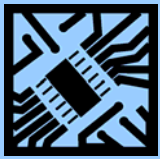


26 November 2007

Update


**IT**  
Poland

<b>Current price</b>	<b>PLN 137.5</b>
<b>Target price</b>	<b>PLN 174.3</b>
Market cap	PLN 1094.6m
Free float	PLN 424.6m
Avg daily trading volume (3M)	PLN 2.06m

**Shareholder Structure**

Elżbieta & Janusz Filipiak	42.85% / 68.98%
BZ WBK AIB AM	18.36% / 9.72%

Others	38.79% / 21.30%
--------	-----------------

**Sector Outlook**

The value of the bank automation services market was estimated at PLN 2.2 billion in 2005 (14.5% of the overall IT market). Forecasts for the years ahead foresee continued double-digit growth in our IT market. In 2006, the value of the Polish ERP market exceeded PLN 500m. According to IDC, this market will increase by ca. 16.5% a year until 2009.

**Company Profile**

ComArch is a global provider of information-technology solutions supporting customer relationship management and streamlining of business processes. The company develops customized systems for government customers, financial organizations, and telecommunications operators in Poland and abroad.

# Comarch

COMH.WA; CMR PW

**Buy**

(New)

## "Innovative Economy"

**We suspect that Comarch's current price is a combination of a hiatus in government spending and the situation in capital markets, which also puts a damper on earnings. With the parliamentary election already behind us, we expect the new government to streamline contracting procedures, and put the spending machine in motion. Comarch is currently trading at a discount to fair value, which, we feel is underserved. With its proven track record, the company stands ready to capitalize on the long-awaited revival in government contracts.**

**We set the nine-month price target on Comarch at PLN 174.3 per share, and recommend to BUY the stock.**

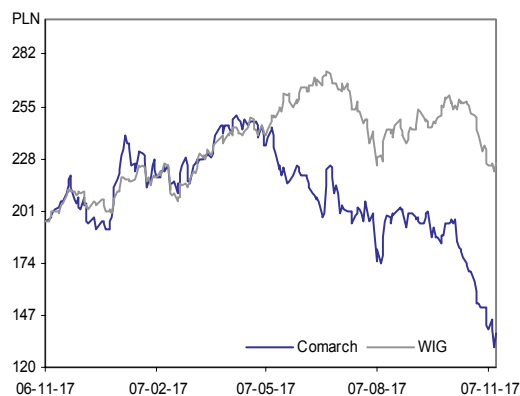
**Q3 results**

Comarch increased third-quarter revenues by 15% compared to Q3'06. The company's primary revenue source are in-house services and software (59.5% of sales), and this favorable revenue structure enabled an improvement in the gross profit margin to 21.5% in Q3 2007 from 20.9% in Q3 2006. Q3 EBIT came in at PLN 9.8m on an operating profit margin of 7.0% (the company's full-year EBIT margin target is 7%-8%). The EBIT margin for the year to 30 September is 7%.

We expect that the fourth quarter, which is typically stronger for IT companies, will boost the EBIT margin to 7.6% (a full-year estimate), and Comarch will end the year with an operating profit of PLN 46.5m.

**Government orders**

We expect the eagerly-awaited revival in government spending to start early next year. The European Commission put an end to the constant shortage of public money committed to large-scale IT projects intended to advance the national e-Government Plan, by approving Poland's *Innovative Economy* program and granting us over EUR 1 billion in subsidies to accelerate the automation of public administration services. Paired with the calming of our political scene after the snap election in October, nothing stands in the way of moving ahead with strategic initiatives.

**Comarch vs. WIG**

**Piotr Janik**

(48 22) 697 47 40

piotr.janik@dibre.com.pl

www.dibre.com.pl

(PLN m)	2005	2006	2007F	2008F	2009F
Revenue	444.0	491.6	610.7	777.8	895.1
EBITDA	36.8	58.2	64.6	88.9	109.8
EBITDA margin	8.3%	11.8%	10.6%	11.4%	12.3%
EBIT	27.4	45.6	46.5	70.3	86.5
Net profit	28.1	52.8	41.3	62.6	77.9
Cash earnings	37.5	65.4	59.4	81.2	101.1
P/E	34.1	19.6	26.5	17.5	14.1
P/CE	25.5	15.8	18.4	13.5	10.8
P/BV	5.9	4.0	3.7	3.0	2.5
EV/EBITDA	25.6	17.9	17.8	13.0	10.1

\* excl. FY2007-2009 results of Interia.pl



## What Is the Status of Government Orders?

European Union-funded projects, and the activity of public officials in advancing IT projects, as demonstrated by their actions rather than their words, have been the talk of the town for the past year. The e-Government Initiative, expected to give rise to a flurry of public contracts estimated at PLN 2bn to PLN 3bn, sparked hopes of better earnings among IT companies that cater mainly to government agencies.

After over a year of waiting, time is finally ripe for public spending to be set in motion. Most of Poland's initiatives aimed at advancing information and communication technologies, including e-Government, are supported by European Union structural funds. Furthermore, the European Commission has recently approved our "Innovative Economy" Program, and granted us ca. EUR 9.7 billion to carry it out, including EUR 1 billion allocated toward IT projects. If we concede that lack of funding was one of the reasons behind the hiatus in IT tenders seen to date, than this reason is no longer valid.

Another obstacle was the snap general election held in October. Officials involved in the campaign shied away from initiating major contract tenders to avoid responsibility for potentially questionable awards and projects.

The newly-elected officials, now working at full decision-making capacity, finally have the means to finally move forward with innovation thanks to EU grants. Another factor working to the advantage of IT companies serving public-sector institutions is growing public pressure on the government to more effectively manage EU subsidies.

The table below lists the IT projects that were supposed to be launched in the course of 2007.

