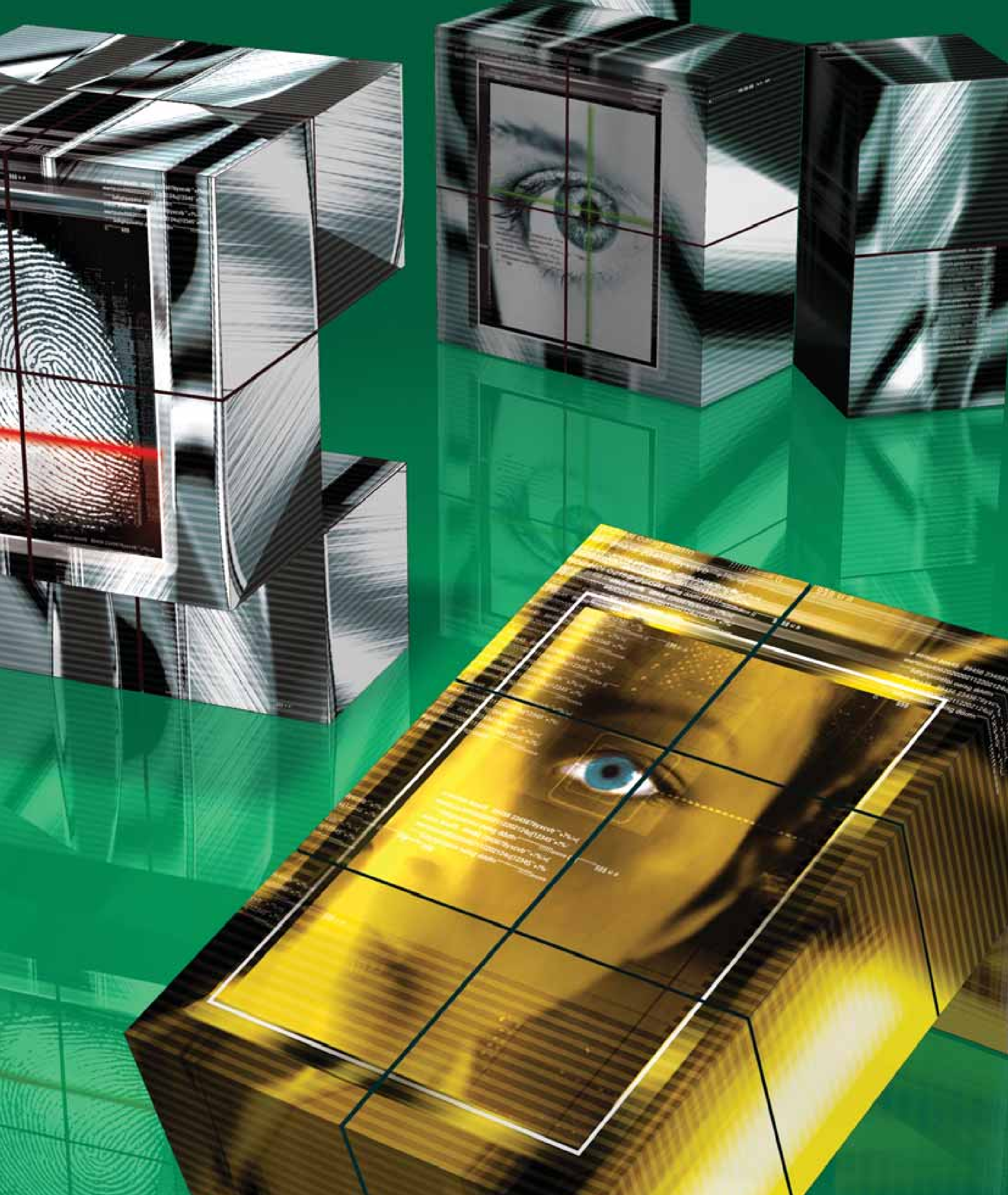


Annual Report 2006

ÁLLAMI NYOMDA
STATE PRINTING COMPANY

We are opening new dimensions.
For the 3D experience, please ask for glasses
at the info@any.hu e-mail address.

State Printing House Plc
Annual Report
2006

Dear Shareholders,

The most successful year in the history of the State Printing House Plc. is behind us. Regional expansion and innovative products. These two objectives brought the outstanding results of 2006. The objective is for long term. The investors' trust is reflected in the rising share price, and confirms that the concept is correct.

Nowadays traditional printing products account for only about 10% of the sales revenue of State Printing House. We offer complex solutions to our clients by using leading technology. Our developments and applications are used by several million people (the owners of domestic and foreign ID cards, driving licenses, bank cards, telephone cards) as well as state administration institutions, leading financial institutions, insurance companies and telecom companies of the region.

As a characteristic of the genre, annual reports are about the past. The responsible bodies of State Printing House Plc. present this report to the shareholders with the hope that the year 2006 projects such an arch which will not break in the next longer period.

