# Annual Report 2005

ÁLLAMI NYOMDA
STATE PRINTING COMPANY

# State Printing House Plc

# Annual Report

# 2005

# Dear Shareholder

Every General Meeting convened to close and evaluate a year past is, quite naturally, also a time of reckoning for a company. It is an examination for its employees – particularly for management – but, in a certain sense, it is also a test of its shareholders where they can see whether they set the right course and objectives at the previous meeting. And then – just to continue with the education analogy – there are "finals": exams that are obviously more important than others.

The year 2005 was such a period for State Printing House Plc. In the spring, when we decided to try and list the Company's ordinary shares on the stock exchange, we had no idea in several respects of what was to come. We certainly knew that there had to be a reason why no new company had appeared on the exchange for almost one and a half years at the time. We were also more or less familiar with the particular characteristics of the Hungarian stock market and our own resources. We were, however, not aware of the actual magnitude of the task ahead and the opportunities – and, perhaps, constraints – represented by the various economic and political forces to be reckoned with.

The shares of State Printing House Public Limited Company – with a par value of HUF 980 each – have been featured in Category "A" of the Budapest Stock Exchange since 8 December 2005. The shares were oversubscribed several times, and finally the offering price was set at HUF 5,600. The price then quickly rose to over HUF 6,000, and settled at that level.

According to the data of 31 December 2005, the Company has almost 700 shareholders, including illustrious and recognized financial investors, fund managers from Scandinavia to the United States, from London through Budapest to Tallinn, and – last but absolutely not least – hundreds of Hungarian retail investors, who all believe in the prospects of State Printing House.

The support of our shareholders gives us strength but also means an obligation. The Állami Nyomda Group, which is present in Hungary as well as in Bulgaria, Romania, Russia and Slovakia and exports its products and services to another 13 countries in Europe and overseas, wants to be worthy of the long-term confidence of our investors.

155 years ago a few brave professionals had established a printing house in Timisoara. We must prove ourselves to honor their memory as well as the trust of our shareholders and the achievements of the Hungarian industry. The constantly updated skills of our employees and their steady loyalty to the Company give us more than hope: they are a guarantee for the future.

Budapest, April 2006.

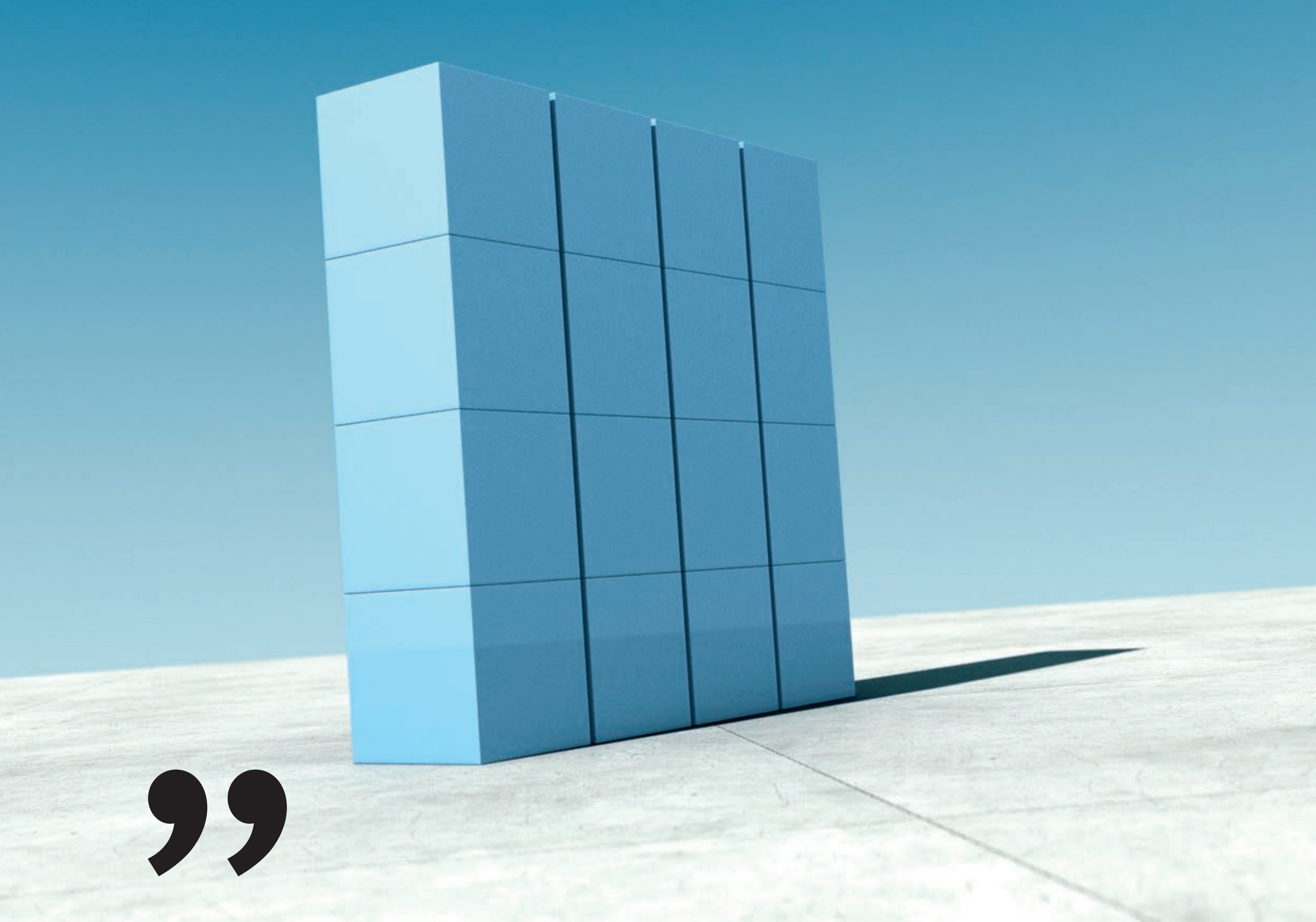
Dr. Ákos Erdős
Chairman of the Board of Directors

”

155 years ago, the first workers and managers of our printing house could only hope that they would be part of a successful business. I believe that we have proved worthy of their memory. Right now, having joined forces with distinguished domestic and international investors, we are writing the latest chapter.

dr Erdős Ákos

Dr. Ákos Erdős
Chairman of the Board of Directors



The Company may be new to the stock exchange, but it has already proved its market strength. Add to this achievement the significant capital investments implemented and the major tenders won in 2005, and one can safely predict the successes of the future.

György Gyergyák
Chief Executive Officer

# Key achievements

- The ordinary shares of State Printing House Plc were listed in Category “A” of the Budapest Stock Exchange (BSE) on 8 December 2005.
- The Company posted consolidated net sales of HUF 11.6 billion in 2005.
- Export sales totaled HUF 635 million, which exceeds the previous year’s figure by HUF 283 million (80%). Exports accounted for 5.5% of total sales, an almost twofold increase as compared to the base period.
- Consolidated EBITDA amounted to HUF 1,582 million, while income before tax came to HUF 999 million.
- The impact of one-off expenses and costs incurred for the first time (e.g. stock exchange listing, rent) excluded, both EBITDA and the net income were near the previous year’s levels.
- The drop in 2005 earnings was for the most part due to the following extraordinary events:
  - the one-off cost of stock exchange listing amounted to HUF 167 million,
  - following the spinoff of real property assets on 15 July 2005, State Printing House Plc recognized rental costs in the amount of HUF 72 million in 2005,
  - in March 2005 State Printing House Plc acquired 10% (147,900) of its ordinary shares, which were sold in the form of a public sale during the stock exchange listing in December. The fall in cash and equivalents meant a drop in interest income, while the medium-term loans taken out and the overdraft facilities used triggered a rise in interest expense, which resulted in a negative net interest income of HUF 8 million, a HUF 93 million plunge from the previous year’s HUF 85 million positive net interest income.
- State Printing House Plc expanded the capacities of its card plant considerably through a capital investment of almost HUF 500 million in chip card production operations. The Company’s development efforts included the purchase of chip embedding, laminating and hologramming machines, a sheet-fed press, a screen printing machine, and card personalization, chip and magnetic stripe encoding equipment. Total capital expenditure exceeded HUF 900 million for the year.
- In Q4 2005 the Company won several major tenders.

# The Company's activities

Founded in 1851 as the Royal State Printing House of Hungary, the Company had been in state hands for over 140 years until its privatization in 1993. When its state ownership was terminated and it lost its status as a supplier to the state, the Company had annual sales of HUF 670 million and a pretax income of HUF 22 million. In 2005 it posted sales of HUF 11.5 billion, while its income before tax and minority interest amounted to HUF 999 million.

