

**FLASH REPORT**



**Financial results of Synergon Information  
Systems plc  
for the three-month period January 1<sup>st</sup> to  
March 31<sup>st</sup> 2006**

Unaudited consolidated data  
collated in accordance with the  
International Financial Reporting Standards

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**Compared to the base period, the sales of the Synergon Group grew substantially during the first quarter of 2006. As the consequence of the lower level of contribution, however, that increase, due primarily to hardware orders by the telecom and the public administration sectors is hardly noticeable in the profit lines. Despite the non-recurring impact of a provision of nearly HUF 100 million, the Group achieved a net profit of HUF 20 million during the quarter.**

The parent company played a major role in the increment of the Group's sales. Between them, Synergon and SAO increased their sales by 30 percent as the collective result of the considerable growth of the demand related to the expansion of the broadband networks of the telecom sector and the non-recurring hardware orders of the public administration sector. The insurance and financial sector also provided a steady volume of sales during the period; a lower level of sales was generated, however, in the industry and services sector as the consequence of a lower contract volume carried over from the previous year than during the same period of 2005. Following the preparations during last year, at the beginning of 2006, the Company won major projects in the local government sector, financed from the Structural Funds of the EU.

During the first three months of the year, Infinity considerably surpassed its performance at the beginning of last year: the Czech operating company achieved higher sales and was able to increase its contribution through higher service-content projects, while the efficiency-increasing measures also made a clear impact. The company, recording a substantially lower loss than during last year, intends to achieve its main goal, i.e. long-term profitable operation, through further increasing sales; substantial improvements have started concerning the sales organisation during the period.

During the quarter under review, Span generated a loss, due in part to orders carried over to the second quarter and in part to the fact that the Croatian company accepted public administration orders with minimal levels of contribution in order to retain its market positions.

The results of Fibex were temporarily prejudiced by the facts that cabling works started later than expected due to unfavourable weather conditions and that new recruitments took place during the quarter in order to meet the growth anticipated during the year.

During the quarter, the separation of the management of the Group and the parent company was completed and the development of the strategy of the Synergon Group for the next three years has begun under the supervision of the new managers. Key elements of the new strategy include growth in excess of the market average, achieving a higher profit level, taking advantage of Group-level synergies and, in that context, the re-definition of the Group's product and service portfolio. It is expected that Synergon will publish its new medium-term strategy following the multi-phase strategy development process, in September.



## ANALYSIS OF THE 2006 RESULTS OF THE SYNERGON GROUP JANUARY - MARCH

Comparing the three-month period ending March 31<sup>st</sup> 2006 with the same period of 2005

The 2006 data contained in this report are based on the unaudited consolidated balance sheet and profit and loss accounts, prepared in accordance with the IFRS. For the convenience of readers, forint amounts have been converted into Euro amounts. The average exchange rates applied for the items of the profit and loss account are, respectively, HUF 259.14 and HUF 246.56 per Euro for the first three months of 2006 and the same period of 2005. The closing exchange rates applied for the balance sheet items are HUF 247.18 and HUF 265.54 per Euro for March 31<sup>st</sup> 2005 and March 31<sup>st</sup> 2006, respectively.

*Certain changes have been introduced in the structure of the data contained in the flash report as compared to the previous periods, due to compliance with the effective IFRS regulation and in order to further increase transparency. With a view to comparability, the base data are shown below in the breakdown according to the new structure.*

<b>Profit and loss statement</b>	3-month period ending March 31					
	2006		2005		Change %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	HUFbasis	EUR basis
<b>Net sales</b>	<b>5 231 832</b>	<b>20 190</b>	<b>4 271 035</b>	<b>17 323</b>	<b>22%</b>	<b>17%</b>
<i>of which services (%)</i>	21%		35%			
<i>of which products (%)</i>	79%		65%			
Cost of sales	-3 712 812	-14 328	-2 825 914	-11 462	31%	25%
<i>In % of sales</i>	71%		66%			
<b>Contribution</b>	<b>1 519 021</b>	<b>5 862</b>	<b>1 445 121</b>	<b>5 861</b>	<b>5%</b>	<b>0%</b>
<i>Contribution margin %</i>	29%		34%			
Operating expenses	-1 467 945	-5 665	-1 405 687	-5 701	4%	-1%
EBITDA	<b>200 410</b>	<b>773</b>	<b>192 733</b>	<b>782</b>	<b>4%</b>	<b>-1%</b>
<i>EBITDA margin (%)</i>	4%		5%			
<b>Operating profit</b>	<b>51 076</b>	<b>197</b>	<b>39 434</b>	<b>160</b>	<b>30%</b>	<b>23%</b>
<i>Üzemi margin (%)</i>	1%		1%			
Net result of other income and expenses	-99 674	-385	-5 648	-23	na	na
Net financial income	37 740	146	1 323	5	na	na
<b>Profit before taxation</b>	<b>-10 859</b>	<b>-42</b>	<b>35 109</b>	<b>142</b>	<b>na</b>	<b>na</b>
Corporate tax	-4 964	-19	-5 171	-21	-4%	-9%
<b>Net profit</b>	<b>-15 823</b>	<b>-61</b>	<b>29 938</b>	<b>121</b>	<b>na</b>	<b>na</b>
Minority interest	36 202	140	51 278	208	-29%	-33%
<b>Net profit falling on the parent company</b>	<b>20 379</b>	<b>79</b>	<b>81 217</b>	<b>329</b>	<b>-75%</b>	<b>-76%</b>
<i>Net margin (%)</i>	0%		2%			

### Net sales

During the first three months of 2006, the Synergon Group achieved sales revenue of HUF 5,232 million, which, calculated on HUF basis, represents a 22-percent increase compared to that of the base period. This dynamic growth during the first quarter was primarily the result of the

efficient operation of Synergon Information Systems plc and SAO-Synergon Ltd.

Of the operating companies, Synergon/SAO achieved the highest increase of its sales (30 percent), with Infinity achieving a similarly high growth rate of 13 percent, while the sales of Span and Fibex dropped by 7 percent compared to the base period.



In the sector-by-sector breakdown of the sales of the Synergon Group, the telecommunications and the financial sectors accounted for 32 percent and 12 percent respectively, industrial companies and the public utilities and transport industries represented an overall 14 percent, whereas the public sector accounted for 21 percent during the period under review. Other, unclassified sales represented 21 percent. Compared to the base period, the share of the telecom sector grew dynamically, the percentage of sales in the public administration sector also increased, while there was a substantial drop in the share of industry and services. No significant change took place in the other sectors in terms of their performance during the first three months of 2006, apart from some realignment due to general market dynamics.

In the first quarter of 2006, the service content of sales was considerably lower than the relevant data of the base period, which was due mainly to substantial network device sales and the perceivable growth of the share of hardware purchases in public administration during the period.

### **Cost of sales**

The cost of sales consists mainly of products sold, basic materials and payments to contractors. The rate of the increase of cost of sales (31 percent) exceeded that of net sales in the comparison of 2006 (HUF 3,713 million) and 2005 (HUF 2,826 million). Cost of sales amounted to 71 percent of sales, which represents a 5-percent increase compared to the base period.

