

**FLASH REPORT**



**Financial results of  
Synergón Information Systems plc.  
for the nine-month period  
January 1<sup>st</sup> - September 30<sup>th</sup> 2005**  
Unaudited, consolidated data collated in  
accordance with the International Financial  
Reporting Standards

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**Apart from the effects of unfavourable market trends, the results of the Synergon Group during the first nine months of 2005 also reflect the positive changes of the Company's sales structure. The decline in the volume of sales is an indication of the fact that the government administration sector has postponed a substantial part of its planned IT purchases, creating a difficult situation for all the operators concerned on the Hungarian information technology market. At the same time, the composition of sales was considerably better than during the previous year: service content approached 50 percent, which is also reflected in a slight increase of the contribution margin. The Company closed the first nine months with a moderate net profit of HUF 138 million.**

The sales of the Synergon Group during the first nine months of 2005 amounted to app. HUF 12.4 billion, 8 percent lower than in the previous year. The decline was mainly due to the lack of orders from the government administration sector: on the threshold of an election year, there has traditionally been a drop in terms of the volume of not-so-impressive IT investments; that effect has currently been reinforced by the government's financial policy attempting to sustain a balance in the budget, which seeks to cut back on institutional funding that does not directly affect the people. Meanwhile, there has been no significant positive effect of the EU grant opportunities.

As a positive development, however, the shortfall compared to the previous year diminished substantially during the third quarter: at the end of June, the level of sales was still 13 percent lower compared to the base period. The lack of government purchases was partly counterbalanced by outstanding performance primarily in the industry, services and financial sectors. The composition of contracts has also improved: service content now amounts to nearly half the overall contracted value. As a result of the above factors and the ongoing efficiency-improving measures, the contribution margin increased to 22 percent.

Of the operating companies, Span and Fibex performed remarkably, achieving a growth in net sales of 43 and 39 percent respectively compared to the previous year. At Infinity, the impact of the substantial ongoing reorganisation efforts has gradually been felt; for the first time after a long gap, the company achieved a profit during the third quarter. Despite that fact and the expected high level of sales during the remaining three months of the year, Infinity may still have made a loss on a 12-month basis.

Synergon/SAO still secures the two-thirds of the Group's sales revenue. High-contribution system support and operation activities of SAO exceeded its plans and base year data as well. The Business Solutions Division is expected to deliver to plan both during the first nine months and on a full-year basis. Following a powerful first six months, Network Communications continued to perform well and, while not managing to quite live up to the plans due to the lack of implementation of investments in the administration sector, it still generated a substantial part of the Company's sales and contribution. Following the regional system integrator agreement with Huawei Co. Ltd., the Division started the exploration of business opportunities in other countries of the region, while on the Hungarian market, it has had achievements among manufacturers as well as in the telecom sector.

The Group's technical and organisational integration continued during the third quarter. As a result of the Regional Integration Program implemented during the year, uniform conditions have been created for regional operation and a structure has been established that will be able to integrate additional operating companies in the future with high efficiency. While regional coordination is operated by the Regional Executive Office consisting of managers responsible for the various divisions, the management of the Synergon Group and of Synergon plc may also become separate in the near future.



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

Comparing the nine-month period ending September 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 of the profit and loss account are, respectively, HUF 247.76 and HUF 254.63 per 1 Euro for the first nine months of 2005 and the same period of 2004. The closing exchange rates applied for the balance sheet items are HUF 247.02 and HUF 249.59 per 1 Euro for September 30<sup>th</sup> 2004 and September 30<sup>th</sup> 2005, respectively.

For the period under review, Synergon plc. has posted other revenues carried over from the previous quarter separated from net sales, since consolidated sales would significantly affect the service content of the item.

