



EMAX S.A.
SA-QSR I/2006 CONSOLIDATED QUARTERLY REPORT
COMMENTARY

I. INTRODUCTION

In QI 2006 Emax Group concentrated on implementation of adopted strategy, realising already concluded contracts and acting towards acquiring new ones, majority of which, planned to be concluded in QI 2006, has been shifted for the next months.

Seasonal nature of the IT market, where the companies of the Group operate, influenced generated income in this period. This specificity includes relatively low level of income and revenues in QI 2006. Furthermore, postponed deadlines of realisation of several projects and shifting to the QII 2006 conclusions of tendering procedures as well as deadlines of signing important agreements paid a great impact on the following quarters of 2006. Companies of Emax Capital Group act on a project basis rule, which causes situation when delays in utilising investment budgets of the clients and extended tendering, particularly in public sector, have a great impact on income structure in long-time perspective. Emax Group Companies had also to bear additional expenses related to increase of employment resulting from anticipated higher future income from sales. Possessed resources will be used during realisation of projects expected to be acquired in the next quarters. Emax Group has significantly higher backlog than in similar period in 2005, which amounts to PLN 261,4 million, in relation to PLN 218 million in similar in 2005. According to the adopted strategy, the Management Board of Emax S.A. aiming at reducing impact of seasonal market fluctuations, on financial results of Emax Group companies, strives to increase revenues from long-term contracts (including service and outsourcing ones) in its total income, nevertheless great pace of development, including investments in extension of team of specialists, done by Emax Group Companies in the recent quarters as well as previous income structure show that rate of reducing of seasonal fluctuations influence is still insufficient.

II. GENERAL INFORMATION

EMAX GROUP

Emax operates as a group of companies, and includes Emax S.A., Winuel S.A., Max Elektronik S.A., Emtal Sp. z o.o. and EMCom Sp. z o.o. The Group is a leading provider of IT solutions in Poland, offering a wide range of products. The Group has significant human resources and carries out large and complex IT projects.

Since 20 November 2002, shares of Emax S.A. have been quoted on the Warsaw Stock Exchange. The share capital of the Company is divided into 3,446,450 shares of PLN 1 each; of that number, 2,728,030 are publicly traded, of which:

- 500,000 are A series ordinary bearer shares,
- 1,681,420 are B series ordinary bearer shares,
- 380,000 are C series ordinary bearer shares,
- 110,000 are D series ordinary bearer shares D, and
- 56,450 are E series ordinary bearer shares.

Major products of Emax Group include:

- **Comprehensive automated banking solutions:** cash dispensers; cash management and handling systems; self-service systems (including information and transaction terminals); portable container kiosks;
- **Automated logistic systems (including logistic solutions for postal services):** automated high-bay warehouses; internal transport systems; sorting systems and conveyors; Warehouse Management Systems (WMS); "track & trace" logistic management software; pneumatic post systems;
- **Mass correspondence systems:** enveloping systems, automated letter stamping systems, specialist printing systems, document formatting systems, laminating systems;
- **Solutions for power engineering and industrial sector companies:** power energy market systems (SOWE and WIRE); measurement and payment systems; settlement support systems for production, distribution and energy purchase processes;
- **Printoscope** – control and monitoring system for printout-related costs;
- **Document processing, archiving and flow solutions and mass payment settlement solutions:** mass data processing and document readout centres; document image archiving centres; all-in-one



comprehensive solutions for document and correspondence flow management; credit handling systems; mass payment settlement systems;

