Notes SA -QSr I 2006

1. Format and basis for preparing the consolidated financial statements

The financial statements were prepared in accordance with the International Financial Reporting Standards and the following regulations:

- the Accounting Act of 29 September 1994 (Journal of Laws No. 76, of 2002, item 694, as amended and stated at 1 January 2002),
- Regulation of the Minister of Finance on Specific Rules of Recognition, Measurement Methods, Scope of Disclosure and Method of Presentation of Financial Instruments of 12 December 2001 (Journal of Laws No. 149, item 1674, last amended in 2004, Journal of Laws No. 31, item 266, in effect from 13 March 2003),
- Regulation of the Minister of Finance on Specific Rules of Preparing Financial Statements of Related Parties by Entities other than Banks and Insurance Companies of 12 December 2001 (Journal of Laws No. 152, item 1729 - in effect from 01.01.2002),
- Regulation of the Council of Ministers on Specific Requirements for a Prospectus and Prospectus Summary of 11 August 2004 (Journal of Laws No. 186, item 1921, in effect from 31 August 2004 to 28 March 2005),
- Regulation of the Council of Ministers of 21 March 2005 amending the Regulation on Specific Requirements for a Prospectus and Prospectus Summary (Journal of Laws No. 50, item 464, in effect from 29 March 2005 to 23 October 2005),
- The Public Offers, Conditions Governing Introduction of Financial Instruments to Organised Trading, and Public Companies Act of 29 July 2005 (Journal of Laws 2005, No. 184, item 1539, in effect from 24 October 2005),
- Regulation of the Council of Ministers on Current and Periodic Information Submitted by Issuers of Securities of 16 October 2001 (Journal of Laws No. 139, item 1569, last amended in 2003, Journal of Laws No. 220, item 2169, in effect until 28 March 2005),
- Regulation of the Council of Ministers on Current and Periodic Information Submitted by Issuers of Securities of 21 March 2005 (Journal of Laws No. 49, item 463, in effect from 29 March 2005 to 25 October 2005),
- Regulation of the Council of Ministers on Current and Periodic Information Submitted by Issuers of Securities of 19 October 2005 (Journal of Laws No. 209, item 1744, in effect from 26 October 2005).

2. First-time adoption of International Financial Reporting Standards

These consolidated financial statements of the Emax Group (hereinafter referred to as the Group) were prepared in accordance with the International Financial Reporting Standards (IFRS).
These consolidated financial statements were prepared based on the historical cost convention, except for revaluation of financial assets and financial liabilities (including derivatives), valued at their fair value through the financial result.

In order to prepare the statements in compliance with IFRS, certain significant accounting estimates were required and it was necessary for the management board to apply its own judgement while applying the accounting principles adopted by the Group.

2.1. The opening balance sheet as at the date of transition to IFRS

Emax Group prepares its first IFRS financial statements as of 1 January 2005.

Emax Group was obliged to consolidate companies which had not been consolidated in accordance with the Accounting Act.

This refers to the following companies: BI Com S.A., Emtal Sp. z o.o., Em Com Sp. z o.o.

2.2. Exemption from retrospective application of IFRS

While preparing IFRS financial statements for the first time, Emax Group elected to use the following exemptions:

- business combinations before the date of transition to IFRS. The above combinations have not been restated under IFRS.

  Goodwill is reviewed for possible impairment as at IFRS transition date.

  Goodwill was not adjusted with respect to accumulated amortisation,
- the model approach based on historical cost was adopted (manufacturing cost, purchase price) with reference to tangible fixed assets and intangibles,
- comparatives were not restated in accordance with IAS 32 and IAS 39 as the previous GAAP recognition, classification and measurement of financial instruments were considered appropriate,
- Emax Group did not apply IFRS 2 "Share-based Payment", as rights to these financial instruments were purchased after 1 January 2005 and, furthermore, Emax Group did not publish information on these instruments' fair value determined as at the valuation date.

2.3. Mandatory exemption from retrospective application of IFRS

- Emax Group did no use the information currently held in order to adjust the estimates made in accordance with the Accounting Act applied thus far.

It was not necessary to correct errors arising out of the application of previous GAAP,

- the group had information on assets held for sale; therefore, it presented the relevant data in the financial statements for the current year and in the statements for the comparative period.

No operations were discontinued,

- optional exemption from retrospective application of IFRS was elected, under which comparatives were not restated for the purposes of IAS 32 and IAS 39; therefore, the rules used thus far for derecognition of financial assets and financial liabilities are still valid. The assets and liabilities that had been derecognised in the balance sheet before 1 January 2004 were not recognised in the first IFRS statements,

- the group applied the hedging principles used thus far with reference to the periods prior to transition to IAS 32 and IAS 39.

3. Legal status and the core business according to the European Community Classification of Activities (NACE)

Emax S.A. (the Company) with its registered office at ul. Towarowa 35 in Poznań was formed by transformation of Emax Sp. z o.o. into a joint stock company (notarial deed of 24 October 2000). The Company preserved its protected labour establishment status.

