments	34 393	13,6%	66 580	28,7%	-32 187	-48,3%
5. Long-term accruals		0,0%	189	0,1%	-189	100,0%
II. Current assets	136 337	54,0%	128 988	55,6%	7 349	5,7%
1. Inventory	14 185	5,6%	8 439	3,7%	5 746	68,1%
2. Short-term dues	74 100	29,4%	64 780	27,9%	9 320	14,4%
3. Short-term investments	24 242	9,6%	45 311	19,5%	-21 069	-46,5%
4. Short-term accruals	23 810	9,4%	10 458	4,5%	13 352	127,7%
Total assets	252 283	100,0%	231 808	100,0%	20 475	8,8%

Value of Company assets as of the end of 2004 was PLN 252,283 thou. and was higher by PLN 20,475 thou., i.e. 8.8%, than the year before. Fixed assets increased by 12.8%, while current assets increased by 5.7%. Increase in fixed assets resulted from ComArch SA investments in new land and buildings in the Special Economic Zone in Krakow and in Warsaw. A major change affected tangible fixed assets and long-term investments in the structure of fixed assets, which was a result of the merger and taking over by ComArch SA equities of subsidiary companies of ComArch Krakow SA and CDN-ComArch SA and at the same time of depreciation of ComArch SA shares in these companies. Share of other fixed assets items in the structure of total assets slightly reduced or remained unchanged.

From among current assets, significant percentage increase was found in inventory. Its share in the structure of assets is maintained, although its level is low. Short-term dues increased by PLN 9,230 thou., although it is lower than increase in proceeds from sales of the Company. Decrease in value of short-term investments results from lower level of free cash owned by the Company, which was a result of investments made in land and buildings, stock and shares in newly acquired and established subsidiary companies and payments of dividend by ComArch SA. The level of short-term investments remains at a high level, though. Significant increase in value of accruals results first of all from settlements within long-term contracts.

	2004	%	2003	%	2004/2003	%
I. Own capital	128 642	51,0%	127 289	54,9%	1 353	1,1%
1. Initial capital	6 852	2,7%	6 727	2,9%	125	1,9%
2. Due payments for initial capital (negative value)		0,0%		0,0%	0	
3. Own stock (shares) (negative value)		0,0%		0,0%	0	
4. Supplementary capital	96 714	38,4%	96 714	41,7%	0	0,0%
5. Capital from appraisal updating	71	0,0%	1 723	0,8%	-1 652	-95,9%
6. Other reserve capitals	21 948	8,7%	9 685	4,2%	12 263	126,6%
7. Exchange rate differences from calculation in subsidiary units		0,0%		0,0%	0	
8. Profit (loss) from previous periods	1 992	0,8%	779	0,3%	1 213	155,7%
9. Net profit (loss)	8 399	3,3%	11 661	5,0%	-3 262	-28,0%
10. Capital from merger settlement	-7 334	-2,9%		0,0%	-7 334	
II. Obligations and reserves for obligations	123 641	49,0%	104 519	45,1%	19 122	18,3%
1. Reserves for obligations	100	0,0%		0,0%	100	
2. Long-term obligations	45 937	18,2%	42 290	18,2%	3 647	8,6%
3. Short-term obligations	53 735	21,3%	44 425	19,2%	9 310	21,0%
4. Accruals	23 869	9,5%	17 804	7,7%	6 065	34,1%
Total liabilities	252 283	100,0%	231 808	100,0%	20 475	8,8%

Book value of ComArch SA within the last 12 months increased by PLN 1,353 thou., i.e. by 1.1%. A significant item reducing its value was "capital from merger settlement" in the amount of PLN 7,334 thou.. Significant increase in reserve capitals results from net profit distribution for 2003. Against the previous year, structure of liabilities did not change significantly. Obligations and reserves for obligations still form less than 50% of liabilities. Structure of obligations is similar to that of 2003, and dynamics of increase of obligations is much lower than that of costs of sold products, goods and materials. Significant increase of accruals results first of all from increase in settlement of long-term contracts.