- **Electronic card-based systems:** public transport fare collection system; City Card-type solutions;
- **ERP-class (SAP) corporate management solutions:** a dedicated system for small and medium sized enterprises (MAXeBiznes) and a CRM system;
- **Controlling and risk management systems:** Basel II-compliant solutions for banks;
- **Security systems** (fire alarm, visual monitoring, early smoke detection, burglary and assault alarm, access control, closed-circuit television, smoke removal), automatic control engineering systems for buildings; structural cabling systems;
- **Infrastructure and security systems and network technology-based systems:** hardware platforms; mass storage systems; content management systems; data transmission systems; group work systems; data communications management systems; LAN and WAN systems; voice and data integration systems (videoconferencing); secure Internet access systems; data transmission encryption; network tuning; network equipment monitoring and management;
- **Telecommunication and automatic control engineering systems:** analogue and digital radio communication systems; telecommutation and transmission systems; transmission infrastructure; power supply systems for telecommunication facilities and equipment; voice recording systems; vehicle positioning systems;
- **Dedicated public transport systems:** audio-visual information systems; passenger count systems; on-board visual monitoring systems; vehicle fleet management systems;
- **Library and archiving systems** for large and middle-sized libraries and archives;
- **Network inventory systems;**
- **Billing solutions;**
- **Dedicated solutions:** custom-made software.

As part of its projects, Emax Group:

- Analyses individual customer needs, expectations and requirements
- Prepares design documentation
- Builds dedicated software
- Provides hardware and system and application software
- Integrates newly deployed systems with customers' existing systems and with external systems
- Deploys systems
- Provides user training services
- Provides guarantee and post-guarantee system maintenance services

Emax S.A. and Winuel S.A. are ISO 9001:2000 certified for "Management of IT and automatic control engineering system building and deployment projects".

The Library System Product Centre of **Max Elektronik S.A.** is **ISO 9001:2000** certified for design, building, sales and deployment of IT systems.

Customers of Emax Group are central and local government institutions, large banks, public utility companies, industrial companies, infrastructure companies and trading companies. Major customers of Emax Group include: Zakład Ubezpieczeń Społecznych, Instytut Meteorologii i Gospodarki Wodnej, Bank PEKAO S.A., Bank Przemysłowo-Handlowy PBK S.A., Bank Zachodni WBK S.A., ING Bank Śląski S.A., Kredyt Bank S.A., Bank PKO BP S.A., PPPUP Poczta Polska, MPK Poznań, Elektrownia "Bełchatów" S.A., Polskie Sieci Elektroenergetyczne S.A., Telekomunikacja Polska S.A., Zakłady Chemiczne POLICE, Polfa Pabianice.

Emax S.A.

Emax S.A. is a parent company of Emax Group. The company is an integrator of IT and automated control engineering systems. It operates in the business-to-business market, offering dedicated and all-in-one IT solutions to improve business processes and management in large and medium-sized enterprises and institutions.

**Winuel S.A.**

Winuel S.A. is a leading provider of IT solutions for the power sector. The company created communication standards for the energy market. It develops custom-made software and offers application integrating applications.

Max Elektronik S.A.

A software house, Max Elektronik S.A. has the Authorised Java Centre status.

Emtal Sp. z o.o.

Emtal Sp. z o.o. offers comprehensive solutions for public transport companies, including electronic card-based systems (e-ticket).

EMCom Sp. z o.o.

EMCom Sp. z o.o. operates in the public contracts market, offering its services to local government and public administration institutions. It operates an Internet site dedicated to local government matters (www.infoport.pl).

On 23 December 2005, Poznań District Court registered an acquisition by Emax S.A. of a wholly-owned subsidiary **BI.COM S.A.** (merger by acquisition). As a result of merger, all assets, rights and obligations of BI.COM S.A. were transferred to Emax S.A.

EMPLOYMENT

As at the balance sheet date, Emax S.A. employed 382 persons, with the headcount for the entire Group being 838.

Emax Group employment figures:

31.I Mar 2006	31 Dec 2005	Change Q1'06 – Q4'05	31 Mar 2005	Change 31 Mar 06 - 31 Mar 05	Change (as %) 31 Mar 06-31 Mar 05
838 persons	812 persons	26 persons	719 persons	719 persons	16,55 %

SHARE CAPITAL INFORMATION

The share capital of S.A. consists of 3,446,450 shares of PLN 1 each, of which:

- 500,000 are A series bearer shares, numbered 0.000.001–0.500.000, issued following re-registration of Emax from a private limited company (*spółka z o.o.*) into a public limited company (*spółka akcyjna*);
- 718,420 are A series registered shares, with a 1 to 5 voting privilege, numbered 0.500.001–1.218.420, issued following re-registration of Emax from a private limited company into a public limited company;
- 1,681,420 B series bearer shares, numbered 0.000.001–1.681.580, issued following an ordinary share capital increase;
- 380,000 C series bearer shares, numbered 0.000.001–0.380.000, issued as part of Company's authorized capital;
- 110,000 D series bearer shares, numbered 0.000.001–0.110.000, issued as part of Company's authorized capital;
- 56,450 E series bearer shares, numbered 0.000.001–0.056.450, issued in connection with the Emax S.A. Executive Share Option Scheme as part of Company's authorized capital.

