



a n n u a l r e p o r t

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## Mission mission

Synergon intends to become one of the best IT solution suppliers in Central Europe, undertaking a decisive role in establishing the region's e-economy. The secret behind our success is our technological and business knowledge together with a group of values that determine Synergon's picture of the future as well as its everyday operation, to the satisfaction of our investors, partners and colleagues.

## Vision Vission

We intend to establish a stable and successful IT solution providing company that is a determining factor on the Central European IT market. Our main virtue is our ability to efficiently manage the knowledge of our company at a regional level, because our employees' creativity, know-how, and successful teamwork make us valuable partners for our clients. Our professional results, our flexibility and our dynamic innovation activity guarantee our clients the most efficient solutions. This way we can secure our success on a long run, for our high quality services enable us to establish long-term relationships with our clients, providing all the participants with the most important advantages: continuous business activity and continuously produced income.

This is our competitive advantage.

## Always a step ahead of the rest...

synergon

*The new millennium requires a new approach. We are convinced that only those can be or remain serious participants on the market who are open to the perpetual development of information technology and adapt to the latest trends by continuously extending their knowledge. The companies operating in the traditional branches – to avoid being outrun by their competitors – must have an increasingly modern information technology infrastructure, and must consider the business possibilities offered by e-business from the aspect of maintaining and improving their market positions. Through better exploitation of the possibilities provided by this new medium, the Internet, they can carry out business transactions with their partners in a quicker and more efficient way, and they can obtain an unlimited number of new customers from anywhere in the world. IT service providers can do the most for their clients by supplying the latest in technology, made to suit the individual as well as the branch of industry, by adopting the solutions which the changing market dictates to the given activity, in other words by supporting the e-integration of economy.*

Presently the IT market is facing incalculable development. In the last few years the extension expressed in dollars was between 9-11 percent and in respect of info-communication applications Hungary developed by an even greater extent than the Western-European average. Similarly to elsewhere in the world, the rate of increase in Hungary is about twice the GDP. These figures clearly indicate that the dynamism of IT cannot be arrested, the traditional business processes of companies are being gradually transformed to suit the technological and knowledge requirements of information society.

Companies that are inexperienced in the information culture are often reluctant to take the first step or to start a transformation on a larger scale. However, they must realise that they are not simply amusing themselves by recognising the e-economy, they are not simply being taken over by some worldwide fashion trend, but they are complying with their own elemental interests. The task for IT companies is to make the clients' decision easier and to offer them solutions with which they can achieve their goals in a more efficient and more economical way, so that they can remain decisive factors on the market even in the future.

In the last few years Synergon showed all those characteristics that the majority of successful companies with a similar profile have: dynamic growth, market expansion, quick adaptation to technological changes.

**However, we are not, we can not be satisfied with this: we must become the best.**

One of our important aims is to maintain our approach and always be a step ahead of our competitors. Besides being financially prepared to secure our growth, we must also adjust the organisation to the rapidly changing requirements, and we must develop our products and services with continuous innovation. At the same time we must always be a step ahead of the users' demands, too: we must be prepared, so that by the time the demands are asserted, we are able to offer the solution of the highest standard, which will guarantee our success in years to come. We must understand our clients' business ideas and operation so that we can select those solutions from the ever-extending IT "arsenal" which are the most suitable for them, and integrate these in an efficiently operating system; and last, but by far not least, we must also be able to sell them these solutions with a reasonable profit.



Tibor Gyurós  
Chairman, CEO

# Global trends, market characteristics

The activity and management of Synergon Information Systems Plc. is influenced by both the global economic and social phenomena and the domestic and regional changes. As a result of its sphere of activities, Synergon is affected not only by the development of its own industrial branch, but also by the cyclical changes and influential factors of other economic and industrial branches.

## Information economy, information society

Sociologists agree that today we are living in the age of a new economic and social system, which has already passed the phase of development. This new system is most frequently referred to as “post-industrial” or the “information society and economy”.

The most characteristic feature of our era is that information has become the engine, the daily driving force of economy. As opposed to previous systems where this role was played by industrial production, today, in the development of the economy the same role is performed by precise and usable information obtained at the right time.

A few years ago obtaining and storing information represented the greatest challenge. Today the selection of information poses even bigger problems. Among all the accumulated pieces of information users have a difficult task, primarily in finding the ones which are important and interesting for them. This phenomenon is often referred to as ‘information overload’. This status induced unbelievable development in the field of information technology, as the collecting, storing and retrieval of information is performed by the devices developed in IT. The possession of valuable information, its fast acquisition and use represent competitive advantage.

For this reason information technology has expanded to all fields of business activity, from trade through administration to production. It enabled business organisations to develop their products in a shorter period of time, for a wider group of customers, thereby winning the sales competition against their competitors. It means that companies that do not appropriately use the possibilities offered by IT soon fall behind.

The accelerated rate of product life cycles made it necessary to use the automatic procedures offered by IT more extensively, making the development of the IT industry significantly more dynamic.

However, accelerated life cycles have triggered other effects as well. The risks and costs of product developments have significantly increased, since only the companies with a decisive market share could continue their activities in a profitable way. A decisive market share provided these companies with the possibility to make a standard or quasi standard of their technology or product, forcing the others to adapt and adjust to their products.

Obviously it resulted in further costs and sometimes even a fallback. The most successful companies started to make acquisitions among their competitors, obtaining new markets or technologies cheaply. Its global characteristic are reflected in an extremely dynamic consolidation process, in the course of which giant company empires are created, which forcefully determine their own market areas.

The rate of development is very fast. Resulting from the sudden reduction of product life cycles not only has IT become more valuable, but also human knowledge, the carriers of which are people, who invent, plan and realise modern products. People have, therefore, become the decisive element of company success again. Only those enterprises have the chance to become market leaders that have creative and experienced employees and are also able to manage the huge amount of accumulated knowledge at company level.

Apart from the above, another important phenomenon of the present is that the significance of traditional intermediary trade is continuously decreasing. Those who carry out a clearly commercial activity are taken over by companies providing services of a high standard. Today, it is cheaper to buy most services than to establish them.

## **Telecommunication and information technology as the engines of development**

Information society is based on the rapid progress of two fields in economy. One of them is telecommunications, which, as the information highway, made it possible to obtain information more quickly. The other one is information technology, which produced the devices, technologies and methods through which the handling of information became easier, and it triggered and automated an increasing number of tasks which had been performed by manual labour.

Two important phenomena can be observed in the evolution of telecommunications. On one hand there is the appearance and wide use of information technology devices in telecommunication infrastructure. On the other, the explosion-like extension of the communication bandwidth made it possible to move heavier and bigger information packages (see audio, video). Consequently, these two areas are getting closer and closer to each other, owing basically to the fact that large telecommunication companies are establishing their positions close to the communication infrastructure, mainly in the field of operations.

With respect to market capitalisation, the development of IT has put the companies operating in these branches of industry among the most successful ones. This had beneficial effects on other fields of the economy also.

## **The characteristics of the market**

A special feature of the IT market is the increasing significance of the services. The Hungarian market is more developed as compared to other Eastern Central European countries, but it is very much behind the regions that determine the major trends. Presently, IT services do not yet play the same role in the Eastern European region as they have had in the west for several years.