	2004	%	2003	%	2004/2003	%
I. Net proceeds from sales of products, goods and materials	249 831	100,0%	185 056	100,0%	64 775	35,0%
II. Costs of sold products, goods and materials	195 028	78,1%	144 002	77,8%	51 026	35,4%
III. Gross profit (loss) from sales (I-II)	54 803	21,9%	41 054	22,2%	13 749	33,5%
IV. Costs of sales	18 363	7,3%	10 270	5,6%	8 093	78,8%
V. Overheads	20 321	8,1%	14 614	7,9%	5 707	39,1%
VI. Profit (loss) on sales (III-IV-V)	16 119	6,5%	16 170	8,7%	-51	-0,3%
VII. Other operational proceeds	933	0,4%	437	0,2%	496	113,5%
VIII. Other operational costs	2 131	0,9%	729	0,3%	1 402	192,3%
IX. Profit (loss) on operational activities (VI+VII-VIII)	14 921	6,0%	15 878	8,6%	-957	-6,0%
X. Financial proceeds	1 474	0,6%	4 970	2,7%	-3 496	-70,3%
XI. Financial costs	7 806	3,1%	8 597	4,7%	-791	-9,2%
XII. Profit (loss) on commercial activities (IX+X-XI)	8 589	3,4%	12 251	6,6%	-3 662	-29,9%
XIII. Result of extraordinary events		0,0%		0,0%	0	
XIV. Gross profit (loss) (XII-XIII)	8 589	3,4%	12 251	6,6%	-3 662	-29,9%
XV. Income tax	190	0,1%	590	0,3%	-400	-67,8%
XVI. Other obligatory reduction of profit (increase of loss)		0,0%		0,0%	0	
XVII. Net profit (loss) (XIV-XV-XVI)	8 399	3,4%	11 661	6,3%	-3 262	-28,0%

Continuing good business situation in Polish economy makes companies willingly execute new IT projects. ComArch SA with its solid position in the market benefits from this enlivening, which is translated into value of executed contracts and achieved financial results.

In 2004, proceeds from sales were higher by 35.0% than in the same period of the previous year. Net profit for 2004 was PLN 8.399 thou., and decreased from the previous year by 28%.

Analysis of particular items in the profit and loss account shows slightly lower dynamics of costs of generation of products, goods and materials sales than in proceeds on sales. At the same time, with higher dynamics of costs

of sales and overheads. Profit on operational activities decreased by 6% against the previous year, while net profit decreased by 28%. Significant reduction in net profit resulted from other factors, that is relatively high other operational costs and much lower financial proceeds.

	2004	2003
Analysis of liquidity		
Current financial liquidity	1,76	2,90
Quick ratio	1,27	2,48
Increased liquidity	0,31	1,02
Analysis of rotation *		
Rotation of current assets (times)	1,83	1,43
Rotation of receivables (days)	107	126
Rotation of inventory (days)	22	18
Rotation of obligations (days)	154	185
Rotation of obligations without obligations on account of bonds and long-term credits (days)	83	95
Analysis of debt		
Debt index	49,0%	45,1%
Debt index for own capital	96,1%	82,1%
Analysis of profitability		
Margin in sales	21,9%	22,2%
Profitability of sales per operational activities	6,0%	8,6%
Profitability of gross sales	3,4%	6,6%
Profitability of net sales	3,4%	6,3%
Profitability of assets *	3,4%	5,3%
Profitability of own capital *	7,0%	10,1%

Analysis of liquidity indicates its slight decrease against the previous year, which is related to loss in financial means in reference to investments executed. Liquidity indexes still remain at a good level. Indexes of rotation indicate more effective (faster) use of Company resources in 2004 against the previous year. Only the index of inventory rotation slightly increased. In turn, the debt level of the Company is higher than in the previous year, which is related to investments in the Special Economic Zone, which the Company finances with a long-term (10-year) bank credit. The Company is financed in half from own means and in half from foreign capital. According to the management, the Company has no problems with meeting the contracted financial obligations. Temporary free funds are invested in safe instruments like bank deposits, treasury notes, participation units in cash investment funds. Operational profitability was 6% in 2004 and it has to be very high in the situation when proceeds of the Company increase and significant increase in employment is effected. Other profitability indexes are lower than in the previous year. Margin on sales decreased in the lowest degree.