### Group results

Profit and loss account	Nine-month period ending September 30					
	2005		2004		Változás %	
	thousand	thousand	thousand	thousand	HUF basis	EUR basis
<b>Net sales</b>	<b>12 359 473</b>	<b>49 885</b>	<b>13 379 424</b>	<b>52 546</b>	<b>-8%</b>	<b>-5%</b>
Other revenues	597 939	2 413	247 928	974	141%	148%
Of which services (%)	49%		42%			
<b>Of which products (%)</b>	51%		58%			
Cost of sales	-9 599 342	-38 745	-10 506 191	-41 261	-9%	-6%
<b>In % of sales</b>	78%		79%			
Contribution	3 358 070	13 554	3 121 161	12 258	8%	11%
Contribution margin (%)	22%		21%			
<b>Operating expenses</b>	<b>-3 313 014</b>	<b>-13 372</b>	<b>-3 333 268</b>	<b>-13 091</b>	<b>-1%</b>	<b>2%</b>
EBITDA	490 910	1 981	351 094	1 379	40%	44%
<b>EBITDA margin (%)</b>	4%		3%			
Operating profit	45 056	182	-212 107	-833	na	na
Operating margin (%)	0%		-2%			
Net financial income	64 898	262	85 849	337	-24%	-22%
Extraordinary items	5 578	23	6 141	24	-9%	-7%
Profit before tax	115 532	466	-120 117	-472	na	na
Corporate tax	-29 936	-121	-13 291	-52	125%	131%
<b>Minority interest</b>	<b>52 230</b>	<b>211</b>	<b>47 979</b>	<b>188</b>	<b>0</b>	<b>0</b>
Net profit	137 826	556	-85 429	-336	na	na

#### Net sales

During the first nine months of 2005, Synergon Information Systems plc, including the consolidated operating companies, achieved a sales revenue of HUF 12,359 million, which, calculated on HUF basis, is 8 percent lower than that of the base period.

In the sector-by-sector breakdown of the sales of the Synergon Group, the telecommunications and the financial sectors accounted for 18 percent and

Within the Group, Span achieved the highest increase of its sales (43 percent), with Fibex achieving a similarly high growth rate of 39 percent, while the sales levels of Synergon/SAO and of Infinity dropped as compared to the base period.

16 percent respectively, industrial companies and the public utilities and transport industries represented an overall 33 percent, whereas the



public sector accounted for 13 percent during the period under review. Other, unclassified sales represented 20 percent. In comparison with the base period, there was a decrease in the share of the public administration sector.

During the first nine months of 2005, the service content of sales amounted to nearly 50 percent of the total sales volume, increasing by 7 percentage points compared to the 42 percent achieved during the first nine months of 2004. Similarly to Span, service-generated sales have continued to increase steadily for Synergion's Hungarian operations. The service content of Infinity was 62 percent during the period, representing very dynamic growth compared to the 47 percent of the base period. Due to the fact that product sales account for the major part 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 (9 percent) was higher than that of net sales in the comparison of the first nine months of 2004 (HUF 10,506 million) and 2005 (HUF 9,599 million). Cost of sales corresponded to 78 percent of sales, a slight decrease compared to the base period.

#### **Contribution**

Contribution amounted to 22 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 nine 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 its weight in the sales of the Group, the latter, however, was unable to counterbalance the decreasing level of contribution of Infinity.

#### **Operating expenses**

Operating expenses declined by 1 percent. During the first nine months of 2005, this cost item amounted to HUF 3,313 million as the collective result of increasing cost-efficiency and a reduced headcount. The Group managed to cut back on operating expenses in all other categories.

#### **Net financial income**

Net financial income amounted to HUF 65 million in the first nine months of 2005, generating an income 36 percent lower than that of the same period of the previous year (HUF 86 million). That 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 16 million compared to the extraordinary profit of HUF 6 million in the base year.

#### **Net profit**

During the first nine months of 2005, the net profit of the Synergion Group amounted to HUF 138 million.



### Staff level

The table below shows the average staff levels of the Synergon Group. As revealed by the table, 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.

On Group level, the average staff levels were 549 and 573 respectively on September 30<sup>th</sup> 2005 and a year before.

Average staff numbers	Average, 2005 Q3	Average, 2004 Q3	Change, %
Synergon plc. & SAO	334	337	-1%
Fibex	20	17	18%
Infinity	141	167	-16%
Span	54	52	4%
Total	549	573	-4%

### 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	9-month period ending September 30							
	2005		%	2004		%	Change, %	
	thousand HUF	thousand EUR		thousand HUF	thousand EUR		HUF	EUR
<b>Net sales &amp; other revenues</b>	<b>12 957 412</b>	<b>52 298</b>	100%	<b>13 627 351</b>	<b>53 519</b>	100%	<b>-5%</b>	<b>-2%</b>
Synergon plc. & SAO	8 468 536	34 180	65%	9 676 850	38 004	71%	-12%	-10%
Fibex	1 237 019	4 993	10%	893 778	3 510	7%	38%	42%
Infinity	2 552 028	10 300	20%	2 812 360	11 045	21%	-9%	-7%
Span	1 167 891	4 714	9%	819 062	3 217	6%	43%	47%
Consolidation	-468 061	-1 889	-4%	-574 699	-2 257	-5%	-19%	-16%