### Delayed e-Government Projects expected to start after 2007

Project	Owner	Estimated Value	Source of Financing	Duration
<b>PROJECTS ORIGINALLY SCHEDULED FOR 2007</b>				
Implementation of the Polish SIS II and VIS component	Interior Ministry	PLN 54m	government budget	tender announced on March 31st, 2007
<i>E-deklaracje</i> II – electronic tax return processing system for corporate taxpayers	Finance Ministry	PLN 100m	15% gov't budget, 85% European Regional Development Fund	2007-2009
Electronic land and mortgage registers	Justice Ministry	PLN 116m	gov't budget, ERDF, Norwegian Financial Mechanism	2007-2010
Central management system for the government's task-based budget	Chancellery of the Prime Minister	PLN 44m	15% gov't budget, 85% ERDF	2007-2013
A platform supporting on-line access to medical service records and resources by healthcare providers	Health Ministry	PLN 66m	15% gov't budget, 85% ERDF	2007-2013
A platform facilitating the gathering and analyses of, and access to medical service records	Health Ministry	PLN 877m	15% gov't budget, 85% ERDF	2007-2013
A platform facilitating communications with citizens who require government support	Ministry of Labor and Social Policy	PLN 94m	15% gov't budget, 85% ERDF	2007-2013
<i>SI Syriusz</i> , a central labor and social security management system	Ministry of Labor and Social Policy	PLN 110m	15% Labor Fund, 85% ERDF	2007-2013



SPPP, a system for predicting labor demand and supply	Ministry of Labor and Social Policy	PLN 44m	15% gov't budget, 85% ERDF	2007-2010
<i>Ikonna</i> initiative to widen access to the Internet	Interior Ministry	PLN 2m	government budget	announced on July 31st, 2007
Electronic cadaster system	Head Office of Geodesy and Cartography (GUGiK)	PLN 190m	gov't budget, national; geodesic and cartographic resource fund, ERDF	2007-2010
<i>Teryt 2</i> - national register of territorial units	GUGiK	PLN 45m	gov't budget, national geodesic and cartographic resource fund, ERDF	2007-2010
Georeferenced topographic map database	GUGiK	PLN 190m	gov't budget, national geodesic and cartographic resource fund, ERDF	2007-2011
Public statistics reference system	Central Statistical Office (GUS)	PLN 160m	15% gov't budget, 85% ERDF	2007-2013
Consolidation and centralization of customs and fiscal systems	Finance Ministry	PLN 165m	15% gov't budget, 85% ERDF	2007-2013
Central register of business entities	Economy Ministry	PLN 32m	15% gov't budget, 85% ERDF	2007-2008
Audiovisual archive presentations	Ministry of Culture and National Heritage	PLN 97m	15% gov't budget, 85% ERDF	2007-2010

#### OTHER e-GOVERNMENT PROJECTS

<i>E-Puap 2</i> – Electronic Public Administration Services Platform	Interior Ministry	PLN 184m	15% gov't budget, 85% ERDF	2008-2013
<i>pl.ID</i> – electronic ID cards	Interior Ministry	PLN 400m	15% gov't budget, 85% ERDF	2008-2013
Platform for the Justice Ministry facilitating remote access to companies registry data	Justice Ministry	PLN 24m	15% gov't budget, 85% ERDF	2009-2010
A Web resource for notaries public, legal counsel, trustees, and attorneys	Justice Ministry	PLN 26m	15% gov't budget, 85% ERDF	2009-2011
Updates to Finance Ministry systems necessitated by regulatory amendments	Finance Ministry	PLN 53m	15% gov't budget, 85% ERDF	2008-2009
E-Tax (follow-up to e-Deklaracje)	Finance Ministry	PLN 197m	15% gov't budget, 85% ERDF	2008-2012

Source: Interior Ministry

## Financial Performance

### Third-Quarter Earnings

Comarch's 2007 Q3 results came in line with expectations. The company succeeded in increasing revenue by 15% from a year earlier despite the lack of government orders, by intensifying sales in Poland and abroad. In-house solutions remain the main source of revenue, with sales for the year to 30 September totaling PLN 244.4m, i.e. 59.9% of the total for the period.

A favorable revenue structure generated a gross profit margin of 21.5% compared to 20.9% a year earlier. On a YTD basis, big hardware contracts completed in 2007 H1, characterized by lower profitability than orders for in-house solutions, paired with upward salary pressure, depressed the Q3 gross profit margin to 21.0% from 25.4% a year earlier.

This, paired with higher SG&A expenses and selling costs, also affected the EBIT margin, which came in at 7.0% in Q3 and YTD vis-à-vis 7.3% in 2006 Q3 and 9.1% for the 2006 Q1-Q3 period.

Net profit for the year to third quarter stood at PLN 24.7m vs. to PLN 29.9m a year earlier, when Comarch recognized a one-time gain (PLN 7.2m) from the sale of Interia.pl shares.

### Reported vs. forecasted results

(PLN m)	3Q 2007	3Q 2006	change	3Q 2007		1-3Q 2007	1-3Q 2006	change
				Our F	Consensus			
Revenue	140.4	122.1	15.0%	134.2	138.0	410.8	308.9	33.0%
EBITDA	14.2	12.0	18.6%	13.8	14.0	41.4	37.4	10.8%
margin	10.1%	9.8%		10.3%	10.1%	10.1%	12.1%	
EBIT	9.8	8.9	10.1%	9.7	10.1	28.9	28.1	2.8%
Pre-tax income	9.7	9.8	-1.0%	10.1	-	30.5	36.9	-17.3%
Net income	6.8	6.8	0.0%	8.2	8.5	24.7	29.9	-17.4%

Source: Comarch, BRE Bank Securities

Scant government orders took their toll on Comarch's earnings. Announcements of upcoming tenders force companies to keep human resources on stand-by, affecting sales profitability if the tenders fall through. We expect that a seasonally strong fourth quarter will pull full-year EBIT margin up to 7.6%. In FY2008, when government tenders finally kick off, sales revenues and profitability will improve.

