

FLASH REPORT



**Financial results of
Synergon Information Systems plc.
for the 12-month period
January 1st - December 31st 2005**

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

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As a result of its outstanding performance during the last three months of the year, the Synergon Group managed to achieve its original profit target in the face of the unfavourable market trends in 2005. A profit after taxation of HUF 502 million was generated at a net sales level of HUF 19.6 billion, 3 percent lower than during the previous year. 37 percent of the Company's annual sales were generated during the fourth quarter, which, apart from the seasonal effect typical of the industry, was due to the fact that, as expected, government institutions finally utilised part of their reserved budget open until the end of the year.

Therefore, in the sector-by-sector breakdown of sales, there was no significant difference compared to the proportions during the previous year. However, the proportion of one-off hardware and software purchases increased at the charge of complex, long-term government administration projects. In 2005, the powerful investment demand of financial institutions represented a significant potential for Synergon, which it exploited successfully. The steady demand for the upgrading of data and information services and the expansion of alternative service-providers on the telecom market ensured an increase of the share of the sector in the income structure. The liberalisation of the Croatian telecommunication market added further potential during the year.

Synergon and SAO continued to generate the highest income, between them accounting for 65 percent of the Group's overall sales. SAO performed outstandingly throughout the year, achieving results exceeding both those of the base period and the target through high-contribution system support and operation activities. The sales of the Business Solutions Division also exceeded the target, due primarily to the Division's performance at the end of the year, far surpassing previous expectations. While network communication activities, accounting for the major part of Synergon's sales, delivered somewhat lower than expected, this setback was diminished, in terms of contribution, by the higher service content of sales. The other business units (Hardware, SAP and Retail) also performed excellently during the fourth quarter, which, however, was insufficient to fully make up for the shortfalls generated during the previous quarters.

Last year, an extremely advantageous change followed the reorganisations of 2004, i.e. the net sales of the Croatian operating company were 50 percent higher than during the previous year. Fibex's sales also continued to grow dynamically; as a result of the 45-percent growth, the company was able to increase its market share on its existing markets while, at the same time, it successfully entered new market segments, too. In order to ensure efficient long-term operation, considerable reorganisations were carried out at Infinity, which resulted in the loss of market share at certain areas; this was the main reason for the app. 20-percent drop in sales. Following the program, which also included significant cost-efficiency measures, the operation of the Czech operating company grew steady by the middle of the year and, while the company recognised a loss for 2005 as a whole, it started to generate profit during the second half of the year.

One of the most significant strategic moves of last year was the regional system integrator agreement concluded with the Chinese Huawei Co. Ltd. Under our cooperation with one of the most dynamically growing manufacturers of telecommunication equipment and network solutions, we have begun to exploit regional business potentials in both the telecom and the manufacturing sectors. With the increasing awareness of the Huawei brand name in Hungary, Synergon envisages a dynamic increase of the proportion of the products of the Chinese partner to be incorporated into its network solutions during 2006.



ANALYSIS OF THE 2005 RESULTS OF THE SYNERGON GROUP JANUARY - DECEMBER

Comparing the 12-month period ending December 31st 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 249.33 and HUF 254.08 per 1 Euro for the twelve months of 2005 and the same period of 2004. The closing exchange rates applied for the balance sheet items are HUF 245.93 and HUF 252.73 per 1 Euro for December 31st 2004 and December 31st 2005, respectively.

For the period under review, the Group has posted other revenues carried over from the second quarter 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.

Group results

| Profit and loss statement | Twelve-month period ending December 31 | | | | | |
|------------------------------|--|----------------|-------------------|----------------|------------|------------|
| | 2005 | | 2004* | | Change, % | |
| | 000 HUF | 000 EUR | 000 HUF | 000 EUR | HUF basis | EUR basis |
| Net sales | 19 571 385 | 78 496 | 20 135 929 | 79 250 | -3% | -1% |
| Other revenues | 599 017 | 2 403 | 270 221 | 1 064 | 122% | 126% |
| Of which services (%) | 45% | | 42% | | | |
| Of which products (%) | 55% | | 58% | | | |
| Cost of sales | -15 022 606 | -60 252 | -15 657 592 | -61 625 | -4% | -2% |
| in % of sales | 77% | | 78% | | | |
| Contribution | 5 147 796 | 20 647 | 4 748 558 | 18 689 | 8% | 10% |
| Contribution margin (%) | 23% | | 22% | | | |
| Operating expenses | -4 706 504 | -18 877 | -4 764 342 | -18 751 | -1% | 1% |
| EBITDA | 1 048 559 | 4 206 | 835 340 | 3 288 | 26% | 28% |
| EBITDA margin (%) | 5% | | 4% | | | |
| Operating profit | 441 292 | 1 770 | -15 784 | -62 | na | na |
| Operating margin (%) | 2% | | 0% | | | |
| Net financial income | 49 252 | 198 | 130 016 | 512 | -62% | -61% |
| Extraordinary items | 0 | 0 | 0 | 0 | 0% | 0% |
| Profit before taxation | 490 544 | 1 967 | 114 232 | 450 | na | na |
| Corporate tax | -18 213 | -73 | -10 243 | -40 | 78% | 81% |
| Minority interest | 30 057 | 121 | 43 185 | 170 | 0 | 0 |
| Net profit | 502 388 | 2 015 | 147 173 | 579 | na | na |
| Net margin (%) | 3% | | 1% | | | |

* All of the 2004 data are based on the audited consolidated balance sheet and profit and loss accounts, collated in accordance with the IFRS.

