ÁLLAMI NYOMDA
STATE PRINTING COMPANY

State Printing House Public Company Limited by Shares

Independent Auditors' Report and Consolidated Financial Statements

for the year ended December 31, 2006

ÁLLAMI NYOMDA
STATE PRINTING COMPANY

State Printing House Public Company Limited by Shares

Audited Consolidated Financial Statements

December 31, 2006

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INDEPENDENT AUDITORS' REPORT

Deloitte.

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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.
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Horváth Tamás
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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		-	2,653
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:			
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

	Issued Capital	Capital Reserve	Retained Earnings	Treasury Shares	Minority Interest	Total
January 1, 2005	**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)
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**

All amounts in HUF thousands unless if otherwise indicated. The Supplementary Notes are inseparable parts of the financial statements.

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.

All amounts in HUF thousands unless if otherwise indicated.

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.

2. Significant accounting policies (continued)

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 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.

2. Significant accounting policies (continued)

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.

2. Significant accounting policies (continued)

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

	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

	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

	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**

All amounts in HUF thousands unless if otherwise indicated.

6. Property, Plant and Equipment

	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**

All amounts in HUF thousands unless if otherwise indicated.

7. Other payables and accruals

	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

	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		
Short term element	76,800	-
Long term element	144,000	-
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	336,400	336,973
Long term element	168,200	505,460
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.

All amounts in HUF thousands unless if otherwise indicated.

9. Issued Share Capital

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

	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:

	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).

All amounts in HUF thousands unless if otherwise indicated.

12. Taxation

	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:

	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.

All amounts in HUF thousands unless if otherwise indicated.

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	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.

All amounts in HUF thousands unless if otherwise indicated.