

**FLASH REPORT**



**Financial results of  
Synergon Information Systems plc  
for the 6-month period  
January 1<sup>st</sup> – June 30<sup>th</sup> 2005**

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

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**The results of Synergion Group during the first six months of 2005 met previous expectations. The slow economic growth that had started last year only had a minimal impact on the IT industry. The growth of the IT sector continuously remained below the rate of inflation; the setback in the public administration sector had the greatest impact on market operators. As a result of these facts, the Group generated sales revenue of HUF 8,432 million, 13 percent lower than during the base period. In accordance with the strategic objectives, however, there was a steady increase in terms of the service content of sales (43 percent), which, along with the continued cutback on the cost of sales, resulted in a substantial increase of efficiency. Span in Croatia and Fibex continued their growth, while the deliberate reorganisation of the Czech operating company, Infinity, is progressing to schedule.**

**During the period under review, Synergion entered into a regional system integrator agreement with Huawei Technologies Investment Co. Ltd., one of the fastest-growing network solution providers worldwide.**

The previously forecasted dynamic growth did not begin on Synergion's markets during the first six months of 2005. In Hungary, there was a slight decline of 3 to 4 percent in the large corporate and the institutional sectors, which are considered Synergion's most important markets, whereas sales in the public administration sector decreased considerably. The potential of EU-financed projects still cannot be felt, while the market of small and medium-sized companies has also remained sluggish. Sales are slow also on the Czech market. There was more substantial growth on the Hungarian markets for Fibex and in Slovakia for Infinity and there was a slight increase in Croatia, whereas major projects in the latter country have been stalled in order to see the outcome of the negotiations on EU accession.

During the period under review, Synergion has been successful in making a presence and obtaining good positions on the municipal market, where considerable sales are expected to be generated by the end of the year and in 2006, subject to the applications for EU grants in local government administration. Early during the year, Synergion established a separate organisational unit, the Health and Municipal Division in order to cover that market segment.

Sales continued to be restructured in order to increase the ratio of sales from consulting-type projects of a higher added value. Both the Business Solutions Division, specialising in consulting and SAO Ltd., specialising in system support and operation, achieved steady, high-contribution sales. Network communication activities also continued to perform steadily.

As the combined result of earlier reorganisation efforts, which ensured a high operating efficiency, and the approx. 10-percent expansion of its markets, Fibex managed to maintain the dynamic growth rate of the previous years during the first six months of 2005. Due to the favourable trends on the telecom market, second-quarter plans were exceeded. Expanding of its portfolio, Fibex added new products to its range as a supplier, dealer and distributor of the products of Colorvill Ltd. The performance of Infinity continued to be affected by the structural changes and reorganisation efforts begun last year. Reorganisation, carried out according to schedule, has had the purpose of improving efficiency and the quality of service, boosting sales and integrating Infinity into the Synergion Group. In April 2005, Synergion increased its interest in Infinity to 75.84 percent. (Following the increase of interest in April, Infinity's loss was recorded at 75 percent as of May 1<sup>st</sup> 2005, which makes the comparison with the base more difficult.) The organisational changes and the internal improvement of business that had begun at Span in 2004 resulted in increased sales and the redistribution of sales revenues. The overwhelming majority of its new projects have been based on service or support activities; consequently, of all operating companies, Span had the highest service ratio (61 percent) within its sales.

During the remaining part of the year, deliberate internal reorganisation and the internal technical and organisational integration will continue within the Group.



## ANALYSIS OF THE 2005 RESULTS OF THE SYNERGON GROUP JANUARY - JUNE

Comparing the six-month period ending June 30<sup>th</sup> 2005 with the same period of 2004

The 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 in the profit and loss account are, respectively, HUF 246.65 and HUF 257.73 per 1 Euro for the first six months of 2005 and the same period of 2004. The closing exchange rates applied for the balance sheet items are HUF 253.23 and HUF 247.36 per 1 Euro for June 30<sup>th</sup> 2004 and June 30<sup>th</sup> 2005, respectively.

For the period under review, Synergon plc posted other revenues separated from net sales, since consolidated sales would significantly affect the service content of the item. Among other items, other revenues include the recovery of the remaining part (HUF 372 million) of the provisions previously made concerning a tax authority procedure. The tax authority instructed Synergon plc to pay an amount of HUF 29 million, including the outstanding VAT and corporate tax liabilities, late charges and penalties.

