

**FLASH REPORT**



**Financial results of Synergon Information  
Systems Plc. for the six-month period  
January 1<sup>st</sup> to June 30<sup>th</sup> 2006**

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

[www.synergon.hu](http://www.synergon.hu)  
e-mail: [investor\\_relations@synergon.hu](mailto:investor_relations@synergon.hu)



**The net sales of the Synergon Group amounted to almost exactly HUF 10 billion during the first half of 2006, with this the Company's performance exceeded that of the equivalent period of the previous year by 18 percent. At the beginning of the period, the hardware orders of the telecom and the public administration sectors played a substantial part in the sales achieved; however, due to various high-contribution projects of the second quarter, the contribution ratio for the entire six-month period was virtually the same as that of the base period. In contrast with the first half of 2005, when, eliminating the non-recurring effect of the releasing of previously made provisions of HUF 372 million, it made a loss of HUF 59.1 million, the Group closed the period with a positive net profit of HUF 23.7 million.**

The parent company played a major role in the increase of the Group's sales. The 28-percent increase of the sales of Synergon and SAO was the collective result of various factors. Whereas the demand increase due to the expansion of the broadband networks of the telecom sector is expected to positively affect the entire year, the Company received substantial municipal government orders drawing on EU funds (GVOP 4.4.2 and 3.3.2) during the period. In addition, there was considerable growth in the orders of industry customers. On Group level, the effect of last year's reinforcement of sales activities is clearly perceptible, as the volume of new orders has required the expansion of resources in various areas.

Of the operating companies, Fibex, performing substantially better than in quarter 1, achieved a sales level 8 percent higher compared to the base during the first six-month period, despite the fact that there were considerable shortfalls during the first quarter due to the delays of cabling works. While operating expenses jumped during the period due partly to the increasing headcount, the net profit of the Company did not fall far behind that of the base period.

As a result of the discontinuance of uneconomical activities and the loss of some of its established markets, the sales of Infinity were 15 percent lower than the equivalent figure in the base period. Through the efficiency-improving measures instituted by the Czech company, losses were reduced by 62 percent on the operating level and by 70 percent net within a year. The company is expected to close the current year around the break-even point.

Like the in first quarter, Span also closed the second quarter with a loss; the company is facing increasingly tough competition on one of its major markets, i.e. Microsoft solutions applications. Strong competition results in a contribution level substantially lower than before; consequently, the Croatian company closed the six-month period at a loss in excess of HUF 100 million despite the fact that its net sales increased by 25 percent.

Instead of the former, case-by-case measures that had not affected the fundamental problems, Synergon's management now plans in-depth structural changes in the interest of ensuring the stable profitable operation of the foreign operating companies. Synergon CEO Zoltán Radnóty stated: 'The introduction in October of matrix management will be a significant step forwards in the operation of the Group. Using the new operation model we will endeavour to make better use of our client relations in the region, our knowledge base and still significant efficiency reserves. At the same time group-level business branch control will become stronger ensuring that the operating companies are set on the growth course that the parent company is now clearly moving along.'



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

Comparing the six-month period ending June 30<sup>th</sup> 2006 with the same period of 2005

The 2006 data contained in this report are based on the unaudited consolidated balance sheet and profit and loss accounts, prepared in accordance with the IFRS. For the convenience of readers, forint amounts have been converted into Euro. The average exchange rates applied for the items of the profit and loss account are, respectively, HUF 267.33 and HUF 246.65 per 1 Euro for the first six months of 2006 and the equivalent period of 2005. The closing exchange rates applied for the balance sheet items are HUF 247.36 and HUF 281.93 per 1 Euro for June 30<sup>th</sup> 2005 and June 30<sup>th</sup> 2006, respectively.

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

### Group results

<i>Profit and loss statement</i>	thousand HUF					
	2006		2005		Change%	
	H1	Q2	H1	Q2	H1	Q2
<b>Net sales</b>	<b>9 980 121</b>	<b>4 748 289</b>	<b>8 437 372</b>	<b>4 166 337</b>	<b>18%</b>	<b>14%</b>
of which services (%)	35%	49%	42%	49%		
of which products (%)	65%	51%	58%	51%		
<b>Cost of sales</b>	<b>-6 871 690</b>	<b>-3 158 878</b>	<b>-5 731 501</b>	<b>-2 905 587</b>	<b>20%</b>	<b>9%</b>
in % of sales	69%	67%	68%	70%		
<b>Contribution</b>	<b>3 108 431</b>	<b>1 589 410</b>	<b>2 705 871</b>	<b>1 260 750</b>	<b>15%</b>	<b>26%</b>
Contribution margin (%)	31%	33%	32%	30%		
Operating expenses	-3 105 073	-1 637 128	-2 887 656	-1 481 969	8%	10%
<b>EBITDA</b>	<b>291 752</b>	<b>91 342</b>	<b>113 346</b>	<b>-79 387</b>	<b>157%</b>	<b>215%</b>
EBITDA margin (%)	3%	2%	1%	-2%		
<b>Operating profit</b>	<b>3 358</b>	<b>-47 718</b>	<b>-181 785</b>	<b>-221 219</b>	<b>102%</b>	<b>78%</b>
Operating margin (%)	0%	-1%	-2%	-5%		
Other income and expenses	-78 542	21 132	422 603	428 251	-119%	-95%
Net financial income	54 397	16 657	32 431	31 107	68%	-46%
<b>Profit before taxation</b>	<b>-20 787</b>	<b>-9 928</b>	<b>273 249</b>	<b>238 140</b>	<b>-108%</b>	<b>-104%</b>
Corporate tax	-11 556	-6 592	-16 385	-11 214	-29%	-41%
Net profit	-32 343	-16 520	256 864	226 926	-113%	-107%
Effect of minority interest on profit	56 043	19 841	55 996	4 718	0%	321%
<b>Net profit falling on the parent company</b>	<b>23 700</b>	<b>3 321</b>	<b>312 860</b>	<b>231 644</b>	<b>-92%</b>	<b>-99%</b>
Net margin (%)	0%	0%	4%	6%		



### **Net sales**

During the first six months of 2006, the Synergon Group achieved sales revenue of HUF 9,980 million, which, calculated on HUF basis, represents an 18-percent increase compared to that of the base period. This dynamic growth during the first half-year was primarily the result of the efficient operation of Synergon Information Systems Plc. and SAO-Synergon Ltd.

Of the operating companies, Synergon/SAO achieved the highest increase of its sales (28 percent), Span generated a similarly high growth rate of 25 percent, the sales of Fibex grew by 8 percent, while those of Infinity dropped by 15 percent compared to the base period.

In the sector-by-sector breakdown of the sales of the Synergon Group, the telecommunications and the financial sectors accounted for 24 percent and 13 percent respectively, industrial companies and the public utilities and transport industries represented an overall 17 percent, whereas the share of the public sector remained 21 percent during the period under review. Other, unclassified sales represented 25 percent. Compared to the base period, the share of the telecom sector rose at a soaring rate, the percentage of sales in the public administration sector also increased dynamically, while there was a substantial drop in the share of industry and services. No significant change took place in the other sectors in terms of their performance during the first six months of 2006, apart from some realignment due to general market dynamics.

