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## Mission

#### TAKING RESPONSIBILITY FOR OUR CLIENTS' SUCCESS

Comarch is a global provider of business IT solutions that comprehensively enable customer relations and optimize business processes and operations. Comarch's greatest asset is its profound knowledge of the IT sector which is passed on to our clients in the form of integrated information systems.

Right from the start, Comarch has laid great stress on supplying world-class, quality applications and professional services so that they can be as effective as possible in the everyday operations of our clients' businesses. In this respect, Comarch has won an unusually strong position as a supplier of complete IT solutions that differ from solutions based on standard applications, technology and hardware.

Comarch's idea is to supply innovative IT solutions to key sectors of the economy. Two-and-a-half-thousand experienced specialists and consultants are at work for our clients in the USA, Europe and the Middle East. Based on the most modern technology, knowledge of market trends and tendencies, and a sense of responsibility, we have carried out more than two-thousand complex and comprehensive implementations.

More than fifty-thousand companies in Poland and abroad use Comarch software, and we are proud of the fact that many of our international clients, and many analysts, regard Comarch as the best IT company in Central Europe and one that is effectively winning global markets. Comarch supports its product development strategy by annually investing more than 13 million euros in R&D.

In concentrating its efforts on knowledge-sharing and dissemination, Comarch organizes R&D programs with the cooperation of consultants, analysts and clients. The aim is to spread knowledge and to test our concept of new technology development against market trends. Comarch's strategic operational advantage lies in using the experience and knowledge of its employees to provide a full range of IT services in consulting, implementing individual solutions and outsourcing.



# Dear Shareholders,

For Comarch, 2006 saw a further period of success with the group achieving its highest ever revenue from sales and a record net profit. Revenue from sales rose by 11% to 491.5 million PLN, while net profit rose by 88% to 52.7 million PLN. At the same time, the group radically improved EBIT margin from 6.2% to 9.3% and the return on equity ratio rose from 19.1% to 21.8%. Profit per share rose by 76% from 4.06 PLN in 2005 to 7.13 PLN in 2006. The excellent results achieved by the group were reflected in Comarch SA's share price performance with an increase of almost two-hundred percent over the last financial year.

The most important factor in the Group's current market position and the results it has achieved is the consistent pursuit over several years of a growth policy based on proprietary products. After several years of expansion abroad, the Comarch brand is well-known in the world and is associated with technologically advanced information systems and a modern approach to the client. Comarch systems serve clients from a variety of sectors in more than twenty countries on four continents, and is active in Central Europe, Western Europe, both the Americas and the Middle East. In 2006 the Group signed contracts with companies such as Auchan and T-Mobile, which is an excellent sign for the future and also a clear indication that global clients are showing more and more interest in Comarch solutions.

To ensure long-term growth the Comarch group invests extensively in human capital, in the most modern technology and in new and innovative products. In 2006, six-hundred new employees joined the Group and these were mainly graduates from the best Polish universities. The group finances extensive R&D both from its own resources and from funds it has won from the EU. We are convinced that over the next few years this expenditure will allow us to strengthen Comarch's market position among international IT companies even further.

In view of the dynamic growth in its operations, Comarch is continuously adding to its production resources. In 2006, a third production and office building was completed in the Kraków Special Economic Zone and at the beginning of 2007, several hundred Comarch employees moved there. Work is in progress on another new building which is due to be completed at the end of this year. There is equal dynamism at the Group's branches in Warszawa, Poznań, Wrocław, Katowice, Gdańsk, Łódż, Lublin and Szczeczin and at the Planning and Implementation Centers in Dresden, Chicago and Panama.

The Management Board of Comarch SA will make every effort to ensure that the company's dynamic growth proceeds alongside increased operational effectiveness, and that the results achieved produce stable growth in its value to shareholders.

President of the Management Board

# Selected Financial Data



Comarch Capital Group - 2006 in figures

**491.5 million PLN** 

revenue from sales

45.6 million PLN

operating profit

52.7 million PLN

net profit attributable to shareholders

7.13 PLN

profit per share

**2,464** people

employment level

the figure from the 31st of December, excluding employees of MKS Cracovia SSA

607

new jobs created in 2006

Financial Results



# rs profit grew by 66.5% to 2.7 million PLN. Profit per

#### IN 2006 COMARCH ACHIEVED ITS BEST EVER FINANCIAL RESULTS

Income from sales grew by 10.7% to 491.5 million PLN. Operating profit grew by 66.5% to 45.6 million PLN. Net profit grew almost twice over, by 88.1%, to 52.7 million PLN. Profit per share was up from 4.06 PLN in 2005 to 7.13 PLN in 2006. The EBIT margin went from 6.2% to 9.3%, and net margin from 6.3% to 10.7%. It is worth remarking that increased profitability was achieved in conditions where employment at the group rose significantly, and where there was pressure to raise remuneration in the IT sector. At the end of December 2006, Comarch employed 2,464 people – 607 more than at the beginning of the year.

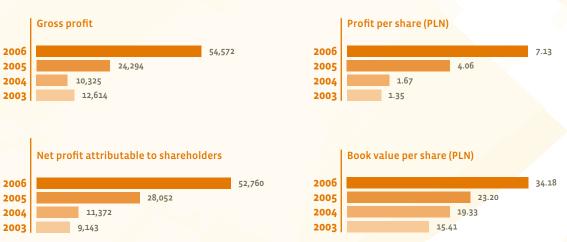
The value of Comarch Group's assets grew in 2005 by 33.1% to reach a value of 461.6 million PLN. The growth in assets was seen equally in non-current assets with a rise of 33.7%, and in current assets with an increase of 32.6%. The growth in non-current assets is mainly the result of expenses incurred in property, plant and equipment. This is mainly accounted for in the completion of two new office buildings in the Kraków Special Economic Zone in line with the second and third stages of the investment program.

#### Comarch SA Share Performance 2006 (PLN)



On the 29<sup>th</sup> of December, 2006, the closing price of Comarch SA shares on the Warsaw Stock Exchange was 191 PLN, which represented growth of almost 198% in relation to the closing price of 2005, which was 64.10 PLN.



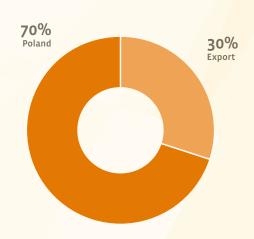


Data given in the tables is expressed in thousands of PLN, except where indicated

### Geographical sales distribution, 2006

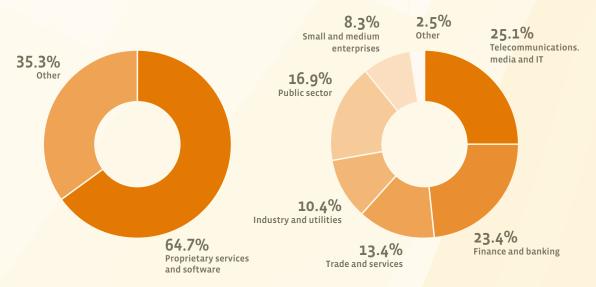


# Geographical sales structure of Comarch proprietary services and software



### Sales structure by type, 2006













Janusz Filipiak
President of the Management Board

Janusz Filipiak has been a full Professor at Kraków's Academy of Mining and Steel since 1997, where, from 1991–98 he was the Director of the Telecommunications Department.