Net sales

During 2005, the Synergon Group achieved a sales revenue of HUF 19,571 million, which, calculated on HUF basis, is 3 percent lower than that of the base period. The excellent performance of the Group during the fourth quarter significantly improved the less attractive results achieved during the first nine months.

Within the Group, Span achieved the highest increase of its sales (50 percent), with Fibex achieving a similarly high growth rate of 45 percent, while the sales levels of Synergon/SAO and of Infinity dropped compared to the base period.



In the sector-by-sector breakdown of the sales of the Synergon Group, the telecommunications and the financial sectors accounted for 19 percent and 15 percent respectively; industrial companies and the public utilities and transport industries represented an overall 26 percent, whereas the public sector accounted for 16 percent during the period under review. Other, unclassified sales represented 24 percent. Compared to the base period, the share of the telecom sector increased, whereas no significant change took place in other industries in terms of performance during 2005, apart from some slight realignment due to general market dynamics.

During 2005, the service content of sales increasingly approached half of the total net sales, increasing by 3 percentage points compared to the 42 percent achieved during 2004. Similarly to Span (6 percent), service-generated sales have continued to increase steadily for Synergon's Hungarian operations (5 percent). The service content of Infinity was 51 percent during the period, representing a 4-percentage point 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 (4 percent) was higher than that of net sales in the comparison of 2004 (HUF 15,658 million) and 2005 (HUF 15,023 million). Cost of sales

corresponded to 77 percent of sales, representing a 1-percent decrease compared to the base period.

Contribution

During the period under review, the volume of contribution, calculated on the basis of the net sales and the direct costs of the Group, grew by 8 percent compared to the previous period. All the operating companies with the exception of Infinity had a positive effect on that performance. The 23-percent contribution achieved represents a one-percent improvement in comparison with the previous year. The improvement was the result of the activities of Synergon Information Systems plc. and SAO-Synergon Ltd.

Operating expenses

Operating expenses declined by 1 percent during 2005.

Net financial income

Net financial income amounted to HUF 49 million in 2005, 62 percent lower than that of the same period of the previous year. That drop was due mainly to the fact that both Synergon Information Systems plc. and Fibex Ltd. recorded an exchange loss during the year under review, in contrast with the exchange gain achieved in the previous year.

Extraordinary items

Since the IFRS standards do not permit recording any extraordinary items, results of this nature are recognised under the other revenues line, with the base year adjusted accordingly.

Net profit

During 2005, the net profit of the Synergon Group amounted to HUF 502.4 million.



Staff level

The table below shows the average staff levels of the Synergon Group. The table shows that no significant changes occurred during the period under review at Synergon Information Systems plc. and SAO, staff levels decreased steadily at Infinity, while both the average and the closing headcounts grew at Fibex and Span. On Group level, the average staff levels were 556 and 567 respectively as of December 31st 2005 and a year before.

| Average staff numbers | 2005 Q4 average | 2004 Q4 average | Change, % |
|-----------------------|-----------------|-----------------|-----------|
| Synergon plc. and SAO | 336 | 335 | 0% |
| Fibex | 21 | 18 | 19% |
| Infinity | 144 | 163 | -12% |
| Span | 55 | 51 | 8% |
| Total | 556 | 567 | -2% |

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 | 12-month period ending December 31 | | | | | | | |
|-------------------------------------|------------------------------------|---------------|------|-------------------|---------------|------|------------|-----------|
| | 2005 | | | 2004 | | | Change, % | |
| | 000 HUF | 000 EUR | % | 000 HUF | 000 EUR | % | HUF | EUR |
| Net sales and other revenues | 20 170 402 | 80 898 | 100% | 20 406 150 | 80 314 | 100% | -1% | 1% |
| Synergon plc. and SAO | 13 188 315 | 52 895 | 65% | 13 954 751 | 54 923 | 68% | -5% | -4% |
| Fibex | 1 964 610 | 7 880 | 10% | 1 358 612 | 5 347 | 7% | 45% | 47% |
| Infinity | 3 781 492 | 15 167 | 19% | 4 609 782 | 18 143 | 23% | -18% | -16% |
| Span | 1 882 510 | 7 550 | 9% | 1 253 558 | 4 934 | 6% | 50% | 53% |
| Consolidation | -646 524 | -2 593 | -3% | -770 553 | -3 033 | -4% | -16% | -14% |

The distribution of income

The sales of Synergon Information Systems plc. and SAO-Synergon Ltd. accounted for 65 percent of the sales of the Synergon Group, the remaining part generated by the operating companies. There is a slight change and some realignment in terms of the sales ratio of the operating companies in comparison of the various periods. 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 is shown consolidated with the profit data of Synergon, since the operation of this subsidiary is closely integrated with that of the parent company. Synergon Information Systems plc. relegated all of its outsourcing and operating-related functions to SAO.