In the first six months of 2006, the service content of sales was 7 percent lower than the equivalent data of the base period, due mainly to substantial network device sales and the perceptible growth of the share of hardware purchases by the public administration sector during the previous quarter. The service content achieved in the second quarter alone was similar to that of the base year (49 percent).

### **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 15 percent compared to the previous period. All the operating companies with the exception of Span had a positive effect on performance.

The 31-percent contribution achieved represents a 1-percent decrease compared to the previous year. This shift was due to a change in the sales components, as product sales, which result in lower contribution, accounted for a higher share of the sales total than during the base period.

### **Operating expenses**

During the first six months of 2006, operating expenses amounted to HUF 3,105 million, i.e. there was an 8-percent increase in that cost item. Of the operating expenses, the change was due to the cost of labour and fuel, experts' fees and maintenance costs.

### **Net financial income**

During the first six months of 2006, net financial income amounted to HUF 54 million, a result of the substantial fluctuation in the exchange rates of the forint and other currencies, and which accrued on the receivables and liabilities during the period under review.

### **Net profit**

The share of the parent company of the net profit of the Synergon Group, net of minority interest, amounted to HUF 24 million during the first half of 2006. That represents considerable improvement compared to the equivalent period of the previous year, considering that earlier provisions of HUF 372 million had been released during the first half of 2005. Eliminating the non-recurring effect of that transaction, the base period would have been closed by a loss of HUF 59 million.



## Staff level

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

On Group level, average staff levels were 539 and 540 respectively as on June 30<sup>th</sup> 2006 and a year before.

Average staff numbers	2006 Q2 average	2005 Q2 average	Change %	2006 Q2 closing	2005 Q2 closing
Synergon/SAO	335	334	0%	330	338
Fibex	22	20	12%	22	21
Infinity	121	132	-8%	119	136
Span	60	54	11%	59	54
<b>Total</b>	<b>539</b>	<b>540</b>	<b>0%</b>	<b>530</b>	<b>549</b>

## Analysis of the operating companies of the Synergon Group

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

Operating companies	thousand HUF								Change %	
	2006				2005				H1	Q2
	H1	%	Q2	%	H1	%	Q2	%		
<b>Net sales</b>	<b>9 980 121</b>	100%	<b>4 748 289</b>	100%	<b>8 437 372</b>	100%	<b>4 166 337</b>	100%	18%	14%
Synergon/SAO *	<b>7 156 594</b>	72%	<b>3 077 495</b>	65%	<b>5 571 187</b>	66%	<b>2 444 726</b>	59%	28%	26%
Fibex	<b>731 758</b>	7%	<b>447 492</b>	9%	<b>677 282</b>	8%	<b>371 894</b>	9%	8%	20%
Infinity	<b>1 394 971</b>	14%	<b>784 366</b>	17%	<b>1 641 117</b>	19%	<b>1 102 837</b>	26%	-15%	-29%
Span	<b>1 067 486</b>	11%	<b>641 240</b>	14%	<b>853 878</b>	10%	<b>393 795</b>	9%	25%	63%
Consolidation	<b>-370 688</b>	-4%	<b>-202 306</b>	-4%	<b>-306 092</b>	-4%	<b>-146 914</b>	-4%	21%	38%

### The distribution of income

During the reporting period, the sales of Synergon Information Systems Plc. and SAO-Synergon Ltd. accounted for 72 percent of the sales of the Synergon Group. 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. On a Group basis, the weight of Fibex and Infinity decreased respectively by 1 and

5 percent, while that of Synergon/SAO and Span increased respectively by 6 and 1 percent.

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



## Synergon Information Systems Plc.

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

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

Synergon/SAO *	thousand HUF					
	2006		2005		Change%	
	H1	Q2	H1	Q2	H1	Q2
<b>Net sales</b>	<b>7 156 594</b>	<b>3 077 495</b>	<b>5 571 187</b>	<b>2 444 726</b>	<b>28%</b>	<b>26%</b>
of which services (%)	35%	50%	44%	56%		
of which products (%)	65%	50%	56%	44%		
<b>Cost of sales</b>	<b>-4 964 741</b>	<b>-2 050 373</b>	<b>-3 776 081</b>	<b>-1 676 032</b>	<b>31%</b>	<b>22%</b>
in % of sales	69%	67%	68%	69%		
<b>Contribution</b>	<b>2 191 853</b>	<b>1 027 122</b>	<b>1 795 106</b>	<b>768 694</b>	<b>22%</b>	<b>34%</b>
Contribution margin (%)	31%	33%	32%	31%		
Operating expenses	-2 084 464	-1 079 420	-1 868 522	-974 473	12%	11%
<b>Operating profit</b>	<b>107 389</b>	<b>-52 298</b>	<b>-73 416</b>	<b>-205 779</b>	<b>246%</b>	<b>75%</b>
Operating margin (%)	2%	-2%	-1%	-8%		
Other income and expenses	-61 795	30 492	420 857	407 138	-115%	-93%
Net financial income	256 097	17 788	52 217	32 811	390%	-46%
<b>Profit before taxation</b>	<b>301 691</b>	<b>-4 018</b>	<b>399 658</b>	<b>234 171</b>	<b>-25%</b>	<b>-102%</b>
Corporate tax	-5 002	-697	-6 279	-4 687	-20%	-85%
<b>Net profit</b>	<b>296 689</b>	<b>-4 715</b>	<b>393 380</b>	<b>229 483</b>	<b>-25%</b>	<b>-102%</b>

## Operating environment

In the areas of operation of Synergon Information Systems Plc., substantial differences continued to exist in terms of the prosperity of the various market sectors during the first six months of 2006. In terms of sales, there was substantial growth on the *public administration market* compared to the equivalent period of the previous year, due primarily to orders in the pre-election period and the considerable increase this year in the volume of orders by municipal governments. Customer projects relied mainly on hardware purchases.

As it was discussed in our last quarterly report, the spending structure of government institutions is undergoing a substantial change. As is usual in the operation of businesses, the method of financing projects and developments out of the institutions' budget is being replaced by project-oriented spending based on central decision-making, spanning several institutions. A certain part of that spending has been financed out of EU funds, which ratio will substantially increase in the

future. The changes discussed above will definitely have positive medium- and long-term effects for the ICT sector. However, that is somewhat overshadowed by the fact that the invitations for and the assessment of tenders continue to be delayed, which problem is not relieved by the current reorganisation of the structure and personnel. This makes the planning of revenues more difficult. With a view to increasing the efficiency of its sales, Synergon has developed a new sales strategy in response to the evolving market situation, where the chief priorities lie on the treatment of the public administration sector on the senior management level, the IT-related developments of the NDP II and the preparatory efforts concerning these developments.

Due to the depletion of the EU grant budget, no substantial new projects are to be launched during the second half of the year in public administration. While new projects concerning the new EU budget period (2007 to 2013) are expected to be published at the beginning of next



year, actual projects will only start to be launched during the second half of 2007.