### Group results

Profit and loss account	6-month period ending June 30					
	2005		2004		Change, %	
	thsd. HUF	thsd. EUR	thsd. HUF	thsd. EUR	HUF basis	EUR basis
<b>Net sales</b>	<b>8 431 584</b>	<b>34 185</b>	<b>9 729 486</b>	<b>37 751</b>	<b>-13%</b>	<b>-9%</b>
Other revenues	<b>513 253</b>	<b>2 081</b>	<b>182 291</b>	<b>707</b>	<b>182%</b>	<b>194%</b>
Of which services (%)	43%		38%			
<b>Of which products (%)</b>	57%		62%			
Cost of sales	<b>-6 507 849</b>	<b>-26 385</b>	<b>-7 670 405</b>	<b>-29 761</b>	<b>-15%</b>	<b>-11%</b>
<b>In % of sales</b>	77%		79%			
Contribution	<b>2 436 987</b>	<b>9 881</b>	<b>2 241 372</b>	<b>8 697</b>	<b>9%</b>	<b>14%</b>
<b>Contribution margin (%)</b>	23%		21%			
<b>Operating expenses</b>	<b>-2 199 439</b>	<b>-8 917</b>	<b>-2 288 011</b>	<b>-8 878</b>	<b>-4%</b>	<b>0%</b>
EBITDA	<b>503 011</b>	<b>2 039</b>	<b>351 473</b>	<b>1 364</b>	<b>43%</b>	<b>50%</b>
<b>EBITDA margin (%)</b>	6%		4%			
Operating profit	<b>237 549</b>	<b>963</b>	<b>-46 639</b>	<b>-181</b>	<b>na</b>	<b>na</b>
<b>Operating margin (%)</b>	3%		0%			
Net financial income	31 767	129	51 677	201	-39%	-36%
Extraordinary items	3 933	16	6 277	24	-37%	-35%
Profit before tax	273 249	1 108	11 315	44	na	na
Corporate tax	-16 385	-66	-6 299	-24	160%	172%
<b>Minority interest</b>	55 996	227	9 075	35	na	na
Net profit	<b>312 860</b>	<b>1 268</b>	<b>14 092</b>	<b>55</b>	<b>na</b>	<b>na</b>

#### Net sales

During the first six months of 2005, Synergon Information Systems plc, including the consolidated operating companies, achieved a sales revenue of HUF 8,431 million, which, calculated on HUF basis, is 13 percent lower than that of the base period. Within the Group, Fibex achieved the highest increase of its sales (45 percent), with Span achieving a similarly high growth rate of 36 percent, while the sales levels of Synergon/SAO and of

Infinity dropped compared to the base period. In addition to its sales revenues, Synergon plc recognized other revenues (HUF 513 million) during the period under review, including, among other items, the recovery of part (HUF 372 million) of the provisions previously made concerning a tax authority procedure. The tax authority instructed Synergon plc to pay an amount of HUF 29 million, including the outstanding VAT and corporate tax liabilities, late charges and penalties.



In the sector-by-sector breakdown of the sales of the Synergion Group, the telecommunications and the financial sectors accounted for 16 percent and 17 percent respectively, industrial companies and the public utilities and transport industries represented an overall 27 percent, whereas the public sector accounted for 13 percent during the period under review. Other, unclassified sales represented 27 percent. In comparison with the base period, there was a decrease in the share of the public administration sector.

During the first six months of 2005, the service content of sales increased by 5 percent compared to the 38 percent achieved during the first six months of 2004. Service-generated sales have continued to increase steadily for Synergion's Hungarian operations. The service content of Span increased by 7 percent while that of Infinity dropped to 34 percent. Due to the fact that product sales account for the majority of the sales of Fibex, its service content ratio does not have a substantial effect on this indicator.

#### **Cost of sales**

The cost of sales consists mainly of products sold, basic materials, payments to contractors and direct labour costs. The rate of the decrease of cost of sales (15 percent) was higher than that of net sales in the comparison of the first six months of 2004 (HUF 7,670 million) and 2005 (HUF 6,508 million). Cost of sales corresponded to 77 percent of sales, which is a slight decrease compared to the base period.

#### **Contribution**

Contribution amounted to 23 percent of the Group's net sales during the period under review; the reduction of the cost of sales resulted in the

improvement of this indicator compared to the level of the first six months of 2004.

The level of contribution on a Group basis was improved by the fact that the sales structure of Synergion plc had a steadily increasing service content, as well as by the outstanding rate of increase of the contribution of Span. Due to their relatively low weight in the overall sales, however, they were unable to counterbalance the reducing contribution of Infinity.

#### **Operating expenses**

There was a significant (4-percent) decline in the level of operating expenses. During the first six months of 2005, this cost item amounted to HUF 2,199 million as the result of increasing cost-efficiency and the reduced staff level. The Group managed to cut back on operating expenses in all other categories.

#### **Net financial income**

Net financial income amounted to HUF 32 million in the first six months of 2005, generating an income 39 percent lower than that of the same period of the previous year (HUF 52 million). This reduction was due to Synergion's net exchange loss and the reduced amount of revenue interest.

#### **Extraordinary items**

During the period under review, the Group posted an extraordinary profit of HUF 4 million compared to the extraordinary profit of HUF 6 million in the base year.

#### **Net profit**

In the first six months of 2005, the Synergion Group achieved a net profit of HUF 313 million.



### Staff level

According to the following table, showing the average staff levels of the Synergon Group, staff levels continued to decrease during the period under review with the exception of Fibex and Span, where both the average and the closing headcounts grew.