The Company was registered on 30 October 2000 in the Poznań District Court under the number RHB 14235. On 3 April 2001, the Company was registered with the National Court Register (NCR) under the number 0000004554.

The core business of the Company according to the sections of the Polish Classification of Activities are software-related activities (PKD 7220Z); according to NACE, it is software consultancy and supply (NACE 7220). The issuer is classified as IT and telecommunications industry. The Group is an integrator of ICT systems and automatic control engineering. It provides specialist organisation and automation services for information, document, cash, standard dimensions item (logistics systems), as well as human safety and property security management processes.

4. Duration of business entities

Emax Group companies have unlimited duration.

5. Presentation periods

The consolidated balance sheet includes financial data that reflect changes resulting from IFRS, and was prepared as at 31 March 2005 and 31 March 2006.

The consolidated profit and loss account and consolidated cash flow statement include financial data for Q1 2005 and data for Q1 2005.

The statement of changes in equity includes financial data as at 31 March 2005 and as at 31 March 2006.

6. Composition of the Management Board and Supervisory Board of Emax S.A.

The Company's Management Board:

Piotr Kardach – President of the Management Board
Wojciech Dziewolski - Member of the Management Board
Andrzej Kosturek - Member of the Management Board

Bogdan Kosturek - Member of the Management Board

Paweł Nowacki - Member of the Management Board

Paweł Rozwadowski - Member of the Management Board

Marcin Stawarz - Member of the Management Board

The Supervisory Board:

Paweł Turno – Chairman of the Supervisory Board

Janusz Samelak –Secretary of the Supervisory Board

Piotr Karmelita – Member of the Supervisory Board

Henryk Mruk – Member of the Supervisory Board

Grzegorz Ogonowski – Member of the Supervisory Board

7. Internal organisational units

Emax Group has no separate internal reporting units

8. Control over other entities

Emax S.A. as the parent company controls:

Winuel S.A.

Max Elektronik S.A.

Bi Com S.A.

Emtal Sp.z o.o.

Emax S.A. has an interest in Em Com Sp. z o.o. that gives it significant influence over that entity.

ISSUER				
WINUEL S.A. 90.97% of vote 90.97% of shares	Max Elektronik 90.7% of vote 90.7% of shares	Bi. Com S.A. 100% of vote 100% of shares	Emtal Sp. z o.o. 50.00% of vote 50.00% of shares	EMCom Sp. z o.o. 41.00% of vote 19.00% of shares

Winuel

Name: Winuel
Legal form: Joint stock company
Registered office: ul. Strzegomska 56a
53-611 Wrocław
NCR no.: 38378
NIP: 894-12-77-407
REGON: 930854179
Share capital: PLN 798,700
Company's business: software-related activities

Max Elektronik

Name: Max Elektronik

Legal form: Joint stock company
Registered office: ul. Dąbrowskiego 2
65-021 Zielona Góra
NCR no.: 0000037912
NIP: 929-009-43-26
REGON: 970017044
Share capital: PLN 3,025,920
Company's business: software-related activities

EMCom Sp. z o.o.

Name: EMCom
Legal form: Limited liability company
Registered office: ul. Krakowska 11
33-100 Tarnów
NCR no.: 0000077686
NIP: 873-28-86-065
REGON: 852521558
Share capital: PLN 1,480,000
Company's business: software-related activities

BI.COM

Name: BI.COM
Legal form: Joint stock company
Registered office: ul. Towarowa 35
61-896 Poznan
NCR no.: 0000043457
NIP: 969-12-35-672
REGON: 276008573
Share capital: PLN 570,000
Company's business: software-related activities

EMTAL

Name: EMTAL
Legal form: Limited liability company
Registered office: ul Chmielna 63/64
80-748 Gdansk
NCR no.: 0000102795
NIP: 957-07-97-276
REGON: 192485570
Share capital: PLN 65.000
Company's business: software-related activities

Under a decision of 22 December 2005 by Poznań District Court, 21st Business Division of National Court Register, Emax S.A. merged with BI. COM S.A. Emax S.A. had been the sole shareholder of BI. COM S.A. and the merger was through a transfer to Emax S.A. of all assets of BI. COM S.A.

As part of the merger, no shares in the acquiring company were issued in exchange, and the acquiring company's share capital was not increased.

According to the information held by the parent company's Management Board, BB Investment Sp. z o.o. holds app. 36% of Emax S.A. shares, which makes 65% of all votes.

The consolidated financial statements include financial statements of all subsidiaries (full consolidation) and associates (equity method) of Emax Group.

9. The form of financial statements and preparation rules

The parent company applies the full consolidation method by aggregating the appropriate items of:

- balance sheet,
- profit and loss account,
- cash flow statement,
- statement of changes in equity, of the parent company (Emax SA) and the subsidiaries irrespective of the parent's controlling interest in the subsidiaries, and makes appropriate adjustments and consolidation exemptions.

As at the date of taking over control, goodwill is determined on the basis of book value of the subsidiary's net assets.