The above mentioned shares represent 6 320 130 votes on the General Meeting of Emax S.A.

Company	Status	Interest as %	Votes as %
Winuel S.A.	Subsidiary entity	90,97	90,97
Max Elektronik S.A.	Subsidiary entity	91,7	91,7
Emtal Sp. z o.o.	Jointly-controlled entity	50	50



EMCom Sp. z o.o.	Jointly-controlled entity	19	41
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Consolidated equity of Emax S.A.:

Item	31 Mar 2006	31 Mar 2005
Consolidated equity	106 266	86 876
Consolidated shareholders' funds	100 695	82 399

GOVERNING BODIES OF EMAX S.A. (stated as at date of this report)

Shareholders (information stated as at date of this report)

- BB Investment Sp. z o.o., of Poznań, holds, through BBI Capital S.A., 1,236,139 shares of the Company, or a 35.86% interest, carrying a right to 4,109,819 votes at the General Meeting and representing 65.02% of all voting rights. Since the latest quarterly report date, BB Investment Sp. z o.o. acquired, through its subsidiary undertaking BBI Capital S.A., 13,479 shares of Emax S.A.
- AIG Otwarty Fundusz Emerytalny, governed by AIG Powszechne Towarzystwo Emerytalne S.A. with its registered seat in Warsaw holds 316 480 shares of the Company, or a 9,18% interest, carrying a right to 316 480 votes at the General Meeting and representing 5,01% of all voting rights.
- Free float: 1 893 831 shares, or a 54,96% interest in share capital, carrying a right to 1 893 831 at the General Meeting and representing 29,97% of all voting rights.

Management Board

Prezes Zarządu:

Piotr Kardach – General Director

Members of Management Board:

Wojciech Dziwolski – Sales Director, Public Sector, Telecommunications Sector

Andrzej Kosturek – Sales Director, Energy, Industry and Trade Sector

Bogdan Kosturek – Technical Director

Paweł Nowacki – Finance Director

Paweł Rozwadowski – Sales Director, Banking and Finance Sector, Foreign Markets

Marcin Stawarz – Director, Project Implementation

Supervisory Board

Chairman of Supervisory Board:

Paweł Turno

Secretary of Supervisory Board:

Janusz Samelak

Members of Supervisory Board:

Piotr Karmelita

Henryk Mruk

Grzegorz Ogonowski

Number of shares held by members of management and supervisory bodies, or rights to purchase shares of Emax S.A. by such members as at the date of this report:

- Mr Paweł Turno, Chairman of Supervisory Board, holds 60 A Series shares of Emax S.A.
- Mr Piotr Kardach, President of Management Board, holds 60 A Series shares of Emax S.A.
- Mr Wojciech Dziwolski, Member of Management Board, holds 60 A Series shares of Emax S.A.
- Mr Paweł Rozwadowski, Member of Management Board, holds 60 A Series shares of Emax S.A.



- Mr Andrzej Kosturek, Member of Management Board, holds 60,483 shares of Emax S.A., and is entitled to acquire 12,000 shares of Emax S.A. as part of a 2005 tranche of the Executive Share Option Scheme.
- Mr Bogdan Kosturek, Member of Management Board, holds 90 084 shares of Emax S.A., and is entitled to acquire 12,000 shares of Emax S.A. as part of a 2005 tranche of the Executive Share Option Scheme.
- Mr Paweł Nowacki, Member of Management Board is entitled to acquire 9,000 shares of Emax S.A. as part of a 2005 tranche of the Executive Share Option Scheme.
- Mr Marcin Stawarz, Member of Management Board, holds 1,200 shares of Emax S.A. and is entitled to acquire 4,000 shares of Emax S.A. as part of a 2005 tranche of the Executive Share Option Scheme.