Professor Filipiak has written more than one hundred papers on telecommunications and data communications, as well as six books, three of which, on telecommunications, have been published in the United States and Western Europe. He also edits academic journals, is a consultant to a number of Polish and foreign institutions, and is a member of the Electronics and Telecommunications Committee at the Polish Academy of Science. He completed his business education in Japan.



Rafał Chwast
VICE-PRESIDENT OF THE MANAGEMENT BOARD

Rafał Chwast has a Master's degree in accounting from Kraków's Academy of Economics and a Master's degree in Information Technology from the Academy of Mining and Steel's department of Electrical Engineering, Automation and Electronics. Since 1998 he has been Finance Director at Comarch, and from November 1998 he has been Vice-President of Comarch SA's Management Board. Prior to joining Comarch, he worked as a consultant at Polinvest Ltd as well as at BPH Bank headquarters in the Foreign Exchange Trading Department. In 2003-06 he was President of the Management Board of the Association of Stock Exchange Issuers.



Piotr Piątosa
Vice-President of the Management Board

Piotr Piątosa has a Master's degree in Technological Physics from Kraków's Academy of Mining and Steel and also studied Physics at the Johannes Gutenberg University in Mainz, Germany. He holds an MBA and is a graduate of both Oxford Brookes University and the Open University.

He has worked at Comarch since 1998 and in 2000–03 he directed the subdivision sectors of services as well as industry and trade. In 2003–05 he was Director of the consulting center for the services, and industry and trade sectors, and later for the finance and services sectors.

He has been a Vice-President of the Management Board at Comarch SA since 2006.





Paweł Prokop
Vice-President of the Management Board

Paweł Prokop graduated from Kraków's Academy of Mining and Steel, where he studied Information Technology in the Department of Electrical Engineering, Automation and Electronics and gained a Master's degree in engineering. He is also a graduate of the Executives MBA program at the Warsaw Polytechnic Business School. He has worked at Comarch since 1995 and has been a member of the Management Board since 1996.

Since 2003 he has been Director for the Public Administration, Utilities and Local Government sectors.



Paweł Przewięźlikowski
VICE-PRESIDENT OF THE MANAGEMENT BOARD

Paweł Przewięźlikowski has a Master's degree in Information Technology from Kraków's Academy of Mining and Steel and also holds an MBA. He began his career at the Tadeusz Sendzimir Steelworks in Nowa Huta, Kraków as a freelance programmer. During his tenure at Comarch from 1995 to July 2007, he was Director of the Strategy Office, a Member of the Management Board and, from 1998, Vice-President of the Management Board. In addition he was Deputy-Chairman of the Supervisory Board at INTERIA.PL S.A.



Zbigniew Rymarczyk
Vice-President of the Management Board

Zbigniew Rymarczyk has been with the Comarch Group for over four years and has held, among other posts, those of Finance Director and Vice-President of Comarch Internet Ventures S.A. Since April, 2002 he has been President of the Management Board of CDN-Comarch SA. Before joining Comarch he was Director of the Application Service Provider Center at CDN S.A. He began his career as Finance Director and Chief Accountant at Krzysztof Kapera SA, an authorized Mercedes-Benz dealer, and later became a member of its Management Board.

# 5.2 Supervisory Board

As of the 31st of December, 2006

Elżbieta Filipiak Chairman of the Supervisory Board

Krzysztof Zieliński Deputy Chairman of the Supervisory Board

# Maciej Brzeziński Member of the Supervisory Board

Anna Ławrynowicz Member of the Supervisory Board

Wojciech Kucharzyk
Member of the Supervisory Board

# The Shareholding Structure

On the 31<sup>st</sup> of December, 2006 Comarch SA share capital comprised 7,518,770 shares with a nominal value of 7,518,770 PLN. According to information in the possession of Comarch SA the shareholders entitled to at least 5% of the votes at the Shareholders' Annual General Meeting were Elżbieta and Janusz Filipiak and BZ WBK AIB Asset Management S.A.

Shareholders	Number of Shares	Percentage of Share Capital	Number of Votes at the AGM	Percentage of Votes at the AGM
Elżbieta and Janusz Filipiak	3,239,393	43.08 %	10,195,393	69.89 %
The remaining members of the Management Board	55,816	0.74 %	131,016	0.90 %
Customers of BZ WBK AIB Asset Management S.A.	1,769,070	23.53 %	1,769,070	12.13 %
Other Shareholders	2,454,491	32.65 %	2,492,091	17.08 %
Total	7,518,770	100.00 %	14,587,570	100.00 %



The Comarch Capital Group



**Comarch Joint Stock Company** Kraków

**Poland** 

CA Services S.A. Kraków (99.90 %)

MKS Cracovia SSA Kraków (49.15 %)

INTERIA.PL SA Kraków (48.48 %) Europe

Comarch Software AG Dresden (100.00 %)

Comarch Sp. z o.o. Kiev (100.00 %)

Comarch s.r.o. Bratislava (100.00 %)

OOO Comarch Moscow (100.00 %)

UAB Comarch Vilnius (100.00 %) North and South America

Comarch, Inc. Chicago (100.00 %)

Comarch Panama, Inc.
Panama
(100.00%, a subsidiary
of Comarch, Inc)

Others

Comarch Middle East FZ-LCC Dubai (100.00 %)

The figures in brackets represent Comarch SA's share of votes.





Bielsko-Biała

Łódź

Gdańsk

Poznań

Katowice

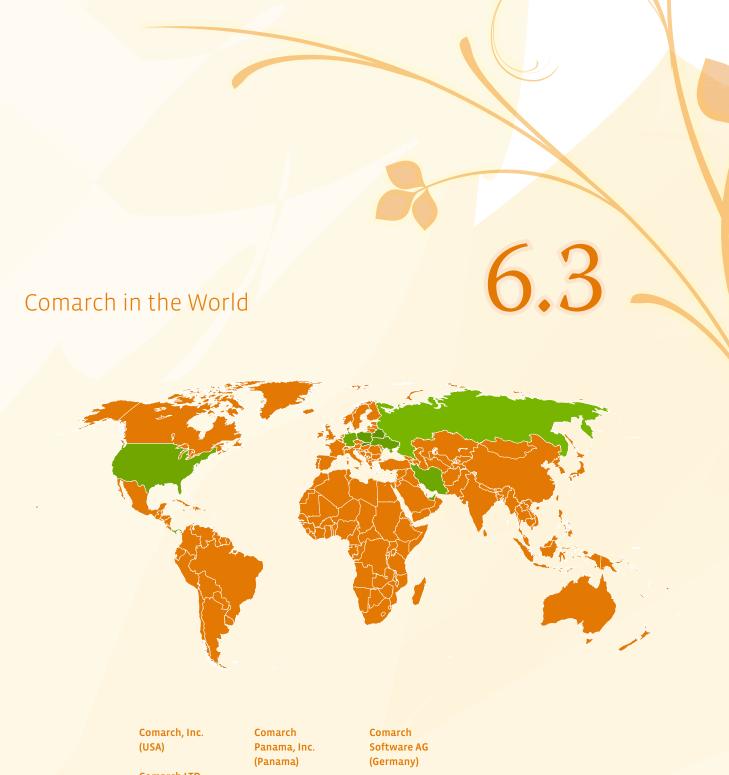
Szczecin

Kraków

Warszawa

Lublin

Wrocław



Comarch LTD (Ukraine)