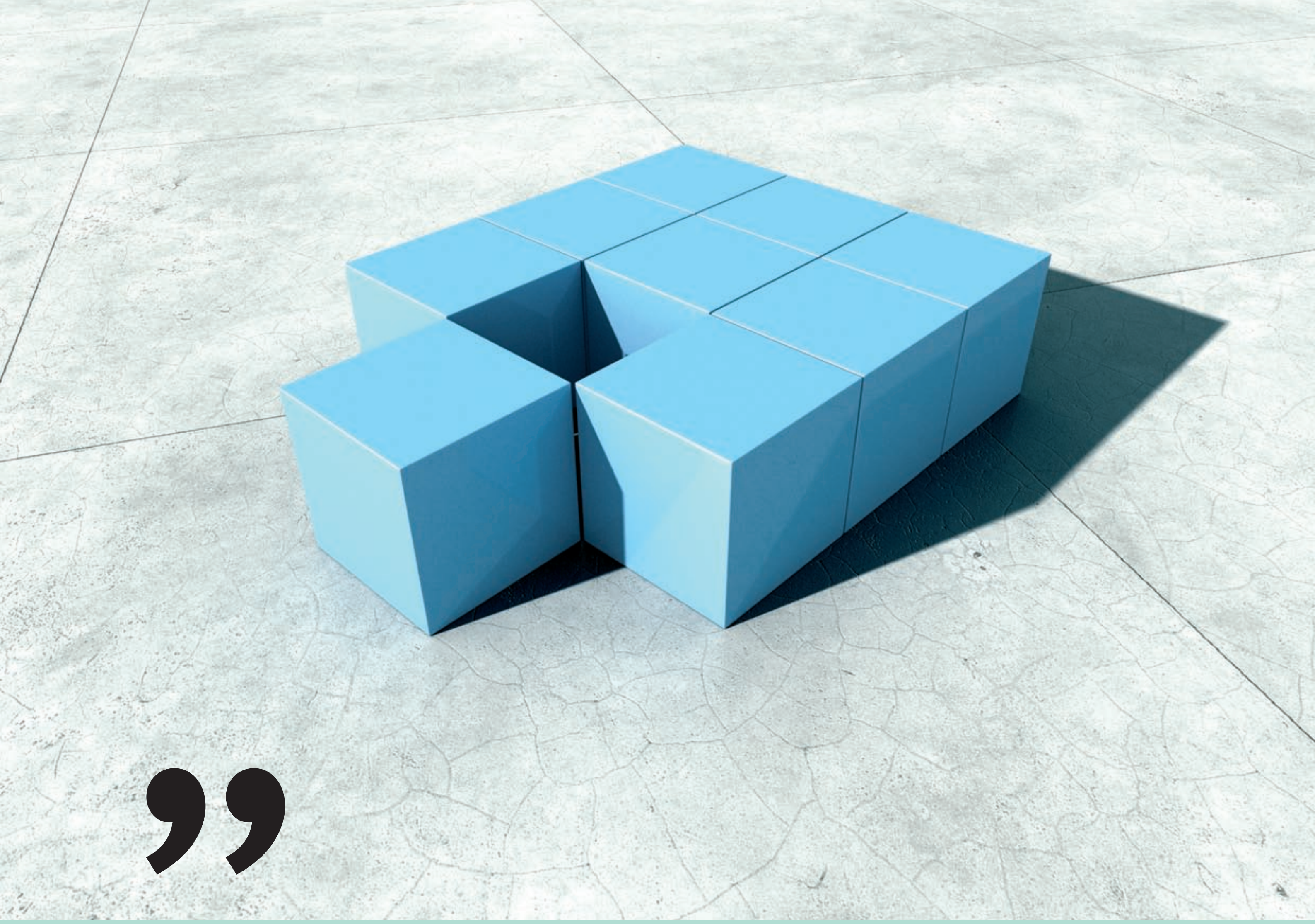
From the first Hungarian stamp through shares, bonds and lottery tickets to ballot papers and even birth, marriage and death certificates; or, most recently, to various documents used as proof of identity, ownership, driving rights or student status, the Company's products are used by almost everyone.

State Printing House Plc manufactures security products and solutions (alcohol and tobacco tax stamps, stickers with security elements), plastic and paper cards (document cards, bank, phone and commercial cards), personalized business and administration forms and traditional printing products.

The Company's most important customers are government agencies, banks, insurance companies, telecom operators and distributors of value forms (e.g. meal vouchers). In 2004 and 2005 the Company established joint ventures and subsidiaries in Romania, Bulgaria, Russia and Slovakia in order to increase its market presence, and currently offers its products in 17 countries.

## Strategic objectives

The management of State Printing House Plc believes that it is a realistically achievable objective for the Company in the short and medium term to become a dominant security printing house in the region. Our goal is to ensure that the Company plays a decisive role in the area of security documents in its domestic as well as regional markets, and also evolves into a key regional player in the segments of business forms and plastic cards. In order to accomplish these goals we will rely on the competitive edge that our information technology and document security research and development activities offer over more "conservative" security printing companies.



"The products of State Printing House Plc are known and used in dozens of countries. The clients of our subsidiaries and our foreign partners would probably say that our most characteristic features are progress, growth and an international perspective.

Gábor Zsámboki
Chief Sales & Marketing Officer

”

If I was asked to sum up what we produce here at State Printing House Plc, the first word that comes to my mind would be: answers. And most of them are winning answers – to the challenges of public procurement and other tenders and the (sometimes unasked) questions of the market.

György Vajda
First Deputy CEO

# The Állami Nyomda Group

| Company name | Country | | Equity | Ownership interest (%) | Voting rights |
|---|---|---|---|---|---|
| **State Printing House Plc** | | **HUF** | **1,449,875,700** | **–** | **–** |
| Gyomai Kner Nyomda Zrt. | Hungary | HUF | 200,000,000 | 92.8% | 92.8% |
| Specimen Zrt. | Hungary | HUF | 100,000,000 | 80.2% | 80.2% |
| Security Audit Kft. | Hungary | HUF | 5,000,000 | 64.2% | 64.2% |
| Tipo Direct SRL | Romania | RON | 476,200 | 50.0% | 50.0% |
| Direct Services OOD | Bulgaria | BGN | 180,000 | 50.0% | 50.0% |
| Slovak Direct SRO | Slovakia | SKK | 1,927,000 | 100.0% | 100.0% |
| Állami Nyomda OOO | Russia | RUB | 10,000 | 100.0% | 100.0% |

# Key financial data and ratios

(IFRS audited, consolidated)

| Description | 2004 (HUF millions) | 2005 (HUF millions) |
|---|---|---|
| **Balance sheet** | | |
| Fixed assets | 3,298 | 2,192 |
| Total assets | 7, 153 | 6,939 |
| Equity | 5,521 | 3,827 |
| **Income** | | |
| Net sales | 11,506 | 11,557 |
| EBITDA | 1,860 | 1,582 |
| Net income | 1,109 | 868 |
| **Key ratios** | **2004** | **2005** |
| Return on investment (ROI) (%) | 33.5% | 39.2% |
| Return on equity (ROE) (%) | 20.0% | 22.5% |
| Earnings per share (EPS) (HUF/share) | 748 | 626 |

# Product groups

The breakdown of net sales by segment is presented in the table below:

| Sales segments | 2004 HUF millions | 2005 HUF millions | Change HUF millions | Change % |
|---|---|---|---|---|
| Security products and solutions | 3,772 | 3,316 | −456 | – 12.1% |
| Card production and personalization | 2,815 | 2,414 | −401 | −14.2% |
| Form production and personalization, data processing | 3,643 | 3,371 | −272 | −7.5% |
| Traditional printing products | 934 | 1,810 | +876 | +93.8% |
| Other | 342 | 646 | +304 | +88.9% |
| **Total net sales** | **11,506** | **11,557** | **+51** | **+0.4%** |

State Printing House Plc posted consolidated net sales of HUF 11,557 million in 2005, which exceeds the previous year's figure by 0.4% (HUF 51 million). In the period under review the Company's business operations and sales were significantly affected by certain key projects.

The sales of **security products and solutions** totaled HUF 3,316 million in 2005, which falls short of the corresponding 2004 figure by HUF 456 million. The primary reason is that a considerable part (HUF 1 billion) of 2004 sales were linked to one-off projects. The Company, as a subcontractor, supplied special printers, laminators and the required security cartridges, toners and consumables for public administration offices and local register offices. In this product category the most important items are alcohol and tobacco tax stamps, the sales of which remained flat from the previous year. The loss of the 2004 one-off revenues from document security products could in part be offset by supplies of prescription forms, toll stickers and meal vouchers, and the December launch of major projects won in the last quarter (validation labels for license plates, birth/marriage/death certificates).

The Company's sales from **card production and personalization** came to HUF 2,414 million in 2005, which is HUF 401 million less than in 2004. Schwabo Rt. was sold in 2004 and consequently removed from among the companies included in consolidation, which entailed a HUF 218 million fall in card production and personalization sales in 2005. Group-level sales realized on card-based documents and the personalization thereof dropped slightly, by 5.7% (HUF 110 million) due to deliveries carried over to 2006, while the turnover of bank, commercial and loyalty cards rose by 22% (HUF 51 million). In the phone card segment, sales fell by 29% (HUF 113 million) despite a 17.5% increase in volume terms. The reason for the change is that – in accordance with international trends – clients replaced PVC with paper as the raw material for their phone cards, which reduced both the purchase price of the raw material and the sale price of the finished product.