Emax Group's share capital is equal to the share capital of the parent company. Equity includes the appropriate parts of subsidiaries' equity, arising after the parent company took control over the subsidiaries. The following items are excluded during consolidation of capital group companies' statements:

- receivables and liabilities due from/to consolidated entities,
- results on inter-company transactions,
- profit or loss on sales, unrealised by the group.

The consolidated profit and loss account includes appropriate revenue and expense items for each entity from the date of taking control to the day on which such control ceases.
Revenues and expenses arising out of business transactions within the capital group, recognised in the separate financial statements are excluded from the consolidated profit and loss account.

The consolidated cash flow statement is drawn up by aggregating the relevant items of the cash flow statements for the entities under consolidation and adding consolidation adjustments to eliminate intercompany cash flows.

The rules of preparing financial statements are set out in the accounting policies, which describe in detail the solutions employed by the capital group so that the prepared statements give a true and fair view with respect to the company's assets, financial standing and financial result. To this purpose economic events are assigned to the relevant accounting periods, counts of assets and liabilities are performed, and assets and liabilities are measured at their actual value.

Accounting principles are applied consistently in order to classify and value business transactions in subsequent periods in the same way, and to ensure that financial statements are comparable.
Furthermore, the amounts of assets and liabilities reported in the closing balance sheet are recognised in the same amount in the opening balance sheet when books of account are opened for the subsequent year.

The accounting policies include an assumption of going concern in the foreseeable future with the company's scale of activities not materially curtailed.

Emax Group companies recognise revenues and expenses generated or owing to them and relating to a

given financial year. Therefore, revenues from contracts which have not been completed are posted or accrued income is recorded in order to ensure that the revenues matching principle is observed.
On the other hand, the matching of expenses is ensured by recording deferred expenses and accrued liabilities.

Particular assets and liabilities are measured at cost (price) actually incurred to purchase (manufacture) them, subject to the principle of prudence.

To this purpose, the financial result should take into account in particular:

- decreases in value in use or trade value of assets, including such decreases in the form of depreciation/amortisation charges,
- only the unquestionable other operating income and extraordinary gains,
- all other operating expenses and extraordinary losses incurred,
- provisions for risks known to the entity, threatening losses and effects of other events.

The above-mentioned events are also recognised when they are disclosed between the balance sheet date and the actual day of closing the books of account.
The value of particular assets, liabilities, revenues and related expenses, as well as purchases and extraordinary losses are determined separately. Assets and liabilities, revenues and related expenses, and extraordinary gains and losses of different kind are not offset.

Accounting records are internally verified in the companies under supervision stemming from responsibility for particular functional areas.

10. Asset impairment

Assets of unlimited useful life are not depreciated but reviewed yearly for possible impairment. Depreciated assets are analysed in terms of impairment each time any events or change of circumstances indicate that their carrying amount may not be realised. Impairment loss is recognised as the amount by which carrying amount of a given asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. For the purposes of impairment analysis, assets are classified at the lowest level, with reference to which cash flows can be separately identified (resources which generate cash).

11. Loans and receivables

Loans and receivables are financial assets with determined or determinable payments, which are not quoted on an active market and are not classified as derivatives. They are recognised as current assets, provided their maturity date does not exceed 12 months from the balance sheet date. Loans and receivables with maturity date after more than 12 months following the balance sheet date are recognised as fixed assets.

Loans and receivables, as well as investments kept until their maturity date are recognised at adjusted purchase price (amortised cost) using the effective interest rate method.

Financial receivables arising out of loans granted and not intended for trading are measured at amortised cost using the effective interest rate method. Measurement at amortised cost is related, among other things, to discounting receivables in respect of loans as at their initial recognition date and to recognising cost as the difference between nominal value and the discounted amount.

12. Business combinations

In Q1 2006, BI. COM S.A., as the company being acquired, merged with Emax S.A. as the acquiring company. No sale of commercial companies occurred within the Group in Q1 2006

13. Going concern assumption

The financial statements presented in this report have been prepared on the assumption of going concern of Emax Group entities within 12 months of the balance sheet date, i.e. 31 March 2006. The Management Board of Emax S.A. is not familiar with any facts or circumstances, as at the date of signing the financial statements, which would indicate any threats to the ability of the Emax Group companies to continue as a going concern in the period of 12 months following the balance sheet date as a result of intended or compulsory discontinuation or material limitation of their current business.

14. Comparability of financial statements

14.1. Information on material events relating to previous years and disclosed in the financial statements for current year

No undisclosed events which ought to have been disclosed in the books of account for current year occurred by the day of preparing the financial statements for Q1 2006, i.e. by 10 May 2006.

Additionally, no material events relating to previous years occurred in these financial statements.

14.2. Information on material events which occurred after the balance sheet date and were not disclosed in the financial statements

No undisclosed events which ought to have been disclosed in the books of account for Q1 2006 occurred by the day of preparing the financial statements for Q1 2006, i.e. by 10 May 2006.

15. Discussion of the adopted accounting policies, including valuation methods for assets, liabilities, revenues and expenses and measurement of the financial result

Emax Group applies IAS/IFRS, the Accounting Act of 29 September 1994, and the Minister of Finance Regulation on Specific Rules of Recognition, Measurement Methods, Scope of Disclosure and Method of Presentation of Financial Instruments, of 12 December 2001.