Synergon Information Systems Plc

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

details relating to the company (in Hungarian and English), please see the company's home pages at www.synergon.hu, 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.

| Synergon plc. and SAO | Twelve-month period ending December 31 | | | | | |
|------------------------------|--|---------------|-------------------|---------------|------------|------------|
| | 2005 | | 2004* | | Change, % | |
| | 000 HUF | 000 EUR | 000 HUF | 000 EUR | HUF | EUR |
| Net sales | 12 613 732 | 50 591 | 13 681 878 | 53 849 | -8% | -6% |
| Other revenues | 574 583 | 2 305 | 272 873 | 1 074 | 111% | 115% |
| Of which services (%) | 46% | | 41% | | | |
| Of which products (%) | 54% | | 59% | | | |
| Cost of sales | - 9 217 684 | - 36 970 | - 10 347 834 | - 40 727 | -11% | -9% |
| in % of sales | 73% | | 76% | | | |
| Contribution | 3 970 631 | 15 925 | 3 606 917 | 14 196 | 10% | 12% |
| Contribution margin (%) | 27% | | 24% | | | |
| Operating expenses | - 3 590 904 | - 14 402 | - 3 429 510 | - 13 498 | 5% | 7% |
| EBITDA | 788 081 | 3 161 | 608 124 | 2 393 | 30% | 32% |
| EBITDA margin (%) | 6% | | 4% | | | |
| Operating profit | 379 727 | 1 523 | 177 407 | 698 | na | na |
| Operating margin (%) | 3% | | 1% | | | |

*non-consolidated

Operating environment

There were differences in 2005 in terms of the prosperity of the various market sectors relevant for the operation of Synergon Information Systems plc. Despite of the stronger order received, the substantial decline of the *government administration market* was felt throughout the whole year. While the final quarter was brisker than the previous ones, this was due primarily to seasonal effects. Projects implemented by the customers were typically financed using EU funds and concentrated primarily on the purchasing of equipment, whereas the publication of tender invitations and their results were considerably delayed due to the lengthy tender preparation procedures. The tenders financed out of the structural funds were also substantially delayed. The decision was made, however, concerning the competition published for the implementation of the EDR network; despite the result, unfavourable for Synergon, the Company will be involved as a subcontractor in the project to be carried out in 2006.

From the middle of the year, Synergon responded to the changed conditions with a new sales strategy:

greater emphasis was put on making up for the lost income from other sectors, while it shifted to a more direct approach in the government administration sector. In order to take greater advantage of the potentials of the municipal government and health service markets, the relevant activities were set apart under a separate division (Health and Municipal Division) at the beginning of the year. During the year, the Division managed to establish and consolidate its market position, envisaging a continuously growing volume of orders throughout 2006.

As 2006 is an election year, no significant move forward is anticipated before the year-end following an expected moderate growth during the first quarter.

The *insurance and financial market* has been one of the strongest areas for Synergon; the revenues lost at the government administration market were primarily compensated for from this market segment. Dynamic growth never stopped during the year and, consequently, Synergon's market share and weight continued to grow. In the banking



sector, development is focused on the expansion of the branch network, including new network implementations, advanced user systems and customer-gear IT background systems. Outsourcing has continued to increase at financial institutions. Each Synergon division was capable of consolidating its positions at the financial market.

On the *telecom and media* segment, earlier market trends continued, the alternative service-providers gained strength, Magyar Telecom has diversified into data and information services, while there have been increasing market efforts in order to stop T-Com's monopoly. The most significant trends on the mobile service market were 3G projects and non-voice transmission-oriented services. Price competition became increasingly tough, whereas the size of the market grew at an ever-decreasing rate. While there were fewer big projects, the demand increased for operational, application and software-type utilization. Internet penetration continued to increase. Synergon was primarily involved in the development of that sector at the network (infrastructure, Huawei) and software areas. Increasing competition and the employment of alternative fields (NGN, TriplePlay, DVDM) and of new technologies were the most significant trends in 2006.

The *industry and services market* is rather diverse, including manufacturers, public-service providers, retail, public utilities and pharmaceutical companies. In the face of a tough competition, Synergon was able to gain considerable strength. Further growth and market potentials are envisaged for 2006. In addition to a solid customer base (MOL, Audi, GE, etc.) Synergon has an extensive portfolio (software, hardware and networking). On the demand side, there remains a clear division between substantial 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. They, however, have a greater growth potential, which Synergon intends to take advantage of through reinforcing the small and medium-sized enterprise (SME) area.

A noticeable growth started during the year on the market of *retail businesses*. While competition is on the increase, a growing number of retail units have, following the EU accession, opted for the modern till system as manual, non-computer-based tills no longer meet the latest requirements. Customers' most important priority has been to integrate existing till systems with their financial management and sales systems. That trend represents a serious market potential, offering good opportunities for Synergon.

Achievements

By the end of 2005, the sales of Synergon Information Systems plc. and SAO-Synergon Ltd. (HUF 12,614 million) dropped by 8 percent as compared to 2004 (HUF 13,682 million).

The service content of the company grew substantially, to 46 percent compared to the 41 percent achieved in the base period. The rate of the reduction of direct operating expenses (11 percent) was 3 percentage points higher than that of the sales revenue, resulting in a similar 3-percentage-point increase of the contribution, to 27 percent. Between them, Synergon and SAO generated an operating profit of HUF 380 million during 2005 as compared to the HUF 177 million during 2004; the EBITDA indicator amounted to HUF 788 million in comparison with the HUF 608 million at the end of 2004.

