

## Flash Report



**Consolidated report of Synergon Information Systems Plc..  
for the 9-month period  
from January 1 to September 30, 2008.**

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## Evaluation of business environment impacts

### What is the impact of the economic crisis on Hungarian IT investments?

It can be expected that amounts that can be spent by Clients on IT investments shall represent ever more significant investments among their capital expenses, while the decision making process may slow down and take its time. The amount that can be set aside to implement a solution subject of the investment shall be, as expected, tighter at short term, due to the impact of the financial crisis on economic processes. In the implementation phase of investments more and more business environment generated effects will have to be taken into consideration, while IT, as a branch of industry and as a technology continues to develop each month. The result of this is, that the sale of the service content represents intensive consulting activity also on the part of Clients, and this is extremely important in order to ensure continuously successful projects, and on the other hand, maintaining the level of updated knowledge of the professionals also requires continuous investment.

### Impact of the crisis of financial systems, hardly noticed in the Czech market environment, on the economy

If we examine the Czech economic environment from the aspect of Infinity a.s we can see that in the period under review the Czech Republic remained exempt from the impact of the general financial crisis and its negative effects. The situation of the companies in contact with Infinity is stable, their solvability and readiness to pay is improving, only recently can we hear some information on lay-offs of capacity reductions. The intensity of orders placed even increased in September. The month of September was especially active, compared to what we experienced the previous year.

### Synergon Group on the Hungarian market

The positive operating cash-flow of Hungarian companies is a guarantee to ensure profitability of the basic business activities, and this is especially important in the presence of current financial opportunities. The future sustainability of the positive cash-flow has been further strengthened by a higher, HUF 4 billion business turnover achieved in the 3rd quarter.





Considering the results of the Hungarian companies, we have to focus now on answering the volatile challenges presented by the business environment today. By now, the concentration on the IT market has become very intensive, that put a limit on margin cover opportunities, and the Company can answer this situation by keeping its cost level low.

***Infinity has contributed to the earnings by doubling its turnover***

In September work started on high gear at Infinity. The company has doubled its business turnover, to HUF 2 billion, it could maintain its cover ratio at 43% represents HUF 875 million, and its has also stabilized its cost level. Earlier signalled favourable effects have accumulated and the Company has realised an operating profit of HUF 36 million.

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## Financial Report

### Financial results of Synergon Informatika Nyrt. in the 9-month period from January 1, to September 30, 2008.

#### Analysis of the 2008 business results of the Synergon Group

The analysis includes a comparison of the 9-month period ending September 30, with the identical period in 2007.

The *quarterly data* to be found in the report *have not been audited*. The various parts of the report are based on consolidated balance-sheet and profit statements produced on the basis of *IFRS*. On September 30, 2008. the currency of the Group was the *Hungarian forint (HUF)*, so the analyses were also made on a HUF basis.

The data presentation structure figuring in the progress report contains some changes compared to the earlier period, these were required to ensure conformity with current *IFRS* regulations, transparency, and to lead out terminated activities from the books. In order to ensure comparability, the base data of the progress report are also communicated in a breakdown corresponding the structure applied in the factual period.

The accounting policy applied in the period under review is identical with the principles presented and applied in the last audited annual statement.

#### Companies belonging to the consolidated range of the Synergon Group

By September 30, 2008, Synergon Informatika Nyrt. as a parent company integrated the following companies into its consolidated statement. These integrated companies are fully consolidated, with their complete balance-sheet and profit statements, the profit part due to the minority shall be separated by the Company from the after tax profit.

On July 5, 2007. the Board of Directors of Synergon Informatika Nyrt. decided to sell its 68% business share in Span d.o.o. In conformity with this decision the Company, in order to maintain the comparability of the report, presents separately the operational profits realised from this discontinued activity.

Name	Equity/Registered capital	Interest held
SAO-Synergon Kft.	67 760 Thousand HUF	100%
Synergon Retail Systems Kft.	40 000 Thousand HUF	100%
Fibex Kft.	60 000 Thousand HUF	100%
Infinity a.s.	49 200 Thousand CZK	98,59%





## The income structure of the Synergon Group

The table below shows the amount of sales turnover of the Group resulting from third parties and inter-company relations as well as its breakdown and change *in a breakdown by geographical segments*. Entities of the Hungarian segment are Synergon Informatika Nyrt., SAO-Synergon Kft., Synergon Retail Systems Kereskedelmi és Szolgáltató Kft., and Fibex Kft.. The discontinued activity relates to the Croatian subsidiary (Span d.o.o).

*The business turnover of the Hungarian segment* closed the past three months with a turnover increase of 27%, and with this the first three quarters represented an **8% increase** in turnover compared to 2007.

As for the composition of the turnover proportions within the Group developed similarly to 2007. The turnover of the Hungarian segment represents 83%, while 17% is generated in the Czech Republic.

Companies inside the Group of Synergon	Thousand HUF										Difference %				
	2008						2007								
	q1-q3	%	q3	%	q1-q2	%	q1-q3	%	q3	%	q1-q2	%	q1-q3	q3	q1-q2
Sales revenues	11 620 031		4 980 956		6 639 074		10 833 408		3 739 706		7 098 416		7%	33%	(6%)
Synergon together with Hungarian subsidiaries*	9 605 231	83%	4 032 415	81%	5 572 815	84%	8 868 186	82%	3 180 368	85%	5 687 818	80%	8%	27%	(2%)
Infinity a.s	2 026 344	17%	952 710	19%	1 073 634	16%	1 978 714	18%	556 094	15%	1 422 620	20%	2%	71%	(25%)
<b>Sales revenues from consolidated parties and discontinued operation</b>															
Discontinued operation	-	-	-	-	-	-	1 001 504	-	0	-	1 001 504	-	-	-	-
Elimination (Infinity a.s)	(11 544)	(0%)	(4 169)	(0%)	(7 375)	(0%)	(13 492)	(0%)	3 245	0%	(16 736)	(0%)	(14%)	(228%)	(56%)
Elimination (Span d.o.o)	-	-	-	-	-	-	-	-	(4 715)	-	4 715	-	-	-	-

\* eliminated intercompany transactions

## Staff changes in the Synergon Group

The opening and closing staff volume figures of the Synergon Group are shown on the table below. Staff volume continued to decrease during the period under review.

The employment indicator according to the closing data of the Hungarian segment show a decrease of 11%.

Average staff decrease in the Hungarian segment represented overall 32 staff, the closing staff strength was reduced overall by 37 staff.

With the Czech subsidiary there was no change during the third quarter. During the first semester we did implement a staff reduction in order to increase efficiency, this represented 9 to 10 staff in the average and closing figures.

Headcounts	2008 Q3 average	2007 Q3 average	Difference %	2008 Q3 closing	2007 Q3 closing	Difference %
Synergon/SAO/SRS/ Fibex	327	359	(9%)	308	345	(11%)
Infinity	109	118	(8%)	111	121	(8%)
Total	436	477	(9%)	419	466	(10%)

Group level average staff strength was 436 staff on September 30, 2008, while the same was 477 a year ago.