The sales derived from **form production, personalization and data processing** amounted to HUF 3,371 million in 2005, HUF 272 million (7.5%) less than in the base year. The year-on-year drop in sales in this product group resulted from the fact that in 2004 the Company had realized sales of HUF 245 million in connection with the European Parliament elections in Hungary. The turnover of business forms was adversely affected in 2005 by the fall in the quantity of APEH (tax) forms, which was related to simplifications in the system of tax returns on the one hand, and the increasing popularity of electronic tax returns on the other. This fall, however, was offset completely by the fact that the Company was continuously expanding its personalization capacities, and provided complex services – including printing, personalization, enveloping and mailing – for several large Hungarian clients (e.g. AEGON, OTP Garancia Biztosító, Ella Bank, Cetelem Bank, Credigen Bank). At the end of 2004 the Company launched its form personalization services in the Romanian market, followed by Bulgaria and Slovakia in 2005.

The sales of **traditional printing products** totaled HUF 1,810 million in 2005, a HUF 876 million (93.8%) increase as compared to the previous year. The Company – and primarily Gyomai Kner Nyomda Zrt., a member of the group engaged in book production – achieved considerable sales growth in 2005.

**Other sales** came to HUF 646 million in 2005, which represents a HUF 304 million (88.9%) rise year on year, mainly as a result of revenues from the sale of various commercial materials and goods.

## Export sales by segment

| Sales segments | 2004 HUF millions | 2005 HUF millions | Change HUF millions | Change % |
|---|---|---|---|---|
| Security products and solutions | 166 | 164 | −2 | −1.2% |
| Card production and personalization | 151 | 253 | +102 | +67.5% |
| Form production and personalization, data processing | 24 | 110 | +86 | +358.3% |
| Traditional printing products | 0 | 0 | 0 | NA |
| Other | 11 | 10 | −1 | −9.1% |
| **Total export sales** | **352** | **537** | **+185** | **+52.6%** |
| Albanian project (*) | 0 | 98 | | |
| **Total exports** | **352** | **635** | | |

| Sales segments | 2004 % | 2005 % | | |
|---|---|---|---|---|
| **Exports** | **3.1%** | **5.5%** | | |

(*) We have posted under export sales the HUF 98 million realized on supplying new, card-based driving licenses and the issuing system thereof for Albania as a subcontractor to Bull Magyarország Kft. – in accounting records this amount is shown under domestic sales.

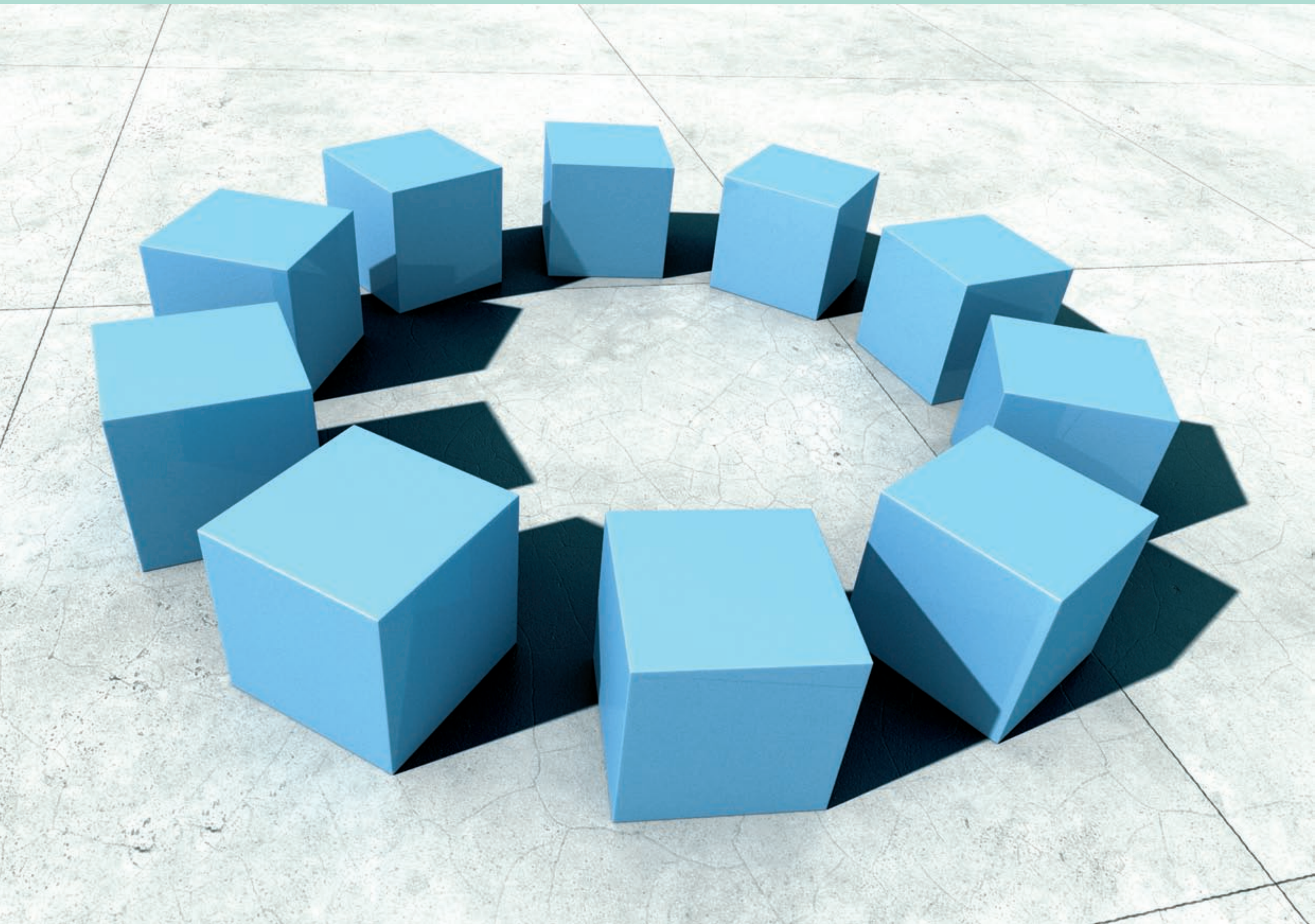
Export sales totaled HUF 635 million in 2005, which means a considerable, HUF 283 million (80%) increase as compared to 2004. The growth posted in the reporting period was mainly driven by card and form personalization orders, which came from Ukraine and Czech Republic – similarly to the previous year – but for the most part from Romania, Bulgaria, Slovakia and Poland – as a result of the 2005 regional expansion.

The substantial growth in export sales also reduced the Company's exchange rate risk considerably. More than 90% of exports are EUR-based, and can thus cover certain basic payables also denominated in EUR, such as loan repayments and rent.

”

Our research results and unique products are aimed at developing our printing and security technologies in order to increase our competitiveness in foreign markets as well. We want to be at least one step ahead of counterfeiters at all times.

Dr. Lajos Székelyhídi
Chief Research & Development Officer



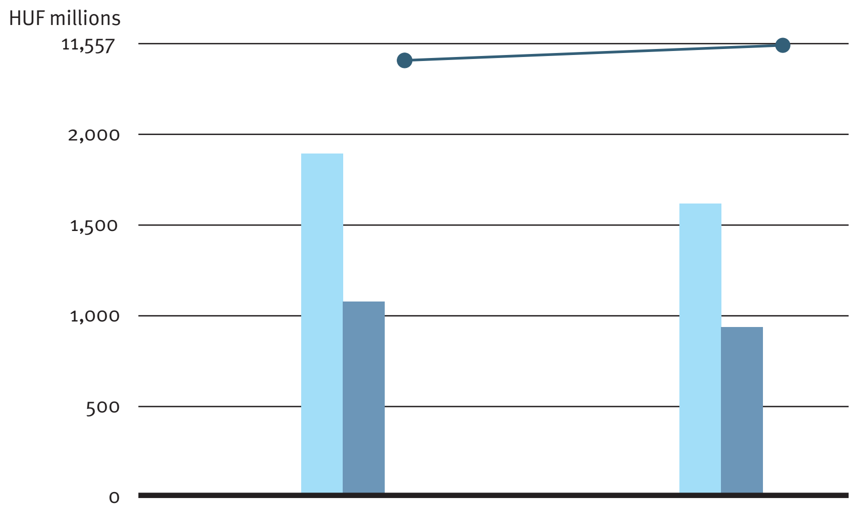
# Financial analysis

The following table presents the Company's operating income in the format of a so-called "total cost accounting" income statement:

| Description | 2004 HUF millions | 2005 HUF millions | Index (%) |
|---|---|---|---|
| Net sales | 11,506 | 11,557 | 100.4% |
| Capitalized value of assets produced | –56 | 226 | n/a |
| Material expenses | 6,476 | 6,881 | 106.3% |
| Personnel expenses | 2,839 | 2,994 | 105.5% |
| Depreciation | 602 | 575 | 95.5% |
| Costs of stock exchange listing* | 0 | 142 | n/a |
| Other expenses | 275 | 184 | 66.9% |
| Operating income | 1,258 | 1,007 | 80.0% |
| Net income | 1,104 | 859 | 77.8% |
| EBITDA | 1,860 | 1,582 | 85.1% |
| **Description** | **2004 %** | **2005 %** | **Index (%)** |
| EBITDA margin (%) | 16.2% | 13.7% | 84.7% |