Comarch Middle East FZ-LLC (Dubai) 000 Comarch (Russia)

Comarch s.r.o. (Slovakia) UAB Comarch (Lithuania) Comarch's Sectors

## **Public Administration**

One of the major challenges facing Comarch in 2006 was to support the development of an information society by continuously extending and improving a product range aimed at public administration, both in Poland and in the world. With regard to tenders for large-scale, central IT designs and implementations, the market for modern technology services in public administration stagnated. At the same time however, there was a clear tendency suggesting that the local government intends to invest more in IT projects. This is connected with the resource stream coming from the European Union Structural Fund. This market situation has prompted Comarch to adapt its products to the IT service requirements and demands of precisely this group of potential clients.

In 2006, Comarch submitted an application to the European Structural Fund's Enterprise Competitiveness Program for additional project financing concerning, for example, the following:

- An integrated electronic service for individuals and businesses so that they can interact with local and central government institutions using the Internet
- Deploying an integrated IT Enterprise Resource Planning system in local government

The funds we have already obtained for 2007 have been earmarked for building comprehensive back office and front office solutions (BO-FO) for local and regional government.

Comarch has considerably strengthened its position as a producer of innovative information systems for public administration. The system for the National Audit Office is a model example of winning and undertaking the implementation of a significant contract. Yet it was winning the tender for designing and implementing an integrated resource management system for the Albanian Police that confirmed the position of the company as a high-quality service supplier on the international market.

Comarch's numerous successes demonstrate how well the company is prepared for carrying out complex ICT (Information and Communication Technology) projects for the public sector. Building modern solutions for the development of e-administration in local government, however, will make a strong contribution to raising the company's competitiveness on local markets in the new EU funding period of 2007–13.



# 72 Finance and Banking

In 2006 the finance sector had, for the first time, the biggest percentage share in Comarch earnings. This encapsulates the growing significance of the products and services the company provides. However, what is especially significant is Comarch's strengthening position in Internet banking systems (Comarch Internet Banking), where its modern solutions for corporate and individual clients are becoming the market standard and making the previous generation of solutions obsolete. The year also saw the company's biggest implementation of the Comarch Insurance system so far,

as well as the signing of further contracts in this sector. In addition, Comarch completed a project for Rosgosstrach, its biggest Russian-market client to date, in the area of asset management.

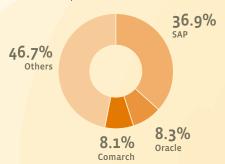
It is also worth noting the successful implementation of a completely new system in Comarch's product range – Comarch Factoring. The success of this project, which was conducted with DnB Nord Bank Polska, was confirmed when the Banking Gazette awarded it a prize for the best transaction system.

## Small and Medium Enterprises

In 2006 the Polish ERP (Enterprise Resource Planning) market continued to reap the benefits of the economic growth that had first appeared two years earlier. Thanks to the dynamic growth in activity on markets at home and abroad, many more contracts were signed and implementations carried out. For Comarch, it was an exceptionally beneficial year. According to the Puls Biznesu and Computerworld's Top 200 rankings for 2006, Comarch had the best results of all Polish ERP software producers. Comarch earnings from ERP system licenses reached a record level of 64.2 million PLN in 2006, which represented growth of approximately 18% from 2005. The prime reason these results were achieved was the sale of ERP software through a partner network of more than nine hundred companies. This success meant that Comarch increased its share of the market and strengthened its position as the largest Polish supplier of ERP solutions. The most recent IDC report states that the CDN XL system is the first choice for enterprise management in Poland. The number of new clients, which is a major indicator of a company's position on the market, also rose significantly, with Comarch winning the most new clients to bring their total number to over 50,000.

Investment over previous years, along with increased activity abroad, meant that Comarch became the first Polish ERP supplier to export its own systems. This process began with making the CDN XL system available in Ukrainian, English and Slovakian versions as well as entering the German market, the biggest in Europe. In fact, 2006 has seen a series of successful implementations in Germany, Slovakia and the Ukraine, as well as Comarch's first implementation in the USA. Comarch, as well as selling its ERP software abroad, is steadily increasing its market share in Poland. The healthy state of the order book for 2007 suggests that it will be a further dynamic sales period for the CDN XL, the CDN Klasyka and the CDN OPTIMA systems. In 2007 Comarch is aiming both for constant sales revenue growth on the Polish ERP market and for constant growth in share percentage of that market. This will be achieved thanks to precise product positioning, investment in new technology and further widening and deepening of cooperation with the national network of partners. The outcome of this strategy should be to strengthen Comarch's position as the biggest Polish supplier of ERP systems and ensure it a steady stream of new clients.

## Share in the Polish EAS (Enterprise Application Software) Market Based on the IDC report of 2006



7.3



## Telecommunications

Comarch earnings from the telecommunications market rose by 47.8% from the previous financial year. When compared to the 10% earnings growth on sales recorded across the Company as a whole, Comarch's telecommunications sector is among the fastest growing in the company. In achieving such good results, Comarch is simultaneously pursuing the strategic goals of raising its status as one of the leading suppliers of OSS/BSS systems in the world and securing its position on the MVNO/MVNE solutions market.

Comarch is achieving these aims by winning several large contracts. Among these are contracts with Polkomtel in Poland and Bouyges Telecom in France for Comarch InterPartner Billing, with InMo in Holland for an MVNE platform and with T-Mobile International for a network management system. These contracts, and especially the T-Mobile contract, confirm that Comarch has all the essential attributes and competences required to carry out international IT projects for Tier-1 operators.

On the MVNO/MVNE market Comarch has signed contracts with Vistream in Germany, Sotto Wireless in the USA and Auchan Telecom in France. Thanks to the experience it is gaining in this way, Comarch is becoming an acknowledged IT systems supplier for the dynamic MVNO market.