15.1. Intangibles

Intangible assets are recognised if it is probable that the future economic benefits that are directly attributable to the asset will flow to the entity. Intangibles are initially recognised at purchase price or manufacturing cost. Following initial recognition, intangibles are measured at purchase price or manufacturing cost less depreciation and impairment loss. Intangibles are amortised using the straight-line method over the period corresponding to their useful economic lives.

The expected useful economic lives are as follows:

Purchased licences including software	2 years,
SAP R/3 management systems	10 years,
Other management systems	5 years,
Development work	5 years

Intangibles are classified in the balance sheet into:

- Completed development work,
- Goodwill,
- Other intangibles,
- Payments on account of intangibles.

Completed development work is the cost incurred by the entity to produce software for the company's own needs, providing that the software meets the following conditions:

- the product or production technology are strictly defined and the related costs of development work are determined reliably,
- the product or technology has been found and documented to be technically useful, based on which the entity made a decision to produce the product or use the technology,
- according to predictions, development work costs will be covered by revenues from the sale of these products or revenues generated from use of the technology.

Goodwill.

Goodwill reported as an asset as at the purchase date is the excess of purchase price over the fair value of the acquired assets, liabilities and contingent liabilities of a subsidiary or associate. Goodwill is reviewed yearly for impairment. Impairment loss identified in review is immediately recognised in the profit and loss account and is not adjusted later

In the event of disposal of a subsidiary, associate or jointly controlled entity, the goodwill attributable to disposed share is charged to the profit and loss account.

Goodwill reported in the financial statements and related to transactions of share acquisition in subsidiaries, associates or jointly controlled entities, which occurred prior to the date of transition to IFRS reporting, is reviewed for impairment at the date of transition to IFRS. There was no need to exclude additional intangibles from goodwill recognised under the previous accounting principles or to eliminate goodwill in whole or in part.

The excess of acquired net assets over purchase price is transferred to the profit and loss account for the financial year in which the acquisition took place.

15.2. Tangible fixed assets

Tangible fixed assets include:

- property, plant and equipment (PPE),
- payments on account of construction-in-progress.

PPE are valued at purchase price, manufacturing cost or revalued amount less depreciation and impairment loss.

Costs incurred after a PPE item was put to use, such as repairs, overhauls or maintenance fees affect the financial result of the reporting period in which they were incurred. If it is possible to demonstrate that these costs caused an increase in anticipated future economic benefits with respect to holding a given PPE item over the initially assumed benefits, they increase the original asset value.

PPE, except land, are depreciated on the straight-line basis over the period corresponding to their useful economic lives, that is:

Transport vehicles	5 years,
Computer packages	3, 3 years,
Other PPE	from 5 to 7 years.

PPE purchased for up to PLN 3.5 thousand are expensed in whole, except for purchased computers and cars worth less than PLN 3.5 thousand.

15.3. Expenditures on tangible fixed assets and intangibles

Expenditures related to tangible fixed assets and intangibles are recognised under this item. Among others, remuneration and related costs for persons building IT systems are capitalised in expenditures on construction of the system.
Expenditures related to construction of tangible fixed assets and intangibles are disclosed as long-term items.
These expenditures are valued at total costs directly related to their purchase or manufacture, including financial expenses less impairment loss.

15.4. Lease

Emax Group as the lessee

Finance lease agreements which transfer substantially all the risks and rewards associated with ownership of the asset to the lessee are capitalised as at the lease inception date to the lower of leased asset's fair value and present value of minimum lease payments. Lease payments are distributed between financial expenses and payment of capital instalments, taking into account fixed interest rate with relation to the liability. Financial expenses are recognised directly in the profit and loss account. Leasehold fixed assets used under financial lease are depreciated using the methods applied to freehold assets. If it there is no reliable certainty that the ownership will be transferred to the Group at the end of the lease term, assets are depreciated over the shorter of the lease term or the useful economic life of the asset.

Lease agreements under which the lessor retains all the risks and rewards associated with ownership of the asset are classified as operating lease agreements. Operating lease payments are charged to the profit and loss account on a straight-line basis over the lease term.

Emax Group as the lessor

If assets are provided for use under financial lease, present value of lease payments is recognised as a receivable. The difference between gross value of a receivable and a present value of the receivable is recognised as unrealised financial income. Lease income is recognised over the lease term based on a pattern reflecting a constant periodic rate of return.

PPE provided to third parties under operating lease agreements are classified as an item of tangible fixed assets. They are depreciated over the expected useful life corresponding to the useful lives of similar PPE owned by the Group. Lease income is recognised on a straight-line basis over the lease term.

15.5. Long-term investments

Investment property is measured at purchase price less impairment losses. Investment property, in addition to investments in land, perpetual usufruct and buildings and structures, includes also property which is not used by the entity for its own purposes and which was purchased or manufactured for benefits of capital appreciation or to earn rentals / interest.

Investment in subsidiaries, i.e. controlled entities, jointly controlled entities and associates is measured at historical cost less possible impairment identified in reviews for impairment.

