

INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Polish Energy Partners S.A.

1. We have audited the attached consolidated financial statements for the year ended 31 December 2005 of Polish Energy Partners (the "Group") with its registered office located in Warsaw, at ul. Wiertnicza 169, containing:
 - the consolidated balance sheet as at 31 December 2005 with total assets amounting to 378,739 thousand zlotys,
 - the consolidated profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 9,341 thousand zlotys,
 - the consolidated statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 10,497 thousand zlotys,
 - the consolidated cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash inflow amounting to 5,015 thousand zlotys and
 - the additional notes and explanations.
2. The truth and fairness¹ of the attached consolidated financial statements and the proper maintenance of the accounting records are the responsibility of the holding company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these consolidated financial statements, in all material respects, present truly and fairly² the financial position and financial results of the Group.
3. We conducted our audit of the consolidated financial statements in accordance with the following regulations being in force in Poland:
 - chapter 7 of the Accounting Act dated 29 September 1994 (the "Accounting Act"),
 - the auditing standards issued by the National Chamber of Auditors,

in order to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Management of the holding company, as well as evaluating the overall presentation of the financial statements. We believe our audit has provided a reasonable basis to express our opinion on the consolidated financial statements taken as a whole.

¹ Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

² Translation of the following expression in Polish: "rzetelne, prawidłowe i jasne"

4. The consolidated financial statements for the prior financial year ended 31 December 2004 were subject to our audit and dated 24 February 2005 we issued on these consolidated financial statements an unqualified opinion with emphasis of matter relating to the reversal of impairment write-downs and release of provisions as a result of the improvement of financial situation of one of key customers of the Company.
5. In our opinion, the attached consolidated financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position³ as at 31 December 2005;
 - have been prepared appropriately in all material aspects with the provisions of the International Financial Reporting Standards, which were adopted by the EU;
 - fulfils all the law requirements which impact the form and content of the financial statements.
6. We have read the Directors' Report for the period from 1 January 2005 to 31 December 2005 discussing the Group activity and the principles of preparing yearly consolidated financial statements ("Directors' Report") and conclude that the information derived from the attached consolidated financial statements reconciles with the consolidated financial statements. The information included in the Directors' Report corresponds with the Regulation of Finance Minister dated 19 October, 2005 in relation to current and periodical information submitted by the issuers of securities (Journal of Laws no. 209 pos. 1744).
7. As at the date of the issuance of this opinion, the consolidated financial statements for the year ended 31 December, 2004 have not been filed at the National Court Register and have not been submitted for publication in Monitor Polski B, as required by the provisions of the Accounting Act.

Marcin Zieliński
Certified Auditor
No 10402/7665

on behalf of
Ernst & Young Audit Sp. z o.o.,
Rondo ONZ 1 00-124 Warszawa
Ident. no. 130

Artur Żwak
Certified Auditor
No 9894/7366

Warsaw, 1 March 2006

³ Translation of the following expression in Polish: "*sytuacja majątkowa i finansowa*"

POLISH ENERGY PARTNERS CAPITAL GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
TOGETHER WITH THE INDEPENDENT AUDITORS' OPINION
PREPARED WITH PROVISIONS OF INTERNATIONAL
FINANCIAL REPORTING STANDARDS**

*Stephen Klein – President of the Management
Board from June 10, 2005*

*Zbigniew Prokopowicz – Supervisory Board
Member designated to time limited position of
President of the Management Board of the
parent company in charge from 21 November
2004 to June 10, 2005*

*Grzegorz Skarżyński – Vice - President of the
Management Board till December 31, 2005*

*Wojciech Cetnarski – Vice - President of the
Management Board from June 10, 2005 till
December 13, 2005*

*Anna Kwarcieńska – Member of the Management
Board*

*Michał Kozłowski – Member of the Management
Board from December 13, 2005*

*Agnieszka Grzeszczak – person responsible for
preparation of consolidated financial statements*

Warsaw, March 1, 2006

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Consolidated Balance Sheet
(in thousand zlotys)

CONSOLIDATED BALANCE SHEET	Note	31.12.2005	31.12.2004
Assets			
I. Fixed Assets (long-term)		293 910	282 369
1. Tangible fixed assets	13,14	55 139	33 878
2. Intangible fixed assets	12	27	38
3. Goodwill		132	-
4. Financial assets	16,17	5 637	3 204
5. Financial assets valued at equity method	16,17	756	841
6. Long-term receivables	15	231 587	243 651
7. Deferred tax assets	25	-	533
8. Other fixed assets	22	632	224
II. Current assets (short-term)		84 829	57 908
1. Inventory	18	1 986	1 891
2. Trade receivables	19	17 859	4 381
3. Income tax receivables	19	446	13
4. Other short-term receivables	19	17 732	11 619
5. Accrued income and deferred cost	22	1 194	2 778
6. Other short-term assets	21	2 692	640
7. Short-term financial assets	20	1 319	-
8. Cash and cash equivalents	23	41 601	36 586
Total Assets		378 739	340 277

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Consolidated Balance Sheet
(in thousand zlotys)

CONSOLIDATED BALANCE SHEET	Note	31.12.2005	31.12.2004
Total Equity and Liabilities			
I. Shareholders' Equity		111 621	101 124
1.Share capital	24	36 370	35 865
2.Unpaid share capital		(378)	-
3.Surplus of sales issue above nominal value (agio)		28 321	36 459
4.Treasury shares		-	-
5.Reserve capital from option valuation	55	1 032	-
6.Other reserve capital		28 267	9 392
7.Profit/loss from previous years		8 669	12 755
8.Profit/loss for the period		9 341	6 653
9.Minority interest		-	-
II. Long-term liabilities	27	237 712	214 748
1.Bank loans and credits	27,28	231 951	210 905
2.Deferred tax liability	25	1 791	-
3.Provisions	26	2 521	2 499
4.Accruals and deferred income	31	1 021	1 177
5.Other liabilities		428	167
III. Short-term liabilities	29	29 406	24 405
1.Bank loans and credits	29,30	20 409	16 348
2.Trade liabilities	29	3 960	2 690
3.Income tax liabilities	29	14	-
4.Other liabilities	29	2 063	2 093
5.Provisions	26	1 602	1 644
6.Accruals and deferred income	31	1 358	1 630
Total Equity and Liabilities		378 739	340 277

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Consolidated Profit and Loss Account
(in thousand zlotys)

CONSOLIDATED PROFIT AND LOSS STATEMENT	Note	31.12.2005	31.12.2004
Continued activity			
I. Sales revenue	34	61 097	49 911
II. Cost of goods sold	35	(35 043)	(31 966)
III. Gross profit on sales (I-II)		26 054	17 945
IV. Selling expense		-	-
V. General and administration costs	35	(13 152)	(11 898)
VI. Profit on sales (III-IV-V)		12 902	6 047
VII. Other operating income	36	1 356	9 688
VIII. Other operating expense	37	(1 082)	(1 236)
IX. Operating profit (VI+VII-VIII)		13 176	14 499
X. Financial income	38	11 959	13 530
XI. Financial expense	39	(12 616)	(19 139)
XII. Profit/loss from associates		6	(49)
XIII. Profit before tax (IX+X-XI+/-XII)		12 525	8 841
XIV. Corporate income tax	25,40	3 184	2 188
XV. Net profit/loss from continued activity		9 341	6 653
Discontinued activity			
XVI. Profit/loss from discontinued activity		-	-
XVII. Net profit/loss		9 341	6 653
Distribution of profit/loss:		9 341	6 653
Parent company shareholders		9 341	6 653
Minority shareholders		-	-
Net profit/loss		9 341	6 653
Weighted average number of shares		18 050 422	17 932 392
Basic EPS (in zł)		0,52	0,37
Weighted average diluted number of shares		18 050 616	17 932 392
Diluted EPS (in zł)		0,52	0,37

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Changes in Consolidated Shareholders' Equity

(in thousand zlotys)

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Treasury shares	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
<i>in thousands PLN</i>									
Equity at the beginning of the period - 01.01.2005	35 865	-	36 459	-	-	9 392	19 408	-	101 124
Changes in capital in the period	504	(378)	(8 138)	-	1 032	18 875	(10 737)	9 341	10 499
a) increase	504	(378)	-	-	1 032	18 875	8 138	9 341	37 512
- net profit	-	-	-	-	-	-	-	9 341	9 341
- shares issue	504	(378)	-	-	-	-	-	-	126
- shares issue above nominal value	-	-	-	-	-	-	8 138	-	8 138
- from distribution of profit (required by law)	-	-	-	-	-	18 875	-	-	18 875
- from distribution of profit (over the minimal value required by law)	-	-	-	-	-	-	-	-	-
- from distribution of profits from previous years	-	-	-	-	-	-	-	-	-
- from management options valuation	-	-	-	-	1 032	-	-	-	1 032
b) decrease	-	-	8 138	-	-	-	18 875	-	27 013
- net loss	-	-	-	-	-	-	-	-	-
- dividend payment	-	-	-	-	-	-	-	-	-
- redemption of shares	-	-	-	-	-	-	-	-	-
- coverage of loss	-	-	8 138	-	-	-	-	-	8 138
- movement to reserve capital	-	-	-	-	-	-	18 875	-	18 875
Equity at the end of the period - 31.12.2005	36 369	(378)	28 321	-	1 032	28 267	8 669	9 341	111 621

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Changes in Consolidated Shareholders' Equity
(in thousand zlotys)

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Treasury shares	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
Equity at the beginning of the period - 01.01.2004	35 865	-	36 459	-	-	9 392	12 755	-	94 471
Changes in capital in the period	-	-	-	-	-	-	-	6 653	6 653
a) increase	-	-	-	-	-	-	-	6 653	6 653
- net profit	-	-	-	-	-	-	-	6 653	6 653
- shares issue	-	-	-	-	-	-	-	-	-
- shares issue above nominal value	-	-	-	-	-	-	-	-	-
- from distribution of profit (required by law)	-	-	-	-	-	-	-	-	-
- from distribution of profit (over the minimal value required by law)	-	-	-	-	-	-	-	-	-
- from distribution of profits from previous years	-	-	-	-	-	-	-	-	-
- from management options valuation	-	-	-	-	-	-	-	-	-
b) decrease	-	-	-	-	-	-	-	-	-
- net loss	-	-	-	-	-	-	-	-	-
- dividend payment	-	-	-	-	-	-	-	-	-
- redemption of shares	-	-	-	-	-	-	-	-	-
- coverage of loss	-	-	-	-	-	-	-	-	-
- movement to reserve capital	-	-	-	-	-	-	-	-	-
Equity at the end of the period - 31.12.2004	35 865	-	36 459	-	-	9 392	12 755	6 653	101 124

Changes in Consolidated Shareholders' Equity should be analyzed together with the additional notes, which are the integral part of the financial statement

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Consolidated Cash Flow Statement
(in thousand zlotys)

Consolidated Cash Flows Statement	31.12.2005	31.12.2004
A. Cash flow from operating activities - indirect method		
I. Gross profit/loss	12 525	8 841
II. Adjustments for:	(8 672)	10 623
1.Profit/ loss from associates	(17)	49
2.Depreciation	2 857	2 886
3.Foreign exchange gains/losses	2 310	8 649
4.Interest and dividends received and paid	(826)	(677)
5.Result on investment activity	362	12
6.Corporate income tax	(1 278)	(1 147)
7.Change in provisions	(758)	811
8.Change in inventory	(95)	968
9.Change in receivables	(14 256)	8 600
10.Change in short term liabilities, without loans and credits	1 317	(2 414)
11.Change in deferrals and accruals	(1 398)	(936)
12. Other changes	3 110	(6 178)
III.Net cash flow from operating activities (I+II)	3 853	19 464
B.Net cash flow from investing activities		
I. Inflows due to investing activities	22 418	15 163
1. Sale of intangible and tangible fixed assets	87	3
2. Sale of investments in property and intangibles	-	-
3. Sale of other financial assets, including:	118	-
- sale of financial assets	-	-
- dividends and shares in profit	118	-
- repayment of granted long term loans	-	-
- interest	-	-
- other inflows from financial assets	-	-
4. Other investment inflows	22 213	15 160
II. Outflows due to investing activities	46 356	40 325
1. Purchase of intangible and tangible fixed assets	26 420	3 013
2. Investments in property and intangibles	-	-
3. Purchase of other financial assets, including:	2 518	3 841
- purchase of financial assets	115	918
- long-term loans granted	2 403	2 923
4. Dividends and other payments paid to minority shareholders,	-	-
5.Other investing outflows	17 418	33 471
III.Net cash flow from investing activities (I-II)	(23 938)	(25 162)

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Consolidated Cash Flow Statement
(in thousand zlotys)

