



FreeSoft Software Development and Information  
Technology Services Public Limited Company

Report for Q1 2010



17 May 2010



Eck Ilona  
CEO

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## 1. General Company Information

Company name:	FreeSoft Software Development and Information Technology Services Plc.
Form of company:	Public Limited Company
Registered seat:	8 Montevideo u. H-1037 Budapest, Hungary.
Places of business:	2 Kossuth L. u. H-3070 Bányaterenyé, Hungary 57 Etele út H-1119 Budapest, Hungary
Corporate Registry Number:	01-10-044993
Tax Number:	12011069-2-41
Statistical Number:	12011069-6209-114-01
Registered Capital:	HUF 1,880,000,000
Date of incorporation:	8 January 1995
Date of transformation:	2 April 2004
Public listing:	22 September 2004

### 1.1. Share information

Type of shares:	Registered share, dematerialised
Nominal value:	HUF 1,000 /pc
Number of shares:	1,880,000
ISIN-code of shares:	HU 0000071030
Share class:	"A"
Share numbers:	0000001 – 1880000
Stock price (31.03.2010):	HUF 2,282 /pc
P/E (31.03.2010)	-43
Profit after taxation per share:	HUF -53

## 2. Senior officials, controlled entities

Senior officials of FreeSoft Plc. during 01.01.2010 to 31.03.2010. were as follows:

### 2.1. Company management

Board Of Directors:	Vilmos Vaspál, chairman Ilona Eck, executive director & CEO Szabolcs Barát, non-executive director Ferenc Boródi dr., non-executive director János Keresztesi, executive director Zoltán Köntös dr., non-executive director
Supervisory Committee:	Gáborné Móricz dr. László G. Jobbágy Iván Kovácsics
Audit Committee:	Gáborné Móricz dr. László G. Jobbágy Iván Kovácsics
Chief Executive Officer:	Ilona Eck
Auditor:	Mantax Könyvvizsgáló és Tanácsadó Ltd. (1034 Budapest, San Marco u. 6-8/a. Reg Nr.: 000870) Győző Czene (Chamber Member Nr.: 000140) registered auditor

### 2.2. Board of Directors

#### 2.2.1. Chairman of the Board of Directors – Vilmos Vaspál

Trained as an economist, he was one of the founding members of FreeSoft Ltd., he is the father of two children. Since the early 1980s he has been engaged to information technology, mainly in his private company. His professional career started in Videoton as a software developer, than worked in a self-employed developing team that is considered as ancestor of FreeSoft. He played a significant role in building FreeSoft, in laying the foundations for its business and professional success. In addition to leading FreeSoft, for a short period he also worked as the Chief Information Officer for SZÜV. He is a well-known, respected person of the IT business with widespread professional connections.

#### 2.2.2. Member of the Board of Directors, CEO – Ilona Eck

She has been working with the company since 1992, and is trained as an electrical engineer and chartered accountant. She first worked as a software developer for Videoton Development Institute, then, as the co-founder of DataComp Kft., worked in the area of designing and developing business and management information systems. She was a project manager for the development of the payroll and human resource management systems for Pharmafontana (pharmaceutical wholesaler) and AUTÓKER. In 1991-1992 she was the sales manager of Sincord Kft. She joined FreeSoft in December 1992. During the period 1993 to 1995 acted as commercial product manager. Since 1995 she was the Company's economic director, and since May 2002 she made also executive tasks. At foundation of FreeSoft Plc. she has been elected member of the Board of Directors, and acted as CFO. She has been elected FreeSoft's CEO in January, 2009..

### **2.2.3. Member of the Board of Directors – Szabolcs Barát**

He has graduated on Faculty of Business Administration of the Budapest University of Economic Sciences in 2002, and later on IT Faculty 'János Neumann' of the Budapest Technical College in 2004. His CFA diplom has been graduated in 2007. His carrier started at NET Média Co. as Portfolio.hu's stock analyst concentrating mainly on IT companies. Since 2004 his specialty is the oil and pharmaceutical industry. He is the Analyst Director and Editor-in-Chief of the Portfolio.hu since 2005. He regularly delivers lectures about company evaluation on Corvinus University.

### **2.2.4. Member of the Board of Directors – Ferenc Boródi dr.**

Doctor of economic studies, honorary associate professor. He started his carrier in EVIG in 1980, he was the Head of the Economic Department in Ganz-MÁVAG, Economic Director of the Ganz Felvonógyár, Economic Director of MINO Cipőgyár. In 1990 he joined a Hungarian-Canadian group of companies, CEIC Holdings managed by Sándor Demján. He is CEO of Euroinvest Co. Under his directions eleven companies were privatized and sixteen privatization prequalification of PHARE financing were fulfilled on behalf of State Property Agency (e.g. Taurus-Michelin business). Since 1991 to 1998 ha was the Chairman of the Supervisory Committee of Videoton Co. He has directed privatization of Bakonyi Erőmű Co., purchase of Badacsonyi Pincegazdaság. In Euroinvest Co. he had to establish financing construction, owner structure of more property development projects (Bank Center, Pólus Center, WestEnd, etc.) In 1998 he founded his own investment company. He was Chairman of the Supervisory Committe of ViDaNet Co. (cable television) to July 2004, of Ganz Ipari Co. to March 2004. He is the owner and CEO of Credicet Development Co. and InvestLife Co.

### **2.2.5. Member of the Board of Directors – János Keresztesi**

As a professional with IT qualifications he started his carrier at SZÁMALK in 1987; later he was responsible for PC and indirect sale of Digital Equipment Hungary. Since 1995 for four years he was the Head of Partner Connections, later the Director of Oracle Hungary responsible for indirect sale. Since 1999 for more than five years he was succesful Executive Director of Sun Microsystems' Hungarian subsidiary; he was elected as the most succesful manager of the European region two times. In 2001 he has won the "IT Manager of the Year" professional title awarded by Association of Information Technology Companies (IVSZ). Since 2004 to 2008 he was FreeSoft's CEO. He was elected Member of the Presidium of IVSZ on 17th March 2005, President of IVSZ on 12nd March 2008 by General Assembly. He has taken attending President of IVSZ and FreeSoft's CEO simultaneously up to 31st December 2008. Since January 2009 he supports Freesoft as Member of the Board of Directors.

### **2.2.6. Member of the Board of Directors - Zoltán Köntös dr.**

He is chemical engineer, he is doctor pf chemical sciences (Phd), and also an economist. He is Honorary Member of the Faculty Board on Budapest University of Technology and Economics, President of the Scientific Council of the 'Innovation for Defense and Safety' Society, member of Chamber of Bodyguards, Property Protection and Private Detectives. Previously he was political advisor, Ministerial Director of the Ministry of Economy and Transport..