The significant increase in revenue and intensification of operational activity meant changes in the internal structure of Comarch's Telecommunications Sector. Foreign branches are being developed including implementation teams in Panama and France, a sales team in the United States,

an R&D and sales division in Germany and R&D departments in the Ukraine and Lithuania.

Despite the rapid growth it remains extremely important to maintain the current product range in a condition that meets market requirements. This can be achieved by continuous investment in R&D. In 2006, we initiated a large number of R&D projects. Some of these had been completed by the end of 2006 and they resulted in the following new products being added to the range: Process Driven Inventory Management within the framework of OSS, and Product Catalog within the framework of BSS. Research continues on the Misuse Detection System and the Next-Generation Service Delivery Platform, both of which are being conducted within EU programs.

In creating its product range for telecommunications operators, Comarch pays special attention to the latest trends on the telecommunications market. For this reason it is developing an entirely new line of products which will enable the provision of new generation services, as well as what are termed 'off-portal' services, which are based on providing content, multimedia and new generation television.

The strategic goal for 2007 is expansion on the US and Western European markets along with achieving a further strengthened position on the world market as leading OSS/BSS suppliers. A great deal of emphasis will also be placed on the development of new and innovative products for the dynamically growing segments of the telecommunications market.

## Services

In 2006 Comarch extended its capacities in the service sector very powerfully indeed. This especially concerned the Comarch Loyalty Management Platform and Comarch ECOD Operator, the electronic data interchange system. This was very much connected with a keen awareness of the newly-emerging market for e-invoices, the computerization of the FMCG distribution sector and the sale of loyalty systems on the eastern market. Thanks to cooperation with the X5 group, which implemented the Klub Perekriostok loyalty program, Comarch strengthened its leading position on the loyalty-platform market in Russia. This was the first large CLM (Customer Loyalty Management) implementation contract in the Managed Service model. Signing a hosting contract with this client was another big success and suggests that Comarch has considerable potential in offering outsourcing services throughout Europe. This year ended with the signing of a contract with Alma Market S.A. to implement the Comarch Loyalty Management System and provide hosting services. Alma Market will be the first retail chain in Poland to use Comarch's loyalty Application. The achievements in Europe with the experience that resulted meant that expansion in North America and, especially, in the USA, could begin. Strengthening our position there will be exceptionally important for the future of the product and its development over the next few years.

The ability to rapidly sense the important legal and organizational changes on the FMCG market strengthened Comarch's leading position on the Polish market as a provider of e-invoices and electronic archives for networks, tax offices and IT producers. In 2006 Comarch signed important contracts for these products with, among others, the Metro Group, Leroy Merlin and Auchan, as well as with more than one thousand other large companies. There was also an important step forward in international strategy when the Services Sector began an e-invoice project with Auchan Hungary and other companies on that market.

The year 2006 has also been a period of development in the new and very extensive area of competences connected with ECOD distribution. This concerns the communication and reporting of data from the distribution channel to the big software producers. The ECOD distribution product was implemented at, among others, Agros Nova (120 sites connected to ECOD), Carlsberg (more than 450 sites connected to ECOD) and at several important companies from the cosmetics industry. This is a huge and vitally important market, which the sector will concentrate on in the next few years. ECOD activity abroad in 2006 includes a contract with Pepsi Romania to carry out an ECOD distribution project with forty five distributors, a project roll-out for Metro in the Ukraine (there are now 200 suppliers exchanging electronic orders), and a contract with Auchan Hungary for an EDI (Electronic Data Interchange) with 400 suppliers and ECOD Archive. This activity is a powerful sign of the improved dynamics in EDI projects.



# 8

# The Comarch Group on the IT Market

In 2006 Comarch strengthened its position on the Polish IT market, whose value, according to IDC Poland estimates, rose in 2006 to 6.5 million USD. This was up 14% from 2005.

Comarch, according to the reputable Computerworld TOP 200 ranking, was Poland's biggest IT systems integrator for the third time in succession and the country's third biggest supplier of integrated ERP systems. Because of the type of information systems Comarch supplies, its major clients are Medium and Large Enterprises, which are, on a global scale, the biggest users of advanced IT systems. The Comarch Group's sales structure is heavily diversified and is not dependent on any single business customer. In 2006, none of the individual sectors of the group supplied products exceeding 10% of the overall value of the Group's income from sales. Because of the specifics of the sector Comarch operates in, it is necessary to acknowledge as suppliers international concerns that produce computer systems

and software tools, the Polish branches and representatives of these concerns, as well as Polish distribution companies and system sub-contractors. Comarch is competing with global ERP software producers in the Polish Small and Medium Enterprises sector. According to an IDC report, in 2006 Comarch increased its share of the ERP sales market to 8.1%. There was also growth in income of 15.4% in the ERP segment, which increased from 12.65 million USD in 2005 to 14.25 million USD in 2006. With the ERP market growing at 6% this means that Comarch is growing twice as fast as the market itself. In 2006 Comarch won a record number of ERP system clients, 440, passing the 1500 mark in total client companies. Comparing the number of contracts signed in 2006 with the remaining ERP suppliers in Poland, Comarch is unquestionably the leader in supplying this type of software. The positions achieved in the above rankings and reports confirm that the business growth strategy the Group elected to follow was the appropriate one.



## Companies supplying integration services, 2006 – revenue from integration services (Computerworld TOP 200 for 2006)

Comarch
Prokom Software
ComputerLand
Emax
Qumak-Sekom
BIW Koncept
Sprint
0 50,000 100,000 150,000 200,000 250,000
value in thousands of PLN

Important Contracts Concluded in 2006





10 Sales Structure

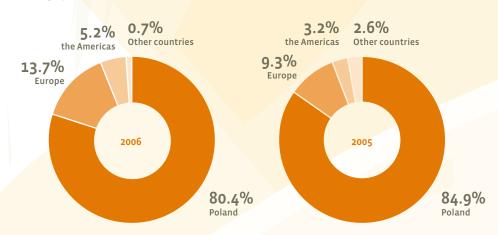


## Geographical Sales Structure

In 2006 revenue from sales at Comarch rose by 10.7% on the previous year and growth in export sales, at 29.5 million PLN, was greater than the increase in domestic sales, which were at 18 million PLN. The share of export sales in overall revenues was 19.6% in 2006 against 15.1% in the previous year, which confirms the growing significance of this segment for the Group's development. Comarch's export sales are concentrated

mainly in Europe (70% of income from export against 61% in 2005), and in both of the Americas (26% of income from exports in 2006 against 22% in 2005). Compared to 2005, the significance of sales to remaining parts of the world has declined (4% of overall foreign sales against 17% in 2005). This is connected with the Comarch Group's reduction of activities in the Middle East.

