



When communication is critical



**Press release:**

**5 September 2006 – 8:20**

Zellik, 5 September 2006

## **Zenitel announces its first semester results**

**Zenitel closes the first half year with a break-even recurrent EBITDA.**

**Currently, more than 5.000 users are contracted on the TETRA networks.**

### ***1. FIRST HALF YEAR 2006 VERSUS FIRST HALF YEAR 2005***

Turnover in the first semester of 2006 is in line with expectations and amounts to EUR 59,1 million, compared to EUR 65,8 million in the first half of 2005. The 2006 turnover is only partially driven by the last phase of the C2000 orders in the Netherlands and the ASTRID deliveries in Belgium to the police and fire brigades.

Turnover mainly increased in the Caribbean (+ 0,4 million), where our digital network roll-out is nearing its completion, but decreased in Colsys (EUR -4,4 million) (last year large Prague Airport deal) and in Belgium (EUR -3,1 million) (last year ASTRID deliveries). However, it should be noted that both Belgium and Colsys can boast higher gross margins due to a better mix of business, therefore, stabilizing profitability.

EBIT amounts to EUR -1,6 million loss from operating activities, compared to a loss of EUR – 2.3 million in 2005.

EBITDA for the first half of 2006 is at EUR – 0,2 million, compared to EUR -1,3 million in the first semester of 2005.

The first semester of 2005 included EUR 0,8, million one-time items, which brought recurrent EBITDA for the first semester in 2005 to EUR – 0,5 million EUR. These one-time-items mainly related to the restructuring in WS France, the reorganization in CSS Sweden and the partial inclusion of start-up costs for MCCN BV (Mission Critical Communications Network BV), our Tetra Network in the Netherlands.

In the first semester of 2006, one-time-items amounted to approximately EUR -0,13 million, mainly related to the deconsolidation of Zenitel UK, resulting in recurrent EBITDA close to break-even (EUR -0,04 million).



Net results of the group for the first half year of 2006 amounted to a loss of EUR 2.6 million as opposed to a loss of EUR 2.9 million in the first half year of 2005. This improvement is due to the better EBITDA realized compared to last year, partially offset by higher financing costs and increased depreciations following network and VoIP investments. Last year the company was able to benefit from the funds of the capital increase.

### Consolidated income statement per 30 June 2006 (Condensed)

Analysis of operating results by nature	YTD	
	30/06/2006	30/06/2005
	<i>In thousands €</i>	
Turnover		
Sales	60.787	61.969
Change in contracts in progress (+)(-)	(1.643)	3.799
<b>Total turnover</b>	<b>59.144</b>	<b>65.768</b>
Other operating incomes		
Capital gain	0	0
Other operating incomes	0	406
<b>Total other operating income</b>	<b>0</b>	<b>406</b>
<b>Total revenues</b>	<b>59.144</b>	<b>66.174</b>
Depreciation and amortization	1.228	938
Impairment on goodwill	0	0
Amortization losses on current assets	186	124
Other operating charges	59.320	67.450
<b>Total operating expenses</b>	<b>60.734</b>	<b>68.512</b>
<b>Profit/(Loss) from operating activities</b>	<b>(1.590)</b>	<b>(2.338)</b>
Finance income/(cost)	(893)	(513)
<b>Profit/(losses) from ordinary operating activities before tax and minority interests</b>	<b>(2.483)</b>	<b>(2.851)</b>
Tax	(114)	(81)
Minority interests	0	0
<b>Net result for the period</b>	<b>(2.597)</b>	<b>(2.932)</b>
Weighted average number of ordinary shares in issue ('000)	9.614	8.122
<b>Basic earnings per share</b>	<b>(0,27)</b>	<b>(0,36)</b>
<b>Diluted earnings per share</b>	<b>(0,27)</b>	<b>(0,36)</b>



## Segment Reporting

### First half-year

In EUR ('000)	EUR1		EUR 2		NAUI	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005	30/06/2006	30/06/2005
Turnover (sales inc WIP)	23.491	28.265	15.297	18.371	20.626	20.741
Recurrent (*)EBITDA	283	586	1.038	(258)	1.596	379
Recurrent (*) EBIT	(624)	118	986	(283)	1.448	363

\* EBITDA : earnings before interest & taxes, depreciation and amortization and one-time results

\* EBIT : earnings before interest & taxes and one-time results

Zenitel is organized into three key areas, also with geographical focus: products and distribution, system integration and networks.