Transactions on Emax S.A. share done by Members of the Management Board:

- on 17 March 2006 Mr Bogdan Kosturek - Member of the Management Board, sale of 10 000 shares of Emax S.A., at PLN 111 per one share,
- on 21 March 2006 Mr Bogdan Kosturek - Member of the Management Board, sale of 17 500 shares of Emax S.A., at PLN 110 per one share.
- on 28 March 2006 Mr Paweł Nowacki - Member of the Management Board, sale of 3 625 shares of Emax S.A., at PLN 119,50 per one share.

CORPORATE GOVERNANCE

In 2004, the Board of Warsaw Stock Exchange passed Resolution 44/1062/2004 adopting "Good Practices in Public Companies 2005". The document introduced changes in current corporate governance rules. Having in mind WSE-recommended corporate governance standards for public companies, Emax S.A., in the General Meeting of Shareholders of 17 June 2005, approved contents of "Good Practices in Public Companies 2005", except for Rule 28 regarding establishment of Audit and Remuneration Committees as part of the Supervisory Board. Shareholders also made necessary amendments to the Articles of Association and the Rules of General Meetings.

In order to implement Rule 28, the Supervisory Board held a meeting on 26 July 2005 at which it amended the Supervisory Board Rules by establishing Audit and Remuneration Committees and appointing their members. As a result of these changes, **Emax S.A. has implemented all corporate governance rules** laid down in the "Good Practices in Public Companies 2005".

The following persons were appointed to the Audit Committee:

- Mr Janusz Samelak, Chairman of Audit Committee,
- Mr Henryk Mruk, Member of Audit Committee,
- Mr Piotr Karmelita, Member of Audit Committee.

The following persons were appointed to the Remuneration Committee:

- Mr Paweł Turno, Chairman of Remuneration Committee,
- Mr Grzegorz Ogonowski, Member of Remuneration Committee.

III. ACCOUNTING POLICY

Beginning 2005, Emax S.A. has been preparing its financial statements in accordance with International Accounting Standards. This also includes comparative figures for 2004. In connection with the adoption of IAS standards, the consolidated financial statements of Emax S.A. include the following companies: Emax S.A., Winuel S.A., Max Elektronik S.A. (all three fully consolidated), Emtal Sp. z o.o. and EMCom Sp. z o.o. (the last two consolidated using the equity method). The accounting policy of Emax S.A. and statement of differences between national accounting standards and the International Accounting Standards are described in the notes to the financial statements "Emax SA_additional information SA-QSr I-2006", which are an integral part of the financial statements.

IV. FINANCIAL INFORMATION

The table below shows consolidated* financial results of Emax S.A. for the 1st quarter of 2006:

PLN ' 000	I kw. 2006	I kw. 2005	Zmiana I kw. 2006-2005
Sales revenue	64 800	69 089	-6,2%
Revenue from sales of products	28 063	33 710	-16,8%



Revenue from sales of goods and materials	36 737	35 379	3,8%
Cost of goods sold (COGS)	29 926	28 799	3,9%
COGS: goods and materials	31 073	30 763	1,0%
Gross profit/loss on sales	3 801	9 527	-60,1%
Selling costs	2 775	2 351	18,0%
Administrative expenses	6 071	6 358	-4,5%
Operating profit/loss (EBIT)	-3 968	1 168	-
Net profit/loss	-4 558	493	-

* Emax S.A., Winuel S.A. and Max Elektronik S.A. companies are subject to a consolidation.

On a consolidated basis Q1 2006 sales amounted to PLN 64 800 thousands, compared with PLN 69 089 thousands in 2005, which makes decrease of 6,2%. Lower level of incomes in Q1 2006 is caused by seasonal nature of sales on the IT market in Poland, where Emax Group companies operate and by postponing of conclusion or realisations of some contracts for the following quarters of 2006. The Management of the Company strives towards immunity from unsteady incomes in separate quarters by increase a share of revenues from long-term contracts, including service and outsourcing projects, hence to limit the tendency to concentrate revenues and margins in the last quarter of turnover year. Great pace of development, including investments in extension of team of specialists, done by Emax Group Companies in the recent quarters as well as previous income structure show that rate of reducing of seasonal fluctuations influence is still insufficient.