An increasing proportion of customers to large IT solution suppliers are recognising that IT development does not merely mean purchasing hardware and software. The value of the systems is determined not by the sum total of all the separate parts; organically, a part of it is knowledge and experience of how to create an operable complex system from these parts that really serves the clients' activities as an added value, and offers them a competitive advantage.

Synergon, with the experience gained during the ten years of its operation, can provide its clients with all this knowledge and all these values.

In the following two years, the proportion of services is expected to increase within IT projects. Two of their dynamically developing fields are IT consulting-type activities and the operation of IT systems. Accession to the European Union, global trade and the increasing role of geographically extended enterprises will soon require a more emphatic development of e-business consulting activities.

Companies will concentrate more on their own basic activity, and they will commission additional activities, such as information technology, to companies which can provide these services at a higher standard, as their own basic activity. Consequently, there will be an increasing demand for professional service providers that are able to perform high quality operational tasks as an integrated package of services.

# The role of Synergon Information Systems Plc. in shaping information society

In accordance with the statements above it can be stated, that the last years and decades saw the traditional institutions of economy, society and culture go through a fundamental transformation due to the rise of the IT support industry and the spread of the Internet. Today everybody needs IT services, regardless whether they are small companies, multinational corporations or bodies of public administration. Today business success also depends a great deal on how well the different organisations can live up to the challenges generated by information technology. If they cannot, their competitors will more easily overtake them, push them out or even swallow them.

In the economy changes take place from one day to another, extremely rapidly. Business processes are becoming more and more complex and incomprehensible. The key to the solution, a simple pattern which would create order among the entangled processes and filter out the disturbing factors is missing.

In the interest of efficient operation the contradicting processes must be formed into a synergetic power. This is the cause for which Synergon was established.

Our services unite the devices of information technology, communication and Internet technology, thereby offering efficiency-increasing and cost-reducing investments.

Synergon feels responsible for its customers' efficiency, therefore will not be satisfied with merely handing over its products and providing its services. We help the users from the beginning of the process to the end so that they are able to use these products and services in a way most suitable for them. We integrate the IT devices into the individually planned and constructed complex system, and we follow each stage of the system's development by network planning, software development, permanent access, maintenance, training, consulting and outsourcing. As a result of this our customers' IT investments turn into profit, with calculable operation costs, so that they can burden the risks of operation on Synergon.

Synergon offers such intelligent technology today, that already includes the future.

In our company's wide selection of products all our customers can find something with which they can make their operation simpler, easier and more efficient, while exploiting the possibilities in IT, they can give a new impulse to the progress of their company.

We believe that the planning and construction of the system is only the first step and not the destination. The essential things come after that: efficient operation, management of changes, users' training – making the investment a productive force. In the integration of solutions the role of added value will increase, thus we are ready to help our customers not only with technological but also organisational consulting. System or solution integration means that we provide continuous operability with a guarantee on high quality.

Our company considers quick and efficient adaptation to the changes to be a basic value. We know that information technology, as a boom industry of the economy may contribute strongly to making Hungarian companies equal on the European market. Synergon, as one of the biggest IT companies in Hungary, is fully committed to help its clients answer this historical challenge, which has a significant economic effect. This is why now, at the turn of the millennium, we place e-business solutions in the centre of our services.

Today there is a growing demand on the market for a complex, comprehensible, two-directional flow of information between the customers, the sellers and the suppliers. E-business is the door through which Hungarian companies can enter the market of the European Union under the same conditions as European companies.

The realisation of e-business is made possible through the integration of the co-operating companies' e-commerce solutions, the financial, logistics and other modules of the enterprise management systems, the data warehouses, and the decision support systems etc. If necessary, we resolve to fit systems via custom-made software development.

Integrated enterprise management and decision support systems form a very important part of our e-business services. Managers who determine operations and strategy, can provide their company with a competitive advantage with well-founded and precisely timed decisions.

Synergon intends to establish long-term partnerships. Our aim is to establish co-operations with our partners, in the course of which we take part in creating, operating, and managing IT systems. We offer our customers training, servicing and – on request – complex operation support.

The availability services share the problems and responsibilities of system operation with the supplier, and at the same time they also represent professional support with high added value.

As the first step of the outsourcing solutions, Synergon offers its clients an availability contract, although it is often replaced by an operation service. In the scope of operative leasing, a type of co-operation at a higher level, the agreement also features the continuous renewal of the already leased IT devices. In the scope of a comprehensive outsourcing agreement our client does not acquire devices, and the devices are not operated by their own employees, as the contract is concluded for a complex IT service.

## Strategic directions in 2001

Presently Synergon occupies a well-established position on the market, and it has promising prospects for the future. Hungarian companies count on its support, our former customers commission our company again and again. We owe these results to our reliability, our professional knowledge and our guarantee on quality. Synergon is a well-known company, which is a primary factor in obtaining new orders.

The decision-makers also give recognition to Synergon's performance as an IT consultant and solution supplier.

On the IT market there is fierce competition, and many other participants are trying to undertake a more dominant role. All participants must find the possibilities that enable them to excel and be different from the others. For this reason Synergon set its strategic aims to increase its presence on the market while preserving and strengthening its uniqueness. Taking this into consideration, we have three main strategic aims:

It is an important aim to maintain the financial and market stability of Synergon, as is the case with all companies operating on a competitive market. This can be ensured through two factors. One of them is to continuously raise the proportion of services within our income. Today it is services that make the difference in selection in the competition. Today it is important for the clients to see what added value their IT supplier will give them with the "tangible" products, which include the hardware devices and the software products "coming in boxes". The other means of stabilisation is the increase of continuously produced income. Such types of income require close co-operation between Synergon and its clients. These long-term, therefore calculable income activities, ensure the flexibility needed on such markets, which is a basic condition for Synergon to be able to find and take advantage of market niches and technological inconveniences.

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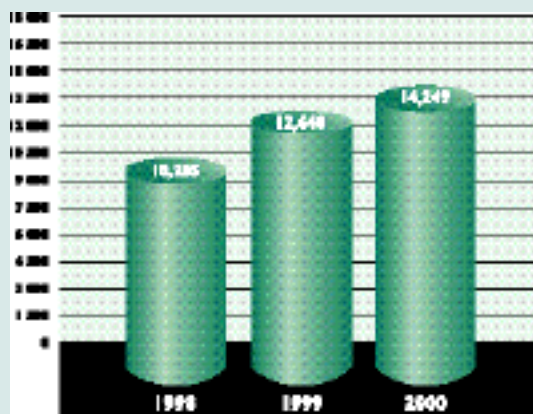
Beside the existing system integration activity we are concentrating on the outtasking, outsourcing and remote management services in connection with infrastructure operation. These services make it possible for us to offer our clients business and financial constructions which distinguish us from our competitors, and this is a further condition of maintaining and increasing our competitive advantage. Consequently, we are securing continuous income on one hand, and offer further possible advantages to our clients on the other, as they may consider it beneficial, to see the investment costs of their IT system evenly distributed.