Consolidated Cash Flows Statement	31.12.2005	31.12.2004
C. Net cash flow from financing activities		
I. Inflows from financing activities	52 795	40 389
1. Issue of shares and capital instruments	136	-
2. Loans and credits	52 659	40 389
3. Issue of bonds	-	-
4. Other	-	-
II. Outflows due to financing activities	25 792	29 448
1. Purchase of treasury shares	-	-
2. Dividends and others payments to shareholders	126	-
3. Share issue related expenditure	-	-
4. Repayments of loans and credits	15 557	18 118
5. Repayments of bonds	-	-
6. Repayments of other financial liabilities	-	-
7. Finance lease payments	278	165
8. Interest paid	9 831	11 165
9. Other	-	-
III. Net cash flow from financing activities (I-II)	27 003	10 941
D. Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)	6 918	5 243
E. Balance sheet change in cash and cash equivalents, including:	5 015	3 285
- changes in cash and cash equivalents resulting from foreign exchange gains/losses	(572)	(1 958)
F. Cash and cash equivalents at the beginning of the period	36 603	33 318
G. Cash and cash equivalents at the end of the period, including :	42 949	36 603
- restricted cash and cash equivalents	6 025	6 346

Reconciliation of cash and cash equivalents presented in the consolidated cash flow statement with the balance sheet items	31.12.2005	31.12.2004
7. Short-term financial assets in balance sheet	1 319	-
8. Cash and cash equivalent in balance sheet	41 601	36 586
Cash of social fund	29	17
Total	42 949	36 603
G. Cash and cash equivalents at the end of the period in the cash flow statement	42 949	36 603

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Consolidated Cash Flow Statement
(in thousand zlotys)

Presentation of sources of external finance (cash flow statement)	31.12.2005	31.12.2004
pos. C.I.2 Incomes from loans and credits	52 659	40 389
pos. C.II.4 Payoff from loans and credits	(15 557)	(18 118)
Change in sources of external finance, including:	37 102	22 271
investment debt draw, net	37 089	28 488
drawing/repayment of VAT facility, net	13	(6 217)

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Additional Notes and Explanations
(in thousand zlotys)

1. General information

Polish Energy Partners S.A. (hereinafter referred to as a "Parent Company") has been incorporated by the Notarial Deed dated July 17, 1997. The Parent Company is registered with the National Court Register held by the District Court for the city of Warsaw, XX Economic Department of the National Court Register, Entry no. KRS 0000026545. The Company has been allocated a statistical number, REGON 012693488. The seat of the Parent Company is at 169 Wiertnicza St. in Warsaw

The Company is the Parent Company of Polish Energy Partners Capital Group.

Pursuant to the National Court Register extract, the scope of the Parent Company's business activities includes:

- Generation and distribution of electrical energy (PKD 40.10),
- Generation and distribution of heat (steam and hot water) (PKD 40.30),
- General building and land engineering (PKD 45.21),
- Construction of building installations (PKD 45.3),
- Other forms of granting loans except those activities to the performance of which the concession or permission is needed or which are restricted for the scope of activities of banks (PKD 65.22),
- Research and development works in the area of biological and technical sciences (PKD 73.10),
- Management and sale of properties at its own account (PKD 70.11),
- Contracted property management (PKD 70.32),
- Financial and accounting activities (PKD 74.12);
- Constructional, urban and technological design and architecture (PKD 74.20),
- Business and management consulting (PKD 74.14);
- Other commercial activities not classified anywhere else (PKD 74.84) ,
- Other educational activities not classified anywhere else (PKD 80.42),
- Wholesale of solid, liquid, gas fuels and related products (PKD 51.51).

The scope of business activities of subsidiaries is related to the activities of the Parent Company.

1.1 Period of operation of the Company and the entities comprising Capital Group

The Company's and other Group entities period of operation is unlimited except for Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością, Spółka Komandytowa.

Period of operation of one of the entities Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa is limited till the completion of the project "Construction and operation of energy plant which is fired with coke gas supplied by Zakłady Koksownicze Wałbrzych S.A."

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Additional Notes and Explanations
(in thousand zlotys)

1.2 Indication of periods for which the consolidated financial statements are prepared

Consolidated financial statements of the Capital Group were prepared for the 12 months period ended December 31, 2005. Consolidated financial statements include the comparative financial data for the 12 months period ended December 31, 2004.

1.3 Management Board Member and Supervisory Board Members

The Management Board as of December 31, 2005 comprised of:

Stephen Klein	President of the Management Board
Anna Kwarciańska	Member of the Management Board
Michał Kozłowski	Member of the Management Board

On June 10, 2005 Mr. Stephen Klein was appointed to the position of President of the Management Board and Mr. Wojciech Cetnarski was appointed to the position of Vice - President of the Management Board. On the same date, pursuant to the Supervisory Board resolution no. 8/III/2005 dated April 10, 2005, the delegation of Supervisory Board Chairman Mr. Zbigniew Prokopowicz to act as President of the Management Board has ended.

The Supervisory Board adopted the resolution no.1 dated December 13, 2005 in which it accepted the resignation of Mr. Grzegorz Skarżyński from Management Board. The Supervisory Board adopted the resolution no.3 dated December 13, 2005 in which it accepted the resignation of Mr. Wojciech Cetnarski from Management Board.

The Supervisory Board adopted the resolution no.4 dated December 13, 2005 in which it appointed Mr. Michał Kozłowski to the Management Board of the Company.

Members of the Company's Management Board as at December 31, 2005 were as follows:

Zbigniew Prokopowicz	Chairman of the Supervisory Board
Michał Rusiecki	Vice-president of the Supervisory Board
Aleksander Kacprzyk	Supervisory Board Member
Andrew Cowley	Supervisory Board Member
Terry Williams	Supervisory Board Member
Neven Dujic	Supervisory Board Member

2. Going concern assumption

The financial statements of subsidiaries, associates and joint ventures included in the consolidated financial statements were prepared on the basis that these companies will be going concerns for the period of at least twelve months subsequent to December 31, 2005. As at the date of signing the financial statements, the Company's Management Board is not aware of any facts or circumstances which would indicate a threat to the Capital Group's companies going concern for at least twelve months following the balance sheet date due to an intended or compulsory withdrawal from or significant limitation in its current activities.

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Additional Notes and Explanations
(in thousand zlotys)

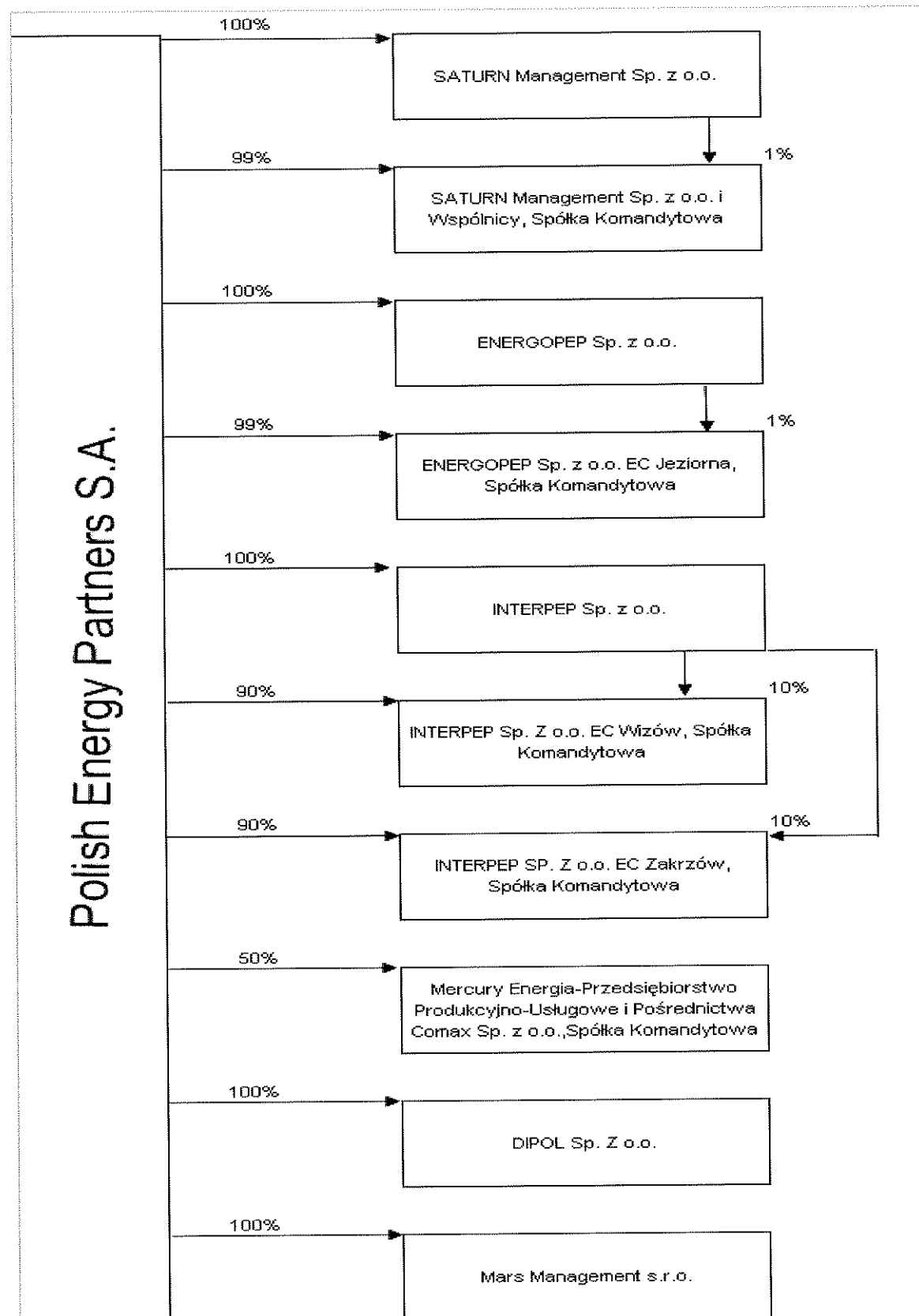
In 2005 one of the subsidiaries Energopep Sp. z o.o., Warszawa ul. Wiertnicza 169 reported loss which increased the negative net assets value. As of December 31, 2005 the total capital of that company was negative and amounted to PLN 4,871 thousands. Had the profitability of that company remained negative there would be a significant risk for this company to operate as a going concern. We have received written representation from the parent company being the limited partner supporting the company in the period of at least the next 12 months. According to the Commercial Code limited partner is responsible for the liabilities of the company up to the limitation sum which is PLN 50 thousand.

3. Acceptance of the consolidated financial statements

The consolidated financial statement was accepted by the Management Board for publication on March 1, 2006.

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Additional Notes and Explanations
(in thousand zlotys)

4. Group's Structure



Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Additional Notes and Explanations
(in thousand zlotys)

4.1 Subsidiaries included in the consolidated financial statements

The consolidated financial statements comprise the accounts of the Parent Company and its controlled Subsidiaries. The detailed information regarding these entities has been presented below.

Name of the entity	Seat	Type of business activity	District Court
Polish Energy Partners S.A.	Warszawa, ul. Wiernicza 169	Energy sector services	District Court for the city of Warsaw, XX Economic Department of the National Court Register
Saturn Management Sp. z o.o. i Wspólnicy Spółka komandytowa	Warszawa, ul. Wiernicza 169	Energy sector services	District Court for the city of Warsaw, XX Economic Department of the National Court Register
Energopet Sp. z o.o., EC Jeziorna, Spółka komandytowa	Warszawa, ul. Wiernicza 169	Energy sector services	District Court for the city of Warsaw, XX Economic Department of the National Court Register
Dipol Sp. z o.o.	Warszawa, ul. Wiernicza 169	Energy sector services	District Court for the city of Szczecin, XVII Economic Department
Interpet Sp. z ograniczoną odpowiedzialnością EC Wizów Sp. Komandytowa	Warszawa, ul. Wiernicza 169	Production of heat and electricity	District Court for the city of Warsaw, XX Economic Department of the National Court Register
Interpet Sp. z ograniczoną odpowiedzialnością EC Zakrzów Sp. Komandytowa	Warszawa, ul. Wiernicza 169	Production of heat and electricity	District Court for the city of Warsaw, XX Economic Department of the National Court Register

Indirectly and directly the parent company owns 100% of shares in the consolidated subsidiaries

On May 23, 2005 the Company purchased the remaining 50% shares in Dipol Sp. z o.o.

4.2 Associates included in the consolidated financial statements

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Additional Notes and Explanations
(in thousand zlotys)

Name of the entity	Seat	Type of business activity	Percentage share in share capital
MERCURY Energia – Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Sp. z o. o., Spółka komandytowa	Katowice, ul. Wandy 16	- generation, distribution, transmission of heat and electricity	50%

4.3 Entities within the Capital Group excluded from the consolidated financial statements

Due to the fact that the stand alone and combined financial data of the companies presented below are immaterial for the true and fair presentation of the financial and material situation and financial result of the Capital Group, the below enumerated subsidiaries have not been consolidated pursuant to the provisions of International Financial Reporting Standards.