## **2.3. Supervisory Committee**

### **2.3.1. Gáborné Móricz dr.**

She started her carrier as food industry operating engineer, manager at the Budapesti Likőripari Vállalat, predecessor of Zwack Unicum Plc. After being in leadership functions in more

departments, years later she has become system organizer on the organisational department of the company. She has had active role in construction of the information system of production, sales and financial processes. For several years she has been Head of Organisational Department coordinating internal processes, developing information system of the company. Since 1996 she has become subcontractor of FreeSoft Ltd. developing and implementing the integrated company information system of FreeSoft. Since 1997 she has been Chairwoman of the Board of Directors of Fríz Co. She has been professional leader of the team implementing 'FreeSoft Oracle Business Solutions' for several years; her duty has been upgrade, implementation of the moduls developed by FreeSoft specially to Hungarian requirements. She is pensioner.

### **2.3.2. László Jobbágy G.**

The professional of Canadian nationality acted at several Canadian companies as marketing and management consultant. His duty was - among other things - making feasibility studies, marketing strategy advisory, budget planning, cost-benefit analysis, computerization of accounting systems, business loan planning, project reorganization, etc. He has coordinated work of 40 businessmen at a great Canadian IT company as Corporate Sales Manager trebling sale performance of the department. He has analyzed short and long term financial needs, including complex and speculation resource funds. He has been founder and first Director of the Oracle Hungary Ltd., since then that has a virtual monopoly in Hungary. Under his management INTEGRA has become one of the most energetic and succesful Hungarian software company. He has played major role of implementing value added sercices of Vivendi Telecom (internet, ISDN, blues and green numbers, MLLN services, etc.), and development of management system based on tight supervision of the Company. He has managed capitalization of

Elender Computer Co., and sale of Elender to PSI Net. In the last two years ha has supervised strategic transactions of Vivendi Telecom Hungary. Beside his professional carrier he always emphesized scientific work, research, teaching. He has prepared several courses on Hungarian and Canadian universities, he has had active role in teaching. He has directed several research projects, for instance on role of subjective opportunities in long term economic forecasts or analysis and prediction of consumer habits, etc. He has great experience in developing teaching materials; he was lecturer of scientific conferences and seminars. He speaks English, German, Russian and French.

### **2.3.3. Iván Kovácsics**

He is horticultural and agricultural engineer, economic manager with diplom, marketing manager with diplom. He has completed MBA program of London Middlesex University. Currently he is key adviser of EuroBusiness Consulting Ltd., expert of the Economic Committee of the Parliament, President of the Hungarian Chamber of Commerce & Industry's Hungarian-Chinese Branch. He is business professional of great knowledge and great experience. He speaks English (TOEIC).

## **2.4. Audit Committee**

Audit Committee of FreeSoft Plc. has been formed in 1997.

Members of the Audit Committee:

- Gáborné Móricz dr.
- László G. Jobbágy
- Iván Kovácsics

## 2.5. Remuneration of Officials

Members of the Board of Directors have not been remunerated for for duties performed in the reference quarter, no loan has been paid. Members of the Supervisory Committee have been remunerated in accordance with the decision of the Annual General Meeting held in 2008; their total remuneration was HUF 900.000 in 2010 Q1.

## 2.6. FreeSoft shares owned by officials

Officials own FreeSoft shares as set out in the following table:

Senior officials		Number of shares			Voting rights
		Direct ownership	indirect ownership	Direct and indirect	Direct and indirect
Vilmos Vaspál	Board Member	171 687	27 542	199 229	10,6%
Ilona Eck	Board Member	22 360	0	22 360	1,2%
János Keresztesi	Board Member	13 110	0	13 110	0,7%
Ferenc Boródi dr.	Board Member	0	52 422	52 422	2,8%
Gáborné Móricz dr.	Member of Supervisory Committee	50 000	4 352	54 352	2,9%

## 2.7. Authorized to sign on behalf of the firm

Vilmos Vaspál, Chairman of the Board of Directors and Ilona Eck, member of the Board of Directors, CEO are authorized to sign the Report on behalf of the firm.

## 2.8. Data of controlled entities on the balance sheet date

Name	Adress	Corporate Registry Number	Share capital (thousand HUF)	FreeSoft ownership
HUMANsoft Plc.	1037 Budapest, Montevideo út 8.	01-09-062054	32.250	100%
Axis Consulting 2000. Plc.	8000 Székesfehérvár, Berényi út 72-100.	07-09-008333	30.600	100%
BankSoft Plc.	1037 Budapest, Montevideo út 8.	01-09-061864	9.000	100%

### 3. Main events of the period

#### 2010 Q1

FreeSoft Plc. concluded an agreement with 'Szent István' University's Faculty of Economics and Social Sciences (SZIU-FESS). The objective of cooperation is joint utilization of knowledge and experience of SZIU-FESS' teachers and researchers, providing high-level educational and scientific background support for FreeSoft Group. It will be possible to work together in gradual and postgradual training, in methodological and research activity, and raising the standard of teaching, fulfilling training and qualification needs to contribute the development and efficient operation of both the faculty and the company as well. Using the agreement students of SZIU-FESS - beside the high quality theoretical education - will get practical information from professional experiences acquired in the operation of a successful company, and it will significantly increase marketability of their diploma, making adequate employment easier. Joint research will result successful, not only of theoretical value, but commercially usable patents. Practical use of these patents may increase business efficiency of FreeSoft and scientific reputation of SZIU-FESS. In connection to this field FreeSoft Group launched tangible research projects in the (IK)2 Innovative Industries Research Centre of the Faculty.

MÁV Co. (1087 Budapest, Könyves Kálmán körút 54-56.) announced the result of the public procurement tender issued under TED 2009/S 9-012005 identification number. Successful tenderer of public procurement tender on "Implementation of MÁV Co.'s traffic control IT system" is Funkwerk Information Technologies GmbH. (Kiel, Germany), whose subcontractor to perform the contract exceeding more than 10% the original value of the public procurement is FreeSoft Plc.

Within the framework of the project of a year and a half, in accordance with the relevant requirements of Union law on the interoperability, to serve the multi-player rail transport market an overall information technology system will be implemented to support traffic control for all trains on MÁV Co.'s complete infrastructure. After the successful completion of this project the task will be monitoring the user program system developed and providing technical support for another year. The fee of the tender selected is HUF 932.823.201 + VAT; FreeSoft will have about 20% of the undertaking, and about one third of it will be realized in the financial year of 2010.

On 3 March 2010 SAP Hungary Ltd. and FreeSoft Plc. announced that partnership agreement have been concluded within SAP partnership programme. Therefore FreeSoft may sell SAP's complete product portfolio on Hungarian market.