## Financial results of the Synergon Group by September 30, 2008

Income Statement*	Thousand HUF								
	2008			2007			Difference %		
	q1-q3	q3	q1-q2	q1-q3	q3	q1-q2	q1-q3	q3	q1-q2
<b>Continuous operation**</b>									
Sales revenues	11 620 031	4 980 956	6 639 074	10 833 408	3 734 992	7 098 416	7%	33%	(6%)
from which services (%)	45%	42%	47%	34%	41%	31%	10%	1%	16%
Cost of materials and services	(8 307 088)	(3 775 366)	(4 531 722)	(6 968 159)	(2 416 573)	(4 551 587)	19%	56%	(0%)
in sales (%)	71%	76%	68%	64%	65%	64%	7%	11%	4%
Gross margin	3 312 942	1 205 590	2 107 352	3 865 249	1 318 419	2 546 829	(14%)	(9%)	(17%)
gross margin (%)	29%	24%	32%	36%	35%	36%	(7%)	(11%)	(4%)
Operating cost	(3 895 594)	(1 377 583)	(2 518 011)	(4 014 457)	(1 278 802)	(2 735 655)	(3%)	8%	(8%)
EBITDA	(276 185)	(56 637)	(219 548)	167 270	135 624	31 646	(265%)	(142%)	(794%)
EBITDA margin (%)	(2%)	(1%)	(3%)	2%	4%	0%	(4%)	(5%)	(4%)
Operating profit	(582 652)	(171 993)	(410 659)	(149 208)	39 617	(188 826)	(290%)	(534%)	(117%)
Operating profit margin(%)	(5%)	(3%)	(6%)	(1%)	1%	(3%)	(4%)	(5%)	(4%)
Other expenses and other cost, net	(913)	(1 845)	932	13 881	(1 166)	15 047	(107%)	(58%)	(94%)
Proceeds from disposal of subsidiary	-	-	-	168 715	168 715	-	(100%)	(100%)	-
Financial gains and losses	(788 228)	(141 357)	(646 871)	65 099	60 630	4 469	(1 311%)	(333%)	(14 573%)
Profit before tax	(1 371 793)	(315 195)	(1 056 598)	98 487	267 796	(169 310)	(1 493%)	(218%)	(524%)
Income tax	(33 269)	(6 617)	(26 653)	(24 473)	(12 378)	(12 095)	36%	(47%)	120%
Profit after tax	(1 405 062)	(321 812)	(1 083 251)	74 014	255 418	(181 404)	(1 998%)	(226%)	(497%)
<b>Discontinued operation***</b>									
Sales revenues	-	-	-	1 001 504	-	1 001 504	-	-	-
Cost of materials and services	-	-	-	(1 027 832)	-	(1 027 832)	-	-	-
Financial and other gains and losses	-	-	-	36 246	-	36 246	-	-	-
Profit (loss) from discontinued	-	-	-	9 919	-	9 918	-	-	-
Minority Interest	413	402	11	3 506	(1 000)	4 506	(88%)	140%	(100%)
Equity holders of the parents	(1 405 476)	(322 214)	(1 083 262)	80 427	256 419	(175 992)	(1 848%)	(226%)	(516%)
net income margin (%)	(12%)	(6%)	(16%)	1%	7%	(2%)	(13%)	(13%)	(14%)

\* non audited \*\*consolidated \*\*\* disposal of subsidiary Span d.o.o by July 5th, 2007.

### Continuous activities

#### Sales turnover

For the third quarter of 2008 the Synergon Group achieved a **turnover of HUF 11.620 million**. This turnover exceeded the 2007 level by close to HUF 800 million.

In the third quarter, the upward trend of turnover results continued to increase. As expected, it is the third quarter increase that is predominant, it represented 33%, and compared to the previous year this represents an excess-turnover of 7%.

In 2008, by the end of the third quarter, **service content has achieved 45%**, and this, compared to performance in 2007, represents a 10% change in composition in the direction of services provided.

The aggregate sales by **sectors** of the Synergon Group from the second to the third quarter have considerably strengthened in the direction of the public health, State and public administration sector markets, they also increased to some extent with respect to the telecommunication, media,

bank and financial sector, but the share of the industry and of the services sector decreased.

In the sages figures of the Synergon Group the various sectors represented the following proportions:

- telecommunication and media sector 20%,
- bank and financial sector 26%,
- industry and services sector 6%,
- public health, State and public administration sector were represented by 34% during the said period.
- Other sales, not grouped to sectors, represented 14%.

#### Net margin cover

As for the net **margin cover volumes** calculated from the turnover and direct costs of the Group, during the past nine months the Group realised **HUF 3.131 million**. Cover performance in the third quarter exceeded the first six-months average, and added HUF 1.206 million to the profit of the Company.





Compared to the previous year, the average backlog in margin cover producing capability has further decreased, it now represents 7%. This trend, as we expect, shall continue for the rest of the year.

The sharp competition dictated by competitor companies and the intensive cost limitations implemented with Clients mean, that we must continue to count with work executed at lower, below 30% margin cover content.

### **Operating costs**

In the period under review, operating costs represented HUF 3.896 million. The volatility of the business environment and the shrinking of the margin covers could be counterbalanced by the Company by cutting its fix costs. The volatile nature of income opportunities makes these very difficult to plan, and this also affects the Company, that reacted to it by reducing proportionally its capacities. On a yearly average this represented savings up to 3% concerning operating costs.

### **Operating losses**

The slowdown of business activity with Clients, the finalization of orders placed results in decisions taken later than scheduled, yet the Company - considering expectations for orders to be realised in the future and being ready for the fourth quarter year - maintained its professional staff even during this period. Material type items representing important components of sales activities could only be realised at a very low level during the quarter year as for their margin cover content. Due to these facts, operating profit dropped by HUF 172 million. The Company closed with a total operating loss of HUF 583 million.

### **Other incomes and expenditures**

Fines, and tax-recovery at Infinity in 2007 that were behind the HUF 14 million financial results of the base period were inexistent in the period under review.

### **Disposal of subsidiary**

Financial result of the sale of the company Span d.o.o, on July 7, 2007.

### **Net financial result of financial operations**

The evolution of the financial result has been greatly determined by the HUF 90 million loss on a quarterly, forward deal, a total loss of HUF 794 million of Synergon Informatika Nyrt. Interest and currency exchange profit partly reduced it - by HUF 6 million.

### **Discontinued activity**

On July 5, 2007 the Board of Directors of Synergon Informatika Nyrt. took its decision to sell the company Span d.o.o. In conformity with its decision, in order to maintain the comparability of its financial statement, the Company presents separately the operating results originating from this discontinued activity.

### **After tax profit due for the parent company**

The main components of the HUF 1.405 million 2008. three semester loss due for the parent company, are the following:

- as in the first year, a loss of HUF 794 million resulting from a forward deal,
- a negative operating profit made up of non-realised margin cover due to economic environment experienced in 2008, and the slowly adapting, but continuously decreasing fix costs.



## Results of the Hungarian companies

**Synergon Informatika Nyrt. and its subsidiaries presented together, SAO-Synergon Kft., Synergon Retail Systems Kft. and Fibex Kft.**

Synergon Informatika Nyrt., SAO-Synergon Kft. and Synergon Retail Systems Kereskedelmi és Szolgáltató Kft. are presented together, as their activities are closely interrelated with those of the parent company. The service activities of Fibex Kft. are placed with the parent company, so this degree of integration of the Company is also respected in the structure of the report.

**Synergon Informatika Nyrt.** is a Hungarian subsidiary of the Synergon Group, legally, as the main shareholder of the other member companies, it fulfils the role of parent company. A description of the activities of Synergon Informatika Nyrt. and a detailed description of the Company is available on the websites of the Company in Hungarian and English languages: [www.synergon.hu](http://www.synergon.hu), [www.synergon.hu/en](http://www.synergon.hu/en).