Name	Seat	Type of business activity	Percentage share in equity
<u>Subsidiaries</u>			
1. Interpep Sp. z o.o.	Warszawa, ul. Wiernicza 169	- management, supervision and advisory in conducting business activities	100%
2. Energopep Sp. z o.o.	Warszawa, ul. Wiernicza 169	- heat and electricity generation	100%
3. Saturn Management Sp. z o.o.	Warszawa, ul. Wiernicza 169	- management, supervision and advisory in conducting business activities, - market and public opinion research	100%
4. Mars Management s.r.o.	Ostrawa	Financial, economic and organizational advisory services, wholesale activities, service and sales intermediary	100 %
5. Notos Sp. z o.o.	Szczecin, ul. Wojska Polskiego 154	Generation and distribution of electricity	50%

Polish Energy Partners Capital Group
Consolidated Financial Statements For The Year Ended December 31, 2005
Additional Notes and Explanations
(in thousand zlotys)

	Interpep Sp. z o.o.**	Energopep Sp. z o.o.**	Saturn Management Sp. z o.o.**
Description of activity	- management and advisory in the area of performing economic activities	- - management and advisory in the area of performing economic activities	- production of heat and generation of electrical energy
Equity	50	50	50
% shareholding	100%	100%	100%
Reason for which the entity is not consolidated	Immaterial financial data	Immaterial financial data	Immaterial financial data
Sales of products and goods	-	-	-
Financial income	-	-	-
Net profit	(1)	(3)	66
Total assets	49	29	209

The data relating to the Mars Management s.r.o. are not included in the above table because the company was established in September 2004 and till December 31, 2005 did not start operating.

* Financial data was presented in PLN thousands and are related to the financial year ended December 31, 2005; the information was not subject to audit.

** data related to the financial year ended December 31, 2005, the information was not subject to audit

5. Comparability of the data presented

The consolidated financial statements as of December 31, 2004 were prepared with the provisions of Accounting Act (Journal of Laws No. 76 dated, June 17, 2002) with amendments and were subject to restatement to the IFRS in order to assure comparability of the consolidated data. The summary and discussion of the results of the applied adjustments is presented in note 7.

6. Accounting policies applied

6.1 Changes in the accounting principles applied

Starting from January 1, 2005 the Group applies accounting standards approved by the International Accounting Standards Board („IASB”). In relation to the statutory standalone and consolidated financial statements the Company applies International Financial Reporting Standards („IFRS”) starting from January 1, 2005. Pursuant to IAS 1 “Presentation of financial statements” IFRS include International Financial Reporting Standards („IFRS”), International Accounting Standards (“IAS”) and International Financial Reporting Interpretation Committee („IFRIC”).

The IASB issued IFRS 1 „First adoption of IFRS” which applies to the preparation of financial statements starting from January 1, 2004 or later. IFRS 1 applies to the entities which prepare its financial statements in accordance with IFRS for the first time or to the entities which prepared its financial statements in accordance with IFRS in previous years but the financial statement included information about noncompliance with specific standards. IFRS 1 requires from the Company that the first financial statement in accordance with IFRS is the first yearly financial statement in which the entity applies all the IFRS together with the statement claiming compliance with all IFRS.

The consolidated financial statement is the first full yearly consolidated financial statement prepared with the provisions of IFRS. For the purposes of this consolidated financial statement the date of first adoption is January 1, 2004. The last consolidated financial statement of the Group prepared with the provisions of Polish accounting standards, defined in the Accounting Act was the consolidated financial statement prepared for the year ended December 31, 2004.

Starting from January 1, 2005 the Group Polish Energy Partners S.A., according to the resolution no.3 of General Shareholders Meeting dated April 13, 2005 (approved based on art 45.1.c of Accounting Act) prepares its standalone statutory financial statements in accordance with IFRS approved by European Commission for 2005.

According to IFRS 1 the consolidated financial statements were prepared in such a way as if the Group always applied IFRS. The Group used following allowed exemptions from restatement which are mentioned in the IFRS 1:

- The parent company did not restate its settlements with subsidiaries which were made based on polish accounting standards and arose before the first adoption of IFRS.

6.2 New standards and interpretations which were published but are not in force yet

The following standards and interpretations were issued by the IASB or IFRIC, but are not in force yet:

- IFRS 6: exploration for and evaluation of mineral resources
- IFRS 7: Financial instrument, disclosures
- Interpretation IFRIC 4 Determining Whether an Arrangement Contains a Lease
- Interpretation IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
- Interpretation IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- Interpretation IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies"
- Interpretation IFRIC 8 Scope of IFRS 2

The application of new standard or interpretation will not have a significant impact on the accounting principles followed by the Group.

6.3 Format and the basis of preparing the consolidated financial statement

The consolidated financial statements were prepared in accordance with the provisions of International Accounting Standards/ International Financial Reporting Standards. The financial statements cover the period from January 1, to December 31, 2005 and the comparable period from January 1, to December 31, 2004.

The consolidated financial statements were prepared based on the historic cost convention which was modified in relation to financial instruments.

6.4 Compliance representation

As of January 1, 2005 the Accounting Act requires that the Group prepares its consolidated financial statements in accordance with IAS, IFRS and with interpretations related to them published in form of a decree of European Commission.

As of the date of these financial statements, taking into consideration the process of implementation of IFRS in the EU and the scope of business of the Company there is no difference between IAS, IFRS and the interpretations related to them published in form of a decree of European Commission ("IFRS approved for application by the EC").

The Group applied the IFRS ruling as at December 31, 2005.

The presented consolidated financial statements comply with all IFRS requirements, so they present a complete and fair view of financial situation of the Company as of December 31, 2005 and December 31, 2004 in accordance with IFRS requirements.

The consolidated financial statements as of December 31, 2004 were prepared with the provisions of Accounting Act and were audited as of December 31, 2004 and then were subject to restatement to the IFRS in order to assure comparability of the consolidated data. The summary and discussion of the results of the applied adjustments is presented in note 7.

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6.5 Estimates

6.5.1. Professional judgment

In the process of application of the accounting principles, due to issues raised below, the main impact had the professional judgment of the management, apart from accounting estimates:

- leasing classification – the Group as the lessor,

6.5.2. Uncertainty of estimates

Below there are presented the main assumptions relating to the future and other key factors of uncertainty as of the balance sheet date, which might be subject to risk of significant adjustments to their value in the next financial year:

- management options,
- impairment write downs
- provisions for doubtful debt,
- provisions for litigation.

6.6 Functional currency and the reporting currency of the consolidated financial statements

The functional currency of the parent company and the reporting currency is Polish zloty.

6.7 The principles of consolidation

Subsidiaries are fully consolidated within the period from the taking-over of control by a parent company until such control ends. The control of the parent company is effected when the parent have directly or indirectly through its subsidiaries more than half of the votes in a given company unless it can be proved that such a number of votes does not assure control. The control is also in a situation when the company can influence the operational and financial policy of a given company.

The assets and liabilities of the Subsidiary as at the date of including it to the consolidated financial statements are valued at fair value. The difference between the fair value of such assets and liabilities and the take-over price gives rise to the establishment of the goodwill or the negative goodwill which are disclosed in a separate item of the consolidated balance sheet.

All material intercompany balances and transactions between the entities of the Group, including unrealized gains resulting from these transactions were completely eliminated in consolidation. Unrealized losses are eliminated unless it proves impairment.

Shares in associates are valued with equity method. Associates are entities which are significantly influenced by the parent company and which are neither subsidiaries of parent company nor joint ventures. The financial statements of associates are the basis for valuation of shares owned by the parent company using equity method. The financial year of associates is equal to the financial year of the parent company. Associates apply accounting policies prescribed in the Accounting Act dated September 29, 1994 with amendments (Journal of Laws No. 76, dated June 17, 2002). Before calculating the proportionate share of parent company in the financial result of such companies the financial statements of associates are restated to IFRS applied by the Group.

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Proportionate share of parent company in the financial result of such companies is presented separately in the consolidated profit and loss account. Value of such company resulting from purchase of these shares is presented separately in the consolidated balance sheet.

Investments in subsidiaries, jointly controlled entities and associates excluded from consolidation are valued at historical cost adjusted for impairment.

6.8 Goodwill

Goodwill arising in a business combination is measured initially as the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. After initial recognition goodwill is measured at cost less accumulated impairment charges. Impairment tests are performed every year. Goodwill is not amortized.

As of the date of business combination goodwill is allocated to each cash generating unit which may benefit from combination synergy. Impairment is calculated by estimating cash generating unit recoverable amount to which allocated goodwill refers. If the recoverable amount of the cash generating unit is lower than carrying value an impairment loss is charged to profit and loss account. If goodwill is part of the cash generating unit and there is a sale of part of the cash generating unit when calculating the profit or loss of this transaction the goodwill related to the sold unit is included in its carrying value. In these circumstances the sold goodwill is calculated based on the relative value of sold unit and the remaining part of the cash generating unit.

6.9 Intangible assets

Intangible assets include assets which meet following criteria:

- Can be separated or divided from the entity and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability or
- Arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets resulting from a separate transaction are recorded in the balance sheet at the purchase price. Intangible assets resulting from entity acquisition transaction are initially recorded in the balance sheet at fair value as of the purchase date.

After initial recognition the intangible asset are valued using the historical cost model.

Intangible assets are tested every year against impairment. The estimated useful lives are also verified each year and restated in the following year if necessary.

Expected economic useful lives are as follows:

Patents, licenses, trade marks	1 year
Computer software	2-5 years
Other intangible assets	5 years

6.10 Property, plant and equipment

Property, plant and equipment are stated at acquisition or production cost, or revalued amount, less accumulated depreciation and impairment write-downs. The purchase price of the right of perpetual usufruct to land is the value of the right pursuant to the decision issued by the municipality at the

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moment of granting such right. Land is valued at its acquisition price reduced by write-offs due to impairment.

Costs incurred on an asset already in use, such as repairs, overhauls or operating fees, are expensed as incurred. If, however, it is possible to show that such costs increase the expected future economic benefits of a given fixed asset beyond the original expected benefits they are capitalized into the value of the asset.

Assets, except for land, are depreciated on a straight-line basis over the assets' estimated useful lives.

Perpetual usufruct to land	14 years
Buildings, premises and other civil and water engineering structures	14 years
Plant and machinery	2.5-14 years
Transport	2.5-5 years
Other fixed assets	5-7 years

Each class of assets is recorded separately and depreciated over its estimated useful life.

When acquired the fixed assets are classified into components with material value for which a useful life can be estimated.

If there are any indications of impairment of the asset so that the carrying value of the assets can not be recovered, the Group performs an impairment test for each class of asset. If there are any indications that an impairment of asset exists and the carrying value exceeds recoverable amount then the asset or cash generating units which these assets constitute is written of the its recoverable amount. Recoverable amount is higher of net realizable value or value in use. While estimating the value in use estimated future cash flows are discounted to present value using the discount rate. The discount rate reflects market time value estimates and risk associated with the particular asset. In case of an asset that can not separately be treated as cash generating unit recoverable amount is established for the unit to which the asset is classified. The impairment write downs are expensed to profit and loss account.

A fixed asset may be derecognized from the balance sheet after selling the asset or if there are no expected probable economic benefits resulting from further use of asset. All the losses or gains resulting from such an asset removal from the balance sheet (calculated as the difference between sales proceeds and net book value of the asset) are expensed in the profit and loss account in the period in which the derecognition was done.

6.11 Assets under construction

Assets under construction are carried at the value of aggregate costs directly attributed to their acquisition or manufacture, including financial costs, reduced by write-offs due to impairment. Assets under construction also include materials for construction. Assets under construction are not depreciated until they are completed and available for use.

6.12 Shares in joint ventures

The Group has a joint venture which comprises cooperation on completing the development of wind farm projects. The necessary investment for development of wind farm projects is capitalized in the Group assets and in the assets of the joint venture partner.

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6.13 Leasing

Group as the lessee

Financial lease agreements which transfer to the Group all of the risks and rewards relating to ownership of the asset are initially recognized in the balance sheet at the inception date at the lower of two values: fair value of the leased assets or present value of minimum lease payments. Lease payments are divided between financial revenues/costs and decrease of receivables/liabilities balance in a way enabling to achieve a fixed interest rate from the outstanding receivable/obligation. Financial costs are directly expensed in the profit and loss account.

Fixed assets used under the financial lease agreement are depreciated over shorter of two periods: estimated useful life or lease period.

Lease agreements in which the lessor has all of the risks and rewards relating to ownership of the asset are classified as operational lease. Lease payments resulting from operational lease are expensed in the profit and loss account using the straight line method over the lease period.

Group as the lessor

One of the Group entities is party of lease agreement which assumes lease of fixed asset and intangible assets over a specified period of time.

Pursuant to IAS 17 the above mentioned lease agreement meets the criteria of financial lease and in this way was presented in the consolidated financial statements of the Group. For tax purposes this transaction is treated as operational lease.