## 4. Summary

**Net sales** of FreeSoft Group was **HUF 1.507 million** in 2010 Q1. It is lower than the performance of the corresponding previous period by 22,38%. The operating loss was **HUF 115 million**, it is lower than the loss of the corresponding previous period by 55%. The members of the FreeSoft company group contributed to these results in differently. Only Axis Consulting 2000 Ltd. increased its revenue (by 62%). Quarterly net sales of FreeSoft Plc. decreased by 55%, net sales of BankSoft Ltd. decreased by 31%, net sales of HUMANSOFT Ltd. decreased by 20% compared to 2009 Q1. Loss after taxation of FreeSoft Group in 2010 Q1 was **HUF -100 million**, it is lower than the loss of the corresponding previous period by 65%.

**Average price of FreeSoft shares** decreased by 4%; closing price of 31 March 2010 was HUF 2.282, higher than one year ago by 11.32%.

The consolidated report and the balance sheet of the Company for Q1 of 2010 were prepared using the total cost method in accordance with the international accounting standards (**IAS-IFRS**) and contain **unaudited** information. The Company's financial year is: 1st of January to 31st of December.

## 5. Consolidated companies

Three 100% owned domestic subsidiaries belong to the FreeSoft Plc.'s consolidated group.

Name	Adress	Share of ownership	Registration number
<b>Domestic subsidiaries</b>			
HUMANsoft Ltd.	1037 Budapest, Montevideo u.8.	100,00%	01-09-062054
Axis Consulting 2000 Ltd.	8000 Székesfehérvár, Berényi út 72-100.	100,00%	07-09-008333
BankSoft Ltd.	1037 Budapest, Montevideo u.8.	100,00%	01-09-061864

## 6. Financial highlights

FreeSoft Group achieved a decrease of 22.38% in net sales compared to the same period in the previous year. Operating profit (EBIT) and the profit after taxation (PAT) indicate losses, but there is significant improvement compared with the reference period of 2009 Q1, because losses decreased by 55% and 65%.

Description	in 1,000 HUF		
	31.03.2010.	31.03.2009.	Changes in +/- %
<b>Net sales</b>	1 506 871	1 941 359	<b>-22,38%</b>
<b>Gross profit</b>	536 912	549 991	<b>-2,38%</b>
<b>EBITDA</b>	-92 431	-226 139	no data
<b>Operating profit (EBIT)</b>	-114 533	-252 903	no data
<b>Profit after taxation (PAT)</b>	-99 817	-283 128	no data
<b>Staff numbers*</b>	<b>261</b>	<b>315</b>	<b>-17,14%</b>
Net sales per capita***	<b>5 796</b>	<b>6 166</b>	<b>-6,00%</b>
<b>Share performance</b>			
Closing price of shares (HUF)*	2 282	2 050	<b>11,32%</b>
Average market price of shares (HUF)	2 107	2 201	<b>-4,29%</b>
P/E *	-43	-14	no data
<b>Per share</b>			
EBITDA/share**	-49	-120	no data
Profit after taxation (EPS)/share**	-53	-151	no data
Book value/share**	1 372	1 346	<b>1,95%</b>

\* at the end of the period

\*\* in HUF

\*\*\* on average staff number

## 7. FreeSoft Plc.'s consolidated report for 2010 Q1 in accordance with IFRS

### 7.1. BALANCE SHEET

Consolidated Balance Sheet of FreeSoft Plc. on 31.03.2010			in 1,000 HUF
	31.03.2010.	31.12.2009.	Changes in +/- %
Cash and cash equivalents	129 827	133 409	-2,68%
Receivables	1 460 546	1 585 541	-7,88%
Accrued and deferred assets	122 961	195 780	-37,19%
Securities	29 908	29 908	0,00%
Inventories	1 053 456	884 131	19,15%
<b>Current assets total</b>	<b>2 796 698</b>	<b>2 828 769</b>	<b>-1,13%</b>
Tangible assets	48 936	80 788	-39,43%
Intangible assets	118 704	106 306	11,66%
Capitalized costs of credit drawing	0	0	no data
Deferred tax assets	83 636	58 568	42,80%
Goodwill	1 099 206	1 099 206	0,00%
Other investments	386 726	386 726	0,00%
<b>Fixed assets total</b>	<b>1 737 208</b>	<b>1 731 594</b>	<b>0,32%</b>
Trade payables	851 258	794 351	7,16%
Short-term loans and borrowings	563 414	538 153	4,69%
Other short-term liabilities	241 246	271 973	-11,30%
Deferred tax liabilities	253	253	0,00%
Provisions	14 200	14 200	0,00%
Accrued and deferred liabilities	182 466	164 530	10,90%
<b>Short-term liabilities total</b>	<b>1 852 837</b>	<b>1 783 460</b>	<b>3,89%</b>
Long-term loans	101 468	98 121	3,41%
<b>Long-term liabilities total</b>	<b>101 468</b>	<b>98 121</b>	<b>3,41%</b>
<b>NET ASSETS</b>	<b>2 579 601</b>	<b>2 678 782</b>	<b>-3,70%</b>
Share capital	1 880 000	1 880 000	0,00%
Share premium	1 074 500	1 074 500	0,00%
Retained earnings and profit for the period	-374 899	-275 703	no data
Fixed reserve	0	0	
Revaluation reserve	0	0	no data
Consolidation margin		-15	no data
<b>EQUITY</b>	<b>2 579 601</b>	<b>2 678 782</b>	<b>-3,70%</b>
Interest of minority owners	0	0	no data
<b>Equity and share of minority owners total</b>	<b>2 579 601</b>	<b>2 678 782</b>	<b>-3,70%</b>

FreeSoft Plc publishes its consolidated balance sheet in accordance with international IAS-IFRS standards. The breakdown of the consolidated balance sheet complies with international practice.

Accordingly the balance of the net asset value and the equity capital are presented separately. The net assets and the equity of the group is down by 3.7% compared to the previous financial year. The net asset value of 31.01.2010. was HUF 2.579.601.000 in accordance with IFRS.

### **Current assets**

Liquid assets of the Group were 3% lower on the balance sheet date than one year ago, on 31.03.2009. It is mainly due to the fact, that decrease of receivables was lower than decrease of sales, but liabilities also decreased, thus external financing lowered.

Inventories increased by 19% to establish the commercial trade in the next months of the year (HUMANsoft). 37% decrease of accrued and deferred assets indicates that there were less long-term ongoing projects at the balance sheet date.

### **Fixed assets**

The value of tangible assets reduced by 39%, value of intangible assets increased by 12%, mainly due to purchase of computer programs. Goodwill remained the same. Change in tangible assets was due to fact that the replacement and expansion of the assets were deferred due to the economic crisis.

The *Other investments* of HUF 386.726 represent FreeSoft's business share in High Tech Ltd and FreeSoft Asia-Pacific Pty Ltd., long term share investments in HUMANsoft and BankSoft, and HUMANsoft's investments in other smaller Limited companies.