** The costs of stock exchange listing totaled HUF 167 million, which was reduced by the HUF 25 million aid awarded under a grant program of the Ministry of Economy and Transport (GKM).*

**Állami Nyomda Group results, 2004-2005**




| Állami Nyomda Group results | 2004 HUF millions | 2005 HUF millions |
|---|---|---|
| EBITDA | 1,860 | 1,582 |
| Net income | 1,109 | 868 |
| Net sales | 11,506 | 11,557 |

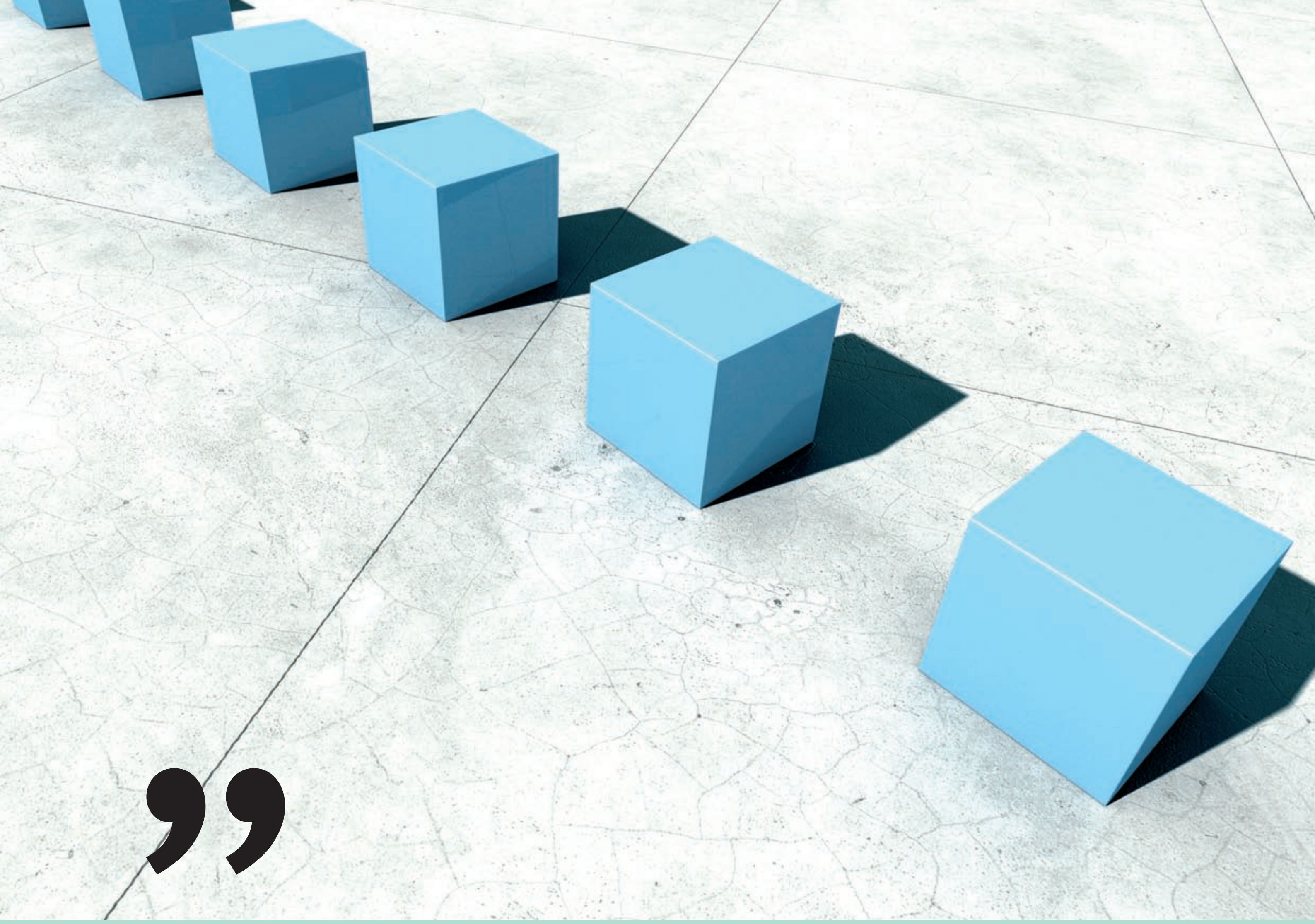
# Financial analysis

Net sales totaled HUF 11,557 million in 2005, which exceeds the previous year's corresponding figure by HUF 51 million. The operating income amounted to HUF 1,007 million, falling short of the 2004 figure by HUF 251 million. The drop in operating income mainly resulted from the one-off costs of stock exchange listing (HUF 142 million) and the rent recognized for 2005 (HUF 72 million) after the Company's real property assets were spun off. The gross profit came to HUF 4,065 million, which means a 35.1% gross margin. Selling, general and administration (SG&A) expenses amounted to HUF 2,732 million in 2005, which equals 23.6% of net sales. Material expenses rose by 6.3% (HUF 405 million) in 2005, primarily due to the cost of third-party services sold.

Personnel expenses increased by 5.5% (HUF 155 million). The Company had 725 full-time employees on average during the year, and 758 at the end of the period.

The Company's EBITDA dropped to HUF 1,582 million due to certain one-off items not related to ordinary activities (e.g. the costs of stock exchange listing). In the previous year the income realized on financial transactions had made a significant positive impact on the bottom line. The net interest income had amounted to HUF 85 million in 2004, which fell to a negative net interest income of HUF 8 million in 2005. The change in interest income and expenses was mainly due to two factors: the fall in interest income derived from term deposits and the rise in interest expenses on medium-term loans taken out and overdraft facilities used in 2005. The net income after interest, tax and minority interest came to HUF 859 million in 2005.

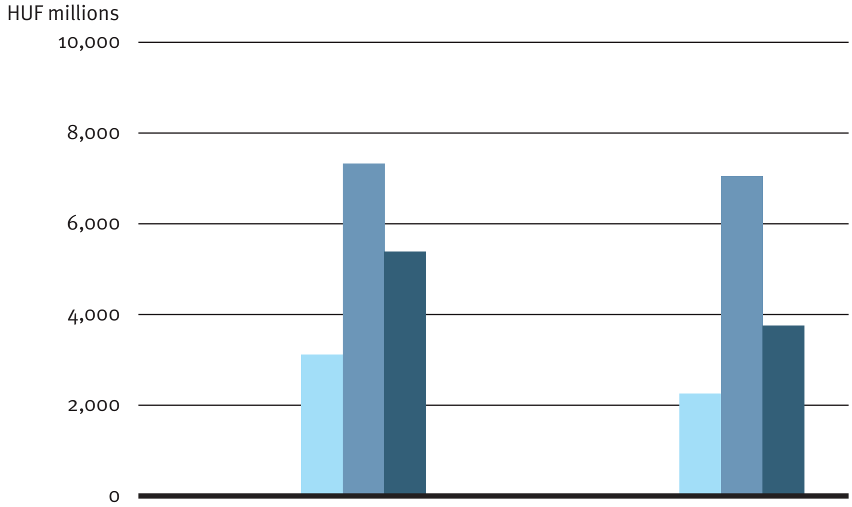
If the impact of one-off expenses (e.g. stock exchange listing, rent) is not taken into account, both EBITDA and the net income were close to the previous year's levels.



Last year we implemented capital investments worth nearly HUF 1 billion. In my opinion, the most significant developments – amounting to HUF 500 million – were carried out in chip card manufacturing. This product has great prospects – and we will be there for sure.

Huba Szatmári
Chief Technology Officer

# Állami Nyomda Group key balance sheet data, 2004-2005




| Állami Nyomda Group key balance sheet data | 2004 HUF millions | 2005 HUF millions |
|---|---|---|
| Fixed assets | 3,298 | 2,192 |
| Total assets | 7,153 | 6,939 |
| Equity | 5,521 | 3,827 |

The Company's total assets amounted to HUF 6,939 million in 2005, which means a 3% (HUF 216 million) drop as compared to the previous year. The change is attributable to the spinoff of real property assets during 2005, when the value of tangible assets was reduced by HUF 1,389 million. This change was partly offset by the increase in current assets as well as the substantial capital expenditure, which exceeded depreciation.

Accounts receivable totaled HUF 2,550 million, which represents a 46% increase as compared to 2004 and resulted from the launch of major projects won in the fourth quarter. Inventory amounted to HUF 1,149 million, a 26% rise year on year. The higher yearend figure stems from deliveries carried over to the next year.
The total value of property, plant and equipment fell by 34% in 2005, which was the combined effect of real property assets being removed from the books and capital expenditure exceeding depreciation.

Trade accounts payable rose by 68% to HUF 1,215 million as a result of raw material purchases made at the end of the year and extended payment deadlines.
Other payables and accruals amounted to HUF 845 million, a 24.5% increase. The most significant part of the change is attributable to the unreleased and accrued portion of the non-refundable aid received for asset investments (HUF 137 million).

In May 2005 the Company took out a 3-year medium-term loan in the amount of EUR 4 million, which earns interest on a EURIBOR basis. At the end of the year the loan was stated in the books at HUF 842 million. The balance of long and short-term debt was HUF 922 million as at 31 December 2005. The debt-to-equity ratio stood at 24.5% at the end of the period.