**SAO-Synergon Kft.** is a company dealing with the operation and supervision of systems. A description of its activities is available on the following website: [www.sao.hu](http://www.sao.hu)

**Synergon Retail Systems Kereskedelmi és Szolgáltató Kft.** was founded in 2007, it is a company providing basic activity systems to retail companies.

**Fibex Kft.** is a company dealing with the sale of Synergon optical and copper cables, network building materials and tools.

A description of its activities and a detailed description of the company is available on the website of the company in Hungarian language: [www.fibex.hu](http://www.fibex.hu).

Synergon together with Hungarian subsidiaries*	Thousand HUF								
	2008			2007			Difference %		
	q1-q3	q3	q1-q2	q1-q3	q3	q1-q2	q1-q3	q3	q1-q2
Sales revenues	9 605 231	4 032 415	5 572 815	8 868 186	3 180 368	5 687 818	8%	27%	(2%)
from which services (%)	42%	39%	44%	29%	27%	30%	13%	12%	14%
Cost of materials and services	(7 156 984)	(3 191 625)	(3 965 359)	(5 892 191)	(2 152 205)	(3 739 986)	21%	48%	6%
in sales (%)	75%	79%	71%	66%	68%	66%	9%	11%	5%
Gross margin	2 448 247	840 790	1 607 456	2 975 995	1 028 163	1 947 832	(18%)	(18%)	(17%)
gross margin (%)	25%	21%	29%	34%	32%	34%	(9%)	(11%)	(5%)
Operating cost	(3 063 530)	(1 043 160)	(2 020 370)	(3 126 916)	(975 892)	(2 151 024)	(2%)	7%	(6%)
Operating profit	(615 283)	(202 369)	(412 914)	(150 921)	52 271	(203 192)	(308%)	(487%)	(103%)
Operating profit margin(%)	(6%)	(5%)	(7%)	(2%)	2%	(4%)	(5%)	(7%)	(4%)
Other expenses and other cost, net	(1 729)	(2 700)	971	12 103	23 188	(11 085)	(114%)	(112%)	109%
Financial gains and losses	(780 697)	(138 299)	(642 398)	79 609	52 620	26 989	-	-	-
Profit before tax	(1 397 709)	(343 368)	(1 054 341)	(59 210)	128 078	(187 288)	(2 261%)	(368%)	(463%)
Income tax	(32 806)	(6 562)	(26 244)	(24 473)	(12 378)	(12 095)	34%	(47%)	117%
Profit after tax	(1 430 515)	(349 930)	(1 080 585)	(83 682)	115 700	(199 383)	(1 609%)	(402%)	(442%)

\* non audited, eliminated intercompany transactions of Synergon Nyrt, SAO-Synergon Kft., Synergon Retail Systems Kft., Fibex Kft.

We are under the pressure of unfavourable business environment impacts, affecting the IT solutions market, that we can still somehow handle separately, but which together exercise an inevitable and decisive effect on the profit results. All these changes add up in the profit and loss figures of IT companies. In more detail:

- The professional knowledge and working time to be used for concluding contracts is more and more required by Clients, but this does not imply a guarantee for implementing the contract and for recovering the price of the invested work.
- The market expects more and more services attached to the sold equipment and considered as part of it, and all this does not represent an extra expenditure at the client side, but it increases investment level at the manufacturer/supplier side.





- Published and completed successful projects indicate that the company is bound by its offers made to client and by the terms and conditions of the contract, but if there are changes at client during works execution these must be solved at its own cost, and the margin covers under pressure no longer cover these.

In Hungary, the *sales turnover* of companies over the last three months was **27% higher** compared to the performance of 2007. The Companies provided services and sold products in the third quarter in a value of HUF 4 billion, doubling in this way their first semester average turnover. The Hungarian companies, with their last three-month performance, achieved **better than in 2007. In this 8% aggregate increase, it was the third quarter performance that represented the breakthrough.**

*Services content* covers the projects and the maintenance services. We note a stable 40% share of the services, that has increased on aggregate to 42%.

In the evolution of the margin cover content the Company showed up a backlog with a decreasing pace but stagnating in its amount. In the third quarter margin cover was off 18% from the that of the previous year. The **evolution of the margin cover** is substantiated by the maximum margins that can be achieved in the given market environment, and the **connected investments**, the recovery of which cannot be expected on a monthly or quarterly perspective, it is rather a longer period, one or several years average that could serve as a well founded indicator concerning this recovery.

In the aggregate downwards trend of **operating costs** we see the results of the **rationalized operations** in place for over two years now.

*The lagging behind of the operating profit* in the third quarter has been determined first by a margin cover loss of HUF 528 million and on the

other hand a general cost saving of HUF 63 million. In the HUF 616 million operating loss, the low margin cover level and the.

In its *financial result* the Company accounted for a loss of HUF 794 million resulting from a forward deal and being realised. The changes in the quotation of its own shares on the market also has a direct and immediate impact on its profit realised from quotation levels. It is the impact of the quotation movements experienced by the end of the third quarter that we can see in the loss figures. The open forward position offer the opportunity that positive quotations movements at a later stage may counteract this loss. From income on interests a HUF 70 million profit has been accumulated over the 9-month period, and from foreign currency exchange rate movement the accumulated loss in HUF 57 million.

SAO-Synergon Kft. and Synergon Retail Systems Kft., with their before tax profit entered a position with the obligation to pay company tax, so considering also the tax impact of earlier years they accounted for HUF 33 million of profit tax.

*Accumulated after tax loss* amounts to HUF 1.431 million. Of which forward deal in the third quarter is HUF 90 million, in the first semester it was HUF 704 million, without which the Hungarian companies accumulated a loss of HUF 637 million. In the negative shift of HUF 260 million for the third quarter calculated without the forward deal HUF 202 million represent operating loss, HUF 51 million foreign exchange rate loss, and HUF 6 million the result of tax effects.





## Business results of the company in the Czech Republic

### *Infinity a.s.*

Infinity a.s. is a member of the Synergon Group in the Czech Republic, a member company with a majority stake owned by Synergon. The first acquisition move of 2001 was followed, up until 2007, by several smaller moves aimed at obtaining further influence. Following the increase in equity in September 2007 Synergon Informatika Nyrt. has now a 99% control over its subsidiary. A description of the business activities of Infinity and a more detailed description of the Company are available on the website of the Company in Czech and English languages: [www.infinity.cz](http://www.infinity.cz).

The *q3 period of 2008 has been closed* by the Company *with outstanding results*, despite the great number of holiday days.

Infinity a.s has generated an accumulated business turnover of **HUF 2.026 million, of which the third quarter contributed HUF 953 million**. This demonstrates, also compared to the previous year, that its 71% increase, 2% on a yearly level, and especially catching up with the backlog accumulated at the beginning of the year, that the adopted decisions were well-founded and brought their results.

Though we continue to maintain that *business turnover as a factor is not a value indicator* of the profitability of the Company. *In the life of the Company it is the margin cover that is the main value indicator*, and all the moving benefit system of managers and employees are indexed to this.

On the other hand, the Company completely caught up with its backlog accumulated in the first semester, and has strengthened its position in the Group with its 17% share of business turnover.