### **Contribution**

During the period under review, the volume of contribution, calculated on the basis of the net sales and the direct costs of the Group, grew by 5 percent compared to the previous period. All the operating companies with the exception of Span had a positive effect on that performance.

The 29-percent contribution achieved represents a 5-percent decrease in comparison with the previous year. This shift was due to a change in the constituents of sales, as product sales, which result in lower contribution, accounted for a higher share of the sales total than during the base period.

### **Operating expenses**

Operating expenses increased by 4 percent. During the first three months of 2006, this cost item amounted to HUF 1,468 million. Of operating expenses, the change was due to the cost of labour and fuel, experts' fees and maintenance costs.

### **Net financial income**

During the first quarter of 2006, net financial income amounted to HUF 38 million, which was due to the substantial fluctuation in the exchange rates of the forint and other currencies, and which accrued on the receivables and liabilities performed during the period under review.

### **Net profit**

The net profit of the Synergon Group, falling on the parent company and net of minority interest, amounted to HUF 20 million during the first quarter of 2006.



## Staff level

The table below shows the average staff levels of the Synergon Group. The table shows that no significant percentage changes occurred during the period under review at Synergon Information Systems plc and SAO-Synergon Ltd., staff levels decreased steadily at Infinity, while both the average and the closing headcounts grew at Fibex and Span.

On Group level, the average staff levels were 543 and 527 respectively as of March 31<sup>st</sup> 2006 and a year before.

<i>Average staff numbers</i>	2006 Q1 average	2005 Q1 average	Change, %	2006 Q1 closing	2005 Q1 closing
<b>Synergon/SAO</b>	338	330	2%	337	331
<b>Fibex</b>	23	19	19%	22	20
<b>Infinity</b>	124	128	-3%	121	128
<b>Span</b>	58	50	16%	61	50
<b>Total</b>	<b>543</b>	<b>527</b>	<b>3%</b>	<b>541</b>	<b>529</b>

## Analysis of the operating companies of the Synergon Group

The table below shows the breakdown of the Group's sales and other revenues by operating company.

<i>Operating companies</i>	3-month period ending March 31							
	2006			2005			Change %	
	thousand HUF	thousand EUR	%	thousand HUF	thousand EUR	%	HUF	EUR
<b>Net sales</b>	<b>5 231 832</b>	<b>20 190</b>	<b>100%</b>	<b>4 271 035</b>	<b>17 323</b>	<b>100%</b>	<b>22%</b>	<b>17%</b>
Synergon/SAO	<b>4 079 098</b>	<b>15 741</b>	<b>78%</b>	<b>3 126 461</b>	<b>12 681</b>	<b>73%</b>	<b>30%</b>	<b>24%</b>
Fibex	<b>284 266</b>	<b>1 097</b>	<b>5%</b>	<b>305 388</b>	<b>1 239</b>	<b>7%</b>	<b>-7%</b>	<b>-11%</b>
Infinity	<b>610 605</b>	<b>2 356</b>	<b>12%</b>	<b>538 281</b>	<b>2 183</b>	<b>13%</b>	<b>13%</b>	<b>8%</b>
Span	<b>426 246</b>	<b>1 645</b>	<b>8%</b>	<b>460 083</b>	<b>1 866</b>	<b>11%</b>	<b>-7%</b>	<b>-12%</b>
Consolidation	<b>-168 382</b>	<b>-650</b>	<b>-3%</b>	<b>-159 178</b>	<b>-646</b>	<b>-4%</b>	<b>6%</b>	<b>1%</b>

## The distribution of income

During the reporting period, the sales of Synergon Information Systems plc and SAO-Synergon Ltd. accounted for 78 percent of the sales of the Synergon Group, while the remaining part was generated by the operating companies. There is a slight change and some realignment in terms of the sales ratio of the operating companies in comparison of the various periods. The weight of Span, Fibex and Infinity decreased respectively by

3, 2 and 1 percent, while that of Synergon/SAO increased by 5 percent.

The performance of SAO is shown consolidated with the profit data of Synergon, since the operation of this subsidiary is closely integrated with that of the parent company. Synergon Information Systems plc relegated all of its outsourcing and operating-related functions to SAO-Synergon Ltd.



## Synergon Information Systems Plc.

While Synergon Information Systems plc is the Hungarian operating company of the Synergon Group, in legal terms it is also the parent company, being the major shareholder in the other operating companies. For more information on the activities of Synergon Information Systems plc

and for further details relating to the company (in Hungarian and English), please see the company's Internet site at [www.synergon.hu](http://www.synergon.hu), [www.synergon.hu/en](http://www.synergon.hu/en). For more information on the activities of SAO-Synergon Ltd. and for further details relating to the company, please see the following Internet site: [www.sao.hu/en](http://www.sao.hu/en).

Synergon/SAO *	3-month period ending March 31				Change %	
	2006 thousand HUF	2005 thousand EUR	2005 thousand HUF	2005 thousand EUR	Ft	EUR
<b>Net sales</b>	<b>4 079 098</b>	<b>15 741</b>	<b>3 126 461</b>	<b>12 681</b>	<b>30%</b>	<b>24%</b>
<i>of which services (%)</i>	24%		35%			
<i>of which products (%)</i>	76%		65%			
<b>Cost of sales</b>	<b>-2 914 367</b>	<b>-11 247</b>	<b>-2 100 049</b>	<b>-8 518</b>	<b>39%</b>	<b>32%</b>
<i>in (%) of sales</i>	71%		67%			
<b>Contribution</b>	<b>1 164 731</b>	<b>4 495</b>	<b>1 026 412</b>	<b>4 163</b>	<b>13%</b>	<b>8%</b>
<i>Contribution margin (%)</i>	29%		33%			
Operating expenses	-1 005 044	-3 878	-894 049	-3 626	12%	7%
<b>Operating profit</b>	<b>159 687</b>	<b>616</b>	<b>132 363</b>	<b>537</b>	<b>21%</b>	<b>15%</b>
<i>Operating margin</i>	4%		4%			
Result of other income and expenses	-92 287	-356	13 719	56	na	na
Net financial income	238 309	920	19 405	79	na	na
<b>Profit before taxation</b>	<b>305 709</b>	<b>1 180</b>	<b>165 488</b>	<b>671</b>	<b>85%</b>	<b>76%</b>
<i>Corporate tax</i>	-4 304	-17	-1 592	-6	na	na
<b>Net profit</b>	<b>301 405</b>	<b>1 163</b>	<b>163 896</b>	<b>665</b>	<b>84%</b>	<b>75%</b>

\*Before consolidation

## Operating environment

In the areas of operation of Synergon Information Systems plc, there were substantial differences in terms of the prosperity of the various market sectors during the first quarter of 2006.

As the result of one-time orders related to the general elections, there was some growth in the *public administration* sector. The projects implemented by the customers were financed largely out of EU funds and focused primarily on hardware purchases. The structure of the expenditure of government institutions changed substantially, i.e. they have virtually stopped planning their spending; instead, expenditures are based on individual projects financed from various sources. Projects are announced and awarded with long delays, which makes the planning of them impossible. The projects being awarded through new procedures and new decision-makers, service providers need to respond by introducing new sales approaches. Synergon has responded to the changing market

environment with a new commercial strategy, including handling the government administration sector at key management level. In addition, the ratio of sales generated in the competitive sectors has been steadily increased.