In case of a financial lease, where the agreement results in substantially all of the risks and rewards relating to ownership of the asset being transferred to the user of the equipment, the subject of the lease agreement is recorded in lessee's assets as fixed asset based on the current value of minimum lease payments set at the lease inception. In lessor's books the assets transferred under financial lease agreement are presented as receivables amounting to lease investment amount. Lease payments are divided between financial revenues/costs and decrease of receivables/liabilities balance in a way enabling to achieve a fixed interest rate from the outstanding receivable/obligation. Financial revenues and costs are recorded directly in the profit and loss accounts.

The lease payments resulting from agreements which do not fulfill the criteria of a financial leasing are recorded as costs or revenues in the profit and loss accounts based on a straight-line method for the lease agreement period.

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6.14 Inventory

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition is accounted for based on a „weighted average” method.

Production costs and production in progress costs include direct material costs, workers cost and allocated, justified indirect production costs, established at the normal usage of production capacity.

Net realizable value is the selling price estimated at the balance sheet date net of VAT and excise taxes less rebates and discounts less estimated costs of completion and the estimated costs necessary to make the sale.

6.15 Short- and long-term receivables

Trade receivables except for receivables described in 5.1 are recognized and carried at original invoice amount less an allowance for any doubtful and uncollectible amounts.

An estimate for doubtful debts is made based on the assessment of the probability of receivables collection to reflect the realizable value of receivables. The allowance is recorded, as either operating costs or financial costs, depending on the type of receivable.

Balances of receivables which are subsequently written-off reduce the allowance created against the account.

Balances of receivables which are subsequently written-off where there was no full or partial allowance previously created are expensed as other operating costs or financial costs.

Receivables include also receivables from financial lease.

If the impact of time value of money is material the value of receivables is established at the present value using the discount rate. The discount rate reflects market time value estimates. If the applied method assumes discounting then the increase in receivables due to time is recorded as financial income.

6.16 Foreign Currency Transactions

Transactions denominated in non-Polish currencies are translated into Polish equivalents at the rate of exchange on the date of the transaction.

As at the balance sheet date, monetary assets and liabilities expressed in currencies other than Polish zlotys are translated into Polish zlotys at the average exchange rate of the National Bank of Poland. Foreign currency differences resulting from the above transaction are reported in the financial income or financial costs respectively.

Non monetary assets and liabilities measured at historical cost expressed in foreign currency are recalculated at the historical exchange rate at the transaction date. Non monetary assets and liabilities measured at fair value are recalculated at the exchange rate ruling at the date of valuation.

For the purpose of valuation, the following exchange rates have been adopted:

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	31.12.2005	31.12.2004
USD	3,2613	2,9904
EUR	3,8598	4,0790
CAD	2,8093	2,4827
CHF	2,4788	2,6421
GBP	5,6253	-

6.17 Cash and cash equivalents

Cash in hand and at bank and short-term deposits held until maturity are carried at fair value.

The cash and cash equivalents item presented in the consolidated cash flow statement includes cash in hand, bank deposits, treasury bills and bonds investment fund units which were not treated as investment activity.

6.18 Prepaid and accrued expenses

The Company recognizes a prepayment if costs incurred relate to future reporting periods and accrues expenses as a liability for costs incurred in the current reporting period in the amount of probable liabilities due in current reporting period.

6.19 Share capital

Ordinary share capital is recorded in the amount stated in the Statutes as entered in the court register. Differences between the fair value of amounts received and the par value of shares is recorded as share premium. In the case of purchase of own shares, the amount of payment for shares is debited against the share capital and is disclosed in the balance sheet in equity. Declared but unpaid cash contributions to capital are recorded as share capital due from shareholders.

6.20 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits is certain or highly probable to be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the Group expects that costs which were provided will be reimbursed i.e. from insurance company then this reimbursement is recognized as asset but then and only then if it is virtually certain that the reimbursement will be collected. Costs relating to a specified provision are incurred in the profit and loss account net of any reimbursements. In case the time value of money is material factor the provision is measured using the present value of future cash flows at the discount rate which reflects current market estimate of time value of money and the risk related to the specified liability. If the discount method is applied the increase in the provision as time passes will be recognized as borrowing cost.

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6.21 Provisions for jubilee awards and retirement allowances

According to the company's remuneration system, employees have right to jubilee awards and retirement allowances. Jubilee awards are paid after servicing a specified amount of years. Retirement / pension allowances are paid at the time of retirement / pension. The Group creates provision for the abovementioned allowances to distribute the jubilee awards and retirement / pension allowances along the whole period of employment in the Company. According to IAS 19 jubilee awards are other long term pension obligations and retirement allowances are programs of specified allowances after servicing period. Present value of these liabilities at each balance sheet date is calculated by an independent actuary. The calculated liabilities are equal to the discounted payments which will be paid in the future taking into account rotation and relate to the period till the balance sheet date. Demographical information and rotation information are based on historical data. Actuarial gains and losses are recognized in the profit and loss account.

6.22 Loans and borrowings

All loans and borrowings are initially recognized at cost, being the value of the consideration received net of acquisition costs associated with the borrowing/loan. After initial recognition, all interest-bearing loans and borrowings, other than liabilities held for trading, are subsequently measured at amortized cost, using the effective interest rate method.

Costs related to loan acquisition, discounts and premiums received at the moment of liability settlement are taken into account when calculating the amortized cost.

Profits and losses are recorded in the profit and loss account at the moment of liability removal and when calculating the payment.

6.23 Borrowing costs

The costs of loans and credits including foreign exchange resulting from loans and credits drawn in foreign currency which can be directly attributed to purchase, construction or production of asset, pursuant to the allowed alternative in the IAS 23 is capitalized as part of the purchase price or production cost of the asset. The cost of external financing includes interest and profits or losses from foreign exchange differences up to the amount referring to the interest cost.

6.24 Deferred Tax

Deferred income tax is provided for, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized on all taxable temporary differences:

- With exempt when the deferred tax liability arises due to initial recognition of goodwill or the initial recognition of asset or liability is in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, and
- In case of positive temporary differences resulting from investment in subsidiaries, associates and shares in joint ventures - except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future

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Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

- With exempt when the deferred tax asset arises due the initial recognition of asset or liability is in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit, and
- In case of negative temporary differences resulting from investment in subsidiaries, associates and shares in joint ventures the deferred tax asset is recognized in the balance sheet in the amount which is probable that in foreseeable future the above mentioned differences will reverse and taxable profit will be available against which the deductible temporary differences can be utilized.

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 all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

The income tax relating to the items directly recorded in net assets is recorded in net assets and not in the profit and loss account.

Deferred tax assets and liabilities are presented net in the consolidated balance sheet.

6.25 Financial instruments

Financial instruments are classified into one of the following four categories:

- Held to maturity,
- Fair value through profit and loss
- Originating loans and receivables
- Available for sale.

A held- to – maturity asset is one that has a fixed maturity and fixed or determinable payments and that the entity has the positive intent and ability to hold until maturity. Held – to – maturity assets are measured at amortized cost calculated using the effective interest method.

Financial instruments acquired in order to gain on short term price changes are classified as financial instruments fair value through profit and loss. Fair value through profit and loss financial instruments are valued in fair value without any transaction costs, taking into account the market value as at the balance sheet date. Changes in these instruments are recorded in financial revenues and costs.

Originating loans and receivables are valued using amortized cost method.

All the remaining financial assets are financial assets available for sale. Financial assets available for sale are valued at fair value without any transaction costs, taking into account the market value as at the balance sheet date. If there is no active market for such instruments and no reliable available valuation using alternative methods, available for sale financial assets are valued at historical cost less impairment.

Positive and negative difference between fair value and historical costs, after deferred tax, relating to available for sale assets (if active market exists or fair value can be reliably measured) is recorded in

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revaluation capital. The loss in value of available for sale financial assets is recorded as financial cost in the profit and loss account.

Held – to – maturity financial assets are classified as long term assets if they maturity exceeds 12 months from balance sheet date.

Fair value through profit and loss financial assets are classified as current assets if the management intends to close the position within 12 months from the balance sheet date.

Purchase and sale of financial assets are initially recognized as at the date of the transaction. Initial measurement includes purchase price which is fair value including transaction costs.

Financial liabilities which are not fair value through profit and loss financial instruments are valued at amortized cost using the effective interest method.

Financial instrument is derecognized from the balance sheet when the Group loses control over contractual rights comprising this instrument. Typically this happens when the instrument is sold and all the cash flows related to this instrument will now be attributed to an independent third party.

6.26 Impairment of assets

An assessment is made at each balance sheet date by the Group's companies to determine whether there is objective evidence that an asset or group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined. If the carrying value of an asset or cash generating unit is higher than the recoverable amount, an impairment loss is recognized for the difference between the recoverable amount and the carrying amount. The costs of any write-downs are included in other operating expenses. If there were previous asset revaluation then the impairment loss is charged against the revaluation capital and the remaining impairment loss is charged to the profit and loss account for the current period.

6.27 Recognition of revenues

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is recognized net of VAT tax, excise duty and rebates. When recognizing revenues the below presented criteria also apply.

6.27.1. Sale of goods and products

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue is measured at the fair value of the consideration less VAT. Revenue from sales of electricity includes excise tax.

6.27.2. Provision of services

Proceeds from the provision of services are recognized based on the level of completion of the given service, if this may be reliably estimated. Where the effects of the transaction for the provision of services may not be reliably estimated, proceeds from the provision of services are recognized only up to the amount of costs incurred in this respect.

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6.27.3. Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset which is the discount rate which discounts future cash flows over the estimated use of financial instruments) in relation to the net book value of given financial instrument class.

6.27.4. Dividends

Dividends due are recorded at the moment of dividend rights for the shareholders.

6.27.5. Government Grants

Government grants are recognized in fair value when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received.

A grant that is compensation for expenses is recognized as income in the period to match the related costs that they are intended to compensate. Grant that relate to the acquisition of an asset are recognized in accrued income and are subsequently recognized in income as the asset is depreciated over the economic useful life.

6.28 Earnings per share

Basic earnings per share are calculated by dividing the earnings attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the earnings attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding which are adjusted for the effects of all dilutive potential ordinary shares.

6.29 Contingent liabilities and assets

Contingent liabilities are obligations whose existence will be confirmed by the occurrence of uncertain future events. Contingent liabilities are not recognized in the balance sheet. However they are disclosed in the notes to the financial statements, unless the probability of an outflow is remote.

Contingent assets are not recognized in the balance sheet unless the realization is virtually certain.

6.30 Emission rights

The Group provides for the emission rights in case the Group has a deficit of emission rights. In case of emission rights surplus over the actual physical emission, this surplus is recorded off balance.

6.31 Share based payments

The management board member of the Group receive share based payments which means that they render services in exchange for shares or rights to obtain shares. The cost of such equity transactions with management board members is valued at fair value at the date of granting of such rights. The cumulated cost resulting from such equity transactions as at each balance sheet date till the date of

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obtaining the rights reflects the flow of rights, number of awards to which right – in the opinion of management board as at that date based on best estimate of number of equity instruments – will finally be acquired. As of the date of these financial statements the share options do not have dilutive effect on the earnings per share.

7. Effect of new standards application and changes in accounting policies

Types of adjustments which the Group had to make in order to fully apply IFRS and their impact on the Net Profit and Net Assets of the comparable period are presented below:

	Net Assets as at December 31, 2004	Net Assets as at January 1, 2004	Net Profit for the year ended December 31, 2004
Data presented in the consolidated financial statements prepared in accordance with Polish Accounting Standards (PAS)	102.025	93.398	8.627
7.1. Effect of IFRS 1 application:	(901)	1.073	(1.974)
7.1.1. Fixed Assets costs	(592)	1.500	(2.092)
7.1.2. Leasing classification	-	(3)	3
7.1.3. Grants received	79	-	79
7.1.4. Cost reimbursement	(388)	(424)	36
Data presented in the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS)	101.124	94.471	6.653

The amounts for the adjustments include the impact of deferred tax. As a result of IFRS 1 application the deferred tax asset increased by the amount of 139 thousands zlotys as at December 31, 2004.

	Total Assets as at December 31, 2004	Total Assets as at January 1, 2004
Data presented in the consolidated financial statements prepared in accordance with Polish Accounting Standards (PAS)	341.274	352.688
7.1. Effect of IFRS 1 application	(997)	1.069
7.1.1. Fixed Assets costs	(591)	1.500
7.1.2. Leasing classification	-	7
7.1.3. Grants received	-	-
7.1.4. Cost reimbursement	(388)	(424)
7.1.5. Social Fund reclassification	(18)	(14)
Data presented in the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS)	340.277	353.757

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7.1 Effect of IFRS 1 adoption

The Group plans to adopt the IFRS 1 in the financial statements for the year ended December 31, 2005 and in the quarterly consolidated financial statements for appropriate quarters of 2005. IFRS 1 requires that the Group recognizes all the assets and liabilities which fulfill the criteria of IFRS 1 and values these assets in accordance with each IFRS. The transition date will be January 1, 2004. The Company prepared the consolidated financial statements in accordance with these IFRS which are valid on December 31, 2005.