*Europe 1* (Netherlands, UK, Denmark, the Czech Republic (Colsys) and the Caribbean) is Zenitel's primary territory for networks.. Turnover in this region decreased by EUR – 4 million compared to 2005, mainly due to a decrease of EUR – 4,4 million in turnover posted by Colsys (2005 heavily influenced by large Prague Airport contract) and to a EUR – 0,2 million reduction in Denmark (market reluctance on eve of the TETRA introduction). These decreases were partially offset by increased revenue in the Caribbean, where our digital TETRA network roll-out is nearing its completion. Profitability in Europe 1 is under pressure due to a traditionally weak first semester, but also enforced by the worse then expected performance of the Danish subsidiary.

*Europe 2* (Belgium and France) has a focus on system integration and product sales. The region saw a decrease in its turnover compared to the first quarter 2005, mainly due to lower revenues in Belgium. However, gross margins have improved. It is mainly the Europe 2 region that has been working to close a number of long-term, large & difficult projects. A small number of long term projects are still in progress and remain difficult.

The *NAUI* (Nordics, Asia, USA and Italy) region, strong in own and third party products and some system integration maintained a stable turnover compared to 2005. This was partly due to increased product sales in the Asian Marine segment and system integration in Norway and Sweden, offset by lower sales to the third party distribution channel, due to the expected launch of the new Stentofon Alphacom-E ( VoIP Intercom system) per June 1<sup>st</sup>, 2006.



## **2. BACKLOG/EVENTS FIRST SEMESTER**

### **Backlog**

Zenitel announces a further increase in backlog of 10% compared with the EUR 58,6 million backlog as at 31 December 2005. This increase is the result of the major order signed with the Caracas subway for the supply of a radio communication system covering line 1, and a number of long term contracts relating to the network businesses in both the Caribbean and the Netherlands.

The evolution of the backlog is in line with the strategy of obtaining longer term stable revenue streams.

### **VoIP**

Zenitel launched its new VoIP intercom system ALPHACOM-E on June 1<sup>st</sup>, 2006 and has sold 268 systems to date (150 systems sold as at the beginning of May 2006).

### **TETRA networks**

Since January 1<sup>st</sup>, 2006, the MCCN-network is fully operational in the Amsterdam area, where *Dienst Stadstoezicht* (City Guard) and a large museum signed a long term contract with Zenitel. At this moment, the majority of Randstad (Amsterdam, Den Hague, Rotterdam, Utecht) has MCCN radio coverage. MCCN is also available in the Rotterdam harbour. In the Caribbean, both the police and the coastguard signed-up as customers of the ChuChubi-network. Zenitel is pleased to announce that its TETRA networks – MCCN and Chuchubi – now boast with more than 5.000 RGU's (revenue generating users/units), compared to 1.900 RGU's at 31 December 2005 and a little over 4.000 at the beginning of May 2006.

Zenitel is very positive about the market potential for private TETRA-based networks. However, due to a slower than desired roll-out and the longer than expected sales cycle, 10.000 RGU's at year-end will be difficult. Nevertheless, Zenitel is elated that it has now gained its first launching customers in very important and different customer segments such as private and public safety, musea, industry, airport services, harbour and utilities.