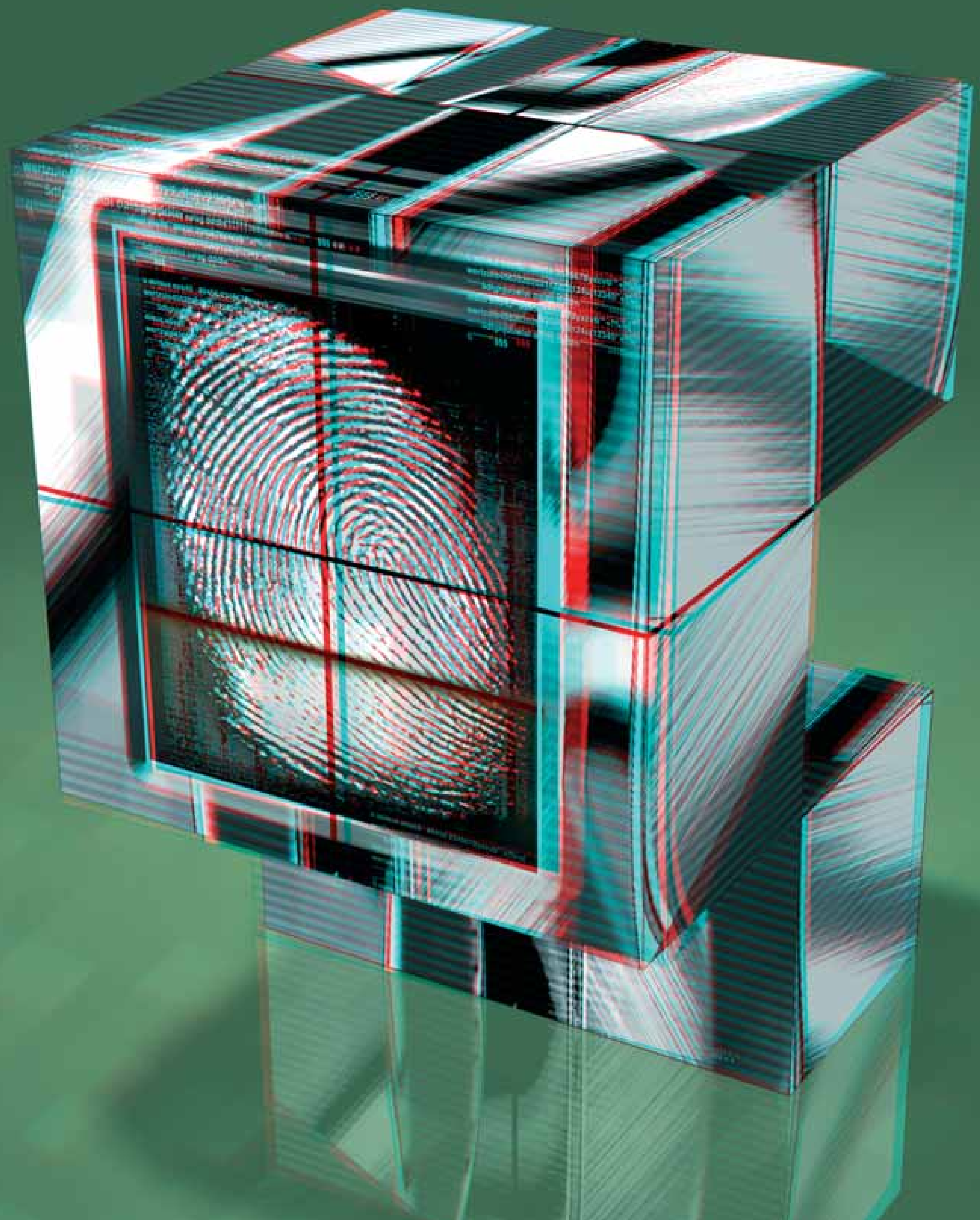
Budapest, April 2007

Dr. Ákos Erdős
CHAIRMAN OF
THE BOARD OF DIRECTORS

The investors’ trust confirms that our strategy is correct

The European integration process opened new dimensions to the State Printing House Plc. as well.

> The State Printing House Plc. increased its rate of export to almost threefold compared to the previous year. Nowadays, the Company is one of the security printing companies with the largest sales revenue in the region.



State Printing House Plc. realized growth above the industry average of the region

Állami Nyomda has completed one of the most successful year in its history. The Company could increase its sales revenue and incomes in a rate which exceeded the market expansion. State Printing House Plc. has increased both consolidated net sales and net profit after interest income, taxation and minority interest by 23% in 2006. Compared to 2005, the HUF 2.6 billion growth of sales was generated most of all by the production of security products which is the main profile of the Company and the dynamically growing export sales. The more than HUF 1 billion consolidated net income demonstrated the dynamic growth of State Printing House Plc. in its first whole year on Budapest Stock Exchange.

Summary

- State Printing House posted consolidated net sales of HUF 14.2 billion in 2006, exceeding the corresponding 2005 figure by HUF 2.6 billion (23%).
- Exports amounted to HUF 1,772 million, an increase of HUF 1,235 million compared to the corresponding 2005 figure. Over HUF 1,559 million worth of products were sold in the Company's strategic target markets (Poland, Romania, Bulgaria, Slovakia, the Czech Republic and Ukraine). We achieved substantial sales growth in Romania (+ HUF 653 million), Slovakia (+ HUF 234 million) and Poland (+ HUF 135 million). The share of export within total sales rose to 12.5% in 2006 from the 4.6% seen in 2005.
- Consolidated EBITDA reached HUF 1,847 million, a growth of HUF 265 million compared to 2005.
- Consolidated operating income amounted to HUF 1,265 million, an increase of HUF 258 million (26%) compared to the prior year figure. Consolidated net profit after interest income, taxation and minority interest is HUF 1,060 million, which means a growth of 201 million HUF (23%).
- Állami Nyomda exceeded the security printing market growth rate of the region forecasted by PIRA, and the Company increased its sales of security printing products and solutions by 43% compared to the corresponding 2005 figure.

The segment of traditional printing products is decreasing on the market while those segments are expanding that require enhanced expertise and more developed technology.
As a result of international trends and our own developments, the production of security printing products and solutions and the production and personalization of cards has increased significantly compared to the previous year. The document security and RFID research and development activities will notably support the realization of the medium-term and long-term strategy of the Company in the future.

Introduction of Állami Nyomda Group

Name of the Company	Equity	Share of ownership (%)	Voting right
Állami Nyomda Plc.	**HUF 1,449,876,000**	-	-
Gyomai Kner Nyomda Zrt.	HUF 200,000,000	92.8%	92.8%
Specimen Zrt.	HUF 100,000,000	80.2%	80.2%
Security Audit Kft. *	HUF 5,000,000	64.2%	64.2%
Tipo Direct SRL	RON 476,200	50.0%	50.0%
Direct Services OOD	BGN 570,000	50.0%	50.0%
Slovak Direct SRO	SKK 1,927,000	100.0%	100.0%
Állami Nyomda OOO	RUB 10,000	100.0%	100.0%

(*) Specimen Zrt. holds 80% ownership in Security Audit Kft. Állami Nyomda Plc.'s ownership ratio amounts to 64,2%

Main financial data and indicators

Name	FY 2005 HUF millions	FY 2006 HUF millions
Financial situation		
Non-current assets	2,192	2,283
Total assets	6,939	7,007
Shareholder's equity	3,827	4,131
Main categories of results		
Net sales	11,557	14,189
EBITDA	1,582	1,847
Profit after tax	868	1,070
Main indicators		
Return on investment (ROI) %	39.2%	46.4%
Return on equity (ROE) %	22.5%	25.7%
Earning per share (EPS) HUF	626	716

IFRS audited, consolidated data

Sales of segments

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

Sales segments	FY 2005 HUF millions	FY 2006 HUF millions	Change HUF millions	Change %
Security products and solutions	3,316	4,747	+1,431	+43.2%
Card production and personalization	2,414	3,028	+614	+25.4%
Form production and personalization, data processing	3,371	4,032	+661	+19.6%
Traditional printing products	1,,810	1,954	+144	+8.0%
Other	646	428	-218	-33.8%
Total net sales	**11,557**	**14,189**	**+2,632**	**+22.8%**

IFRS audited, consolidated data

State Printing House Plc. had consolidated net sales of HUF 14,189 million in 2006, an increase of 22.8% (HUF 2,632 million) compared to the corresponding 2005 period.

Sales of **security products and solutions** came to HUF 4,747 million in 2006, which means a year-on-year rise of HUF 1,431 million (43%). The reason for this improvement is that the launch of the large projects won in 2005 (birth/marriage/death certificates, vehicle license validation labels, prescription forms) generated sales growth of more than HUF 274 million, while the turnover of alcohol and tobacco tax stamps and paper documents exceeded the year-earlier figure by HUF 360 million, and the sales of food vouchers increased by 94 million HUF compared to the previous year. We realized substantial sales growth (+645 million HUF) among security inks and document security equipment.

The Company's revenues from **card production and personalization** totaled HUF 3,028 million in 2006, a HUF 614 million (25%) increase compared to the corresponding 2005 period. The turnover of document cards and their personalization increased by 10%, which was made up of the 5% domestic rise, and the production of Slovakian health cards as a new item in 2006 and the sales of Albanian biometric driving license cards. The sales volume of phonecards exceeded the year-earlier figure by 68% and amounted to HUF 466 million while the sales of commercial and loyalty cards increased by 59%, these two factors brought in HUF 276 million more in sales in 2006. Phonecard sales are dominated by export. Bankcard sales showed an increase of HUF 118 million compared to 2005, in which export played an important role also.