### Sales Revenue

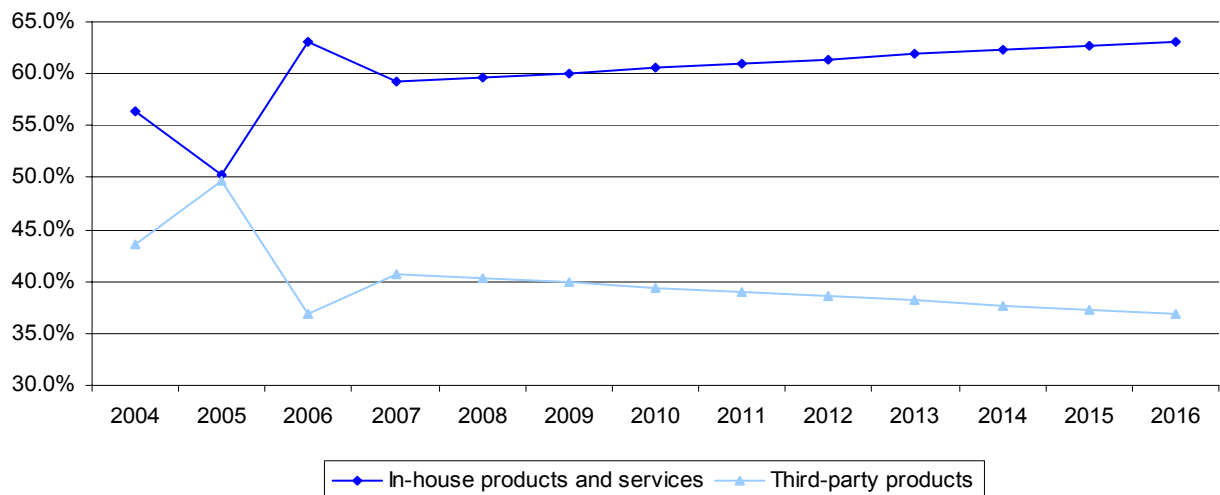
For the purposes of our forecasts, we assume that EU grants and the installation of the new government will give a solid push to innovation projects. Comarch, with its proven track record, wide range of in-house solutions, and positioning in the Polish IT market, will be one of the main beneficiaries of the e-Government initiatives.

In line with market trends, we expect the company to gradually increase the share of in-house software and services in sales, and, since proprietary solutions generate higher sales margins, the consolidated gross profit margin will rise going forward.

The diagram below shows how Comarch's revenue composition and gross profit margin will evolve in the forecast horizon.



## Revenue composition



Source: Comarch, BRE Bank Securities

### Labor Costs

Employee benefits are a major cost driver for Comarch. In 2007 H1, they accounted for 52.9% of total costs (compared to 49.5% in 2006 H1, 37.8% in FY2006, and 30.1% in FY2005). This rising ratio is an additional burden on operating profitability, and this climb is further reinforced by a general salary uptrend in the IT industry. Comarch recorded a 15ppt increase in its payroll spurred by a general rise in salaries, and a further 21ppt increase stemming from a rising staff headcount. A change of policy with respect to employees is not likely if the company wants to have enough capacity to handle expected government orders.

We assume that Comarch's ratio of revenue to the number of employees will increase by 2% annually. And, because sales growth is correlated with increasing staff, assuming a continued uptrend in salaries (12% in 2008), this will hold back the expansion of the gross profit margin in the forecast horizon. Our FY2008 staff headcount estimate is 3041.

### Tax Credits, Effective Tax Rate

As a company located in the Krakow Special Economic Zone, Comarch benefits from tax credits of up to 75% of the value of its investments in the SEZ.

The amounts invested in any given year up to and including 2006 are discounted as at the date Comarch was granted the SEZ permit (22 March 1999), meaning that, with time, the discount factor for investments decreases, and so does the impact of these investments on the aggregate amount of the tax credits.

The discount rate for Comarch's investments changed over time. Initially, it was the average monthly WIBOR rate, while now, it is the reference rate for Poland announced in the Official Journal of the European Communities (currently 5.94% p.a.).

Comarch is a beneficiary of a subsidy program thanks to its location in the Krakow SEZ, and applied to be included in another similar program. The first program covers investments completed between March 1999 and December 2006. Comarch was declared eligible for the second program in March 2007, therefore, all of its SEZ investments made after that date will be discounted as at that date.

The main difference between the first and the second tax-subsidy program is the extent of the tax credits, which is no longer 75 percent, but 50 percent of the value of Comarch's investments in the SEZ.

The tax credits take the form of reductions in current tax liabilities charged on income generated in the SEZ. Both in the first, and in the second subsidy program, the amount of the credits is equal to the sum of discounted investments. Comarch discounts the credits at the rates described above, and deducts the resulting amount from the aggregate tax credits granted for the period of the program's effective term. In case of the first program, the discount factor for 2007 is ca. 0.44. If the company obtains PLN 10.0m in unrealized tax benefits this



year, the aggregate credits remaining for future years will be reduced by  $44\% \times 10.0\text{m} = \text{PLN } 4.4\text{m}$ . The discount factor, and hence also deductions from the aggregate credits, will decrease with time. At 30 June 2007, Comarch had PLN 30m in tax credits accumulated under the first assistance program. At the same time, 50% of current discounted capital expenditure counts toward the tax credits granted under the second assistance program. Comarch declares that it generates a major portion of its taxable income in the SEZ (we assume 60%). Hence, its effective tax rate is much lower than 19%. The table below shows our estimates of the tax credits that Comarch will enjoy as beneficiary of the first and second tax subsidy programs granted for its SEZ operations.

### Income generated in SEZ, first tax subsidy program

	2007	2008	2009	2010	2011
Pre-tax income *	44 800	67 704	84 274	96 673	90 827
Pre-tax income generated in SEZ					
as percentage of total	60%	60%	60%	60%	60%
amount	26 880	40 623	50 564	58 004	54 496
Nominal tax rate	19%	19%	19%	19%	19%
Nominal tax					
on non-SEZ income (non-deductible)	3 405	5 146	6 405	7 347	6 903
on SEZ income (deductible)	5 107	7 718	9 607	11 021	10 354
<b>Maximum SEZ tax credit</b>	<b>5 107</b>	<b>7 718</b>	<b>9 607</b>	<b>11 021</b>	<b>10 354</b>
<b>Percentage of tax credit claimed for the year</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Tax credit for the year</b>	<b>5 107</b>	<b>7 718</b>	<b>9 607</b>	<b>11 021</b>	<b>10 354</b>

### First tax subsidy program

Discount rate	5,9%	5,9%	5,9%	5,9%	5,9%
Discount factor for current-year tax credit	0,44	0,42	0,39	0,37	0,35
Aggregate tax credit at start of period	30 008	27 761	24 555	20 789	16 710
Tax credit used to reduce current year tax liability	5 107	7 718	9 607	11 021	10 354
Excess tax credit for current year	0	0	0	0	0
Discounted tax credit	2 247	3 206	3 766	4 078	3 617
Balance of aggregate tax credit	27 761	24 555	20 789	16 710	13 094

Source: Comarch, BRE Bank Securities

\* Effective tax rate calculated on pre-tax income less investments in Interia.pl.