15.6. Inventories

Inventories include:

- Materials,
- Semi-finished products and work-in-progress (WIP),
- Finished products
- Goods held for resale,
- Payments on account of deliveries.

Materials include tangible assets purchased or exceptionally manufactured by the entity and intended to be consumed for the entity's own needs.

Goods held for resale are understood as purchased tangible assets held for resale in unchanged form.

Finished products are effects of the company's operations, and are held for sale (finished goods, completed services).

Semi-finished products are goods for which a certain production stage was completed, goods intended for assembly, for further use in the finished product manufacturing process.

Work-in-progress includes goods or services in the process of production.

Tangible items of current assets are valued at purchase price or at the lower of manufacturing cost and fair value less costs of disposal, while WIP is valued at direct manufacturing cost. Such valuation is performed at least on a balance sheet date.

Write-downs of tangible items of current assets, made in respect of their impairment or arising from valuation at fair value less costs of disposal instead of the higher purchase price or manufacturing costs, are recognised accordingly as other operating expenses, COGS or selling costs.
Computer software and similar products produced by the entity and held for sale are recognised as inventory at the lower of manufacturing cost and realisable value. After production has been completed and sale started such software is valued in the period in which it brings economic benefits, up to 5 years, at the amount of excess of their manufacturing costs over revenues according to net selling prices obtained on sales of these products in the above period. Manufacturing costs which were not deducted before the end of that period are charged to other operating expenses.

15.7. Long-term contracts

Preliminary expenses arising before a contract is concluded and relating to salaries, business trips (personal), etc. are recognised as operating expenses of the period in which they were incurred. They are not recognised as manufacturing cost of ordered products at the time of concluding a contract with the customer. Such costs are capitalised if the entity is certain that the contract will be signed and that the customer will cover the costs prior to signing the contract. It may relate only to costs of externally purchased services and materials (services provided by subcontractors, materials, preparation of an offer, etc.)

Accounting for and presenting financial effects of long-term contracts.

a) The cost recovery method

The cost recovery method is applied in periods which do not end a quarter, when the entity cannot reliably determine the stage of completion of a service which has not yet been completed. According to this method, revenues from services which have not been completed are measured at end of month at costs actually incurred in the period but not exceeding the costs which will probably be incurred by the customer in the future. Advances received on account of financing work are disclosed in the balance sheet as decrease of construction contracts. Revenues from deliveries before invoice are disclosed in the profit and loss account, while receivables disclosed under a separate "Construction contracts" item at the amount of recorded revenues are disclosed in the balance sheet instead of WIP.

If invoiced revenues exceed incurred costs, an appropriate part of revenues is transferred to accrued income.

b) The percentage of completion method

The percentage of completion method is used for contracts with completion term above 3 months if the share of revenues from such contracts in the total operating income in a given accounting period is considerable (revenue from total sale of services per contract exceeds PLN 200 thousand – the Management Board considered smaller contracts to be insignificant; however, smaller contracts are also analysed in order to find whether their aggregate effect at a given time is significant) and the stage of work completion is determined thoroughly. The Company observes the accounting principle according to which revenues from orders in progress are disclosed in the quarterly financial statements according to work progress.

Revenue from services which have not been completed is measured at cost attributable to the completed part of services plus profit margin in proportion to stage of completion of service activity. Advances received while completing the order are not recognised as revenue but as adjustment of “Construction contract” until order completion and final settlement. In the case of the percentage of completion method, cost estimate is updated each month.

15.8. Short-term and long-term trade debtors

Receivables are disclosed at amount due less write-downs.

Receivables are subject to revaluation by reducing their value with write-down taking into account the probability of their payment. Write-downs of receivables are recognised accordingly as other operating expenses or financial expenses, depending on the type of receivable a given write-down relates to.

The value of cancelled, time-barred or unrecoverable receivables is reduced by write-downs previously made.

Cancelled, time-barred or unrecoverable receivables, for which write-downs have not been made or write-downs made did not cover the entire value, are recognised as other operating expenses or financial expenses.

15.9. Prepaid expenses

Group’s entities record expenses as prepaid expenses when they relate to future accounting periods. Emax Group records expenses as prepaid expenses when incurred expenses relate to more than one accounting period and takes into account the principle of materiality and prudence.
However, the most significant condition which must be met in order to record prepaid expenses is the requirement that expenses are recognised as entity’s assets, i.e. resources of reliably determined value, arising from past events, which will cause inflow of economic benefits to the entity in the future.

15.10. Provisions for liabilities

Provisions are recognised when the Company is under present (legal or customary) obligation resulting from past events and when it is certain or highly probable that fulfilment of this obligation will make outflow of resources associated with economic benefits necessary, and when the amount of liability can be estimated reliably.
Provision for warranty repairs is recognised as at the balance sheet date with reference to all products under warranty at the amount determined based on past experience with respect to warranty repairs performed in the past and returns covered by warranty.

15.11. Employee benefits

Emax Group makes severance payments on retirement. Such payments are charged to expenses in the profit and loss account so as to spread the cost of retirement payments over the entire employment period of employees. The costs of above-mentioned benefits are determined using the actuarial method of measuring forecasted individual entitlements.