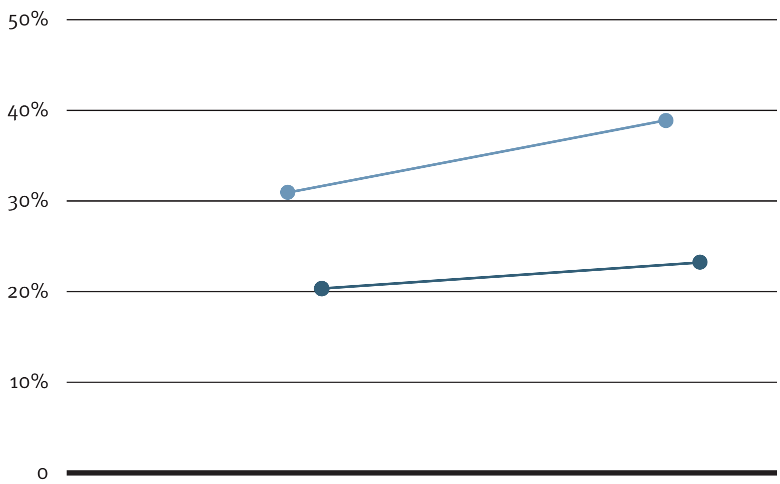
# Capital expenditure

| | 2004 HUF millions | 2005 HUF millions | Index % |
|---|---|---|---|
| Capital expenditure | 527 | 910 | 172.7% |
| Depreciation | 602 | 575 | 95.5% |

Capital expenditure totaled HUF 910 million in 2005, which is 72.7% higher than the previous year's figure, and exceeds the consolidated depreciation significantly (by HUF 335 million).

A major capital investment project of 2005 was the completion of the machinery investment partly funded by the EU, as a result of which – in addition to the chip embedding, laminating and hologramming machines purchased in 2004 and capitalized in the amount of HUF 114 million in early 2005 – the Company acquired a sheet-fed press, a screen printing machine, plus card personalization, chip and magnetic stripe encoding equipment in the amount of HUF 385 million.

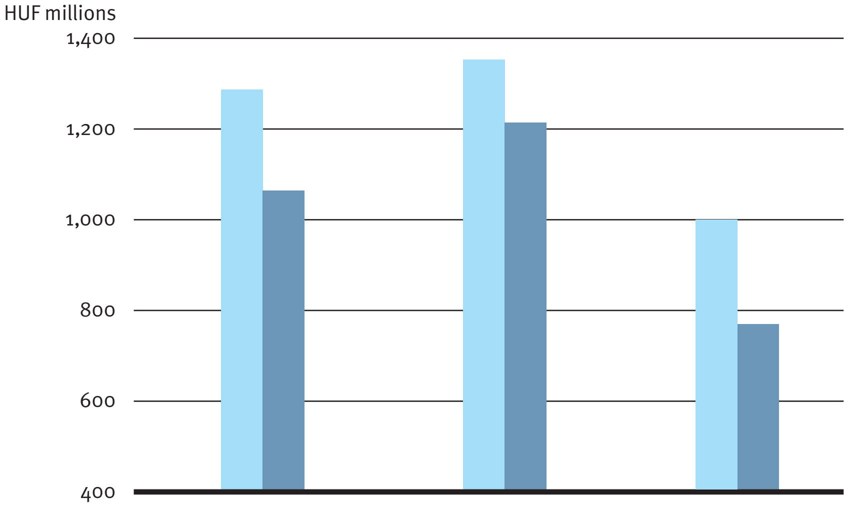
**Állami Nyomda Group profitability ratios, 2004-2005**




| Állami Nyomda Group profitability ratios | 2004 | 2005 |
|---|---|---|
| Return on investment (ROI) | 33.5% | 38.2% |
| Return on equity (ROE) | 20.0% | 22.5% |

The 2005 profitability ratios of the Állami Nyomda Group exceeded the previous year's figures again. Return on equity came to 22.5%, while return on investment reached 38.2%. The increase in both ratios was in large part the result of the spinoff of real property assets during the year and the one-off costs of stock exchange listing. Earnings per share dropped (by HUF 122) to HUF 626, which is also attributable to the above-mentioned one-off expenses and costs incurred for the first time (e.g. rent).

# Dividends approved by State Printing House Plc in the last three years




| | 2003 HUF millions | 2004 HUF millions | 2005 HUF millions |
|---|---|---|---|
| Income before tax | 1,288 | 1,343 | 999 |
| Dividend approved for the year | 904 | 1,214 | 758 |

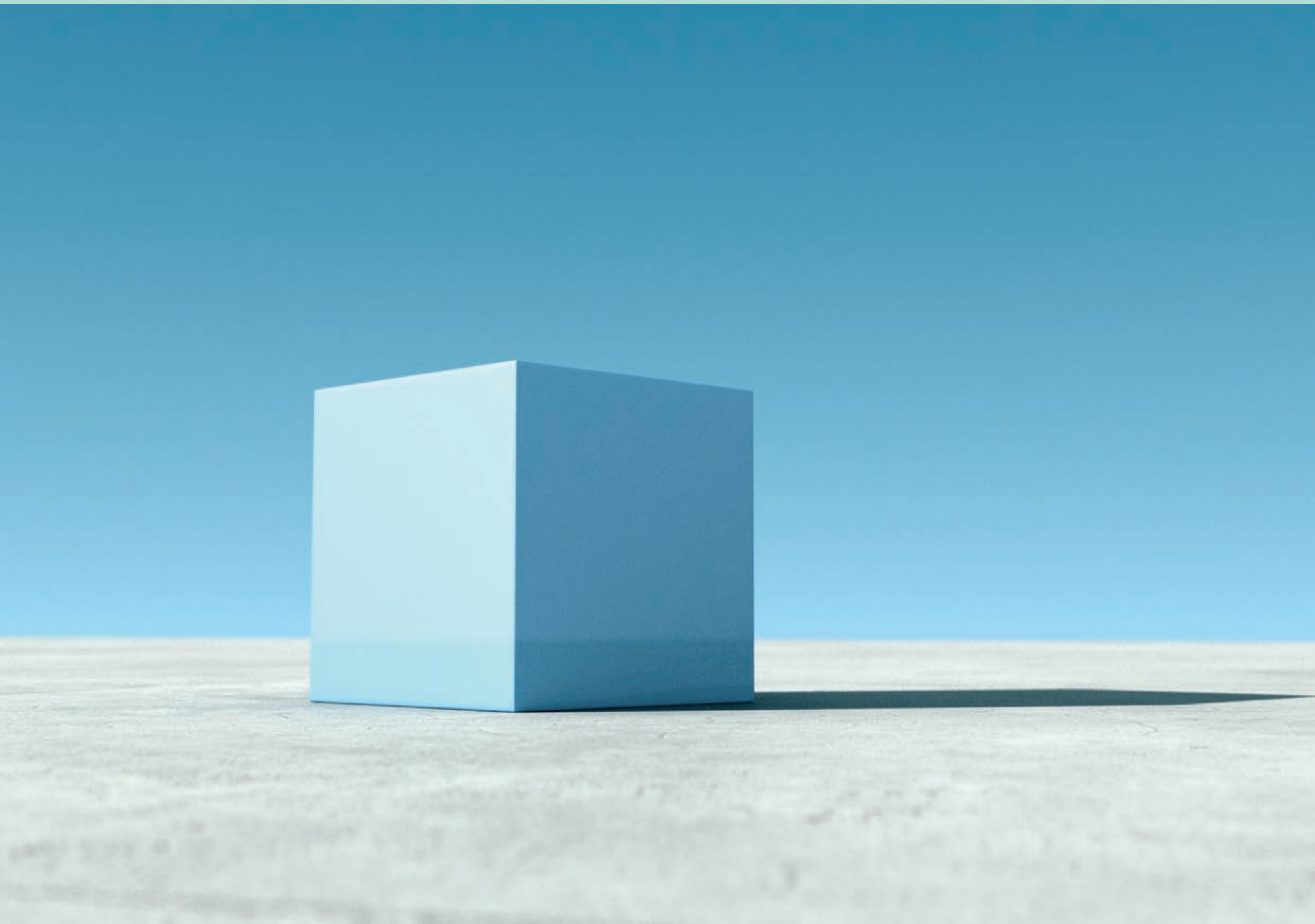
State Printing House Plc has paid its shareholders considerable dividends in the last few years. A decision taken by the Company's Board of Directors on 10 January 2006 states that in the business period until 2010 the Board will propose dividend payments to the Annual General Meeting that allow at least 20% of each year's profits to be added to the Company's profit reserve.

Pursuant to the decision, the Annual General Meeting held on 30 March 2006 approved dividends that equal 80% of the 2005 net income (HUF 758 million) and will be paid out on 16 May 2006.

”

We are a security printing house, thus one of the Company’s most important assets is the confidence of our customers. They trust us to produce their documents and bankcards, among others. Therefore, nothing can leave or enter our facilities that does not bear our multiple stamps: “Checked”.