In 2006, the telecom and media markets have been the most dynamically growing markets for Synergon. Compared to the equivalent period of the previous year, the Company managed to more than double its net sales. This was due mainly to the soaring volume of projects related to broadband data services, which far exceeded the expectation. For Synergon, this sector represents a calculable and high-service content source of revenue through its maintenance and operation contracts. On the broadcasting market, the most urgent challenge is getting prepared for the launch of digital radio and television broadcasting.

On the cable TV market, the largest projects have targeted the development of 3-Play services in 2006, primarily in order to pave the ground for the entry to the markets of Internet and telecom services.

As far as Internet service-providers are concerned, there is a similar challenge to the one in the case of cable television operators, i.e. the launching of 3-Play services need to be prepared in order to retain a competitive edge. There has been continued interest during the period under review in applications (e.g. CRM) software.

In the *insurance and financial* segment, Synergon virtually repeated its performance in the first quarter. It should be noted, however, that companies tended to cut back on their investments during the past quarter, which was probably partly due to the uncertainties associated with the measures implemented in the elections period affecting the banking sector. The drop was the result of the pessimism of market operators due to the fact that interest margins had been decreasing for years, to macroeconomic uncertainties and the anticipated tax increases. Growth can be expected during the second half of the year as the macro economy stabilises and banks' profit expectations are met. An important activity for the future is to establish the IT background of the accounting of the new interest tax.

As in last year, the *industry and services* segment was able to improve its performance during the second quarter, managing to substantially increase the contribution of the sales of the sector

compared to the previous quarter through some higher service content and added value projects (MOL, ELMŰ, TIGÁZ). In this market segment Synergon has long-term operation agreements that supplement its dominance as a supplier of infrastructure. IT projects implemented by operators in the industry and public utilities sector are increasingly geared toward the boosting of their operational efficiency, including the IT support of core activities such as production management, the extension of ERP functions and BI.

Due to the efficiency of Synergon's organisation, the enterprise sector will remain the number one target during the current fiscal year. While there is lesser potential in this segment as far as growth dynamics are concerned, it remains the Company's primary target area in absolute terms due to its size and to our existing customer base. Obviously, that does not diminish the crucial importance of the *small and medium-sized company* sector, which is, in fact, an important constituent of the strategy under preparation. EU grants are a critical factor in that sector, too. According to market surveys, representatives of the SME sector tend to focus on ERP and document management systems supporting their business flows and substantial EU funds are expected in this area. These projects will naturally lead to additional investments. Synergon has considerable experience in the preparation of EU tenders. During the period under review, the Company held a road show in order to present its competencies to the relevant market operators, generating a number of new business opportunities.

## Results

In the first six months of 2006, the sales generated by Synergon Information Systems Plc. and SAO-Synergon Ltd. (HUF 7,157 million) were 28 percent higher than during the equivalent period of 2005 (HUF 5,571 million).

The service content of the company dropped by 9 percent compared to the 44 percent achieved in the base period. The rate of the increase of operating expenses (31 percent) was 3 percentage points higher than that of sales during the period under review, which resulted in some decrease of the contribution, to 31 from the previous 32 percent. During the first six months of 2006, the



operating profit of Synergon and SAO was, collectively, HUF 107 million, against a loss of HUF 73 million generated in the equivalent period of 2005. Net profit amounted to HUF 297 million; that figure, however, includes the dividend of HUF 200 million from SAO-Synergon Ltd., which does not appear in the consolidated statement.

### **Business units**

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

Compared to the base, the sales and the contribution of the Division grew during quarter 2, as the result of earlier deliveries and the expansion of the portfolio started in 2005. During the past quarter, the relations between Huawei and Synergon were developed in various areas in order to accelerate the launching of Huawei products on the market. The developments include new, different approaches in servicing the Enterprise and the SP sectors as far as network devices and the related support services are concerned. In addition, various programs have been launched that may boost sales in the future. Harmonic as a manufacturer is not a new addition to the Synergon portfolio; since the Division has used Harmonic products in cable TV networks for over five years, customers have become familiar with the services, the performance and the reliability of these devices. Harmonic devices are supplied primarily for optical networks when the specifications of the customer require them. A good example is the 'Hytas system upgrade' by Magyar Telekom, where high-speed CWDM devices were supplied in order to meet the increasing demand for broadband Internet connection. That generated substantial sales for Synergon during the first six months of the year. (Synergon's main priority has been the high-quality servicing of customer requirements, which is enabled by the extensive expertise of its professional staff, encompassing the products of several manufacturers. This enables Synergon, as a non-manufacturer-specific solution supplier, to offer the most optimal solution to its customers, while the relations maintained with a number of manufacturers ensures the availability of a

network solution to any problem or individual requirement.)

In the second quarter, there was some growth on the public administration market even in terms of network orders, which generated 15 percent of the Division's sales during the period. The growth was hallmarked by some major projects including the installation of wireless networks in 86 secondary grammar schools, arranged by the Ministry of Education, or the network upgrade at Honvéd Hospital. In addition, projects started in quarter 1 were continued as a matter of course, the most substantial ones being the supplying of the IP telephone systems of the Public Network and the Office of Agriculture and Rural Development. While sales have started to drop in the sector due to financial cutbacks in public administration, previously launched projects tend to reach completion, if sometimes with a reduced budget. The sector typically generates one-third of the income of previous years.

The telecom sector was the most dynamic one in the first six months, generating over 40 percent of the Division's sales. The increasing demand was due to the incredibly high broadband Internet penetration, the requirement to reduce telecommunication costs as well as the consolidation moves going on within the sector. There were substantial optical and telecommunication network developments, which, along with the consolidation, increased the demand for management systems. Revenues were generated from the EDR (Tetra) project launched in quarter 2.

The industry sector is not a dynamic one in terms of network solutions, accounting for a mere 8 percent of the Division's sales during the second quarter. Few new customer agreements have been concluded in the sector; the Division generated most of its sales through long-term customer relations, focusing on the sales of network devices, implementation and premium support services.

18 percent of the Division's sales were generated by the financial sector during the past three months. Apart from the telecommunication sector, this is the other sector with the highest service content, including consulting, installation and maintenance services in connection with network devices. During the second quarter, projects launched earlier were typically continued. In



addition, Cisco DWDM devices were supplied and installed for Erste Bank in order to ensure the high-speed connection to the headquarters.

Since the sales to other than key customers exceeded the sales generated by the industry sector in quarter 2, the Division closed the quarter with a profit. The Division completed network projects for the EDS, NIIF, Dunakanyar, the Pázmány Péter Catholic University and the KFKI Particle Research Institute, while the Huawei educational centre also generated substantial income from its continuous training courses.

The activities of the *Business Solutions Division* cover the traditional activities of the former Software Division and the business consulting activities of Synergon Plc.

The growth of the market continued during the second quarter of 2006. Since the beginning of the year, the renewal of support and licence agreements have played a crucial role; in the second quarter, the Division repeatedly achieved a quantity and quality surpassing expectations. In comparison with the existing support and licence base, the Division managed to establish a position with respect to several new customers in both areas that enables the provision of support and server services apart from the proper project activities. The support agreement of the ELMŰ Case Follow-up System was renewed.