Infinity *	Thousand HUF								
	2008			2007			Difference %		
	q1-q3	q3	q1-q2	q1-q3	q3	q1-q2	q1-q3	q3	q1-q2
Sales revenues	2 026 344	952 710	1 073 634	1 978 714	556 094	1 422 620	2%	71%	(25%)
from which services (%)	57%	55%	59%	57%	62%	55%	(0%)	(7%)	4%
Cost of materials and services	(1 150 350)	(583 741)	(566 609)	(1 084 326)	(265 106)	(819 220)	6%	120%	(31%)
in sales (%)	57%	61%	53%	55%	48%	58%	2%	14%	(5%)
Gross margin	875 994	368 969	507 025	894 388	290 988	603 400	(2%)	27%	(16%)
gross margin (%)	43%	39%	47%	45%	52%	42%	(2%)	(14%)	5%
Operating cost	(839 495)	(338 178)	(501 317)	(900 743)	(311 697)	(589 046)	(7%)	8%	(15%)
Operating profit	36 499	30 791	5 708	(6 355)	(20 709)	14 354	674%	249%	(60%)
Operating profit margin(%)	2%	3%	1%	(0%)	(4%)	1%	2%	7%	(0%)
Other expenses and other cost, net	816	855	(39)	28 469	2 337	26 132	(97%)	(63%)	(100%)
Financial gains and losses	(7 532)	(3 058)	(4 473)	(6 442)	17 863	(24 306)	(17%)	(117%)	82%
Profit before tax	29 784	28 588	1 196	15 671	(509)	16 180	90%	5 721%	(93%)
Income tax	(463)	(55)	(409)	-	-	-	-	-	-
Profit after tax	29 320	28 534	787	15 671	(509)	16 180	87%	5 711%	(95%)

\* non audited, with minority interest

*The margin cover of 40-45% is in the targeted range.* This value level can be produced by the Company by implementing complex and high quality projects. We continue to consider that decreasing the share of material category sales as much as possible is a direction to follow.

The main two tasks for the next year shall be *an average increase in margin cover, and a transformation of general costs* according to capacity requirements. In the result of the nine months we can see that *if we can make the*

*greatest possible part of operating costs flexible*, cost structure can immediately follow the change in margin amounts.

In the third quarter the Company repeated its second quarter results, and with its newly achieved HUF 31 million positive operating profit *the overall operating profit of the Company is HUF 36 million.*

The financial result of the Company is made up of the loss generated by exchange rate movements.





The after tax aggregate profit of the Company is HUF 29 million, and this result is mainly due to the assiduous work of the last three months.

### **Structural changes implemented in 2008**

We consider it as an important step, that the remuneration and motivation factor of professionals representing the value of the Company would get as close as possible to a result-producing capacity able to guarantee the long term success of the Company.

In the first quarter the Company had to face the weaknesses of its sales sector. So the Company shifted to a divisional sales structure.

In May 2008, the stability of the Company made it possible first that Company management be renewed by a new CEO taking office, second, it also allowed the setting up of a unidimensional company structure, divided by divisions. The benefit of the new structure will be the sales activities individually generated by each division,

by which all specialised business activities can be made fully accountable.

In 2008, under the direction of the new CEO and along the outlined operational principles the *increase of the profitability of the subsidiary shall be continued* – the objective of the Company being to multiply, in 2008, the after tax profit realised in the previous year.

Swings to the extreme in operating costs experienced during the year are a direct result of the structural changes that took place in the Company. Management closed down functional and manager positions and changed managers. These transformation costs represented a charge in the second quarter and during the months that followed, so as envisaged, the new and sustainable profit structure shall be available following the third quarter.

## **Analysis of the balance-sheet changes of the Synergon Group**

### **Assets**

#### **Property plant and equipments**

The net value of tangible assets and other intangible assets (HUF 1.670 million) increased by 1% compared to the identical period in 2007. The increase took place during the first quarter due to shifting the vehicle fleet to a financial leasing solution. Instead of the earlier operative leasing contracts the Company now purchases its vehicles in the form of a financial deal whereby it can enter in its books the depreciated purchase price of these assets.

#### **Goodwill and investments**

The lack of change in the Goodwill asset group is due to the test result implemented in December 2007 following a yearly value loss. In the period under review, due to target-conform performance of the subsidiary there was no reason for a value change.

#### **Deferred tax assets**

The change from one year to the other is a positive HUF 17 million, and it originates from the deferred tax receivables entered in the books to the benefit of 2007 profit, included in the balance sheet of Infinity a.s in December, 2007 - and most likely recoverable. The reason for within the year change is the difference in exchange rate.

#### **Loans given**

This entry was discontinued, as it was regrouped among other receivables within the year.

#### **Inventory**

Considering the third quarter the change in stock is 13%. The HUF 77 million surplus stock value is with the parent company, the purpose being to ensure assets required as a condition for SLA (service level agreement) contracts.





### Trade receivables

The increase in receivables from clients is a change necessarily concomitant with the significant 33% increase in business turnover during the three months. In this HUF 1,7 million surplus 88% of the increase is made up of receivables from clients recoverable on short term

at the parent company, and 12% of the same with the subsidiary Infinity a.s.

The Company applies a discounting of the receivables with a time-value (i.e. an interest rate) for payment schedules exceeding usual limits, so these items are presented on real value terms at the time of the report.

<i>Balance Sheet**</i>	September 30th, 2008*	Difference %	September 30th, 2007*	December 31st, 2007
	Thousand HUF	%	Thousand HUF	Thousand HUF
<b>ASSETS</b>				
<b>Non- current assets</b>				
Property, plant equipment	1 670 114	1%	1 660 724	1 600 189
Goodwill	162 267	0%	162 267	162 267
Investments	2 697	0%	2 694	2 697
Deferred tax asset	30 896	119%	14 113	29 921
Loans given	-	(100%)	33 235	23 710
<b>Total non- current assets</b>	<b>1 865 974</b>	<b>(0%)</b>	<b>1 873 032</b>	<b>1 818 784</b>
<b>Current assets</b>				
Inventory	675 291	13%	598 488	440 468
Trade accounts receivable, net	5 450 242	46%	3 740 935	5 883 228
Other current assets	629 576	(45%)	1 141 983	1 068 094
Available for sale financial assets	74 456	(89%)	696 698	273 739
Cash and cash equivalents	753 439	(32%)	1 103 609	1 331 654
<b>Total current assets</b>	<b>7 583 004</b>	<b>4%</b>	<b>7 281 712</b>	<b>8 997 183</b>
<b>TOTAL ASSETS</b>	<b>9 448 978</b>	<b>3%</b>	<b>9 154 745</b>	<b>10 815 967</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Issued capital	1 910 926	0%	1 910 926	1 910 926
Treasury shares	(1 040 149)	86%	(559 229)	(707 321)
Share premium	5 770 884	0%	5 770 884	5 770 884
Capital reserve	27 980	0%	27 979	27 980
Retained losses	(1 985 804)	120%	(903 059)	(663 293)
Cumulative translation adjustments	113 485	57%	72 465	96 537
<b>Equity attributable to equity holders of the parent</b>	<b>4 797 322</b>	<b>(24%)</b>	<b>6 319 966</b>	<b>6 435 712</b>
Minority interest in consolidated subsidiaries	41 274	2%	40 585	40 860
<b>Total equity</b>	<b>4 838 596</b>	<b>(24%)</b>	<b>6 360 552</b>	<b>6 476 572</b>
<b>Long-term liabilities</b>	<b>180 580</b>	<b>103%</b>	<b>89 005</b>	<b>4 247</b>
<b>Current liabilities</b>				
Trade accounts payable	2 832 150	100%	1 413 487	2 741 006
Other payables and accruals	1 476 498	20%	1 235 545	1 495 857
Provisions for liabilities and charges	121 154	116%	56 156	98 285
<b>Total current liabilities</b>	<b>4 429 802</b>	<b>64%</b>	<b>2 705 188</b>	<b>4 335 148</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>9 448 978</b>	<b>3%</b>	<b>9 154 745</b>	<b>10 815 967</b>

\* non audited \*\* consolidated

The *Balance-Sheet Total* of the Synergon Group on *September 30, 2008 (HUF 9.449 million)* has increased by 3% compared to the closing date value of the same period of the previous year.