During the period under review, Synergon has been successful in making a presence and obtaining good positions on the municipal market, where considerable sales are expected during the forthcoming quarter and particularly in the second half of the year, depending on the applications for EU grants in local government administration. The Health and Municipal Division, set up in 2005 in order to service this area, contributed several won projects and signed contracts to the achievements of Synergon during the first quarter.

During the quarter under review, the *telecom and media* markets became the most dynamic sector for Synergon, with a substantial increase in projects related to broadband data provision services. Further alternative service providers have entered the market, while Magyar Telekom



has continued to diversify into IT services. An effort has also been made on the market in order to end the monopoly of T-Com. The most significant trends on the mobile service market have been 3G projects and non-voice transmission-oriented services.

Although IT spending became slightly more discriminating and moderate, there were substantial projects during the first quarter and spending steadily continued in the maintenance and operation areas and a shift has also occurred toward higher added-value projects. The applications and software fields have continued to grow, while sales have begun in some alternative markets including NGN, TriplePlay and DWDM.

The steadily growing *insurance and financial* segment has been Synergon's other success market. Synergon's professional reputation and market position have continued to improve. Banks tend to invest a substantial part of their profits in the improvement of their competitive position, primarily through the expansion of their network of branch offices, which requires considerable IT investments. Demand has steadily shifted toward application systems (back office – front office). Along with the development of retail customers, there has been a growing need for customer-oriented IT background systems. Increasing value is attributed to outsourcing; several non-core activities are being sourced out to third party operators. Synergon dynamically increased its sales in the field during the period under review.

Customers in the *industry and services* segment are rather diverse, including manufacturers, utilities, retail and pharmaceutical companies. Synergon has typically been a powerful infrastructure supplier on this market, offering a wide range of products and services (software, hardware and networking) to an extensive customer base (MOL, TIGÁZ, Richter). On the demand side, there is a clear division between larger and smaller customers. While large businesses have invested steadily in IT projects, a long period is typically required for the processing of tenders due to the need to obtain parent company approval. Smaller businesses, despite having realised the necessity of IT investments, are rather cost-sensitive.

Despite the fact that the share of this sector decreased considerably in the sales structure of Synergon, this was primarily due to external, non-market effects, *i.e.* industry-sector orders are expected to remain steady in the future. The drop in the share of the market is partly the result of the growth of other sectors within the overall increase of sales. First, corporate customers tend to place the bigger part of their orders during the last four months of the year and, second, considerably fewer projects were carried through to the beginning of 2006 than during the same period of the previous year. Another reason is that Infinity lost a formerly substantial customer. In terms of contribution, there was a much lower difference compared to last year, *i.e.* the Group will probably meet its 2006 target in this segment, too.

*Small and medium-sized businesses* have generated steadily growing demand on the IT market during the past few years. As far as Infinity and Span are concerned, orders originating from this sector now account for a two-digit ratio of their overall sales and, while corporate and institutional customers continue to be regarded as its no. 1 target group, the parent company cannot forgo participating in the orders of this market segment. It has mostly endeavoured to target this rather heterogeneous market through customised versions of its existing solutions, such as custom-made hardware products and various management systems.

Noticeable growth has started on the market of *retail businesses*. Their most important priority has been to integrate existing till systems with their financial management and sales systems. That trend represents serious market potential, offering good opportunities for Synergon.

### **Achievements**

During the first three months of 2006, the sales of Synergon Information Systems plc and SAO-Synergon Ltd. (HUF 4,079 million) increased by 30 percent compared to the same period of 2005 (HUF 3,126 million).

The service content of the company dropped by 11 percent compared to the 35 percent achieved in the base period. The rate of the increase of direct operating expenses (39 percent) was 9 percentage points higher than that of the sales revenue during



the period under review, resulting in some reduction of the contribution, to 29 percent from 33 percent. During the first quarter of 2006, Synergon and SAO achieved an operating profit of HUF 160 million between them. Net profit grew by 84 percent to HUF 301 million compared to the HUF 164 million of the first quarter of 2005, which amount, however, includes the dividend of HUF 200 million due from SAO-Synergon Ltd., and is therefore eliminated in the consolidated report.

### Business units

*Network communications* represent a crucial part in Synergon's portfolio as well as in terms of sales and contribution.

During quarter 1, the sales of the division grew compared to both the base and the target, due to the portfolio expansion started in 2005 and the distribution of the products of new suppliers (Huawei, Harmonic).

The former market structure remained essentially the same, while higher-value projects were generally fewer or delayed. The Division endeavoured to increase the sales of its service-type projects in order to make up for the sagging demand. The network normative of the Central Service Directorate (KSZF) was signed at the end of November, on the basis of which the Division can supply Cisco, Huawei and 3Com network solutions to government institutions. During the first quarter of 2006, the Division achieved noticeable sales from that opportunity, generated by the systems sold to BMGE and NIIF.

The Division made good performance in the sectors relevant for Synergon, i.e. network devices deliveries, implementations and support agreement performance for Invitel, T-Com, T-Kábel and T-Mobil in the field of telecommunications.

The financial sector continues to be strong, the expansion of the branch office network being the main drive behind its growth. These have generated demand in term of both investment and maintenance. An increasing number of customers have ordered IP telephony solutions in the sector (CIB, Allianz, Generali, Raiffeisen).

The industry, services and trade sector, affected by the seasonal effect, also delivered to target. Major customers included Richter, Egis, Paks,

MOL and Borsodchem. The general business field continued to grow; the most substantial project in this sector, the implementation of the Google machine-room, was completed during the first quarter.

Plans for 2006 include the further increase of the profit content and reinforcing the Huawei services (e.g. training). The Division lays special emphasis on employee training. Engineers' and trainers' seminars are currently being conducted in China, Greece and Spain.

The activities of the *Business Solutions Division* cover the traditional activities of the former Software Division and the business consulting activities of Synergon Information Systems plc. The market continued to grow during the period under review. Continuing the trend established during the final quarter of 2005, the Division once again managed to close the first three months of the year with results in excess of the target. Due to the start of the year, the renewal of support and licence agreements played a crucial part, with their quantity and quality also surpassing previous expectations. The consequent business policy, which is adapted flexibly to market demand and whose development has been an ongoing goal in the operation of the Division, seems to be bearing fruit. In comparison with the existing support and licence base, the Division managed to establish a position vis-à-vis several new customers in both areas, which enable support and server services apart from the proper project activities. These had considerable effect on efficiency during the quarter.

In public administration, the local government project launched at the end of 2005 was delivered to target during the first quarter of the year. Substantial projects were started in this sector also in the IT security area. Their value and significance also played a critical role in the outstanding operating profit. The growth of telecommunications slowed down compared to the previous quarter. No substantial project was started in this sector during the quarter.

The industry/services sector continued to grow steadily at the expected dynamic rate. Thanks to the successful implementation and support of the WEM system to date, MOL FRI has renewed its support agreement once again. In association with the application consolidation going on in the



services sector, the Division launched significant projects during the quarter, which were completed or partly completed according to the work schedule.

Due to the growth of the development area, this sector is also dynamic as far as the Division's operation is concerned. Its operation has been determined by developments to fundamental 'core' banking systems. The increasing demand for reporting systems has also opened new opportunities for the Division during the quarter. Internal development (e-learning, file-management system) has continued during the year. 'Beta' versions were tested at the end of the quarter.