The municipal government projects launched during quarter 1 were continued to schedule, while the delivery of several new orders (Budakeszi Municipal Government, Vác Municipal Government, Ministry of Defence) as well as the delivery of document management and operation (workflow) support solutions for government bodies were begun.

The development of the telecommunication area was started during the second quarter. Return on the investment and the implementation of the projects are expected during the fourth quarter. The further development of the EPM system completed for T-Mobile is currently in progress.

In various sectors, particularly the industry/services sector, the demand has grown for development concerning the utilisation of the benefits of SOA technology and the efficient implementation of workflow support systems. The establishment of the technology background required in order to meet such demand to the appropriate standards and in a cost-effective

manner was completed during quarter 2. The demand is highest for workflow and multiproject management systems. Other key products include IT security solutions (vulnerability check, firewalls and virus protection). Major customers of the Division continue to include Mol, the Paks Nuclear Power Plant, Tigáz, EGIS, ELMŰ and FŐVÍZ. In addition to the above, agreements have been made with Audi concerning Microsoft software infrastructure and with Richter Gedeon Plc. for the implementation of a research document management system.

The data warehouse migration for the Hungarian Central Bank (MNB) was completed in the second quarter of 2006 and the preparation project has been started for the live launching of the system during 2007. The Division has entered into a new agreement with the Central Bank for the support of the system's operation and the completion of the tuning required during 'live operation'. The Division wishes to substantially increase its efforts in ID management, business intelligence solutions, SOA and workflow-based developments. On the operational side, the setting up of an organisation team will improve the delivery capabilities of the Division. The funds made available by the Norwegian Fund projects will be used to develop a new version of the Phoenix e-learning framework system. Apart from these, current projects include the development of the filing/document management solution.

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



sales of the Division compared to base, due mainly to the completion, during the first quarter, of major projects carried forward from last year. Following the decrease of projects in public administration during last year, the market grew during the first six months of the year, which positively affected the impact of the uncertainty surrounding the general elections. In the second quarter, IPH-6 installation continued at the post offices. In the municipal government sector, a full server consolidation program was implemented for the 16<sup>th</sup> District Mayor's Office and the hardware infrastructure was implemented by the Division for the basic and portal systems at the Budakeszi Mayor's Office. Hardware items were also sold to micro regional governments, while IBM servers were supplied to the Pázmány Péter University, the existing storage was expanded at Jeans Club Ltd. and HP servers were installed for MOL and Shell.

During the previous year, the financial sector was the most powerful area for the Division, where the ratio of calculable, recurring sales could be increased substantially through support and maintenance agreements (MFB, HVB, Erste Bank). Further growth is anticipated by the Division in the banking sector as well as projects being expected at MOL, TIGÁZ, Avon and various municipal governments. The telecom companies have been primarily focusing on the optimisation of the efficiency of their operations, which resulted in the considerable reduction of major development projects during the six months under review. The installation at Invitel has also been suspended until the second half of the year.

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

During the first six months of 2006, the major part of the sales of enterprise resource planning (SAP) was generated by projects carried over from the

previous year. There is no intensive growth on the ERP market, the market of SAP has become nearly saturated; the continuity for the product has been ensured primarily by agreements concerning operation and supplementary activities, generating ongoing, sustainable income for Synergon. Growth and development can be observed in the small and medium-sized enterprise (SME) segment. This market, however, needs to be specially treated due to its lower contribution-generating capacity. The GVOP projects currently being closed will further complicate the position of ERPs on the SME market. As phase 2 of the NDP will not open before 2007, project opportunities in the SME sector will be delayed until the second half of 2007. According to the usual market cycles, more significant growth may be expected for the second half of the year.

While there was a low number of official tender invitations in the public administration sector, in the second quarter, the Division was awarded the NHH upgrade project, where the ongoing implementation of the SAP upgrade will continue in the second half of the year.

There was steady growth in the industry, services and trade sector. One of the most substantial projects launched at the end of last year is the upgraded system of the Paks Nuclear Plant, combined with the change of the logistics model. There are also a number of smaller projects in progress at the Division (including SAP implementation for Esma Kft.) as well as a number of GVOP projects in order to enable investments for small and medium-sized businesses. Since the SAP All in One system at the Glovita glove factory has been implemented this year, service management is currently the main activity here. In the second half of 2006, the TIGÁZ SAP IS-U II project was started, with the Division acting as a subcontractor.

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



Substantial changes took place during the first months of 2006 on the *health and municipal government* market.

Market-building efforts during the past year yielded substantial results for the *municipal government* sector in the second quarter. The municipal governments having won the GVOP 4.4.2 projects for broadband Internet network implementation (the invitation was published year and the winners announced at the beginning of 2006) started public procurement early this year. The first successful public procurement project, with a contract value of over HUF 200 million, concerning the Sárbogárd Association was awarded to Synergon. It was followed by another three successful public procurement tenders at a collective contract value of over HUF 800 million. In addition to projects concerning network infrastructure implementation, Synergon has also been involved in other types of projects, including the winning of another GVOP public procurement project published by the Municipal Government of Budakeszi. In that project, the Company undertook the provision of services closely related to e-administration, e.g. the implementation of the institutional portal system and the GIS system. Further municipal contracts to be financed from European Union funds were entered into during quarter 2, including, among others, the supplying by Synergon of the IT system for the Magyarnándor school development. The municipal section of the Division closed the first half of the year with an overall contract value of over HUF 1 billion. This can be considered a remarkable achievement taking into account that this business unit only entered the market in any substantial way hardly more than a year ago.

On the *health* market, while HEFOP intra-institutional projects continued to be in the focus of activities, Synergon developed a complex solution during the past year, which enables it to supply complex system integration solutions in addition to being a leading clinical system supplier in the segment. Apart from the clinical software and the financial management system associated with it, the solution also includes the full IP-based network infrastructure and IP-based telecommunication and hospital-specific solutions. In addition to facilitating the everyday work of hospital employees and making the operation of the hospital more transparent, these

features can also ease the strain on patients during their stay at the hospital.

The first agreement serving as the basis for the complex solution was concluded during the second quarter with the Jósa András Hospital, one of the largest such institutions in Hungary. The value of this IT project is over HUF 130 million, and it includes the upgrading of the entire network, now to be fully IP-based, the branch exchange system and the related information devices.

Of the three intra-institutional HEFOP projects, the South Transdanubian one is at the most advanced phase in which Synergon is actively involved and will probably be able to deliver achievements in the third quarter. Obviously, Synergon wishes to submit a tender for the recently published Northern Hungary project as well as the North Plain Region project expected to be published soon, while it also plans to perform various implementations of its complex system integration solution this year, to serve as references in addition to the one completed for the Jósa András Hospital.

Besides information systems developed for retail companies, the *Retail* business unit offers various business solutions for public organisations. A double reconstruction phase was closed under the MÁV Pump Info Project, which involved 34 filling stations. During the elections period and following the measures aiming at cost rationalisation of public expenditure, the third phase of the project, including further 10 filling stations, has been postponed. In services, the developer team of the business unit successfully completed the implementation of the Shell Smart Card system for the Dunakeszi Electro World warehouse and the prognosis for the smart magnetic card project of Shell-McDonald's, i.e. the upgrading of the current chip solution to a more advanced technology solution, was made. The project will probably not be started before 2007, as the foreign owners of the two companies still wait to see the outcome of the final form and the effects for 2006 of the reforms announced by the government.