After the first three months of 2006, the level of revenues from sales was lower than in comparable period of time in 2005 by 16,8%, which was caused by above mentioned seasonal sales fluctuations. On the other hand, necessity to finance resource maintenance for realisation of deals, postponed for the next quarters of 2006 as well as participating in tenders caused higher level of costs of goods sold and selling costs.

The consolidated Q1 2006 sales operating profit was PLN 3 901 thousands or a decrease of 60,1% over PLN 9 527 thousands for the corresponding 2006 period. The operating profitability figure for Q1 2006 at 5,9%, decreased by 7,9 percentage point over the corresponding 2005 period. As mentioned above, worse outcome of Q1 2006 are caused by postponing signing or launching several deals for the next quarter. Contracts, where signing a deal or realisation launched in the Q2 2006 are *inter alia*:

- contract with Książnica Kopernikańska in Toruń of 3 February 2006 for completion of ICT co-operation network among Książnica Kopernikańska in Toruń and 171 libraries of kujawsko – pomorskie province, implementation of IT systems, including PROLIB library system and ERP MAXeBiznes class system, for PLN 2,7 million,
- contract with PSE Operator S.A of 2 March 2006 for IT system guarantee and post-guarantee system maintenance services for service of electric power market., for PLN 5,1 million,
- framework contract for supply of banking automated solutions, for PLN 35 million of 28 March 2006.

The most significant contracts are long-term contracts, which, following earlier statements of the Board, should diminish seasonal aspect of Emax S.A. incomes and outcomes in the next quarters.

After Q1 2006, selling costs were higher by 18,0% than after the corresponding 2005 period, which resulted from participation in tenders and offering proceedings in public and energetic sector. In the Q1 2006 administrative expenses amounted to PLN 6 071 thousands and were lower by 4,5% than after the corresponding 2005 period. After Q1 2006 operational loss amounted to PLN 3 968 thousands, compared to operational profit over the PLN 1 168 thousands in the corresponding 2005 period.

At the end of March 2006 Emax S.A. reported net consolidated loss amounting to PLN 4 558 thousands. After Q1 2005 the Company reported net consolidated profit amounting to PLN 493 thousands. Income and financial expenses in Q1 2006 were negatively influenced by valuation of inbound financial instruments at PLN 650 thousands, compared with PLN 233 thousands of positive effect in the corresponding 2005 period.

Emax Group possesses significantly higher backlog amounting to PLN 261,4 millions, compared with PLN 218 millions in the corresponding 2005 period.



Change in contingent liabilities since the last annual reporting date

	Contingent liabilities at 31 Dec 2005	Contingent liabilities at 31 March 2006	Change 31 March 2006 - 31 Dec 2005
Bank guarantees	5 974 878,44	5 930 770,69	- 44 107,75
Contract guarantees	20 217 905,85	17 000 730,34	- 3 217 175,51
Guaranties	-	171 000,00	171 000,00
Guaranties for a bill of exchange	6 393 174,09	1 278 634,82	- 5 114 539,27
Letters of credit	-	1 137 961,55	1 137 961,55
Bills of exchange and pledges on assets securing liabilities set in the balance as a result of lease contracts and received loans	72 939 156,35	58 006 921,73	- 14 932 234,62
Total	105 525 114,73	83 526 019,13	- 21 999 095,60

Issues, redemption and repayment of debt securities and equity instruments

Emax Group companies enter into cash flow transactions to ensure effective utilisation of resources in individual companies. The cash flows stem from issues of debt bonds, and interest-bearing loans at arm's length terms. Issues of debt bonds in Q1 2006 done by Winuel S.A. :

- Issue of debt bonds realised by Raiffeisen Bank Polska S.A. of 14 February 2006 for PLN 10.000.000,00, profitability 4,90%, tranche no 60, date of redemption 30 June 2006. Issue of debt bonds realised by Raiffeisen Bank Polska S.A. of 15 March 2006 for PLN 5.000.000,00, profitability 4,90%, tranche no 62, date of redemption 15 May 2006.