**Second tax subsidy program, summary of first and second programs**

<b>Second tax subsidy program</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Discount rate	5.9%	5.9%	5.9%	5.9%	5.9%
Discount factor	0.96	0.91	0.86	0.81	0.76
Non-replacement SEZ CAPEX*	20 000	30 000	6 018	3 193	2 300
Tax credit as percentage of CAPEX	50%	50%	50%	50%	50%
Nominal tax credit for the period	10 000	15 000	3 009	1 596	1 150
Discounted tax credit	9 619	13 620	2 579	1 291	878
Tax credits under second tax subsidy program					
Aggregate tax credit at start of period	0	9 619	23 239	25 817	27 109
Tax credit for SEZ investments in the period	9 619	13 620	2 579	1 291	878
Aggregate tax credit net of the credit for the period	9 619	23 239	25 817	27 109	27 987
Tax credit claimed	0	0	0	0	0
Discounted tax credit	0	0	0	0	0
Aggregate tax credit at end of period	9 619	23 239	25 817	27 109	27 987

**Tax credits under first and second tax subsidy program**

Aggregate tax credit entitlement					
first tax subsidy program	30 008	27 761	24 555	20 789	16 710
second tax subsidy program	9 619	23 239	25 817	27 109	27 987
<b>total</b>	<b>39 627</b>	<b>51 000</b>	<b>50 373</b>	<b>47 898</b>	<b>44 697</b>
<b>Maximum SEZ tax credit</b>	<b>5 107</b>	<b>7 718</b>	<b>9 607</b>	<b>11 021</b>	<b>10 354</b>
Tax credit claimed					
first tax subsidy program	5 107	7 718	9 607	11 021	10 354
second tax subsidy program	0	0	0	0	0
<b>total</b>	<b>5 107</b>	<b>7 718</b>	<b>9 607</b>	<b>11 021</b>	<b>10 354</b>
percentage of tax credit claimed	100%	100%	100%	100%	100%
Income tax liability for the period					
On non-SEZ pre-tax income	3 405	5 146	6 405	7 347	6 903
On SEZ pre-tax income	0	0	0	0	0
<b>Total</b>	<b>3 405</b>	<b>5 146</b>	<b>6 405</b>	<b>7 347</b>	<b>6 903</b>

Source: Comarch, BRE Bank Securities

\* We assume that, starting in FY2009, half of Comarch's non-replacement CAPEX will be spent in the Krakow SEZ; in FY2007 and FY2008, a major portion of the CAPEX will also be spent in the SEZ to advance the extension of the company's new HQ.

**Effective tax rate, net income adjusted for tax credits**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Tax liability adj. for tax credit</b>					
Pre-tax income	44 800	67 704	84 274	96 673	90 827
Tax	3 405	5 146	6 405	7 347	6 903
<i>Effective tax rate</i>	7.6%	7.6%	7.6%	7.6%	7.6%
<b>Net income</b>	<b>41 395</b>	<b>62 559</b>	<b>77 869</b>	<b>89 326</b>	<b>83 925</b>
<b>Adjusted net income</b>					
<b>Pre-tax income</b>	<b>44 800</b>	<b>67 704</b>	<b>84 274</b>	<b>96 673</b>	<b>90 827</b>
Tax					
On non-SEZ pre-tax income	3 405	5 146	6 405	7 347	6 903
Reduction in tax on SEZ pre-tax income	5 107	7 718	9 607	11 021	10 354
<b>Tax on SEZ pre-tax income not subject to tax credit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Total	8 512	12 864	16 012	18 368	17 257
<i>Adjusted tax rate</i>	19.0%	19.0%	19.0%	19.0%	19.0%
<b>Adjusted net income</b>	<b>36 288</b>	<b>54 841</b>	<b>68 262</b>	<b>78 305</b>	<b>73 570</b>

Source: Comarch, BRE Bank Securities

\* Effective tax rate calculated on pre-tax income less investments in Interia.pl.



## Valuation

We estimated the nine-month target price of Comarch's stock based on its equity value estimated using the DCF method, and the market value of its interests in Interia.pl. We also analyzed Comarch's performance relative to the market multiples of its peers.

### Valuation Summary

	PLN m	9MTP
DCF Valuation	1 151.3	
Market value of 2.5m Interia.pl shares	133.3	
<b>Total</b>	<b>1 284.5</b>	<b>1387.7</b>
per one share		174.3

Source: BRE Bank Securities

### DCF Model Assumptions

1. The DCF forecast horizon is ten years (FY2007-FY2016).
2. We take the risk-free rate to be 5.8% (based on 10Y Treasury bonds) in the forecast horizon and thereafter.
3. We assume no profit distributions in the forecast horizon, in line with the company's declarations.
4. Headquartered in the Krakow Special Economic Zone, ComArch benefits from tax credits. We assumed an effective tax rate lower than the statutory 19% both in FCF and WACC projections. Tax credits in the forecast horizon reduce the consolidated tax rate. Tax credits as described in section "Tax Credit, Effective Tax Rate" imply an effective tax rate of 7.6% for the forecast horizon.
5. We project that FCF after FY2016 will grow at a rate of 4.5%. FCF are expected to decline after FY2016 due to expiration of tax credits. When calculating the terminal value, we estimated the FCF after FY2016 using a 19% tax rate (EBIT) plus 4.5%. Hence, FCF 2016+ is lower than FCF 2016 assuming a 4.5% growth rate after the forecast horizon.