Ferenc Berkesi
Chief Security Officer



# Senior officers and management

**The Board of Directors of State Printing House Plc**

Dr. Ákos Erdős, Chairman
György Gyergyák, Deputy Chair
Mihály Arnold
Dr. György Festetics
Péter Heim
Gábor Zsámboki

**The Supervisory Board of State Printing House Plc**

Nigel Philip Williams, Chairman
Mrs. Dr. István Gömöri, Deputy Chair
Ferenc Berkesi
Tamás Bojtor
Béla Sebestyén
György Vajda

**Management**

György Gyergyák, Chief Executive Officer
Ferenc Berkesi, Chief Security Officer
Huba Szatmári, Chief Technology Officer
Dr. Lajos Székelyhídi, Chief Research & Development Officer
György Vajda, First Deputy CEO
Gábor Zsámboki, Chief Sales & Marketing Officer
László Balla, Finance Director
Albert Dékány, Development Director
Péter Domokos, Sales Director
Kristóf Kalauz, Plant Director, Security Printing Products Center
Tamás Karakó, Controlling Director
Róbert Keczeli, Director, International Tenders
Attila Kis, Marketing Director
Gyula Lángos, Plant Director, Pásztó Plant
Miklós Nagy, Regional Director
Gábor Péter, IT Director

# State Printing House
# Public Limited Company by Shares

## Independent Auditor's Report and Consolidated Annual Financial Statements

31 December 2005

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C., Hungary
H-1438 Budapest, P.O.Box 471, Hungary

Tel: +36 (1) 428-6800
Fax: +36 (1) 428-6801
www.deloitte.com/Hungary

***INDEPENDENT AUDITORS' REPORT***

To the Shareholders and Board of Directors of Állami Nyomda Nyrt.:

We have audited the accompanying consolidated financial statements (page 2 to 15) of Állami Nyomda Nyrt. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also 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 consolidated financial statements present fairly, in all material respects the financial position of Állami Nyomda Nyrt. and subsidiaries as of December 31, 2005 and the result of their operations, changes in equity and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Budapest, February 3, 2006

| | |
|---|---|
| Jack Bell<br>Deloitte<br>Auditing and Consulting Ltd.<br>000083 | Horváth Tamás<br>Registered Auditor<br>003449 |

# CONSOLIDATED BALANCE SHEET
# DECEMBER 31, 2005 AND DECEMBER 31, 2004

| | Notes | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|---|
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and bank | | 714,204 | 875,197 |
| Accounts receivable | 3 | 2,550,088 | 1,740,061 |
| Inventory | 4 | 1,148,501 | 909,962 |
| Other current assets and prepayments | 5 | 334,433 | 260,217 |
| Short term investment | | – | 39,961 |
| Non-current assets held for sale | | – | 29,893 |
| Total current assets | | 4,747,226 | 3,855,291 |
| **Non-current assets:** | | | |
| Property, plant and equipment | 6 | 2,152,229 | 3,239,918 |
| Investments | | 5,033 | 33,010 |
| Intangibles | | 26,817 | 14,850 |
| Other assets | | 7,599 | 10,200 |
| Total non-current assets | | 2,191,678 | 3,297,978 |
| **Total assets** | | **6,938,904** | **7,153,269** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities:** | | | |
| Trade accounts payable | | 1,215,411 | 724,854 |
| Other payables and accruals | 7 | 844,614 | 678,491 |
| Short term debt | 8 | 416,551 | 123,487 |
| Total current liabilities | | 2,476,576 | 1,526,832 |
| **Long term liabilities:** | | | |
| Deferred tax liability | 12 | 126,404 | 101,818 |
| Long term debt | 8 | 505,460 | – |
| Other long term liabilities | | 4,704 | 4,709 |
| Total long-term liabilities | | 636,568 | 106,527 |
| **Shareholders' equity:** | | | |
| Share capital | 9 | 1,449,876 | 1,479,465 |
| Capital reserve | | 250,686 | 820,878 |
| Retained earnings | 10 | 2,049,478 | 3,156,056 |
| Treasury shares, at cost | 9 | – | (5,180) |
| Minority interest | | 75,720 | 68,691 |
| Total shareholders' equity | | 3,825,760 | 5,519,910 |
| **Total liabilities and shareholders' equity** | | **6,938,904** | **7,153,269** |

# STATEMENT OF CONSOLIDATED INCOME

| | Notes | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|---|
| **Net sales** | | **11,557,317** | **11,506,043** |
| **Cost of sales** | | **(7,492,007)** | **(7,348,206)** |
| **Gross profit** | | **4,065,310** | **4,157,837** |
| Selling, general and administration | | (2,731,914) | (2,624,074) |
| (Loss)/Gain on sale of fixed assets | | (1,206) | 9,748 |
| Costs of stock exchange listing | | (142,366) | – |
| Effect of elimination of Schwabo | | (893) | (23,662) |
| Foreign currency (losses)/gains | | (18,458) | 7,618 |
| Dividend income | | 2,653 | – |
| Other expense | | (166,028) | (269,715) |
| **Operating income** | **11** | **1,007,098** | **1,257,752** |
| Interest (expense)/income, net | | (7,745) | 84,848 |
| **Income before tax and minority interest** | | **999,353** | **1,342,600** |
| Deferred tax expense | 12 | (24,586) | (75,850) |
| Income tax expense | 12 | (106,557) | (158,108) |
| **Profit after tax** | | **868,210** | **1,108,642** |
| Minority interest | | (8,824) | (4,897) |
| **Net income** | | **859,386** | **1,103,745** |
| **Earnings per share:** | | | |
| Basic (HUF per share) | 13 | 626 | 748 |
| Fully diluted (HUF per share) | 13 | 626 | 748 |

# STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

| | Share Capital in HUF thousands | Capital Reserves in HUF thousands | Retained Earnings in HUF thousands | Treasury Shares in HUF thousands | Minority Interests in HUF thousands | Total in HUF thousands |
|---|---|---|---|---|---|---|
| January 1, 2004 | 1,479,465 | 820,878 | 2,956,531 | (5,020) | 84,336 | 5,336,190 |
| Purchase of treasury shares | – | – | – | (160) | – | (160) |
| Dividends paid | – | – | (904,220) | – | – | (904,220) |
| Net income | – | – | 1,103,745 | – | – | 1,103,745 |
| Effect of Schwabo elimination | – | – | – | – | (20,542) | (20,542) |
| Minority interest in income for the year | – | – | – | – | 4,897 | 4,897 |
| **December 31, 2004** | **1,479,465** | **820,878** | **3,156,056** | **5,180** | **68,691** | **5,519,910** |
| Purchase of treasury shares | – | – | – | 785,837 | – | (785,837) |
| Effect of demerge | (29,589) | (570,192) | (788,964) | – | – | (1,388,745) |
| Dividends paid | – | – | (1,214,223) | – | – | (1,214,223) |
| Sale of treasury shares | – | – | 37,223 | 791,017 | – | 828,240 |
| Net income | – | – | 859,386 | – | – | 859,386 |
| Dividends paid to minority owners | – | – | – | – | (1,795) | (1,795) |
| Minority interest in income for the year | – | – | – | – | 8,824 | 8,824 |
| **December 31, 2005** | **1,449,876** | **250,686** | **2,049,478** | **–** | **75,720** | **3,825,760** |

# STATEMENT OF CONSOLIDATED CASH FLOWS DECEMBER 31, 2005 AND DECEMBER 31, 2004

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| *Cash flows from operating activities* | | |
| Net Income before taxation and minority interest | 999,353 | 1,342,600 |
| Depreciation and amortisation | 560,661 | 584,543 |
| Amortization of development cost | 14,269 | 17,230 |
| Free of charge treasury shares transfer to employees | 5,180 | – |
| Change in receivables provision | 5,668 | 13,564 |
| Loss/(Gain) on sale of property, plant and equipment | 1,206 | (9,748) |
| Gain on sale of investment | 893 | 23,662 |
| Minority interest income | – | (4,897) |
| Minority interest changes Schwabo | – | (15,645) |
| Interest expense | 59,303 | 23,382 |
| Interest income | (51,558) | (108,230) |
| Operating profit before working capital changes: | 1,594,975 | 1,866,461 |
| Increase in accounts receivable and other current assets | (847,026) | (829,962) |
| (Increase)/Decrease in inventories | (238,540) | 137,092 |
| Decrease in accounts payable and accruals | 648,216 | 217,113 |
| Cash provided by operations | 1,157,625 | 1,390,704 |
| Interest (paid)/received, net | (1,030) | 84,084 |
| Taxes paid, net | (147,693) | (170,504) |
| Net cash provided by operating activities | 1,008,902 | 1,304,284 |
| *Cash flows from investing activities* | | |
| Purchase of property, plant and equipment | (908,122) | (511,286) |
| Proceeds on sale of property, plant and equipment | 31,720 | 41,875 |
| Sale of investment | 44,220 | – |
| Purchase of investment | – | (33,423) |
| Net cash flow used in investing activities | (832,182) | (502,834) |
| *Cash flows from financing activities* | | |
| Change in short term loans | (3,909) | 36,429 |
| Purchase of treasury shares | (791,017) | (160) |
| Sale of treasury shares | 828,240 | – |
| Change in loans to employees | 2,601 | (27) |
| Change in long term debt | 802,428 | (42,084) |
| Decrease in fixed income securities | 39,962 | – |
| Dividends paid to minority owners | (1,795) | – |
| Dividend paid | (1,214,223) | (904,220) |
| Net cash flow used in financing activities: | (337,713) | (910,062) |
| Decrease in cash and cash equivalents | (160,993) | (108,612) |
| Cash and Bank at beginning of the year | 875,197 | 983,809 |
| Cash and Bank at end of the year | 714,204 | 875,197 |

# 1. General

Állami Nyomda Rt. (Állami Nyomda or Company) is a limited liability company incorporated under the laws of the Republic of Hungary. The Company operated as a State enterprise until 1992 when it was transformed into a limited liability company (Rt.). The Company's registered office is located at Halom u.5, Budapest, District 10.