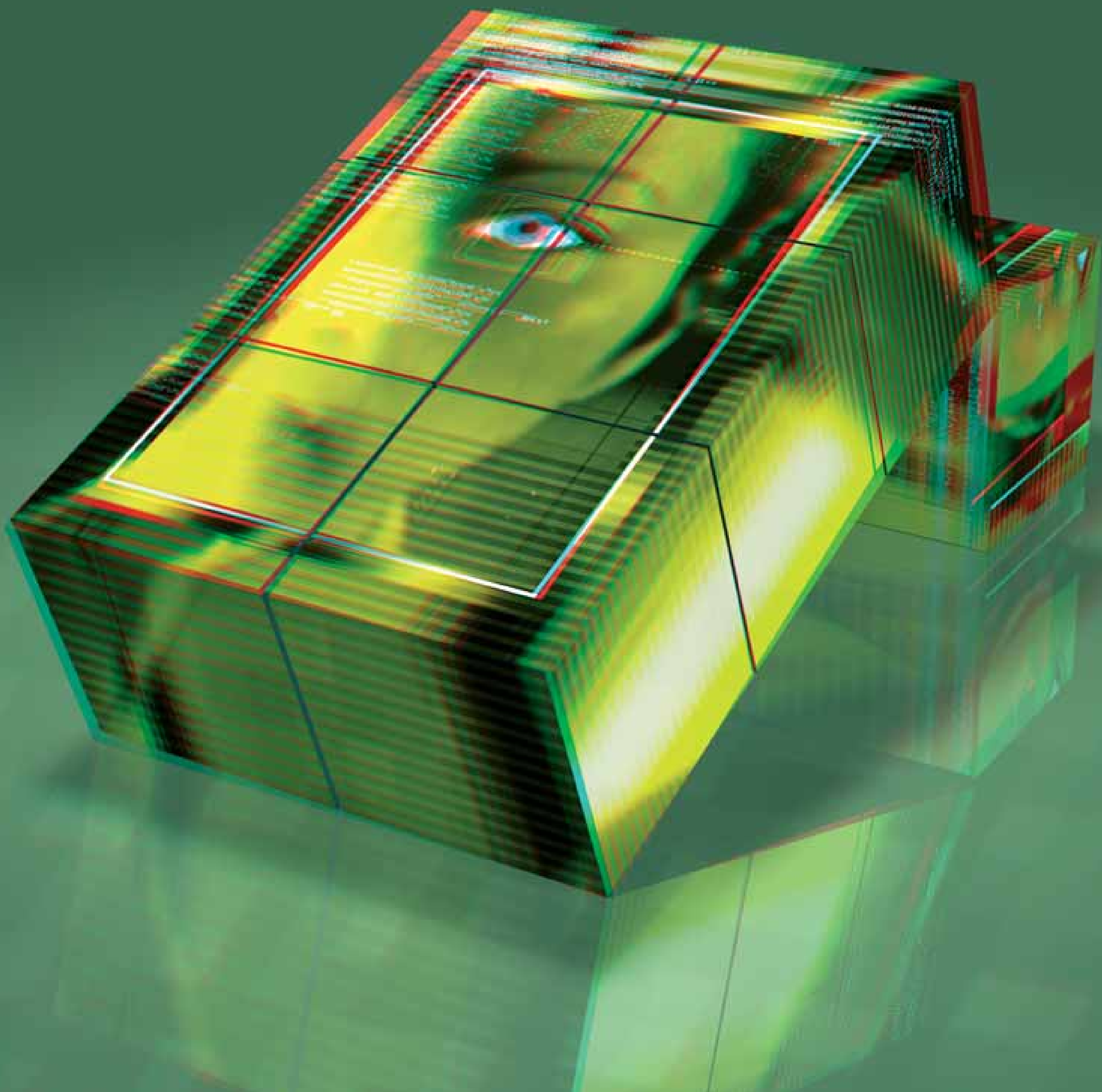
The Company's revenues from **form production, personalization and data processing** came to HUF 4,032 million in 2006, a HUF 661 million (20%) increase compared to 2005. The main reason for the year-on-year growth in this product group was the HUF 855 million sales contributed by the election ballots of the April 2006 parliamentarian and October 2006 municipality elections. The turnover decline in State Tax Authority and lottery forms was partly compensated by the growth in the sales volume of personalization forms produced by our Romanian and Bulgarian joint ventures abroad, and also those manufactured in Hungary.

Sales of **traditional printing products** amounted to HUF 1,954 million in 2006, which is HUF 144 million (8%) higher than a year earlier.

Other sales totaled HUF 428 million in 2006, which means a drop of HUF 218 million (34%) year-on-year. This segment mainly comprises revenues from the sale of commercial materials and goods.

The security requirements which are present in our life lift our products and solutions to new dimensions.

> The Company reached dynamic growth in the field of security products and solutions and card production and personalization. These two segments accounted for half of our sales revenue.



Export sales by segment

Sales segments	FY 2005 HUF millions	FY 2006 HUF millions	Change HUF millions	Change %
Security products and solutions	164	734	570	347.56%
Card production and personalization	253	650	397	156.92%
Form production and personalization, data processing	110	364	254	230.91%
Traditional printing products	-	-	-	-
Other	10	24	14	140.00%
Total export sales	**537**	**1,772**	**1,235**	**229.98%**
Export %	**4.65%**	**12.49%**		
Albanian project (*)	98	83		
Total adjusted export sales	**635**	**1,855**	**1,220**	**192.13%**
Adjusted export %	**5.49%**	**13.08%**		

IFRS audited, consolidated data

(*) We have posted under export sales the 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.

Exports amounted to HUF 1,772 million in 2006, which represents a more than threefold, significant, HUF 1,235 million increase compared to the corresponding 2005 period. The growth posted in the reporting period was driven primarily by orders for security products as well as card and form personalization. Products worth over HUF 1,559 million were sold to strategic target countries (Poland, Romania, Bulgaria, Slovakia, the Czech Republic and Ukraine). We achieved substantial sales growth in Romania (+ HUF 653 million), Slovakia (+ HUF 234 million) and Poland (+ HUF 135 million). Security materials, phone card, bank card and form personalization orders contributed significantly to export growth.

Financial analysis

The table below presents the calculation of operating income according to the so-called "total cost accounting" method.

Description	FY 2005 HUF millions	FY 2006 HUF millions	Index (%)
Net sales	11,557	14,189	122.77%
Capitalized value of assets produced	226	-16	-7.08%
Material expenses	6,881	8,658	125.82%
Personnel expenses	2,994	3,456	115.43%
Depreciation	575	582	101.22%
Stock exchange costs	142	15	10.56%
Other expenses	184	197	107.07%
Operating income	1007	1,265	125.62%
Net income	859	1,060	123.40%
EBITDA	1,582	1,847	116.75%
EBITDA margin (%)	13.69%	13.02%	95.11%

IFRS audited, consolidated data

Business results of Állami Nyomda Group in the years 2005 and 2006

Net sales totaled HUF 14,189 million in 2006, a HUF 2,632 million increase year-on-year. Operating income came to HUF 1,265 million, an increase of HUF 258 million (25.6%) compared to 2005. The increase in operating income was mainly due to the rise in sales revenue.