### Other current assets

The quarterly balance of HUF 630 million adds up advance payments and accruals and deferrals. The change between quarter years is caused basically by a decrease of the amount used as base deposit for the forward deal, and to a lesser extent by a lower level of accruals and deferrals.

In the second quarter of 2008 the amount used as base deposit for the forward deal has been used up, and this is the reason for the significant change compared to the stock at the end of 2007.

### Available for sale financial assets

The use of free assets has been grouped among other current assets.

### Cash and cash equivalents

At the end of the period under review the cash stock was HUF 753 million, where the change compared to the identical period in 2007 was a decrease of HUF 350 million.

At the end of the quarter the *change of stock* of free cash at hand *compared to the third quarter of 2007 represented a usage rate of 32%*. The negative cash-flow result of the Company was caused by settling the negative result of the forward deals.

### Equity and liabilities

The changes in shareholders' equity are introduced on the capital flow-chart.

## Cash-flow analysis of the Synergon Group

### Net cash-flow from operations

*In total, operative activities resulted in a positive cash-flow of HUF 162 million.* Out of this, the amount of cash used for activities was HUF 33 million, and the positive cash-flow realized from working capital was HUF 195 million.

From among the factors having an impact on the operating cash-flow of the Company two components made their impact with modified direction and amount. Among the operating items

### Long term liabilities

Among long term liabilities we find the longer than one year term liabilities caused by asset purchases under the scheme of the financial leasing arrangement newly started in the first quarter of 2008.

### Trade accounts payable

The sum of short term liabilities resulting from goods transport and service providing (HUF (2.832 million) shows a change of 100% compared to the same period in the reference year. The change is caused by the supplier item that is high even by comparison to the quarters with realised figures - and related to assets sales. Considering the economic situation, an economical use of working capital is a basic requirement for current sales. The Company links supplier performances to the payment of Client, so all items are thus covered.

### Other payables and accruals

The closing stock of payables and accruals represent HUF 1.476 million, a 20% change compared to the reference period.

The change is caused by a difference in calculating accruals and the change in the stock of other liabilities at the time of making the report.

### Provisions for expected liabilities and charges

In the accumulated third quarter change of HUF 22 million there are the losses to be expected on after sale warranty works, expected and to be contractually implemented, related to outgoing projects and earlier completed projects.

causing cash being spent, it was the plus/minus sign and the value of the operating profit of the Company that has changed. The increase in operating cash-flow was caused by the positive result of the working capital. The cash-flow resulting from this contributed to the change in free cash assets in a negative way in the comparative period, and then in a positive way in the period under review. The gain in cash and cash equivalents was HUF 195 million.





<b>Cash Flow**</b>	September 30th, 2008* Thousand HUF	September 30th, 2007* Thousand HUF
<b>Cash Flow relating to operating activities:</b>		
<b>Net income before taxation and interest</b>	<b>(647 299)</b>	<b>32 111</b>
Depreciation and amortization	306 467	316 479
Fx differences	9 698	6 763
Proceeds from disposal of fixed assets	663	7 328
Changes in write - off assets	153 756	(38 265)
Changes in minority interest	414	(16 892)
Share based payment expenses	100 614	143 179
Interest received	77 748	72 430
Interest paid	(1 076)	(2 105)
Taxes ( paid ) received	<u>(34 244)</u>	<u>40 948</u>
	<b>(33 259)</b>	<b>561 975</b>
<b>Changes in assets and liabilities</b>		
Changes of accounts receivable and other current assets	457 639	1 841 131
Changes of inventory	(330 056)	164 115
Changes of Payables and accruals	<u>67 539</u>	<u>(2 395 119)</u>
	<b>195 122</b>	<b>(389 873)</b>
<b>Net cash flows from operating activities</b>	<b>161 863</b>	<b>172 102</b>
<b>Cash flow relating to investing activities</b>		
Purchase of fixed assets	(378 109)	(293 221)
Forward contact deposit	347 909	(235 558)
Forward contact gains (losses)	(794 335)	-
Proceeds from sale of short term investments	199 283	(78 494)
Purchase of long term investments	-	632
Proceeds on loans and borrowings	23 710	(18 940)
Acquisition or disposal of subsidiary, net of cash	-	138 627
Proceeds on disposal of fixed assets	13 712	46 113
<b>Net cash flow used in investing activities</b>	<b>(587 830)</b>	<b>(440 841)</b>
<b>Cash flow relating to financing</b>		
Disposal of treasury shares	-	1 227 091
Purchase of treasury shares	(332 828)	(758 080)
Increase (decrease) in loans payable	180 580	(4 600)
<b>Net cash flow used in financing activities</b>	<b>(152 248)</b>	<b>464 411</b>
<b>Increase in cash and cash equivalents</b>	<b>(578 215)</b>	<b>195 672</b>
<b>Cash and cash equivalents at the:</b>		
Beginning of the year	1 331 654	907 938
End of the period	753 439	1 103 609

\* non audited, consolidated

The stock of cash assets of the Company was HUF 753 million on September 30, 2008, and in the opening period on December 31, 2007 it was HUF 1.332 million. The change in the period under review showed a use of cash amounting to HUF 578 million.





### **Net cash-flow used for investment activities**

Assets used for investment activities had a decisive impact on the change of the quantity of cash available for the corporation both in terms of amounts and direction.

In total the amount of cash used in investment activities in the third quarter of 2008 was HUF 181 million, and this represents an aggregate investment amount of HUF 588 million.

The change in the forward contract deposit deal and the amounts used to settle the loss on the deal caused a total spending of HUF 447 million.

The financing of the deal was implemented in part by the use of free cash, and also by the use of cash produced during the period under review.

### **Net cash-flow used in financial activities**

In order to implement share option contracts in the third quarter the Company purchased its shares back for HUF 51 million, and in total it has already purchased treasury shares for HUF 333 million.

The change in credit liabilities is related to the purchase of tangible assets performed in the first quarter under a financial leasing arrangement.

## **The change in equity**

### **Share capital**

The issued capital of the Synergon Group ever since the start of its quotation on the stock exchange, i.e. 1999, has been invariably HUF 1.910.926.000 (composed of 9.554.630 units of Synergon equity share at a face value of HUF 200 each).

### **Treasury shares**

The stock of treasury shares of the Company increased in the third quarter by 72.900 units, and it closed on September 30, 2008 with 728.300 units (at the end of 2007 it closed at 434.900 units).

The average purchase price of the stock of treasury shares at the end of the third quarter was HUF 1.461 (on December 31, 2007. it was HUF 1.626).

Own shares may partly serve as collateral for forward deals. By using own shares as collateral the Company could liberate free financial assets.

### **Cumulated translation adjustments**

This is the variance resulting from the capital consolidation of the subsidiary, operating within the Group with another operating and reporting currency, Infinity a.s. The change in HUF of 17 million was due to the exchange rate variance concerning the Czech crown and the Hungarian forint.

### **Share based payments (IFRS 2)**

On the basis of decisions of the General Assembly of Synergon Informatika Nyrt. in December 2006 and December 2007 it created an option right for its own shares, during the running period of which the real value of the options are settled. Time-proportionate real value figures are indicated by the Company in the capital.