15.12. Bank loans and loans

Upon initial recognition, bank loans and loans are recognised at purchase price corresponding to fair value of received cash less costs of obtaining a bank loan or loan.
In the successive periods bank loans and loans are measured at amortised purchase price, applying the effective interest rate method. Amortised purchase price is determined based on all expenses of obtaining the bank loan or loan, as well as discounts and bonuses received while settling the liability.

All effects of the amortised purchase price, as well as effects of derecognising the liability in the balance sheet or finding impairment are recognised in the profit and loss account.

15.13. External financing costs

External financing costs relating to construction, adaptation, installation or improvement of tangible fixed assets or intangibles are recognised as these assets during the period of construction, adaptation, installation or improvement, provided that the above liabilities were incurred for this purpose.

Other external financing costs are recognised in the profit and loss account for the current period.

15.14. Deferred income tax

Deferred tax assets and liabilities are recognised for temporary differences between the amount of assets and liabilities recorded in the books of account and their tax base and tax loss which may be deducted from tax base in the future.

Deferred tax liability equal to the amount of income tax payable in the future is created with respect to positive temporary differences.

Deferred tax assets are set at the amount expected to be deducted from income tax in the future, in connection with negative temporary differences and tax loss which may be deducted, subject to the principle of prudence.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced 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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that will apply to the period when the asset is realised or the liability is settled (provision reversed), based on tax rates/laws that are in force as at the balance sheet date.

15.15. Financial instruments

When they are recorded in books of account, financial instruments are measured at cost (purchase price), which is the fair value of payment made. Transaction costs are included in initial measurement.
As at the balance sheet date, Emax Group holds the following financial instruments: bank deposits, commercial papers and loans receivable. Financial instruments related to the above transactions were measured at adjusted purchase price estimated using effective interest rate.

15.15.1. Derivatives

Derivatives disclosed by Emax Group are measured at fair value. Changes in fair value of derivatives are recognised in the profit and loss account.

15.15.2. Embedded derivatives

Separated embedded derivatives are disclosed as financial instruments held for trading.

They are measured at fair value and changes in their value are recognised in the profit and loss account.
Emax Group uses derivatives which are embedded in complex financial instruments. These instruments relate to goods and services purchase and sale contracts translated into foreign currencies.

Embedded derivatives are separated from their host contracts and accounted for as a derivative if the following conditions have been met:

- the financial instrument is not classified as asset held for trading or available-for-sale, whose revaluation results are recorded as financial income or charged to financial expenses of the reporting period,
- the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative,
- the fair value of the embedded derivative can be measured reliably.

Embedded derivatives are measured at fair value. In the case of contracts that themselves are not financial instruments, which, however, have an instrument embedded in them that meets the above conditions, the embedded derivative is recognised in other financial liabilities.

15.15.3. Hedges

Gains and losses on currency forward contracts concluded in order to hedge future cash flows were deferred and recognised directly in equity until gains or losses with respect to the hedged transactions are accounted for. In the case of a hedge of fair value of assets or financial liabilities gain or loss with respect to a hedge is also recognised in the profit and loss account, similarly to the changes in fair value of hedged items.

15.16. Impairment of tangible fixed assets and intangibles, excluding goodwill

If there is an indication that freehold tangible fixed assets or intangibles may be impaired, impairment review is carried out and the established impairment loss reduces the carrying amount of the corresponding asset and is recognised in the profit and loss account. Impairment loss of assets which were previously revalued adjust revaluation reserve to the amounts recognised in the reserve, while the amounts below cost are recognised in the profit and loss account. Impairment loss is recognised as the excess of assets' carrying amount over their recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use. In measuring value in use, estimated future cash flows are discounted to present value using the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.
The recoverable amount of assets that do not generate cash flows on their own is measured with reference to the centre which generates cash flows.

Recognised impairment loss is reversed if reasons for recognising that impairment loss no longer exist. Results of impairment reversal are recognised in the profit and loss account, except for the amounts that previously reduced the revaluation reserve and currently adjust revaluation reserve to the amount of its previous reductions

15.17. Non-current assets held for sale and discontinued operations

Non-current assets available for sale and discontinued operations are non-current assets or their groups that are classified in this category and are recognised in the financial statements at the lower of carrying amount and fair value less costs to sell.

In order to be classified to this group, the asset must meet the following conditions: the asset is being actively marketed for sale, the sale is highly probable within 12 months of their classification, and the asset is available for immediate sale.

15.18. Accrued liabilities

Accrued liabilities are recorded at the amount of probable liabilities attributable to the current accounting period.

15.19. Equity

The share capital is recognised at the amount set out in the articles of association of the parent company and entered in the court register. The difference between the fair value of received amount and shares' nominal value is recognised in the share premium. In the case of shares' acquisition the amount paid is charged to equity and is disclosed in the balance sheet in own shares.

15.20. Liabilities

Liabilities are understood as obligations resulting from future events to make payments or provide consideration of a reliably determined value, which will require the use of the current or future assets of the entity.