Business units

Following a strong first six months, *network communication* continued to account for the major part of the sales and the contribution of the Company. Performance during the fourth quarter was high, typical of the season, across all market sectors. In the government administration sector, there was no growth during the fourth quarter; throughout the whole year, there were hardly any invitations to tender, income in this sector was only generated by the implementation of earlier projects in progress. The KSZF network normative was signed at the end of November, on the basis of which the Division is able to supply Cisco, Huawei and 3Com solutions to government institutions. This is expected to generate a perceivable level of revenues from the first quarter of 2006.



The telecom sector delivered outstandingly. Major customers included T-Com, Invitel and T-Mobil. Apart from Cisco products, an increasing amount of Huawei and Harmonic solutions have been sold.

The financial market continues to grow, driven by the expansion of the branch networks and the outsourcing trend typical of the banking sector (Erste outsourcing). These have generated both investment and maintenance demand (Erste branch expansion projects, support agreements). An increasing number of customers have ordered IP telephony solutions (CIB, Allianz, Generali, Raiffeisen). The industry, services and trade sector delivered to target, affected by the seasonal effect. Major customers included Richter, Egis, Paks and MOL.

The regional system integrator agreement with Huawei Co. Ltd. has been functioning successfully; besides Hungary, the solutions of the Chinese manufacturer have increased their share in the Division's portfolio in various other countries of the region, too.

Plans for 2006 include the further increase of the profit content and reinforcing the Huawei services (e.g. training).

The activities of the *Business Solutions Division* cover the traditional activities of the former Software Division and the business consulting activities of Synergon plc. As far as the entire year is concerned, the market of the Division grew as expected and, due to the fact that the rate of growth accelerated during quarter 4, the Division safely delivered its annual target. The livening up of the government administration market also contributed to the increased growth during the fourth quarter: the first municipal project got off the ground and higher-than-expected volumes were achieved for several ministry projects. The telecom sector delivered to target. The focus was on two special CRM implementations, which the Division completed to time. The Industry/Services sector delivered high above the targeted level, with repeat orders for virtually all major customers. These transactions included the widest possible range of portfolio elements (portal and custom development, EPM, etc.).

Compared to the third quarter, the financial sector also continued to grow. Major factors affecting the performance of the Division within the sector included the activity of the Custom Software

Development Division and enterprise project management (EPM) solutions. Thanks to the above trends, the Division delivered high above its quarterly target. Compared to the same period of the base year, this represented a very high nominal growth rate. The Division intends to continue the development of its existing software products (e-learning framework system, file management support system), responding to the ever-changing market requirements. Although the renewal of virtually the entire Microsoft product range will be a significant event of the market, large companies will only implement these new products during the forthcoming years, which means that 2006 will be a year of preparation.

Since further market growth is anticipated for 2006 compared to 2005, the profit of the Division is expected to increase at a substantial rate.

During the period under review, sales of *hardware solutions* were affected, at a level varying from quarter to quarter, by projects in public administration, services, the telecom sector and financial institutions. The performance of the Division was affected by seasonal effects, i.e. a powerful first quarter was followed by two sloppier ones, closing with a fourth quarter that delivered over the target. On a whole-year basis, sales turnover dropped, while both the contribution in proportion to sales and the service content increased.

Following the dramatic decrease of administrative projects, there was a slight growth on the government administration market during the fourth quarter, which altogether only generated modest sales revenue during 2005. Lost government administration revenues were made up for primarily at the financial sector, the MFB, Erste and HVB Bank being the largest customers.

The telecom division delivered more or less to previous expectations. The largest customers on the market are Invitel and Antenna Hungária. The industry and services sector closed an outstanding fourth quarter (MOL Földgázszállító Rt., MVM).

The Division managed to reinforce its position in the SME sector; this is where the highest growth rate is expected in 2006. To that end, the resources allocated to SME sales are further increased and dedicated sales instruments will be employed.

Continuous growth is expected for 2006 in the industry and services sector, while a new strategy,



with a view primarily to generating infrastructure projects, is to be launched in the financial sector. Competition will continue to increase while the market will slowly settle, and smaller companies facing liquidity issues will drop out. An increasing number of EU-financed projects are expected.

The performance of the *SAP Division* continues to improve compared to the base year. An outstandingly successful final quarter was, however, insufficient to fully compensate for the smaller-than-expected results during the first three quarters. The fallback, at the start of the year, of the government administration sector and its stagnation during the rest of the year were the most significant negative factors about the market environment. The only relevant government administration tender (Hungarocontrol) was halted during the third quarter and no new tenders were published during quarter 4. The Division successfully completed the first government administration data warehouse project (SAP BW Data Warehouse). These, along with the existing support orders were insufficient, however, to fully compensate for lost sales.