**DCF Valuation**

(PLN m)	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F	2016F	2016+
<b>Sales revenue</b>	<b>610.7</b>	<b>777.8</b>	<b>895.1</b>	<b>996.5</b>	<b>1 006.0</b>	<b>1 093.9</b>	<b>1 182.8</b>	<b>1 264.9</b>	<b>1 330.1</b>	<b>1 378.0</b>	
<i>change</i>	24.2%	27.4%	15.1%	11.3%	1.0%	8.7%	8.1%	6.9%	5.2%	3.6%	
<b>EBITDA</b>	<b>64.6</b>	<b>88.9</b>	<b>109.8</b>	<b>126.0</b>	<b>119.4</b>	<b>134.8</b>	<b>150.2</b>	<b>163.9</b>	<b>173.6</b>	<b>178.5</b>	
<i>EBITDA margin</i>	10.6%	11.4%	12.3%	12.6%	11.9%	12.3%	12.7%	13.0%	13.1%	13.0%	
Amortization and depreciation	18.1	18.7	23.2	27.7	27.9	26.7	26.3	26.5	26.9	27.1	
<b>EBIT</b>	<b>46.5</b>	<b>70.3</b>	<b>86.5</b>	<b>98.3</b>	<b>91.6</b>	<b>108.0</b>	<b>123.8</b>	<b>137.4</b>	<b>146.8</b>	<b>151.5</b>	
<i>EBIT margin</i>	7.6%	9.0%	9.7%	9.9%	9.1%	9.9%	10.5%	10.9%	11.0%	11.0%	
Tax rate on EBIT	3.5	5.3	6.6	7.5	7.0	8.2	9.4	10.4	11.2	11.5	
<b>NOPLAT</b>	<b>43.0</b>	<b>64.9</b>	<b>80.0</b>	<b>90.8</b>	<b>84.6</b>	<b>99.8</b>	<b>114.4</b>	<b>127.0</b>	<b>135.6</b>	<b>140.0</b>	
CAPEX	-58.0	-50.8	-35.2	-34.1	-32.5	-31.7	-30.2	-28.3	-27.0	-27.1	
Working capital	-28.8	-34.8	-23.8	-21.1	-3.2	-17.2	-17.5	-16.3	-13.1	-9.9	
<b>FCF</b>	<b>-25.8</b>	<b>-2.0</b>	<b>44.2</b>	<b>63.3</b>	<b>76.8</b>	<b>77.6</b>	<b>93.1</b>	<b>108.9</b>	<b>122.4</b>	<b>130.1</b>	<b>117.9</b>
<i>WACC</i>	9.9%	10.0%	10.2%	10.3%	10.3%	10.4%	10.5%	10.5%	10.6%	10.6%	
<i>discount factor</i>	98.7%	89.7%	81.4%	73.8%	66.9%	60.6%	54.9%	49.6%	44.9%	40.6%	
PV FCF	-25.4	-1.8	36.0	46.7	51.4	47.0	51.1	54.1	54.9	52.8	
<b>WACC</b>	<b>9.9%</b>	<b>10.0%</b>	<b>10.2%</b>	<b>10.3%</b>	<b>10.3%</b>	<b>10.4%</b>	<b>10.5%</b>	<b>10.5%</b>	<b>10.6%</b>	<b>10.6%</b>	
After-tax cost of debt	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	
Risk-free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	
Risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
Effective interest rate	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	7.6%	
Cost of equity	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	
Risk-free rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	
Risk premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	

	4.5%	<b>Sensitivity Analysis</b>				
		<b>Secular FCF Growth</b>				
		2.5%	3.5%	4.5%	5.5%	6.5%
FCF growth after the forecast horizon	4.5%					
Terminal value	1 948.5					
Discounted terminal value (PV TV)	790.9					
Discounted FCF in the forecast horizon	366.8	WACC - 1.0ppt	141.0	156.2	177.5	209.2
Equity value	1 157.7	WACC - 0.5ppt	134.9	148.0	165.9	191.6
Net debt	-8.3	WACC	129.6	141.0	156.2	177.5
Minority interests	14.7	WACC + 0.5ppt	124.9	134.9	148.0	165.9
Market value of Interia shares held	0.0	WACC + 1.0ppt	120.7	129.6	141.0	156.2
Equity value	1 151.3					
Number of shares (millions)	8.0					
<b>Equity value per share (PLN)</b>	<b>144.6</b>					
Cost of equity (9M)	8.0%					
<b>Target Price (9M)</b>	<b>156.2</b>					
EV/EBITDA('08) for the target price	14.1					
P/E('08) for the target price	18.4					
TV to EV	68%					

Source: BRE Bank Securities



**Premium on Comarch's multiples**

	2007		P/E 2008		2009		2007		EV/EBITDA 2008		2009	
	DCF	Current price	DCF	Current price	DCF	Current price	DCF	Current price	DCF	Current price	DCF	Current price
	Median for Polish IT stocks	20.3	18.4	16.3	15.0	15.0	13.8	14.0	12.9	10.5	9.7	9.5
Average for Polish IT stocks	26.5	21.6	20.2	16.7	17.7	14.8	14.8	12.3	11.6	9.7	9.5	8.5
Comarch	39.1	26.5	25.8	17.5	20.8	14.1	22.0	17.8	16.0	13.0	13.0	10.1
Premium to median	93%	44%	59%	17%	39%	2%	57%	38%	52%	34%	37%	16%
Premium to average	48%	22%	28%	5%	17%	-5%	49%	45%	38%	33%	37%	19%

Source: BRE Bank Securities

\* DCF based on DCF-derived target prices for peer group

\*\* Current price calculated based on current market prices for peer group

The table shows that Comarch's multiples, as estimated based on both current prices and DCF target prices, display a premium to the median multiple for its IT industry peers. A premium to the median of the multiples estimated based on DCF-based targets justifies a premium to the market multiples used in relative valuation. Because the premium values differ depending on the multiple and year, we did not take the outcomes of relative valuation into account when estimating the price target on Comarch. The table below is for information purposes only.