### 13. Financial risk

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

1. Risk of contractor insolvency. The Company analyses financial credibility of prospective customers before making agreements for delivery of IT systems and adjusts conditions for each agreement and prospective risk depending on assessment of financial standing.
2. Risk of changes in interest rates. The Company is exposed to the risk of change in percentage rates for the concluded long-term investment credit allocated for financing the new production building in the Special Economic Zone in Krakow. Credit interest is calculated according to variable interest rate based on WIBOR. The Company did not secure the interest rate risk in this area.
3. Risk of changes in currency exchange rates. Due to export sales or sales denominated in foreign currencies, the Company is exposed to exchange rate risk. At the same time, part of Company's costs is also expressed as or related to foreign currency rates. In singular cases, the Company secures future payments with forward contracts.

#### 14. Production capacity of the Company

Most of the production by ComArch consists in producing computer software to the order and creating own, universal software products. The basic factor limiting production capacity are human resources. The company flexibly manages teams of employees by way of continuous optimisation of post filling in current commercial projects (with contracts signed) and in the conducted internal projects (creating new products and updating existing ones, not related directly to contract requirements).

As the Company actively invests in new products and technologies and does its best for employees to have appropriately broad scope of competencies, no resources remain unused.

#### 15. Characteristics of factors significant for development of the Company

Internal factors:

- a) Increase in export sales,
- b) Company's position and fame, affecting the nature of acquired customers;
- c) Activities of ComArch SA in the Special Economic Zone in Krakow;
- d) major share of standard (repeated) products in sales, that is:
  - Lower costs, in particular variable costs related to a single contract,
  - Possibility of major increase in unit profitability of a contract with simultaneous reduction of customer charges (license fees),
  - Broader and more diversified clientele, which means larger scale of activities;
- e) Attractive training policy and attractive conditions of work offered to Group employees;
- f) Increase in recognition of the ComArch brand among prospective customers, by way of promotion through the MKS Cracovia SSA company.

External factors:

- a) Increase in requirements set forth for IT systems by customers. Increasing demand for large, complex IT systems dedicated for particular users. This favours larger IT companies, like ComArch, which offer a number of different technologies and products and are capable of delivering solutions advanced technologically;
- b) Development of Internet banking and spreading the Internet as a new channel of distribution for financial products;
- c) Change in business models in many industries and change in business strategies in many companies due to joining the European Union, which increases demand for new IT systems;
- d) Spreading the Internet as a method of communication and a medium for making commercial transactions, resulting in increased hazard of "breaking in" to IT systems, which stimulates demand for security services for IT systems;
- e) Poland joining the European Union resulting in the necessity of modifying a number of systems, especially in public institutions. It will be related to allocation of major funds from both the State budget and the Union aid funds;
- f) Increasing competition, affecting reduction of achieved margins; competition between IT companies apparent in fighting for new orders as well as fighting for the best employees.

#### 16. Development perspectives for the Company

Increase of the IT market in Poland and increase of the economic growth rate in Poland and world-wide should positively affect development of ComArch, as well as financial results achieved by the company. Consistently executed strategy of positioning in the market as a technological and product-based company brings about results in the form of customer base increased every year, major portion of whom are international companies. In the context of Poland integrating with the European Union, it has to be expected that more and more foreign companies will initiate activities in Poland, thus increasing the circle of prospective customers for IT systems. At the same time, activities of ComArch in international markets should additionally increase volume of sales and strengthen image of ComArch with international corporations, contributing to strengthening competitive position of ComArch in Poland.

Execution of the ComArch SA strategy highly depends on macroeconomic conditions independent of the Company, in particular on the level of IT investments in medium-size and large companies, domestic and foreign, and on the increasing competition in the IT sector. At the same time, effective managing of operational risks is becoming the necessary condition to execute the strategy. The most important operational risks related to Company activities include:

- a) Risk related to R&D work (producing own software products);
- b) Risk related to assessing time consumption of long-term contracts;
- c) Risk related to not meeting conditions of agreements and contractors using the prepared performance guarantee;

- d) Risk of foreign legal and political milieu related to execution of export contracts;
- e) Risk of smaller possibility (difficulties) of verifying and monitoring financial standing of foreign contractors.

### 17. Investment plans

Globalisation of world economy and trade liberalisation make barriers for companies and their products fade away. The IT market is becoming an open and global market, with continuous comparison of prices and quality of available products. Along with increase in foreign capital in Poland, even IT companies active solely in the Polish market must offer products competitive from the viewpoint of the global market. ComArch, since the very beginning of its operations, has the reputation of a technological company generating and successfully selling products which are internationally competitive.