### Geographical Sales Structure



#### Geographical structure of sales revenue at the Comarch Capital Group (thousands of PLN)

	2006	2005	
Poland	395,048	377,002	
Europe	67,298	41,181	
The Americas	25,483	14,428	
Other countries	3,721	11,379	
TOTAL	491,550	443,990	

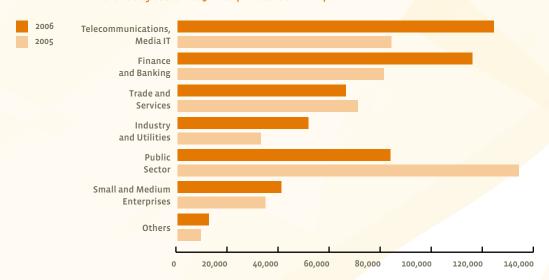




In 2006 there was substantial growth in sales to the telecommunications sector with its share of overall sales rising from 18.8% in 2005 to 25.1% in 2006. There was also substantial growth in sales to the finance and banking sector with its overall share of sales rising from 18.2% in 2005 to 23.4% in 2006. The increase in sales to the telecommunications sector is mainly the result of increased demand for Comarch solutions on the international market. The fall in sales in the public sector in 2006 was caused by the lack of sizeable computer hardware orders for schools. These were present in 2005, but had been filled by the end of that year. The share

of the remaining market sectors in sales income remained at levels similar to 2005, but with a small rise in sales to the Industry and Utilities sector, which came at the cost of the Trade and Services sector. The share of sales in the Small and Medium Enterprise sector remained at a similar level to the previous year (8.3% against 7.7%). For a period of a few years now the sales share of particular sectors has shown little variation. Significant changes in this area are caused by the temporary increases or decreases in sales of hardware that are involved in public sector orders.

#### Revenue by sector 2005-2006 (thousands of PLN)

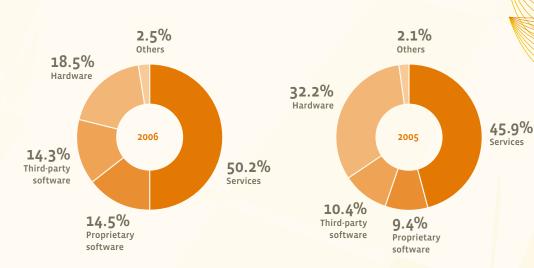


Sales Structure by Type

In 2006 there was a substantial rise in sales of Comarch's proprietary services and licenses altogether amounting to 72.38 million PLN, which represents growth against the overall sales structure from 55.3% to 64.7%. This is a very positive tendency, because sales of proprietary products and

services mean that EBIT margins can be substantially increased. At the same time, in view of the absence in 2006 of tenders for supplying computer hardware to schools, there was a fall in hardware sales and a subsequent decline in this factor's share in the overall sales structure.

### Sales structure by type



10.3

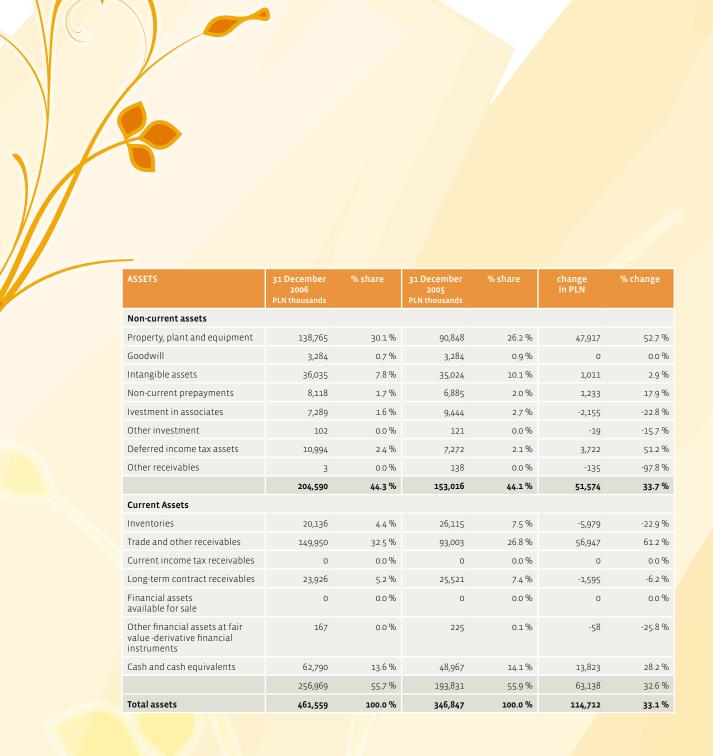
The Financial Situation in 2006

## Financial Analysis

The value of the Comarch Group's assets rose in 2005 by 33.1% to 461.56 million PLN. The rises seen in 2006 in non-current assets, at 33.7%, and in current assets, at 32.6%, were very similar, which meant that a similar assets structure to that of 2005 was maintained. The growth in non-current assets is largely the result of increased expenditure in property, plant and equipment (an increase of 47.92 million PLN), namely two new office buildings in the Kraków Special Economic Zone as part of stages II and III of the planned investment strategy. The building that was part of stage II was completed for use in February 2007 and completion of stage III is planned for the end of this year. The sale of a portion RIA.PL shares meant that the invest-

of INTERIA.PL shares meant that the investment value of some of its associates fell by 2.15 million PLN. The growth in the level of current assets in 2006 by 63.14 million from 2005 was in large measure the result of changes in the levels of trade receivables as well as in cash and cash equivalents. The level of current receivables rose by 56.95 million PLN, 61.2%, and was the result of high sales in the closing months of 2006 and the high level of trade receivables on the 31<sup>st</sup> of December, 2006. The cash level rose by 13.82 million PLN, which confirms the group's healthy liquidity. The level of the remaining current asset categories remains