The last consolidated financial statement of the Group prepared with the provisions of Polish accounting standards, defined in the Accounting Act was the consolidated financial statement prepared for the year ended December 31, 2004.

7.1.1 Value of Tangible Fixed Assets

Pursuant to IFRS 1, as of the date of first adoption of IFRS the Group decided to apply the balance sheet value of tangible fixed assets, intangible assets and investment property pursuant to the previously applied Polish accounting standards, because these standards comply with specific IFRS requirements.

The effect of the deemed cost of tangible fixed assets is presented in the table below:

	Carrying value in accordance with PAS	Carrying value in accordance with IFRS	Value adjustment
	January 1, 2004	January 1, 2004	
Land and Buildings	4.994	6.494	1.500
Machines and Fixtures	19.182	19.182	—
	<u>24.176</u>	<u>25.676</u>	<u>1.500</u>

Pursuant to IAS 16 the parent company recognized the costs of renovation, removal of fixed asset. The company is obliged to incur these costs due to usage of the fixed asset for certain period of time for the purposes other than finished goods production.

The impact on net profit for the year 2004 results from decomposition of tangible fixed assets into components as of January 1, 2004 and from depreciation of assets partially not used.

7.1.2 Leasing classification

The leasing contracts concluded by the parent company were classified in accordance with IAS 17 as financial leases.

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7.1.3 Government grant

Grants received are settled in accordance with IAS 20. Grants are presented as deferred income which is in a rational and systematic manner recognized as revenue over the period of estimated useful life of the asset.

7.1.4 Cost reimbursement

Pursuant to IAS 37.53 the Group recognized assets resulting from rights to cost reimbursement. In consequence the impairment write down were reversed and the goodwill was written off as not meeting the definition.

7.1.5 Reclassification of Social Fund

The assets and liabilities of social fund are presented in the balance sheet in the net amount.

8. Information on business segment and geographical segment reporting

The company performed an analysis in order to identify potential business segments. The main criterion to identify the segments is difference in risk and returns achieved by each segment. As a result of this analysis the following segments were identified: industrial energy outsourcing which consists of rendering operational services, industrial energy outsourcing which consists of heat and electricity production and wind energy segment. There are presented in the table below the basic data about the identified segments.

31.12.2005	Continued operations			
	Outsourcing - operating service	Other outsourcing - production of electricity and heat	Wind energy	Total
Revenues from third party sales	32 668	28 429	-	61 097
Intersegment transactions	-	-	-	-
Total revenues	32 668	28 429	-	61 097
Result of segment	20 956	2 265	(458)	22 763
Unallocated expenses	-	-	-	(9 995)
Other operating income/expense	-	-	-	(52)
Operating profit	-	-	-	12 717
Financial income/cost	-	-	-	(191)
Gross profit	-	-	-	12 526
Income tax	-	-	-	(3 185)
Net profit	-	-	-	9 341
Segment assets	295 072	60 576	23 091	378 739
Unallocated assets	-	-	-	-
Total assets	295 072	60 576	23 091	378 739
Segment liabilities	239 594	24 507	1 226	265 327
Unallocated liabilities	-	1 791	-	1 791
Total liabilities	239 594	26 298	1 226	267 118
Purchase of intangible and tangible fixed assets, including	87	7 478	18 855	26 420
- Tangible fixed assets	76	7 457	18 848	26 381
- Intangible assets	11	21	7	39
Depreciation	132	2 725	-	2 857
Impairment write downs	-	-	-	(2 270)

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31.12.2004	Continued operations			
	Outsourcing - operating service	Other outsourcing - production of electricity and heat	Wind energy	Total
Revenues from third party sales	21 581	28 330	-	49 911
Intersegment transactions	-	-	-	-
Total revenues	21 581	28 330	-	49 911
Result of segment	9 953	4 529	-	14 482
Unallocated expenses	-	-	-	(9 497)
Other operating income/expense	-	-	-	8 362
Operating profit	-	-	-	13 347
Financial income/cost	-	-	-	(4 506)
Gross profit	-	-	-	8 841
Income tax	-	-	-	(2 188)
Net profit	-	-	-	6 653
Segment assets	270 418	69 859	-	340 277
Unallocated assets	-	-	-	-
Total assets	270 418	69 859	-	340 277
Segment liabilities	226 412	12 741	-	239 153
Unallocated liabilities	-	-	-	-
Total liabilities	226 412	12 741	-	239 153
Purchase of intangible and tangible fixed assets, including	2 379	634	-	3 013
- Tangible fixed assets	2 361	586	-	2 947
- Intangible assets	18	48	-	66
Depreciation	148	2 738	-	2 886
Impairment write downs	-	-	-	(2 080)

The Group operates on Polish territory (100% of revenue) which regions due to their similar economic conditions and risks should be treated as homogeneous territory. Due to the above the Group does not have any geographical sectors.

9. Average exchange rate of Polish zloty in relation to EURO

In the period covered by these financial statements and consolidated comparable data the exchange rates published by NBP in relation to EURO amounted to:

	Average exchange rate	Minimum exchange rate	Maximum exchange rate	Exchange rate as at the balance sheet date
31.12.2005	4,0233	3,8223	4,2756	3,8598
31.12.2004	4,5182	4,0518	4,9149	4,0790

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10. Selected Financial Data of the Capital Group recalculated to EURO

The below presented financial data were recalculated to EURO based on the following rules:

- balance sheet items – average exchange rate published by NBP as of December 31, 2004 and December 31, 2005 which were presented in the note 9 of this financial statement,
- profit and loss items and cash flow items – average exchange rate being the arithmetic mean of average exchange rates published by NBP as of the last date of each month in 2004 and 2005 which were presented in note 9 of this financial statement

CONSOLIDATED BALANCE SHEET	31.12.2005		31.12.2004	
	thd. zlotys	Thd. EURO	thd. zlotys	Thd. EURO
Total Assets	378 739	98 124	340 277	83 422
I. Fixed Assets	293 910	76 146	282 369	69 225
II. Current Assets	84 829	21 978	57 908	14 197
Total Equity and Liabilities	378 739	98 124	340 277	83 422
I. Shareholders Equity	111 621	28 919	101 124	24 792
II. Liabilities	267 118	69 205	239 153	58 630

CONSOLIDATED RPROFIT AND LOSS ACCOUNT	31.12.2005		31.12.2004	
	thd. zlotys	Thd.. EURO	thd. zlotys	Thd.. EURO
I. Sales revenue	61 097	15 186	49 911	11 047
II. Cost of goods sold	(35 043)	(8 710)	(31 966)	(7 075)
III. Gross profit on sales	26 054	6 476	17 945	3 972
IV. Selling expense	-	-	-	-
V. General and administration costs	(13 152)	(3 269)	(11 898)	(2 633)
VI. Profit on sales	12 902	3 207	6 047	1 338
VII. Other operating income	1 356	337	9 689	2 144
VIII. Other operating expense	(1 082)	(269)	(1 236)	(274)
IX. Operating profit	13 176	3 275	14 499	3 209

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X. Financial income	11 959	2 972	13 530	2 994
XI. Financial expense	(12 616)	(3 136)	(19 139)	(4 236)
XII. Profit/Loss from subordinate units	6	1	(49)	(11)
XIII. Gross profit/loss on sales	12 525	3 113	8 841	1 957
XIV. Gross profit/loss	-	6 226	8 841	1 957
XV. Corporate income tax	-	-	2 188	484
XVI. Net profit/loss	9 341	6 226	6 653	1 472

Consolidated Cash Flows Statement	31.12.2005		31.12.2004	
	thd. zlotys	Thd.. EURO	thd. zlotys	Thd.. EURO
I. Gross profit/loss	12 525	3 113	8 841	1 957
II. Total adjustments	(9 244)	(2 298)	8 665	1 918
A. Cash flow from operating activities	3 281	815	17 506	3 875
B. Net cash flow from investing activities	(23 938)	(5 950)	(25 162)	(5 569)
C. Net cash flow from financing activities	27 003	6 712	10 941	2 422
D. Net change in cash and cash equivalents	6 346	1 577	3 285	727

11. Earnings per share

Basic earnings per share are the profit or loss attributable to ordinary shareholders of the company for the period divided by the weighted average number of ordinary shares outstanding.

The diluted earnings per share are the profit attributable to ordinary shareholders (after adjusting for interest from redeemable preference shares convertible into ordinary shares) divided by the weighted average number of ordinary shares outstanding (adjusted for the diluting impact of options and diluting redeemable preference shares convertible into ordinary shares).

In the table below there are presented data relating to the profit and number of shares which were used to calculate basic and diluted EPS.

	31.12.2005	31.12.2004
a) Net profit	9 341	6 653
b) Weighted average number of shares	18 050 422	17 932 392
c) Earnings per share (in zloty)	0,52	0,37

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date	Number of shares	New issue	Number of months	Number of shares to the weighted average
2005-01-01	17 932 392		12	7 471 830
2005-06-01	18 114 751	182 359	7	7 547 813
2005-11-01	18 184 673	69 922	2	3 030 779
2005-12-31	18 184 673			

Weighted average number of ordinary shares in 2005 **18 050 422**

Dilution effect

2005-12-31	70 908	0,002740	194
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Weighted diluted number of ordinary shares in 2005 **18 050 616**

In the period from the balance sheet date till the date of preparation of this consolidated financial statement there were no other transactions relating to the ordinary shares and potential ordinary shares.

The weighted average number of ordinary shares used to calculate the basic and diluted EPS from discontinued operations is presented in the table above.

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12. Intangible assets

reported as of 31-12-2005

reported as of 31.12.2009

Intangible fixed assets	a		Total intangible fixed assets
	patents, licences, concessions and similar assets:		
		computer software	
1. Gross book value of intangible fixed assets at the beginning of the period	585	263	585
a) increase, including:	39	21	39
- purchase	39	21	39
2. Gross book value of intangible fixed assets at the end of the period	624	284	624
3. Accumulated amortization at the beginning of the period	(547)	(247)	(547)
- Amortization in the period	(50)	(32)	(50)
4. Accumulated amortization at the end of the period	(597)	(279)	(597)
5. Impairment write-downs at the beginning of the period	-	-	-
6. Impairment write-downs at the end of the period	-	-	-
7. Net book value of intangible fixed assets at the beginning of the period	38	16	38
8. Net book value of intangible fixed assets at the end of the period	27	5	27

reported as of 31-12-2004

reported as of 31-12-2004

Intangible fixed assets	a		Total intangible fixed assets
	patents, licences, concessions and similar assets:		
		computer software	
1. Gross book value of intangible fixed assets at the beginning of the period	520	246	520
a) increase, including:	66	18	66
- purchase	66	18	66
b) decrease, including:	(1)	(1)	(1)
- sale and liquidation	(1)	(1)	(1)
2. Gross book value of intangible fixed assets at the end of the period	585	263	585
3. Accumulated amortization at the beginning of the period	(441)	(201)	(441)
- Amortization in the period	(107)	(47)	(107)
- decrease, including:	1	1	1
- sale and liquidation	1	1	1
4. Accumulated amortization at the end of the period	(547)	(247)	(547)
5. Impairment write-downs at the beginning of the period	-	-	-
6. Impairment write-downs at the end of the period	-	-	-
7. Net book value of intangible fixed assets at the beginning of the period	79	45	79
8. Net book value of intangible fixed assets at the end of the period	38	16	38

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13. Tangible fixed assets

reported as of 31-12-2005

Tangible fixed assets									
	- land (including usufruct)	- buildings and constructions	- plant and machinery	- vehicles	- other tangible fixed assets	- construction in progress	- prepaid for construction in progress	Total tangible fixed assets	
1. Gross book value of tangible fixed assets at the beginning of the period	49	10 999	30 875	798	566	2 951	-	46 238	
a) increase, including:	496	630	3 367	498	71	27 597	13 779	46 438	
- purchase	496	630	1 156	498	71	27 597	13 779	44 227	
- other	-	-	2 211	-	-	-	-	2 211	
b) decrease, including:	-	(87)	(2 133)	-	(13)	(21 499)	-	(23 732)	
- sale and liquidation	-	(87)	(2 133)	-	(3)	(2 078)	-	(4 301)	
- other	-	-	-	-	(10)	(17 210)	-	(17 220)	
- transfers	-	-	-	-	-	(2 211)	-	(2 211)	
2. Gross book value of tangible fixed assets at the end of the period	545	11 542	32 109	1 296	624	9 049	13 779	68 944	
3. Accumulated depreciation at the beginning of the period	(10)	(2 227)	(8 042)	(328)	(424)	-	-	(11 031)	
- depreciation in the period	(3)	(625)	(1 944)	(170)	(66)	-	-	(2 808)	
- decrease, including:	-	79	1 709	-	7	-	-	1 795	
- sale and liquidation	-	79	1 709	-	3	-	-	1 791	
- other	-	-	-	-	4	-	-	4	
4. Accumulated depreciation at the end of the period	(13)	(2 773)	(8 277)	(498)	(483)	-	-	(12 044)	
5. Impairment write-downs at the beginning of the period	-	-	(1 329)	-	-	-	-	(1 329)	
- increase	-	-	(204)	-	-	(228)	-	(432)	
- decrease	-	-	-	-	-	-	-	-	
6. Impairment write-downs at the end of the period	-	-	(1 533)	-	-	(228)	-	(1 761)	
7. Net book value of tangible fixed assets at the beginning of the period	39	8 772	21 504	470	142	2 951	-	33 878	
8. Net book value of tangible fixed assets at the end of the period	532	8 769	22 299	798	141	8 821	13 779	55 139	

As of December 31, 2005 the land and buildings were pledged for bank loan repayment.