### The distribution of income

The sales of Synergon/SAO accounted for 65 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 the comparison of the various periods. Within the Group, the weight of the dynamically growing Span and Fibex had increased

steadily against a 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 relegated 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 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 plc. & SAO	9-month period ending September 30					
	2005		2004		Változás %	
	ezer Ft	ezer EUR	ezer Ft	ezer EUR	Ft	EUR
<b>Net sales</b>	<b>7 883 051</b>	<b>31 817</b>	<b>9 403 977</b>	<b>36 933</b>	<b>-16%</b>	<b>-14%</b>
Other revenues	585 485	2 363	272 873	1 072	115%	121%
Of which services (%)	48%		41%			
<b>Of which products (%)</b>	52%		59%			
Cost of sales	- 5 859 905	- 23 652	- 7 270 031	- 28 552	-19%	-17%
<b>In % of sales</b>	74%		77%			
Contribution	2 608 631	10 529	2 406 820	9 452	8%	11%
Contribution margin (%)	26%		23%			
<b>Operating expenses</b>	- 2 519 420	- 10 169	- 2 494 861	- 9 798	1%	4%
EBITDA	393 317	1 587	234 197	920	68%	73%
<b>EBITDA margin (%)</b>	5%		2%			
Operating profit	89 211	360	- 88 041	- 346	na	na
Operating margin (%)	1%		-1%			

consolidated

\*non-

## Operational environment

The more dynamic growth of the economy since 2004 has only been felt in certain parts of the IT industry. The growth rate of the IT market has continued to lag behind the rate of inflation during the past few quarters. A slack *government administration market* has been one of the major factors responsible for this lower growth rate. Government IT projects have been obvious targets for fiscal restrictions, easily marked non-urgent. Consequently, the structure of the expenditure of government institutions has changed, 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. As parliamentary elections draw near in 2006, no significant growth is expected on the government administration market.

As projects are being awarded through new procedures and by new decision-makers, service providers are now forced 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 in order to compensate for lost sales.

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 during the forthcoming quarters following the publication of the competitions for EU grants in local government administration. Early on 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 segment has been the most dynamically growing sector, Synergon's 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 and have continued to expand their network of branches, which in turn requires considerable IT investment. 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 being attributed to outsourcing; several non-core activities are being sourced out to third party operators. Synergón considerably increased its sales in the field during the period under review.

On the *telecom market*, the emergence of alternative service providers has created a new business potential for Synergón, while Magyar Telekom has diversified into data and information services. The most significant trends on the mobile service market have been 3G projects and non-voice transmission-oriented services.

The previous 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 applications and software fields have continued to grow and new markets such as NGN, TriplePlay, DVDM, etc. have emerged. Synergón managed to adapt to the changed market environment and to keep its strong positions.

With the slackening of the government administration market, the *industry and services* sector has become the most dynamically growing segment for Synergón. This segment is relatively diverse, including manufacturers as well as public utility and trading companies. While there is tough competition in terms of IT suppliers, Synergón has tended to act as a powerful infrastructure supplier on this market, offering a wide range of products and services (software, hardware and networking) to an extensive customer base. 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. During the period under review, due to the emergence of demand for complex, operation-type projects, Synergón delivered in excess of its plans on this market in terms of both sales and contribution.

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 trend represents a serious market potential, offering good opportunities for Synergón.

During the first quarter, the Division developed a new strategy for this market, which is currently being introduced with powerful marketing support. Apart from its Hungarian customers, Synergón's Retail Division has managed to expand its operations to include the wider Central European region during the period under review: the integrated SRS-SBO solution has recently been implemented for customers in Poland and the Czech Republic.

### Results

During the first three quarters of 2005, the sales of Synergón plc and SAO Ltd. (HUF 9,404 million) dropped by 16 percent compared to the same period of 2004 (HUF 7,883 million).

The service content of the company grew substantially, to 48 percent compared to the 41 percent achieved in the base period. The rate of the reduction of direct operating expenses (19 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 nine months of 2005, Synergón generated an operating profit of HUF 89 million, while the EBITDA indicator was HUF 393 million during the period.