The data repository implementation at MNB is approaching completion. The Division has entered into a new agreement with the Central Bank for the support of the system's operation and the completion of the tunings required during 'live operation'.

The CMMI certification procedure, started at the beginning of 2005, is to be completed during the year. During the first phase of the development, the organisations already having an AQAP160 qualification will be involved in the operation corresponding to the qualification system.

No major shifts are planned for 2006 in terms of either the markets or the products. The core areas will be further strengthened, with particular attention to the VIR and the EPM fields.

In the *Hardware Division*, the market environment weakened during the period under review, in accordance with previous expectations. Due to the loyalty of the customer base, however, the Division has a regular and calculable source of income. The increasing demand for services and consulting, typical across the entire market, had positive effects on the growth of the share of services also in this Division; due to the competition between IT solution suppliers, however, customers would often prefer to see the service and consulting fees included in the prices of products, which are, incidentally, of a low profit margin. The improving efficiency of the organisational unit also improved the contribution; the level potentially available at the market is, however, determined by the competition between manufacturers. Despite the unfavourable market environment, there was a

slight increase in the sales of the Division compared to base, due mainly to the completion, during the first quarter, of major projects carried forward from last year.

Following the decrease of administrative projects last year, there was moderate growth on the government administration market during the first three months of the year, while the uncertainty surrounding the general elections had its impact on the sectoral revenues.

During the previous year, the financial sector was the most powerful area for the Division, where the ratio of calculable, recurring sales was increased substantially through support and maintenance agreements (MFB, HVB, Erste Bank). Projects launched last year were completed in the industry and public utilities sectors (MOL, MVM). The telecom sector has been primarily focusing on the optimisation of the efficiency of operation, which resulted in the considerable reduction of major development projects during the three months under review.

The Division intends to achieve its plans of expansion to new markets through modified sales methods and IT solution packages targeting specific business problems. The dynamic rate of penetration of digital data storage has generated above-average growth in the data storage market, where Synergon is intensifying and broadening its competencies. That and the related powerful and extensive growth of the demand for fault and disaster tolerant systems are expected to generate further increase in the sales of the Division during the year.

During the first quarter of 2006, the major part of the sales of the *SAP* was generated by the projects carried over from the previous year. The structure and the volume of the market did not change, the market of *SAP* has become nearly saturated; primarily the operation-related agreements have provided continuity for this product, ensuring an ongoing, sustainable revenue for Synergon. According to the usual market cycles, more significant growth may be expected for the second half of the year.

The fallback of the government administration sector continued to be the most significant negative factor in the market environment. During the first quarter, the division provided support for the public administration data warehouse project



(SAP BW Data Warehouse) completed during last year.

There was steady growth in the industry, services and trade sector. While the upgraded system, combined with the change of the logistics model at the Paks Nuclear Power Station, one of the largest projects in the sector launched at the end of last year and the largest SAP Business One implementation (Fairtool) in Central Europe were completed during the first quarter of 2006, the Division continues to provide product support. There are also a number of smaller projects in progress at the Division (including SAP implementation for Esma Kft.) as well as a number of GVOP projects in order to enable investments for small and medium-sized businesses. Since the SAP All in One system at the Glovita glove factory has been implemented this year, service management is currently the main activity here.

In the SME segment, Synergon offers two products developed with proprietary know-how (the SAP Business One-based funeral module and the Synergon Retail System – SAP Business One solution). Through the operating companies of Synergon, the funeral module is distributed throughout the region; in fact the distribution of the application also began on the German markets in the first quarter of the year.

The *health information* market became steadier during the first months of 2006. Demand and supply were both determined by the HEFOP 4.4 tender invitations. Health operators have so far been waiting to see the outcome, whereas service providers have responded by the development of their solution packages. Synergon's Infrend product has a number of successful references on a health service market struggling with the shortage of financing. During the first quarter, this product, capable of the integrated management of medical and financial activities, was developed into a complex solution package serving hardware, software, network, operation and consulting functions, which is suitable to further strengthen Synergon's existing market positions.

As the result of the health service road shows started last year on a national basis, the Infrend system product support agreement entered into with the Svábhegyi Hospital was renewed during the period under review; the agreement also

covers the operation of the clinical system of the hospital.

The *Health and Municipal Division* of Synergon Information Systems plc continues to stand good chances in the HEFOP 4.4 intra- and inter-institutional tender invitations. The Division has successfully participated as a subcontractor of the Consortium still competing in the HEFOP project concerning the development of the South Transdanubia region, and has substantial chances preparing further tenders for clinical and financial systems.

The division has started a successful regional cooperation, intending to take advantage of the international INTERREG tendering opportunities in the communication between the hospitals of the neighbouring countries, which can result in substantial IT investments.

The European Union and other government funds to support the information projects of local governments became available last year. The projects published under the GVOP program have served the purposes of the improvement of e-administration of municipal governments and the secondary utilisation of municipal property. The municipal market is a new market with few operators, where the division managed to establish a strong presence during the first three months of the year. Synergon was the first in assuming the challenge of providing complex IT solutions to small-region governments.

On the *municipal market*, Synergon has successfully established the potential achievements of the year by its nation-wide micro-regional and municipal road show launched in 2005. During 2006-2007, Synergon will implement the broadband Internet infrastructure in the micro-region around the Sárbogárd centre, the first signed public procurement agreement for GVOP 4.4.2 implementation in Hungary. In addition, the division has been awarded the public procurement agreement of VÁTI Kht. concerning the supply of Microsoft applications to the value of HUF 100 million. Synergon has also actively participated at similar, simultaneous GVOP tender invitations (4.3.1, 4.3.2).

In 2006, the division intends to further increase its current market share. This is to be achieved through product development (e.g. filing system) and by entering new market segments (SMEs), in close cooperation with other organisational units



and operating companies (SAO, HW). In 2006, the division targets to achieve a share of about 10 percent on the Hungarian local government and micro-regional IT markets. The division road shows and ongoing consultations started in 2005 will be continued this year, concerning the INTERREG, among other subjects.

The *Retail Division* offers a comprehensive solution for both chains of commercial outlets and retail businesses through the successful integration of the proprietary Synergon Retail System and the SAP Business One solution (SRS-SBO). During the first three months of 2006, the Retail Division delivered new orders in addition to servicing existing customers. The cash register system has been implemented at the first Budapest Norbi Update/Új Kalendula outlet, which is to be followed by several fast food restaurants. Additional ongoing projects include the implementation of new systems for the McDonald's franchise, the SRS implementation at the first Zwack Unikum store, the installation of the outlets of Promode Hungary Kft. and the SRS installation of the Békéscsaba store of Élésker Kft. Apart from its Hungarian customers referred to above, Synergon's Retail Division has managed to expand its operations to include the wider Central European region during the period under review. As a result, the integrated SRS-SBO solution has recently been implemented for Polish and Czech customers, the Austrian version has been completed and installed and the application will soon also be implemented on the Romanian and Slovakian markets.