In the IPH (Hungarian Post Office) project, the staff of the Retail business unit performed the pre-installation of all post offices, including the installation of 1,900 PCs and the replacement of



all the cash registers. Similarly to the MÁV project, the project concerning the replacement of card scanners (POS) was suspended due to the financial cutbacks.

The business unit also had an opportunity in the banking sector, performing a full stock-take in the branch offices of the K&H Bank. It also made considerable achievements in the sales of the well-established and successful Synergon Retail System (SRS). Major new customers include A&H Fashion Ltd., having opened its first retail outlet at the Dunakeszi shopping centre and intending to open three other shops before the end of the year.

The management of the business unit managed to convince NCR GmbH to commission Synergon's Retail business unit with the Hungarian implementation of the information system of ALDI, the large German food retail chain, and the obtaining of the required permissions from the tax authority. That achievement has resulted in ongoing negotiations concerning supermarket installations in Hungary and the neighbouring countries. The business unit continuously tracks and monitors customers' requirements for innovation, as a result of which certain functions, previously only available in the company's ERP system, have been added to the SRS. Among others, these functions include the following: central article, pricing, central supplier, central customer, etc.

Under the business development policy, the business unit started cooperation on WebEdi with Comarch, a leading Polish IT company about a year ago. The system enables orders to be placed, the actual stock to be notified to suppliers and electronic invoices to be sent online between the companies. Various retail companies are currently inquiring about the system first launched by Metro and its suppliers; by the end of the year, Baumax and Auchan will also be connected to the electronic document management system.

In addition to the Hungarian market, the business unit extended its activities to each country in the

region, completing successful SRS projects in the Czech Republic, Poland and Austria. The application is soon also to be implemented in other countries of the region.

*System support and operation activities* have ensured a steadily calculable, high-contribution source of income for SAO-Synergon Ltd. During the first six months of 2006, it had a steady, calculable business. SAO rarely receives orders with specific individual requirements; therefore, individual project-based orders that are regularly received concerning additions to the operation activity are not considered part of its core business operations. During the second quarter, such projects included the migration of the Aegon Pension Fund (Network and Desktop operation). According to marketing forecasts, there will be growing demand for outsourced information services in Hungary and the region in general. The number of inquiries is increasing, yet it has not reached a massive scale. The market potential of SAO has continued to be determined by the globalisation efforts of businesses that intend to employ global service providers. SAO can thus safely reckon with various international agreements covering several countries. The Division's operation covers the entire region, partly in cooperation with the operating companies of the Synergon Group and in part through an ongoing cooperation with Atos Origin. The service centre (helpdesk) infrastructure, modernised during last year and operating on an IP basis, resulted in higher operational standards and quality at lower cost. This is the basis for the regional helpdesk system currently under implementation. In addition to services to its existing customers, in quarter 2, SAO provided support, among others, to Szerencsejáték Rt. for the 'call tracking system' development taken over from Atos Origin and sold during the first quarter. Plans for 2006 include the increase of market share, primarily through the small and medium-sized business segment.



## 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	thousand HUF					
	2006		2005		Change%	
	H1	Q2	H1	Q2	H1	Q2
<b>Net sales</b>	<b>731 758</b>	<b>447 492</b>	<b>677 282</b>	<b>371 894</b>	<b>8%</b>	<b>20%</b>
of which services (%)	1%	1%	1%	2%		
of which products (%)	99%	99%	99%	98%		
<b>Cost of sales</b>	<b>-570 300</b>	<b>-350 489</b>	<b>-548 904</b>	<b>-301 981</b>	<b>4%</b>	<b>16%</b>
in % of sales	78%	78%	81%	81%		
<b>Contribution</b>	<b>161 458</b>	<b>97 003</b>	<b>128 378</b>	<b>69 912</b>	<b>26%</b>	<b>39%</b>
Contribution margin (%)	22%	22%	19%	19%		
Operating expenses	-119 515	-58 846	-83 655	-45 914	43%	28%
<b>Operating profit</b>	<b>41 943</b>	<b>38 157</b>	<b>44 722</b>	<b>23 999</b>	<b>-6%</b>	<b>59%</b>
Operating margin (%)	6%	9%	7%	6%		
Other income and expenses	1 274	180	4 501	4 189	-72%	-96%
Net financial income	-858	-103	-1 616	-2 950	47%	97%
<b>Profit before taxation</b>	<b>42 358</b>	<b>38 234</b>	<b>47 606</b>	<b>25 238</b>	<b>-11%</b>	<b>51%</b>
Corporate tax	-6 777	-6 117	-7 617	-4 038	-11%	51%
<b>Net profit</b>	<b>35 581</b>	<b>32 116</b>	<b>39 989</b>	<b>21 200</b>	<b>-11%</b>	<b>51%</b>

During the second quarter of 2006, Fibex Ltd. managed to make up for the slight setback during the previous quarter in terms of both sales and contribution. During the first six months of 2006, the net sales of Fibex increased by 8 percent, to HUF 732 million compared to the HUF 677 million achieved in the base period. The rate of the increase of operating expenses (4 percent) was lower than that of sales, which indicates the improvement of the efficiency of operation. A whopping 26-percent increase was achieved in terms of contribution, whereas operating profit dropped by 6 percent. The net profit of Fibex amounted to HUF 36 million during the second quarter of the year.

The cooperation agreement with Colorvill Ltd. opened up new markets before Fibex for the distribution of a new range of products, including wall switches and sockets, line conduits and power poles. In February 2006, Fibex was awarded a contract to supply optical cables to Magyar Telekom for 1+1 years, and it has delivered substantial orders on the basis of that tender.

Similarly, optical cables are being supplied to UPC; the full quantity envisaged for the whole year was ordered during the first half of the year, with orders expected to continue with regularity in the second part of the year. The CWDM program (compacted data transmission over optical fibre) was launched at the end of last year and a Fibex-MVM-Trasmode Ltd. agreement is currently in the preparation phase. (At present, a Fibex proposal in the value of nearly HUF 400 million is being assessed by the MVM, with a serious chance to complete it during the second half of 2006.)

The company also stands a fair chance to win new customers, particularly in the construction industry through the ongoing launching of new products (cable conduits, energy trays, etc.)

As part of the Synergon Group, Fibex has been actively involved in cross-border operations. It has submitted tenders for regional projects with the Croatian operating company and communication is being established with the Bratislava telecom company with a view to the potential supply of optical cables.