### **Liabilities**

Considerable part of *short-term liabilities* (HUF 1.852.837.000) consists of trade payables/suppliers (HUF 851.258.000) and there are no significant overdue liabilities among them. Trade payables was higher by 7% on the balance sheet date compared to the end of 2009.

An increase in short-term bank loan was necessary for the financing of extended and large volume projects associated with the state and municipalities. On 31st March 2010 HUF 158 million of the HUF 700 million credit line - provided by the the main accounting bank of the FreeSoft Plc. - was recorded by the parent company. The ongoing financing of HUMANsoft can only be maintained with a loan with closing balance of HUF 328 million. At the end of the quarter Axis Consulting 2000 Ltd. had no loan drawn from the HUF 100 million credit line; no loan was necessary to financing the working capital needs of BankSoft Ltd. in this period. The *Short-term loans and borrowings* of the Group increased by 5% compared to the end of the previous financial year.

The *Other short-term liabilities* (HUF 241.246.000) consist of tax payment liabilities with no amount overdue. Companies of the Group are in the database of taxpayers free of public debts.

### **Accrued liabilities**

The sum of *accrued liabilities* increased by 11% compared to the end of the previous financial year. Accrued liabilities include accrued and deferred costs incurred in the normal course of business (HUF 48 million) according to the Act on Accounting and a cost item that was booked as sales revenue in 2010 Q1 but did not get invoiced (in a value of HUF 37 million).

### **Equity capital**

The *equity capital* of the Company reduced by 3.7% compared to 31st December of the previous business year. The reduction is due to the loss of HUF 100 million as per the consolidated balance sheet.

## 7.2. PROFIT AND LOSS STATEMENT

### 7.2.1. Consolidated profit and loss statement

The Company uses the methods used in international practice for preparing the profit and loss statement and provides the investors with more information on the effectiveness of the consolidated group.

Consolidated profit and loss statement of FreeSoft Plc. in accordance with IFRS on 31.03.2010.			in 1000 HUF
Description	31.03.2010.	31.03.2009.	Changes in +/- %
<b>Revenues</b>	<b>1 604 448</b>	<b>1 966 130</b>	<b>-18,40%</b>
of which: Sales	1 506 871	1 941 359	-22,38%
Cost of goods sold + Services subcontracted	1 067 536	1 416 139	-24,62%
<b>Gross profit (gross margin)</b>	<b>536 912</b>	<b>549 991</b>	<b>-2,38%</b>
Material costs	244 699	384 290	-36,32%
Personnel expenses	368 728	379 355	-2,80%
Other expenses	15 916	12 485	27,48%
<b>Operating loss before depreciation (EBITDA)</b>	<b>-92 431</b>	<b>-226 139</b>	<b>no data</b>
Depreciation	22 102	26 764	-17,42%
<b>Operating loss (EBIT)</b>	<b>-114 533</b>	<b>-252 903</b>	<b>no data</b>
Loss on financial transactions	-10 071	-76 981	no data
<b>Loss before taxation (PBT)</b>	<b>-124 604</b>	<b>-329 884</b>	<b>no data</b>
Corporate tax	281	412	<b>-31,76%</b>
Dividends paid from retained earnings	0	0	no data
Dividends paid to minority shareholders	0	0	no data
Deferred tax liabilities	-25 068	-47 168	no data
<b>Loss after taxation (PAT)</b>	<b>-99 817</b>	<b>-283 128</b>	<b>no data</b>

*Net sales* of the reference period of 2010 Q1 (HUF 1,507 million) are below the Company's net sales of 2009 Q1 by 22.38%. Decrease of sales was due to declining orders of the Group's subsidiaries as result of the economic crises: major part of partners rescheduled change of information technology equipments, software development.

Principal activity of FreeSoft Plc., Axis Consulting 2000 Ltd. and BankSoft Ltd. is to provide IT services with minimal need for materials, while the principal activity of HUMANsoft is more material-intensive. Decrease of *material costs* by 36.32% was even more dynamic than the decrease of HUMANsoft's net sales as result of better use of internal resources.

The Company employs independent experts and sub-contractors to a considerable extent to fulfill its contractual obligations, which are reflected in other expenditures and *services subcontracted*. Transportation of IT devices for setting up operational environments for projects on informatics (hardware, software) is often carried out by the Company, which is included in *Costs of goods sold*. Also the better use of internal resources resulted that recourse of external resources (i.e. value of *Costs of goods sold+services subcontracted* ) decreased more than the value of net sales.

The *Personnel expenses* reduced by 3 % in comparison with the data for the corresponding previous period, 2009 Q1. Considering the effects of the economic crisis the headcount need was reconsidered at all divisions of the FreeSoft group.

The headcount reduction was 17 %, but its effect has been realised only to a small degree due to higher expenses of quality changes executed. The staff reduction program has begun during the second half of 2008 in FreeSoft Plc. and Axis Consulting 2000. Ltd., during in the first quarter of 2009 in the other subsidiaries. The headcount of full-time employees of the Group reduced by 54 compared to 31 March 2009, and the average statistical headcount reduced from 315 to 260 in 2010 Q1 accordingly.

Even the negative value of *EBITDA* of HUF -92.431.000 is a promising sign, it is considerable improvement compared to the loss of HUF 226.139.000 in the corresponding period of the previous financial year. Two companies of FreeSoft Group (FreeSoft, HUMANsoft) improved their results due to their cost efficiencies and economic activity.

The FreeSoft Group's balance sheet loss of HUF 99.8 million is a significant improvement compared to the loss of HUF 283 million one year ago.

*Depreciation* (2010 Q1: HUF 22,102,000) reduced by 17 %, which indicates that the replacement and expansion of the assets were deferred due to cost-saving reasons..

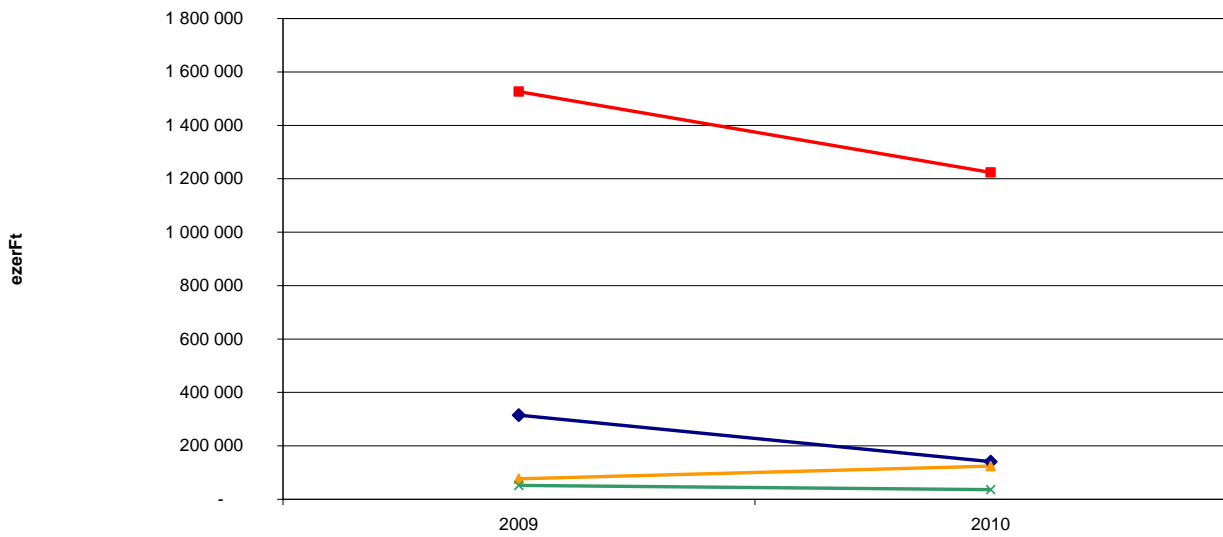
The Company group does not amortise Goodwill.