### Business units

Following a strong first six months, *network communication* continued to deliver at a high level, 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 bids invited 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).

Following the regional system integrator agreement with Huawei Co. Ltd., the Division started the exploration of business opportunities in other countries of the region, while on the Hungarian market, it has had achievements among manufacturers as well as in the telecom sector.

The activities of the *Business Solutions Division* cover the traditional activities of the former Software Division and the business consulting activities of Synergion plc. During the period under review, the Division completed the planned projects in due time, generating no loss of income due to delay. The number of orders, however, declined as the increase of contribution in other sectors did not fully compensate for the loss in the public administration sector. While some projects are in progress on the public administration market, these, along with the new centralised public procurement purchases, are not expected to yield any significant change before the first quarter of 2006. The Division expects to be awarded HEFOP 4.4 and municipal government contracts during the final quarter of 2005.

There was a slight improvement in the telecom and the financial sectors, where the Division delivered to plan. Major projects in the software field included the data management and consolidation-related projects for Invitel and the MS Office 2003 Professional e-learning course project for Pannon GSM, while, in the financial field, the solutions provided to the National Bank of Hungary have ensured a steady income. In the medium term, considerable growth is expected in these segments. The Division anticipates an increasing volume of orders until the end of the year in the industry and services sectors, in particular as far as large service providers are concerned. Major customers include the Paks Nuclear Power Station (Plumtree – System Architect integration), the MVM and the Budapest Water Company. The Division is expected to deliver to plan both during the first nine months and on a full-year basis.

The first version of a non-platform-specific filing solution was completed before the end of quarter 3. The security and workflow components related to the application enable operation in accordance with the strictest document management rules.

During the period under review, sales of *hardware solutions* were affected by projects in public administration, services, the telecom sector and financial institutions. Typical of the whole period, there was a dramatic decline in public administration projects, whose impact is powerfully felt in sales and contribution results. In addition, the seasonal effect affecting the performance of the Division even under normal conditions was increasingly felt during the third quarter; its negative impact on the results was reduced only by the reserves carried over from the first six months. Healthy market trends and slight growth characterised the financial market. The telecom, industry and services divisions more or less performed according to previous expectations.

During the final quarter, moderate growth is expected in the public administration sector under the renewed centralised general public procurement agreement and due to the possible release of so far withheld orders, which increase will, however, lag far behind both the performance of the previous years and the expectations for the current year. This sector may have a positive effect primarily on sales. 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 spirit of focusing on the small and medium-sized enterprises segment, the Division has increased the resources allocated to SME sales and launched new marketing tools, specifically developed for the field.

The *business management market* remained slack during the first three quarters of 2005. The weak market environment was due primarily to the setback in the public administration sector, whose decline exceeded the steady if smaller growth in other sectors. Public administration projects have virtually stopped, as now the only SAP-related public administration project during the third quarter (Hungarocontrol) has also been suspended by the KDB. The existing support orders were insufficient to compensate for lost income.

While there was improvement in the industry, services and trade sector, the SME market has been steadily growing following a moderate increase during the first half of the year. The Division was commissioned with two GVOP projects, one from Glovita (SAP All in One) and the other from Fairtool (the biggest SAP Business One implementation in Central Europe). The significance



of these projects is borne out by the fact that small and medium-sized companies can now chiefly rely on GVOP funds for their projects. In the industry sector, the biggest project has been the system upgrade at the Paks Nuclear Power Plant, where live operation will begin in December.

Synergion has a presence in the SME segment through two products developed under proprietary know-how; there has been steady interest in Synergion's SAP Business One-based funeral module and the Synergion Retail System - SAP Business One solution.

The Division has firmly maintained its position in the telecom and financial sectors. Major customers include the Erste Bank (SAP implementation), the MFB (service management) and the NHH. Sales income on the products implemented during this year is expected to accrue in the final quarter and in 2006.

*The Health and Municipal Government Division*, a separate organisational unit, established in January 2005, of Synergion plc has been actively involved in various open public procurement projects still in progress. Synergion is one of the candidates in the two-round HEFOP 4.4 inter-institution competition; the decision here is expected during the fourth quarter. The HEFOP 4.4 tenders for individual institutions are at the initial phase, to be published at the end of the year and during the first quarter of 2006. The program involves app. 28 hospitals; the Company also intends to submit tenders for projects here.