The Group's average staff level as of June 30<sup>th</sup> 2005 and June 30<sup>th</sup> 2004 were 540 and 569 respectively.

Average staff numbers	Average, 2005 Q2	Average, 2004 Q2	Change, %
Synergon plc. & SAO	334	338	-1%
Fibex	20	17	18%
Infinity	132	163	-19%
Span	54	51	6%
Total	540	569	-5%

### 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.

Operating companies	6-month period ending June 30							
	2005		%	2004		%	Change, %	
	thousand HUF	thousand EUR		thousand HUF	thousand EUR		HUF	EUR
<b>Net sales &amp; other revenues</b>	<b>8 944 836</b>	<b>36 266</b>	100%	<b>9 911 777</b>	<b>38 458</b>	100%	<b>-10%</b>	<b>-6%</b>
Synergon plc. & SAO	6 081 660	24 658	68%	7 238 608	28 086	73%	-16%	-12%
Fibex	681 842	2 764	8%	469 191	1 820	5%	45%	52%
Infinity	1 653 528	6 704	18%	1 952 924	7 577	20%	-15%	-12%
Span	853 878	3 462	10%	626 883	2 432	6%	36%	42%
Consolidation	-326 071	-1 322	-4%	-375 829	-1 458	-4%	-13%	-9%

### The distribution of income

The sales of Synergon/SAO accounted for 68 percent of the sales of the Synergon Group, while the operating companies generated the remaining part. There is a slight change and some realignment in terms of the sales ratio of the operating companies in the comparison of the various periods. Within the Group, the weight of the dynamically growing Span

and Fibex increased steadily against the slight reduction of Synergon and Infinity.

The performance of SAO-Synergon Ltd. 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 plc transferred all of its outsourcing and operating-related functions to SAO.



### Synergon plc

While Synergon 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 plc and for further details relating to the company (in

Hungarian and English), please see the company's web sites 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 (in Hungarian), please see the company's web site at [www.synergon.hu](http://www.synergon.hu)

Synergon plc. & SAO	2005		2004		Change, %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	HUF	EUR
<b>Net sales</b>	<b>5 565 399</b>	<b>22 564</b>	<b>7 039 852</b>	<b>27 315</b>	<b>-21%</b>	<b>-17%</b>
Other revenues	516 261	2 093	198 756	771	160%	171%
Of which services (%)	45%		35%			
<b>Of which products (%)</b>	55%		65%			
Cost of sales	- 4 083 069	- 16 554	- 5 578 818	- 21 646	-27%	-24%
<b>In % of sales</b>	73%		79%			
Contribution	1 998 591	8 103	1 659 790	6 440	20%	26%
Contribution margin (%)	27%		21%			
<b>Operating expenses</b>	- 1 654 419	- 6 708	- 1 680 538	- 6 521	-2%	3%
EBITDA	513 673	2 083	193 664	751	165%	177%
<b>EBITDA margin (%)</b>	9%		3%			
Operating profit	344 172	1 395	- 20 748	81	na	na
Operating margin (%)	6%		0%			

\*non-consolidated

### Operational environment

The slow economic growth starting in 2004 had a minimal impact on the IT industry. The growth rate of the IT market continues to lag behind the rate of inflation. During the first six months of 2005, there was considerable change in terms of both the size of Synergon's markets and the structure of their spending.

The state administration market continued to decline. The structure of the spending 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 projects impossible. The projects are being awarded through new procedures and by new decision-makers; therefore, 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 state administration sector at top management level. In addition, the ratio

of sales generated in the business sectors has been steadily increased.

With an election year coming up, no substantial growth is expected on the state administration market.

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 to be generated by the end of the year and in 2006, subject to the applications for EU grants in local government administration. Early during the year, Synergon established a separate organisational unit, the Health and Municipal Division in order to cover that market segment.

The insurance and financial markets have remained strong segments in Synergon's portfolio. Synergon's professional reputation has continued to grow while its market position has been reinforced. Banks continue to strengthen their position, mainly by further expanding their network of branch offices, which in turn requires considerable IT investments. Demand has steadily shifted toward application systems (back office – front office). Along with the



development of private 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. During the period under review, SynergON has reinforced its position on the market through a number of successful projects.

Further alternative service providers have entered the telecom market, while Magyar Telekom has continued to diversify into data and information services. An effort has also been made on the market in order to end the monopoly of Magyar Telekom. The most significant trends on the mobile service market have been 3G projects and non-voice transmission-oriented services.

The previously dynamic rate of the development of the market has halted, while IT spending has become increasingly restrained and discriminating. There were fewer major projects. While investments into maintenance and operation continued, there was a shift toward projects of increased added value. The application and software segments continued to grow.

SynergON managed to adapt to the changed market environment and to keep its strong positions.

With customers in industry and services being so sensitive to the changes of the economy, they have been affected by the uncertainties in public administration. The acknowledgement and acceptance of IT systems as a means of production has resulted in a prolonged decision-making cycle.