The third element of Synergon's strategy is international expansion and the realisation of regional operation. We took the initial steps by acquiring majority ownerships in the Croatian Span d.o.o. and in the Czech Infinity a.s. IT companies. Synergon's expansion plans are generated by the demand for dynamic growth, which can only be ensured with an activity extending over the borders, offering greater possibilities than the domestic market. Synergon first of all intends to realise a regional activity, as the integration of the European Union is also pushing the market towards competition between regions rather than individual countries. Another natural inducement of geographical expansion is the appearance of the demand for an increasing number of orders and projects that extend over the borders.

# Main financial indicators of the year 2000

## Sales revenue

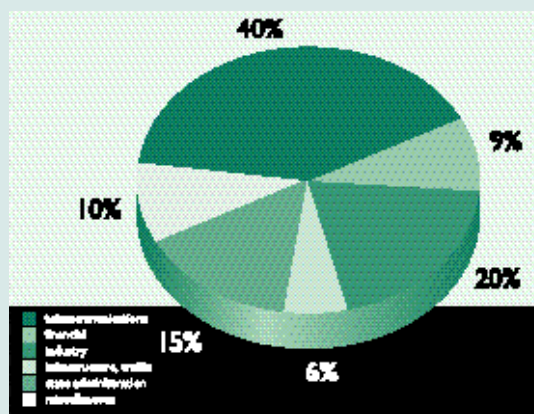
In the year 2000 Synergon Information Systems Plc., including the subsidiary companies belonging to the consolidation sphere, achieved a sales revenue of HUF 14,249 million, which shows an increase of 14.3% as compared to the sales revenue of HUF 12,648 million



Sales revenue in 1998, 1999 and 2000

achieved in the base period. A decisive part of the sales revenue was due to the Communication and Hardware Divisions, while beside the Communication Division the Services and the Value-Added Distribution Division also achieved a significant increase. During the period the telecommunications sector was represented in sales

with 40%, the financial sector with 9%, industrial companies with 20%, while the public utilities and transport sector with 6% and the state sector with 15%. Other sales not belonging to a sector came up to 10%. In the year 2000 the proportion of services in the sales



Sales revenue divided by sectors, 2000

amounted to 27%. The decrease that took place as compared to the 28% proportion achieved in 1999 was first of all due to the changing of the proportions represented by the different divisions in the sales revenue, which took place to the advantage of the divisions with a higher figure in sales of assets.

### Sales revenue per division

The distribution of the company's sales revenue among the divisions changed in accordance with the market demands as compared to the year 1999. The weight of the Services and Value-Added Distribution Division increased significantly, the proportion of the two most important divisions (Communication Systems, Hardware Systems) remained more or less the same, while the proportion of the Applications and BSD Divisions showed a decreasing tendency.

#### Applications Division

A decisive proportion of the division's sales revenue is still provided by Microsoft licence sales, but both in the case of the Microsoft and Lotus-based technologies, a less intensive market activity was observed in the field of licence sales and software development in the year 2000 as in the previous year. The sale of Oracle-based systems increased during the year, but it was not enough to counterbalance the decrease.

#### Communication Systems Division

The Communication Systems Division, which deals with the planning, supplying and installation of integrated communications infrastructure and also with related services, such as multimedia communications, cable television networks, significantly increased in the year 2000. The Network Communications Business Unit, Synergon's largest Business Unit, increased its sales revenue in 2000 to an extent significantly higher than the company average, first of all as a result of its well-established strong positions in the telecommunications

sector. The Intelligent Buildings and Cable TV business units achieved similar sales revenue in 2000 to that in the previous year, although with lower levels of cover. From the year 2000 the Services Division has been responsible for the subsequent support of the systems sold by the division.

#### Hardware Systems Division

The Hardware Systems Division offers products and services ranging from desktop computers and peripheries to servers that form the basis of company systems. Security and data storing solutions are important developing areas. In 2000 the division's sales revenue increased to an extent exceeding the company average. From the division's business units the sales of Intel and Unix Systems slightly increased in 2000 as compared to the previous year, while the Retail business unit realised a lower sales revenue. There was a significant increase in the field of mass storage systems and security systems. As a result of the strong demand for services regarding these two fields, the proportion of services in the division's sales revenue also increased.

#### Business Solutions Division (BSD)

The sales of the Business Solutions Division, which first of all deals with the introduction of complex ERP systems, decreased during the year 2000. Although all three of the ERP systems in the division's portfolio achieved a lower turnover in 2000 than in the year 1999, in the fourth quarter the division produced about 45% of its annual sales revenue, which shows that the new projects they won during the year

(both in the fields of SAP and JD Edwards) have started. The proportion of services in the division's sales was outstandingly high both in the period of 1999 and 2000 (87%).

#### Services Division

The sphere of activities in the Services Division includes the operation, supervision and management of IT systems in the scope of a long-term relationship with the clients, using the Call Center client service system, the Helpdesk service and the continuous availability service. In 2000 the division's sales revenue increased by 74% as a result of the continuous income deriving from the remote-management and outsourcing contracts. Another significant and increasing source of income is the service/maintenance activity, which includes primarily the supporting services of the systems sold by other divisions, provided as backup service after the installation. The division's sales revenue derives almost exclusively from selling services, as in 2000 the proportion of services was 100%.

#### Fibex Kft. - Value-Added Distribution Division (VAD)

Fibex Kft. deals with selling fibre-optic and copper cables and accessory equipment, and it operates as a 100% Synergon subsidiary. The sales of the VAD Division in 2000 increased by 90%. Fibex Kft.'s significant sales revenue increase was due to the great infrastructure investments (which also represented a significant item in the sales revenue of the Communication Systems Division) and the extraordinary demand for fibre-optic cables.

## Profit after taxation

On the basis of the gross profit, the company's profit after taxation was determined by the other operational costs, the financial and extraordinary profit and the tax payment obligation.

Sales, general, and managerial costs increased by 36.8% from HUF 3,734 million in 1999 to HUF 5,109 million in 2000, and it determined the trading profits, which came to HUF -746 million as compared to the HUF 448 million attained in 1999. Separated from the sales, general and managerial costs is an item of HUF 146 million in relation to a single reorganisation process.

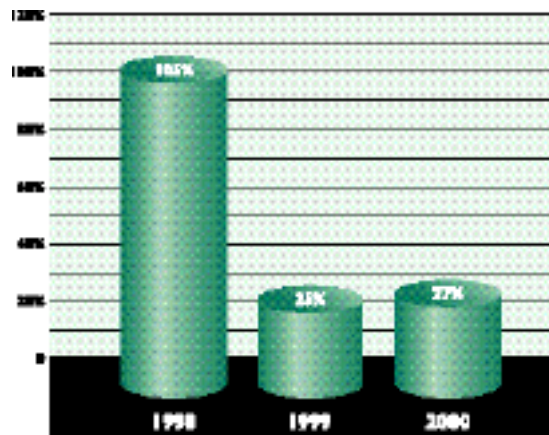
The net income from financial transactions was HUF 78 million in 2000 after the HUF 191 million reached in 1999.

In 1999 the company's tax payment obligation was HUF 32 million, while in 2000 it was HUF 31 million. As a result of the above Synergon Information Systems Plc. achieved a HUF 607 million profit after taxation in the base period and HUF -699 million in 2000.


## Balance and Cash flow

The balance sheet total of the Synergon group on 31st December 2000 (HUF 10,774 m) did not change significantly as compared to the level on 31st December 1999.