### **Minority interest**

From the interim result of the Czech subsidiary the 1,41% part of profit due for the minority shareholder has been accounted for.





We show the change in equity established by September 30, 2008 between the opening and closing dates of the period under review and the base period by categories of change.

Consolidated statement of changes in Equity (Thousand HUF)	Attributable to equity holders of the parent						Total	Minority Interest	Total equity
	Share Capital	Treasury Shares	Share Premium	Capital Reserve	Retained Earnings	Cumulative Translation Adjustment			
Balance at January 1st 2007 (IFRS)	1 910 926	(1 038 242)	5 643 179	28 685	(1 106 613)	77 440	5 515 375	57 477	5 572 852
Transactions with the equity owners:									
Sale of treasury shares		1 237 093			(10 002)		1 227 091		1 227 091
Purchase of treasury shares		(758 080)					(758 080)		(758 080)
Transactions from the operations:									
Currency translation adjustment						(6 562)	(6 562)		(6 562)
Merge and redesign of capital			127 705	(706)	(126 999)		-		-
Share based payment (IFRS 2)					261 690		261 690		261 690
Disposal of controlled subsidiary					(1 562)	1 587	25	(20 398)	(20 373)
Net income					80 427		80 427	3 506	83 933
Balance at September 30th 2007 (IFRS)	1 910 926	(559 229)	5 770 884	27 979	(903 059)	72 465	6 319 966	40 585	6 360 551
Balance at January 1st 2008 (IFRS)	1 910 926	(707 321)	5 770 884	27 980	(663 294)	96 537	6 435 712	40 860	6 476 572
Transactions with the equity owners:									
Purchase of treasury shares		(332 828)					(332 828)		(332 828)
Transactions from the operations:									
Currency translation adjustment						16 948	16 948		16 948
Share based payment (IFRS 2) in Income statement					100 614		100 614		100 614
Share based payment (IFRS 2) transfere to Liability					(17 649)		(17 649)		(17 649)
Net income					(1 405 476)		(1 405 476)	414	(1 405 062)
Balance at September 30th 2008 (IFRS)	1 910 926	(1 040 149)	5 770 884	27 980	(1 985 804)	113 485	4 797 322	41 274	4 838 596

## Ownership structure, company events

### General Assembly

Synergion Information Systems Plc Nyrt. **took decisions on three subjects on its extraordinary General Assembly session held on June 27, 2008** on accepting Szilvia BINDER, the person in charge of auditing on the part Deloitte Könyvvizsgáló és Tanácsadó Kft., on the list of business activities under TEÁOR '08, and on complementing the Share Option Programme II. for the Managers.

Synergion Information Systems Plc. adopted, **on its ordinary General Assembly session of April 25,**

**2008** the annual report of the Synergion Group and of Synergion Information Systems Plc., it took a decision on entering the profit/loss into the provisions for profit and loss, it adopted the annual reports of the Audit Committee and of the Supervisory Board, as well as the report on responsible company management, and decided on the remuneration of the Management and of the Supervisory Board for the year 2008. The General Assembly adopted the report of the Auditor Deloitte Könyvvizsgáló és Tanácsadó Kft. and took its decision on the remuneration of the work of the auditor.





The following table shows Synergon Information Systems Plc's ownership structure as at September 30, 2008, based on the owner's announcements as required by the statutory obligations.

Shareolders with higher than 5% ownership of Synergon Informations Plc.			Shareolders structure of Synergon Informations Plc.		
Shareholders	December 31st, 2007	September 30th, 2008	Shareholder arts	December 31st, 2007	September 30th, 2008
Cashline Befektetési Holding Zrt.	13,36%	13,17%	Domestic/Company	62,22%	59,12%
Pannergy Műanyagipari Nyrt. with subsidiaries	11,26%	12,19%	Foreign/Company	4,44%	6,19%
AEGON Magyarország Befektetési Alapkezelő Zrt. with its related parties	5,49%	5,20%	Domestic/Private person	28,14%	26,12%
Investors below 5% ratio	65,34%	61,82%	Foreign/Private person	0,26%	0,24%
Treasury shares	4,55%	7,62%	Employee and Key management	0,21%	0,21%
			Treasury shares	4,55%	7,62%
			Governmental and public interest	0,00%	0,00%
<b>Total</b>	<b>100%</b>	<b>100%</b>	Other	0,17%	0,21%
			<b>Total</b>	<b>100%</b>	<b>100%</b>

## Board of Directors

In its meeting held on July 10, 2008, the Board of Directors reviewed the operations and business performance of Synergon Information Plc. and its subsidiaries in the second quarter of 2008.

The Board of Directors reviewed the budget figures for the third quarter, in its meeting held on September 9, 2008.

The Board of Directors has reviewed the operating situation of the Company and its subsidiaries, and in the meeting held on October 17, 2008 the measures aimed at ensuring more cost efficient and more accurately measurable operation of the Company and its divisions were discussed.

On November 13, 2008 the Board of Directors resolved to convene the extraordinary shareholder's meeting of the Company by December 15, 2008, with a proposed agenda aimed at implementing the organization and operation of the Company in a holding structure.

The Board of Directors resolved to call the extraordinary shareholder's meeting on May 21, 2008, for June 27, 2008, and on June 11, 2008 it accepted the draft resolutions to be submitted to the shareholder's meeting.

On March 20, 2008 the Management decided on the date and agenda of the annual ordinary session of the General Assembly, on April 8, 2008 it adopted the report on the business activities of the Company in the year 2007, the annual report of the Company and of the Synergon Group for 2007, as well as the report on responsible company management, and the proposals and draft decisions concerning the annual ordinary session of the General Assembly.

As from March 17, 2007. on, the CEO of Fibex Kft. has been dr. Gábor Fóti, the employment and manager post of the former CEO, Tibor Kelemen have been terminated.

On February 13, 2008. the Management discussed the main data of the business activities for the year 2007 and adopted the text of the progress report related to that, and it also made an overview of the actual situation of the subsidiaries Fibex Kft. and Infinity a.s.

## Supervisory Board

The following decisions were adopted on the two sessions of the Supervisory Board (SB) of Synergon Informatika Nyrt. held on July 1, and on September 30, 2008: The SB discussed and





approved the results of the internal audits terminated in the meantime.

The following decisions were adopted on the two sessions of the Supervisory Board of Synergon Informatika Nyrt. held between April 1, and on July 30, 2008: The SB discussed the business results of Synergon Informatika Nyrt. for the year 2007, and approved the 2007 annual report of the Company.

The Supervisory Board also approved the results of the internal audit terminated in the meantime.

The following decisions have been adopted on the session of the Supervisory Board of Synergon Informatika Nyrt. held between January 1, and March 31, 2008:

The Supervisory Board decided on its work schedule for 2008.

The Supervisory Board discussed and adopted the Internal Audit Manual regulating the

activities of internal audit, and after consultations, it adopted the Internal Audit workplan for 2008.

### Changes in management

As from August 18, 2008. the CEO of Fibex Kft is Mr. Bálint Takács.

The Board of Directors of Infinity a.s has nominated Jaroslav Prochazka as CEO of Infinity a.s with effect from May 1, 2008.

With effect of April 30, 2008 the mandate and post of CEO of Vladimir Cech – CEO of Infinity a.s – have been terminated.

With effect of March 25, 2008 the employment status and the post of the CEO of Fibex Kft. – Tibor Kelemen – have been terminated.