On the health IT market, Synergion has offered its proprietary Inforend product; this has a number of successful references and considerable professional recognition on a market struggling with a serious financing shortage. 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. Due to the nature of the business, this year's efforts have paved the way for income and implementations during the next year, therefore no significant results are expected before 2006.

Synergion intends to be actively involved in the GVOP4.4.2-related (concerning the implementation of broadband Internet network) public procurement projects, possibly published before the year-end.

The Division has begun successful regional cooperation: through the participation of its Slovakian partners and in cooperation with the municipal leaders of ten neighbouring Slovakian settlements, the opportunities of the international INTERREG tenders were also reviewed. During the fourth quarter of 2005, the Division will also launch the ÜgymeNet brand name on the market. The brand denotes a complex product solution developed for municipal governments, whose main elements include a portal solution, a filing system and workflow.

*SAO-Synergion Ltd.*, specialising in system support and operation, had outstanding performance throughout the period under review, exceeding both previous expectations and the results during the base period. It continues to operate at a high contribution, while its business flows are highly calculable. In the financial sector, former agreements (Erste, Aegon agreements) are being performed, with some recent additions of various service and helpdesk projects.

Philips intends to renew its existing contract for another 12-month period. Under a former regional agreement with Atos Origin, SAO Ltd. has successfully submitted tenders for various projects in the region. Under this cooperation, Synergion has continued the WEM project for MOL Földgázszállító Rt. in cooperation with Atos Origin based in Spain, where SAO is responsible for the operation activities. The project of the value of nearly HUF 0.5 billion will be completed at the end of the year. Further major projects have included the managed services provided to Eglo and CEU.

During the third quarter, SAO Ltd. increased its focus on the IT outsourcing market of small and medium-sized businesses.

By the end of the year, the Group's regional helpdesk system will be implemented and the account management systems of the operating companies updated and replaced under the supervision of SAO Ltd.

SAO Ltd. continues to be actively involved in the work of the Hungarian Outsourcing Association (HOA), established earlier during the year in order to support and disseminate the culture of IT outsourcing. SAO Ltd. is expected to close 2005 with an efficient and profitable balance and a performance exceeding the plan.



### 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 Internet site at [www.fibex.hu](http://www.fibex.hu).

Fibex Ltd.	9-month period ending September 30					
	2005		2004		Change, %	
	thousand HUF	thousand	thousand	thousand	HUF	EUR
<b>Net sales</b>	<b>1 232 009</b>	<b>4 973</b>	<b>888 694</b>	<b>3 490</b>	<b>39%</b>	<b>42%</b>
Other revenues	5 010	20	5 084	20	-1%	1%
Of which services (%)	1%		3%			
<b>Of which products (%)</b>	<b>99%</b>		<b>97%</b>			
Cost of sales	- 1 046 952	- 4 226	- 752 011	- 2 953	39%	43%
<b>In % of sales</b>	<b>85%</b>		<b>85%</b>			
Contribution	190 067	767	141 768	557	34%	38%
Contribution margin (%)	15%		15%			
<b>Operating expenses</b>	- 93 934	- 379	- 73 452	- 288	28%	31%
EBITDA	104 289	421	77 888	306	34%	38%
<b>EBITDA margin (%)</b>	<b>8%</b>		<b>4%</b>			
Operating profit	96 132	388	68 316	268	41%	45%
Operating margin (%)	8%		8%			

During the first nine months of 2005, Fibex continued to grow at last year's dynamic rate, regaining its former position as the Group's most profitable operating company. Reasons included the overall growth of the market, the steady increase of Fibex's market share among its existing customers and the acquisition of new market positions. During the period, Fibex Ltd. became the agent of Hungary's second largest cable manufacturers on the Hungarian and the Slovakian markets. The cooperation agreement with Colorvill Ltd. opened up new markets for Fibex, where it distributes wall switches and sockets, line conduits and power poles.

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 MOL Rt. (installation and renewal of server rooms), Nyíregyháza Hospital (renewal of hospital rooms, LAN network), MVM and OVIT (LAN network).

During the first three quarters of 2005, sales increased by 39 percent to HUF 1,232 million as compared to that of HUF 889 million during the base period, while cost of sales also grew at the same rate (39 percent). There was also substantial increase in terms of contribution (34 percent) and operating profit (41 percent). Due to its low level of service revenues, the contribution margin of Fibex is below the Group average, since the major part of its sales is 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's interest in Infinity increased 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 Internet site at [www.infinity.cz](http://www.infinity.cz).