There was steady growth in the industry, services and trade sector. December 2005 saw the launch of the live operation of the upgraded system, combined with the change of the logistics model, at the Paks Nuclear Power Station, one of the largest projects in the sector; that is also where the largest SAP Business One implementation (Fairtool) will be completed during the first quarter of 2006. There are also a number of smaller projects in progress at the Division, including various GVOP tenders to enable projects for small and medium-sized businesses. The live operation of the SAP All in One system of the Glovita glove factory, the preparatory phase completed and now being implemented, will start during the first quarter of 2006. In the SME segment, Synergon offers two products developed with proprietary know-how (the SAP Business One-based funeral module and the Synergon Retail System - SAP Business One solution). The funeral module is marketed throughout the region through the operating companies. The Division has firmly maintained its position in the telecom and financial sectors. The SAP implementation at the Erste Bank, in which the Company and the service management provided to MFB are involved, is being carried out to schedule. The plans for 2006 include the development of a new technology, the Netweaver system integration

environment and the establishment of the required competence. Taking advantage of the recently started growth of the SME market, the Division intends to increase its market share in the segment.

The *Health and Municipal Division* started to operate in January 2005. At the health services market, it offers its proprietary Inforend solution; this product, suitable for the integrated management of medical and financial activities has been upgraded into a complex solution package equally capable of handling hardware, software, network, operational and consulting functions. This has completed the health services portfolio of the Division. During the past period the agreement with the Svábhegyi Hospital was further extended.

Synergon Information Systems plc. intends to enter each category of the tenders published for the HEFOP 4.4 institutional developments. The Division has successfully participated as a subcontractor in the Consortium established on the basis of the South Transdanubia tender invitation and is preparing to enter further tenders concerning clinical and financial systems.

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

Synergon has managed to firmly ground its operation and to establish professional relations at the municipal government market. It has entered the GVOP public procurement competitions for the implementation of the 4.4.2 broad-band Internet network. It also intends to prepare for other public procurement tender invitations in the future, targeting to win about ten percent of the volume of the tenders. Synergon has also actively participated at similar, simultaneous tenders (4.3.1, 4.3.2).

Plans for 2006 include the further increase of the Division's existing market positions, partly through product development (filing system), and partly by entry in a new market segment (SME) in cooperation with other Synergon organisational units (SAO, HW). The industry roadshow and consulting, started with good results in 2005, is to be continued during the year, primarily on the importance of the INTERREG.



Important customers of the Retail Division include Jeans Club, Fairtool, MÁV (the implementation and integration into the national system of an automated engine filling station through the Reko2 project) and one of the leading fast-food chains (implementation of touch-screen tills). A new market strategy has been implemented at the Division since quarter 1. The successful integration of the proprietary Synergon Retail System and the SAP Business One solution (SRS-SBO) offers a comprehensive solution for both chains of sales outlets and retail businesses. Apart from its Hungarian customers, the Division managed to expand its operations to include the wider Central European region in 2005. As part of that expansion, the proprietary SRS – Synergon Retail System solution has recently also been implemented for customers in Poland and the Czech Republic.

The *SAO-Synergon Ltd.*, specialising in system support and operation, had outstanding performance throughout the year, exceeding both the target and the results achieved during the base period. This was partly due to the increased efficiency of sales. The company continues to operate at a high contribution and calculable operation. It closed a brisk final quarter in the industry and services sector and is expected to become, along with the financial sector, the most dynamically growing division in 2006. During the period under review, it continued to provide services to Philips, with the existing

agreement extended until the second half of 2006. An operation agreement was signed with BAT, and the completion of the WEM project of MOL Földgázszállító Rt. is being carried out to schedule. The ACTS was implemented for Szerencsejáték Rt. The most important customers of the financial division include Aegon, Erste and MFB.

During the fourth quarter, SAO-Synergon Ltd. reinforced its presence on the IT outsourcing market of small and medium-sized businesses. As a result, this market segment also closed the final quarter with remarkable results.

The Division 's operation covers the entire region, partly in cooperation with the operating companies of the Synergon Group and in part through an ongoing cooperation with Atos Origin.

SAO-Synergon Ltd. continues to be actively involved in the work of the Hungarian Outsourcing Association (HOA), established in order to support and disseminate the culture of this business area. A good example of that, during the fourth quarter, SAO and HOA participated in an event hosted by the Győr-Moson-Sopron County Trade and Industry Chamber in order to promote outsourcing.

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



Fibex Ltd.

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

| Fibex Ltd. | Twelve-month period ending December 31 | | | | | |
|------------------------------|--|--------------|------------------|--------------|------------|------------|
| | 2005 | | 2004* | | Change, % | |
| | 000 HUF | 000 EUR | 000 HUF | 000 EUR | HUF | EUR |
| Net sales | 1 957 147 | 7 850 | 1 353 528 | 5 327 | 45% | 47% |
| Other revenues | 7 462 | 30 | 5 084 | 20 | 47% | 50% |
| Of which services (%) | 1% | | 3% | | | |
| Of which products (%) | 99% | | 97% | | | |
| Cost of sales | - 1 667 163 | - 6 687 | - 1 146 186 | - 4 511 | 45% | 48% |
| in % of sales | 85% | | 85% | | | |
| Contribution | 297 447 | 1 193 | 212 426 | 836 | 40% | 43% |
| Contribution margin (%) | 15% | | 15% | | | |
| Operating expenses | - 177 042 | - 710 | - 147 986 | - 582 | 20% | 22% |
| EBITDA | 131 344 | 527 | 77 118 | 304 | 70% | 74% |
| EBITDA margin (%) | 7% | | 6% | | | |
| Operating profit | 120 405 | 483 | 64 440 | 254 | 87% | 90% |
| Operating margin (%) | 6% | | 5% | | | |

During 2005, **Fibex Ltd.** 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 obtaining 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 Magyar Telecom, supplemented by Fibex with a personalised 'self-installation' package (ADSL modem, splitters and patch cables).