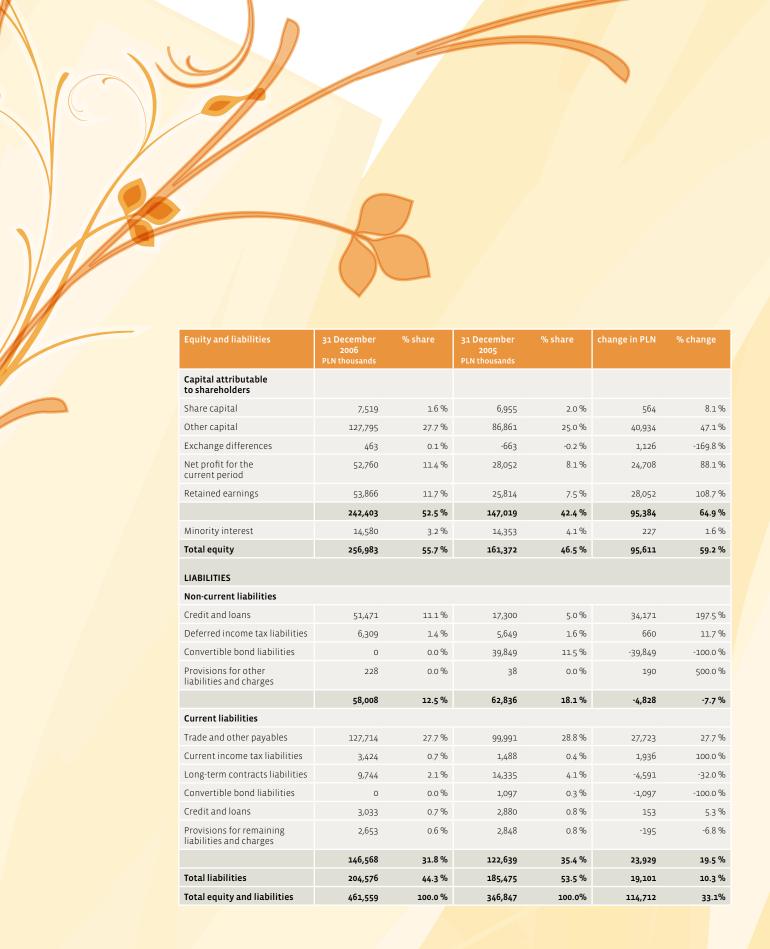




In 2006 Comarch's balance sheet total rose by 114.71 million PLN - 33.1%. The liabilities side shows the effect of a considerable increase in 2006 of equity by 95.38 million PLN, or 59.2%, compared to the previous year. This was caused by a high net profit of 52.76 million PLN attributable to shareholders generated in the financial year, as well as to the growth of 40.93 million PLN in other capital that was the result of converting Comarch SA bonds into shares.

Liabilities, which grew by 19.10 million PLN, 10.3%, increased at a significantly lower rate than capital, and this led to a change in the structure of liabilities which are now at 44.3% compared to 53.5% in the previous year. The level of non-current liabili-

ties fell slightly by 4.83 million PLN, 7.7%, and their structure changed. After the conversion of bonds into shares that took place in the first quarter of 2006, the Comarch Group no longer possessed liabilities from this source (a decrease of 39.85 million PLN), however the level of liabilities from bank loans grew by 34.17 million PLN, which was needed to finance construction of facilities in the Kraków Special Economic Zone. Current liabilities grew by 23.93 million PLN, 19.5%, and this was mainly due to an increase in trade liabilities connected with the significant increase in sales of computer hardware and software that took place in the fourth quarter of 2006.





When compared with the slight change in financial liabilities, the considerable increase in equity as well as in the balance-sheet totals described above, mean that the debt ratios showed a marked improvement in 2006.

Debt ratios	31 December 2006	31 December 2005
Debt ratio	11.81 %	17.62 %
Debt/equity ratio	22.48 %	41.58 %

Consolidated income statement	12 months 2006 PLN thousands	% share	12 months 2005 PLN thousands	% share
Revenue	491,550	100.0 %	443,990	100.0 %
Costs of sales	-370,844	-75.4 %	-353,952	-79.7 %
Gross profit	120,706	24.6 %	90,038	20.3 %
Other operating income	1,010	0.2 %	845	0.2 %
Sales and marketing costs	-39,189	-8.0 %	-33,560	-7.6 %
Administrative expenses	-32,965	-6.7 %	-26,463	-6.0 %
Other operating expenses	-4,011	-0.8 %	-3,504	-0.8 %
Operating profit	45,551	9.3 %	27,356	6.2 %
Finance costs-net	6,431	1.3 %	-4,181	-0.9 %
Share of profit/(loss) of associates	2,590	0.5 %	1,119	0.3 %
Profit before income tax	54,572	11.1 %	24,294	5.5 %
Income tax expense	-1,585	-0.3 %	3,469	0.8 %
Net profit for the period	52,987	10.8 %	27,763	6.3 %
Including				
Net profit attributable to shareholders	52,760	10.7 %	28,052	6.3 %
Minority interest	227	0.0 %	-289	-0.1 %



In 2006 the Comarch group achieved record revenue from sales, at 491.56 million PLN, which was up 10.7% from 2005. Operating profit compared to the previous year grew by 66.5% to 45.55 million PLN, while net profit attributable to shareholders at the Group was 52.76 million PLN – up 88.1% from the previous year. It is particularly worth emphasizing that the significant increases in revenues and profits have been accompanied by a growth in EBIT margin, which

rose from 6.16% in 2005 to 9.27% in 2006, and in net margin, which rose from 6.32% in 2005 to 10.73% in 2006. The return on equity achieved by the group is also in excellent shape at 21.77% compared to 19.08% in 2005. Profit per share rose from 4.06 PLN in 2005 to 7.13 PLN in 2006 – an increase of 76%.

Profitability analysis	31 December 2006	31 December 2005
Margin on sales	24.56 %	20.28 %
EBIT margin	9.27 %	6.16 %
Gross margin	11.10 %	5.47 %
Net margin	10.73 %	6.32 %

One of the most important priorities for the group in 2006 was to improve operating profitability. That this has been achieved alongside growth in employment at the group to 2,464 people (excluding MKS Cracovia SSA) is a source of great satisfaction to the Management Board.

# Financial Liquidity and Turnover Ratios

The analysis shows that financial liquidity has improved in all categories compared to last year and is the result of healthy operating profitability and effective management of working capital. For a long time now liquidity ratios have remained at a very good level, which demonstrates the stable financial position of the Group.

In the opinion of the Management Board, the company will not have a problem in meeting its financial obligations. For a temporary period the company will invest its free resources in secure instruments such as bank deposits, treasury securities and money investment funds.

11.2

The receivables turnover indicator shows a longer receivables turnover cycle of 110 days in 2006 compared to 75 days in 2005. This is the result of the significantly higher state of receivables on the 31st of December, 2006 compared to the same date in 2005. The inventory turnover ratio has remained at the previous level. The liabilities turnover cycle extended from 148 to 157 days, and this partly compensated for the negative effect involved in the extension of the receivables cycle.

Liquidity Indicators	31 December 2006	31 December 2005	
Liquidity analysis:	1.75	1.58	
Current ratio	1.45	1.16	
Quick ratio	0.43	0.40	

Turnover	31 December 2006	31 December 2005
Current assets turnover ratio (multiples)	1.91	2.29
Receivables turnover ratio (days)	110	75
Inventories turnover ratio (days)	43	45
Liabilities turnover ratio (days)	157	148
Liabilities turnover excluding liabilities due to bonds and investment credit ratio (days)	121	107



Perspectives for Growth and Development

The growth in the IT market in Poland, as well as the overall economic growth in the Polish and world markets, should have a positive effect on Comarch's growth and development as well as on the financial results it achieves. The pursuit of a consistent and resolute strategy to position itself on the market as a technology and productoriented company is bringing results in an annually expanding client base with a high proportion of international companies. As EU integration proceeds, more and more foreign companies will begin to operate in Poland and the range of potential IT system clients will expand. In the same way, Comarch's activities on foreign markets should further increase sales and enhance its image among international corporations. This, in turn, will strengthen the company's competitive position on the Polish market.