### Infinity a.s.

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

Slovakian representative office in Bratislava in 2003 in order to service the needs of its Slovakian projects and, as an addition to its ERP portfolio, in 2004 it purchased BrnoData s.r.o., now operating under the name Infinity Data. The performance of both companies is consolidated in Infinity's profit and loss account and balance sheet statement. 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 *	thousand HUF					
	2006		2005		Change%	
	H1	Q2	H1	Q2	H1	Q2
<b>Net sales</b>	<b>1 394 971</b>	<b>784 366</b>	<b>1 641 117</b>	<b>1 102 837</b>	<b>-15%</b>	<b>-29%</b>
of which services (%)	47%	34%	34%	28%		
of which products (%)	53%	66%	66%	72%		
<b>Cost of sales</b>	<b>-711 006</b>	<b>-376 968</b>	<b>-1 091 274</b>	<b>-785 314</b>	<b>-35%</b>	<b>-52%</b>
in % of sales	51%	48%	66%	71%		
<b>Contribution</b>	<b>683 966</b>	<b>407 398</b>	<b>549 843</b>	<b>317 523</b>	<b>24%</b>	<b>28%</b>
Contribution margin (%)	49%	52%	34%	29%		
Operating expenses	-752 551	-420 771	-729 126	-348 384	3%	21%
<b>Operating profit</b>	<b>-68 586</b>	<b>-13 373</b>	<b>-179 283</b>	<b>-30 861</b>	<b>62%</b>	<b>57%</b>
Operating margin (%)	-5%	-2%	-11%	-3%		
Other income and expenses	-733	-485	-1 867	7 915	61%	-106%
Net financial income	8 829	2 894	-19 116	1 131	146%	156%
<b>Profit before taxation</b>	<b>-60 489</b>	<b>-10 964</b>	<b>-200 266</b>	<b>-21 814</b>	<b>70%</b>	<b>50%</b>
Corporate tax	223	223	-2 489	-2 489	109%	109%
<b>Net profit</b>	<b>-60 266</b>	<b>-10 741</b>	<b>-202 755</b>	<b>-24 303</b>	<b>70%</b>	<b>56%</b>

Figures include minority interest

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

During the first six months of the year, Infinity's results were significantly different from those in the equivalent period of last year. While the sales of the Czech operating company were 15 percent lower, it was able to increase its contribution by 24 percent through higher service-content projects as well as to reduce its operating expenses by 35 percent by the elimination of uneconomical operations. Of the operating companies of the Synergon Group, Infinity currently has the highest share of services (47 percent) within its sales. During the period under review, Infinity generated

a loss while operating at an improving rate of contribution (49 percent), whereas its net profit was 70 percent higher compared to the equivalent period of 2005.

The company, recording a substantially lower loss than last year, intends to achieve its main goal, i.e. long-term profitable operation, through increasing sales, cutting back operating expenses and establishing new competencies; to that end, substantial improvements of the sales organisation were started during the period.

In the first six months of 2006, the major part of the sales of the company were generated by orders delivered on the public administration market (National Land Office, Ministry of the Interior – PC sales and support) and in projects carried out for customers operating in the industry, services and trade sectors (Skoda Auto, Foxconn, Celestica



– hardware and network device supply). In addition, considerable income was generated on the retail market (Kaufland, Ahold, Tesco). The service income of the operating company was generated by software development, operation contracts, the sale of Navision licences and their implementation.

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

### Span d.o.o.

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

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

Span*	thousand HUF					
	2006		2005		Change%	
	H1	Q2	H1	Q2	H1	Q2
<b>Net sales</b>	<b>1 067 486</b>	<b>641 240</b>	<b>853 878</b>	<b>393 795</b>	<b>25%</b>	<b>63%</b>
of which services (%)	25%	21%	61%	95%		
of which products (%)	75%	79%	39%	5%		
<b>Cost of sales</b>	<b>-801 311</b>	<b>-466 386</b>	<b>-545 034</b>	<b>-244 971</b>	<b>47%</b>	<b>90%</b>
in % of sales	75%	73%	64%	62%		
<b>Contribution</b>	<b>266 175</b>	<b>174 855</b>	<b>308 844</b>	<b>148 824</b>	<b>-14%</b>	<b>17%</b>
Contribution margin (%)	25%	27%	36%	38%		
Operating expenses	-367 648	-204 611	-282 652	-147 504	30%	39%
<b>Operating profit</b>	<b>-101 473</b>	<b>-29 757</b>	<b>26 191</b>	<b>1 320</b>	<b>na</b>	<b>na</b>
Operating margin (%)	-10%	-5%	3%	0%		
Other income and expenses	-2 502	-2 887	-888	-888	-182%	-225%
Net financial income	-9 671	-5 041	947	115	na	na
<b>Profit before taxation</b>	<b>-113 645</b>	<b>-37 684</b>	<b>26 250</b>	<b>546</b>	<b>na</b>	<b>na</b>
Corporate tax	0	0	0	0	na	na
<b>Net profit</b>	<b>-113 645</b>	<b>-37 684</b>	<b>26 250</b>	<b>546</b>	<b>na</b>	<b>na</b>

A Figures include minority interest

In the period under review, the growth rate of the Croatian IT market was steadily if moderately improving, with a noticeable increase of orders in both the government and the business sectors, while large multinational suppliers have obtained an increasing influence at the former field to the expense of Croatian companies. The growth of the telecom market continued to be determined by deregulation in the network and telecommunication fields.

Span has streamlined its solutions portfolio, increasingly focusing on Navision implementations and the winning of technical

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

During the first six months of 2006, Span generated a loss due to the fact that, in a heavily competitive business environment, the Croatian company had been forced to undertake low-contribution projects out of strategic reasons in order to increase its market share.



Approx. one-fifth of the company's sales were generated by Croatian government orders (Croatian Electricity Company, Ministry of Defence, Ministry of Foreign Affairs, Croatian Motorway Authority). At the end of March, Span was awarded the ICT restructuring contract of the Rijeka harbour, where it carried out the full Microsoft Tetra infrastructure implementation, installation and all service management activities throughout the second quarter. Further major parts of the sales of Span were generated during the first six months of 2006 on projects delivered for customers in the telecom and media sectors (T-Mobile/Iskom, VIPnet, Croatian Radio and Television, Europa Press Holding). Major new projects during the period included the T-Com order for the implementation of the DSL network, obtained in cooperation with Huawei and the hosted exchange implementation and future maintenance commissioned by VIPnet, the second

largest mobile operator on the market. During the period, Span carried out the largest-ever Navision implementation in Croatia for the Thermocommerce company as well as concluded further contracts concerning the implementation of Navision business solutions (PIP, Iskon, Amcham).

Compared to the base period, there was a significant, approx. 25-percent increase in the sales of Span during the first six months of 2006. The 14-percent reduction of contribution was due to lower profit-margin contracts and the unfavourable exchange rate of the US dollar, the currency employed in licensing agreements. Operating expenses increased due to investments into human resources in order to lay the foundations for future operation. In consequence, the company recorded a net loss of HUF 114 million during the first six months of 2006.