### **7.2.2. Results of the FreeSoft Plc. and the subsidiaries**

90% of the consolidated net revenues of the company group are made by the subsidiaries of FreeSoft Plc. In 2010 Q1 HUMANsoft Ltd. and BankSoft Ltd. reported profits. Our investors can see the chart analysis of the results of the group companies as follows.

## Net Sales

### Nettó árbevétel alakulása



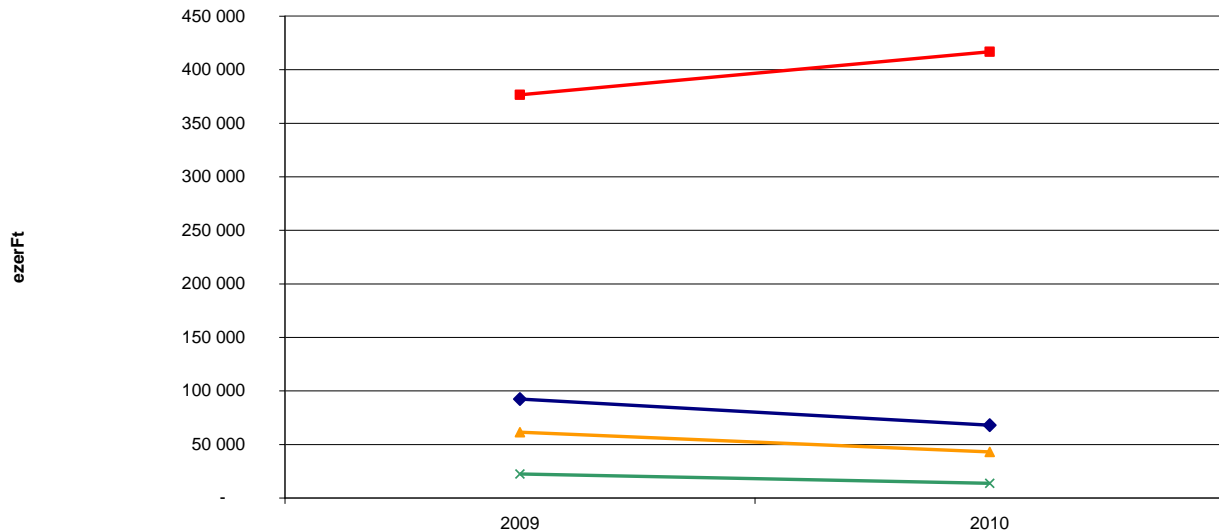
	2009.03.31	2010.03.31
◆ FreeSoft Nyrt.	314 509	140 401
■ HUMANsoft Kft.	1 525 710	1 222 967
▲ Axis Consulting 2000 Kft.	76 422	123 943
× BankSoft Kft.	51 307	35 385

Companies of the Grop were equally affected by economic crises. Net sales of three companies decreased compared to net sales of 2009 Q1. Decrease of HUMANsoft's sales is HUF 303 million, decrease of FreeSoft's sales is HUF 174 million, BankSoft has HUF 16 million lower revenue. Axis Consulting 2000. Ltd.'s net sales were higher by HUF 48 milion, but this increase derived mainly from resales of small profit margin..



## Value Added

### Hozzáadott érték alakulása

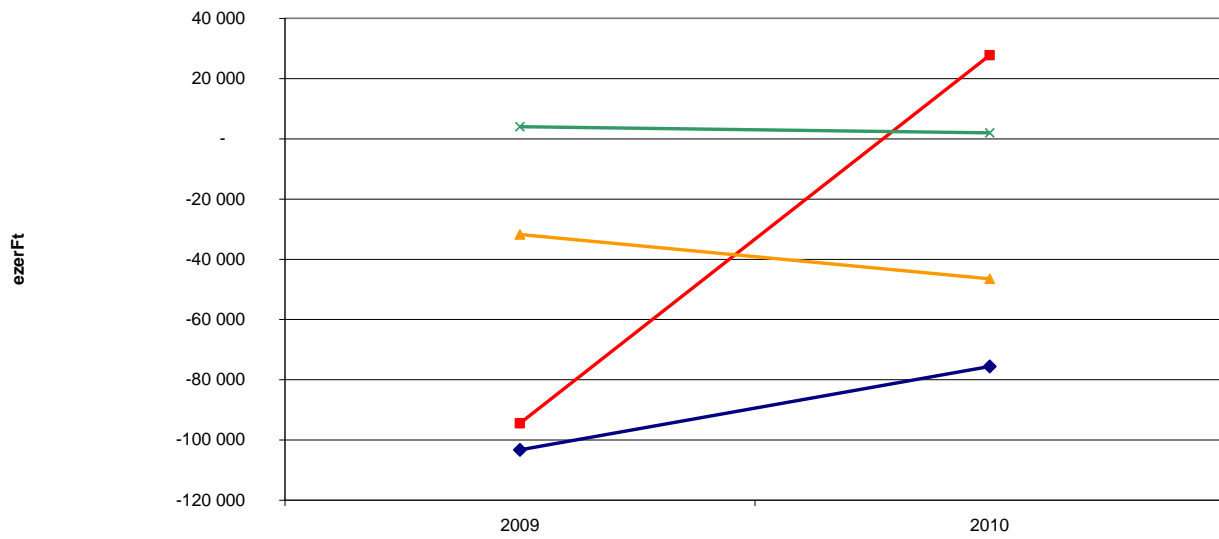


	2009.03.31	2010.03.31
FreeSoft Nyrt.	92 405	67 905
HUMANsoft Kft.	376 524	416 727
Axis Consulting 2000 Kft.	61 439	42 980
BankSoft Kft.	22 436	13 745

Net sales of HUMANsoft decreased by HUF 300 million in 2010 Q1, but value added has grown by 11%. Despite this value added has grown by 11% thanks to the good commercial activity of the company. There were lower net sales and lower value added in the case of FreeSoft Plc. and BankSoft Ltd. Axis Consulting 2000 Ltd. has been able to increase the net sales without increasing value added, because competition has forced to conclude contracts with lower-than-average value added.