### ***3. POST BALANCE SHEET EVENT***

#### **Sale UK**

Per July 12<sup>th</sup>, Zenitel Norway AS, a subsidiary of Zenitel NV, has sold 85% of its interest in Zenitel UK Ltd to the former country manager of Zenitel UK Ltd, Mr. Stephen King. Zenitel Norway AS retains a 15% interest in Zenitel UK Ltd. Zenitel UK Ltd had an annual turnover of approximately 1.7 million EUR. It markets and sells mainly communication and security solutions to financial institutions, healthcare and prisons.

The transaction price has not been communicated as per the request of both parties. A one-time cost of approximately EUR 0,1 million, resulting from the deconsolidation of Zenitel UK has been accounted for.



#### **4. OUTLOOK**

Based on the half-year performance, a level comparable with 2005 is expected for turnover.

Zenitel forecasts a substantial improvement in recurrent EBITDA, given the restructuring measures of 2005.

Although there are still some difficult ongoing long-term projects, no significant one-time-items have been recorded to date.

Zenitel is very positive about the market potential of and sales opportunities for its own TETRA networks. However, obtaining 10.000 RGU's on its networks at year-end will be difficult.



## **5. OTHER ITEMS**

As of March 31<sup>st</sup>, VZH NV, represented by Mr. Eric Van Zele has been coopted in the Board of Directors. This cooptation was confirmed in the General Meeting of Shareholders per April 28<sup>th</sup>.

In the General meeting of shareholders per April 28<sup>th</sup>, Houterman Management Consultancy BV, represented by Mr. Ferry Houterman, joined Zenitel's Board of Directors.

On August 31<sup>st</sup>, Liselott Kilaas, COO of Zenitel, decided to leave the Zenitel group following a 9-year career.



**6. LIMITED REVIEW REPORT ON THE CONSOLIDATED HALF-YEAR FINANCIAL INFORMATION FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2006**

To the Board of Directors

We have performed a limited review of the accompanying consolidated condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of changes in equity and notes 1, 2, 3 & 4 (jointly the “interim financial information”) of ZENITEL NV (“the company”) and its subsidiaries (jointly “the group”) for the six months period ended 30 June 2006. The Board of Directors of the company is responsible for the preparation and fair presentation of this interim financial information. Our responsibility is to express a conclusion on this interim financial information based on our review.

The interim financial information has been prepared in accordance with IAS 34, “Interim Financial Reporting”.

Our limited review of the interim financial information was conducted in accordance with the recommended auditing standards on limited reviews applicable in Belgium, as issued by the “Institut des Reviseurs d’Entreprises/Instituut der Bedrijfsrevisoren”. A limited review consists of making inquiries of group management and applying analytical and other review procedures to the interim financial information and underlying financial data. A limited review is substantially less in scope than an audit performed in accordance with the auditing standards on consolidated annual accounts as issued by the “Institut des Reviseurs d’Entreprises/Instituut der Bedrijfsrevisoren”. Accordingly, we do not express an audit opinion.

We draw your attention to the fact that the half year consolidated financial information was established under the assumption of going concern and that the Board of Directors has examined and approved the net book value of the activated development costs, positive consolidation differences and deferred tax assets.



Based on our limited review nothing has come to our attention that causes us to believe that the interim financial information for the six months period ended 30 June 2006 is not prepared, in all material respects, in accordance with legal and regulatory requirements and IAS 34 Interim Financial Reporting.

4 September 2006

Deloitte Bedrijfsrevisoren  
BV o.v.v.e. C.V.B.A.  
Certified auditor  
Represented by  
Mr. William Blomme

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ZENITEL is a leading player in the market for reliable, fast, secure and safe communication. Its customers are professional users for whom communication is critical because their work involves protecting human lives or very valuable activities. Zenitel is a listed company (Euronext). The headquarters of Zenitel are in Brussels. For more information: [www.zenitel.biz](http://www.zenitel.biz).