Therefore, designing new, competitive products still remains the major strategic objective of the Company, which will allow ensuring further growth of ComArch, thus increasing its value. Maintaining dynamics of sales requires expenditures for development of products and proper promotion and marketing. This refers to both modifications of the existing products and technologies and to designing new products.

The current policy of ComArch assumes managing research and development work related to implementation of new products and standardisation of products since the very beginning of their preparation for the customer. With this, even if the product was prepared for the needs of a specific customer, part or entirety of the software / code may be used for preparation of a standard product. The result is higher profitability of particular contracts and expansion of the customer base.

ComArch does not limit the area of its interest only to the territory of Poland. With products competitive internationally, ComArch will consistently strive to increase value of international sales. Sales will be effected both directly to end customer (or to ComArch SA or any other company of the ComArch Group) or by partner companies.

The most important investment plans in the current year include the new investment in the area of the Special Economic Zone in Krakow in the form of a complex of new buildings with the area of ca. 8,000 m<sup>2</sup> in order to expand production capacity of the Group by the value of about PLN 25m. Completion of the construction of the first building is planned for the II quarter of 2005. This investment is financed from a long-term bank credit. According to the Management, there are no risks of not completing the investment for the lack of financial means.

### 18. Changes in capital relationships of the Company

On 31.12.2004, ComArch SA had shares in the following companies (in parentheses: share in votes for ComArch SA):

- ComArch Global, Inc. with the office in Washington (90.00%),
- ComArch Software AG with the office in Frankfurt am Mein (100.00%),
- ComArch Middle East FZ-LCC with the office in Dubai (100.00%),
- ComArch Sp. z o.o. with the office in Kiev (100.00%),
- ComArch s.r.o. with the office in Sliač in Slovakia (100.00%),
- ComArch Panama, Inc. with the office in Panama (100.00% subsidiary to ComArch Global, Inc.)
- ComArch Services Sp. z o.o. with the office in Krakow (99.90%),
- Interia.pl SA with the office in Krakow (49.87%),
- NetBrokers Sp. z o.o. with the office in Krakow (40.00%),
- MKS Cracovia SSA with the office in Krakow (49.15%),
- Fideltronik-ComArch with the office in Krakow (50.00%).

#### ComArch Krakow Spółka Akcyjna

On 31.12.2003, the initial capital of ComArch Krakow SA was PLN 28,043,000 and was divided into 280,430 registered preferential shares of the nominal value of PLN 100 each. ComArch SA had 99.99% share in the capital and votes in the GAS of ComArch Krakow SA. In 2004, ComArch SA acquired 1 share of the Company from a private person.

On 31.08.2004, the District Court for Krakow Srodmiescie in Krakow, Department XI for Commercial Issues of the National Court Register issued a decision on entering the merger of ComArch SA and ComArch Krakow SA to the National Court Register. 31.08.2004 is the merger date.

The merger of the said Companies was executed on the basis of provisions of Article 492 Para 1 Clause 1) in reference to Article 515 Para 1 of the Code of Trade Companies. The said companies merged in the mode set forth in Article 492 Para 1 Clause 1) of the Code of Trade Companies, i.e. in the mode of merging by taking over. The entire equity of ComArch Krakow SA was transferred to the dominant company, i.e. ComArch SA.



**ComArch Global, Inc.**

On 31.12.2004, ComArch SA had 90% shares in ComArch Global, Inc. In 2004, there were no changes in the capital structure of the Company. Pursuant to the Accounting Act of 29.09.1994, ComArch Global, Inc. is a subsidiary to ComArch SA.

**ComArch Software AG**

On 31.12.2004, the initial capital of ComArch Software AG was EUR 58,380.00. The initial capital was composed of 11,676 registered shares of the nominal value of EUR 5 each. The total number of votes resulting from all the issued shares was 11,676. ComArch SA has 100% share in the capital and votes in the GAS of the Company. In 2004 there were no changes in the capital structure of ComArch Software. Pursuant to the Accounting Act of 29.09.1994, ComArch Software AG is a subsidiary to ComArch SA.