## EBITDA

### EBITDA alakulása

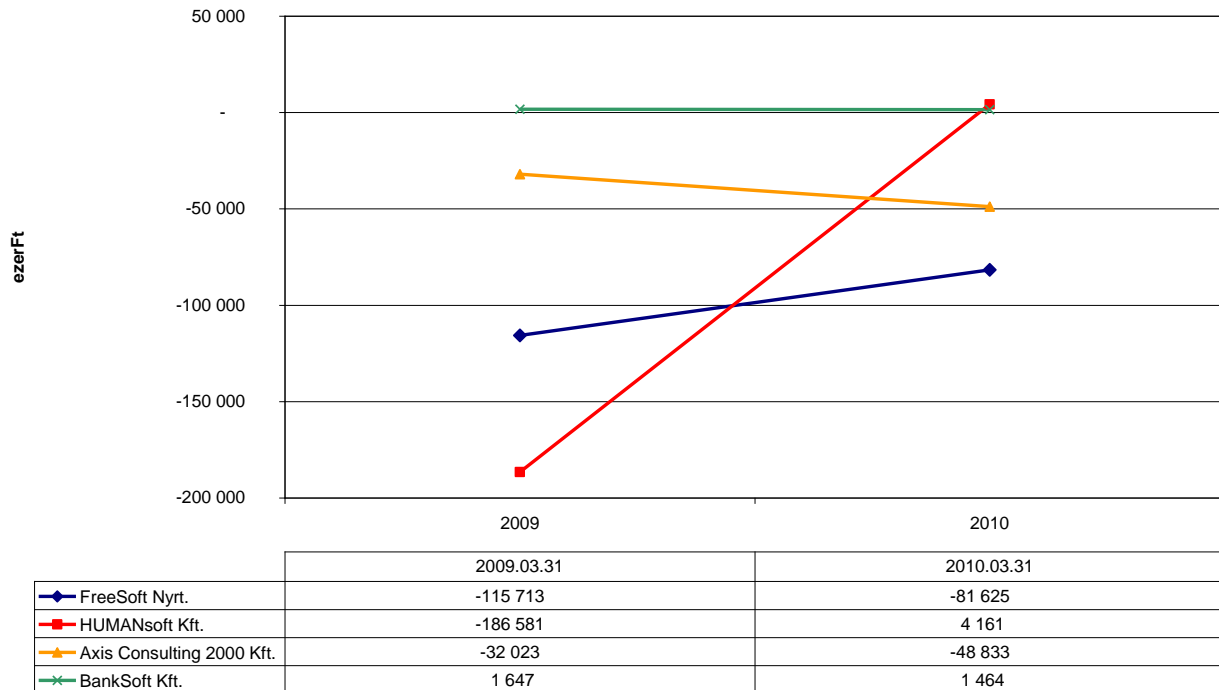


	2009.03.31	2010.03.31
◆ FreeSoft Nyrt.	-103 327	-75 598
■ HUMANsoft Kft.	-94 472	27 745
▲ Axis Consulting 2000 Kft.	-31 806	-46 482
× BankSoft Kft.	4 027	1 974

As a consequence of the cost saving measures taken in time EBITDA of HUMANsoft and BankSoft are positive. FreeSoft's EBITDA is negative, but improving. There were cost saving measures also in Axis Consulting 2000, but without appreciable effect because of the narrowing market opportunities caused by the crises.

## Profit/loss after taxation

### Adózott eredmény alakulása



In 2010 Q1 HUMANsoft Ltd and BankSoft Ltd. reached profit after taxation. HUF 82 million loss of FreeSoft Plc. is significant improvement comparing to the performance of Q1 2009. Only profitability of Axis Consulting 2000 Ltd has deteriorated despite higher net sales of the period.

### 7.3. CASH-FLOW

The closing balance of the liquid assets of the Group on 31st March 2010 was HUF 3.582.000 less compared to the end of 2009. Due to the increased customer reluctance to pay on time and projects with long duration, FreeSoft Plc. and HUMANsoft Ltd. used continuous bank financing.

Data in 1000 HUF

Serial No.	Description	31.03.2010. Consolidated
<b>Current flows from operating activities (Operating cash-flow, lines 1-16.)</b>		
01.	Profit before taxation	- 124 604
02.	Expenses of financial transactions, net	- 3 091
03.	Loss/profit from sale of tangible assets	
04.	Investments in related companies	
05.	Depreciation	22 102
06.	Amortization	8 179
07.	Other items	28 016
08.	Change in trade creditorsnövekedése/csökkenése	124 995
09.	Change in inventory	- 169 325
10.	Change in other liquid assets	72 819
11.	Change in trade debtors	56 907
12.	Change in other financial obligations	- 12 791
<b>13.</b>	<b>Cash provided by operating activities</b>	<b>3 207</b>
14.	Interest paid	- 13 397
15.	Income tax paid	- 281
<b>16.</b>	<b>Cash provided by operating activities</b>	<b>- 10 471</b>
<b>Cash flow from investing activities (Investment cash flow, lines 17-28.)</b>		
17.	Acquisition of shares	-
18.	Sale of shares	
19.	Interest received	235
20.	Income from royalty and other investments	
21.	Dividends received	
22.	Acquisition of investments	- 36 655
23.	Purchase of property investments	
24.	Sale of investments	44 507
25.	Purchase of intangible assets	- 26 459
26.	Acquisition of stakes in businesses	
27.	Sales of stakes in businesses	
<b>28.</b>	<b>Net cash from investment activities</b>	<b>- 18 372</b>
<b>Cash flows from financing activities (Finance cash-flow, lines 29-34.)</b>		
29.	Cash proceeds from issue of shares and capital investment	
30.	Buyback of issued shares	
31.	Proceeds from borrowings	25 261
32.	Repayment of borrowings	
33.	Dividends paid to shareholders	
<b>34.</b>	<b>Net cash provided by financing activities</b>	<b>25 261</b>
<b>35.</b>	<b>Change in liquid assets</b>	<b>- 3 582</b>
36.	Opening balance of liquid assets (31.12.2009.)	163 317
37.	Change in the value of liquid assets in foreign exchange	
38.	Closing balance of liquid assets (31.03.2010.)	159 735