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## FINANCIAL DATA

### Consolidated income statement per 30 June 2006 (Condensed)

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<b>Total revenues</b>	<b>59.144</b>	<b>66.174</b>
Depreciation and amortization	1.228	938
Impairment on goodwill	0	0
Amortization losses on current assets	186	124
Other operating charges	59.320	67.450
<b>Total operating expenses</b>	<b>60.734</b>	<b>68.512</b>
<b>Profit/(Loss) from operating activities</b>	<b>(1.590)</b>	<b>(2.338)</b>
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## Consolidated Balance Sheet per 30 June 2006 (Condensed)

<b>ASSETS</b>	<b>30/06/2006</b>	<b>31/12/2005</b>
	<i>In thousands €</i>	
<b>Non-current assets</b>		
Intangible assets	10.539	10.230
Tangible assets	16.070	15.130
Available for sale investments	310	296
Receivables	2.766	3.095
Deferred taxes	2.396	2.381
<b>Total non-current assets</b>	<b>32.081</b>	<b>31.132</b>
<b>Current assets</b>		
Inventories	11.513	12.042
Contracts in progress	7.935	9.578
Trade debtors	27.619	26.894
Other amounts receivable	2.024	2.324
Deferred charges and accrued incomes	1.909	1.026
Cash and cash equivalent	2.925	6.642
<b>Total current assets</b>	<b>53.925</b>	<b>58.506</b>
<b>TOTAL ASSETS</b>	<b>86.006</b>	<b>89.638</b>
<b>EQUITY AND LIABILITIES</b>		
	<b>30/06/2006</b>	<b>31/12/2005</b>
<b>Equity</b>		
Ordinary shares	14.850	14.850
Share premium account	6.795	6.795
Reserve for warrants	141	121
Consolidated reserves	-1.866	731
Translation differences (+) (-)	2.362	2.244
Treasury shares	-2.958	-2.958
<b>Total equity</b>	<b>19.324</b>	<b>21.783</b>
<b>Minority interests</b>		
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	7.624	7.255
Deferred tax liabilities	4	8
Retirement benefit obligation	5.318	5.266
Provisions	296	310
Other liabilities	173	103
<b>Total non-current liabilities</b>	<b>13.415</b>	<b>12.942</b>
<b>Current liabilities</b>		
Trade payables	23.910	26.102
Other payables	14.417	13.449
Current tax liabilities	1.811	1.546
Borrowings	8.346	7.648
Provisions	4.783	6.168
<b>Total current liabilities</b>	<b>53.267</b>	<b>54.913</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>86.006</b>	<b>89.638</b>

## Consolidated Cash flow statement per 30 June 2006 (Condensed)

### Consolidated cash flow statement

(all amounts in EUR thousands)

	Year to date	
	30/06/2006	30/06/2005
<b>Cash flows from operating activities</b>		
Net result	(2.597)	(2.932)
Adjustments for:		
Minority interests		
Fair valuation of the warrants vested during the period	20	55
Interest income	(233)	(107)
Change in deferred tax	2	51
Depreciation	1.228	938
Amortization	0	0
Impairment on goodwill	0	0
Impairment	186	124
Capital (gains)/losses	(27)	0
Amortization of government grant received	0	0
Change in long term provisions	167	88
Changes in the net asset of pension fund	206	205
Net cash from operating activities before changes in working capital	(1.048)	(1.578)
Changes in short term provisions	(1.409)	(447)
Changes in working capital	(223)	(7.032)
Net cash from operating activities	(2.680)	(9.057)
<b>Cash flows from investing activities</b>		
Acquisition of subsidiary, net of cash	0	(113)
Acquisition of investment available for sale	(10)	0
Purchase of property, plant and equipment	(2.732)	(2.084)
Purchase of intangible asset	0	
Disposal of subsidiary, net of cash	77	
Proceeds from sale of business		
Proceeds from sale of plant, property and equipment	101	607
Interest received	233	107
Net cash used in investing activities	(2.331)	(1.483)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	1.799	749
Proceeds from the issue of ordinary shares, net of costs	0	14.211
Loan made	128	(368)
Loan repayment received	0	127
Repayments of borrowings	(1.652)	(518)
Net cash used in financing activities	275	14.201
<b>(Decrease)/increase in cash and cash equivalents</b>	(4.736)	3.661
<b>Movement in cash and cash equivalents</b>		
At start of the period	39	(3.380)
(Decrease)/increase	(4.736)	3.661
Effect of exchange rate changes	(71)	(146)
At the end of the period	(4.768)	135
Total Cash	2.925	6.635
(Bank borrowings)	(7.039)	(5.119)
(Bank overdrafts)	(654)	(1.381)
<b>Net cash at the end of the period</b>	(4.768)	135