Synergon Information Systems Plc. has nominated Dr. Fóti Gábor as CEO of Fibex Kft with effect from March 17, 2008.

## Business Report

### Operating environment, market and strategy in Hungary

#### *Market environment, economic indicators*

The evolution of macro-economical processes continue to lag behind earlier outlined expectations. The State budget balance-sheet evolved basically as suggested. The deficit - without the local governments - represented HUF 731 billion during the Q1-Q3 period of 2008, and this is somewhat less than the earlier expected HUF 753 billion. This represents 70,8% of the deficit forecast for the whole year. The State budget deficit in proportion of the GDP was then 2,7 per cent, compared to the earlier suggested 2,8 per cent.

According the forecasts the State budget deficit without the local governments shall be HUF 1.110,7 billion at the end of the year, representing as expected over 4 per cent of the GDP.

On the macro-economical level economic processes continue to vary from earlier expectations. In the third quarter *inflation* was slightly lower due to the major drop in September, but considering the period from January to September *it continues to be high, at 6,7 per cent*. GDP growth is below 2%. Unemployment rate has decreased somewhat and Q3 it stopped at Q3 7,5%.

Further to the impact of the convergence programme and of the negative effects of the continuously low economic growth the evolution of the IT market is also adversely affected by financial crises spreading from the end of the summer period. As a result of all this the *market is characterized by a limited readiness to invest*. On the basis of Q1-Q3 period experiences *the IT market is stagnating*.





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***Public health, State and Public Administration Sectors***

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The completion and ceremonial handover of projects under the National Development Plan (NFT) I and NFT I. continued also in the third quarter. Two major completed projects have been put into use, and started operations, one of them is the broadband Internet infrastructure project in the Szarvas small-region, with an investment value reaching HUF 250 million. The other project handed over was the IP based network and telephone system of the J3sa Andr3s Hospital at Ny3regyh3za, with an investment value close to HUF 150 million.

Synergon has been a successful bidder at several calls for tender under the authority of the Service Directorate of the Prime Minister's Office, the so-called „KSZF” tenders, that were related to centralized public procurements. On that basis, Synergon – in addition to virus protection solutions – also obtained supplier qualifications to supply network tools, high performance computers and storage systems under the KSZF scheme.

Development programmes related to the broadband Internet infrastructure determined as a priority objective under the New Hungary Development Plan (3MFT) have continued, and considering the status of the bids submitted at the beginning of the year the service providers can start construction work this autumn. In these development projects Synergon intends to use as Contractor its significant experiences gained during GVOP works execution tasks.

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***Banking and financial sector***

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As it is well-known, the starting point of the crises that by now has taken a worldwide dimension was the financial crisis in the USA, affecting first of all banks and insurance companies. This crisis seems to have spread to Europe, too, . and this, from the aspect of the banking and financial sector is anything but a favourable turn. In addition it appears that we are facing here a crises protracted in time, so according to expectations the actors in the banking and financial sector may even significantly curtail their expenses in the coming period.

Despite existing difficulties we can confirm that the business strategy adopted earlier starts to bear its fruit, as the sector performs up to now as planned. The first three quarter years are in line with the plans both in terms of turnover and in terms of margin, and this means that the next year performance of the Company is increasing even in such a difficult situation and that is a good result by any terms. The success of the earlier announced strategy is also demonstrated by the great number of new orders obtained during the quarter.

Furthermore, in this quarter orders for business solutions really reached an upper level. The Company succeeded to obtain through bidding the contract for a version-change and a further development of the company management system of a major State-owned financial institution, and has been the winning bidder to implement a project management system and a real-estate recording system with a commercial bank group having a decisive market share.

From among the new clients it was with the most important savings-bank with a national coverage that it obtained a large volume passive network infrastructure building project.

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***Telecommunication and media sector***

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The telecommunication and media sector continues to apply its strategy adopted at the beginning of 2007, as this has proved to be efficient so far.

As part of the strategy Synergon had serious expectations to be able to obtain similar jobs with other telecommunication service providers. As a result of the implemented focussed strategy in the first quarter Synergon concluded a contract with Vodafone Zrt. to support the IP network built on Cisco



technology with an increased level availability and for the supply of equipment to enlarge the network, and as well for implementing cable laying works related to these by using Systimax products.

As a result of market changes and thanks to the success of the adaptive strategy, as from the beginning of 2008 it is Synergon who is in charge at Invitel Zrt to support the Cisco based technology IP network of this telecommunication service provider with an increased level availability, and in this relation it obtained and implemented important investment tasks during the quarter year.

During the quarter year Synergon continued to expand the Company Project Management and group work support solution introduced with T-Mobile during 2004 to other areas of that Group, and it is also engaged in preparing tasks based on Microsoft technology.

As concerns the IP address-management solution implemented in the T-Group Synergon offers priority level support to the Client during the first year. It is expected that the project shall result in further extensions in the fourth quarter of 2008. Preparatory works for similar projects with other telecommunication service providers are of course also in progress.

The combined elevated level network management support job obtained with the T-Group entered its implementation phase in the first quarter, and it is progressing as scheduled.

With cable-TV service providers supplies concerning the building of optical systems continued also in this quarter. The introduction, as planned, of the DVB-S technology platform with T-Kábel built on a Harmonic solution has been successfully completed.

During the quarter Synergon concluded a network operating support contract with NHH, that also has a major impact on the profitability of the sector both for the quarter and for the whole year.

### ***Industry and Services Sector***

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This sector continued its successful work and it performed better than planned also in the third quarter. The projects – just like the performances in the past quarter – relied on the solution of the infrastructure division.

With the largest car-manufacturer in Hungary we completed the 3-year supply of a large quantity of desktop Microsoft licences. In addition to the licences supplied so far the order also covers further extensions.

TIGÁZ chose again Synergon for the replacement of its full network equipment. The development of the Cisco LAN network covering 35 business sites and their optimization shall continue over the next quarter, too.

The second phase of the network reconstruction of Dél-magyarországi Áramszolgáltató Zrt. (DÉMÁSZ) (*Electric Power Service Provider in South-Hungary Co.*) has continued. Thanks to earlier cooperation DÉMÁSZ again opted for Synergon to further continue its network reconstruction. In this phase our job was to implement the network building works and the replacement of equipment on four major sites.

The machine room of the Medimpex office building of EGIS Gyógyszergyár Nyrt. (*EGIS Pharmaceutical Co.*) was also handed over and it was considered within EGIS as a success story.

Following the conclusive SAP implementation in the first quarter we could prove our expertise at Dunai Vasmű (*Dunai Steel Plant*) also on the infrastructure side, by supplying Cisco equipment.

The seasonal nature of the industry sector means that they complete about 40% of their annual plans in the fourth quarter. But preparatory works, project kick-offs are a serious task, that have to be prepared



already in the preceding quarter years. Also in the third quarter we attached special importance to these preparatory works, and as a result we look forward positively to Q4.

### ***Operating services (SAO- Synergon Kft.)***

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SAO-Synergon Kft. (SAO), is a member company of the Synergon IT Group, specialised in providing operating services, operating support and also full-scale outsourcing solutions.

No major changes took place in the life of the division in the third quarter of 2008, just as in the earlier period – and thanks to its open-ended operating contracts - it could produce a stable business performance. Its stock of orders, its key-account clientele has not changed compared to the past.

During the past months - in addition to on-going operating services - we also implemented smaller projects with contractual clients. From among these we should mention the system plan for migrating the correspondence system elaborated for the Aegon Biztosító insurance company, that covers first a version update of the current Exchange system, and eventually its regional extension.