During the period, further important customers included the MOL Rt. (installation and renewal of server rooms), the Nyíregyháza Hospital (renewal of hospital rooms, LAN network), the MVM and OVIT (LAN network).

By the end of 2005, sales increased by 45 percent to HUF 1,957 million as compared to that of HUF 1,354 million during the base period, while cost of sales grew at the same rate (45 percent). There was also substantial increase in terms of contribution (40 percent) and operating profit (87 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.

| Infinity | Twelve-month period ending December 31 | | | | | |
|------------------------------|--|---------------|------------------|---------------|-------------|-------------|
| | 2005 | | 2004* | | Change, % | |
| | 000 HUF | 000 EUR | 000 HUF | 000 EUR | HUF | EUR |
| Net sales | 3 718 532 | 14 914 | 4 601 213 | 18 109 | -19% | -18% |
| Other revenues | 62 959 | 253 | 8 569 | 34 | 635% | 649% |
| Of which services (%) | 51% | | 47% | | | |
| Of which products (%) | 49% | | 53% | | | |
| Cost of sales | - 2 966 703 | - 11 899 | - 3 673 726 | - 14 459 | -19% | -18% |
| in % of sales | 80% | | 80% | | | |
| Contribution | 814 788 | 3 268 | 936 056 | 3 684 | -13% | -11% |
| Contribution margin (%) | 20% | | 20% | | | |
| Operating expenses | - 879 334 | - 3 527 | - 948 181 | - 3 732 | -7% | -5% |
| EBITDA | 73 372 | 294 | 180 507 | 710 | -59% | -59% |
| EBITDA margin (%) | 2% | | 4% | | | |
| Operating profit | - 64 546 | - 259 | - 12 125 | - 48 | na | na |
| Operating margin (%) | -2% | | 0% | | | |

*Figures include minority interest.

It was a year of structural change and the building up of professional expertise for Infinity. These events had a major impact on the performance of Infinity and, despite the fact that the greatest part of the changes were completed by the end of 2005, the company became the only loss-making Synergon operating company during the year: the profit generated during the second six month-period was insufficient to compensate the costs, including substantial non-recurring items during the first half of the year. Given the circumstances, the primary task of Infinity is to consolidate its organisation and reinforce sales operations. The new management has launched a program aiming at reducing costs and improving efficiency. The company has focused on its existing major customers and targeted new markets and customers through core products and solutions. The company is active in business development in order to expand its portfolio through software development and business solutions.

While the net sales of Infinity dropped by 19 percent compared to 2004, their service content

continued to increase (51 percent). A substantial part of sales continued to be generated from projects for customers operating in the industry and trade sector (Skoda Auto, Foxconn, Celestica), with a substantial share of the retail market (Kaufland, Ahold, Tesco). The company's services-generated sales came from software development, operation contracts, the sale of Navision licences and their implementation. As a result of the cost-optimisation measures carried out in time, the cost of sales declined at the same rate (19 percent) as sales. While the company made a loss during the period under review at an unchanging level of contribution (20 percent), its operating loss dropped to nearly one-third of the earlier level during the second six-month period.

The Slovakian market, where the company has a representative office, is another important target area 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 Information Systems plc. Apart from various networking and infrastructure-management projects, the major part of the sales revenue of Span is generated by the sale of

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

| Span | Twelve-month period ending December 31 | | | | | |
|------------------------------|--|--------------|------------------|--------------|------------|------------|
| | 2005 | | 2004 | | Change, % | |
| | 000 HUF | 000 EUR | 000 HUF | 000 EUR | HUF | EUR |
| Net sales | 1 877 296 | 7 529 | 1 253 558 | 4 934 | 50% | 53% |
| Other revenues | 5 214 | 21 | 0 | 0 | na | na |
| Of which services (%) | 57% | | 51% | | | |
| Of which products (%) | 43% | | 49% | | | |
| Cost of sales | - 1 595 964 | - 6 401 | - 1 069 693 | - 4 210 | 49% | 52% |
| in % of sales | 85% | | 85% | | | |
| Contribution | 286 546 | 1 149 | 183 866 | 724 | 56% | 59% |
| Contribution margin (%) | 15% | | 15% | | | |
| Operating expenses | - 262 714 | - 1 054 | - 254 728 | - 1 003 | 3% | 5% |
| EBITDA | 73 887 | 296 | 23 290 | 92 | na | na |
| EBITDA margin (%) | 4% | | -2% | | | |
| Operating profit | 23 831 | 96 | 70 862 | 279 | na | na |
| Operating margin (%) | 1% | | -6% | | | |

Figures include minority interest.

The positive effects of the structural improvements carried out in 2004, resulting in the separation of technical and financial management functions and the impact of internal trade investments were clearly felt in Span's performance in 2005. During the previous year, the company streamlined its solutions portfolio, increasingly focusing on Navision implementations and the winning of technical support and infrastructure projects. The integration of Span's technical and sales organisation into the Synergon Group continued during the period.