In 2000 Synergon's financial and liquidity situation was well balanced, apart from the temporary overdraft of their account the company did not use bank loans. On 31st December 2000 the company's liquid assets amounted to HUF 1,749 million, which can be explained by the facts described in connection with the closing balance of the current assets. Synergon's liquid assets increased by HUF 1,533 million in 2000. Inside this the cash flow deriving from the operation was HUF -491 million, which was affected by the change of the accounts receivable and the other current assets. The amount of cash flow used for investment activity was HUF 1,854 million, mainly as a result of the profit gained from the sale of short-term investments. The cash flow of HUF 170 million resulting from the financing activity was due to selling and purchasing ownership shares.



Debt-to-equity, 1998 - 2000



**Audited Consolidated  
Financial Statements  
December 31, 2000**

synergon

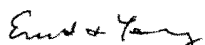
## Report of Independent Auditors

To the Shareholders  
Synergon Informatika Rt.

We have audited the accompanying consolidated balance sheets of Synergon Informatika Rt. and subsidiary companies (the Group) as at December 31, 1999 and 2000 and the related statements of consolidated income, changes in shareholders equity and cash flows for the years then ended, (collectively "the financial statements"). The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Group at December 31, 1999 and 2000 and the results of operations, changes in shareholders equity and cash flows for the years then ended in accordance with International Accounting Standards.

  
Ernst & Young  
Budapest, Hungary  
March 20, 2001

(All amounts in HUF 000's)

## Consolidated Balance Sheet

	Note	December 31, 2000	December 31, 1999
<b>Assets</b>			
Current Assets:			
Cash		1,749,272	224,000
Short term investments	3	-	2,504,293
Accounts receivable	4	3,882,951	4,523,720
Inventory	6	1,786,263	795,576
Other current assets	7	957,371	913,514
Total current assets		8,375,857	8,961,103
Non-current Assets:			
Property, plant and equipment	8	2,163,411	2,179,762
Investments		2,694	2,694
Intangible assets	9	232,105	333,681
Total non-current assets		2,398,210	2,516,137
Total assets		10,774,067	11,477,240
<b>Liabilities and Shareholders' Equity</b>			
Current Liabilities:			
Bank overdraft		-	7,336
Trade accounts payable		1,522,795	1,839,251
Other payables and accruals	10	760,321	444,453
Total current liabilities		2,283,116	2,291,040
Shareholders' Equity:			
Share capital	11	1,910,926	1,910,926
Treasury shares	11	(82,297)	(251,850)
Share premium		5,770,883	5,770,883
Revaluation reserve	12	15,311	15,311
Capital reserve		27,925	27,925
Retained earnings		811,060	1,679,170
Exchange reserve		37,143	33,835
Total shareholders' equity		8,490,951	9,186,200
Total liabilities and equity		10,774,067	11,477,240

See accompanying notes to the consolidated financial statements.

## Statement of Consolidated Income

	Note	Year ended December 31, 2000	Year ended December 31, 1999
Sales	13	14,249,303	12,468,270
Cost of sales		9,739,672	8,243,400
Gross profit		4,509,631	4,224,870
Selling, general and administration expenses	14	5,109,444	3,734,227
Loss on sale of Integra		-	42,761
Re-structuring cost	15	146,305	-
Operating (loss) income		(746,118)	447,882
Other income/(expense):			
Interest income	16	306,100	259,501
Interest expense	17	(212,883)	(24,257)
Foreign currency losses		(8,104)	(32,873)
Other expense		(7,004)	(11,479)
		78,109	190,892
(Loss) / income before tax		(668,009)	638,774
Income tax expense	18	31,349	32,026
Net (loss) / income		(699,358)	606,748
(Loss) / earnings per share: (HUF per share)	19	(74)	69

See accompanying notes to the consolidated financial statements.

## Statement of Changes in Consolidated Shareholder` Equity

	Share Capital	Treasury Shares	Share Premium	Revaluation Reserve	Capital Reserve	Retained Earnings	Exchange Reserve	Total
Balance at January 1, 1999	1,450,926	-	704,949	15,311	27,925	942,236	25,729	3,167,076
Reclassification due to Quality merger	-	-	(130,186)	-	-	130,186	-	-
Cost of Initial Public Offering	-	-	(553,880)	-	-	-	-	(553,880)
Issued share capital - cash	460,000	-	5,750,000	-	-	-	-	6,210,000
Purchase of treasury shares	-	(251,850)	-	-	-	-	-	(251,850)
Exchange gain on translation	-	-	-	-	-	-	8,106	8,106
Net income	-	-	-	-	-	606,748	-	606,748
Balance at January 1, 2000	1,910,926	(251,850)	5,770,883	15,311	27,925	1,679,170	33,835	9,186,200
Sale of treasury shares	-	275,550	-	-	-	(168,752)	-	106,798
Purchase of treasury shares	-	(105,997)	-	-	-	-	-	(105,997)
Exchange gain on translation	-	-	-	-	-	-	3,308	3,308
Net loss	-	-	-	-	-	(699,358)	-	(699,358)
Balance at December 31, 2000	1,910,926	(82,297)	5,770,883	15,311	27,925	811,060	37,143	8,490,951

See accompanying notes to the consolidated financial statements.

(All amounts in HUF 000's)

## Statement of Consolidated Cash Flow

	Note	Year ended December 31, 2000	Year ended December 31, 1999
<b>Cash flow relating to operating activities:</b>			
Net (loss) / income before taxation and interest	29	(924,952)	403,530
Depreciation and amortisation		590,362	453,918
Exchange gain on translation		3,308	8,106
Loss on sale of subsidiary		-	42,761
Gain on sale of fixed assets		(16,110)	(13,373)
Loss on sale of short term investments		104,487	-
Deferred tax benefit		9,908	(9,908)
<b>Changes in assets and liabilities:</b>			
Accounts receivable and other current assets		507,294	(1,873,109)
Inventory		(990,687)	(222,434)
Payables and accruals		(588)	(58,201)
<b>Cash used in operating activities</b>		<b>(716,978)</b>	<b>(1,268,710)</b>
<b>Returns on investment and servicing of finance:</b>			
Net interest received		256,943	235,244
Income tax (paid) / received		(31,349)	17,656
<b>Net cash flows used in operating activities</b>		<b>(491,384)</b>	<b>(1,015,810)</b>
<b>Cash flow relating to investing activities:</b>			
Purchase of fixed assets		(606,730)	(1,389,325)
Purchase of short term investments		-	(2,504,293)
Proceeds on disposal of fixed assets		150,405	265,778
Proceeds on disposal of short term investments		2,231,054	-
Net cash inflow (outflow) from disposal of subsidiary		79,710	(33,683)
<b>Net cash flow from (used) in investing activities</b>		<b>1,854,439</b>	<b>(3,661,523)</b>
<b>Cash flow relating to financing:</b>			
Lease payments		-	(86,360)
Cash increase in share capital		-	5,656,120
Sale of treasury shares		275,550	-
Purchase of treasury shares		(105,997)	(251,850)
Decrease in loans payable		-	(402,216)
<b>Net cash flow provided by financing</b>		<b>169,553</b>	<b>4,915,694</b>
<b>Increase in cash and cash equivalents</b>		<b>1,532,608</b>	<b>238,361</b>
<b>Cash and cash equivalents at the:</b>			
beginning of the year		216,664	(21,697)
end of the period	29	1,749,272	216,664

See accompanying notes to the interim consolidated financial statements.