Information on paid or declared dividends

A resolution to transfer the profit of the Company from 2004 to reserve capital was passed during the last General Meeting, which was held on 17 June 2005. Dividend from 2005 profit has not been declared or disbursed till the date of this report.

Position of Management Board on attainment of forecasted results

The Management Board of Emax S.A. did not publish forecasts of consolidated financial results for 2006.

Suretyships for bank and other loans; guarantees

In the reporting period, Emax S.A. and its subsidiaries did not provide any suretyships for bank or other loans, or any guarantees, to any one entity or a subsidiary of such entity, so that the current value of existing suretyships or guarantees would amount to 10 per cent or more of the Company's equity.

V. DESCRIPTION OF MAJOR DEVELOPMENTS

Identification of significant achievements or failures

The most important Q1 2006 agreements or contracts of Emax Group companies include:

- Order received on 5 January 2006 from Volkswagen Poznań Sp. z o.o. with its registered seat in Poznań for completing of perimeter security system and visual monitoring of the plant located in Poznań. The net contract value is PLN 765 thousands.
- The contract of 3 February 2006 with Province Public Library - Książnica Kopernikańska in Toruń and consortium of Emax S.A. with its subsidiary Max Elektronik S.A. for completing of ICT co-operation network among Książnica Kopernikańska in Toruń and 171 libraries in kujawsko – pomorskie province,



implementation of IT systems, including PROLIB library system and ERP MAXeBiznes class system – both prepared by Max Elektronik S.A. – as well as supply of necessary IT equipment. The net contract value is PLN 2 695 thousands. The undertaking is co-financed by European Regional Development Fund within a framework of "INFOBIBNET - information, library, network" project. Realisation of the contract aims at integration of bibliography and catalogue databases of libraries in kujawsko-pomorskie province as well as internet access. A unified project management systems will be implemented, which will be used by libraries, also equipment and technical infrastructure of libraries will be supplemented. Project foresees launching of Infocentre network basing on existing IT infrastructure and organisational structure of two province libraries in Bydgoszcz and Toruń. Technical basis of Infocentres will consist of 105 new conventional internet access points and 36 new wireless access zones, giving possibility to service 6000 users simultaneously. An important element of the undertaking is creation in all libraries covered by the project internet access points and launching of information transfer system for users from small towns and rural areas. Realization of contract will cover 171 branches of the following libraries: Książnica Kopernikańska in Toruń (Province Public Library), dr Witold Bełza Province and Municipal Public Library in Bydgoszcz, Pedagogical Province Library in Bydgoszcz, Pedagogical Library in Toruń, Kujawsko – Pomorskie Centre of Teacher's Education and Pedagogical Library in Włocławek. Thanks to implementation of the PROLIB system, completion of REgionla Catalogue of Self-government Libraries will be possible, based on unified standard for 14 districts of kujawsko – pomorskie province. As a result, extension of educational function of Infocentres, incorporation of province library assets into central electronic resources and electronic exchange of library material will be granted.