## Analysis of the balance sheet and liquidity position of the Synergon Group as of June 30<sup>st</sup> 2006

<i>Balance sheet</i>	June 30, 2006		June 30, 2005		Change %	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR	HUF basis	EUR basis
<b>Assets</b>						
<b>Fixed assets</b>	<b>2 613 887</b>	<b>9 271</b>	<b>2 720 797</b>	<b>10 999</b>	<b>-4%</b>	<b>-16%</b>
Tangible assets	1 971 600	6 993	2 112 173	8 539	-7%	-18%
Goodwill	578 130	2 051	551 127	2 228	5%	-8%
Investments	11 546	41	17 633	71	-35%	-43%
Deferred tax	25 336	90	12 805	52	98%	74%
Long-term loans given	27 275	97	27 058	109	1%	-12%
<b>Current assets</b>	<b>7 745 013</b>	<b>27 471</b>	<b>7 646 332</b>	<b>30 912</b>	<b>1%</b>	<b>-11%</b>
Inventories	913 791	3 241	924 102	3 736	-1%	-13%
Accounts receivable	4 669 572	16 563	3 875 374	15 667	20%	6%
Liquid assets	1 302 624	4 620	1 554 928	6 286	-16%	-26%
Securities	302 768	1 074	499 420	2 019	-39%	-47%
Other current assets	556 258	1 973	792 509	3 204	-30%	-38%
<b>Total assets</b>	<b>10 358 899</b>	<b>36 743</b>	<b>10 367 129</b>	<b>41 911</b>	<b>0%</b>	<b>-12%</b>
Liabilities and shareholders` equity						
Registered capital	1 910 926	6 778	1 910 926	7 725	0%	-12%
Reserves	5 557 208	19 711	5 592 564	22 609	-1%	-13%
Retained earnings and reserves	-488 340	-1 732	-711 738	-2 877	-31%	-40%
<b>Owner`s equity (parent company)</b>	<b>6 979 794</b>	<b>24 757</b>	<b>6 791 752</b>	<b>27 457</b>	<b>3%</b>	<b>-10%</b>
Minority interest	77 652	275	106 265	430	-27%	-36%
<b>Total owners` equity</b>	<b>7 057 446</b>	<b>25 033</b>	<b>6 898 017</b>	<b>27 887</b>	<b>2%</b>	<b>-10%</b>
<b>Short-term liabilities</b>	<b>3 295 997</b>	<b>11 691</b>	<b>3 453 479</b>	<b>13 961</b>	<b>-5%</b>	<b>-16%</b>
Accounts payable	2 159 877	7 661	1 915 337	7 743	13%	-1%
Loans and bank overdrafts	50 535	179	396 484	1 603	-87%	-89%
Other short-term liabilities	1 085 585	3 851	1 141 658	4 615	-5%	-17%
<b>Long-term liabilities</b>	<b>5 456</b>	<b>19</b>	<b>15 633</b>	<b>63</b>	<b>-65%</b>	<b>-69%</b>
<b>Total liabilities and shareholders` equity</b>	<b>10 358 899</b>	<b>36 743</b>	<b>10 367 129</b>	<b>41 911</b>	<b>0%</b>	<b>-12%</b>

The balance sheet total of the Synergon Group as of June 30<sup>th</sup> 2006 (HUF 10,359 million) changed by less than 1 percent on a HUF basis compared to the closing value of the equivalent period of the previous year.

### Assets

#### Tangible assets

The net value of tangible assets decreased by 7 percent (HUF 140.574 million). The reduction was the result of the infrastructure and IT investments carried out by the Group and of the difference of amortization recorded. During the period under review, the volume of projects was minimal, below both that of the base period and the target level.

#### Goodwill

The value of goodwill recorded in the Group's consolidated balance sheet increased by 5 percent. The change was due to the goodwill value recognised on the increase of the investments of the operating companies of the Synergon Group between the two periods.

#### Investments

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

**Deferred tax**

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

**Long-term loans given**

The collective effect of contractual repayments of earlier loans, of new agreements and of the changes in the exchange rate did not change the HUF 27-million value of loans given.

**Inventories**

The Group's two largest companies, Synergon Information Systems Plc. and Infinity accounted for the HUF 10-million decrease compared to the base.

**Accounts receivable**

Eliminating settlements within the Group, the value of accounts receivable increased by 20 percent (HUF 794 million). The change was due to the increase of the sales value during the quarter under review. The higher volume of sales was primarily due to the performance of Synergon Information Systems Plc., SAO-Synergon Ltd., Span and, to a smaller extent, of Fibex Ltd.

**Liquid assets**

At the end of the reporting period, the value of cash and equivalents was HUF 1,303 million, the changes of which are described in detail in the cash flow analysis.

**Securities**

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

**Other current assets**

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

**Liabilities****Minority interest**

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

**Short-term trade creditors**

The value of short-term trade creditors was 13 percent (HUF 245 million) higher than the closing value of the base period, due to the increase at Span, Fibex Ltd. and Synergon Information Systems Plc. The value of trade creditors increased in proportion with the volume of sales.

**Credits and bank overdrafts**

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

**Other short-term creditors**

The closing value of other short-term creditors during the period under review amounted to HUF 1,086 million, which represents a HUF 56-million decrease compared to the base. The decrease is the result of a HUF 126-million reduction in accruals and of the change in the value of provisions.

**Long-term creditors**

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



**The cash flow statement as of June 30<sup>th</sup> 2006 shows the changes between December 31<sup>st</sup> 2005 and June 30<sup>th</sup> 2006 and the equivalent changes during the base period**

<i>Cash-Flow</i>	June 30, 2006		June 30, 2005	
	thousand HUF	thousand EUR	thousand HUF	thousand EUR
<b>Cash flow from operation</b>				
Profit before taxation and interest payment	7 143	25	269 618	1 090
Amortization and depreciation	288 395	1 079	295 131	1 197
Depreciation settlement	28 526	101	29 431	119
Exchange rate difference	4 967	18	38 016	154
Income from the sale of tangible assets	3 306	12	-7 623	-31
Income from the sale of treasury shares	-16 430	-58	-31 270	-126
Minority interest	-56 043	-199	-55 996	-226
Receivables and other current assets	2 507 201	8 893	2 266 626	9 163
Inventories	105 559	374	-91 940	-372
Liabilities and accruals and deferred income	-2 317 718	-8 221	-2 520 910	-10 191
Interest received	53 032	188	73 140	296
Interest paid	-27 797	-99	-13 514	-55
Tax settlement	23 299	83	-25 122	-102
<b>Net cash flow from operation</b>	<b>603 440</b>	<b>2 196</b>	<b>225 589</b>	<b>915</b>
<b>Cash flow from investment</b>				
Tangible assets purchased	-190 014	-674	-227 185	-918
Sale and purchase of short-term investments	-244 811	-868	-199 344	-806
Purchase of other long-term investments	0	0	2 072	8
Acquisitions	-13 712	-49	-21 055	-85
Income from the sale of assets	15 484	55	13 184	53
<b>Net cash flow used for investment</b>	<b>-433 054</b>	<b>-1 536</b>	<b>-432 328</b>	<b>-1 748</b>
<b>Net cash flow used for financial transactions</b>				
Income on the sale of treasury shares	159 000	564	142 570	576
Acquisition of treasury shares	-159 000	-564	-142 570	-576
Change in loan repayment liabilities	4 514	16	-166 328	-672
Dividend paid on minority interest	-18 595	-66	0	0
<b>Net cash flow from financing</b>	<b>-14 082</b>	<b>-50</b>	<b>-166 328</b>	<b>-672</b>
<b>Net change in cash and equivalents</b>	<b>156 305</b>	<b>554</b>	<b>-373 067</b>	<b>-1 508</b>
Cash and equivalents				
Opening value	1 146 320	4 066	1 848 135	7 471
Closing value	1 302 624	4 620	1 475 067	5 963

### Liquidity position

The value of cash and equivalents held by the Company as of June 30<sup>th</sup> 2006 was HUF 1,303 million, a HUF 156.305-million increase during the reporting period.