The globalization of the economy and the liberalization of trade mean that barriers for companies and their products are falling. The IT market is now an open, global forum where product price and quality are continuously compared. Along with the increased presence of foreign capital in Poland, even IT companies operating solely on the domestic market must offer products that are competitive in global terms. Right from the beginning, Comarch has enjoyed a reputation for generating innovative technical solutions and selling competitive products successfully on the international market.

This is why the company's aim remains to develop new and competitive products that will ensure its further growth and

development and increase its value. Maintaining healthy sales dynamics requires expenditure on product development as well as on their effective promotion and marketing. This concerns both the modification of existing products and technologies as well as creating and designing new products.

Comarch's present policy entails R&D work directed at implementing and standardizing products from the first moment they are being prepared for clients. This means that even if a product has been designed for a specific customer, a whole or a part of this software or code may then be used to produce a standard product. The effect of this is that individual contracts are more profitable and the client base expands.

## AMONG THE COMARCH GROUP'S MOST IMPORTANT INVESTMENT PLANS FOR 2007 WILL BE:

- Continuing the third stage of the Kraków Special Economic Zone Investment with a service/office building of 11,445 square meters with accompanying technical infrastructure. The value of the work planned for 2007 amounts to 42 million PLN and it is due to be completed by the 30<sup>th</sup> of December 2007.
- A plan to purchase three hectares of land in the Kraków Special Economic Zone at a net price of 18.79 million PLN, where the company can build further production/ office buildings when the possibilities of the present buildings are exhausted.

Technology and R&D



At Comarch, we believe that innovation is essential in continuously improving our products, technology and business models, and that this must operate alongside seeking new openings in the market. This is why we conduct numerous R&D projects, which are mainly co-ventures with the best Polish, and Western European universities and higher technical schools. Thanks to this, we are convinced that the solutions our clients receive always satisfy their business needs, while the technology used in our designs ensures stability, scalability and ease of use.

Comarch's R&D expenditure is approximately 10% of income and a portion of the sums involved come from public R&D funds. Comarch, working within the program "SPOWKP 1.4.1 – Increasing Company Competitiveness", along with its Polish academic partners, has initiated fourteen projects in areas such as telecommunications, multimedia, banking, ERP, business intelligence and local government solutions.

Among the projects being carried out, is "the platform for building new generation media services for computer and mobile networks". Its aim is to develop a completely novel approach to service creation in new generation networks without needing to know the specifics of a given network. The next project concerns the categorization of clients in large electronic customer service systems, which can build market segment models used in loyalty programs, or CRM systems. Finally, there is the management IT system for small and medium enterprises integrated with a decision making support module, which will soon replace the Comarch CDN XL system that has been working so well for the last few years.

Comarch is also involved in international research projects including six EU Framework Programs. In 2006 the company received the Crystal Brussels award for outstanding research achievement. Comarch was the first Polish company to coordinate a Framework Program and is now involved in four projects of this type, one of which, in telecommunications, is called the Misuse Detection System. Its aim is to seek out misuses and abuses in, for example, 3G mobile telephone networks. The project also involves testing the most recent achievements in artificial intelligence including neural networks, evolutionary systems and decision trees.

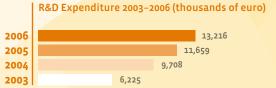
Comarch belongs to many organizations that share the aim of opening up and advancing R&D strategies. These include the Małopolska Information Technology Cluster, the e-Mobility Cluster and the Center for Advanced Technology – all established in cooperation with the leading Polish universities.

Comarch places special emphasis on the quality of its products and services and tailors them to the exacting and expanding specifications of clients both on the domestic and international markets.

Work done to improve and develop the Quality Management System resulted in the award of the Integrated Quality Management System certificate (norm EN-ISO 9001:2000) from the Polish Center for Testing and Certification. This includes integrated quality management of the environment (norm: EN-ISO 14001:2005), health and safety at work (norm: PN-N 18001:2004) and the Internal Control System (WKS).

Comarch also developed and implemented a security policy (norm: ISO/IEC 17799:2000), which stipulates the principles for using information resources and for protecting elements of data communications infrastructure.





## Socially Responsible Business

From the outset, the Comarch Capital Group has been widely involved in social responsibility. Its major initiatives have been in creating broad social contexts for promoting sport and the most modern information technology. In 2006, Comarch spent 6 million PLN on social initiatives. The main focus here is on MKS Cracovia SSA, a sporting club that competes professionally in a number of disciplines of which the most important are ice hockey and soccer. The Comarch Group is also extensively involved in promoting sport among young people.

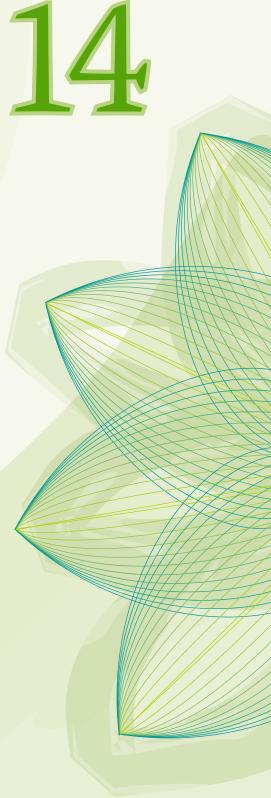
The second aspect widely promoted by Comarch is modern information technology. Every year, around 200 IT students come to the company for a three-month summer internship which gives young people from all over the world the opportunity

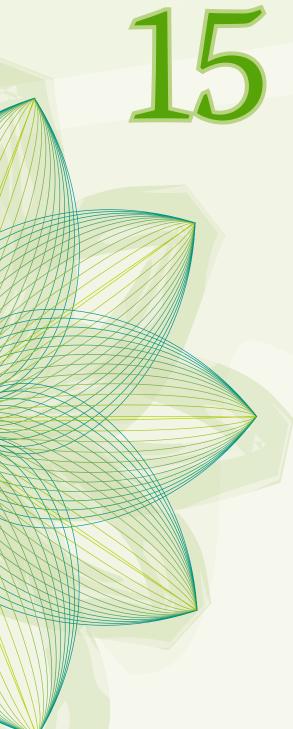
to become familiar with the most modern IT business solutions. The Comarch Capital Group also supports Polish academic research by participating in conferences and helping to finance them.

The third element in Comarch's social involvement is the sponsorship of cultural events.

In 2005 Comarch supported the Short Plays Festival at Kraków's Bagatela Theater as well as the concert Krzystof Krawczyk gave for Nowa Huta. The Group was also one of the main sponsors of Pope Benedict XVI's visit to Poland.

Within the scope of an agreement signed with the Kraków Archdiocese, Comarch supplied the technical infrastructure needed to support the Papal visit and the open-air Holy Mass on Kraków's Błonia.