System support and operation activities have ensured a steadily calculable, high-contribution source of income for *SAO-Synergon Ltd.* During the first three months of 2006, it had steady and

calculable business, with no changes in terms of its partner and agreement base. Exceeding its plans, it managed to improve each financial indicator. The service centre (helpdesk) infrastructure, modernised during last year and operating on an IP basis, resulted in higher operational standards and quality at lower cost. This is the basis for the regional helpdesk system currently under implementation.

The market potential of SAO has continued to be determined by the globalisation efforts of businesses that intend to employ global service providers. SAO can thus safely reckon with various international agreements covering several countries. The Division's operation covers the entire region, partly in cooperation with the operating companies of the Synergon Group and in part through an ongoing cooperation with Atos Origin. During the first quarter of the year, the test phase began on the call tracking system development, taken over from Atos Origin (in order that it should operate at Group level).

This year's target includes the expansion of the customer base by app. 1,000 users, while the renewal of the agreements to expire this year is also in progress.

SAO Ltd. continues to be actively involved in the work of the Hungarian Outsourcing Association (HOA), established in 2005 in order to support and disseminate the culture of this business area. The promotion of outsourcing by SAO and HOA at the CIO forum during the first quarter was a good example of those activities.

In addition to the retention of existing customers (a lot of the agreements are to be renewed in 2006), plans for 2006 include the increasing of market share primarily through small and medium-sized enterprises.



## Fibex Ltd.

Fibex Ltd., specializing in the sales of optical and copper cables, network implementation materials and tools, operates as a 100-percent Synergon subsidiary. For more information on Fibex Ltd.

and for further details relating to the company (in Hungarian), please see the company's Internet site at [www.fibex.hu](http://www.fibex.hu).

Fibex Kft.	3-month period ending March 31					
	2006		2005		Change %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	Ft	EUR
<b>Net sales</b>	<b>284 266</b>	<b>1 097</b>	<b>305 388</b>	<b>1 239</b>	<b>-7%</b>	<b>-11%</b>
<i>of which services</i>	0%		0%			
<i>of which products</i>	100%		100%			
<b>Cost of sales</b>	<b>-219 811</b>	<b>-848</b>	<b>-246 923</b>	<b>-1 001</b>	<b>-11%</b>	<b>-15%</b>
<i>in % of sales</i>	77%		81%			
<b>Contribution</b>	<b>64 455</b>	<b>249</b>	<b>58 465</b>	<b>237</b>	<b>10%</b>	<b>5%</b>
<i>Contribution margin</i>	23%		19%			
Operating expenses	-60 669	-234	-37 742	-153	87%	93%
<b>Operating profit</b>	<b>3 786</b>	<b>15</b>	<b>20 724</b>	<b>84</b>	<b>-82%</b>	<b>-83%</b>
<i>Operating margin %</i>	1%		7%			
Result of other income and expenses	1 094	4	312	1	na	na
Net financial income	-756	-3	1 333	5	na	na
<b>Profit before taxation</b>	<b>4 124</b>	<b>16</b>	<b>22 369</b>	<b>91</b>	<b>-82%</b>	<b>-82%</b>
<i>Corporate tax</i>	-660	-3	-3 579	-15	-82%	-82%
<b>Net profit</b>	<b>3 464</b>	<b>13</b>	<b>18 790</b>	<b>76</b>	<b>-82%</b>	<b>-82%</b>

During the first three months of 2006, the dynamic growth of Fibex Ltd. slowed down in comparison with previous years. Among other things, this was due to the delay of planned sales because of unfavourable weather (cable deliveries), while the growth of operational expenses was mainly due to the effect of the increase of the staff required by this year's expected market growth and, to a smaller extent, to the general administration and marketing costs accrued during the quarter.

The services provided to major customers on the telecom sector (T-Com, UPC, Pantel) have also increased at a considerable degree (earlier, this sector also accounted for the major part of overall sales). Since the Synergon-Huawei agreement was signed, the products of the Chinese company have been marketed with success both within Hungary and across the region. Under the cooperation, the ADSL modems of Huawei have been supplied and installed for T-Com, supplemented by Fibex with a personalised 'self-installation' package (ADSL modem, splitters and patch cables). During the period, further important customers

included the MOL Rt. (assembly and implementation of server rooms), the Nyíregyháza Hospital (renewal of hospital rooms, LAN network), the MVM and OVIT (LAN network) and Magyar Telekom (RFTS implementation).

As part of the Synergon Group, Fibex has been actively involved in cross-border operations. Having submitted bids in cooperation with the Croatian operating company, they stand good chances in winning regional projects, the outcome of which is expected during the first half of the year. Communication is being established with the Bratislava telecom company with a view to the potential supply of optical cables.

During the first three months of 2006, the sales of Fibex dropped by 7 percent, to HUF 284 million compared to the HUF 305 million achieved in the base period. The rate of the reduction of direct operating expenses (11 percent) was higher than that of the sales revenue, which indicates the improvement of the efficiency of operation. There was a 10-percent increase in terms of contribution, whereas operating profit dropped at a substantial (82-percent) rate, due to the 87-percent increase in operating expenses.



### Infinity a.s.

Infinity a.s. is the Czech operating company of the Synergon Group, in the majority ownership of Synergon (in April 2006, the interest of Synergon Information Systems plc. in Infinity increased to 91.7 percent from the former 75.8 percent). The major part of the sales revenue of Infinity is generated by the sales of HP and Microsoft products and the related services, as well by as the remote monitoring, support and operation services based on these products. Infinity established its

Slovakian representative office in Bratislava in 2003 in order to service the needs of its Slovakian projects and, as an addition to its ERP portfolio, in 2004 it purchased BrnoData s.r.o., now operating under the name Infinity Data. The performance of both companies has been consolidated in Infinity's profit and loss statement and balance sheet. For more information on the activities of Infinity and for further details relating to the company (in Czech and English), please see the company's Internet site at [www.infinity.cz](http://www.infinity.cz).

Infinity	3-month period ending March 31					
	2006		2005		Change %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	Ft	EUR
<b>Net sales</b>	<b>610 605</b>	<b>2 356</b>	<b>538 281</b>	<b>2 183</b>	<b>13%</b>	<b>8%</b>
<i>of which services (%)</i>	64%		46%			
<i>of which products (%)</i>	36%		54%			
<b>Cost of sales</b>	<b>-334 037</b>	<b>-1 289</b>	<b>-305 961</b>	<b>-1 241</b>	<b>9%</b>	<b>4%</b>
<i>in % of sales</i>	55%		57%			
<b>Contribution</b>	<b>276 567</b>	<b>1 067</b>	<b>232 320</b>	<b>942</b>	<b>19%</b>	<b>13%</b>
<i>Contribution margin %</i>	45%		43%			
Operating expenses	-331 781	-1 280	-380 742	-1 544	-13%	-17%
<b>Operating profit</b>	<b>-55 213</b>	<b>-213</b>	<b>-148 422</b>	<b>-602</b>	<b>-63%</b>	<b>-65%</b>
<i>Operating margin</i>	-9%		-28%			
Result of other income and expenses	-247	-1	-9 781	-40	-97%	-98%
Net financial income	5 935	23	-20 248	-82	na	na
<b>Profit before taxation</b>	<b>-49 525</b>	<b>-191</b>	<b>-178 452</b>	<b>-724</b>	<b>-72%</b>	<b>-74%</b>
<i>Corporate tax</i>	0	0	0	0	0%	0%
<b>Net profit</b>	<b>-49 525</b>	<b>-191</b>	<b>-178 452</b>	<b>-724</b>	<b>-72%</b>	<b>-74%</b>

Figures include minority interest

The Czech IT market is one of the most advanced in Central Europe. The proportion of IT investment is high and further developments are also expected in the government sector. Demand has been shifting steadily toward services from products and infrastructure devices.