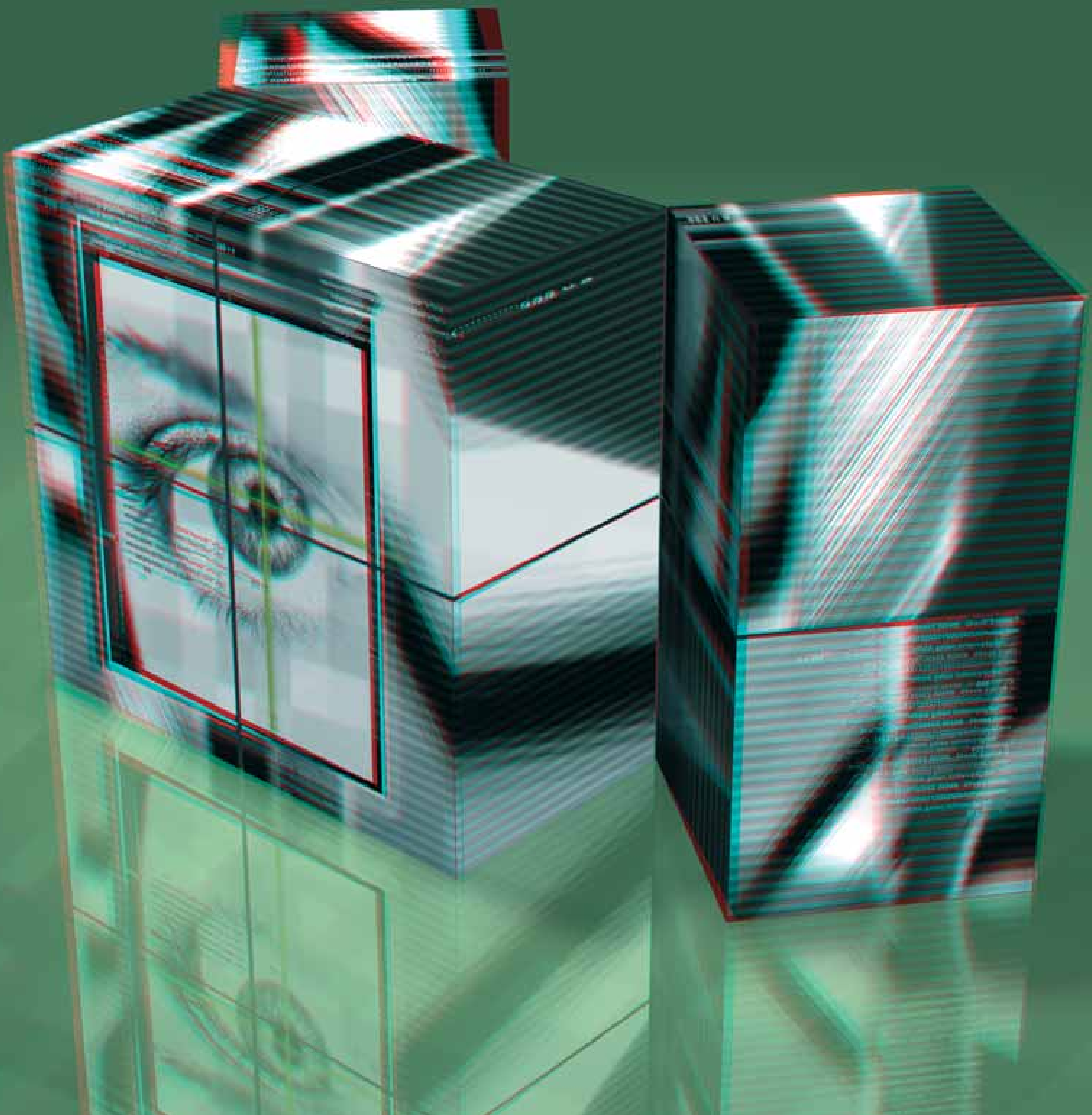
Gross profit totaled HUF 4,509 million, which means a 31.8% gross margin. General (SG&A) expenses amounted to HUF 3,032 million in 2006, which equals 21.4% of net sales. Material expenses rose by 26% (HUF 1,777 million) in 2006. Besides increasing sales volumes, the rise in material expenses is contributed to three factors. The first factor is the rise in the performance of subcontractors which were connected to the subcontractors used for the fulfillment of tenders in 2006 that were won or extended in consortium in the previous year. Secondly, the increase of material costs, which is the result of increasing import purchase prices due to temporary adverse foreign exchange rate course, this change could not be enforced in the tender projects that have fixed prices. Thirdly, the growth in services used which is defined by the rental fee costs.
The capitalized value of own performance line shows the capitalized value of assets produced and the change in inventories manufactured. These figures were driven mainly by the change in inventories in both periods presented.

Personnel expenses totaled HUF 3,456 million, which means a 15.4% (HUF 462 million) increase compared to the previous year. The growth rate of personnel expenses decreased compared to Q1-Q3 2006 (+20.3%). The Group had 758 full-time employees on average in 2005, which climbed to 807 at the end of 2006, a rise of 49 (7%) compared to the previous year.
The number of new employees in the production and sales department of our foreign companies contributed significantly to staff growth, which is implicated by the remarkable sales growth. In addition to staff growth, the rise in personnel expenses was also affected by the pay rise of September 2005 and July 2006 as well as higher labor cost of larger order volumes. Overtime ordered due to the sharp deadlines of election works also contributed to the increase of personnel expenses.

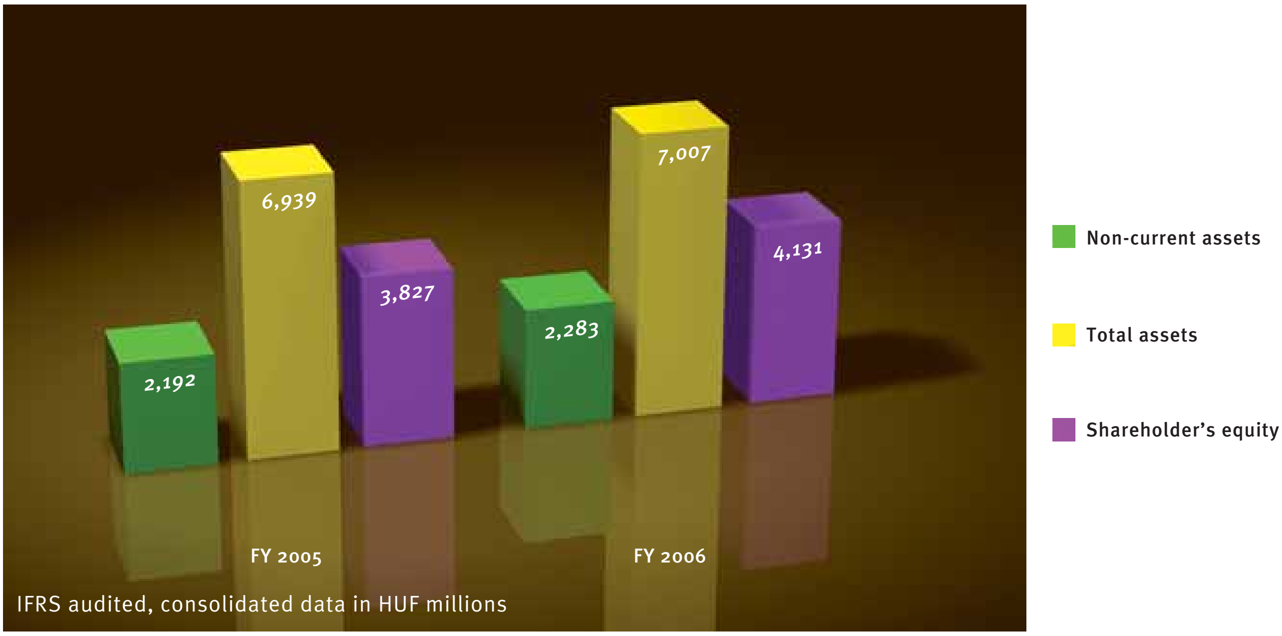
EBITDA amounted to HUF 1,847 million due to change in operating income, an increase of HUF 265 million (17%), which means a 13% EBITDA margin.
Net interest income amounted to HUF -8 million in 2005, which changed to HUF -32 million in 2006. The change in these incomes and expenses can basically be attributed to two factors: the drop in interest income from time deposits and similar instruments, and the higher interest expenses.
Net income – after financial operations, taxation and minority interest – came to HUF 1,060 million in 2006, a growth of 23% compared to the previous year.

Our innovative solutions create new dimensions for further development.

Our unique IT developments and new solutions like RFID technology, special inks and identifiers guarantee the realization of our long term strategic objectives and due to them, we can make plans for the future.