Infinity	9-month period ending September 30					
	2005		2004		Change, %	
	thousand HUF	thousand HUF	thousand HUF	thousand HUF	HUF	EUR
<b>Net sales</b>	<b>2 515 831</b>	<b>10 154</b>	<b>2 803 791</b>	<b>11 011</b>	<b>-10%</b>	<b>-8%</b>
Other revenues	36 196	146	8 569	34	322%	334%
Of which services (%)	62%		47%			
<b>Of which products (%)</b>	<b>38%</b>		<b>53%</b>			
Cost of sales	- 2 053 048	- 8 286	- 2 201 134	- 8 645	-7%	-4%
<b>In % of sales</b>	<b>82%</b>		<b>79%</b>			
Contribution	498 980	2 014	611 226	2 400	-18%	-16%
Contribution margin (%)	18%		21%			
<b>Operating expenses</b>	- 648 554	- 2 618	- 633 563	- 2 488	2%	5%
EBITDA	- 53 005	- 214	93 013	365	na	na
<b>EBITDA margin (%)</b>	<b>-2%</b>		<b>5%</b>			
Operating profit	- 149 574	- 604	- 22 337	- 88	na	na
Operating margin (%)	-6%		-1%			

Figures

include minority interest.

The Czech IT market is one of the most advanced ones 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.

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. Infinity's negative result is within the planned range; however, it is possible that while the company will be profitable during the second half of the year, it may still close with a negative result on a 12-month basis.

In the first nine months of 2005, Infinity's sales dropped by 10 percent in comparison with the same period of 2004. The service content of its sales was outstandingly high, 62 percent, during

the period, due to the invoicing of support activities for three major customers (non-recurring item). This means that of the operating companies of the Synergon Group, Infinity had the highest ratio of services within its sales. However, the cost of sales diminished at a lower rate of 7 percent, which was the result of reorganisation activities: non-recurring cost items related to layoffs, the quality-improving replacements in order to enable operation during the forthcoming periods at the HR field and equipment maintenance.

During the period under review, Infinity operated with declining contribution and contribution margin (18 percent), whereas its results were better than expected and was thus able to reduce the loss it generated during the first half of the year.

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 its IT, this country has



outstanding potential for the company and the **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,

Synergon Group as a whole.

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	9-month period ending September 30						Change, %	
	2005		2004				HUF	EUR
	thousand HUF	thousand	thousand	thousand				
Net sales	1 167 891	4 714	819 062	3 217			43%	47%
Other revenues	-	-	0	0			0%	0%
Of which services (%)	58%		51%					
<b>Of which products (%)</b>	42%		49%					
Cost of sales	- 978 130	- 3 948	- 733 910	- 2 882			33%	37%
<b>In % of sales</b>	84%		90%					
Contribution	189 761	766	85 152	334			123%	129%
Contribution margin (%)	16%		10%					
<b>Operating expenses</b>	- 180 475	- 728	- 174 963	- 687			3%	6%
EBITDA	46 309	187	48 159	189			na	na
<b>EBITDA margin (%)</b>	4%		-2%					
Operating profit	9 286	37	89 811	353			na	na
Operating margin (%)	1%		-11%					

Figures include minority interest.

The positive effects of the structural improvements started in 2004, which had resulted in the separation of the technical and financial management functions, as well as those of the internal technical investments were clearly felt in Span's performance in 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 (particularly in the final quarter). During the first nine months of 2005, sales (HUF 1,168 million) increased by 43 percent compared to the same period of 2004 (HUF 819 million). In terms of the service content of sales during the period, Span achieved an all-time high of 58 percent. The overwhelming majority of new projects also continue to be based on service or

support activities. Major new projects of the period included support services during the establishment of the national network of the Croatian motorway-operation company and the hosted exchange implementation commissioned by VIPNET, the second largest mobile operator on the market. Cost of sales grew at a lower rate (33 percent) than sales, while contribution also increased at an outstanding 123-percent rate in the comparison of the first nine months of 2005 and 2004.

