Állami Nyomda Nyilvánosan Működő Részvénytársaság

Independent Auditors' Report and Consolidated Financial Statements

for the year ended December 31, 2005

Állami Nyomda Nyilvánosan Működő Részvénytársaság

Audited Consolidated Financial Statements

December 31, 2005

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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
Deloitte
Auditing and Consulting Ltd.
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Horváth Tamás
Registered Auditor
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ÁLLAMI NYOMDA NYRT.
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005 AND DECEMBER 31, 2004
(ALL AMOUNTS IN HUF THOUSANDS)

	Notes	December 31, 2005	December 31, 2004
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

(ALL AMOUNTS IN HUF THOUSANDS)

	Notes	Year ended December 31, 2005	Year ended December 31, 2004
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

(ALL AMOUNTS IN HUF THOUSANDS)

	Share Capital	Capital Reserves	Retained Earnings	Treasury Shares	Minority Interests	Total
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

(ALL AMOUNTS IN HUF THOUSANDS)

	December 31, 2005	December 31, 2004
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 year	875,197	983,809
Cash and Bank at end of the year	714,204	875,197

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

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.

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

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 Rt.	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”).

2. Significant accounting policies (continued)

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.

2. Significant accounting policies (continued)

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.

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

2. Significant accounting policies (continued)

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	December 31, 2004
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.

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

4. Inventory

	December 31, 2005	December 31, 2004
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	December 31, 2004
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	Machinery and Equipment	Property Rights	Vehicles and Other	Capital Projects	Total
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	228,928	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 Allami Nyomda's financial statements as at December 31, 2005.

Certain assets are pledged for the loans of the Group (Refer to Note 8).

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

7. Other payables and accruals

	December 31, 2005	December 31, 2004
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	December 31, 2004
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.

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

9. Issued Share Capital

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

	December 31, 2005		December 31, 2004	
	Issued	Treasury	Issued	Treasury
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	December 31, 2004
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).

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

12. Taxation

	December 31, 2005	December 31, 2004
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

	December 31, 2005	December 31, 2004
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	December 31, 2004
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

(ALL AMOUNTS IN HUF THOUSANDS, UNLESS OTHERWISE NOTED)

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	December 31, 2004
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.