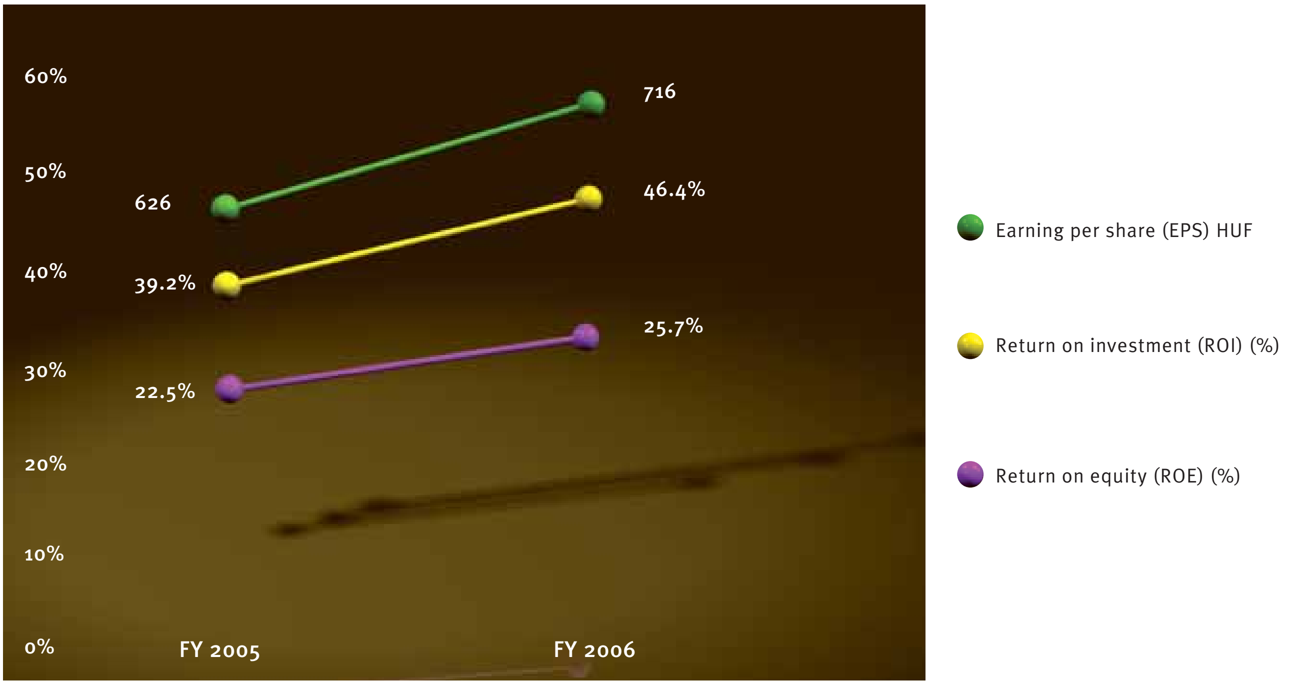


Financial situation of Állami Nyomda Group in the years 2005 and 2006



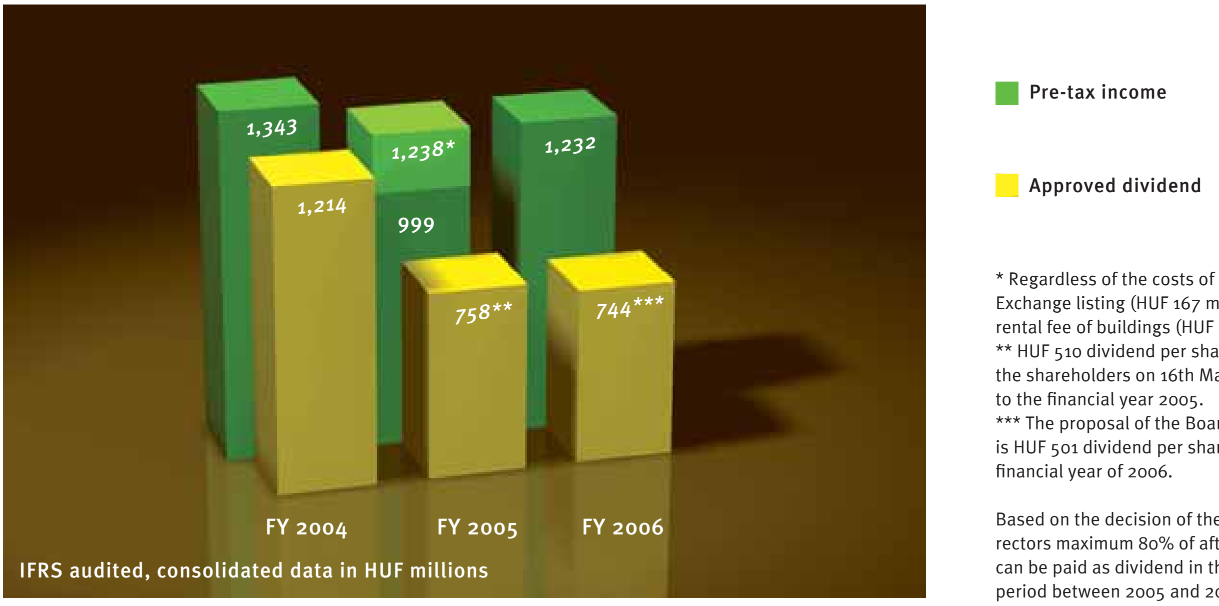
The Company had total assets of HUF 7,007 million at the end of 2006, which means an increase of 1% (HUF 68 million) compared to a year ago. The change was caused by the HUF 23 million drop of current assets and the HUF 91 million increase in non-current assets. Receivables amounted to HUF 1,787 million, which represents a 30% decrease year-on-year. The reason of the decrease in receivables is the fact that the receivables arising from the projects mentioned in previous interim reports were settled at the end of 2006.
Due to the payments received at the end of 2006, the Company reimbursed its short-term overdrafts, additionally, more than HUF 1.1 billion funds are included among the current assets. Inventories totaled HUF 1,257 million, which means a 9.4% rise over the corresponding 2005 figure, but a decrease of HUF 344 million (21%) compared to the Q1-Q3 2006 figure. The value of property, plant and equipment at the end of 2006 increased by 4.8% compared to the 2005 figure. Accounts payable declined by 5% to HUF 1,159 million. Other liabilities and accruals totaled HUF 820 million, which means a decrease of 3%.
In May 2005 the Company took out a 3-year medium-term loan in the amount of EUR 4 million with EURIBOR-based interest payments. At the end of the period the book value of the loan was HUF 504 million, which means a HUF 338 million decrease due to quarterly instalments. Among long-term loans, a medium-term investment loan is indicated (HUF 240 million), which was disbursed in September. The balance of the loan at the end of the year was HUF 221 million. Within the framework of the investment, laser engraving personalization equipments were purchased. The assets were not yet activated at the end of the year, so the HUF 340 million advance increases the balance of other current assets at the end of the year.

Profitability of Állami Nyomda Group in the years 2005 and 2006



The profitability of Állami Nyomda Group in 2006 exceeded the level of the previous year. Return on equity amounted to 25.7% while return on investment was 46.4%. Earning per share rose by HUF 90 to HUF 716 due to the net income which increased by 23%.