Due to indications of asset impairment in EC Jeziorna the Group performed an impairment test for these assets. AS a result of this test an impairment loss in the amount of 432 thousand zlotys was identified, which lowered the carrying value of assets and charged the profit and loss account.

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Tangible fixed assets								
	- land (including usufruct)	- buildings and constructions	- plant and machinery	- vehicles	- other tangible fixed assets	- construction in progress	- prepaid for construction in progress	Total tangible fixed assets
1. Gross book value of tangible fixed assets at the beginning of the period	331	10 499	30 341	526	511	10 597	-	52 805
a) increase, including:	-	500	550	272	69	34 795	-	36 186
- purchase	-	500	165	272	69	34 795	-	35 801
- other	-	-	385	-	-	-	-	385
b) decrease, including:	(282)	-	(16)	-	(14)	(42 441)	-	(42 753)
- other	-	-	(16)	-	(14)	-	-	(30)
- other	-	-	-	-	-	(42 056)	-	(42 056)
- transfers	(282)	-	-	-	-	(365)	-	(667)
2. Gross book value of tangible fixed assets at the end of the period	49	10 999	30 875	798	566	2 951	-	46 238
3. Accumulated depreciation at the beginning of the period	(29)	(1 651)	(5 999)	(177)	(346)	-	-	(8 202)
- depreciation in the period	(17)	(576)	(2 051)	(151)	(85)	-	-	(2 880)
- decrease, including:	-	-	8	-	7	-	-	15
- sale and liquidation	-	-	8	-	7	-	-	15
- transfers	36	-	-	-	-	-	-	36
4. Accumulated depreciation at the end of the period	(10)	(2 227)	(8 042)	(328)	(424)	-	-	(11 031)
5. Impairment write-downs at the beginning of the period	-	(2 354)	(5 153)	-	-	-	-	(7 507)
- increase	-	-	(868)	-	-	-	-	(868)
- decrease	-	2 354	4 692	-	-	-	-	7 046
6. Impairment write-downs at the end of the period	-	-	(1 329)	-	-	-	-	(1 329)
7. Net book value of tangible fixed assets at the beginning of the period	302	6 494	19 189	349	165	10 597	-	37 096
8. Net book value of tangible fixed assets at the end of the period	39	8 772	21 504	470	142	2 951	-	33 878

As of December 31, 2004 the land and buildings were pledged for bank loan repayment.

In 2004 the Group reversed impairment write downs because the financial condition of one of the key customers of the Group significantly improved.

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14. Fixed assets – ownership structure

	31.12.2005	31.12.2004
a) owned	54 642	33 416
b) used based on lease agreement	497	462
Total tangible fixed assets	55 139	33 878

15. Long term receivables

	31.12.2005	31.12.2004
a) From affiliates	-	-
b) From others - leasing	231 587	243 651
Long term receivables, net	231 587	243 651
Long term receivables, gross	231 587	243 651

16. Long term financial assets

	31.12.2005	31.12.2004
a) in subsidiaries	198	168
- shares	198	168
b) in associates	6 195	3 877
- shares	756	841
- loans granted	5 439	3 036
Total long-term financial assets	6 393	4 045

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Shares in affiliates								
	a	e	f	g	h	i	j	k
No.	Name of the Company with indication of legal form	consolidation method used (equity method or indication that the company is excluded from consolidation)	date of effective control/ jointly control/ significant influence	value of shares at historical cost	revaluation adjustments	book value of shares	percentage share in capital	share in votes in shareholders meeting
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	excluded from consolidation due to immaterial financial data	28.03.2002	45	-	45	100	100
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	excluded from consolidation due to immaterial financial data	29.07.2003	50	-	50	100	100
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	excluded from consolidation due to immaterial financial data	24.09.2001	50	-	50	100	100
4	Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością , Spółka komandytowa *)	consolidated by the equity value method	23.01.2004	800	(44)	756	50	50
5	Mars Management, s.r.o*)	excluded from consolidation due to immaterial financial data	20.09.2004	28	-	28	100	100
6	Nobis Sp. z o.o.*)	excluded from consolidation due to immaterial financial data	20.12.2005	25	-	25	100	50

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Shares in affiliates

No.	a Name of the Company with indication of legal form	l Indication of other sources of control/significant influence than stated in section j) or k)	m			
			total equity of the entity	Share capital	Unpaid share capital (negative amount)	Reserve capital
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	no data	28	50	-	-
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	no data	49	50	-	-
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	no data	116	50	-	-
4	Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośredniczą Comax Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa *)	no data	1 791	1 880	-	-
5	Mars Management, s.r.o. *)	no data	28	28	**)	**)
6	Notos Sp. z o.o. *)	no data	50	50	**)	**)

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reported as of 31.12.2005												
Shares in affiliates												
No.	Name of the Company with indication of legal form	other equity including:		Liabilities and provisions of the entity, including:				receivables of the entity, including:			total assets of the entity	dividend received or due from the entity during the last financial year
		Profit/loss from previous years	Net profit/loss	long term liabilities	short term liabilities	long term liabilities	short term liabilities	long term liabilities	short term liabilities	sales revenue		
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	(22)	(19)	(3)	1	-	1	-	-	-	29	-
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	(1)	-	(1)	-	-	-	-	-	-	49	-
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	66	-	66	93	-	93	7	5	2	209	118
4	Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa *)	(89)	(99)	10	17 235	15 119	2 115	2 325	-	2 325	19 026	-
5	Mars Management, s.r.o. *)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)
6	Notos Sp. z o.o. *)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)

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Shares in affiliates

No.	a Name of the Company with indication of legal form	b Seat of the company	c Description of activity	d Affiliate type (subsidiary, jointly controlled entity, associate), with description of direct and indirect relations
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	ul. Wiernicza 169, 02-952 Warszawa	rendering of services in the energy sector	subsidiary
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	ul. Wiernicza 169, 02-952 Warszawa	rendering of services in the energy sector	subsidiary
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	ul. Wiernicza 169, 02-952 Warszawa	rendering of services in the energy sector	subsidiary
4	Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośredniczą Comax Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa *)	ul. Wandy 16, 40-322 Katowice	rendering of services in the energy sector	associate
5	DIPOL Spółka z ograniczoną odpowiedzialnością *)	ul. Chotynego 6, 83-000 Pruszczyński	rendering of services in the energy sector	associate
6	Mars Management, s.r.o *)	Ostrava, 28. října 270/854 kod 709 00	Financial, economic and organizational advisory services, wholesale activities, service and sales intermediary	subsidiary

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reported as of 31.12.2004										
Shares in affiliates										
No.	a	e	f	g	h	i	j	k		
	Name of the Company with indication of legal form	consolidation method used (equity method or indication that the company is excluded from consolidation)	date of effective control/ jointly control/ significant influence	value of shares at historical cost	revaluation adjustments	book value of shares	percentage share in capital	share in votes in shareholders meeting		
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	excluded from consolidation due to immaterial financial data	28.03.2002	45	-	45	100	100		
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	excluded from consolidation due to immaterial financial data	29.07.2003	50	-	50	100	100		
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	excluded from consolidation due to immaterial financial data	24.09.2001	45	-	45	100	100		
4	Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa *)	consolidated by the equity value method	23.01.2004	800	(49)	751	50	50		
5	DIPOL Spółka z ograniczoną odpowiedzialnością *)	excluded from consolidation due to immaterial financial data	20.05.2004	90	-	90	50	50		
6	Mars Management, s.r.o *)	excluded from consolidation due to immaterial financial data	20.09.2004	28	-	28	100	100		

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reported as of 31.12.2004

Shares in affiliates						
No.	a	I	m			
	Name of the Company with indication of legal form	Indication of other sources of control/jointly control/ significant influence than stated in section j) or k)	total equity of the entity	Share capital	Unpaid share capital (negative amount)	Reserve capital
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	no data	32	50	-	-
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	no data	49	50	-	-
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	no data	196	50	-	-
4	Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośrednicząca Comax Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa *)	no data	1 600	1 501	-	-
5	DIPOL Spółka z ograniczoną odpowiedzialnością *)	no data	75	75	**)	**)
6	Mars Management, s.r.o *)	no data	28	28	**)	**)

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Shares in affiliates															
a															
No.	Name of the Company with indication of legal form	other equity including:		Liabilities and provisions of the entity, including:				receivables of the entity, including:			p	r	s	t	
		Profit/loss from previous years	Net profit/loss	long term liabilities	short term liabilities	long term liabilities	short term liabilities	long term liabilities	short term liabilities						
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	(18)	(17)	(1)	-	1	-	-	-	32	-	-	-	Unpaid by the issuer share capital	dividend received or due from the entity during the last financial year
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	(1)	-	(1)	-	-	-	-	-	49	-	-	-		
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	146	(24)	170	60	-	60	10	5	265	-	-	-		
4	Mercury Energia - Przedsiębiorstwo Produkcyjno Usługowe i Pośrednictwa Camax Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa *)	(99)	0	(99)	8 713	6 474	2 239	841	-	10 214	-	-	-		
5	DIPOL Spółka z ograniczoną odpowiedzialnością *)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)
6	Mars Management, s.r.o*)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)

*) unaudited financial statements

***) no data

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18. Inventory

	31.12.2005	31.12.2004
a) raw materials	9	8
b) goods for resale	1 945	1 444
c) inventory prepaid	32	439
Total inventory	1 986	1 891

19. Short term receivables

	31.12.2005	31.12.2004
a) from affiliates	108	75
- trade receivables	17	15
- other	90	60
b) from other entities	35 931	15 938
- trade receivables	17 842	4 366
- tax and social security receivables	1 097	413
- other, including:	16 992	11 159
financial lease	15 566	0
Total short term receivables, net	36 037	16 013
c) provisions for doubtful debt	509	751
Total short term receivables, gross	36 546	16 764

20. Short term financial assets

	31.12.2005	31.12.2004
a) in other entities	1 319	-
- bonds	1 319	-
Total short-term financial assets	1 319	-

21. Other short term assets

	31.12.2005	31.12.2004
a) accrued income	2 507	640
b) cost reimbursement	185	-
Total other short-term assets	2 692	640

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22. Accrued income and deferred cost

	31.12.2005	31.12.2004
a) short-term (incl. insurance)	948	2 746
b) prepayments	3	3
c) other	26	29
d) short-term of projects	217	-
e) long-term of projects	632	224
Total accrued income and deferred cost	1 826	3 002

23. Cash and cash equivalents

	31.12.2005	31.12.2004
Cash and cash equivalents	41 601	36 586
- Cash in hand and in bank	38 082	19 552
- deposits and investment funds shares	3 519	17 034
Total cash and cash equivalents	41 601	36 586

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24. Share capital

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Share capital (structure)

Class/ issue	Type of share	Type of preference	Limitation of rights	number of shares	Value of the class/issue in nominal value	Type of payment	Registration date	Right to dividend (from date)
A	to the bearer*	no preference shares	no limitation	2 213 904	4 428	cash payment	19-07-2001***	01-01-1998 ****
B	to the bearer	no preference shares	no limitation	2 304 960	4 610	cash payment	19-07-2001*	01-01-1998
C	to the bearer	no preference shares	no limitation	515 256	1 031	cash payment	19-07-2001*	01-01-1999
D	to the bearer	no preference shares	no limitation	566 064	1 132	cash payment	19-07-2001*	01-01-1999
E	to the bearer	no preference shares	no limitation	1 338 960	2 678	cash payment	19-07-2001*	01-01-1999
F	to the bearer	no preference shares	no limitation	544 800	1 090	cash payment	19-07-2001*	01-01-2000
G	to the bearer	no preference shares	no limitation	683 376	1 367	cash payment	19-07-2001*	01-01-2001
H	to the bearer	no preference shares	no limitation	288 000	576	cash payment	20-08-2001	01-01-2001
I	to the bearer	no preference shares	no limitation	856 704	1 713	cash payment	15-04-2002	01-01-2002
J	to the bearer	no preference shares	no limitation	3 835 056	7 670	cash payment	09-08-2002	01-01-2002
K	to the bearer	no preference shares	no limitation	1 640 688	3 281	cash payment	22-08-2002	01-01-2002
L	to the bearer	no preference shares	no limitation	3 144 624	6 289	cash payment	22-08-2002	01-01-2002
M	registered	no preference shares	to the moment of full payment for shares, shares entitled to pro-rata dividend	182 359	365	cash payment	09-06-2005	01-01-2004
N	registered	no preference shares	to the moment of full payment for shares, shares entitled to pro-rata dividend	69 922	140	cash payment	-	01-01-2005
Total number of shares				18 184 673				
Total share capital					36 369			
Nominal value of one share in zlotys					2 **			

* Based on the resolution of General Shareholders Meeting of Polish Energy Partners S.A. from august 24, 2004 and based on the decision of Polish Security and Exchange Commission from December 10, 2004 shares from issues A to L became shares to the bearer.