**ComArch Middle-East FZ-LCC**

The ComArch SA Management was informed on 16 April about registration of the ComArch Middle East FZ-LLC company with the office in Dubai, this company being subsidiary to ComArch SA. The initial capital of the company is AED 200 thou. and is divided into 200 shares of AED 1 thou. each (1 AED is about 1.08 PLN). ComArch SA assumed all shares for cash at nominal value. The total number of votes resulting from all the issued shares is 200. The Company deals with sales of ComArch products in the Near East and with partial support for IT systems delivered to clients. Pursuant to the Accounting Act of 29.09.1994, ComArch Middle-East FZ-LCC is a subsidiary to ComArch SA.

**ComArch Sp. z o.o.**

On 1 June 2004, a limited liability company "ComArch" was registered with the office in Kiev, Ukraine, this company being 100% subsidiary to ComArch SA. The initial capital of the company was covered with cash in entirety, which is UAH 20,500 (1 UAH is about 0.72 PLN). The registered company is a one-person limited liability company. The company will sell ComArch Group products in Ukraine with partial support for IT systems delivered to clients. Pursuant to the Accounting Act of 29.09.1994, ComArch Sp. z o.o. is a subsidiary to ComArch SA.

**ComArch s.r.o.**

On 31 August 2004, changes in shareholders in a limited liability company MHTRADE s.r.o. with the office in Sliač, Slovakia, were registered in court, and changes of the firm to ComArch s.r.o. The initial capital of ComArch s.r.o. is SKK 200,000 (1 SKK is about 0.1105 PLN). ComArch SA acquired 1 share constituting 100% capital of the Company from 2 individuals for the amount of SKK 175,400. ComArch s.r.o. deals with production of software to the order of the ComArch Group. Pursuant to the Accounting Act of 29.09.1994, ComArch s.r.o. is a subsidiary to ComArch SA.

**ComArch Panama, Inc.**

On 22.11.2004, the ComArch Panama, Inc. company was registered in the public register for the city of Panama. ComArch Panama, Inc. is a 100% subsidiary to ComArch Global, Inc. The initial capital of the Company is USD 10 thou. and is divided into 10,000 shares with the nominal value of USD 1 each. The total number of votes resulting from all the issued shares is 10,000. The initial capital was paid in entirety with cash. The Company deals with sales and production of systems IT in the Central and South American markets. Pursuant to the Accounting Act of 29.09.1994, ComArch Panama, Inc. is a subsidiary to ComArch SA.

**CDN - ComArch Spółka Akcyjna**

On 31.12.2003, the initial capital of the Company (functioning under the firm of ComArch Internet Ventures SA) was PLN 12,840,000 and was divided into 12,840 registered shares preferential for vote (5 votes in the GAS) of the nominal value of PLN 1,000 each. ComArch SA had 99.99% of votes in the GAS.

On 27.02.2004, the District Court for Krakow Srodmiestecie in Krakow issued a decision related to the ComArch Internet Ventures SA company and its subsidiary company of CDN SA. By virtue of the first decision, increasing of the share capital of Company CDN SA was done from PLN 102,000 to PLN 250,000 by issuing 169,000 series D shares at the nominal value of PLN 1 and simultaneous amortisation of 28,141 series A shares and 26,859 series B shares, i.e. own stock owned by CDN SA. By virtue of the second decision, CDN SA company was taken over by ComArch Internet Ventures SA by way of taking over the entire equity and changing the firm under which ComArch Internet Ventures SA is operating into CDN Spółka Akcyjna. By virtue of the third decision, CDN SA (i.e. the taken over company) was deleted from the National Court Register. After the above taking over, the initial capital of ComArch Internet Ventures SA (as of 30.06.2004 operating under the firm of CDN-ComArch Spółka Akcyjna) did not change and was PLN 12,840,000 and was divided into 12,840 registered preferential shares (5 votes in the GAS) of the nominal value of PLN 1,000 each. ComArch SA has at present 100.00% votes in the GAS of the Company. The total number of votes resulting from all the issued shares is 64,200. Pursuant to the Accounting Act of 29.09.1994, CDN - ComArch SA is a subsidiary to ComArch SA.

On 31.08.2004, the District Court for Krakow Srodmiestecie in Krakow, Department XI for Commercial Issues of the National Court Register, issued a decision on entering the merger of ComArch SA and CDN-ComArch SA in the National Court Register. 31.08.2004 is the merger date.