In the period under review, there was steady but moderate growth, lower than previously expected, 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.

During 2005, sales (HUF 1,877 million) increased by 50 percent compared to 2004 (HUF 1,254 million). About one-fifth of sales were generated from Croatian government orders (Croatian

electricity works, Ministry of Defence, Ministry of Foreign Affairs, Croatian motorway supervisory authority), with another crucial portion coming from projects for telecommunication and media customers (T-Mobile, VIPnet; Croatian Radio and Television). During the period, the company achieved an outstanding service content of sales (57 percent); the overwhelming majority of new projects are based on service or support activities. Of the operating companies of the Group, Span thus had the highest ratio of services within its sales.

Major new projects during the period included support services during the establishment of the national network of the Croatian motorway-operation company, the hosted exchange implementation commissioned by VIPnet, the second largest mobile operator on the market, and the continuous expansion and maintenance of the latter. Cost of sales grew at a rate (49 percent) lower than sales, while contribution also increased at an outstanding 56-percent rate in the comparison of 2005 and 2004.

As a result, Span closed the period under review with a positive operating profit of HUF 24 million.



Analysis of the balance sheet and liquidity position of the Synergon Group as of December 31st 2005

| Balance sheet | 31.dec.05 | | 31.dec.04 | | Change, % | |
|---|-------------------|---------------|-------------------|---------------|-----------|------------|
| | 000 HUF | 000 EUR | 000 HUF | 000 EUR | HUF basis | EUR basis |
| Assets | | | | | | |
| Non-current assets | 2 717 091 | 10 751 | 2 946 034 | 11 979 | -8% | -10% |
| Fixed assets | 2 117 752 | 8 380 | 2 186 188 | 8 889 | -3% | -6% |
| Intangible assets | 574 507 | 2 273 | 423 656 | 1 723 | 36% | 32% |
| Investments | 24 832 | 98 | 336 191 | 1 367 | -93% | -93% |
| Current assets | 10 099 844 | 39 963 | 9 725 869 | 39 547 | 4% | 1% |
| Inventories | 1 078 368 | 4 267 | 848 962 | 3 452 | 27% | 24% |
| Accounts receivable | 6 849 437 | 27 102 | 5 919 065 | 24 068 | 16% | 13% |
| Cash and equivalents | 1 204 262 | 4 765 | 1 892 908 | 7 697 | -36% | -38% |
| Other current assets | 967 776 | 3 829 | 1 064 935 | 4 330 | -9% | -12% |
| Total assets | 12 816 935 | 50 714 | 12 671 904 | 51 526 | 1% | -2% |
| Liabilities | | | | | | |
| Shareholders' equity | 7 042 096 | 27 864 | 6 372 974 | 25 914 | 10% | 8% |
| Share capital | 1 910 926 | 7 561 | 1 910 927 | 7 770 | 0% | -3% |
| Capital reserves | 5 634 942 | 22 296 | 5 624 338 | 22 870 | 0% | -3% |
| Profit reserves + Retained profit of the year | -503 772 | -1 993 | -1 162 291 | -4 726 | -57% | -58% |
| Short-term liabilities | 5 638 465 | 22 310 | 6 114 945 | 24 865 | -8% | -10% |
| Accounts payable | 3 842 341 | 15 203 | 3 223 813 | 13 109 | 19% | 16% |
| Other short-term liabilities | 1 796 124 | 7 107 | 2 891 132 | 11 756 | -38% | -40% |
| Long-term liabilities | 4 170 | 16 | 6 316 | 26 | -34% | -36% |
| Minority interest | 132 204 | 523 | 177 668 | 722 | -26% | -28% |
| Total liabilities | 12 816 935 | 50 714 | 12 671 904 | 51 526 | 1% | -2% |

The balance sheet total of the Synergon Group as of December 31st 2005 (HUF 12,817 million) increased by 1 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 3 percent (HUF 68 million). The reduction was the result of the infrastructure and IT investments carried out by the Group and of the difference of amortization recorded. Essentially supplemental investments were effected during the period.

Intangible assets

The value of intangible assets recorded in the Group's consolidated balance sheet increased by 36 percent. The change was due partly to the elimination, previously during the year, of the badwill of SAO Ltd. against other reserves and, for the other part, the goodwill value recognised with the increment of the investments of the operating companies of the Synergon Group.

Investments

The drop in the value of these assets between 2004 and 2005 was due primarily to the operating company loans discussed under the cash flow analysis and, to a smaller extent, to the consolidation method modified as the result of increasing the holding in the subsidiaries of the operating companies to 100 percent as well as, to a slight degree, to the changing in the amount of employee loans, these factors having an aggregated effect of HUF 311 million.

Inventories

The increment of HUF 230 million compared to base was the result of the increase of inventories due to the purchasing of goods, related to a customer order, during the final week of December. These stocks were sold in January 2006.

Accounts receivable

Eliminating settlements within the Group, the value of accounts receivable increased by 16 percent (HUF 930 million). This change was the

collective result of the fact that the outstanding accounts receivable increased in proportion with the turnover of Fibex and Span and the invoicing, at the end of December, of some high-value projects of Synergon Information Systems plc.

Cash and equivalents

At the end of the reporting period, the value of cash and equivalents was HUF 1,204 million; changes discussed under the cash flow analysis.