There are a high number of customers and therefore strong competition in these segments. SynergON has obtained a powerful position as a supplier of infrastructure. 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. There emerged a demand for complex, operation-type projects during the period under review. During the period under review, SynergON managed to meet its targets on this market.

Noticeable growth has started on the market of retail businesses. Their most important priority has been to integrate existing cash register systems with their financial management and sales systems. This

represents a very serious market potential, offering good opportunities for SynergON. During the first quarter, SynergON developed its new strategy for this market, which is currently being introduced with powerful marketing support. Apart from its Hungarian customers, SynergON's Retail Division has managed to expand its operations to include the wider Central European region during the period under review.

### Results

During the first six months of 2005, the sales of SynergON plc and SAO Ltd. (HUF 5,565 million) dropped by 21 percent as compared to the same period of 2004 (HUF 7,039 million).

The service content of the company grew substantially (by 10 percent) to 45 percent compared to the 35 percent achieved in the base period. The rate of the reduction of operating expenses (27 percent) was higher than that of the sales revenue, which indicates a continuous improvement of the efficiency of operation. Net contribution increased steadily due to the increased cost efficiency.

During the first six months of 2005, SynergON generated an operating profit of HUF 344 million, while the EBITDA indicator was HUF 513 million during the period.

### Business units

During the first six months of 2005, network communication continued to deliver a strong seasonal performance, accounting for the major part of the sales and the contribution of the Company. There was a strong decline in the public administration sector, with hardly any invitations for tenders during the period. Due to the delay of the publication of the network guidelines, alternative devices and equipment were used. The telecom sector has generated the envisaged sales at a strong if slightly declining level of contribution.

The financial market has continued to grow; at various customers (CIB, Erste, Raiffeisen), IP telephony solutions reached the implementation or operation phases, generating a smaller level of sales at higher contribution. The outsourcing trend in the banking sector has also generated considerable demand for equipment (Erste outsourcing).

Based on the regional system integrator agreement with Huawei Co. Ltd., the Division started successful operation in various regional markets



outside Hungary (ADSL supply to Magyar Telecom).

At the beginning of 2005, the former Software Division was renamed Business Solutions Division, which is an indication of the expansion of its scope of activities. In order to increase the value of the areas traditionally covered by the Software Division, Business Consulting has been integrated into the Division. Essential organisational changes were made during the first three months. In accordance with the value chain-based model, technological fields were consolidated and the various consulting areas integrated with the associated technological solutions. Efforts have been made in order to promote consulting culture and to develop the strategy to increase the sales of value-added services.

The market remained slack during the period under review. Few significant projects were carried out in public administration, with both the number and volume of the actual projects lagging behind earlier estimates. There was considerable delay in the scheduling of projects in the implementation phase during both the second quarter and the entire six-month period.

There was no noticeable change in the telecom and the financial markets; the Division met its targets, while it also consolidated its position on the market. Through the steady volume of orders generated in the industrial and service sectors, particularly in services, the Division managed to increase the share of its sales at a substantial rate. The outlook is promising for the Division for the remaining part of the year, in particular as far as large service providers are concerned.

Plans were met and the Division's efficiency increased during the first part of the year.

Testing of the new version of the Phoenix e-learning framework system is currently in progress. Sales of the product are envisaged to begin by the end of the 3<sup>rd</sup> quarter. Following a long planning process, the Division began the development of a non-platform-specific filing system, to be compatible with each of the supported platforms. The product is intended to be sold throughout the region.

As far as hardware devices are concerned, the market environment during the period under review was sluggish compared to both previous years and expectations. Infrastructure projects stalled in the

public administration sector and, while EU projects finally started at the end of the six-month period, these will only begin to generate results during the second half of the year. There is an overall effort towards cost-efficiency in the telecom industry; in the lack of major projects, there was a decline compared to the base year in both industry and services. Healthy market trends and a slight growth characterised the financial market.

Despite the unfavourable market environment, the Division managed to increase its contribution and improve the contribution to sales ratio compared to the base, due mainly to the first quarter completion of major projects carried forward from the previous year. The Hardware Division was also able to increase the share of calculable and recurring service revenues at a substantial rate through operation and support agreements. Division sales are expected to further improve during the second half of the year due to the start of public procurement in government administration and the initiation of various delayed purchases.

During the remaining part of the year, the Division will increasingly focus on the SME sector and the more efficient use of its regional market potential on the services market.

In the business management market, the restructuring of the market continued during the first half of 2005. The overall market environment was sluggish and declining throughout the period. Even the noticeable growth of the SME market was insufficient to make up for the radical decline in terms of the number and volume of implementation projects in public administration. That market requires a special approach, as SMEs tend to rely on GVOP grants in order to carry out their projects. The slight growth commencing in the second quarter will probably peak during quarter 3. Among its other achievements, the Division has been contracted by Fairtool for the largest Central European SAP BusinessOne implementation project. This project will be completed during the second half of the year. While the SAP market of large enterprises is practically saturated, the Division continues to hold firm positions in the telecom and financial markets. Its major customers include Erste Bank, the NHH and the Paks Nuclear Power Plant.