## Principles of Corporate Governance at Comarch

In line with the 'Code of Practice for Listed Companies' published by the Warsaw Stock Exchange (WSE), Comarch SA has, since 2004, published an annual statement form the Management Board concerning the observance of corporate governance principles. In 2006, the Management Board submitted its corporate governance statement in an annex to the Annual report on the 4<sup>th</sup> of April, 2007.

The company declares that it follows all the principles of corporate governance with three exceptions:

- Principle 14 concerning Good Practice for General Meetings
- Principle 20 concerning Good Practice for Supervisory Boards
- Principle 28 concerning Good Practice for Supervisory Boards

These are among the most controversial and difficult to implement. According to an analysis of statements carried out by the Warsaw Stock Exchange covering the period

ending the 3<sup>rd</sup> of August 2007, fifty-four companies were not observing Principle 14, one hundred and ninety three companies were refusing to observe Principle 20 and one hundred and eighty three companies had not accepted Principle 28.

### COMPLYING WITH BEST PRACTICE IN CORPORATE GOVERNANCE

In order to comply with Principle 2 concerning Good Practice at General Meetings, a draft of resolutions with supporting arguments and the opinion of the Supervisory Board is published by the company prior to the Ordinary General Meeting of Comarch SA shareholders. With regard to Principle 18 concerning Good Practice for Supervisory Boards, the Comarch SA Supervisory Board produces a concise annual assessment which is made available to shareholders in close proximity to the publishing date of the above referenced draft resolutions.

To comply with Principle 42 concerning Good Practice in External Relations, in June of 2006 the Company changed its auditors from PricewaterhouseCoopers Sp. z o.o. to Deloitte Audyt Sp. z.o.o.

In compliance with Principle 46 concerning External Relations, the Company placed its financial reports, as well as the following corporate documents, on its website at www.comarch.pl:

- 1. Articles of Association (consolidated text)
- 2. The Management Board's Statement on Corporate Governance
- 3. The Regulations of the Management Board
- 4. The Regulations of the Supervisory Board
- 5. The Regulations of the Shareholders' General Meeting

## NEW PRINCIPLES OF CORPORATE GOVERNANCE

The new principles of corporate governance begin operating from the 1st of January 2008 under the name; The Corporate Governance Code for Polish Listed Companies. As it is generally accepted that good corporate governance helps build trust among the broad ranks of shareholders, and helps create and maintain a competitive advantage over other companies on domestic and foreign markets, Comarch SA will strive to further increase its credibility in this regard. As a first step, it intends to begin implementing the new principles on the day they take

# 16

## Independent Statutory Auditor's Assessment

To the Shareholders and the Board of Supervisors of ComArch S.A.

We have conducted an audit of the ComArch Capital Group's consolidated financial report that appears above. The capital group's dominant entity is ComArch S.A. with its registered seat at Al. Jana Pawła II 39A, Kraków. We audited:

- consolidated balance sheet as of 31 December 2006, with total assets, total equity and liabilities amounting to 461.56 million PLN;
- consolidated income statement for the period from 1 January 2006 to 31 December 2006, with the net profit for the year amounting to 52.99 million PLN;
- changes in consolidated equity for the period from 1 January 2006 to 31 December 2006 showing an increase in the value of equity to the sum of 95.61 million PLN;
- consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006 showing an increase in cash and cash equivalents to the sum of 14.26 million PLN;
- · additional information and annotations.

The Management Board of the dominant unit takes responsibility for drawing up the financial report mentioned above. Our task was to investigate and then to express our opinion concerning the reliability, correctness and clarity of this consolidated report.

The consolidated financial report for the previous financial year to 31 December 2005 was examined by a different statutory auditor who, on 5 June 2006 expressed the opinion that this report was in order. Our opinion concerns only the consolidated financial report for the financial year ended 31 December 2006.

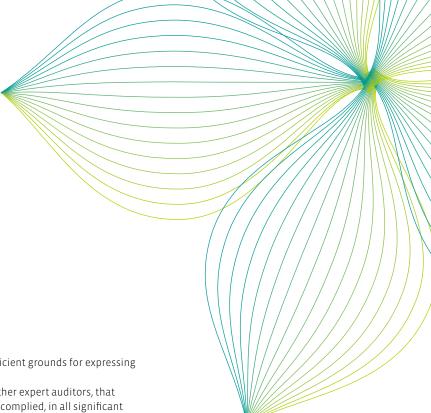
The consolidated financial report was prepared in full with respect to the ten subsidiaries and by the equity method with respect to the single associated entity. The financial reports of three subsidiaries were subject to an audit by other entities authorized to conduct audits of financial reports. We received the financial statements of the three subsidiaries and single associate mentioned above, as well as the conclusions concerning the audited financial reports. It is our opinion that the audit of the consolidated financial report with respect to data concerning these entities is based on the opinions of statutory auditors qualified and authorized to conduct an audit. The data from the subsidiaries' financial reports, for which we relied entirely on the opinions of other statutory auditors, represent 7 % of the consolidated assets, and 10 % of the consolidated revenue from sales, before adjustments made in consolidation.

The audit of the consolidated financial report was prepared and conducted according to:
• provisions of chapter seven of the Act of 29 September 1994 on Accounting (Journal of Laws

2002, no. 76, item 694 with amendments);
• standards of the National Chamber of Statutory Auditors in Poland.
In order to be certain that the consolidated financial statement did not include significant errors, the audit included, in particular, verification, largely on the basis of the sample, proofs and accounting records, of the amounts and information presented in the consolidated financial statement.

The audit also included an assessment of the accounting principles applied by the Management Board and a general assessment of the consolidated financial statement's presentation.





We are convinved that the audit we conducted provides sufficient grounds for expressing our opinion.

It is our view, supported by the results and the opinions of other expert auditors, that the consolidated financial statement for the financial year 2006 complied, in all significant aspects, with International Financial Reporting Standards, as approved by the European Union. This financial statement presents a true and fair view of the equity and financial situation of the Capital Group as of 31 December 2006, and of the financial result for the financial year 1 January to 31 December 2006.

The report regarding the activities of the Capital Group in 2006 is complete in the sense of art. 49 sec. 2 of the Act on Accounting and the Regulation issued by the Minister of Finance on 19 October 2005 concerning current and periodical information pertaining to companies traded on the stock exchange and including information coming directly from the audited financial statement and compliant with it.

Radosław Kuboszek Expert auditor

Registration no. 90029/6847

Radosław Kuboszek

Członek Zarządu Biegły rewident nr ewid. 90029 Piotr Sokołowski

Cz) erlek Zarządu Biegły Rewident nr ewid. 9752

persons representing the company

DELOITTE AUDYT Sp. z o.o.

ul. Piękna 18, 00-549 Worszawa tel. 511-08-11, fax 511-08-13 NIP 527-020-07-80; PEGON 010076870

an entity entitled to audit financial statements and registered as such under item no. 73 on The National Chamber of Statutory Auditors (KRBR) list

Warsaw, 1 June 2007

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