As a result, Span closed the period under review with a positive operating profit of HUF 9.3 million. While that is lower than the respective result of the first six months, one must take into consideration the fact that, in Croatia, performance during the third quarter has traditionally plummeted at an even higher rate than in Hungary, whereas fixed expenses continue to accrue. The performance of the fourth quarter will certainly bear out the fact that the decline was due to seasonal effects rather than a steady tendency.



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

Balance sheet	September 30, 2005		September 30, 2004		Change, %	
	thousand	thousand	thousand	thousand	HUF basis	EUR basis
<b>Assets</b>						
<b>Non-current assets</b>	<b>2 687 628</b>	<b>10 768</b>	<b>2 767 312</b>	<b>11 203</b>	-3%	-4%
Fixed assets	2 093 322	8 387	2 130 434	8 625	-2%	-3%
Intangible assets	551 127	2 208	579 242	2 345	-5%	-6%
Investments	43 179	173	57 636	233	-25%	-26%
<b>Current assets</b>	<b>7 649 216</b>	<b>30 647</b>	<b>7 041 691</b>	<b>28 507</b>	9%	8%
Inventories	1 094 491	4 385	1 223 475	4 953	-11%	-11%
Accounts receivable	3 934 765	15 765	4 211 866	17 051	-7%	-8%
Cash and equivalents	1 747 216	7 000	1 091 203	4 417	60%	58%
Other current assets	872 744	3 497	515 147	2 085	69%	68%
<b>Total assets</b>	<b>10 336 844</b>	<b>41 415</b>	<b>9 809 002</b>	<b>39 709</b>	<b>5%</b>	<b>4%</b>
<b>Liabilities</b>						
<b>Shareholders' equity</b>	<b>6 623 791</b>	<b>26 539</b>	<b>6 312 578</b>	<b>25 555</b>	5%	4%
Share capital	1 910 926	7 656	1 910 925	7 736	0%	-1%
Capital reserves	5 599 637	22 435	5 774 819	23 378	-3%	-4%
Profit reserves + Retained profit of the year	-886 773	-3 553	-1 373 166	-5 559	-35%	-36%
<b>Short-term liabilities</b>	<b>3 593 959</b>	<b>14 399</b>	<b>3 416 089</b>	<b>13 829</b>	5%	4%
Accounts payable	2 256 493	9 041	1 695 609	6 864	33%	32%
Other short-term liabilities	1 337 466	5 359	1 720 480	6 965	-22%	-23%
<b>Long-term liabilities</b>	<b>9 062</b>	<b>36</b>	<b>33 008</b>	<b>134</b>	-73%	-73%
<b>Minority interest</b>	<b>110 031</b>	<b>441</b>	<b>47 327</b>	<b>192</b>	132%	130%
<b>Total liabilities</b>	<b>10 336 844</b>	<b>41 415</b>	<b>9 809 002</b>	<b>39 709</b>	<b>5%</b>	<b>4%</b>

The Group's balance sheet total as of September 30<sup>th</sup> 2005 (HUF 10,337 million) increased by 5 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 2 percent (HUF 37 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 5 percent. The change was due to the settlement, to the debit of the profit, of the difference between the value arising as a result of the evaluation of the investment at the end of 2004 and the book value.

### Investments

The change in investments was the result of the change in the value of loans to employees.

### Inventories

The value of inventories declined because the Group intends to improve the efficiency of current asset management. This had the result of an improvement of HUF 129 million.

### Accounts receivable

Eliminating settlements within the Group, the value of accounts receivable decreased by 7 percent (HUF 277 million). With the exception of Fibex, each operating company improved its level of accounts receivable compared to the base period. The change was the result of maintaining regular and proportionate invoicing during the quarter.

## Cash and equivalents

At the end of the reporting period, the value of cash and equivalents was HUF 1,747 million, the major part of which (over HUF 1,208 million) was recorded in the books of the parent company.

## Liabilities and shareholders' equity

### Shareholders' equity

The change in profit reserves was due to the fact that in accordance with the international accounting standards, the value of goodwill must've been recognised in a lump sum not later than the first quarter of 2005. The goodwill recognised is the value calculated at the time of the acquisition of SAO-SynergON Ltd.

### Short-term creditors

The value of short-term liabilities (HUF 3,594 million) was 5 percent higher than the closing value of the base period, due primarily to the increase in the accounts payable recorded in the books of SynergON plc and Infinity. On a Group basis, it represents an increment of HUF 561 million (33 percent) for the balance sheet item in question.