**Comparison of market multiples (market prices)**

Polish IT stocks	P/E			EV/EBITDA		
	2007	2008	2009	2007	2008	2009
ABG SPIN	18.4	13.8	12.6	12.9	9.7	8.7
Asseco Poland	28.9	23.5	20.9	16.3	13.4	12.0
<b>Comarch</b>	<b>26.5</b>	<b>17.5</b>	<b>14.1</b>	<b>17.8</b>	<b>13.0</b>	<b>10.1</b>
Macrologica	16.5	13.6	12.5	8.1	7.1	6.6
Prokom Software	17.9	15.0	13.8	6.3	5.6	5.3
Maximum	28.9	23.5	20.9	17.8	13.4	12.0
Minimum	16.5	13.6	12.5	6.3	5.6	5.3
<b>Average</b>	<b>21.6</b>	<b>16.7</b>	<b>14.8</b>	<b>12.3</b>	<b>9.7</b>	<b>8.5</b>
<b>Median</b>	<b>18.4</b>	<b>15.0</b>	<b>13.8</b>	<b>12.9</b>	<b>9.7</b>	<b>8.7</b>
Foreign IT stocks	P/E			EV/EBITDA		
	2007	2008	2009	2007	2008	2009
Cap Gemini SA	14.0	10.7	9.3	5.4	4.5	4.0
EDB	9.2	9.5	9.6	4.8	4.1	4.2
Getronics	27.5	21.1	16.4	6.9	6.2	6.0
IDS Scheer	18.6	14.5	11.4	8.7	7.0	5.8
Logica CMG	24.3	13.9	12.4	7.9	6.9	6.4
Tietoanator	14.6	10.6	8.8	7.0	5.9	5.1
CA Inc.	31.3	31.3	31.3	31.3	31.3	31.3
Misys plc	17.5	16.0	15.3	12.6	11.3	10.9
Kudelski SA	9.6	7.6	6.6	5.5	4.4	3.8
Temenos Group	23.0	17.0	13.0	17.3	13.2	10.7
Cegid Group SA	14.2	12.5	11.3	6.2	5.7	6.3
GL Trade	14.0	11.6	10.7	7.8	6.8	7.2
Maximum	31.3	31.3	31.3	31.3	31.3	31.3
Minimum	9.2	7.6	6.6	4.8	4.1	3.8
<b>Average</b>	<b>18.1</b>	<b>14.7</b>	<b>13.0</b>	<b>10.1</b>	<b>8.9</b>	<b>8.5</b>
<b>Median</b>	<b>16.1</b>	<b>13.2</b>	<b>11.4</b>	<b>7.4</b>	<b>6.5</b>	<b>6.2</b>

Source: BRE Bank Securities, Bloomberg

**Consolidated Income Statement**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
<b>Sales revenue</b>	<b>444.0</b>	<b>491.6</b>	<b>610.7</b>	<b>777.8</b>	<b>895.1</b>	<b>996.5</b>
<i>change</i>	35.2%	10.7%	24.2%	27.4%	15.1%	11.3%
Cost of sales	-354.0	-370.8	-479.1	-608.3	-696.4	-774.7
Gross profit	90.0	120.7	131.6	169.5	198.6	221.8
<i>Gross profit margin</i>	20.3%	24.6%	21.6%	21.8%	22.2%	22.3%
SG&A expenses	-60,0	-72.2	-81.1	-94.4	-106.6	-117.4
Other net operating profit	-2,7	-3.0	-3.9	-4.8	-5.5	-6.1
<b>EBIT</b>	<b>27.4</b>	<b>45.6</b>	<b>46.5</b>	<b>70.3</b>	<b>86.5</b>	<b>98.3</b>
<i>change</i>	169.5%	66.5%	2.2%	50.9%	23.2%	13.6%
<i>EBIT margin</i>	6.2%	9.3%	7.6%	9.0%	9.7%	9.9%
Profit on financing activity	-4,2	6.4	-1.7	-2.6	-2.3	-1.6
Extraordinary gains/losses	0	0	0	0	0	0
Other	1.1	2.6	0.0	0.0	0.0	0.0
<b>Pre-tax income</b>	<b>24.3</b>	<b>54.6</b>	<b>44.8</b>	<b>67.7</b>	<b>84.3</b>	<b>96.7</b>
Tax	3.5	-1.6	-3.4	-5.1	-6.4	-7.3
Minority interests	-0.3	0.2	0.1	0.0	0.0	0.0
<b>Net income</b>	<b>28.1</b>	<b>52.8</b>	<b>41.3</b>	<b>62.6</b>	<b>77.9</b>	<b>89.3</b>
<i>change</i>	246.7%	88.1%	-21.7%	51.5%	24.5%	14.7%
<i>Net margin</i>	6.3%	10.7%	6.8%	8.0%	8.7%	9.0%
Amortization and depreciation	9.4	12.6	18.1	18.7	23.2	27.7
<b>EBITDA</b>	<b>36.8</b>	<b>58.2</b>	<b>64.6</b>	<b>88.9</b>	<b>109.8</b>	<b>126.0</b>
<i>change</i>	34.1%	58.3%	11.0%	37.6%	23.4%	14.8%
<i>EBITDA margin</i>	8.3%	11.8%	10.6%	11.4%	12.3%	12.6%
Shares at year-end (millions)	7,0	7.5	8.0	8.0	8.0	8.0
EPS	4.0	7.0	5.2	7.9	9.8	11.2
CEPS	5.4	8.7	7.5	10.2	12.7	14.7
ROAE	19.1%	25.2%	14.8%	18.9%	19.4%	18.4%
ROAA	9.1%	13.1%	8.3%	11.0%	11.8%	11.8%

Source: Comarch, BRE Bank Securities  
\* excl. FY2007F-2010F results of Interia.pl