** the split in nominal value of the shares was registered in KRS on September 2, 2004.

***Company registration date in KRS, as of that date the nominal value of one share amounted to 100 zlotys, the lowering of the nominal value of one share to 48 zlotys was registered in KRS on August 27, 2001.

**** in 1997 the Company issued 1000 shares of class A, which were entitled to dividend from 1997, the next issues which were made in 1998 entitled to dividend from 1998. On 28th of November 1998 all of the shares issued up to this date were designated as A class

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Shareholder	Pursuant to the shareholders list of shareholders over 5% votes on GSM dated December 23,			
	No of shares	Share in total capital	No of votes in GSM	Share in votes in GSM
Polish Enterprise Fund L.P.	8 666 049	47,66%	8 666 049	47,66%
Polenergy Investments B.V.	The shareholder did not register for the general shareholders meeting on December 23, 2005			

The Company has been notified that the shareholders of the Company - Polish Enterprise Fund L.P., Polish Private Equity Fund I, and Polish Private Equity Fund II (hereinafter referred to as the „Funds” sold 5,973,883 shares of the Company. The sales transactions took place on 14th February 2006 (400,000 shares were sold) and on the 16th of February 2006 (5,573,883 shares) and were settled on 17th February 2006. Before the sale the Funds held 8,942,163 shares of the Company representing 49.17% of votes at the Company's General Meeting and 49.17% of the Company's share capital. After the sale the Funds hold 2,968,280 shares of the Company representing 2,968,280 votes at the Company's General Meeting (16.32% of the total number of votes) and 16.32% of the Company's share capital.

The Company has been notified that the Company's shareholder - Polenergy Investments B.V. (hereinafter referred to as "Polenergy") sold 2,338,117 shares of the Company. The sale transaction was settled on 17th February 2006. Before the sale Polenergy held 3,499,871 shares of the Company representing 19.24% of votes at the Company's General Meeting and 19.24% of the Company's share capital. After the sale Polenergy holds 1,161,754 shares of the Company representing 1,161,754 votes at the Company's General Meeting (6.39% of the total number of votes) and 6.39 % of the Company's share capital.

The Company has been notified that American Life and Reinsurance Company (hereinafter referred to as "Alico"), acquired through AIG Otwarty Fundusz Emerytalny (managed by AIG Powszechne Towarzystwo Emerytalne) and AIG Asset Management (Polska) S.A. (as part of commissioned foreign securities portfolio management) 1,455,603 shares of the Company. As a result, as at 17th February 2006, Alico holds the Company's shares representing 8.0045% of the Company's share capital and 1,455,603 votes at the Company's General Meeting of Shareholders (8.0045% of the total number of votes). Before the said acquisition, Alico held 55,603 shares of the Company.

The Company has been notified that PZU Asset Management S.A. with its registered office in Warsaw (hereinafter referred to as "PZU AM") purchased beyond organized trading 1,200,000 shares of the Company. As a result, as at 17th February 2006, PZU AM held (as part of commissioned foreign securities management portfolio) the Company's shares representing 6.60% of the Company's share capital and 1,200,000 votes at the Company's General Meeting of Shareholders (6.60% of the total number of votes). Before the said acquisition, PZU AM did not hold the Company's shares.

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Share capital (structure)								
Class/ issue	Type of share	Type of preference	Limitation of rights	number of shares	Value of the class/issue in nominal value	Type of payment	Registration date	Right to dividend (from date)
A	to the bearer*	no preference shares	no limitation	2 213 904	4 428	cash payment	19-07-2001***	01-01-1998 ****
B	to the bearer	no preference shares	no limitation	2 304 960	4 610	cash payment	19-07-2001*	01-01-1998
C	to the bearer	no preference shares	no limitation	515 256	1 031	cash payment	19-07-2001*	01-01-1999
D	to the bearer	no preference shares	no limitation	566 064	1 132	cash payment	19-07-2001*	01-01-1999
E	to the bearer	no preference shares	no limitation	1 338 960	2 678	cash payment	19-07-2001*	01-01-1999
F	to the bearer	no preference shares	no limitation	544 800	1 090	cash payment	19-07-2001*	01-01-2000
G	to the bearer	no preference shares	no limitation	683 376	1 367	cash payment	19-07-2001*	01-01-2001
H	to the bearer	no preference shares	no limitation	288 000	576	cash payment	20-08-2001	01-01-2001
I	to the bearer	no preference shares	no limitation	856 704	1 713	cash payment	15-04-2002	01-01-2002
J	to the bearer	no preference shares	no limitation	3 835 056	7 670	cash payment	09-08-2002	01-01-2002
K	to the bearer	no preference shares	no limitation	1 640 688	3 281	cash payment	22-08-2002	01-01-2002
L	to the bearer	no preference shares	no limitation	3 144 624	6 289	cash payment	22-08-2002	01-01-2002
Total number of shares				17 932 392				
Total share capital					35 865			
Nominal value of one share in zlotys					2 **			

* Based on the resolution of General Shareholders Meeting of Polish Energy Partners S.A. from august 24, 2004 and based on the decision of Polish Security and Exchange Commission from December 10, 2004 shares from issues A to L became shares to the bearer.

** the split in nominal value of the shares was registered in KRS on September 2, 2004.

*** Company registration date in KRS, as of that date the nominal value of one share amounted to 100 zlotys, the lowering of the nominal value of one share to 48 zlotys was registered in KRS on August 27, 2001.

**** in 1997 the Company issued 1000 shares of class A, which were entitled to dividend from 1997, the next issues which were made in 1998 entitled to dividend from 1998. On 28th of November 1998 all of the shares issued up to this date were designated as A class

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25. Deferred Tax

	Income tax (current and deferred)	31.12.2005	31.12.2004
Profit and loss account			
Current income tax		860	1 133
Current income tax expense		860	1 133
Adjustments to current income tax expense referring to prior periods		-	-
Deferred tax		2 324	1 055
Related to provision for and reversal of temporary differences		2 324	1 055
Total income tax expense presented in the profit and loss account		3 184	2 188
Statement of changes in shareholders equity		31.12.2005	31.12.2004
Current income tax		-	-
Tax effect of increase in share capital		-	-
Deferred tax		-	-
Tax on profit resulting from revaluation of cash flow hedge		-	-
Tax on unrealised profit from financial instruments available for sale		-	-
Tax on settled in current financial year financial instruments for cash flow hedge		-	-

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Deferred tax	Consolidated balance sheet		Consolidated profit and loss account	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Deferred tax liability				-
fixed assets	598	139	459	119
receivables	892	-	892	(8)
cash	16	59	(43)	(146)
loans	87	-	87	(334)
lease receivables	46 997	47 900	(903)	42 057
liabilities	4 410	2 420	1 990	2 420
	-	-	-	-
Gross deferred tax liability	53 000	50 518	2 482	44 108

Deferred tax asset				
fixed assets	-	139	(139)	(1 054)
cash	187	179	8	179
receivables	166	373	(207)	(119)
loans	59	8	51	8
liabilities	697	-	697	(2 445)
provisions	1 369	484	885	(165)
lease assets	48 731	49 868	(1 137)	47 444
loss for previous periods	-	-	-	(795)
Gross deferred tax asset	51 209	51 051	158	43 053

Deferred tax expense			2 324	1 055
Net deferred tax asset/liability	1 791	(533)		

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26. Provisions

	31.12.2005	31.12.2004
Long-term provisions		
Retirement and similar provisions	450	469
Other provisions - recultivation	2 071	2 030
Total long-term provisions	2 521	2 499
Short-term provisions		
Retirement and similar provisions	196	60
Other provisions	1 406	1 584
Total short-term provisions	1 602	1 644
Movements in other long-term and short-term provisions		
Balance at the beginning of period	4 143	3 781
creation of provisions	561	956
release of provisions	(273)	(528)
use of provisions	(309)	(65)
movement provisions to long-term provisions	(83)	(9)
movement provisions to short-term provisions	84	9
Balance at the end of period	4 123	4 143

The balance of other short term provisions include among others provision for litigation with URE in the amount of 731 thd. zlotys.

27. Long term liabilities

	31.12.2005	31.12.2004
a) from 1 to 3 years	42 467	34 413
b) from 3 to 5 years	46 781	39 439
c) over 5 years	142 703	137 053
Long-term liabilities, Total	231 951	210 905

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28. Long term liabilities from bank loans and credits

reported as of 31.12.2005

Long term liabilities from loans and credits

Name of the Company with Indication of legal form	Seat	Loan/Credit limit as in the agreement		Amount of loan/credit to repay		Condition of interest	Effective interest rate %	Repayment date	Collateral	
		thousand PLN	currency	thousand PLN	currency					
BRE Bank S.A.	Warszawa	11 851	PLN	4 861	PLN	WIBOR 1-month plus margin	8,7	July 2009	Mortgage amounting to Own bill of exchange - value: amount of debt plus interest plus other costs Registration Pledge on boilers- its value according to the base agreement equals USD 1,142.0 thousand Registration Pledge on gas turbine- its value according to the base agreement equals USD 5,300 thousand cession of receivables related to the project - from the contract up to the level of debt outstanding plus interest plus other costs and from insurance (value of the insurance as of 30 June 2004 amounts to 4,200 thousand zlotys	600 thousand PLN - - - -
BRE Bank S.A.	Warszawa	17 332	PLN	9 216	PLN	WIBOR 1-month plus margin dependant on Company's results	8,7	June 2012	Power of attorney to dispose of the current account and debt servicing account in BRE Bank S.A. Agreement for security assignment (applying to the Polar Investment) Registration Pledge up to the amount of Mortgage securing an existing or future claim up to the amount of PLN 17 332.0 thousand set up on the real estate belonging to Polar S.A. in Wroclaw until the day of purchase of this real estate from Polar SA by the borrower	- - 35.000 thousand PLN 17.332 thousand PLN
PEKAO S.A.	Warszawa	4 906	PLN	3 953	PLN	WIBOR 1-month plus margin	6,7	August 2015	Own bill of exchange Power of attorney to dispose of the current account of the borrower and Energep Sp. z o.o. EC Jezozna Sp. Komandytowa cession of receivables related to the agreements for heat and electricity deliveries concluded between Energep Sp. z o.o. EC Jezozna Sp. Komandytowa, a Meisa Tissue S.A., Ecotex Polska Sp. z o.o., Konstans Sp. z o.o. Registration Pledge up to the amount of on assets of EC Jezozna which are used to generate and deliveries of electricity and heat together with cession of insurance policy Pledge up to the amount of submission to execution and submission to execution to hand over the pledged assets	1.113 thousand PLN 4.906 thousand PLN

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BRE Bank S.A. Warszawa	74,600 thousand EUR	213 921	55,423 thousand EUR	- basic rate EURIBOR 1-month plus margin	4,0	repayment in instalments, last principal is paid on 20.12.2015	Agreement for securing assignment of all current and future claims	105 000 thousand EUR
							Agreement for pledge over shares in the Saturn Management Sp. z o.o. together with the transfer of PEP S.A. rights	total and each of the agreements up to 105 000 thousand EUR
							Pledge on PEP S.A. rights as the limited partner of the Subsidiary and PEP S.A. rights	
							Agreement with BRE relating to the pledge over bank account together with the power of attorney for this account	
							agreement between PEP S.A. and BRE Bank S.A. relating to securing assignment - Saturn project	
							Agreement for pledge over assets incorporated in the company's enterprise - value of the pledge depends on the way of its consumption but not more than	105 000 thousand EUR
							Agreement between SM sp. z o.o. and BRE relating to Registration Pledge on the rights to bank account access together with power of attorney up to the amount of:	105 000 thousand EUR
							Submission to execution to BRE Bank S.A.	
							Agreement on transfer for security, covering all current and future receivables up to the amount	90 000 thousand EUR
							Guarantees assignment Agreement for transfer of rights and claims from granted by the business partner	-
							Agreement for security transfer of the ownership of the tangible fixed assets purchased from Frantschach Swiecie based on the Purchase / Sale Agreement together with all the relating rights from guarantees and warranties, including those granted by the business partner	-
							Agreement on mortgage on perpetual usufruct and ownership of the buildings for BRE Bank Mortgage for BRE and Kreditalstat for Wiederaufbau in the amount of amounting to EUR 45 million each.	90 000 thousand EUR
							Agreement on cession of rights from General Agreement up to the amounts resulting from debt outstanding	-
							Agreement on cession of rights from agreements with Mondl, Construction agreement and significant agreements with construction companies, insurance agreements up to the amounts resulting from debt outstanding	-
							Registration Pledge on the rights of SM Sp. z o.o. As unlimited partner of Saturn Management Sp. z o.o. i Wspólnicy, spółka komandytowa together with bank transfer - value of the pledge dependant on the way to use the pledge but no more than	105 000 thousand EUR
							guarantee of Mondl Packaging Swiecie S.A. up to the amount being minimum of : amount of three months costs of debt	to December 20, 2016