By the use of the submitted and in the meantime obtained HEFOP support application our staff participates at an intensive educational programme, where they receive company cooperation, Microsoft expert and English language training.

The Company has a stable financial situation, its income was similar to that of the identical period in the previous year. For the purpose of cost-effective operation resources have been rationalized at the (Synergon) Group level, and this had a favourable impact on the operating result.

### ***Retail trade systems and client centres (Synergon Retail Systems Kft.)***

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Synergon Retail Systems Kft. closed the third quarter as planned. As part of our continuous service activities we provide 24-hour availability services to existing clients, such as Agip Magyarország Kft., MÁV Zrt., LukOil Magyarország Kft., Auchan Magyarország Kft. on the whole territory of the country. In addition it is also the job of this company to provide after sale service to clients working in the retail trade segment, with extensively varying availability and service work conditions.

The full after sales service activity for the intelligent postal services of the Hungarian Post Office (Magyar Posta Intelligens Posta Hivatal (IPH)) is performed by Synergon Retail Systems Kft. The company also undertakes further installations and after sale services at the bank card terminals of the Post on the basis of the contract concluded in the beginning of the year. According to our framework agreement we supplied to Magyar Posta in due time several hundreds of small cashier machines and we also completed service tasks in this respect.

At the Hungarian railways "Magyar Államvasutak Zrt." we handed over 6 automatic locomotive filling-stations, and also supported the existing ones.

We ensure IT support for the shops of KIK Magyarország Bt., under which several new shops were opened countrywide. ALDI Magyarország Bt. opened new shops countrywide with cashier machines installed with the support of the company. The connection of suppliers using EDI system into the ECOD system also continues with Auchan Magyarország Kft.

With the introduction of the EDI systems we achieved new successes with several inland retail and supplier companies by introducing the e\_order, e\_invoice and e\_archiv services. Synergon Retail Systems Kft. and Comarch applies a joint strategy when calling on retail companies present on the



Hungarian market and their suppliers. Up to the end of the year we expect that additional retail chains and suppliers shall join to the ECOD system (the EDI system commercialised by Synergon).

### ***Optical cables and design (Fibex Kft.)***

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A new CEO was appointed to manage the company Fibex Kft. owned by Synergon, Bálint Takács, who took his job on August 18, 2008. During his career, the new leader worked earlier with SAGEM Magyarország Elektronikai Kft. as logistics and purchasing director, key account manager and business analysis expert, and also with Fibernet Kommunikációs Zrt. as logistics director, so already after the first month he could already make an overall picture for himself on market opportunities and the capacity to make use of the business potential of the company.

In the future Fibex Kft., in addition to investment projects, shall try to answer in a flexible way the various needs in cables and other material required for network construction within the maintenance, reconstruction and damage reparation work of market actors, by ensuring the fullest possible client satisfaction, and this shall require a basic change from the process organization aspect. Knowledge by staff of the market and of materials, and flexible logistical functions are among the most important elements of the services provided to Clients.

Fibex is getting ready for ***major project deliveries***. With the technologies to be applied and the purchasing opportunities, and by maintaining contact with partners representing chances for competition or cooperation, it shall act as a self-reliant bidder. The fact the Fibex extended the group of its suppliers by suppliers ensuring exclusive deliveries its chances are further enhanced.

Fibex is again involved in ***performing mounting and manufacturing activities***, this is a response to a need coming from the market, and it may again ensure a competitive edge for the company with respect to current competitors. According to hopes and expectations this activity shall also be performed by quality work and as required, so that to bring convincing results.

***Framework agreements*** representing a commitment for longer periods shall be concluded by Clients during the coming months, unfortunately cost limits with purchases and long purchasing and licensing processes – that can be due to the current economical instability – shall not augur well for short term, rapid successes but may rather mean well-founded development and protracted negotiations.

We made a survey as to what ***complementary or alternative products*** could be used to answer market needs, and by which the portfolio can be enlarged. We have concluded the first successful power current cable contract and there are negotiations concerning new, earlier not used passively structured network building equipment, as cable-TV related active equipment, too, and this will be completely new in the history of Fibex Kft.

### **The operation of the divisions in the Czech Republic (Infinity a.s)**

**The business turnover of the Czech subsidiary has been basically generated by HP and Microsoft sales and the sale of the services related to these.**

In the State and Public Administration sector during the first six-months of the year a major part of the capacities were busy to implement orders placed by the State (National Land Registry, Ministry of the Interior), while in the third quarter data and system security solution were delivered to the National Land Registry.



In the industry, services and trade sector the trend in 2008 was, that important orders were placed for Cisco products and for network construction closely related to these, made up of active and passive pieces of equipment. It was in this year that Infinity started to profit of the reliability edge conferred by the positive market goodwill. Considering exclusively the third quarter our most important clients were Foxconn, Precheza, Schott Flatt Glass and Tatra.

Among clients considering logistics and transport as the main profile we can talk of a maturity period for the CRM systems, and this allows us to provide well developed, standard CRM systems to companies with various sizes and business profiles. We linked together all of the Czech and Slovakian sites of Scania and supplied them with a CRM system. A further result of the quarter year was the with the implementation work by Infinity expert staff Renocar purchased and installed an ERP solution.

Retail trade networks like Ahold and Kaufland are the main Client for operating services. Kaufland is the most widespread retail chain in the Czech Republic, and for several years now it has provided for the continuous service availability over the entire territory of the country by calling on Infinity. This is a major challenge, as in this multi-frontline competition concerning the retail chain suppliers are also under obligation to prove their competence, amid changes involving expansion, price competition, compliance to legal rules.

It is from the second quarter on that results should be looked at with particular attention. As from the second quarter a new management team is in charge of the Company. **It is Jaroslav Procházka CEO, Martin Ječmen trade and division director, and Petr Horáček operations director who accepted the risk and the work to introduce in the company the structural changes, the reform of the motivation system, a strong Client-oriented approach to ensure a capacity for the company to generate income, and to lay the foundations for positive business results in the coming years.**

**It is a fact that the result of the last six months operations show an turnover of HUF 60 million, and its financial assets increased in proportion. In the background of this positive result** there is the commitment of the company's staff, the quality of the work and the motivation for success, that together have resulted in a significant increase in efficiency.

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### Acceptance of Liability Declaration

The progress report of Synergon Informatikai Rendszereket Tervező és Kivitelező Nyilvánosan Működő shareholders' company (Synergon Informations Systems Design and Building Plc) elaborated its present progress report presenting its business activities for the **9-month period from January 1, to September 30, 2008** in compliance with Act CXX of 2001 on the capital markets and the regulation of the Budapest Stock Exchange Plc. on Introduction and Quotation Rules.

These statements have been elaborated according to our best knowledge **in conformity with International Financial and Reporting Standards**, they contain non-audited data and statements, and they do not ignore any such facts that are material from the aspect of evaluating the situation of the Company. This report gives a true and reliable description of the assets, liabilities, financial situation of the consolidated company, and also on its profit and loss figures, and it give a reliable description of the situation, development, performance of the presented consolidated company, explaining the major risks and uncertainty factors.

The Company, as issuer is liable for compensating any damages that may occur due to a failure to give regular and extraordinary information, and/or due to a misleading content of such information.



Budapest, November 19, 2008.

Imre Zsuzsanna  
Chief Financial Officer

Lazarovits Márk  
Chief Executive Director

**Synergon Information Systems Plc.**

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