The consolidated financial statements of Állami Nyomda for the year ended December 31, 2005 were authorised for issue by the Chief Executive Officer (Gyergyák György) on 3 February, 2006.

Láng Biztonságtechnológia Holding Rt. was demerged from Láng Kiadó és Holding Rt. in 2003 upon the same ownership structure. Láng Biztonságtechnológia Holding Rt. has become a significant shareholder of Állami Nyomda (43%). In March 2005, (Bazille Investments Limited), the financial investor holding a significant minority stake in the company since 1997, sold the entire share package owned to the majority shareholders of the Company and to the Company directly.
In October 2005, Láng Biztonságtechnológia Holding Rt. sold its stake to Dr. Ákos Erdős, Dr Istvánné Gömöri and Royalton Investors Three Ltd. (together: "strategic owners").

The Company went to the public, its shares being traded on the "A" category of Budapest Stock Exchange from December 8, 2005. The strategic owners sold a part of their shares through the initial public offering process. Their remaining right to vote is 26.5%.

As of December 31, 2005 – based on the Company's share-book – the following owners have more than 5% voting right or the following groups of investors own the Company:

| Investor | Owner right (%) | Voting right (%) |
|---|---|---|
| *Owners above 5% share* | | |
| Dr. Erdős Ákos | 11.8% | 12.5% |
| Royalton Investors Three Limited | 11.3% | 11.9% |
| Genesis Emerging Markets Opportunities Fund Limited | 7.6% | 8.0% |
| Owners below 5% share | | |
| Domestic institutional investors | 21.2% | 22.4% |
| Foreign institutional investors | 17.4% | 18.5% |
| Private investors | 15.0% | 15.9% |
| Management and employees | 15.7% | 10.8% |

In 2005 the shareholders of Állami Nyomda decided to implement a demerger of the properties of the Company into a new company.

The company prepares the consolidated financial statement for the group.

Állami Nyomda produces security products and solutions (tax, stamps, stickers with security elements), plastic and paper cards (documents, bank and telephone cards, as well as commercial cards), personalised business and administration forms and conventional printing products.

The consolidated subsidiaries and joint-ventures of the Company at December 31, 2005 are as follows:

| Subsidiary | Principal activity | Country of incorporation | Holding at December 31, 2005 | Holding at December 31, 2004 |
|---|---|---|---|---|
| Specimen Rt. | Printing | Hungary | 80.2% | 80.2% |
| Security Audit Kft. | Consulting | Hungary | 64.16 % | 64.16 % |
| Gyomai Kner Nyomda Zrt. | Printing | Hungary | 92.81 % | 92.81 % |
| TipoDirect SRL | Printing, sales | Romania | 50.0% | 50.0% |
| Direct Services OOD | Printing, sales | Bulgaria | 50.0% | – |
| Slovak Direct SRO | Sales | Slovakia | 100.0% | – |

## 2. Significant accounting policies

**Basis of preparation**

The accounting records of the companies comprising the Group are compiled according to accounting principles generally accepted in Hungary ("HAS"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The reporting currency of the Group is the Hungarian Forint ("HUF").

**Basis of consolidation**

The consolidated financial statements include the financial statements of Állami Nyomda Nyrt. and its significant subsidiaries after elimination of all material intercompany transactions and balances, including unrealized intercompany profits. Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations.

On acquisition, the assets and liabilities of a subsidiary are measured in the consolidated statements at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognized. Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable net assets of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is amortized on a straight-line basis over its useful life. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The transactions between the associated enterprises, including unrealized gains and losses as well as realized intra-group gains, were eliminated during consolidation.

The equity and net income attributable to minority interests are shown as separate items in the consolidated financial statements.

**Cash and cash equivalents**

Cash and cash equivalents include cash at bank in hand and short-term deposits with an original maturity of three months or less.

**Statement of cash flows**

For the cash flow statement the Cash and cash equivalents include cash and the value of bank deposits, as well as other short term (a term of three months or less at the time of their purchase) liquid investments, which may be immediately exchanged for the amount indicated on them, and their conversion does not come with the risk of a change in their value.

**Inventory**

Inventory is stated at the lower of cost or net realizable value after making allowance for any obsolete or slow moving items. Cost is determined at standard cost adjusted to actual purchase price at period end. For finished goods and work in progress, cost comprises direct materials, direct labour and an appropriate allocation of manufacturing fixed and variable overheads.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Freehold land is not depreciated. 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 are as follows:

| | |
|---|---|
| Buildings | 2% to 3% |
| Leasehold improvements | 6% |
| Machinery and equipment | 14.5% to 33% |

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication in accordance with internal or external information that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of such an impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

**Intangible assets**

Intangible assets are stated at cost less accumulated amortisation. Amortisation is provided at rates between 16.7% to 33% per year.

**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 Group's existing investments are not readily determinable as the underlying shares are not frequently traded in a well-established and organized market.

**Investments**

Investments are carried at cost, less provision for any permanent diminution in value.

**Taxation**

The amount of company tax is based on the taxation obligation defined according to the law on corporate income tax and dividend taxes, which is modified by the deferred tax.

Deferred taxes are calculated using the balance sheet liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to realize or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized only if it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilized.

**Treasury shares**

Shares repurchased are included in shareholders' equity. Premiums and discounts arising on sale of treasury shares, and differences on repurchase, are credited or debited to retained earnings.

**Revenue recognition**

Revenue is recognized at the time goods are dispatched and services rendered by the Group, as this is the point at which the significant risks and rewards of ownership of the goods and services are transferred to the customer.

**Earnings per share**

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period excluding treasury shares held by the Company.
Diluted earnings per share is calculated based on the weighted average number of shares outstanding as calculated for basic earnings per share and adjusted for giving effect to the assumed issuance of all potentially dilutive securities. Profit or loss is adjusted in the diluted earnings per share calculation for any income or expense associated with the potentially dilutive securities.

**Use of Estimates**

The process of preparing financial statements in accordance with International Financial Reporting Standards requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Leased assets**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Other leases are classified as operating leases.

**Reclassification of prior year**

Certain items in the 2004 financial statements have been reclassified in order to conform with the 2005 presentation.

## 3. Accounts Receivable

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Trade receivables | 2,596,138 | 1,780,443 |
| Provision for doubtful debts | (46, 050) | (40,382) |
| | **2,550,088** | **1,740,061** |

*The carrying value of trade receivables approximates fair value.*

## 4. Inventory

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Raw materials | 686,784 | 614,836 |
| Goods | 35,042 | 35,473 |
| Work-in-progress | 310,774 | 112,614 |
| Finished goods | 115,901 | 147,039 |
| | **1,148,501** | **909,962** |

## 5. Other current assets and prepayments

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Employee loans | 49,986 | 56,529 |
| Advances paid | 12,265 | 52,383 |
| VAT receivable | 64,690 | 32,770 |
| Corporate income tax receivable | 63,325 | 22,190 |
| Other taxes receivable | 20,210 | 14,546 |
| Other receivables | 21,046 | 10,440 |
| Prepayments | 102,911 | 71,359 |
| | **334,433** | **260,217** |

## 6. Property, Plant and Equipment

| | Land and Buildings in HUF thousands | Machinery and Equipment in HUF thousands | Property Rights in HUF thousands | Vehicles and Other in HUF thousands | Capital Projects in HUF thousands | Total in HUF thousands |
|---|---|---|---|---|---|---|
| *Cost:* | | | | | | |
| January 1, 2005 | 1,732,477 | 4,769,796 | 10,771 | 806,219 | 115,115 | 7,434,378 |
| Additions | 35,686 | 907,332 | – | 72,649 | 912,210 | 1,927,877 |
| Disposals and transfers | – | (228,211) | – | (3,645) | (1,015,667) | (1,247,523) |
| Effect of demerge | (1,563,587) | – | – | – | – | (1,563,587) |
| December 31, 2005 | 204,576 | 5,448,917 | 10,771 | 875,223 | 11,658 | 6,551,145 |
| *Accumulated Depreciation:* | | | | | | |
| January 1, 2005 | 180,957 | 3,451,051 | 9,041 | 553,411 | – | 4,194,460 |
| Charge for year | 22,268 | 436,824 | 432 | 101,137 | – | 560,661 |
| Disposals | – | (173,111) | – | (8,253) | – | (181,364) |
| Effect of demerge | (174,841) | – | – | – | – | (174,841) |
| December 31, 2005 | 28,384 | 3,714,764 | 9,473 | 646,295 | – | 4,398,916 |
| *Net book value:* | | | | | | |
| January 1, 2005 | 1,551,520 | 1,318,783 | 1,730 | 252,770 | 115,115 | 3,239,918 |
| December 31, 2005 | 176,192 | 1,734,153 | 1,298 | | 11,658 | 2,152,229 |