# Notes to the Consolidated Financial Statements December 31, 2000

## 1. General

The consolidated financial statements of Synergon Informatika Rt. ("the company" or "Synergon") for the year ended December 31, 2000 were authorised for issue by the directors on March 20, 2001. Synergon Informatika Rt. is a public limited liability company incorporated under the laws of the Republic of Hungary.

The registered office of Synergon Informatika Rt. is located at Baross utca 91-95, Budapest 1047, Hungary.

The main operations of the group are in the area of information systems integration.

## 2. Significant accounting policies

### Basis of preparation

These consolidated financial statements of Synergon Informatika Rt. and its subsidiaries have been prepared in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Committee.

Synergon Informatika Rt. maintains its official accounting records and prepares its financial statements for domestic purposes in accordance with accounting regulations in force in Hungary (HAS). A summary of the significant differences between IAS and HAS as they affect these financial statements is presented in Note 30.

The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets.

The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. The financial statements of the Group are presented in thousands of Hungarian Forints (HUF 000).

### Basis of consolidation

The consolidated financial statements include the financial statements of Synergon Informatika Rt., (the parent company) and those companies in which the Group holds more than 50% of the voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies, are maintained in the currencies as indicated and converted into Hungarian Forints using the policy as described.

Companies acquired during the year are consolidated from the date on which control over the net assets and operations of the acquiree is effectively transferred to the Group. Acquisitions of subsidiaries are accounted for using the purchase method of accounting. Subsidiaries disposed of are consolidated up to the date of the disposal.

All intercompany balances and transactions, including unrealised intercompany profits, are eliminated.

The results and balances of the following companies are included within the consolidated results of the Group:

Company	Share -holding %	Currency	Acquisition date	Year end exchange rate
Fibex Kft.	100%	HUF	December 31, 1996	-
SynInvest Kft.	100%	HUF	-	-
Synergon Information Systems UK Ltd.	100%	GBP	September 30, 1996	425.5

### Investments and financial instruments

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment.

Short term investments, which are regarded as being held for resale, are measured at their fair value, the fair value being determined by reference to open market value at close of business on the balance sheet date, adjusted for transaction costs necessary to realise the asset.

Long term investments are carried at cost or revalued amounts. Provision is made where in the opinion of the Directors, there is a permanent diminution in value. Where there has been a permanent diminution in the value of an investment, it is recognised as an expense in the period in which the diminution is identified.

### Cash and cash equivalents

Cash on hand and in banks on short term deposit which are held to maturity are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risks of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash on hand and deposits in banks, net of outstanding bank overdrafts.

### Inventory

Inventory is stated at the lower of purchase cost, on the first-in, first-out basis, or net realisable value after making allowance for obsolete or slow moving items. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Work in progress goods are valued at production cost.

### Trade receivables

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when the collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at cost.

### Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not invoiced to the Group.

Payables to related parties are recognised and carried at cost.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision for warranty costs is recognised for all products under warranty at the balance sheet date based on past experience of the level of repairs and returns.

### Property, plant and equipment

Property, plant and equipment are stated at purchase price or production cost less accumulated depreciation. Depreciation is provided using the straight-line method at rates calculated to write off the cost of the asset over its expected economic useful life. The rates used by the company are between 15% and 20% for technical equipment, vehicles and machinery and 33% for computer software. Land is not depreciated and buildings are depreciated at rates between 1% and 3%. The carrying amounts are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated amount, assets are written down to their recoverable amount.

Production cost for self-constructed assets includes the cost of materials and direct labour. Expenditure on repairs and maintenance of property, plant and equipment incurred to restore or maintain future economic benefits expected from the assets is recognised as an expense when it is incurred.

### Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount as follows:

- (i) For financial assets at amortised cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- (ii) For financial assets at fair value – where a loss has been recognised directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised in equity is transferred to the net profit and loss for the period.

### Leased assets

Finance leases, which effectively transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the present value of the minimum lease payments at the inception of the lease term and disclosed as leased property, plant and equipment. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The present value of the related lease obligations is included in long and short term liabilities as appropriate. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.

### Goodwill

Purchased goodwill represents the excess of acquisition costs over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is reported in the balance sheet as an intangible asset and is amortised over a five year period using the straight-line method.

### Development costs

Research and development costs are expensed as incurred, except for development costs which relate to the design and testing of new or improved materials, products or processes which are recognised as an asset to the extent that it is expected that such assets will generate future economic benefits.

Deferred development costs are amortised from the date of commercial production of the product or from the date the process is put into use.

At each balance sheet date, the Company assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

### Income taxes

Taxation is provided in accordance with Hungarian fiscal regulations. The Company uses the liability method in accounting for income taxes.

Deferred tax assets and liabilities are determined using the tax rate for the period in which the temporary differences to which these deferred tax assets and liabilities relate are expected to reverse. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised. A deferred tax liability is recognised for all taxable temporary differences, unless they relate to goodwill or the initial recognition of an asset or a liability.

### Foreign currency translation

#### Foreign currency transactions

Non-monetary assets and liabilities denominated in foreign currencies are translated into Hungarian Forints at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. The resulting exchange gains and losses are recognised in the statement of income.

#### Foreign entities

The Group uses the closing rate method for translating the financial statements of subsidiaries whose transactions are recorded in foreign currencies. Under this method, on consolidation, assets and liabilities are translated at the exchange rates prevailing at the balance sheet date. Income and expense items are translated using average exchange rates which approximate to those prevailing during the period. Exchange differences arising on the translation of the financial statements of foreign subsidiaries are taken to exchange reserves.

#### Revenue recognition

Revenue is recognised at the time the goods are despatched by the company as this is the point at which the significant risks and rewards of ownership of the goods are transferred to the customer. For rendering of services, revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The method used determines services performed as a percentage of total services to be performed and applies this percentage to total revenue expected.

#### Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

#### Treasury shares

Treasury stock represents the cost of shares of the Company repurchased and is displayed as a reduction of shareholders' equity. Premiums and discounts on repurchase and subsequent disposal are credited and debited respectively directly to retained earnings. According to Hungarian regulations, any premiums arising are available for distribution.

#### Earnings per share

Basic earnings per share data is calculated based on the weighted average number of shares outstanding during the period excluding treasury shares held by the Company. Fully diluted earnings per share is calculated based on the weighted average number of shares outstanding as calculated for basic earnings per share and as adjusted for giving effect to the assumed issuance of all potentially dilutive securities. Net income is adjusted in the fully diluted earnings per share calculation for any income or expense associated with the potentially dilutive securities. At December 31, 2000 and 1999 there were no significant potentially dilutive securities in issue.

#### Segment reporting

Segmental information is based on the Company's three business segments which reflect the Group's internal management reporting structure.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Unallocated items mainly comprise corporate expenses, research and development costs, amortisation of intangible assets and, restructuring and other costs.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

#### Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

### 3. Short term investments

Short term investments at December 31, 1999 comprised treasury bonds earning average interest of 12% per annum payable upon maturity.