Proprietary know-how is used for SAP product development in progress in two areas. Considerable demand is expected for the SynergON SAP Business



One-based funeral module and the Synergon Retail System – SAP Business One solution. Both products have been launched on the market, business results are expected later in 2005 and in 2006.

Following Hungary's EU accession, EU grants in support of various IT projects have become accessible to municipal governments. Synergon was one of the first entrants to this new market with few operators, also being the first to offer the management, in co-operation with the GKI, of EU tenders and the provision of complex IT solutions to micro-region local governments.

In order to provide efficient services in this field, Synergon organised its relevant activities into a separate organisational unit, the Health and Municipal Division, in January 2005.

Following a successful marketing campaign primarily targeting micro-regions, Synergon emerged as a powerful operator and obtained a strong position on the market during the period.

Substantial revenue is expected to be generated during the second part of 2005 and in the forthcoming year.

On the health IT market, Synergon has offered its proprietary Inforend product, which has a number of successful references and considerable professional recognition on a market struggling with a serious shortage of finance. The product, suitable for the integrated management of the professional medical and financial activities, was successfully upgraded during the past six months

into a complex solution package equally capable of handling hardware, software, network, operational and consulting functions. Synergon stands a fair chance with its HEFOP 4.4 tender for IT developments between and within institutions, to be assessed during the 3<sup>rd</sup> quarter.

System support and operation activities have ensured a steadily calculable, high-contribution source of income for SAO-Synergon Ltd. During the first six months of 2005, it operated under long-term contracts and had steady, calculable business. While the previously forecast boom of the outsourcing market has not yet begun, small and medium-sized companies are increasingly aware of the importance and the benefits of IT outsourcing. During the second half of the year, increased focus will be directed to the more efficient use of that potential. On the financial institutions market, the outsourcing of non-core activities has continued (Erste service agreement). Under a former regional agreement with Atos Origin, SAO Ltd. has successfully participated in various tenders in the region. Work on the Group's regional helpdesk system, led by SAO Ltd. will soon be completed.

The Hungarian Outsourcing Association (HOA) was established during the period, SAO being one of the founding members.



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

Fibex Ltd.	2005		2004		Change, %	
	thsd. HUF	thsd. EUR	thsd. HUF	thsd. EUR	HUF	EUR
<b>Net sales</b>	<b>677 282</b>	<b>2 746</b>	<b>468 314</b>	<b>1 817</b>	<b>45%</b>	<b>51%</b>
Other revenues	<b>4 560</b>	<b>18</b>	<b>877</b>	<b>3</b>	<b>420%</b>	<b>443%</b>
Of which services (%)	1%		0%			
<b>Of which products (%)</b>	99%		100%			
Cost of sales	- <b>577 772</b>	- <b>2 343</b>	- <b>398 806</b>	- <b>1 547</b>	<b>45%</b>	<b>51%</b>
<b>In % of sales</b>	85%		85%			
Contribution	<b>104 070</b>	<b>422</b>	<b>70 385</b>	<b>273</b>	<b>48%</b>	<b>55%</b>
Contribution margin (%)	15%		15%			
<b>Operating expenses</b>	- 54 848	- 222	- 43 298	- 168	27%	32%
EBITDA	<b>54 601</b>	<b>221</b>	<b>33 428</b>	<b>130</b>	<b>63%</b>	<b>71%</b>
<b>EBITDA margin (%)</b>	8%		7%			
Operating profit	<b>49 223</b>	<b>200</b>	<b>27 087</b>	<b>105</b>	<b>82%</b>	<b>90%</b>
Operating margin (%)	7%		6%			

During the first six months of 2005, Fibex continued to grow at last year's dynamic rate. This was the collective result of the previously restructured organisation, ensuring a high level of efficiency of the operation, the increase of its share on existing markets and the approx. 10-percent market growth starting this year. It was able to increase its sales mainly with its existing major customers.

The major part of the sales of Fibex has originated from traditional telecom businesses and IT companies. Due to the favourable trends on the telecom market, second-quarter plans were exceeded.

Expanding its portfolio, Fibex added new products to its range as a supplier, dealer and distributor of the products of Colorvill Ltd.

As part of the Synergon Group, Fibex also started to engage in international operations. Early February,

an agency was set up with the co-operation of Span in Croatia in order to engage in a regional marketing activity. Under the agreement between the Synergon Group and the Huawei company, Fibex successfully launched the products of the Chinese company, which is to be continued in the future on a regional level.

During the first six months of 2005, sales increased by 45 percent to HUF 677 million as compared to that of HUF 468 million during the base period, while cost of sales grew at the same rate of 45 percent. There was also substantial increase in terms of contribution (48 percent) and operating profit (82 percent). While its contribution margin is below the Group average, it has a low level of service revenues, since the major part of its sales are generated by product distribution.