- The contract of 25 January 2006 with Bank Handlowy w Warszawie S.A. with its registered seat in Warsaw for supply of mass correspondence maintenance system. Net value of the contract amounts to PLN 1 067 thousands. This is the second such a solution supplied to the Bank by Emax S.A.
- The contract of 28 February 2006, between subsidiary - Winuel S.A., and PSE -Operator S.A. with its registered seat in Warsaw for guarantee and post-guarantee service for IT system for electric power market (SIRE). SIRE IT system, elaborated by Winuel S.A., is a critical system for the balancing segment of national power system. It controls *inter alia* planning of power plant working, clearing of subjects participating in balance market, support for international exchange of electric power. Singe contract covers guarantee and post-guarantee service of software produced by Winuel SA and guaranteeing continuous work of system functions in case of failure of any of its elements. Additionally, contracts foresees specialist consultations regarding business applications and training sessions for system users. Contract has been signed for 12 months, net value amounts to PLN 5 133 thousands.
- The contracts of 27 March 2006 with Telekomunikacja Polska S.A. with its registered seat in Warsaw for complete service and maintenance of mass correspondence systems used by Telekomunikacja Polska S.A. Net value of the contract amounts to PLN 13 758 thousands.
- The contracts of 20 March 2006 with Telekomunikacja Polska S.A. with its registered seat in Warsaw for modernisation and extension of Service and Administration Centre of Telekomunikacja Polska S.A. in Warsaw. Works will cover installing of fire system, burglary and assault signalling, access control and monitoring TV. Net value of the contract amounts to PLN 3 300 thousands.
- Framework contract of 23 March 2006 for supply, installation, launching and servicing of solutions of banking automatics for one of banking sector institutions. Contract has been signed till 31 December 2007. Final value of the contract depends from sum of separate orders and is estimated for ca. PLN 35 000 thousands.
- The contracts of 29 March 2006 with Gdańsk Municipality – Town Transport Board with its registered seat in Gdańsk for supply, implementation and launching of system of electronic periodical ticket system. Scope of the contract covers also training for employees of Town Transport Board Gdańsk and technical assistance over the system exploitation. Net value of the contract amounts to PLN 900 thousands. Implemented system will be equipped with possibility to extension over electronic one-way tickets. In the first stage ca. 75 users will use the a system. Chip cards will substitute traditional paper tickets. System of fare collection offered by Emax Group, implemented in Gdańsk, has been awarded during International Local Mass Transport Fair TRANSEXPO 2005. Emax Group implemented similar system of i-Ticket *inter alia* in Poznań, Radomsko and Kalisz. The last project of that kind was implemented by Emax Group in 2005 in Wejherowo. I-Bilet System makes public transport more attractive for inhabitants, improves control of cash flow and eliminates problem of paper ticket forgery. System produces data allowing for advanced calculations and statistical analysis, which enable optimal functioning of the whole system and separate lines, reduce costs and improve services for the passengers. Electronic card as a medium of information has wide prctical



possibilities of using. One chip card, depending from capacity of the memory, further applications can be installed and each of them allows additional card functions.

Seasonal or cyclical nature of business in the reporting period

Outcome worked out in Q1 2006 derives from seasonal nature of IT market in Poland, where Emax S.A. and other companies from Emax Capital Group operate. This seasonal nature is reflected in higher concentration of income and profit in the last quarter. This seasonality is caused by realisation of clients' budgets, mainly from public sector and companies with significant share of State Treasury for the current turnover year. Emax S.A. Management Board, in order to become independent from this phenomenon, aims at increasing income from long-term contracts and guarantee, post-guarantee service and outsourcing projects in total income. Those project generate stable and constant level of income throughout the year. Rapid development, including investments in professional personnel, realised by Emax Group companies in the recent period as well as recent structure of income result in insufficient limitation of seasonality factor.

Effects of organisational changes, including effects of mergers, acquisitions, divestments, long-term investments, divisions, restructuring projects or discontinued operations

As of 1 January 2004 Emax Group companies operate under a new Organizational Model. The Model facilitates concentration and availability within the Group of key competences and resources offered by member companies while allowing them to retain their formal and legal separation. As a result, trading and project activities are now carried out more effectively; in turn, this has led to more streamlined business operation and a stable growth in value of both Emax S.A. and Emax Group.

Proceedings pending before courts of law, arbitration bodies or public administration authorities

In the reporting period, no proceedings were pending in respect of receivables or liabilities of Emax S.A. or its subsidiary undertakings, the total value of which would constitute 10 per cent or more of the Company's equity.

Transactions with related parties

In the reporting period, Emax Group companies did not enter into any transactions with related parties, the value of which would have exceeded the equivalent in PLN of € 500,000, and which would not have been made between related parties on an arm's length basis in the ordinary course of business, and the character and terms of which would not have resulted from current operations of Emax S.A. and its subsidiary undertakings.

Other material information for evaluation of personnel, assets, financial position, results of operations and any changes thereto, and material information for assessment of entity's ability to meet its obligations.