### 4. Accounts receivable

	2000	1999
Trade receivables	3,657,431	4,432,099
Less, reserve for doubtful accounts	(42,082)	(30,736)
	3,615,349	4,401,363
Gross amount receivable from customers for contract work (see below)	267,602	122,357
Accounts receivable, net	3,882,951	4,523,720

### 5. Contract work in progress

The following amounts relate to long term contracts in progress at the respective year ends.

	2000	1999
Contract revenue recognised as revenue in the period	497,822	358,380
Contract costs incurred and recognised profits (less losses) to date	434,435	209,507
Progress billings	(166,833)	(87,150)
Gross amount due from customers for contract work	267,602	122,357
Gross amount due to customers for contract work	-	-

### 6. Inventory

	2000	1999
Demonstration inventory	101,424	97,900
Goods for resale	1,393,741	661,461
Maintenance inventory	305,147	41,428
	1,800,312	800,789
Less, provision for obsolete inventory	(14,049)	(5,213)
Total inventories, net	1,786,263	795,576

(All amounts in HUF 000's)

## 7. Other current assets

	2000	1999
Uninvoiced contract work	344,965	75,404
Prepayments	135,822	95,961
Prepaid income tax	135,739	79,929
Deposits	104,186	78,236
Cost of acquisition of subsidiaries (see Note 30)	79,624	-
Receivable due from sale of Integra Rt.	60,000	139,710
Amount due from Integra Rt.	-	220,623
Employee advances	30,740	57,982
Accrued interest receivable	1,617	100,994
Deferred tax	-	9,908
Other	64,678	54,767
<b>Total other current assets</b>	<b>957,371</b>	<b>913,514</b>

## 8. Property, Plant and Equipment

Activity in property, plant and equipment was as follows for the years ended December 31:

	Technical Equipment, Vehicles & Machinery	Capital Projects	Land & Buildings	Computer Software	Total
<b>Cost:</b>					
January 1, 1999	887,449	188,542	685,441	152,474	1,913,906
Additions	630,125	504,360	25,319	229,521	1,389,325
Transfers	31,123	(576,554)	522,370	23,061	-
Change in group composition	(113,727)	-	(9,896)	(127,603)	(251,226)
Disposals/write offs	(349,152)	(2,161)	(9,556)	(12,981)	(373,850)
<b>December 31, 1999</b>	<b>1,085,818</b>	<b>114,187</b>	<b>1,213,678</b>	<b>264,472</b>	<b>2,678,155</b>
Additions	319,523	84,967	22,879	179,361	606,730
Disposals/write offs	(161,887)	-	-	(77,217)	(239,104)
<b>December 31, 2000</b>	<b>1,243,454</b>	<b>199,154</b>	<b>1,236,557</b>	<b>366,616</b>	<b>3,045,781</b>
<b>Depreciation:</b>					
January 1, 1999	288,404	-	29,832	88,852	407,088
Charge	257,350	-	56,629	37,363	351,342
Change in group composition	(80,499)	-	(2,743)	(76,729)	(159,971)
Disposals	(90,848)	-	(37)	(9,181)	(100,066)
<b>December 31, 1999</b>	<b>374,407</b>	<b>-</b>	<b>83,681</b>	<b>40,305</b>	<b>498,393</b>
Charge	272,527	-	94,647	121,612	488,786
Disposals	(64,649)	-	-	(40,160)	(104,809)
<b>December 31, 2000</b>	<b>582,285</b>	<b>-</b>	<b>178,328</b>	<b>121,757</b>	<b>882,370</b>
<b>Net book value:</b>					
December 31, 1999	711,411	114,187	1,129,997	224,167	2,179,762
December 31, 2000	661,169	199,154	1,058,229	244,859	2,163,411

The change in group composition during the year to December 31, 1999 refers to the disposal of Integra Rt. The net book value of the assets shown above includes certain assets that were revalued prior to January 1, 1998. Had these revaluations not taken place the net book value of fixed assets at December 31, 2000 would have been HUF 2,106,966 (1999; HUF 2,165,676).

## 9. Intangible assets

Activity in intangible assets was as follows for the years ended December 31:

	Goodwill
Cost:	
January 1, 1999	630,298
Additions	-
Disposals	(37,473)
Change in group composition	(120,764)
December 31, 1999	472,061
Additions	-
Disposals	-
December 31, 2000	472,061
Amortisation:	
January 1, 1999	76,529
Charge	86,004
Change in group composition	(24,153)
December 31, 1999	138,380
Charge	101,576
December 31, 2000	239,956
Net book value:	
December 31, 1999	333,681
December 31, 2000	232,105

## 10. Other payables and accruals

	2000	1999
Advance payments from customers	210,224	57,182
Other taxes	109,943	46,028
Accruals	104,202	11,311
Value added tax	95,640	262,130
Deferred service income	95,616	-
Social insurance	60,413	29,391
Warranty provisions	12,921	12,921
Other	71,362	25,490
	<u>760,321</u>	<u>444,453</u>

None of the above payables are specifically secured on any of the assets of the Group.

Advance payments include HUF 104,346 received from FVM Irányító Szervezete. Included within accruals is HUF 58,543 as the final instalment of an amount due for the factoring of a trade receivable balance (see Note 17)

Deferred service income represents amounts invoiced for the provision of support services, the costs of which will be incurred during 2001. The Company provides a three year warranty on certain products under which faulty products are repaired or replaced. The amount of the accrual is based on sales volume and past experience with the level of repairs and returns.

(All amounts in HUF 000's)

## 11. Share capital

### Ordinary share capital

On December 31, 2000 the Group's issued and fully paid share capital consisted of 9,554,630 shares with a nominal value of HUF 200 (only).

### Treasury shares

On December 31, 2000 the Company held 105,997 (1999: 110,000) ordinary shares of nominal value HUF 200 each as treasury shares. These shares were sold and repurchased on the open marketplace. A reconciliation of the number of shares outstanding at the beginning and the end of the current year is as follows:

	Ordinary Shares	Treasury Shares	Total
Actual number of shares			
January 1, 2000	9,554,630	(110,000)	9,444,630
Sale of treasury shares	-	110,000	110,000
Purchase of treasury shares	-	(105,997)	(105,997)
December 31, 2000	9,554,630	(105,997)	9,448,633

## 12. Revaluation reserve

The revaluation reserve arises from the revaluation of group's investment in land and buildings in 1996.

## 13. Segment information - business segments

For management purposes the company is organised into three major operating divisions - Information Systems Services (ISS), Business Solutions Developments (BSD) and software development (Integra Rt.). These divisions, as indicated below, are the basis in which the company reports its primary segment information.