*The reorganization of Állami Nyomda Rt. resulted in a decrease of the consolidated book value of the fixed assets. The real estate is now located in a separate company. As a consequence, such assets are not included in Állami Nyomda's financial statements as at December 31, 2005.*
*Certain assets are pledged for the loans of the Group (Refer to Note 8).*

## 7. Other payables and accruals

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Wages | 63,907 | 56,594 |
| Social security | 97,913 | 84,529 |
| Advance payments from customers | 10,644 | 6,047 |
| Personal income tax | 74,660 | 68,185 |
| Other taxes | 24,382 | 22,521 |
| Other short term liabilities | 13,133 | 7,619 |
| VAT payable | 225,952 | 173,920 |
| Accrued management bonuses | 166,320 | 195,888 |
| Accruals of EU subsidy | 136,769 | – |
| Other accruals | 30,934 | 63,188 |
| | **844,614** | **678,491** |

## 8. Short and long term debt

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Overdraft, interest rate of BUBOR + 0.75% annually, secured by direct debit, credit-limit 130,000 THUF | – | 83,487 |
| Overdraft at Raiffeisen Bank Ltd., credit limit: 800,000 THUF at interest rate of 1 month BUBOR + 0.75% | 79,578 | – |
| Total short-term debt | 79,578 | 83,487 |
| Long-term loan, interest rate of 3 months EURIBOR + 1% annually, secured by immediate collection, inclusion and revenue-flow to the bank. Date of maturity: May 11, 2008 | | |
| Short term element (1,333,333 EUR) | 336,973 | – |
| Long term element (2,000,000 EUR) | 505,460 | – |
| Long-term loan, interest rate of BUBOR + 1.5% annually, fully secured by mortgage on machinery and other equipments with a value of 150,000 THUF, maturing on May 2, 2006 | | |
| Short term element | – | 40,000 |
| Long term element | – | – |
| Total long-term loan for capital project | 842,433 | 40,000 |
| Other long-term loans | – | – |
| Total short and long-term debt | 922,011 | 123,487 |

*The carrying value of overdrafts and loans approximates fair value.*

## 9. Issued Share Capital

**Share capital (at par value) authorised, issued and outstanding at year-end:**

| | December 31, 2005 Issued in HUF thousands | December 31, 2005 Treasury in HUF thousands | December 31, 2004 Issued in HUF thousands | December 31, 2004 Treasury in HUF thousands |
|---|---|---|---|---|
| Registered shares | 1,368,590 | – | 1,396,840 | – |
| Employee shares | 81,286 | – | 82,625 | 4,370 |
| | **1,449,876** | – | **1,479,465** | **4,370** |

On July 15, 2005, the demerger of real estate from Állami Nyomda Rt was registered by the Budapest Court of Registration. As a result, one new company has been created as of this date. The new company is HFP Ingatlanhasznosító Rt. HFP Ingatlanhasznosító Rt is the owner of the real estate and have concluded an operating lease agreement with Állami Nyomda Rt as of July 16, 2005.

The number of shares issued by the Company is 1,479,465, of which par value is 980 HUF per share.

## 10. Retained earnings

Retained earnings available for distribution are based on the unconsolidated financial statements of the Company prepared in accordance with Hungarian accounting law as opposed to these accounts prepared under IFRS. At December 31, 2005, the financial statements prepared in accordance with Hungarian accounting standards indicated total retained earnings of THUF 765,046.

Restricted reserve is not available for distribution based on the Hungarian Accounting Standards. In 2005 the Company transferred THUF 274,091 to restricted reserve representing the value of reorganisation, research and development and an amount representing development reserve (refer to Note 14), in line with Hungarian Accounting Standards.

## 11. Operating income

| The following expense items have been charged against revenue to arrive at operating income: | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Net sales | 11,557,317 | 11,506,043 |
| Changes in inventory and own performance | 225,748 | (56,148) |
| Material cost | (6,880,842) | (6,475,549) |
| Staff cost | (2,993,897) | (2,838,810) |
| Depreciation | (574,930) | (601,773) |
| Gain on sale of fixed assets | (1,206) | 9,748 |
| Costs of stock exchange listing | (142,366) | – |
| Gain on sale of investment | (893) | (23,662) |
| Foreign currency gain / (losses) | (18,458) | 7,618 |
| Dividend income | 2,653 | – |
| Other expense | (166,028) | (269,715) |
| **Operating income** | **1,007,098** | **1,257,752** |

*The average number of employees of the Group during 2005 was 725 (2004 : 737).*

## 12. Taxation

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Current year corporate income tax | 106,557 | 158,108 |
| Change in deferred tax liability | 24,586 | 75,850 |
| Total tax expense | 131,143 | 233,958 |
| Opening deferred tax liability | 101,818 | 25,968 |
| Deferred tax liability due to development reserve | 37,920 | 50,598 |
| Release of deferred tax due to use of development reserve | (11,249) | (731) |
| Deferred tax asset due to tax losses brought forward | (2,085) | 25,983 |
| Closing deferred tax liability | 126,404 | 101,818 |

Taxation has been provided at 16% on the profit, adjusted for taxation purposes.

Under the tax legislation the Company is allowed to establish a tax-deductible development reserve. Assets acquired using this reserve do not then qualify for tax depreciation up to the value of the reserve, therefore this is effectively a form of accelerated depreciation. Development reserves have been established based on the Company's 2005 and 2004 pre tax profits and a deferred tax liability has been recognised for the unused development reserves.

Tax losses can be carried forward up to five years to offset future taxable profits. Deferred tax assets relating to tax losses are netted off against deferred tax liabilities.

Állami Nyomda Nyrt. and its subsidiaries are subject to periodic audits by the Hungarian Tax Authority (APEH). Because the application of tax laws and regulations may be 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 effective income tax rate varied from the statutory income tax rate due to the following items:

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Income before tax and minority interest | 999,353 | 1,342,600 |
| Tax at statutory rate of 16% | 159,896 | 214,816 |
| Deferred tax due to development reserve | (26,671) | (49,867) |
| Cancel of tax losses brought forward | 2,085 | (25,983) |
| Other permanent differences (net) | (28,753) | 19,142 |
| Income tax expense | 106,557 | 158,108 |

## 13. Earnings per share

Weighted average shares outstanding, net income used in the calculation of earnings per share and calculated earning per share details are set out below:

| | December 31, 2005 in HUF thousands | December 31, 2004 in HUF thousands |
|---|---|---|
| Weighted average shares outstanding for: | 1,373,244 | 1,475,150 |
| Net income used in the calculation | 859,386 | 1,103,745 |
| Basic and diluted earnings per share: | | |
| Basic (HUF per share) | 626 | 748 |
| Fully diluted (HUF per share) | 626 | 748 |

## 14. Contingent liabilities

The Company has arranged bank guarantees. The guarantees largely relate to commitments under Government and corporate tenders. Guarantees are provided up to a maximum limit of HUF 500 million.

In 2005 the Company established a tax-deductible development reserve of THUF 237,000 to be used on future capital expenditure. In the event that the Company does not fully utilise this reserve for capital expenditure in the following four years, it is required to repay the unused amount plus penalties and interest to the Hungarian Tax Authorities. The Company has to add back the depreciation charge of the assets purchased from this development reserve to the tax base in the future.

The Company leases and rents various facilities and properties under non-cancelable arrangements expiring in 2025. These contracts contain indexation clauses based on a percentage of inflation in Hungary.
Future lease and rental payments under these non-cancelable operating agreements as of December 31, 2005 are as follows:

| Periods | Amounts in EUR |
|---|---|
| 2006 | 673,392 |
| 2007 | 686,868 |
| 2008 | 700,596 |
| 2009 | 714,612 |
| 2010 | 728,904 |
| Later years | 12,444,277 |
| Total minimum payments | 15,948,649 |

## 15. Related party transactions

No significant transactions have been carried out between the Group and Láng Biztonságtechnológiai Rt.
Remuneration paid to the Supervisory Board amounted to THUF 6,282.

”

## Statement of responsibility

The 2005 Annual Report of State Printing House Plc contains true data and statements and does not conceal any fact that might have significance for the evaluation of the Company’s position.

**Állami Nyomda Plc.**

H-1102 Budapest, Halom u. 5.
Hungary
Telephone: +36 1 431 1222
Fax: +36 1 431 1220
**E-mail: info@any.hu**
**www.allaminyomda.com**

**Állami Nyomda Group:**

**Hungary**
**Gyomai Kner Nyomda Zrt.**
**Specimen Zrt. – Sat Kft.**

**Slovakia**
**Slovak Direct spol. s.r.o.**

**Russia**
**o.o.o ALLAMI NYOMDA**

**Bulgaria**
**DIRECT SERVICES o.o.d.**

**Romania**
**TIPO DIRECT s.r.l.**

ÁLLAMI NYOMDA
STATE PRINTING COMPANY