## 8. FreeSoft Plc.'s (as parent company) non-consolidated financial report of Q1 2010

### 8.1. Balance sheet

data in 1000 HUF

	Titles	31.12.2009	31.03.2010	Change in %
<b>A.</b>	<b>Fixed assets</b>	2 200 006	2 575 834	17%
I.	INTANGIBLE ASSETS	1 099 967	1 099 206	0%
II.	TANGIBLE ASSETS	24 139	17 728	-27%
III.	FINANCIAL INVESTMENTS	1 075 900	1 458 900	36%
<b>B.</b>	<b>Current assets</b>	1 514 508	1 031 195	-32%
I.	INVENTORIES	596 784	616 429	3%
II.	RECEIVABLES	813 222	361 630	-56%
III.	SECURITIES	255	29 908	11629%
IV.	LIQUID ASSETS	104 247	23 228	-78%
<b>C.</b>	<b>Accrued and deferred assets</b>	208 401	43 999	-79%

<b>Total assets</b>		3 922 915	3 651 028	-7%
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	Titles	31.12.2009	31.03.2010	Change in %
<b>D.</b>	<b>Equity</b>	3 227 841	3 158 790	-2%
I.	SHARE CAPITAL	1 880 000	1 880 000	0%
	of which: Repurchased shares of nominal value			
II.	UNPAID SHARE CAPITAL			
III.	CAPITAL RESERVE	1 074 500	1 074 500	0%
IV.	PROFIT RESERVE	268 988	285 915	6%
V.	TIED UP RESERVE			
VI.	VALUATION RESERVE			
VII.	PROFIT PER BALANCE SHEET	4 353	- 81 625	no data
<b>E.</b>	<b>Provision</b>	-	-	
<b>F.</b>	<b>Liabilities</b>	685 192	451 963	-34%
I.	SUBORDINATED LIABILITIES	-	-	
II.	LONG TERM LIABILITIES	4 495	1 223	-73%
III.	SHORT TERM LIABILITIES	680 697	450 740	-34%
<b>G.</b>	<b>Accrued expenses</b>	9 882	40 275	308%

<b>Total liabilities</b>		3 922 915	3 651 028	-7%
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Balance sheet total has decreased by 7% because of declining liabilities and receivables. Loss per balance sheet of Q1 2010. is HUF 81.625.000.

#### 8.1.1. Financial investments

Investments in the three subsidiaries (HUMANsoft Ltd.– HUF 814.106.000; Axis Consulting 2000 Ltd. – HUF 209.914.000; BankSoft Ltd. – 51.880.000) and permanent investments in High Tech

Ltd (HUF 195.000.000) and FreeSoft Asia-Pacific Pty Ltd. (HUF 188.000.000) are recorded as financial investments of FreeSoft Plc.

### **8.1.2. Current assets, accrued assets**

In current assets closing data of receivables increased by 4% compared to 31 December 2009.

Value of accrued assets was HUF 43.999.000 on 31 March 2010.

More major projects were not closed up to the end of the period; it has explained the accrual of HUF 37 million from the costs of the projects incurred in 2009 and Q1 2010 to the second quarter of 2010.

### **8.1.3. Liabilities**

This year project financing loan was necessary for current financing; principal outstanding of 31 March (HUF 158.197.000) was lower than at the end of the previous financial year, 31 December 2009 by 38%. There is another short term liability: FreeSoft's short-term loan of HUF 55.000.000.

Balance sheet total of the Company decreased by 7% compared to 31 December 2009; short term liabilities decreased by 33%, specifically supplier debts decreased by 47%. Ratio of current liabilities decreased by 8%. Equity of the Company decreased by the loss per balance sheet, i.e. by 2%.

Accrued expenses are much higher compared to the end of the previous (2009) financial year (HUF 40.3 million vs. HUF 9.9 million); this increase has come from the costs referring the first quarter of 2010, but incurring in the rest of 2010.

## 8.2. Profit and loss report

	Titles	31.03.2009	31.03.2010	Change in %
1	Net domestic sales reveues	462 091	140 401	-70%
2	Net export sales reveues	383	-	-100%
<b>I.</b>	<b>Turnover</b>	462 474	140 401	-70%
<b>II.</b>	<b>Own performance capitalized</b>	19 335	-	-100%
<b>III.</b>	<b>Other income</b>	16 297	347	-98%
	of which: reversel of impairment loss provision			
3	Cost of raw materials and consumables	19 954	2 155	-89%
4	Services consumed	146 300	51 802	-65%
5	Value of other services	4 176	2 501	-40%
6	Cost of goods sold	73 730	1 010	-99%
7	Value of recharged services	202 847	71 833	-65%
<b>IV.</b>	<b>Material-type costs (03+04+05+06+07)</b>	447 007	129 301	-71%
8	Wages and salaries	123 484	62 082	-50%
9	Other staff emoluments	12 644	3 638	-71%
10	Personnel related contributions	43 166	18 499	-57%
<b>V.</b>	<b>Staff cost (10+11+12)</b>	179 294	84 219	-53%
<b>VI.</b>	<b>Depreciattions and amortizations</b>	11 099	2 129	-81%
<b>VII.</b>	<b>Other costs</b>	12 287	2 826	-77%
	of which: impairment loss provision	3 339	-	-100%
<b>A.</b>	<b>TRADING PROFIT (I±II+III-IV-V-VI-VII)</b>	- 151 581	- 77 727	no data
<b>VIII.</b>	<b>Income from financial transactions</b>	2 805	6	-100%
<b>IX.</b>	<b>Expenditures on financial transactions</b>	10 903	3 904	-64%
<b>B.</b>	<b>PROFIT ON FINANCIAL TRANSACTIONS (VIII-IX)</b>	- 8 098	- 3 898	no data
<b>C.</b>	<b>PROFIT ON ORDINARY ACTIVITIES (±A±B)</b>	- 159 679	- 81 625	no data
<b>X.</b>	<b>Extraordinary revenues</b>	19	-	-100%
<b>XI.</b>	<b>Extraordinary expenses</b>	242	-	-100%
<b>D.</b>	<b>EXTRAORDINARY PROFIT (X-XI)</b>	- 223	-	no data
<b>E.</b>	<b>PROFIT BEFORE TAX (±C±D)</b>	- 159 902	- 81 625	no data
<b>XII.</b>	<b>Taxation</b>		-	no data
<b>F.</b>	<b>PROFIT AFTER TAXATION (±E-XII)</b>	- 159 902	- 81 625	no data
22	Use of accumulated profit reserve for dividends			
23	Dividends paid			
<b>G.</b>	<b>RETAINED PROFIT OF THE YEAR (±F+22-23)</b>	- 159 902	- 81 625	no data

### 8.2.1. Net sales

Parent company's net sales has been HUF 140.401.000 in Q1 2010, that is lower than the value in the corresponding previous Q1 by 70%. Large scale projects will be closed or invoiced in the remaining part of the year.

### 8.2.2. Trading profit/loss

Net sales were domestic in 100%. Trading loss was HUF 77.727.000; it is significant improvement compared to the HUF 151.581.000 loss of 2009 Q1.