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 badwill was to be recognised as a lump sum not later than the first quarter of 2005. The badwill recognised is the value calculated at the time of the acquisition of SAO-Synergon Ltd.

Short-term creditors

The amount of short-term creditors (HUF 5,638 million) was 8 percent lower than the closing value of the base year. As a result of the release of the provision made for the fine imposed by the tax authority, the amount of other short-term creditors was substantially reduced, which in turn reduced the overall amount.

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 | 12-month period ending December 31 | | | |
|--|------------------------------------|---------------|-----------------|---------------|
| | 2005 | | 2004* | |
| | 000 HUF | 000 EUR | 000 HUF | 000 EUR |
| Operating profit after taxation | 453 136 | 1 817 | 15 155 | 60 |
| Depreciation and amortization | 607 266 | 2 436 | 851 124 | 3 350 |
| Change in payables | 380 915 | 1 528 | -1 605 314 | -6 318 |
| Change in accruals | -139 | -1 | -875 | -3 |
| Change in inventories | -229 406 | -920 | 222 986 | 878 |
| Change in receivables | -833 075 | -3 341 | 1 189 586 | 4 682 |
| Change in provisions | -417 494 | -1 674 | -88 491 | -348 |
| Cash flow from operations | -38 796 | -156 | 584 172 | 2 299 |
| Net financial result | 49 252 | 198 | 132 018 | 520 |
| Cash flow from financing activities | 10 455 | 42 | 716 190 | 2 819 |
| Change in assets | -540 265 | -2 167 | -637 055 | -2 507 |
| Change in investments | 172 544 | 692 | 309 885 | 1 220 |
| Cash flow from investing | -367 721 | -1 475 | -327 170 | -1 288 |
| Net change in loans | -397 274 | -1 593 | 79 374 | 312 |
| Change in share capital | 156 132 | 626 | -21 728 | -86 |
| Eliminating minority interest | -45 464 | -182 | 62 491 | 246 |
| Cash flow from financing | -286 606 | -1 150 | 120 137 | 473 |
| Net change in cash | -643 872 | -2 582 | 509 157 | 2 004 |
| Opening cash position | 1 848 135 | 7 412 | 1 338 978 | 5 270 |
| Closing cash position | 1 204 262 | 4 830 | 1 848 135 | 7 274 |
| Change in cash | -643 872 | -2 582 | 509 157 | 2 004 |

Liquidity position

The value of cash and equivalents held by the Company as of December 31st 2005 was HUF 1,204 million, a HUF 644-million drop during the period under review.

Cash flow from operations

There was a negative cash flow from operations in the value of HUF 39 million. The profit and the amortisation-related liabilities were fully utilised for the financing of the increased stocks and accounts receivable.

Net operating cash flow

There was a positive financial result of HUF 49 million, which resulted in a positive cash flow of HUF 10.4 million.

Cash flow from investment

In 2005, the Group invested HUF 540 million into the purchasing of new fixed assets, made up of purchases required by internal projects launched during the period and normal tangible asset purchases.

The HUF 173 million positive cash flow under investments and securities was the consequence of the HUF 300 million decrease in investments, the HUF 106 million write-back of negative goodwill of SAO-Synergon Ltd, and the acquisition of additional interest in subsidiaries.

Net cash flow from financial operations

A substantial part of the outstanding bank loans of Infinity and Span was redeemed by parent company loans, resulting in the utilisation of HUF 397-million cash on Group level.

The two significant items in the change of capital were the effect of the badwill result of SAO-Synergon 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 Dec.31st 2005.

| Shareholding structure of Synergon Information Systems plc. | | |
|---|--------------------------------|--------------------------------|
| Owner | December 31 st 2005 | December 31 st 2004 |
| Deutsche Bank (depository) | 0,50% | 0,55% |
| Treasury shares | 2,77% | 2,77% |
| Davon Kft. | 3,36% | 5,03% |
| Berenberg Global Opportunity-Magyar Budapest Fund | 5,31% | 5,31% |
| Curdie Trust Corp. | 9,94% | 9,94% |
| RCX Kft. | 9,27% | 10,00% |
| Financial investors, below 5 percent of shares each | 68,85% | 66,04% |
| Total | 100% | 100 % |

General Assembly – On April 29th 2005, the ordinary annual General Assembly of Synergon Information Systems 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 1st and December 31st 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 Information Systems plc. and the Group. Synergon’s Board of Directors acknowledged the decision of the Key Client Directorate of the APEH closing finally 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 Sept.13th.

Supervisory Board – The following major decisions were made at the meetings of the Supervisory Board of Synergon Information Systems plc. between January 1st and December 31st 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 1st 2005, Hanus Weisl was appointed General Manager of Infinity a.s.

As of July 1st 2005, Mr. Viktor Hampl and Mr. Attila Kovács (SAO Managing Director) were appointed respectively as Assistant CEO, Sales and Marketing and Assistant CEO, Technical, of Synergon Information Systems plc.

As of September 1st 2005, Mr. Péter Andreidesz-Kovács and Mr. Péter Varga were appointed regional financial manager and communication manager respectively.

As of December 14th 2005, Ms. Zsuzsanna Imre was appointed financial director of Synergon Information Systems plc.

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