During the first three months of the year, Infinity considerably surpassed its performance at the beginning of last year: the Czech operating company achieved higher sales and was able to increase its contribution through higher service-content projects, while the efficiency-increasing measures also made a clear impact. The company, recording a substantially lower loss than during last year, intends to achieve its main goal, i.e. long-term profitable operation, through further

increasing sales; substantial improvements have started concerning the sales organisation during the period. In the first quarter of 2006, the major part of the sales of the company was generated by orders delivered on the public administration market (National Land Office, Ministry of the Interior – PC sales and support) and in projects carried out for customers operating in the industry, services and trade sectors (Skoda Auto, Foxconn, Celestica – hardware and network device supply). In addition, considerable income was generated on the retail market (Kaufland, Ahold, Tesco). The service income of the operating company was generated by software development, operation contracts, the sale of Navision licences and their implementation.



Vladimir Čech was appointed General Manager of the company during the period. On the basis of the plans submitted by the new management, a slight loss is expected on an annual basis in the operation of Infinity; due to the Parliamentary elections due in June, however, the orders related to public administration projects will probably not be specified before the final months of the year.

The sales of Infinity grew by 13 percent during the first quarter of 2006 compared to the base period. The service content of sales was also outstandingly high during the period, increasing

by 18 percent compared to the 46 percent achieved during the same period of 2005. That means that of the operating companies of the Synergon Group, Infinity had the highest ratio of services within its sales. As a result of earlier cost-optimisation measures, the cost of sales declined at a smaller rate (9 percent) than sales. During the period under review, Infinity operated at an improving rate of contribution (45 percent) and generated loss, while its net profit was 72 percent higher compared to the same period of 2005.

### Span d.o.o.

Span d.o.o. is the Croatian operating company of the Synergon Group, in the majority ownership (68.1 percent) of Synergon Information Systems plc. Apart from various networking and infrastructure-management projects, the major part of the sales revenue of Span is generated by the sale of

Microsoft products, Windows-based infrastructure projects, the associated support and operation services and training. For more information on the activities of Span, and further information relating to the company (in Croatian), please see the company's Internet site at [www.span.hr](http://www.span.hr)

Span	3-month period ending March 31					
	2006		2005		Change %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	Ft	EUR
<b>Net sales</b>	<b>426 246</b>	<b>1 645</b>	<b>460 083</b>	<b>1 866</b>	<b>-7%</b>	<b>-12%</b>
<i>of which services (%)</i>	30%		33%			
<i>of which products (%)</i>	70%		67%			
<b>Cost of sales</b>	<b>-334 926</b>	<b>-1 292</b>	<b>-300 063</b>	<b>-1 217</b>	<b>12%</b>	<b>6%</b>
<i>in % of sales</i>	79%		65%			
<b>Contribution</b>	<b>91 320</b>	<b>352</b>	<b>160 020</b>	<b>649</b>	<b>-43%</b>	<b>-46%</b>
<i>contribution margin %</i>	21%		35%			
Operating expenses	-163 036	-629	-135 149	-548	21%	15%
<b>Operating profit</b>	<b>-71 716</b>	<b>-277</b>	<b>24 871</b>	<b>101</b>	<b>na</b>	<b>na</b>
<i>Operating margin %</i>	-17%		5%			
Result of other income and expenses	385	1	0	0	0%	0%
Net financial income	-4 630	-18	832	3	na	na
<b>Profit before taxation</b>	<b>-75 961</b>	<b>-293</b>	<b>25 703</b>	<b>104</b>	<b>na</b>	<b>na</b>
<i>Corporate tax</i>	0	0	0	0	0%	0%
<b>Net profit</b>	<b>-75 961</b>	<b>-293</b>	<b>25 703</b>	<b>104</b>	<b>na</b>	<b>na</b>

Figures include minority interest

In the period under review, the growth rate of the Croatian IT market was steadily if moderately improving, with a noticeable increase of orders in both the government and the business sectors, while large multinational suppliers have obtained

an increasing influence at the former field to the expense of Croatian companies. The growth of the telecom market continued to be determined by deregulation in the network and telecommunication fields.



Span has streamlined its solutions portfolio, increasingly focusing on Navision implementations and the winning of technical support and infrastructure projects. The integration of Span's technical and sales organisation into the Synergon Group continued during the period. The company acquired the ISO 9001:2000 quality management system certification, which, being less common in the country, is still able to provide a competitive edge on the Croatian market.

In the first quarter of 2006, Span generated a loss, which was due to orders carried over to the second quarter and partly to the fact that the Croatian company accepted public administration orders with minimal levels of contribution in order to retain its market positions. App. one-fifth of the company's sales were generated by Croatian government orders (Croatian Electricity Company, Ministry of Defence, Ministry of Foreign Affairs, Croatian Motorway Authority). At the end of March, Span was awarded the ICT restructuring contract of the Rijeka harbour, where it will carry out the full Microsoft Tetra infrastructure implementation, installation and all service management activities. Further major sales by Span were generated during the first three

months of 2006 on projects delivered for customers in the telecom and media sectors (T-Mobile/Iskom, VIPnet, Croatian Radio and Television). Major new projects during the period included the T-Com order for the implementation of the DSL network, obtained in cooperation with Huawei and the hosted exchange implementation and future maintenance commissioned by VIPnet, the second largest mobile operator on the market.

The sales of Span decreased by 7 percent during the first quarter of 2006 compared to the base period. The service content of sales was 30 percent during the period, slightly decreasing compared to the 33 percent achieved during the same period of 2005. As referred to above, the projects accepted at low contribution levels were primarily responsible for the declining contribution margin, whereas operating expenses increased during the period as the result of the human resource investments in order to establish the operation in the forthcoming period and of the repartition of central management costs falling on Span. In consequence, the company recorded a net loss of HUF 76 million during the first quarter of 2006.