**Consolidated Balance Sheet**

<b>(PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007F</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
<b>ASSETS</b>	<b>346.8</b>	<b>461.6</b>	<b>528.6</b>	<b>613.7</b>	<b>706.9</b>	<b>809.8</b>
<b>Fixed assets</b>	<b>153.0</b>	<b>204.6</b>	<b>243.2</b>	<b>275.3</b>	<b>287.3</b>	<b>293.7</b>
Property, plant and equipment	90.8	138.8	177.1	208.2	219.7	226.2
Intangible assets	35.0	36.0	37.6	38.7	39.2	39.1
Equity value (EV)	3.3	3.3	3.3	3.3	3.3	3.3
Long-term investments	9.6	7.4	9.6	9.6	9.6	9.6
Other fixed assets	14.3	19.1	15.6	15.6	15.6	15.6
<b>Current assets</b>	<b>193.8</b>	<b>257.0</b>	<b>285.4</b>	<b>338.4</b>	<b>419.5</b>	<b>516.1</b>
Inventories	26.1	20.1	26.0	33.0	37.8	42.1
Short-term receivables	118.5	173.9	221.5	271.8	306.1	336.6
Cash and cash equivalents	49.0	62.8	37.8	33.5	75.5	137.4
Other current assets	0.2	0.2	0.1	0.1	0.1	0.1
<b>(PLN m)</b>	<b>2005</b>	<b>2006</b>	<b>2007F</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>
<b>LIABILITIES</b>	<b>346.8</b>	<b>461.6</b>	<b>528.6</b>	<b>613.7</b>	<b>706.9</b>	<b>809.8</b>
<b>Equity</b>	<b>161.4</b>	<b>257.0</b>	<b>299.3</b>	<b>361.8</b>	<b>439.7</b>	<b>529.0</b>
Share capital	7.0	7.5	8.0	8.0	8.0	8.0
Other equity	154.4	249.5	291.3	353.9	431.7	521.1
<b>Long-term liabilities</b>	<b>62.8</b>	<b>58.0</b>	<b>80.8</b>	<b>80.8</b>	<b>80.8</b>	<b>80.8</b>
Loans	17.3	51.5	73.9	73.9	73.9	73.9
Other	45.5	6.5	6.9	6.9	6.9	6.9
<b>Short-term liabilities</b>	<b>122.6</b>	<b>146.6</b>	<b>148.5</b>	<b>171.0</b>	<b>186.4</b>	<b>200.0</b>
Loans	2.9	3.0	4.2	4.2	4.2	4.2
Trade creditors	64.9	64.6	83.5	106.0	121.3	135.0
Other	54.9	78.9	60.9	60.9	60.9	60.9
Debt	20.2	54.5	78.1	78.1	78.1	78.1
Net debt	-28.8	-8.3	40.3	44.7	2.6	-59.3
(Net debt / Equity)	12.5%	21.2%	26.1%	21.6%	17.8%	14.8%
(Net debt / EBITDA)	-78.3%	-14.2%	62.4%	50.2%	2.3%	-47.0%
Shares at year-end (millions)	7.0	7.5	8.0	8.0	8.0	8.0
BVPS	23.2	34.2	37.6	45.5	55.2	66.5

Source: Comarch, BRE Bank Securities

**Consolidated Cash Flows**

(PLN m)	2005	2006	2007F	2008F	2009F	2010F
<b>Cash flows from operating activities</b>	<b>48.7</b>	<b>30.1</b>	<b>9.0</b>	<b>46.4</b>	<b>77.3</b>	<b>95.9</b>
Net income	28.1	52.8	41.3	62.6	77.9	89.3
Amortization and depreciation	9.4	12.6	18.1	18.7	23.2	27.7
Working capital	8.7	-25.0	-28.8	-34.8	-23.8	-21.1
Other	2.6	-10.3	-21.5	0.0	0.0	0.0
<b>Cash flows from investing activities</b>	<b>-36.2</b>	<b>-45.3</b>	<b>-58.0</b>	<b>-50.8</b>	<b>-35.2</b>	<b>-34.1</b>
CAPEX	-33.9	-57.5	-58.0	-50.8	-35.2	-34.1
Capital investments	-2.3	12.4	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0
<b>Cash Flows</b>	<b>7.7</b>	<b>29.0</b>	<b>24.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Stock offering	0.1	0.0	0.4	0.0	0.0	0.0
Debt	10.8	34.4	23.6	0.0	0.0	0.0
Dividend (buy-back)	0.0	0.0	0.0	0.0	0.0	0.0
Other	-3.3	-5.3	0.0	0.0	0.0	0.0
<b>Change in cash</b>	<b>20,2</b>	<b>13.8</b>	<b>-25.0</b>	<b>-4.3</b>	<b>42.1</b>	<b>61.8</b>
Cash at the end of period	49,0	62.8	37.8	33.5	75.5	137.4
DPS (PLN)	0.0	0.0	0.0	0.0	0.0	0,0
FCF	4.0	11.4	-25.8	-2.0	44.2	63,3
(CAPEX/Sales)	8%	12%	10%	7%	4%	3%

Source: Comarch, BRE Bank Securities

**Market multiples**

	2005	2006	2007F	2008F	2009F	2010F
P/E	34.1	19.6	26.5	17.5	14.1	12.3
P/CE	25.5	15.8	18.4	13.5	10.8	9.4
P/BV	5.9	4.0	3.7	3.0	2.5	2.1
MC/S	2.2	2.1	1.8	1.4	1.2	1.1
FCF/EV	0.0	0.0	0.0	0.0	0.0	0.1
EV/EBITDA	25.6	17.9	17.8	13.0	10.1	8.3
EV/EBIT	34.4	22.8	24.7	16.4	12.8	10.7
EV/S	2.1	2.1	1.9	1.5	1.2	1.1
DYield	0.0	0.0	0.0	0.0	0.0	0.0
Price (PLN)	137.5	137.5	137.5	137.5	137.5	137.5
Shares at year-end (millions)	7.0	7.5	8.0	8.0	8.0	8.0
MC (PLN m)	956.3	1 033.8	1 094.6	1 094.6	1 094.6	1 094.6
Net debt	-28.8	-8.3	40.3	44.7	2.6	-59.3
Minority interests	14,4	14.6	14.7	14.7	14.7	14.7
EV (PLN m)	941.9	1 040.1	1 149.6	1 153.9	1 111.8	1 050.0

Source: Comarch, BRE Bank Securities



Michał Marczak tel. (+48 22) 697 47 38  
Managing Director  
Head of Research  
[michal.marczak@dibre.com.pl](mailto:michal.marczak@dibre.com.pl)  
Strategy, telco, mining, metals, media