The merger of the said companies was executed on the basis of provisions of Article 492 Para 1 Clause 1) in reference to Article 515 Para 1 of the Code of Trade Companies. The said companies merged in the mode set forth in Article 492 Para 1 Clause 1) of the Code of Trade Companies, i.e. in the mode of merging by taking over. The entire equity of CDN-ComArch SA was transferred into the dominant company, i.e. ComArch SA.

**ComArch Services Sp. z o.o. (formerly CIV Sp. z o.o.)**

On 18.06.2004, the District Court for Krakow Srodmiescie registered the company of CIV Sp. z o.o. (now: ComArch Services Sp. z o.o.) with the office in Krakow. The initial capital of the company is PLN 50 thou. and is divided into 1,000 shares of PLN 50 each. ComArch SA assumed 999 shares for cash at nominal value. The total number of votes resulting from all the issued shares is 1,000. The Company manages tele-IT activities, consisting in providing tele-IT connections for own needs of companies of the ComArch Group and for contracts executed by ComArch. Pursuant to the Accounting Act of 29.09.1994, CIV Sp. z o.o. is a subsidiary to ComArch SA.

**Interia.pl Spółka Akcyjna**

On 31.12.2004, the initial capital of the Company was PLN 6,568,950 and was divided into 6,568,950 shares of the nominal value of PLN 1 each. ComArch SA had 2,463,370 shares of the Company at nominal value of PLN 1 each, which was 49.87% of votes in the General Assembly and 37.50% of shares in the initial capital of the Company. In 2004, there were no changes in the capital structure of the Company. Pursuant to the Accounting Act of 29.09.1994, INTERIA.PL SA is a company affiliated with ComArch SA.

**NetBrokers Sp. z o.o.**

On 31.12.2004, the initial capital of the Company was PLN 750,000 and was divided into 750 shares of the nominal value of PLN 1,000 each. ComArch SA had 300 shares, which constituted 40.0% of the initial capital of the Company. In 2004, there were no changes in the capital structure of the Company. Pursuant to the Accounting Act of 29.09.1994, NetBrokers Sp. z o.o. is a company affiliated with ComArch SA.

**MKS Cracovia SSA**

On 31.12.2003, ComArch SA had 30,000 registered regular shares of the value of PLN 100 each for the total value of PLN 3,000,000. The initial capital of MKS Cracovia SSA was PLN 10,557,000 and was divided into 105,570 shares. The shares covered by ComArch SA constituted 28.4% of the initial capital of MKS Cracovia SSA and give the same number of votes in the General Assembly of the Company. In 2004, ComArch S.A. acquired 1 share of the Company from a private person.

The District Court for Krakow Srodmiescie on 19.07.2004 issued a decision on registration in crease in the initial capital of MKS Cracovia SSA by PLN 4m. As a result of this increase, ComArch SA assumed 40,000 registered regular series D shares for cash at issue price equal to the nominal value in the amount of PLN 100 per share. After the above increasing, the initial capital of MKS Cracovia SSA is PLN 14,557,000 and is divided into 145,570 shares. The initial capital is made up of 70,570 series A shares, 5,000 series B shares, 30,000 series C shares and 40,000 series D shares. The total number of votes resulting from all the issued shares is 145,570. ComArch SA has 7,001 shares and votes in the GAS MKS Cracovia SSA, which is 48.09% of the share in the initial capital of the Company.

Pursuant to Article 3 Clause 37 d) of the Accounting Act, due to the fact that majority of members of the Supervisory Board of MKS Cracovia SSA is appointed by ComArch S.A., MKS Cracovia SSA is a subsidiary to ComArch SA.

**Fideltronik-ComArch Spółka z ograniczoną odpowiedzialnością**

The initial capital of the Company is PLN 4,000.00 and is divided into 40 equal and indivisible shares of PLN 100 each. ComArch SA has 20 shares for the total value of PLN 2,000.00, which is 50% of the initial capital and the same number of votes in the Assembly of Partners. In 2004 there were no changes in the structure of the initial capital of the Company. Pursuant to the Accounting Act of 29.09.1994, Fideltronik-ComArch Sp. z o.o. is a company affiliated with ComArch SA. The Company did not start its activities.