### Infinity a.s.

Infinity a.s. is the Czech operating company of the Synergon Group, in the majority ownership of Synergon. In May 2005, Synergon plc increased its interest in Infinity from 66.7 to 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 web site at [www.infinity.cz](http://www.infinity.cz).



Infinity	6-month period ending June 30					
	2005		2004		Change, %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	HUF	EUR
<b>Net sales</b>	<b>1 641 117</b>	<b>6 654</b>	<b>1 944 393</b>	<b>7 544</b>	<b>-16%</b>	<b>-12%</b>
Other revenues	12 410	50	8 530	33	45%	52%
Of which services (%)	34%		48%			
<b>Of which products (%)</b>	<b>66%</b>		<b>52%</b>			
Cost of sales	- 1 373 739	- 5 570	- 1 446 693	- 5 613	-5%	-1%
<b>In % of sales</b>	<b>84%</b>		<b>74%</b>			
Contribution	279 789	1 134	506 230	1 964	-45%	-42%
Contribution margin (%)	16%		26%			
<b>Operating expenses</b>	- 460 907	- 1 869	- 462 022	- 1 793	0%	4%
EBITDA	- 116 348	- 472	143 420	556	na	na
<b>EBITDA margin (%)</b>	<b>-7%</b>		<b>7%</b>			
Operating profit	- 181 118	- 734	44 208	172	na	na
Operating margin (%)	-11%		2%			

Figures include minority interest

During the period under review, Infinity actively continued to introduce the structural changes started last year. Reorganisation has had the purpose of improving efficiency and the quality of service, increasing the flexibility and the size of the organisation, cutting back on costs and integrating Infinity into the Synergon Group. While performance was affected by these events, Infinity's negative result is within the targeted range; profitable operation is expected to be restored by the end of the year. For this purpose, the company's technical organisation was realigned into a competency centre-based structure, while the portfolio was also trimmed back substantially. The results of the restructuring are expected to be felt from the second half of the year.

Effective from March 1<sup>st</sup>, former Sales Manager Hanus Weisl was appointed the CEO of Infinity.

The Czech IT market is one of the most advanced in Central Europe. There is a high proportion of IT expenditure and further developments are expected, despite the earlier setback, particularly in the government sector. Demand has been shifting

steadily toward services from products and infrastructure devices. In the first six months of 2005, Infinity's sales dropped by 16 percent in comparison with the same period of 2004. The cost of sales diminished at a lower rate of 5 percent. This was due to the non-recurring costs associated with the reorganisation and the delay in the completion of a number of projects, which had the result that while costs accrued during the first half of the year, these projects will only generate income during later in the year. During the period under review, while Infinity made a loss, operating at decreasing levels of contribution and contribution margin (16 percent), its results were better than expected.

The Slovakian market, where the company has a representative office, is another important market to be exploited by Infinity. Because of the fast growth of the Slovakian economy and the underdeveloped state of IT supply, this country has outstanding potential for the company and the Synergon Group as a whole.



### 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 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 web site at [www.span.hr](http://www.span.hr)

Span	6-month period ending June 30					
	2005		2004		Change, %	
	thsd. HUF	thsd. EUR	thsd. HUF	thsd. EUR	HUF	EUR
Net sales	853 878	3 462	626 883	2 432	36%	42%
Other revenues	-	-	0	0	0%	0%
Of which services (%)	61%		54%			
<b>Of which products (%)</b>	39%		46%			
Cost of sales	- 703 063	- 2 851	- 543 244	- 2 108	29%	35%
<b>In % of sales</b>	82%		87%			
Contribution	150 815	611	83 638	325	80%	88%
Contribution margin (%)	18%		13%			
<b>Operating expenses</b>	- 125 543	- 509	- 125 386	- 487	0%	5%
EBITDA	51 085	207	13 193	51	na	na
<b>EBITDA margin (%)</b>	6%		-2%			
Operating profit	25 272	102	41 747	162	na	na
Operating margin (%)	3%		-7%			

Figures include minority interest

The positive effects of the organisational development started in 2004, which resulted in the separation of the technical and financial management functions, as well as those of the internal technical investments showed in the results of the first six months of 2005. The integration of Span's technical and sales organisation into the Synergon Group continued during the period.

In the period under review, there was steady if moderate growth on the Croatian IT market, with a perceivable increase of orders in both the government and the business sectors. The growth of the telecom market continued to be determined by deregulation in the network and telecommunication fields. It is expected that the market will continue to grow during the second half of the year. During the

first six months of 2005, sales (HUF 854 million) increased by 36 percent compared to the same period of 2004 (HUF 627 million). The service content of sales was 61 percent during the period, steadily growing in comparison with the previous period and the previous years. Of the operating companies of the Group, Span thus had the highest ratio of services within its sales. The overwhelming majority of new projects also continues to be based on service or support activities. The cost of sales grew at a rate (29 percent) lower than sales, while contribution also increased at an outstanding 80-percent rate in the comparison of the first six months of 2005 and 2004. As a result, Span closed the period under review with a positive operating profit of HUF 25.3 million.