Year ended 31 December 2000	ISS	BSD	Integra Rt.	Elimination	Total
<b>Segment revenues</b>					
External sales	11,553,273	3,546,078	-	(850,048)	14,249,303
Total revenue	11,553,273	3,546,078	-	(850,048)	14,249,303
<b>Segment result</b>	<b>3,124,893</b>	<b>1,384,738</b>	<b>-</b>	<b>-</b>	<b>4,509,631</b>
Selling, general and administration expenses	3,332,153	1,806,906	-	(29,615)	5,109,444
Re-structuring cost	146,305	-	-	-	146,305
Operating loss	(353,565)	(422,168)	-	29,615	(746,118)
Interest income, net	88,966	4,251	-	-	93,217
Other expense (income) net	8,910	5,597	-	(29,615)	(15,108)
Income taxes	13,531	17,818	-	-	31,349
Net loss	(298,835)	(430,138)	-	29,615	(699,358)
Segment assets	5,869,048	1,010,445	-	-	6,879,493
Unallocated assets					3,894,574
<b>Consolidated total assets</b>					<b>10,774,067</b>
Segment liabilities	1,234,676	378,963	-	-	1,613,639
Unallocated liabilities					9,160,428
<b>Consolidated total liabilities</b>					<b>10,774,067</b>

(Segment information - business segments continued)

Year ended 31 December 2000	ISS	BSD	Integra Rt.	Elimination	Total
<b>Segment revenues</b>					
External sales	10,913,297	1,749,630	604,255	(798,912)	12,468,270
Total revenue	10,913,297	1,749,630	604,255	(798,912)	12,468,270
<b>Segment result</b>					
	3,316,294	640,256	302,488	(34,168)	4,224,870
Unallocated corporate expenses					(3,734,227)
Loss on sale of Integra Rt.					(42,761)
Operating profit					447,882
Interest expenses					(295,256)
Interest income					530,501
Other expense (income) net					(44,353)
Income taxes					(32,026)
<b>Net profit</b>					<b>606,748</b>
<b>Segment assets</b>					
	5,003,451	807,464	-	(252,152)	5,558,763
Unallocated assets					5,918,477
<b>Consolidated total assets</b>					<b>11,477,240</b>
<b>Segment liabilities</b>					
	1,509,744	103,311	-	(252,152)	1,360,903
Unallocated liabilities					10,116,337
<b>Consolidated total liabilities</b>					<b>11,477,240</b>

Substantially all of the groups sales are made in the Republic of Hungary.

## 14. Selling, general and administration expenses

	2000	1999
Wages and salaries	2,341,095	1,101,145
Depreciation and amortisation	590,362	467,566
Marketing & advertising	248,342	268,231
Rental and lease fees	305,526	171,646
General administration	101,277	221,803
Professional fees	473,853	685,980
Training	46,772	67,184
Travel	100,903	126,420
Motor expenses	23,071	35,381
Telephone	131,571	139,814
Exhibitions	9,022	10,857
Customs and freight	107,542	68,738
Office expenses	55,920	33,228
Stationary	88,223	62,845
Fuel costs	91,364	61,158
Miscellaneous	394,601	212,231
	<b>5,109,444</b>	<b>3,734,227</b>

The average number of persons employed by the Group during the year was 521 (1999: 670).

(All amounts in HUF 000's)

## 15. Restructuring cost

During the period management undertook partial re-structuring of certain divisions within the Company. The restructuring costs incurred relate substantially to severance payments made to those employees terminated.

## 16. Financial income

	2000	1999
Investment income	273,239	235,244
Bank interest	26,639	24,257
Other	6,222	-
	<u>306,100</u>	<u>259,501</u>

## 17. Financial income

	2000	1999
Bank interest	49,156	24,257
Factoring of trade receivables	163,727	-
	<u>212,883</u>	<u>24,257</u>

## 18. Income taxes

An analysis of the Company's income tax expense is as follows:

	2000	1999
Tax expense	21,441	41,934
Deferred tax charge/(credit)	9,908	(9,908)
Current year tax expense	<u>31,349</u>	<u>32,026</u>

Taxation has been provided at 18% of the profit, adjusted for taxation purposes.

The reconciliation of income tax computed on Hungarian statutory tax rules to income tax expense is as follows:

	2000	1999
(Loss) /income before tax	<u>(668,009)</u>	<u>638,794</u>
Income tax at statutory rate of 18%	(120,242)	114,983
Tax associated with losses on sale of treasury shares	(30,375)	-
Taxable losses carried forward that cannot be utilised with certainty against future taxable profit	168,425	-
Tax associated with cost of Initial Public Offering	-	(85,941)
Temporary differences, net	9,908	(9,908)
Permanent differences, net	3,633	12,892
Current year tax expense	<u>31,349</u>	<u>32,026</u>

The Hungarian companies within the group are subject to periodic audit by the Hungarian Tax Authority ("APEH"). Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities. The tax authorities have completed and finalised tax inspections for all years up to and including 1998.

Deferred tax assets (at 18% tax rate) are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised. The group has tax losses of HUF 168,425 which are available to be carried forward and offset against taxable income over the next five years. Deferred taxation provided in the accounts and the amounts not provided are as follows:

	Provided		Not provided	
	2000	1999	2000	1999
Timing differences				
Unrealised loss on sale of Integra Rt.	-	9,908	-	-
Unused tax losses	-	-	168,425	-
	-	9,908	168,425	-

The Group has no significant deferred tax liabilities.

## 19. Earnings per share

Basic Earnings per share is calculated by dividing the net income attributable to the shareholders by the weighted average number of shares outstanding during the year, excluding the average number of ordinary shares purchased by the company and held as treasury shares:

	2000	1999
Net (loss) / income attributable to shareholders	(699,358)	606,768
Weighted average number of shares in issue during the year	9,447,310	8,769,630
(Loss) / earnings per share (HUF only)	(74)	69

## 20. Commitments

The directors have authorised future capital expenditure amounting to HUF 1,500,000.

Rental expense (principally for offices and motor vehicles) was HUF 312,219 (1999; HUF 129,747).

At December 31, 2000 the company had minimum lease rental commitments under non-cancellable operating leases as set out below:

	Land & Buildings		Other	
	2000	1999	2000	1999
Operating leases which expire:				
within one year	66,556	63,593	393,476	8,582
within two to five years	266,223	254,376	786,952	15,761
In over five years	1,131,447	1,081,400	-	-
	1,464,226	1,399,369	1,180,428	24,343

## 21. Management and employee participation programs

### Group management

The Group, through its wholly owned subsidiary, SynInvest Kft., established a convertible bond option program for management. The program will provide management with the option to convert bonds to up to approximately 4% of the shares issued. The bonds will become eligible for conversion to ordinary shares, within stipulated guidelines, if the group earnings per share (in USD terms) exceeds 30% growth per annum. The bonds, with a nominal value of HUF 1 (only) may be converted to ordinary shares at a price equivalent to the nominal value of the ordinary shares. The option to convert the bonds remains valid for three years following that date when the option becomes exercisable.

At December 31, 2000 no bonds have been issued to management.

### Company employees

Subsequent to the year end, the Company established an employee share incentive program. Under the terms of the scheme, by individual contractual agreement, the ownership and beneficial rights of approximately 105,000 of the Company's own shares have been allocated to a number of participating employees. While the participants will be entitled to the full and complete rights associated with the ownership of the shares, the shares will be held in escrow by an independent third party. The shares have been allocated to the participants at a contracted "strike price" (based on the market price) at the time of the agreement of the contractual obligation. As dictated by the terms of the contract, in March 2002 those participating employees will be entitled to purchase their allocation of shares, at the previously contracted strike price. The participants would then be free to sell their allocation of shares at the prevailing market at that time.