## Analysis of the balance sheet and liquidity position of the Synergon Group as of March 31<sup>st</sup> 2006

<i>Balance sheet</i>	March 31, 2006		March 31, 2005		Change, %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	HUF basis	EUR basis
<b>Assets</b>						
<b>Non-current assets</b>	<b>2 652 701</b>	<b>9 990</b>	<b>2 716 155</b>	<b>10 989</b>	-2%	-9%
Fixed assets	2 028 209	7 638	2 130 374	8 619	-5%	-11%
Goodwill	564 418	2 126	530 069	2 144	6%	-1%
Investments	11 546	43	15 803	64	-27%	-32%
Deferred tax	23 699	89	12 852	52	84%	72%
Long-term loans given	24 829	94	27 058	109	-8%	-15%
<b>Current assets</b>	<b>8 131 657</b>	<b>30 623</b>	<b>7 495 542</b>	<b>30 324</b>	8%	1%
Inventories	712 775	2 684	1 091 748	4 417	-35%	-39%
Accounts receivable	4 733 769	17 827	3 635 774	14 709	30%	21%
Cash and equivalents	1 963 210	7 393	1 851 680	7 491	6%	-1%
Securities	1 154	4	398 194	1 611	-100%	-100%
Other current assets	720 749	2 714	518 146	2 096	39%	29%
<b>Total assets</b>	<b>10 784 358</b>	<b>40 613</b>	<b>10 211 697</b>	<b>41 313</b>	<b>6%</b>	<b>-2%</b>
<b>Liabilities</b>						
Shareholders' equity	1 910 926	7 196	1 910 926	7 731	0%	-7%
Capital reserves	5 576 134	20 999	5 596 814	22 643	0%	-7%
Profit reserves + Retained profit of the year	-491 661	-1 852	-943 390	-3 817	-48%	-51%
<b>Capital and reserves of the parent company</b>	<b>6 995 399</b>	<b>26 344</b>	<b>6 564 351</b>	<b>26 557</b>	7%	-1%
Minority interest	97 493	367	126 384	511	-23%	-28%
<b>Total capital and reserves</b>	<b>7 092 892</b>	<b>26 711</b>	<b>6 690 735</b>	<b>27 068</b>	6%	-1%
<b>Short-term liabilities</b>	<b>3 686 097</b>	<b>13 882</b>	<b>3 501 997</b>	<b>14 168</b>	5%	-2%
Trade creditors	2 405 221	9 058	1 828 860	7 399	32%	22%
Credits and bank overdrafts	44 706	168	591 049	2 391	-92%	-93%
Other short-term liabilities	1 236 170	4 655	1 082 087	4 378	14%	6%
<b>Long-term liabilities</b>	<b>5 369</b>	<b>20</b>	<b>18 965</b>	<b>77</b>	-72%	-74%
<b>Total liabilities and shareholders' equity</b>	<b>10 784 358</b>	<b>40 613</b>	<b>10 211 697</b>	<b>41 313</b>	<b>6%</b>	<b>-2%</b>

The balance sheet total of the Synergon Group as of March 31<sup>st</sup> 2006 (HUF 10,784 million) increased by 6 percent on a HUF basis compared to the closing value of the same period of the previous year.

### Assets

#### Fixed assets

The net value of fixed assets decreased by 5 percent (HUF 102 million). The reduction was the result of the infrastructure and IT investments carried out by the Group and of the difference of

amortization recorded. During the period under review, the volume of investments was minimal, below both the level of the base period and the target.

#### Goodwill

The value of goodwill recorded in the Group's consolidated balance sheet increased by 6 percent. The change was due to the goodwill value recognised on the increase of the investments of the operating companies of the Synergon Group between the two periods.



### **Investments**

The decrease of the value of the asset group was the result of the fact that the subsidiaries of the operating companies have been included in the group of consolidated companies as the interest in them has been increased to 100 percent and therefore they have been eliminated from the consolidated balance sheet.

### **Deferred tax**

The change in the tax reserves was increased by the deferred tax reserve generated by Span at the end of the year.

### **Long-term loans given**

The change in the value of loans given was due to the changing of the exchange rate.

### **Inventories**

Synergon Information Systems plc and Infinity accounted for the HUF 379 million decrease compared to base, in equal proportion. Their inventories purchased during the last weeks of December were sold in the first quarter of 2006.

### **Accounts receivable**

Eliminating settlements within the Group, the value of accounts receivable increased by 30 percent (HUF 1.098 million). The change was due to the increase of the sales value during the quarter under review. The higher volume of sales was primarily due to the performance of Synergon Information Systems plc and SAO-Synergon Ltd. and, to a smaller extent, of Infinity.

### **Liquid assets**

At the end of the reporting period, the value of cash and equivalents was HUF 1,963 million, the changes of which are described in detail in the cash flow analysis.

### **Securities**

Liquid assets kept in securities expiring within less than 12 months with a short-term investment goal have been re-allocated for the purposes described in detail in the cash flow analysis.

### **Other current assets**

Accrued costs and expenses constitute the most substantial component of this asset group, which were recorded by the Group in accordance with the situation in the balance sheet period and which therefore include the costs and expenses affecting the period following the balance sheet date but accrued prior to that date.

### **Liabilities and shareholders' equity**

#### **Minority interest**

The decrease of minority interest was the result of the negative value of the retained profit of the year of Infinity and Span.

#### **Short-term trade creditors**

The value of short-term trade creditors was 32 percent (HUF 576 million) higher than the closing value of the base period, due to the substantial increase at Synergon Information Systems plc. The value of trade creditors increased in proportion with the volume of sales. The major element of that increase was a HUF 756 million item payable to Harmonic, a hardware supplier partner, falling due in April, which amount is related to a project of outstanding value, completed during March.

#### **Credits and bank overdrafts**

The changes in credits and bank overdrafts were substituted as described in the cash flow analysis.

#### **Other short-term creditors**

The closing value of other short-term creditors during the period under review amounted to HUF 1.236 million, which is an increment of HUF 154 million compared to base. The change was due to the changes in the value of provisions (HUF 93 million) and of accrued and deferred revenues, cost and expenses, in nearly equal proportion.

#### **Long-term creditors**

The reduction of long-term creditors was the result of the elimination of the financial lease solution of asset financing.



The cash flow statement as of March 31<sup>st</sup> 2006 shows the changes between December 31<sup>st</sup> 2005 and March 31<sup>st</sup> 2006 and similarly for the base period

<i>Cash flow</i>	March 31, 2006		March 31, 2005	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR
<b>Cash flow from operation</b>				
Profit before taxation and interest	12 887	49	54 242	219
Depreciation and amortization	149 335	562	153 299	620
Depreciation settlement	18 725	71	16 800	68
Exchange difference	16 045	60	26 391	107
Income on the sale of tangible assets	5 169	19	102	0
Income on the sale of treasury shares	-16 430	-62	-31 270	-127
Minority interest	-36 202	-136	-51 278	-207
Receivables and other current assets	2 287 882	8 616	2 793 220	11 300
Inventories	306 574	1 155	-259 586	-1 050
Liabilities and accruals	-1 914 052	-7 208	-2 663 625	-10 776
Interest received	26 332	99	38 402	155
Interest paid	-13 876	-52	-6 256	-25
Tax settlement	-5 971	-22	17 969	73
<b>Net cash flow from operations</b>	<b>836 418</b>	<b>3 150</b>	<b>88 408</b>	<b>358</b>
<b>Cash flow from investment</b>				
Purchases of tangible assets	-80 157	-302	-97 440	-394
Short-term investments purchased and sold	56 803	214	-98 118	-397
Other long-term assets purchased	0	0	242	1
Acquisition and sale of subsidiaries and assets	5 141	19	3 599	15
<b>Cash flow used for investment</b>	<b>-18 213</b>	<b>-69</b>	<b>-191 717</b>	<b>-776</b>
<b>Cash flow used for financial activities</b>				
Proceeds from the sale of treasury shares	159 000	599	142 570	577
Acquisition and purchases of treasury shares	-159 000	-599	-142 570	-577
Change in loans payable	-1 316	-5	26 696	108
<b>Cash flow from financing</b>	<b>-1 316</b>	<b>-5</b>	<b>26 696</b>	<b>108</b>
<b>Net change in cash</b>	<b>816 890</b>	<b>3 076</b>	<b>-76 613</b>	<b>-310</b>
Cash and equivalents				
Opening value	1 146 320	4 317	1 848 135	7 477
Closing value	1 963 210	7 393	1 771 522	7 167

### Liquidity position

The value of cash and equivalents held by the Company as of March 31<sup>st</sup> 2006 was HUF 1,963 million, a HUF 817-million increase during the period under review.