**Research Department:**

Marta Jeżewska tel. (+48 22) 697 47 37  
Deputy Director  
[marta.jezewska@dibre.com.pl](mailto:marta.jezewska@dibre.com.pl)  
Banks

**Analysts:**

Kamil Kliszcz tel. (+48 22) 697 47 06  
[kamil.klischcz@dibre.com.pl](mailto:kamil.klischcz@dibre.com.pl)  
Retail, materials, other

Piotr Janik tel. (+48 22) 697 47 40,  
[piotr.janik@dibre.com.pl](mailto:piotr.janik@dibre.com.pl)  
IT, other

Kacper Żak tel. (+48 22) 697 47 41  
[kacper.zak@dibre.com.pl](mailto:kacper.zak@dibre.com.pl)  
Real-estate developers, other

Samer Masri tel. (+48 22) 697 47 36  
[samer.masri@dibre.com.pl](mailto:samer.masri@dibre.com.pl)  
Construction

Piotr Grzybowski tel. (+48 22) 697 47 17  
[piotr.grzybowski@dibre.com.pl](mailto:piotr.grzybowski@dibre.com.pl)  
Other

**Sales and Trading:**

Piotr Dudziński tel. (+48 22) 697 48 22  
Director  
[piotr.dudzinski@dibre.com.pl](mailto:piotr.dudzinski@dibre.com.pl)

Grzegorz Domagała tel. (+48 22) 697 48 03  
Deputy Director  
[grzegorz.domagala@dibre.com.pl](mailto:grzegorz.domagala@dibre.com.pl)

Marzena Łempicka-Wilim tel. (+48 22) 697 48 95  
Deputy Director  
[marzena.lempicka@dibre.com.pl](mailto:marzena.lempicka@dibre.com.pl)

**Traders:**

Emil Onyszczyk tel. (+48 22) 697 49 63  
[emil.onyszczyk@dibre.com.pl](mailto:emil.onyszczyk@dibre.com.pl)

Grzegorz Stępien tel. (+48 22) 697 48 62  
[grzegorz.stepien@dibre.com.pl](mailto:grzegorz.stepien@dibre.com.pl)

Tomasz Dudź tel. (+48 22) 697 49 68  
[tomasz.dudz@dibre.com.pl](mailto:tomasz.dudz@dibre.com.pl)

Michał Jakubowski tel. (+48 22) 697 47 44  
[michal.jakubowski@dibre.com.pl](mailto:michal.jakubowski@dibre.com.pl)

Tomasz Jakubiec tel. (+48 22) 697 47 31  
[tomasz.jakubiec@dibre.com.pl](mailto:tomasz.jakubiec@dibre.com.pl)

Grzegorz Strublewski tel. (+48 22) 697 48 76  
[grzegorz.strublewski@dibre.com.pl](mailto:grzegorz.strublewski@dibre.com.pl)

Dom Inwestycyjny  
BRE Banku S.A.  
ul. Wspólna 47/49  
00-950 Warszawa  
[www.dibre.com.pl](http://www.dibre.com.pl)

**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

**Recommendations of BRE Bank Securities**

A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%  
**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
 Recommendations are updated at least once every nine months.

This document has been created and published by BRE Bank Securities S.A. The present report expresses the knowledge as well as opinions of the authors on day the report was prepared. The opinions and estimates contained herein constitute our best judgement at this date and time, and are subject to change without notice. The present report was prepared with due care and attention, observing principles of methodological correctness and objectivity, on the basis of sources available to the public, which BRE Bank Securities S.A. considers reliable, including information published by issuers, shares of which are subject to recommendations. However, BRE Bank Securities S.A., in no case, guarantees the accuracy and completeness of the report, in particular should sources on the basis of which the report was prepared prove to be inaccurate, incomplete or not fully consistent with the facts. BRE Bank Securities S.A. bears no responsibility for investment decisions taken on the basis of the present report or for any damages incurred as a result of investment decisions taken on the basis of the present report.

This document does not constitute an offer or invitation to subscribe for or purchase any financial instruments and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. It is being furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document nor any copy hereof is not to be distributed directly or indirectly in the United States, Australia, Canada or Japan.

Recommendations are based on essential data from the entire history of a company being the subject of a recommendation, with particular emphasis on the period since the previous recommendation. Investing in shares is connected with a number of risks including, but not limited to, the macroeconomic situation of the country, changes in legal regulations as well as changes on commodity markets. Full elimination of these risks is virtually impossible.

It is possible that BRE Bank Securities S.A. renders, will render or in the past has rendered services for companies and other entities mentioned in the present report.

The present report was transferred to the issuer prior to its publication for facts verification only. Following the issuer's comments changes have been made in the content of the report, not affecting valuation.

BRE Bank Securities S.A., its shareholders and employees may hold long or short positions in the issuer's shares or other financial instruments related to the issuer's shares. BRE Bank Securities S.A., its affiliates and/or clients may conduct or may have conducted transactions for their own account or for account of another with respect to the financial instruments mentioned in this report or related investments before the recipient has received this report.

Copying or publishing the present report, in full or in part, or disseminating in any way information contained in the present report requires the prior written agreement of BRE Bank Securities S.A.

Recommendations are addressed to all Clients of BRE Bank Securities S.A. This report is not for distribution to third parties. The activity of BRE Bank Securities S.A. is subject to the supervision of the Polish Financial Supervision Commission.

Individuals who did not participate in the preparation of this recommendation, but had or could have had access to the recommendation prior to its publication, are employees of BRE Bank Securities S.A. authorised to access the premises in which recommendations are prepared, other than the analysts mentioned as the authors of the present recommendation.

**Strong and weak points of valuation methods used in recommendations:**

**DCF** – acknowledged as the most methodologically correct method of valuation; it is based in discounting financial flows generated by a company; its weak point is the significant susceptibility to a change of forecast assumptions in the model.  
**Comparative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.

**Previous recommendations issued for Comarch**

<b>Recommendation</b>	Buy
<b>Date issued</b>	2007-11-07
<b>Price on day of recommendation</b>	159.80
<b>WIG on day of recommendation</b>	61527.41