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



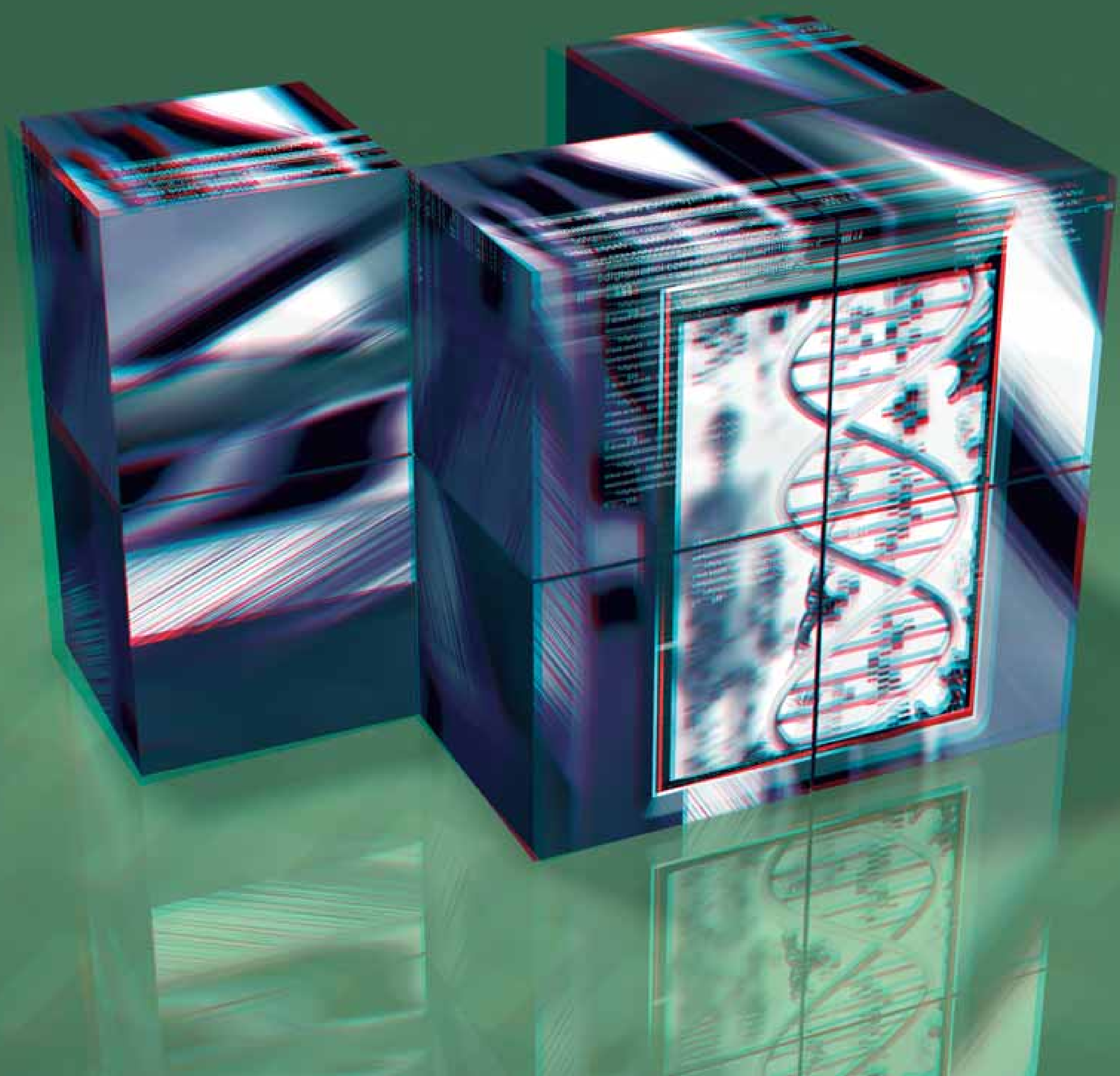
* Regardless of the costs of Budapest Stock Exchange listing (HUF 167 millions) and rental fee of buildings (HUF 72 millions).
** HUF 510 dividend per share was paid to the shareholders on 16th May 2006 related to the financial year 2005.
*** The proposal of the Board of Directors is HUF 501 dividend per share related to the financial year of 2006.

Based on the decision of the Board of Directors maximum 80% of after-tax income can be paid as dividend in the financial period between 2005 and 2010.

Shareholders accepted the dividend proposal of the Board of Directors at the Annual General Meeting of State Printing House Plc. held on 30th March, 2007. Thus, HUF 744 million from the HUF 1,060 million net income, so HUF 501 gross per ordinary share will be paid as dividend by the Company. It means, that 70% of the Earnings per Share (EPS) will be paid, which is lower than the maximum distributable 80% accepted in the dividend policy earlier, in order to continue regional expansion.

State Printing House Plc. looks at its industry and development opportunities in complexity, in 'three dimensions'.

By leaving the two dimensions of traditional paper, we intend to realize complex approach. So we deliver such system solutions to our clients which surpass the functions of a traditional printing house.



Senior officers and management

The Board of Directors of State Printing House Plc.

Dr. Ákos Erdős chairman
György Gyergyák vice-chairman
Mihály Arnold
Dr. György Festetics
Péter Heim
Gábor Zsámboki

The Supervisory Board of State Printing House Plc.

Dr. Tamás Sárközy chairman (from 23 April; member from 30 March 2007)
Nigel Philip Williams chairman (until 1 January 2007)
Dr. Istvánné Gömöri vice-chairman
Ferenc Berkesi
Tamás Bojtor (until 30 March 2007)
Béla Sebestyén (until 30 March 2007)
Dr. Imre Repa (from 30 March 2007)
Dr. István Stumpf (from 30 March 2007)
György Vajda

Management

György Gyergyák general manager
Gábor Zsámboki deputy general manager
Ferenc Berkesi deputy general manager, security
Huba Szatmári deputy general manager, technical and production
Dr. Lajos Székelyhídi deputy general manager, research and development
György Vajda deputy general manager (retired on 1 January 2007)
László Balla chief financial officer
Tamás Bojtor investment director
Albert Dékány development director
Péter Domokos sales director
András Huszár logistic director
Kristóf Kalauz plant director, Security Printing Products Center
Tamás Karakó controlling director
Róbert Keczeli international tender director
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 2006

Deloitte.

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www.deloitte.com/Hungary

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Állami Nyomda Nyrt. and subsidiaries, which comprise the consolidated balance sheet as at December 31, 2006, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of (or "present fairly, in all material respects,") the consolidated financial position of Állami Nyomda Nyrt. and subsidiaries as of December 31, 2006, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest, February 6, 2007

Jack Bell Deloitte Auditing and Consulting Ltd. H-1068, Budapest Dózsa György út 84/C., Hungary 000083	Horváth Tamás Registered Auditor 003449

Consolidated Balance Sheet
December 31, 2006 and December 31, 2005

In HUF thousands

	Notes	December 31, 2006	December 31, 2005
Current assets			
Cash and bank		1,109,720	714,204
Accounts receivable	3	1,787,337	2,550,088
Inventory	4	1,256,610	1,148,501
Other current assets and prepayments	5	570,733	334,433
Total current assets		**4,724,400**	**4,747,226**
Non-current assets			
Property, plant and equipment	6	2,255,702	2,152,229
Investments		83	5,033
Intangibles		19,756	26,817
Other assets		7,403	7,599
Total non-current assets		**2,282,944**	**2,191,678**
Total assets		**7,007,344**	**6,938,904**
Current liabilities			
Trade accounts payables		1,159,243	1,215,411
Other payables and accruals	7	819,696	844,614
Short term debt	8	428,036	416,551
Of which short term part of long term loan		413,200	336,973
Total current liabilities		**2,406,975**	**2,476,576**
Long term liabilities			
Deferred tax liability	12	149,511	126,404
Long term debt	8	318,042	505,460
Other long term liabilities		1,934	4,704
Total long term liabilities		**469,487**	**636,568**
Shareholders' equity			
Share capital	9	1,449,876	1,449,876
Capital reserve		250,686	250,686
Retained earnings	10	2,351,752	2,049,478
Minority interest		78,568	75,720
Total shareholders' equity		**4,130,882**	**3,825,760**
Total liabilities and shareholders' equity		**7,007,344**	**6,938,904**