### Net operative cash flow

There was a positive cash flow from operations to the value of HUF 836 million. The difference between the two quarters is due to the change in operating capital, which resulted in a negative cash flow of HUF 130 million in 2005 and a positive cash flow of HUF 680 million in 2006. The positive effect on cash flow of interest gain and tax settlements during the first quarter of 2006 (HUF 6 million) was lower than in the base period (HUF 50 million).

### Net cash flow for investments

Utilisation was substantially affected by the fact that short-term investments grew by HUF 98 million during the base period, while the value of this asset group declined during the period under review. In total, the Group utilised as little as HUF 18 million for investment purposes, as compared to the HUF 192 million during the base period.

### Net cash flow from financing

No cash flow was generated by such activities during the period under review.

At the end of 2005, the major part of the loans given by banks to Infinity and Span d.o.o. was redeemed by loans from the parent company.



## Changes in capital and reserves

Thousand HUF falling on the owners of the parent company									
	Called-up Share cap.	Treasury shares	Premium	Share prem account	Other reserves	Exchange reserves	Total	Minority interest	Total capital and reserves
<b>Balance as of December 31, 2004</b>	<b>1 910 926</b>	<b>- 87 600</b>	<b>5 643 179</b>	<b>28 685</b>	<b>- 1 055 876</b>	<b>40 076</b>	<b>6 479 390</b>	<b>177 668</b>	<b>6 657 058</b>
Treasury shares sold		111 300			31 270		142 570		142 570
Treasury shares bought		- 142 570					- 142 570		- 142 570
Exchange difference						3 744	3 744	5	3 739
Dividend payment and adjustment									
Retained profit					81 217		81 217	51 278	29 938
<b>Balance as of March 31, 2005</b>	<b>1 910 926</b>	<b>- 118 870</b>	<b>5 643 179</b>	<b>28 685</b>	<b>- 943 389</b>	<b>43 820</b>	<b>6 564 351</b>	<b>126 385</b>	<b>6 690 736</b>
<b>Balance as of December 31, 2005</b>	<b>1 910 926</b>	<b>- 118 870</b>	<b>5 643 179</b>	<b>28 685</b>	<b>- 528 471</b>	<b>52 966</b>	<b>6 988 415</b>	<b>133 695</b>	<b>7 122 110</b>
Treasury shares sold		142 570			16 430		159 000		159 000
Treasury shares bought		- 159 000					- 159 000		- 159 000
Exchange difference						- 13 396	- 13 396		- 13 396
Dividend payment and adjustment									
Retained profit					20 379		20 379	36 202	15 822
<b>Balance as of March 31, 2006</b>	<b>1 910 926</b>	<b>- 135 300</b>	<b>5 643 179</b>	<b>28 685</b>	<b>- 491 662</b>	<b>39 570</b>	<b>6 995 399</b>	<b>97 493</b>	<b>7 092 892</b>
Thousand EUR falling on the owners of the parent company									
	Called-up Share cap.	Treasury shares	Premium	Share prem account	Other reserves	Exchange reserves	Total	Minority interest	Total capital and reserves
<b>Balance as of December 31, 2004</b>	<b>7 731</b>	<b>- 354</b>	<b>22 830</b>	<b>116</b>	<b>- 4 272</b>	<b>162</b>	<b>26 213</b>	<b>719</b>	<b>26 932</b>
Treasury shares sold		450			127		577		577
Treasury shares bought		- 577					- 577		- 577
Exchange difference						15	15	0	15
Dividend payment and adjustment									
Retained profit					329		329	208	121
<b>Balance as of March 31, 2005</b>	<b>7 731</b>	<b>- 481</b>	<b>22 830</b>	<b>116</b>	<b>- 3 816</b>	<b>177</b>	<b>26 558</b>	<b>511</b>	<b>27 069</b>
<b>Balance as of December 31, 2005</b>	<b>7 196</b>	<b>- 448</b>	<b>21 252</b>	<b>108</b>	<b>- 1 990</b>	<b>199</b>	<b>26 318</b>	<b>503</b>	<b>26 821</b>
Treasury shares sold		537			62		599		599
Treasury shares bought		- 599					- 599		- 599
Exchange difference						- 50	- 50		- 50
Dividend payment and adjustment									
Retained profit					77		77	136	60
<b>Balance as of March 31, 2006</b>	<b>7 196</b>	<b>- 510</b>	<b>21 252</b>	<b>108</b>	<b>- 1 852</b>	<b>149</b>	<b>26 344</b>	<b>367</b>	<b>26 711</b>



## Shareholder structure and company events

Taking into account notifications by shareholders on the basis of their mandatory disclosure obligation, the following table shows the shareholding structure of Synergon Information Systems plc. as of March 31<sup>st</sup> 2006.

Shareholding structure of Synergon Information Systems plc.		
Owner	March 31 2006	March 31 2005
Deutsche Bank (depository)	0.50%	0.49%
Treasury shares	2.77%	2.77%
Davon Kft.	2.93%	4.81%
Curdie Trust Corp.	4.57%	9.94%
RCX Kft.	8.25%	10.00%
Raiffeisen Bank Zrt.	7.13%	0%
Portfolió Kft./Erste	5.14%	0%
Financial investors, below 5 percent of shares each	68.71%	66.68%
<b>Total</b>	<b>100%</b>	<b>100 %</b>

**General meeting** – Synergon Information Systems plc. had no general meeting during the period January 1<sup>st</sup> and March 31<sup>st</sup> 2006.

**Board of Directors** – The following major decisions were made at the meetings of the Board of Directors of Synergon Information Systems plc during the period January 1<sup>st</sup> and March 31<sup>st</sup> 2006: The Board took decisions on the transformation of the management of the Group and of the operating organisation of the Company and established the Group CEO function. It adopted a decision on the convening of Synergon’s ordinary annual General Assembly and approved the report of the Board and the annual reports of Synergon Information Systems plc and the Group. The Board passed a decision on the appointment of Zsolt Tóth dr. as CEO of Synergon Information Systems plc as of April 18<sup>th</sup> 2006.

The Board acknowledged the de-listing of the GDR securities of the Company from the London electronic stock exchange (SEAQ) as from March 1<sup>st</sup> 2006.

**Supervisory Board** – The following major decisions were made at the meetings of the Supervisory Board of Synergon Information Systems plc during the period January 1<sup>st</sup> and March 31<sup>st</sup> 2006: The Supervisory Board approved the convening of Synergon’s ordinary annual General Assembly and the proposals to be submitted to the Assembly.

**Changes in the management** – As of March 3<sup>rd</sup> 2006, Zoltán Radnóty was appointed General Manager of the Synergon Group.

The appointment of Hanus Weisl as the General Manager of Infinity expired as of March 31<sup>st</sup> 2006.

For further information please contact

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