## 22. Directors' and Supervisory Board remuneration

Directors' remuneration totalled HUF 16,102 (1999; HUF 3,120). The total remuneration of the Supervisory Board was HUF 3,100 (1999; HUF 7,207).

## 23. Retained earnings

Retained earnings available for distribution are based on the statutory financial statements of the Company prepared in accordance with Hungarian Accounting Standards, as opposed to these financial statements which are prepared under International Accounting Standards. The legally distributable reserves of Synergon Information Systems Plc. at December 31, 2000 amount to HUF 12,302.

## 24. Dividends

The company is permitted to pay annual dividends out of the profits and profit reserves, determined on the basis of the Hungarian statutory accounting rules, following a declaration by the Annual General Meeting of the Shareholders, which must be held in the first five months following the end of the financial year. The Company is also permitted to pay interim dividends.

## 25. Concentrations of credit risk

Financial instruments that subject the Group to significant concentrations of credit risk consist principally of excess cash holdings and accounts receivable. The company places its excess cash in high quality Hungarian and Western financial institutions and limits the amount of credit exposure to any one institution. The credit risk associated with trade accounts receivable is limited due to the company's large domestic customer base and the credit-worthiness of customers. Management monitors this concentration of credit risk on a regular basis and follows up immediately on any past due collections.

## 26. Fair value of financial instruments

The fair values of financial instruments, consisting of cash, receivables, payables, and obligations under debt

instruments, are considered to be equal to their carrying values. The fair values of the company's existing investments are not readily determinable as the underlying shares are not frequently traded in a well-established and organised market.

## 27. Subsequent events

Synergion Informatika Rt. acquired the following companies subsequent to the year end. The total cost of the acquisitions was determined as being 13% of the reported statutory equity of the companies at the date of acquisition and was financed from existing working capital resources. At the time of the approval of these financial statements, the goodwill/negative goodwill associated with either of the acquisitions was not readily identifiable.

### Infinity (Czech Republic)

On February 1, 2001, Synergion Informatika Rt. acquired a 50% plus one share interest in Infinity a.s., a company in the same business, registered and operating in the Czech Republic. At the date of acquisition, the net assets of the company was Czech Crown (CZK) 20,474,501.

### SPAN (Croatia)

On February 1, 2001 Synergion Informatika Rt. acquired a 50% plus one share interest in SPAN, a company, in the same business, registered and operating in the Republic of Croatia. At the date of acquisition, the net assets of the company was Croatian Kuna (KN) 1,670,269.

Refer to Note 24 for details of an employee share participation program that was established subsequent to the year end.

## 28. Contingencies

On October 14, 2000 Zsolt Szalóczy, member of the Board, was taken into custody in connection with an investigation of alleged tax fraud by third party individuals. According to information received from APEH, the tax authority, the proceedings may be in connection with earlier activities performed by Zsolt Szalóczy in the Company.

The management of Synergion had earlier emphasised and hereby confirm that the investigation does not affect the day to day operation of the Company. The financial situation of Synergion is stable, its activities are orderly and regulated.

It is the opinion of the management of the Company that the investigation will result in the exoneration of Zsolt Szalóczy.

## 29. Cash flow reconciliations

### Cash and cash equivalents

	2000	1999
Cash	1,749,272	224,000
Bank overdraft	-	(7,336)
	<u>1,749,272</u>	<u>216,664</u>

### Net income

	2000	1999
Net (loss) / income	(699,358)	606,748
Interest (received) paid	(256,943)	(235,244)
Corporation tax paid	31,349	32,026
Net (loss) / income before interest and taxation	<u>(924,952)</u>	<u>403,530</u>

(All amounts in HUF 000's)

### 30. Reconciliation of total consolidated shareholders equity from the Hungarian statutory consolidated financial statements to the accompanying financial statements is as follows:

	2000	1999
Total consolidated shareholders equity per Hungarian statutory consolidated financial statements	8,356,400	9,231,433
Contract work-in-progress	69,841	119,066
Provisions	(8,836)	-
Finance lease adjustment	-	(24,068)
Depreciation and amortisation	(53,293)	-
Deferred tax	(9,908)	-
Treasury share transactions	168,752	(251,850)
Fair value adjustment (Quality Consulting Kft.)	-	82,596
Sundry other adjustments	(32,005)	29,023
Total shareholders equity per accompanying financial statements	8,490,951	9,186,200

### Reconciliation of total consolidated income from the Hungarian statutory consolidated financial statements to the accompanying financial statements is as follows:

	2000	1999
Total consolidated (loss) / income per Hungarian statutory consolidated financial statements	(908,443)	54,838
Deferred Initial Public Offering expenses	-	477,448
Contract work-in-progress	69,841	119,066
Provision	(8,836)	-
Treasury share transactions	168,752	(23,700)
Capitalisation of borrowing costs	-	15,741
Disposal of Integra Rt.	-	(68,253)
Deferred tax benefit	(9,908)	9,908
Fair value adjustment (Quality Consulting Kft.)	-	9,754
Sundry other adjustments	(10,764)	11,946
Total (loss) / income per accompanying financial statements	(699,358)	606,748

### Board of Directors

<b>Tibor Gyurós</b>	Chairman
<b>Ferenc Czakó</b>	
<b>András Felkai</b>	
<b>Sándor Szalay</b>	
<b>Zsolt Szalóczy</b>	
<b>Iván Völgyes</b>	

### Executive Committee

<b>Ferenc Czakó</b>	CTO
<b>Tibor Gyurós</b>	Chairman, CEO
<b>Zsolt Szalóczy</b>	

### Management

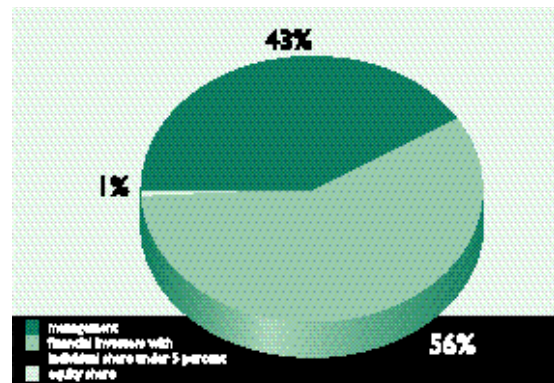
<b>Tamás Kozák</b>	Deputy CEO, Administration and Finance
<b>Levente Lakatos</b>	General Deputy CEO
<b>Gyula Stanga</b>	Deputy CEO, Sales and Marketing

### Management of subsidiaries

<b>Gábor Földvári</b>	Managing Director, Fibex Kft.
<b>Jiri Fanta</b>	CEO, Infinity a.s.
<b>Nikola Dujmovic</b>	Managing Director, Span d.o.o.

### To investors

The company's subscribed capital is formed by 9,554,630 "T" series ordinary shares of a nominal value of HUF 200 each. The company's shares can be purchased in the form of shares and global depository receipts (GDR). The company's shares are registered in category "A" of the Budapest Stock Exchange and in the SEAQ system attached to the London Stock Exchange.



Ownership structure, 2000

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### **Stock Exchange Symbols:**

Budapest Stock Exchange (BÉT): SYNERG HB

London Stock Exchange Automatic Quotation (SEAQ): SYSD LI

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