Statement of consolidated income
December 31, 2006 and December 31, 2005

In HUF thousands

	Notes	FY 2006	FY 2005
Net sales		14,188,565	11,557,317
Cost of sales		(9,679,700)	(7,492,007)
Gross profit		**4,508,865**	**4,065,310**
Selling general and administration		(3,032,211)	(2,731,914)
Gain / (loss) on sale of fixed assets		3,388	(1,206)
Stock Exchange costs		(15,380)	(142,366)
Gain / (loss) on sale of investments		6,779	(893)
Dividend income		-	2653
Foreign currency gains / (losses)		(26,302)	(18,458)
Other expense		(180,493)	(166,028)
Operating income	11	**1,264,646**	**1,007,098**
Interest (expense)/income, net		(32,202)	(7,745)
Income before tax and minority interest		**1,232,444**	**999,353**
Deferred tax expense	12	(23,107)	(24,586)
Income tax expense	12	(139,078)	(106,557)
Profit after tax		**1,070,259**	**868,210**
Minority interest		(10,318)	(8,824)
Net income		**1,059,941**	**859,386**
Earnings per share (EPS)			
Basic (HUF per share)	13	716	626
Fully diluted (HUF per share)	13	716	626

Statement of Changes in Consolidated Shareholders' Equity December 31, 2006

In HUF thousands

	Issued Capital	Capital Reserve	Retained Earnings	Treasury Shares	Minority Interest	Total
January 1, 2005	**1,479,465**	**820,878**	**3,156,058**	**(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)
Dividend paid	-	-	(1,214,223)	-	-	(1,214,223)
Sale of treasury shares	-	-	37,223	791,017	-	828,240
Net income	-	-	859,386	-	-	859,386
Dividend paid to minority shareholders (after FY 2004 income)	-	-	-	-	(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**
Dividend paid	-	-	(757,667)	-	-	(757,667)
Net income	-	-	1,059,941	-	-	1,059,941
Dividend paid to minority shareholders (after FY 2005 income)	-	-	-	-	(7,470)	(7,470)
Minority interest in income for the year	-	-	-	-	10,318	10,318
December 31, 2006	**1,449,876**	**250,686**	**2,351,752**	-	**78,568**	**4,130,882**

Statement of Consolidated Cash-flow
December 31, 2006 and December 31, 2005

In HUF thousands

	Notes	FY 2006.	FY 2005.
Cash flows from operating activities			
Net income before taxation and minority interest		1,232,444	999,353
Depreciation and amortization		575,104	560,661
Amortization of development cost		7,061	14,269
Sale of treasury shares to employees with no refund		-	5,180
Changes in provisions		30,205	5,668
Loss / (gain) on sale of property, plant and equipment		(3,388)	1,206
Loss / (gain) on sale of investments		(6,779)	893
Minority interest changes (Subsidiary dividend)		(7,470)	-
Interest expense		105,865	59,303
Interest income		(73,663)	(51,558)
Operating cash-flow before working capital changes:		**1,859,379**	**1,594,975**
Decrease / (increase) in accounts receivable and other current assets		484,359	(847,026)
Increase in inventories		(133,738)	(238,540)
(Decrease) / increase in accounts payables and accruals		(85,148)	648,216
Cash provided by operations		**2,124,852**	**1,157,625**
Interest received, net		(32,720)	(1,030)
Taxes paid, net		(96,983)	(147,693)
Net cash provided by operating activities		**1,995,149**	**1,008,902**
Cash flows from investing activities			
Purchase of property, plant and equipment		(694,140)	(908,122)
Proceeds on sale of property, plant and equipment		18,954	31,720
Sale of investments		11,729	44,220
Net cash flow used in investing activities		**(663,457)**	**(832,182)**
Cash flows from financing activities			
Increase / (decrease) in short term loans		11,485	(3,909)
Purchase of treasury shares		-	(791,017)
Sale of treasury shares		-	828,240
Decrease in loans to employees		196	2,601
(Decrease) / increase in long term debt		(190,190)	802,428
Decrease of fixed rate securities		-	39,962
Dividend paid to minority shareholders		-	(1,795)
Dividend paid		(757,667)	(1,214,223)
Net cash flow used in financing activities		**(936,176)**	**(337,713)**
Increase / (decrease) in cash and cash equivalents		**395,516**	**(160,993)**
Cash and Bank at beginning of period		**714,204**	**875,197**
Cash and Bank at end of the period		**1,109,720**	**714,204**

Supplementary Notes to the Consolidated Financial Statements December 31, 2006

1. General

State Printing House Public Company Limited by Shares (State Printing House Plc. or the 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 State Printing House for the year ended December 31, 2006 were authorized for issue by the Chief Executive Officer (Gyergyák György) on 6 February, 2007.

As of December 31, 2006 – 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	Voting right (%)	Owner right (%)
Owners above 5% share		
EG Capital SA	18.11%	17.10%
AEGON Magyarország Általános Biztosító Zrt.	12.35%	11.66%
Genesis Emerging Markets Opportunities Fund Limited	8.01%	7.56%
AEGON MoneyMaxx Expressz Befektetési Alap	7.59%	7.16%
Owners below 5% share		
Domestic Institutional Investors	21.79%	20.57%
Foreign Institutional Investors	15.92%	15.02%
Domestic Individual Investors	6.68%	6.31%
Foreign Individual Investors	0.22%	0.21%
Management, employees	7.97%	13.13%
Other	1.36%	1.28%

State Printing House produces security products and solutions (tax stamps, stickers with security elements), plastic and paper cards (document cards, bank and telephone cards, as well as commercial cards), personalized business and administration forms, as well as conventional printing products.

The consolidated subsidiaries and joint-ventures of the Company at December 31, 2006 are as follows:

Subsidiary	Principal Activity	Country of Incorporation	Holding at December 31, 2006	Holding at December 31, 2005
Specimen Zrt.	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%	50.0%
Slovak Direct SRO	Sales	Slovakia	100.0%	100.0%

The Company prepares consolidated financial statement for the whole group.

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”). These supplementary consolidated financial statements have been compiled primarily for the requirements of relevant sections of Hungarian Act on Accounting to companies listed on the Stock Exchange, and therefore contain reclassifications and alterations in order to they comply with the International Financial Reporting Standards (“IFRS”).
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), except for portfolio hedge accounting under IAS 39 which has not been approved by the EU. The Company does not have any transactions which would qualify as a portfolio hedge.
The reporting currency of the Group is the Hungarian Forint (“HUF”).

Basis of consolidation

The consolidated financial statements include the financial statements of State Printing House Plc. 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 included as intangible in the balance sheet, and 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 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%-3%
Leasehold improvements	6%
Machinery and equipment	14.5%–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 amortization. Amortization 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 data is calculated based on the weighted average number of shares outstanding during the period excluding treasury held by the Company and employee shares. Fully diluted earnings per share is calculated based on the weighted average number of shares outstanding as calculated for basic earnings per share and as adjusted for giving effect to the assumed issuance of all potentially dilutive securities. Net income is adjusted in the fully diluted earnings per share calculation for any income or expense associated with the potentially dilutive securities.

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.

Reclassification of prior year

Certain items in the 2005 financial statements have been reclassified in order to conform with the 2006 presentation.

3. Accounts receivables

In HUF thousands

	December 31, 2006	December 31, 2005
Trade receivables	1,837,964	2,596,138
Provision for doubtful debts	(50,627)	(46,050)
Total:	**1,787,337**	**2,550,088**

The carrying value of trade receivables approximates fair value.