## Consolidated Statement of change in shareholders' equity per 30 June 2006 (Condensed)

<b>Consolidated statement of change in shareholders' equity</b>							
(thousands of EUR)	<i>Share capital</i>	<i>Share premium</i>	<i>Treasury shares</i>	<i>Reserve for warrants</i>	<i>Acc transl adjustments</i>	<i>Retained earnings</i>	<i>Total</i>
<b>Period ended June 30, 2005</b>							
Balance on January 1, 2005							
As previously reported	33.631	40.456	-2.958	0	1.893	-54.976	18.046
Capital increase (net of cost)	2.871	11.339					14.210
Transfer from one heading to another	-21.652	-45.000				66.652	0
Currency translation difference					302		302
Other				55			55
Net Result 2005						-2.932	-2.932
<b>Balance on June 30, 2005</b>	<b>14.850</b>	<b>6.795</b>	<b>-2.958</b>	<b>55</b>	<b>2.195</b>	<b>8.744</b>	<b>29.681</b>
<b>Period ended June 30, 2006</b>							
Balance on January 1, 2006							
As previously reported	14.850	6.795	-2.958	121	2.244	731	21.783
Capital increase (net of costs)							0
Transfer from one heading to another							0
Currency translation difference					118		118
Other				20			20
Net Result 2006						-2.597	-2.597
<b>Balance on June 30, 2006</b>	<b>14.850</b>	<b>6.795</b>	<b>-2.958</b>	<b>141</b>	<b>2.362</b>	<b>-1.866</b>	<b>19.324</b>

### Note 1: Basis for preparation

Zenitel prepared the financial information as disclosed in the half year press release in accordance with IAS 34.

### Note 2 : Accounting policies

The same accounting policies and methods of computation are followed in the interim financial statements as was followed for the most recent annual financial statements, except for the change in segment reporting. The accounting policies remained in the assumption of going concern.

### Note 3 : Financial debts

Financial debts are subject to debt covenants.

### Note 4 : Segment reporting

First half-year In EUR ('000)	EUR1		EUR 2		NAUI	
	30/06/2006	30/06/2005	30/06/2006	30/06/2005	30/06/2006	30/06/2005
Turnover (sales inc WIP)	23.491	28.265	15.297	18.371	20.626	20.741
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\* EBITDA : earnings before interest & taxes, depreciation and amortization and one-time results

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During Q4 2005, and in view of

- 1) Disappointing operational results in a number of countries in the BU WS;
- 2) Inefficiency and ineffectiveness of the business unit structure for a company of Zenitel's size; and on
- 3) Conclusion that a number of projects had been inadequately managed

management decided with the full support of the Board of Directors of Zenitel, to find an alternative way to organize the group. The new organization came into effect as of October 21<sup>st</sup>, 2005.

The new organization of Zenitel is based on three principles:

- 1) Focus on customers;
- 2) Efficient use of our capabilities;
- 3) Effective decision making within the core-team.

One of the immediate effects of these principles is the integration of the two formally independent BU's into one Company and that Zenitel reports in three regions.

In view of the above, the segment reporting has been adjusted, in order to align the reporting to the current management structure.

*Europe 1* (Netherlands, UK, Denmark, the Czech Republic (Colsys) and the Caribbean) is Zenitel's primary network territory.

*Europe 2* (Belgium and France) has a focus on system integration and product sales.

The *NAUI* (Nordics, Asia, USA and Italy) region is strong in own and third party products and some system integration.