During the reporting quarter, Emax Group companies met both their private and public obligations. Specialist courses and training were provided to employees to increase their knowledge and qualifications, and to boost the competitive edge of all Emax Group companies. Retaining of steady position of the Company in a view of basic economic parameters in IT market gave the Management Board grounds to claim that both current and future economic and financial condition of Emax S.A. and the whole Emax Capital Group is solid and safe. Also attractive for shareholders profitability of capital and not endangered financial flow is ensured.

VI. GROWTH STRATEGY

The growth strategy of the Company and the Group is to look for attractive market niches, select the right products and technologies to satisfy specific needs of the targeted niche customers, and then to expand the range of offered products and services. Building on its significant and stable market position, Emax Group continues with product and technology development efforts, making its commercial offerings ever more universal and better suited to a wide range of customers. The Group is able to achieve this aim through its dedicated systems and application integration.

To ensure its growth, the Group will focus on four major areas:

- To retain/strengthen its position in attractive (growing) market segments on which the Group already has significant presence, such as logistic solutions for postal services, e-ticket solutions, dedicated and mass correspondence systems, automated banking solutions, warehouse automation, and energy market solutions, including electricity wholesaling solutions.



- To enter future markets currently in early development stages, such as electronic card-based systems, billing systems, or risk management solutions.
- To expand a range of dedicated solutions for selected customer segments (public sector, telecommunications, banking and finance, power industry).
- To expand abroad through development and international sales of software products for mass customers (e.g. Printoscope system), global products, and custom-made software. This also includes sales of current commercial offerings of the Group, such as the e-ticket system (public transport fare collection), management support (Command & Control) systems, power industry solutions (measurement and payment systems, energy market systems).

Emax Group intends to continue its expansion into new products and markets by:

- Internal development of solutions offered by the Group:

Solutions	Commentary on development plans
Integrated IT systems	Development of dedicated solutions for customers in strategic market segments, including in particular power industry, public sector, and foreign markets (current offerings and new dedicated products).
Integrated logistic systems	Product development designed to integrated automated solutions with client-side IT systems.
Correspondence systems	New forms of supply to customers – outsourcing services, winning new customer segments (e.g. power industry).
Banking technology solutions	Product development focused on developing self-service banking systems and integrating automated solutions with client-side IT systems (interfacing).
Smart building technologies	Keeping and strengthening market position. Product and technology development (focus on visual monitoring systems).

- Acquisitions of small product companies operating in developing niche markets and showing potential for international sales.

Planned investments will be financed through Emax S.A.'s equity or, if needed, debt capital.

VII. EXPECTED SITUATION IN SUBSEQUENT REPORTING QUARTERS

The Management Board expects in 2006 growth of income from sales to public sector customers, with including central and self-government administration bodies and uniformed services.

Further revenues are anticipated in banking and financial sector. The Management Board of Emax S.A. expects growth of demand for IT solutions, banking automation and correspondence maintenance systems in this sector. This results partly from a tendency of banks to expand a network of banking outlets and investments in security systems – installation of digital visual monitoring and access control systems. It is supposed to bring subsequent orders regarding building technologies, particularly security systems. Moreover, observed revival in building sector allows expecting further growth of investments of companies and institutions, also international, particularly in industry and logistics sectors. Increase of investments on building technologies is noticeable in public utility sector, which is triggered by regulatory compliance concerns and necessity to adapt buildings to new security standards.

Additional increase of income is also anticipated from sales of the warehouse automation solutions. Further revenue growth is also anticipated in the industrial sector. The expectation here is for sales of IT solutions to power companies, particularly to power distribution companies. This is due to the unbundling requirements under which distribution companies must separate their distribution functions from electricity sales functions, power industry consolidation trends and preparations of power companies for participation in open energy market, which is supposed to launch in all EU countries on 1 July 2007. Also, it is anticipated that electrical power customers will be more and more interested in systems optimising



purchase of electric power due to growth of competitiveness on this market.

The Management Board of Emax S.A. sees an opportunity for growth in sales of products and services to foreign markets. The Group's focus is on creating a base for attaining a considerable increase in export revenues, and so to diversify its revenue streams. Foreign sales concentrate on offering proven products such as energy market, mass transport solutions, command support systems and other dedicated IT solutions.