Liabilities can be divided according to their characteristics into:

- provisions (discussed in detail in point 15.10),
- contingent liabilities,
- financial liabilities,
- short-term liabilities,
- long-term liabilities.

Contingent liabilities are understood as an obligation to make payment or provide consideration, such payment or consideration to be contingent upon occurrence of particular events. These liabilities are disclosed in the notes to the financial statements.

Financial liabilities include obligations to deliver a financial asset to another entity or to exchange financial assets with another entity under unfavourable conditions.

Short-term liabilities include the total of trade creditors, as well as all other liabilities or a part of them that fell due within 12 months of the balance sheet date.

Long-term liabilities include those liabilities which are falling due after the period of 12 months from the balance sheet date, other than trade creditors.

Liabilities are measured at the amount due as at the balance sheet date.

15.21. Currency receivables and liabilities

Receivables and liabilities denominated in foreign currencies are measured as at the balance sheet date at the average National Bank of Poland rate for a given currency ruling on that day.

Currency receivables arising during the financial year are translated to Polish zlotys at the foreign currencies' rate as at the date any such receivable arises (invoice date).

Currency liabilities arising during the financial year are translated to Polish zlotys at the foreign currencies' rate used in customs documents. In the case of imported services or Intra-community supplies, the National Bank of Poland rate as at the date of business transaction (invoice date) is applied.

If a receivable denominated in a foreign currency is paid, the selling rate at which the bank credited the entity's bank account is used. The difference between the rate at which the inflow of cash was recorded (the account credited) and the rate related to the arising receivable is transferred accordingly to financial expenses or financial income.

In the case of settlement of foreign exchange liability, the rate at which the currency was purchased at the bank is used and where payment is made out of the entity's own currency account, the rate which would be used by the entity's bank if the entity wished to purchase foreign currency from the bank is applied. The differences arising between the rate at which the liabilities were translated into PLN and the rate at which the foreign currency needed for payment was purchased are recognised in financial expenses or financial income.

15.22. Negative goodwill and accrued income

Accrued items in addition to accrued liabilities also include:

- negative goodwill which occurs when the acquisition price of an acquired entity or its organised part is below the fair value of acquired net assets,

  accrued income which includes:
  - the equivalent of payment received from contractors in respect of goods, services or other consideration to be provided in the subsequent reporting periods if such provision of goods, services or other consideration has been invoiced,
  - cash received to finance tangible fixed assets, expenditures on tangible fixed assets and intangibles and development work, which refers to resources received from the State Fund for the Rehabilitation of the Disabled (*PFRON*); in the case of depreciation charges to fixed assets financed from the *PFRON* fund, the amount of accrued income is reduced and other operating income is increased,
  - tangible fixed assets, expenditures on tangible fixed assets and intangibles received free of charge.

15.23. Risks

15.23.1. Tax settlement

The Company's Management Board accepts its responsibility to ensure that the Group's Companies comply with the applicable tax regulations (concerning VAT, corporation tax, personal income tax, customs payments, real property tax and other public law charges). We confirm that the Group's Companies were in compliance with all legal regulations in this respect and we hereby declare that to the best of our knowledge and belief there are no material tax-related contingent liabilities not recorded in the books of account. We understand that tax settlement by the Companies may be subject to tax inspection and, due to varying interpretation of tax regulations in the case of many transactions, the amounts disclosed in the financial statements may change in the future when they are finally determined by tax authorities.

15.23.2. The risk that the parent company loses the protected labour establishment status

If the Company fails to meet the conditions laid down in the Professional and Social Rehabilitation and Employment of the Disabled Act of 27 August 1997, it may lose the status of a protected labour establishment. In such a case, the Company would lose a number of conveniences and relieves related to financial management and tax settlements with the state budget. It would trigger deterioration of the Company's cash flow; however, it is not possible that the Company would lose liquidity. Note that losing the protected labour establishment status would mean that the Company's financial results would deteriorate. The protected labour establishment status may also be lost due to reasons beyond the control of the Company, as a result of changes in the applicable regulations on protected labour establishments.

15.24. The Company Social Benefits Fund and the Company Fund for the Rehabilitation of the Disabled

According to the provisions of the Company Social Benefits Fund Act of 4 March 1994, as amended, the Company Social Benefits Fund is to be established by those employers who employ more than 20 full-time employees. Some Companies within the Group (Emax S.A., Winuel S.A. and Emax Elektronik S.A.) establish such a fund and make periodic provision based on the basic provision. The purpose of the Fund is to finance Companies' social activities and to finance loans granted to their employees. The carrying value of the Fund includes accumulated charges to the Fund less non-repayable expenditures out of the Fund. Cash on the Fund's bank account is offset against entity's liabilities towards the Fund.

Emax S.A. as a protected labour establishment created the Company Fund for the Rehabilitation of the Disabled (ZFRON) pursuant to the Regulation of the Ministry of Labour and Social Policy on the Company Fund for the Rehabilitation of the Disabled of 31 December 1998 (Journal of Laws of 1999, No. 3, item 22).