### 8.2.3. Profit/loss on financial transactions

HUF 3.898.000 loss of financial transactions has been mainly in consequence of interests of loans to finance.

### 8.2.4. Profit before/after taxation

Loss on ordinary activities has been HUF 81.625.000, there has not been extraordinary profit, so profit before tax has been equal to this. Financial result of FreeSoft Plc. in 2010 Q1 has been loss of HUF 81.625.000.

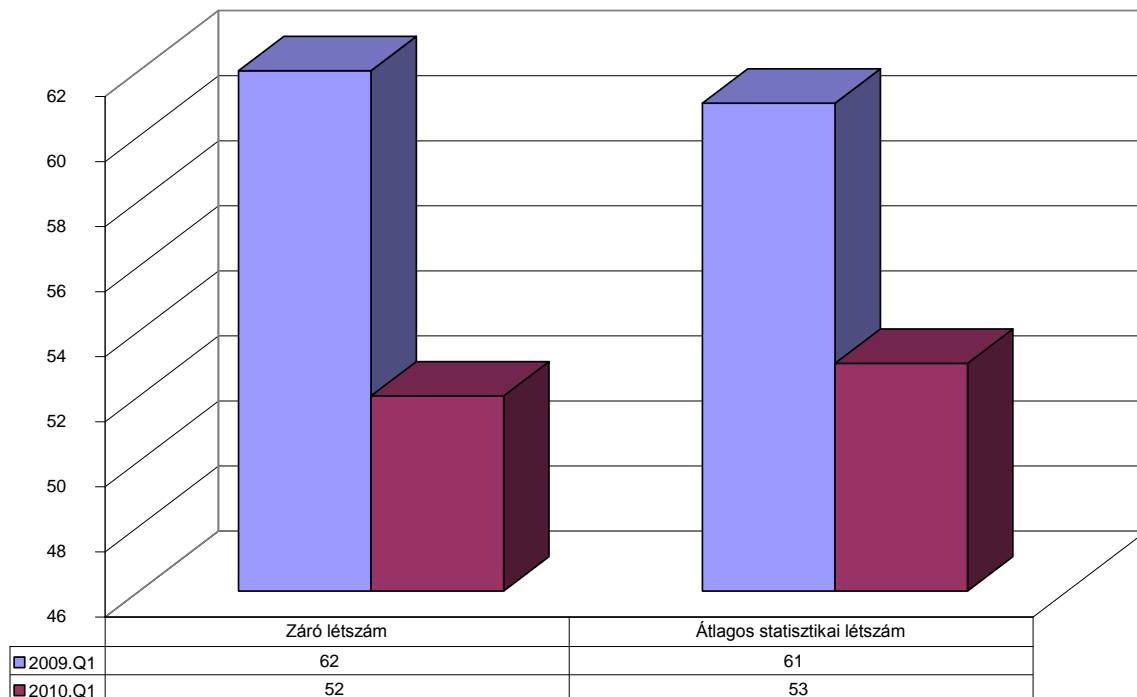
### 8.3. Cash-Flow report

The closing balance of the liquid assets of FreeSoft on 31st March 2010 decreased by HUF 2.159.000 compared to the end of 2009. Parent company generally pays in time, but for financing large scale projects uses bank loans.

### 8.4. Evolution of personnel trends

#### Personnel data of FreeSoft Plc.

A FreeSoft Nyrt. létszámának alakulása



### 8.5. Risks

It is impossible to estimate the influence of world economic crises on our Company; the uncertainty is very high in the quantity of sources available in institutions, companies for developing information technology, in the market need for our activities.

There has been substantial capacities for development of Contentum and Metacontentum systems (document management, team-work support, data management, process control, electronic administration) by the Company. Return on investment depends mainly on orders of the government units; this is the reason of the great uncertainty.



## 9. Major events after balance sheet date

Major events since balance sheet date (31st March 2010) to preparation of this document (17th May 2010)

### Annual General Meetings

FreeSoft Plc. held Annual General Meeting on 15th April; minutes of AGM was published the same day. Major decisions:

- General Meeting approved the Report of the Board of Directors, the Report of the Supervisory Committee, and the Auditor's report. General Meeting approved balance sheet and profit and loss statement of 2009 prepared in accordance with Hungarian Accounting Act, and the consolidated financial report of FreeSoft Plc. prepared in accordance with IAS-IFRS standards.
- General Meeting approved withdrawal of two members of the Board of Directors (János Keresztesi and Zoltán Köntös dr.). There were no new members elected, so number of members decreased to 4.
- General Meeting approved withdrawal of László G. Jobbágy from membership in Supervisory Committee and Audit Committee, and elected Zoltán Köntös dr. as member of Supervisory Committee.
- General Meeting authorized Board of Directors to issue convertible loans privately to finance acquisitions provided conversion of total quantity of loans doesn't need more shares than one quarter of share capital, and the conversion rate of loans will be higher than HUF 3700. This authorization is valid to 31 December 2012.
- General Meeting accepted 2009 Corporate Governance Report and Declaration, and the compensation of Company's Auditor.

### Successful R&D tender

FreeSoft Plc.'s subsidiary HUMANsoft Ltd. has won R&D tender within the framework of Economic Development Operational Programme on 19th April 2010. Title of HUMANsoft Ltd.'s successful Research & Development tender is "Development of Special Installation Protocol Implementing Agricultural Services of Complex International Management System". Total budget of the project is HUF 430.892.000; the applicant HUMANsoft Ltd. has won grant of HUF 278.270.054 without obligation to refund. Potential completion of the project is January 2012.

### Bond issue

FreeSoft Plc. issued private bonds to finance large scale projects on 10th May 2010 with the assistance of the Equilor Investment Co. Total nominal value of the FreeSoft 2011/B bond is HUF 300 million, its repayment and interest term lasts from 10 May 2010 to 31 May 2011. Bonds has 10% interest rate annually, full repayment of principal and payment of interest are due at the expiry of 31 May 2011. Bonds can be freely traded on OTC market.

Bond characteristics:

Name:	FreeSoft „B” project financing bond
Type:	registered, dematerialized
ISIN code:	HU0000345715
Total nominal value:	HUF 300.000.000, i.e. threehundred million forints

## 10. Declaration

The Report contains data and statements corresponding to the facts; it does not conceal any facts which have significance in terms of the judgement of the company's status.

In accordance with the 57. §. (1) of the CXX/2001 Law on Capital Market Issuer takes the responsibility for the losses caused by the lack of publication or the false content of the regular information.

I take responsibility for the numeric data of the "Consolidated Annual Report" prepared pursuant to the present IFRS standards regarding the year of 2009, as well as for the content actuality of the analysis and conclusions.

A handwritten signature in blue ink, appearing to be "Eck Ilona", written over a horizontal dotted line.

Eck Ilona  
vezérigazgató, az Igazgatóság tagja