**19. Transactions with related entities**

Transactions with related entities, whose value in 2003 exceeded EUR 500,000 are transactions of purchase of goods and services from ComArch Krakow SA for the amount of PLN 14,500 thou. (before the merger) and from ComArch Services Sp. z o.o. for the amount of PLN 2,552 thou. as well as transactions of sales of goods and services to ComArch Global, Inc. for the amount of PLN 4,573 thou. and ComArch Software AG for the amount of PLN 3,694 thou. These are mostly transactions within subcontracting of IT and tele-IT work under contracts executed by particular companies of the ComArch Group.

## **20. Credits, loans, pledges, guarantees**

### **A. Bank guarantees**

To the order of ComArch SA, bank guarantees and letters of credit were issued for the total amount of PLN 26,109 thou. as of 31.12.2004.

### **B. Pledges**

As of 31.12.2004, ComArch SA pledged for the company Interia.pl obligations on account of leasing agreements for the amount of PLN 1,499 thou.

### **B. Credits**

As of 31.12.2004, ComArch SA companies had obligations on account of credits in the amount of PLN 7,878 thou. In 2004, ComArch signed an agreement for limiting claims to the amount of PLN 30m with Raiffeisen Bank Polska SA with the office in Warsaw. ComArch SA may use the claims limit in the form of performance bank guarantees, for tenders, payments, refunding prepayments and letters of credit related to executed contracts and in the form of credit in the current account up to the amount of PLN 10m.

In 2004, ComArch SA signed an agreement for the investment credit with Fortis Bank Polska SA with the office in Warsaw for financing construction of a new production and office building in the Special Economic Zone in Krakow. Credit amount is 85% of the investment value, up to the maximum of PLN 20m. The crediting period is 10 years, with interest rate based on variable rates. Credit should be used before 30.06.2005. Collateral for the credit is made of a blank bill of exchange, mortgage in plots in which the building will be erected and assignment of the insurance policy for the building.

### **C. Bonds**

On 12.04.2002, ComArch SA issued 4,000 5-year bonds convertible into shares. Conversion price is PLN 57.10, that is each bond may be converted into 175 shares of the Company. The issue price was set at the level of 100.3%, and percentage of bonds is 7.5% pa. 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 Management passed a resolution on depreciation of 486 series A bonds convertible into series H shares, issued by ComArch SA. After depreciation, the number of series A bonds convertible into series H shares issued by ComArch SA bonds is 3,514.

### **D. Loans**

As of 31.12.2004, value of unpaid residential housing loans provided for ComArch SA employees was PLN 750 thou. Their due payment dates are in the years 2006-2007.

As of 31.12.2004, the following companies of the Capital Group had debt to ComArch SA on account of the provided loans: ComArch Software AG (PLN 2,896 thou.), ComArch Global (PLN 2,392 thou.), ComArch Middle-East (PLN 278 thou.) and ComArch Ukraine (PLN 90 thou.). Their due payment dates are in the years 2006-2007.

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

The Company did not publish result forecasts for 2004.

## **22. Assessment of factors and unusual events affecting result on activities**

In 2004, ComArch SA assumed 40,000 of new series D shares in MKS Cracovia SSA and additionally acquired 1,549 shares of the Company, as a result of which share of ComArch SA in the MKS Cracovia SSA capital increased to 49.15%. Pursuant to Article 60 Para 4 of the Accounting Act, in case of changes in the share in the capital of a subsidiary unit as a result of assuming shares of a new issue of the subsidiary unit, surplus of fair value assets for the share in the subsidiary over acquisition price of these shares constitutes financial proceeds. One-time effect of this operation on the 2004 results was PLN 2,980 thou.

## **23. Changes in the basic principles for managing the issuer company and its capital group**

None.

## **24. Loans granted to management and supervision persons**

As of 31.12.2004 there are no unpaid loans as well as guarantees and pledges granted by ComArch SA for Members of the Management, of the Supervisory Board and their relatives.

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Krakow, 04 April 2005

Janusz Filipiak  
President, the Management Board

Rafał Chwast  
Deputy President, the Management Board

Paweł Prokop  
Deputy President, the Management Board

Tomasz Maciantowicz  
Deputy President, the Management Board

Paweł Przewięźlikowski  
Deputy President, the Management Board

Christophe Debou  
Member, the Management Board

Zbigniew Rymarczyk  
Member, the Management Board