4. Inventories

In HUF thousands

	December 31, 2006	December 31, 2005
Raw materials	844,859	686,784
Goods	29,747	35,042
Work in progress	249,415	310,774
Finished goods	132,589	115,901
Total:	**1,256,610**	**1,148,501**

5. Other current assets and prepayments

In HUF thousands

	December 31, 2006	December 31, 2005
Employee loans	74,240	73,237
Advances paid	333,701	12,265
VAT receivable	72,655	64,690
Corporate income tax receivable	21,231	63,325
Other taxes receivable	8,687	20,210
Other receivables	36,896	21,046
Prepayments	23,323	79,660
Total:	**570,733**	**334,433**

6. Property, Plant and Equipment

In HUF thousands

	Land and buildings	Machinery and equipment	Property rights	Vehicles and other	Capital projects	Total
Cost:						
January 1, 2006	**204,576**	**5,448,917**	**10,771**	**875,223**	**11,658**	**6,551,145**
Additions	52,266	382,035	-	117,701	693,072	1,245,074
Disposals and transfers	(907)	(83,887)	-	(76,401)	(552,003)	(713,198)
December 31, 2006	**255,935**	**5,747,065**	**10,771**	**916,523**	**152,727**	**7,083,021**
Accumulated depreciation:						
January 1, 2006	**28,384**	**3,714,764**	**9,473**	**646,295**	**-**	**4,398,916**
Charge for year	7,914	459,051	1,298	106,841	-	575,104
Disposals	(907)	(74,193)	-	(71,601)	-	(146,701)
December 31, 2006	**35,391**	**4,099,622**	**10,771**	**681,535**	**-**	**4,827,319**
Net book value:						
January 1, 2006	**176,192**	**1,734,153**	**1,298**	**228,928**	**11,658**	**2,152,229**
December 31, 2006	**220,544**	**1,647,443**	**-**	**234,988**	**152,727**	**2,255,702**

7. Other payables and accruals

In HUF thousands

	December 31, 2006	December 31, 2005
Wages	60,359	63,907
Social security	95,401	97,913
Advance payments from customers	6,064	10,644
Personal income tax	74,600	74,660
Other taxes	31,669	24,382
Other short term liabilities	24,429	13,133
VAT payable	172,013	225,952
Accrued management bonuses	195,024	166,320
Accruals of EU subsidy	113,819	136,769
Other accruals	46,318	30,934
Total:	**819,696**	**844,614**

The Company purchased equipments to improve card production operation in amount of 507 million HUF in 2005, to which 150 million HUF of non-reimbursable EU subsidy has been won, which was immediately accrued in line with the relevant standards. The depreciation rate of the purchased equipments is 14.5%. The release of accrued income is in proportion with the depreciation charged. 22,950 thousands HUF accrued income was released in 2006. The Company has fulfilled all its obligations connected to the subsidy in 2006.

8. Short and long term debt

In HUF thousands

	December 31, 2006	December 31, 2005
Overdraft, interest rate of BUBOR + 0.75% annually, secured by revenue flow to the bank, credit-limit 150,000 thousands HUF	14,836	-
Overdraft at Raiffeisen Bank Ltd., credit limit: HUF 1,000,000 thousands HUF at interest rate of 1 month BUBOR + 0,75%	-	79,578
Total overdrafts:	**14,836**	**79,578**
Long-term loan for capital project convertible to foreign exchange, credit limit: 300,000 thousands HUF, interest rate: 3 months BUBOR + 0.5% or 3 months EURIBOR + 0.5% annually (depended on the foreign exchange), secured by revenue-flow to the bank. Date of maturity: September 20, 2008	76,800	-
Short term element	144,000	-
Long term element		
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	336,400	336,973
Short term element	168,200	505,460
Long term element		
Other loans for capital projects taken by subsidiaries	5,842	-
Total loans for capital projects:	**731,242**	**842,433**
Total short term debts:	428,036	416,551
Total long term debts:	318,042	505,460
Total short and long term debts:	**746,078**	**922,011**

The carrying value of overdrafts and loans approximates fair value.

9. Issued Share Capital

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

In HUF thousands

	December 31, 2006		December 31, 2005	
	Issued	Treasury	Issued	Treasury
Registered shares	1,368,590	-	1,368,590	-
Employee shares	81,286	-	81,286	-
	1,449,876	-	**1,449,876**	-

The number of issued shares by the Company is 1,479,465 of which par value 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, 2006, the financial statements of State Printing House Plc. not consolidated, prepared in accordance with Hungarian accounting standards indicated total retained earnings of THUF 844,089.

Restricted reserve is not available for distribution based on the Hungarian Accounting Standards. In 2006 the Company transferred THUF 385,538 to restricted reserve representing the value of reorganization, 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:

In HUF thousands

	December 31, 2006	December 31, 2005
Net sales	14,188,565	11,557,317
Changes in inventory and own performance	(16,254)	225,748
Material cost	(8,657,774)	(6,880,842)
Staff cost	(3,455,718)	(2,993,897)
Depreciation	(582,165)	(574,930)
Gain / (loss) on sale of fixed assets	3,388	(1,206)
Costs of stock exchange listing	(15,380)	(142,366)
Gain / (loss) on sale of investments	6,779	(893)
Foreign currency losses	(26,302)	(18,458)
Dividend income	0	2,653
Other expense	(180,493)	(166,028)
Operating income	**1,264,646**	**1,007,098**

The average number of employees of the Group during 2006 was 804 (2005: 725).

12. Taxation

In HUF thousands

	December 31, 2006	December 31, 2005
Current year corporate income tax	139,078	106,557
Change in deferred tax liability	23,107	24,586
Total tax expense	**162,185**	**131,143**

	December 31, 2006	December 31, 2005
Opening deferred tax liability	126,404	101,818
Deferred tax liability due to development reserve	41,600	37,920
Release of deferred tax due to use of development reserve	(18,493)	(11,249)
Deferred tax asset due to tax losses brought forward	-	(2,085)
Closing deferred tax liability	**149,511**	**126,404**

Taxation has been provided at 16% on the profit, adjusted for taxation purposes in case of the domestic companies of the Group. According to the tax legislation effective in Hungary from September 1, 2006 domestic companies are obliged to pay "extra profit tax" of 4% after the time proportional part of the adjusted profit before tax. The tax liability of the foreign companies of the Group is taken into consideration with the effective tax legislation of their country of incorporation.

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 2006 and 2005 pre tax profits and a deferred tax liability has been recognized 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.

State Printing House Plc. and its subsidiaries are subject to periodic audits by the Hungarian Tax Authority (APEH). Since 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:

In HUF thousands

	December 31, 2006	December 31, 2005
Income before tax and minority interest	1,232,444	999,353
Tax at statutory rate of 16% [1]	197,191	159,896
Deferred tax due to development reserve	(23,107)	(26,671)
Cancel of tax losses brought forward	-	2,085
Other temporary differences (net)	(35,006)	(28,753)
Corporate income tax expense	**139,078**	**106,557**

[1] The tax legislation effective in foreign countries is not taken into consideration in this calculation. All differences, that may occur from this fact, is classified on the Other temporary differences line.

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, 2006	December 31, 2005
Weighted average shares outstanding for:	1,479,465	1,373,244
Net income used in the calculation in HUF thousands	1,059,941	859,386
Basic and diluted earnings per share:		
Basic (HUF per share)	716	626
Fully diluted (HUF per share)	716	626

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 2006 the Company established a tax-deductible development reserve of THUF 260,000 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 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, 2006 are as follows:

Periods	Amounts in EUR
2007	700,563
2008	714,574
2009	728,865
2010	743,443
2011	758,312
Later years	11,938,580
Total minimum payments	15,584,337

15. Related party transactions

No significant transactions have been carried out within the Group.
THUF 7,200 remuneration was paid to the Supervisory Board, while THUF 12,000 to the Board of Directors in 2006.

Statement of responsibility

The 2006 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.

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