Fund resources are allocated to the following expenditures: vocational guidance, vocational training and improvement, preparation of workstations, basic and specialist medical care, advice and rehabilitation services, costs of organising rehabilitation and fitness holidays, costs of sports activities, leisure and tourism, individual assistance regarding medicines and therapy, rehabilitation equipment, flat adaptation, physical conveniences etc., as well as individual rehabilitation schemes.

15.25. Recognition of revenue

Sales revenues include fair value of revenue from the sale of goods and services less VAT and discounts, and after inter-company sale within the group was eliminated. Revenue from sale is recognised as follows:

Revenue arising from the sale of products and goods held for resale

Revenue from sale of products and goods held for resale is recognised when a Group's company delivered products to the customer who accepted the products and the receivable is sufficiently recoverable.

Revenue arising from the sale of services

Revenue from sale of services is recognised in the period in which services were provided, according to the progress of a given translation determined based on the ratio of work actually preformed to the total services to be rendered.

Revenue from interest

Revenue from interest is recognised using the effective interest rate method in accordance with the accrual concept. When a receivable is impaired, the Group writes down its carrying amount to the recoverable amount equal to estimated future cash flows discounted using the initial effective interest rate of the instrument, and than the discounted amount is gradually allocated in correspondence to revenue from interest. Revenue from interest on loans receivable which were impaired is recognised applying the cash method or the recoverable cost principle.

Dividends

Revenue from dividends is recognised at the date of acquiring the right to receive payment.

15.26. Other income, expenses, gains and losses

Other operating income and expenses include income and expenses that are not directly linked to the operating business.

Financial income and expenses include, among others, interest related to granted or used bank loans and loans, received or paid delay interest, FX differences, fees paid or received, gains or losses related to the sale of securities, provisions reversed or established and charged to financial expenses.

Extraordinary gains and losses represent financial results of unique events that occur beyond the Company's operating business.

15.27. Taxation

Current corporation tax receivables or liabilities are calculated in accordance with Polish tax law. Corporation tax is calculated on the basis of profit before tax determined pursuant to the accounting regulations and is adjusted by non-taxable income and non-deductible costs.

15.28. Segment reporting

Information concerning business segments is reported in two formats. The primary segment reporting format is based on division of the entity by line of business and business units. The secondary format is segmentation by geographical markets. Financial result of a given segment includes revenue and expenses directly attributed to a given segment as well revenue and expenses attributed indirectly. The above amounts include also inter-company transactions within the capital group, measured at selling prices including profit margin. The amounts excluded from the consolidated financial statements were disclosed separately. Other overhead expenses not attributable to any segment include general administrative expenses and amortisation of intangibles, etc. Minority shareholders' share in profit was not eliminated in the disclosed profit of segments. Assets and liabilities of a given segment include assets and liabilities attributable both directly and indirectly to a given segment. Assets were disclosed less write-downs.

Tax settlements are not included in assets and liabilities of a given segment. Capital expenditures of a given segment include a total amount of costs incurred in a given reporting period in order to purchase segment's assets (tangible fixed assets and intangibles) that are expected to be used during more than one reporting period.

15.29. Principles adopted to translate line items of the balance sheet, profit and loss account and cash flow statement

In order to present particular line items of the balance sheet in the Euro, the amounts denominated in domestic currency were translated at the rate ruling at period end:

assets and liabilities of the balance sheet as at 31 March 2005 were translated at the average rate: 1 Euro = PLN 4,0837 according to the National Bank of Poland table of foreign exchange rates no. 63/A/NBP/2005 of 31.03.2005.

assets and liabilities of the balance sheet as at 31 March 2006 were translated at the average rate: 1 Euro = PLN 3,9357 according to the National Bank of Poland table of foreign exchange rates no. 65/A/NBP/2006 of 31.03.2006.

Items of the profit and loss account and cash flow statement denominated in the Euro were translated by dividing the amounts denominated in domestic currency by the average exchange rate in that period:

data presented in the profit and loss account and cash flow statement for Q1 2005 was translated by Emax Group at the rate: 1 Euro = PLN 4, 0153 which was an arithmetic mean of average rates announced by the National Bank of Poland ruling on the last day of each of 3 complete months covered by quarterly financial statements according to the following formula:

$$\frac{4{,}0503 + 3{,}9119 + 4{,}0837}{3} = 4{,}0153$$

data presented in the profit and loss account and cash flow statement for Q1 2006 was translated by Emax Group at the rate: 1 Euro = PLN 3, 8456 which was an arithmetic mean of average rates announced by the National Bank of Poland ruling on the last day of each of 3 complete months covered by quarterly financial statements according to the following formula:

$$\frac{3{,}8285 + 3{,}7726 + 3{,}9357}{3} = 3{,}8456$$

	Average rate in the period	Minimum rate in the period	Maximum rate in the period	Rate at the last day of the period
Q1 2006	**3,8456**	**09.01.2006 - 3,7750**	**29.03.2006 - 3,9617**	**3,9357**
Q1 2005	**4,0153**	**07.03.2005 - 3,8839**	**29.03.2005 - 4,1659**	**4,0837**