### Long-term creditors

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

### Minority interest

The growth of minority interest was the result of the negative value of Infinity's retained profit of the year and the settlement of the profit reserve of the end of 2004.



Cash flow	9-month period ending September 30			
	2005		2004	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR
<b>Operating profit after taxation</b>	<b>72 927</b>	<b>294</b>	<b>-171 279</b>	<b>-673</b>
Depreciation and amortization	445 854	1 800	563 201	2 212
Change in payables	-1 873 963	-7 564	-4 323 884	-16 981
Change in accruals	-40 482	-163	-432	-2
Change in inventories	-245 530	-991	-151 527	-595
Change in receivables	2 219 828	8 960	3 446 130	13 534
Change in provisions	-417 614	-1 686	-107 620	-423
<b>Cash flow from operations</b>	<b>161 019</b>	<b>650</b>	<b>-745 409</b>	<b>-2 927</b>
Net financial result	64 898	262	85 849	337
<b>Cash flow from financing activities</b>	<b>225 918</b>	<b>912</b>	<b>-659 560</b>	<b>-2 590</b>
Change in assets	-364 651	-1 472	-321 788	-1 264
Change in investments	-147 575	-596	10 163	40
<b>Cash flow from investing</b>	<b>-512 226</b>	<b>-2 067</b>	<b>-311 624</b>	<b>-1 224</b>
Net change in loans	-229 517	-926	119 438	469
Change in share capital	137 694	556	-1	0
Eliminating minority interest	-67 637	-273	-67 850	-266
<b>Cash flow from financing</b>	<b>-159 460</b>	<b>-644</b>	<b>51 587</b>	<b>203</b>
Net change in cash	-445 768	-1 799	-919 597	-3 612
Opening cash position	2 192 984	8 851	2 010 800	7 897
Closing cash position	1 747 216	7 052	1 091 203	4 286
<b>Change in cash</b>	<b>-445 768</b>	<b>-1 799</b>	<b>-919 597</b>	<b>-3 612</b>

### Liquidity position

The value of cash and equivalents held by the Company as of September 30<sup>th</sup> 2005 was HUF 1,747 million. The stability of Synergon's cash and equivalents ensured steady operation for the Group.

### Cash flow from operations

There was a positive cash flow from operations to the value of HUF 161 million. This was the collective result of the improvement of operating profit after depreciation and tax and the substantial changes in the accounts receivable, accounts payable and inventories as discussed under the balance sheet analysis.

### Net operating cash flow

There was a positive financial result of HUF 65 million and therefore the closing value of net operating cash flow at the end of the period was HUF 226 million.

### Cash flow from investment

Several significant internal projects were launched by the Group during the period. The investment requirement of these projects is recorded under fixed assets.

The acquisition of additional interest in the subsidiary resulted in the increase of investments.

### Net cash flow from financial operations

The negative value is the result of the advantageous changes in the value of the loans of the subsidiaries as of the balance sheet date.

The two significant items in the change of capital were the effect of the badwill result of Synergon SAO Ltd. and of the treasury share transactions.



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

Shareholding structure of Synergon plc		
Shareholder's name	September 30, 2005	December 31, 2004
Deutsche Bank (depository)	0.50%	0.55%
Treasury shares	2.77%	2.77%
Davon Kft.	3.81%	5.03%
Berenberg Global Opportunity-Magyar Budapest Fund	5.31%	5.31%
Curdie Trust Corp.	9.94%	9.94%
RCX Kft.	9.37%	10.00%
Financial investors, below 5 percent of shares each	68.30%	66.04%
<b>Total</b>	<b>100%</b>	<b>100 %</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 September 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 APEH 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. In August, the Board took a preliminary decision on the delisting of the Company's GDR securities from the London electronic stock exchange (SEAQ); the final decision in the matter was brought on September 13<sup>th</sup>.

**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 September 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** – As of March 1<sup>st</sup> 2005, Mr. Hanus Weisl was appointed General Manager of Infinity.

As of July 1<sup>st</sup>, 2005, Mr. Viktor Hampl and Mr. Attila Kovács were appointed respectively as Assistant CEO, Sales and Marketing and Assistant CEO, Technical, of Synergon plc.

As of September 1<sup>st</sup>, 2005, Mr. Péter Andreidesz-Kovács was appointed regional CFO.

The new Director of Corporate Communications is Mr. Péter Varga.

For further information please contact

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