## Analysis of the balance sheet and liquidity position as of June 30<sup>th</sup> 2005

Balance sheet	June 30, 2005		June 30, 2004		Change, %	
	thsd. HUF	thsd. EUR	thsd. HUF	thsd. EUR	HUF basis	EUR basis
<b>Assets</b>						
<b>Non-current assets</b>	<b>2 711 047</b>	<b>10 960</b>	<b>2 859 112</b>	<b>11 291</b>	-5%	-3%
Fixed assets	2 112 173	8 539	2 200 581	8 690	-4%	-2%
Intangible assets	551 127	2 228	604 268	2 386	-9%	-7%
Investments	47 746	193	54 263	214	-12%	-10%
<b>Current assets</b>	<b>7 656 082</b>	<b>30 951</b>	<b>7 828 299</b>	<b>30 914</b>	-2%	0%
Inventories	924 102	3 736	1 000 345	3 950	-8%	-5%
Accounts receivable	3 875 374	15 667	4 810 243	18 996	-19%	-18%
Cash and equivalents	2 054 347	8 305	1 345 429	5 313	53%	56%
Other current assets	802 259	3 243	672 281	2 655	19%	22%
<b>Total assets</b>	<b>10 367 129</b>	<b>41 911</b>	<b>10 687 411</b>	<b>42 204</b>	<b>-3%</b>	<b>-1%</b>
<b>Liabilities</b>						
<b>Shareholders' equity</b>	<b>6 791 752</b>	<b>27 457</b>	<b>6 442 705</b>	<b>25 442</b>	5%	8%
Share capital	1 910 926	7 725	1 910 927	7 546	0%	2%
Capital reserves	5 592 564	22 609	5 805 423	22 925	-4%	-1%
Profit reserves + Retained profit of the year	-711 738	-2 877	-1 273 645	-5 030	-44%	-43%
<b>Short-term liabilities</b>	<b>3 453 479</b>	<b>13 961</b>	<b>4 115 090</b>	<b>16 250</b>	-16%	-14%
Accounts payable	1 874 118	7 576	2 218 293	8 760	-16%	-14%
Other short-term liabilities	1 579 361	6 385	1 896 797	7 490	-17%	-15%
<b>Long-term liabilities</b>	<b>15 633</b>	<b>63</b>	<b>43 384</b>	<b>171</b>	-64%	-63%
<b>Minority interest</b>	<b>106 265</b>	<b>430</b>	<b>86 231</b>	<b>341</b>	23%	26%
<b>Total liabilities</b>	<b>10 367 129</b>	<b>41 911</b>	<b>10 687 411</b>	<b>42 204</b>	<b>-3%</b>	<b>-1%</b>

The Company's balance sheet total as of June 30<sup>th</sup> 2005 (HUF 10,367 million) was, on a HUF basis, 3 percent lower than the closing value of the same period of the previous year and, since there was a significant change in the HUF/EUR exchange rate, on an EUR basis there was only a 1 percent decrease.



## Assets

### Fixed assets

The net value of fixed assets decreased by 4 percent (by HUF 88 million). The reduction was the result of the infrastructure and IT investments carried out by the Group and of the difference of amortization recorded.

### Intangible assets

The value of intangible assets recorded in the Group's consolidated balance sheet decreased by 9 percent (by HUF 53 million). The difference was primarily the result of last year's goodwill (recognized at the end of the year) for the subsidiaries.

### Investments

A HUF 7-million decrease in the value of investments was the result of the consolidation of BrnoData, acquired by Infinity and the reduction of the value of long-term loans given.

### Inventories

The value of inventories decreased by HUF 76 million. The change was the result of well-balanced inventory management.

### Accounts receivable

Eliminating transactions within the Group, the value of accounts receivable decreased for each operating company, except Fibex, at the overall rate of 19 percent (HUF 935 million). This was due mainly to the more even distribution of invoicing spread out during the quarter.

### Cash and equivalents

At the end of the reporting period, the value of cash and equivalents was HUF 2,054 million, the major part of which (over HUF 1,600 million)

was recorded in the books of the parent company. The 53-percent growth was the result of the fact that the value of new asset purchases remained under the level of amortization recognised, the invoicing was evenly distributed and customers paid up on time.

## Liabilities and shareholders' equity

### Shareholders' equity

Reserves under shareholders' equity dropped by HUF 213 million, HUF 162 of which was the result of the tax authority decision. The profit reserve decreased mainly due to dividends paid, while the retained profit of the year and the elimination of the badwill of SAO Ltd. increased the profit reserve as compared to the base year.

### Short-term liabilities

The value of short-term liabilities (HUF 3,453 million) was 16 percent lower than the closing value of the base period, due primarily to the reduction of the accounts payable recorded in the books of SynergON plc and Infinity. On a Group basis, it represents a reduction of HUF 344 million (16 percent) for the balance sheet item in question.