### Net cash flow from operation

There was a positive cash flow from operations in the value of HUF 603.440 million. The difference between the two periods was greatly influenced by the change in operating capital, which resulted in a negative cash flow of HUF 346 million in 2005 and a positive cash flow of HUF 295 million in 2006. The interest gain and tax settlements during the second quarter of 2006 (HUF 48

million) had a bigger positive effect on the cash flow than in the base period (HUF 35 million).

### Net cash flow for investments

The amount utilised during the period under review was nearly the same as in the base period.

### Net cash flow from financing

During the period under review, cash flow was generated under this heading due to the payment of dividends falling on the minority interest during the previous years. During the base period, the major part of earlier bank loans to Infinity and Span d.o.o. was redeemed by loans given by the parent company.



## Changes in capital and reserves

### Thousand HUF falling on the owners of the parent company

	Registered capital	Treasury shares	Margin	Capital reserve	Reserves from retained earnings	Exchange	Total	Minority interest	Total owners' equity
<b>Balance as of December 31, 2004</b>	<b>1 910 926</b>	<b>-87 600</b>	<b>5 643 179</b>	<b>28 685</b>	<b>-1 055 876</b>	<b>40 076</b>	<b>6 479 390</b>	<b>177 668</b>	<b>6 657 058</b>
Treasury shares sold		111 300			31 270		142 570		142 570
Treasury shares acquired		-142 570					-142 570		-142 570
Exchange difference					8	-505	-497	-6	-503
Minority interest acquired								-15 401	-15 401
Retained earnings					312 860		312 860	-55 996	256 864
<b>Balance as of June 30, 2005</b>	<b>1 910 926</b>	<b>-118 870</b>	<b>5 643 179</b>	<b>28 685</b>	<b>-711 738</b>	<b>39 571</b>	<b>6 791 752</b>	<b>106 265</b>	<b>6 898 017</b>

<b>Balance as of December 31, 2005</b>	<b>1 910 926</b>	<b>-118 870</b>	<b>5 643 179</b>	<b>28 685</b>	<b>-528 470</b>	<b>52 966</b>	<b>6 988 416</b>	<b>133 695</b>	<b>7 122 111</b>
Treasury shares sold		142 570			16 430		159 000		159 000
Treasury shares acquired		-159 000					-159 000		-159 000
Exchange difference						-32 322	-32 322		-32 322
Retained earnings					23 700		23 700	-56 043	-32 343
<b>Balance as of June 30, 2006</b>	<b>1 910 926</b>	<b>-135 300</b>	<b>5 643 179</b>	<b>28 685</b>	<b>-488 340</b>	<b>20 644</b>	<b>6 979 794</b>	<b>77 652</b>	<b>7 057 446</b>

### Thousand HUF falling on the owners of the parent company

	Registered capital	Treasury shares	Margin	Capital reserve	Reserves from retained earnings	Exchange	Total	Minority interest	Total owners' equity
<b>Balance as of December 31, 2004</b>	<b>7 725</b>	<b>-354</b>	<b>22 814</b>	<b>116</b>	<b>-4 269</b>	<b>162</b>	<b>26 194</b>	<b>718</b>	<b>26 912</b>
Treasury shares sold		450			126		576		576
Treasury shares acquired		-576					-576		-576
Exchange difference	0	-	2	-	0	-	-2	1	-1
Dividend payment and adjustment							-		-
Minority interest acquired							-	-62	-62
Retained earnings					1 265		1 265	-227	1 038
<b>Balance as of June 30, 2005</b>	<b>7 725</b>	<b>-481</b>	<b>22 812</b>	<b>116</b>	<b>-2 877</b>	<b>162</b>	<b>27 457</b>	<b>430</b>	<b>27 887</b>

<b>Balance as of December 31, 2005</b>	<b>6 778</b>	<b>-422</b>	<b>20 016</b>	<b>102</b>	<b>-1 874</b>	<b>188</b>	<b>24 788</b>	<b>474</b>	<b>25 262</b>
Treasury shares sold		506			58		564		564

## 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 Synergion Information Systems Plc. as of June 30<sup>th</sup> 2006.



### Shareholding structure of Synergon Information Systems Plc.

Owner	June 30, 2006	December 31, 2005
RCX Kft.	8.25%	9.37%
Miholek István	5.00%	0.00%
Raiffeisen Bank Zrt.	11.49%	4.93%
Financial investors, below 5 percent of shares each	72.49%	82.93%
Treasury shares	2.77%	2.77%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**General Assembly** – On May 29<sup>th</sup> 2006, the ordinary annual General Assembly of Synergon Information Systems Plc. approved Synergon's amended Annual Report. The suspended general meeting was continued on June 16<sup>th</sup> 2006, where the shareholders elected a four-member Supervisory Board and appointed Deloitte Könyvvizsgáló Kft. as the official auditor of the Company. The mandate of the members of the former Board of Directors and Supervisory Board as well as the appointment of the former auditor Ernst & Young Könyvvizsgáló Kft. expired as from April 30<sup>th</sup> 2006.

**Board of Directors** – The following major decisions were made at the meetings of the Board of Directors of Synergon Information Systems Plc. during the period January 1<sup>st</sup> and April 30<sup>th</sup> 2006: The Board took decisions on the transformation of the management of the Group and of the operating organisation of the Company and established the Group CEO function. It adopted a decision on the convening of Synergon's ordinary annual General Assembly and approved the report of the Board and the annual reports of Synergon Information Systems plc. and the Group. The Board passed a decision on the appointment of dr. Zsolt Tóth into the position of General Manager of Synergon Information Systems Plc. as from April 18<sup>th</sup> 2006 while at the same time it initiated the acquittal with mutual agreement of the former General Manager, Mr. Loránt Száray.

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

There has been no elected Board of Directors since May 1<sup>st</sup> 2006.

**Supervisory Board** – The following major decisions were made at the meetings of the Supervisory Board of Synergon Information Systems Plc. during the period January 1<sup>st</sup> and June 30<sup>th</sup> 2006: The Supervisory Board approved the convening of Synergon's ordinary annual General Assembly, the proposals to be submitted to the Assembly and the annual working plan and control program.

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

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

As of April 18<sup>th</sup> 2006, Dr. Zsolt Tóth was appointed General Manager of Synergon Information Systems Plc.

The new members of the Supervisory Board are Dr. Ádám Sándor Fintha-Nagy, Chairman, Ferenc Czakó, member, Mária Kemecsey and László Szalma employee delegates.

For further information please contact Péter Varga ([varga.peter@synergon.hu](mailto:varga.peter@synergon.hu)) Director, Communication Directorate  
 Synergon Informatika Nyrt., 1047 Budapest, Baross u. 91-95. Telephone: (1) 399-5500 Fax: (1) 399-5599  
[investor.relations@synergon.hu](mailto:investor.relations@synergon.hu) [www.synergon.hu](http://www.synergon.hu)