### Long-term liabilities

The change of the value of loans at the subsidiaries continued to reduce the long-term liabilities (by 64 percent).

### Minority interest

The growth of minority interest was the result of the negative value of Infinity's retained profit of the year.



Cash flow	6-month period ending June 30			
	2005		2004	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR
<b>Operating profit after taxation</b>	<b>281 093</b>	<b>1 140</b>	<b>-37 585</b>	<b>-146</b>
Depreciation and amortization	265 463	1 076	398 112	1 545
Change in payables	-2 077 326	-8 422	-3 506 240	-13 604
Change in accruals	575	2	-678	-3
Change in inventories	-75 140	-305	71 603	278
Change in receivables	2 305 792	9 349	2 690 865	10 441
Change in provisions	-417 813	-1 694	-107 535	-417
<b>Cash flow from operations</b>	<b>282 643</b>	<b>1 146</b>	<b>-491 458</b>	<b>-1 907</b>
Net financial result	31 767	129	51 677	201
<b>Cash flow from financing activities</b>	<b>314 410</b>	<b>1 275</b>	<b>-439 781</b>	<b>-1 706</b>
Change in assets	-201 008	-815	-246 087	-955
Change in investments	-161 318	-654	38 357	149
<b>Cash flow from investing</b>	<b>-362 327</b>	<b>-1 469</b>	<b>-207 729</b>	<b>-806</b>
Net change in loans	-157 011	-637	11 086	43
Change in share capital	137 694	558	-1	0
Eliminating minority interest	-71 404	-289	-28 946	-112
<b>Cash flow from financing</b>	<b>-90 720</b>	<b>-368</b>	<b>-17 861</b>	<b>-69</b>
Net change in cash	-138 637	-562	-665 370	-2 582
Opening cash position	2 192 984	8 891	2 010 800	7 802
Closing cash position	2 054 347	8 329	1 345 429	5 220
<b>Change in cash</b>	<b>-138 636</b>	<b>-562</b>	<b>-665 370</b>	<b>-2 582</b>

### Liquidity position

The value of cash and equivalents held by the Company as of June 30<sup>th</sup> 2005 was HUF 2,054 million. The Company had a continuously sound liquidity position during the period under review. The stability of Synergon's cash and equivalents ensured steady operation for the Group.

### Cash flow from operations

Operations generated a positive cash flow of HUF 283 million, due primarily to the changes in accounts payable, accounts receivable and inventories, as described under the analysis of the balance sheet, and to the favourable change of the operating profit, adjusted for depreciation and tax.

### Net operating cash flow

There was a positive financial result of HUF 32 million and therefore the closing value of net

operating cash flow at the end of the period was HUF 314 million.

### Cash flow from investment

The change in the value of the Group's investments during the period amounted to HUF 362 million, *i.e.* investments grew at a lower rate than the depreciation recognised for the period.

### Net cash flow from financial operations

The value of the Net cash flow from financial operations (HUF 91 million) was chiefly affected by the recording of minority interest, the elimination of the badwill of SAO Ltd. and the payment of dividend. As a result, liquid cash assets decreased by HUF 139 million as compared to June 30<sup>th</sup> 2004.



## 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 June 30<sup>th</sup> 2005.

Shareholding structure of Synergon plc		
Shareholder's name	June 30th 2005	December 31st 2004
Deutsche Bank (depository)	0.49%	0.55%
Treasury shares	2.77%	2.77%
Davon Kft.	4.50%	5.03%
Berenberg Global Opportunity-Magyar Budapest Fund	5.31%	5.31%
Curdie Trust Corp.	9.94%	9.94%
RCX Kft.	10.00%	10.00%
Financial investors, below 5 percent of shares each	66.99%	66.04%
<b>Total</b>	<b>100%</b>	<b>100.0%</b>

**General Assembly** – On April 29<sup>th</sup> 2005, the ordinary annual General Assembly of Synergon plc approved the report of the Board of Directors and Synergon's Annual Report. Members of the Board of Directors and the Supervisory Board were elected by vote. Ernst & Young Könyvvizsgáló Kft. was appointed Auditor of the Company.

**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 June 30<sup>th</sup> 2005: The Board amended its rules of procedure, adopted the rules of procedure of the Regional Management Board, also appointing the members of the latter. 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 plc and of the Group. Synergon's Board of Directors acknowledged the decision of the Key Client

Directorate of the tax authority finally closing the audit of previous years.

In May 2005, Synergon increased its interest in Infinity from 66.7 to 75.8 percent.

In April 2005, Synergon Information Systems plc entered into a regional system integrator agreement with Huawei Technologies Co. Ltd.

The Board approved the amended text of the Rules of the Company's Organisation and Operation.

**Supervisory Board** – The following major decisions were made at the meetings of the Supervisory Board of Synergon Information Systems plc between January 1<sup>st</sup> and June 30<sup>th</sup> 2005: 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** – Effective March 1<sup>st</sup> 2005, Hanus Weisl was appointed CEO of Infinity.

For further information please contact

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