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Ratifeisen Bank Polska SA	Warszawa	21 600	EUR	-	EURO	- basic rate EURIBOR 1-month plus margin	-	repayment in installments, last principal is paid on 31.12.2021	- agreement on transfer for collateral of receivables from insurance agreement	
									Power of attorney to dispose of the current account,	
									Power of attorney to dispose of the current accounts	
									- agreement with Ratifeisen Bank Polska SA relating to restriction pledge on receivables due from bank account,	33 525 thousand EUR
									- agreement with Ratifeisen Bank Polska SA relating to restriction pledge on receivables due from bank account,	33 525 thousand EUR
									- Registration Pledge on assets	33 525 thousand EUR
									- submission to execution of the borrower	33 525 thousand EUR
									- two registration pledges on fixed assets of DIPOL sp. z o.o. For Ratifeisen Bank Polska SA	each in 4 289,3 thousand EUR,
									- restriction pledge for Ratifeisen Bank Polska SA	8 538,7 tys EUR
									- six registration pledges for Ratifeisen Bank Polska SA	each in 4 289,3 thousand EUR,
									- representation of PEP SA about submission to execution	
									- Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until August 30, 2009	
									- registration pledge agreement on shares in DIPOL sp. z o.o. Concluded between PEP SA and Ratifeisen Bank Polska SA - value of the pledge depends on the way of use but not more than 33 525 thousand EUR	
									- guarantee agreement between PEP SA and Ratifeisen Bank Polska SA. Guarantee granted by PEP SA in the amount totalling: 1 350 000 EURO remains in force until July 31, 2007, up to 5 900 378 PLN remains in force till the day which is six months from the date of statements issued by Ekofundusz Foundation about final settlement of the grant.	

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						<p>Agreement for securing assignment of all current and future claims</p> <p>Agreement for pledge over shares in the Saturn Management Sp. z o.o. together with the transfer of PEP S.A. rights</p> <p>Pledge on PEP S.A. rights as the limited partner of the Subsidiary and PEP S.A. rights</p> <p>Agreement with BRE relating to the pledge over bank account together with the power of attorney for this account</p> <p>agreement between PEP S.A. and BRE Bank S.A. relating to securing assignment- Saturn project</p> <p>Agreement for pledge over assets incorporated in the company's enterprise - value of the pledge depends on the way of its consumption but not more than</p> <p>Agreement between SM sp. kom. And BRE relating to Registration Pledge on the rights to bank account access together with power of attorney up to the amount of:</p> <p>Submission to execution to BRE Bank S.A.</p> <p>Agreement on transfer for security, covering all current and future receivables up to the amount</p>	<p>90,000 thousand EUR total and each of the agreements up to 90,000 thousand EUR</p> <p>90,000 thousand EUR</p> <p>-</p> <p>90,000 thousand EUR</p> <p>-</p>
BRE Bank S.A.	Warszawa	63 600 thousand EUR	194 325	47 640 thousand EUR 1-month plus margin	4.2	<p>repayment in installments, last principal is paid on 20.12.2015</p> <p>Guarantees assignment Agreement for transfer of rights and claims from granted by the business partner</p> <p>Agreement for security transfer of title to BRE Bank SA of the ownership of the tangible fixed assets purchased from Frantschach Sverige based on the Purchase / Sale Agreement together with all the relating rights from guarantees and warranties, including those granted by the producer</p> <p>Agreement on mortgage on perpetual usufruct and ownership of the buildings for BRE Bank Mortgage for BRE and Kreditanstalt für Wiederaufbau in the amount of amounting to EUR 45 million each.</p> <p>Agreement on cession of rights from General Agreement up to the amounts resulting from debt outstanding</p> <p>Agreement on cession of rights from agreements with Frantschach, Construction agreement and significant agreements with construction companies, insurance agreements up to the amounts resulting from debt outstanding</p> <p>Registration Pledge on the rights of SM Sp. z o.o. As unlimited partner of Saturn Management Sp. z o.o. i Wspólnicy, spółka komandytowa together with bank transfer - value of the pledge dependant on the way to use the pledge but no more than</p> <p>guarantee of Frantschach Sverige S.A. up to the amount being minimum of - amount of three months costs of debt</p>	<p>-</p> <p>90,000 thousand EUR</p> <p>-</p> <p>-</p> <p>-</p> <p>90,000 thousand EUR</p> <p>3,000 thousand PLN</p>

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29. Short term liabilities

	31.12.2005	31.12.2004
a) loans and bank credits	20 409	16 348
b) trade payables	3 960	2 690
- to other entities	3 960	2 690
c) income tax liabilities	14	-
d) other liabilities	2 063	2 093
- taxes, customs and social security liabilities	1 015	1 212
- other financial liabilities	137	133
- payroll liabilities	70	309
- Special Funds	9	70
- other financial liabilities	833	369
Total short term liabilities	26 446	21 131

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30. Short term liabilities from bank loans and credits

reported as of 31.12.2005

Short term liabilities from loans and credits									
Name of the Company with indication of legal form	Seat	Loan/Credit limit as in the agreement		Amount of loan/credit to repay		Condition of interest	Repayment date	Collateral	
		thousand zloty	currency	thousand zloty	currency				
BRE Bank S.A.	Warszawa	11 851	PLN	1 450	PLN	long term debt (amount payable within one year time)	within one year	Presented in long-term liabilities note	
BRE Bank S.A.	Warszawa	17 332	PLN	1 053	PLN	long term debt (amount payable within one year time)	within one year	Presented in long-term liabilities note	
PEKAO S.A.	Warszawa	4 906	PLN	271	PLN	long term debt (amount payable within one year time)	within one year	Presented in long-term liabilities note	
BRE BANK	Warszawa	equal amount in PLN of 74,600 thd. EUR	investment	15,461	equal amount in PLN 4,006 thd. EUR	long term debt (amount payable within one year time)	within one year	Presented in long-term liabilities note	

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BRE BANK	Warszawa	equal amount in PLN 453 Ind EUR	overdraft	-	WIBOR 1-month + bank margin	to 31.03.2006	Security assignment of rights of the borrower from the Project documentation other than Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies German Guarantee Assignment Agreement of the borrower's rights to Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies In blanco bill of exchange issued by the borrower together with the bill of exchange declaration of the borrower Power of attorney for the Bank to dispose of all of the Bank accounts of the borrower held in Bank Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2007.
BRE BANK	Warszawa	9498 tys. PLN	VAT facility	2.174	WIBOR 1-month + bank margin	to 31.03.2006	Statement of the appropriate tax office, presented on borrower's request, including an obligation to return the VAT on VAT Account, and in case of not obtaining such statement a statement of the borrower including assurance of returning VAT on VAT account or, if obtaining such statements would not be possible, an obligation of the borrower to make transfers of the amounts acquired as VAT return on VAT account, according to the bank accounts agreement Security assignment of rights of the borrower from the Project documentation other than Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies German Guarantee Assignment Agreement of the borrower's rights to Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies Cession of rights pertaining to PEP from Mondl Packaging Paper Swiecie S.A. From General Agreement Power of attorney for BRE Bank to dispose of all of the bank accounts of the borrower held in bank Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2007.

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reported as of 31.12.2004							
Short term liabilities from loans and credits							
Name of the Company with indication of legal form	Seat	Loan/Credit limit as in the agreement		Amount of loan/credit to repay		Condition of interest	Repayment date
		thousand zloty	currency	thousand zloty	currency		
BRE Bank S.A.	Warszawa	11,851	PLN	1,310	PLN	long term debt (amount payable within one year)	Presented in long-term liabilities note
BRE Bank S.A.	Warszawa	17,332	PLN	933	PLN	long term debt (amount payable within one year)	Presented in long-term liabilities note
BRE BANK	Warszawa	equal amount in PLN 453 thd. EUR	overdraft	-	-	WIBOR 1-month + bank margin	to 31.03.2005
BRE BANK	Warszawa	3,500 tys. EUR	VAT facility	2,165	-	WIBOR 1-month + bank margin	to 31.03.2005
BRE BANK	Warszawa	equal amount in PLN 63,600 thd. EUR	investment	11,836	2,902 tys. EUR	long term debt (amount payable within one year time)	Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2006.

Security assignment of rights of the borrower from the Project documentation other than Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies

German Guarantee Assignment Agreement of the borrower's rights to Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies

Power of attorney for BRE Bank to dispose of all of the bank accounts of the borrower held in bank

Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2006.

Statement of the appropriate tax office, presented on borrower's request, including an obligation to return the VAT on VAT Account, and in case of not obtaining such statement a statement of the borrower including assurance of returning VAT on VAT account or, if obtaining such statements would not be possible, an obligation of the borrower to make transfers of the amounts acquired as VAT return on VAT account, according to the bank accounts agreement

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31. Accrued cost and deferred income

	31.12.2005	31.12.2004
Long-term accruals and deferred income		
a) deferred income	1 021	1 177
Long-term accruals and deferred income, total	1 021	1 177
Short-term accruals and deferred income		
a) futures salaries and bonuses	934	548
b) costs of outsourced services	251	573
c) other	95	509
d) deferred income - grant	79	-
Short-term accruals and deferred income, total	1 358	1 630

32. Assets and liabilities of social fund

	31.12.2005	31.12.2004
a) loans granted to employees	4	-
b) cash	47	57
c) liabilities to the fund	38	30
Net balance	14	27
fees due to the social fund in current year	133	149

33. Contingent liabilities

	31.12.2005	31.12.2004
a) guarantees granted	21 611	10 500
b) other (due from limited liability sum in LLP):	39 310	39 210
- to subsidiaries	38 650	38 550
- to associates	660	660
c) court cases	394	-
Total contingent liabilities to affiliates	61 315	49 710

The detailed description of contingent liabilities is presented in the Note 47 of the additional Notes and Explanations of the consolidated financial statement.

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34. Sales revenue

	31.12.2005	31.12.2004
revenues from sales of energy	834	1 123
revenues from sales of heat	23 219	25 291
revenues from consulting projects	4 088	1 866
revenues from sales of over standard quality and guarantee of deliveries	351	50
revenues from leasing and operating of the leased assets	32 540	21 581
sale of goods	65	-
Total net revenues from sales of goods	61 097	49 911

35. Costs by kind

	31.12.2005	31.12.2004
a) depreciation	2 858	2 887
b) material and energy used	18 370	16 531
c) external services	9 068	7 248
d) taxes and fees	1 882	962
e) payroll, including:	12 933	12 110
management options	1 032	-
f) social security and payroll related charges	2 210	2 458
g) other costs by kind	961	1 347
Total costs by kind	48 282	43 543
Value of sold goods and materials (positive amount)	278	-
Change in value of work in progress and finished goods	(365)	321
Cost of asset construction for own purposes (negative amount)	-	-
Selling costs (negative amount)	-	-
General and administration costs (negative amount)	(13 152)	(11 898)
Cost of goods sold	35 043	31 966

36. Other operating income

	31.12.2005	31.12.2004
a) reversal of impairment write-downs and release of provisions	500	9 327
- provisions for doubtful debt	283	2 072
- impairment write-downs of fixed assets	-	5 546
- other write-offs	217	1 709
b) other, including:	856	235
-received penalties and compensation	424	217
-other	417	18
-profit from sales of nonfinancial fixed assets	15	-
Total other operating income	1 356	9 562

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37 Other operating costs

	31.12.2005	31.12.2004
a) revaluation of assets, including:	527	1 163
-receivables	41	227
-liquidation costs	55	-
-impairment of fixed assets	432	868
-other revaluations	-	68
b) other, including:	550	49
-penalties, compensations	23	8
-donations	21	16
-costs of Warsaw Stock Exchange entry	483	-
-other revaluations	23	21
-loss from sales of nonfinancial fixed assets	-	4
Total other operating expense	1 078	1 212

38 Financial income

	31.12.2005	31.12.2004
a) financial income from dividends and share in profit	118	-
b) due from loans granted	757	113
c) other interest - leasing	10 256	12 257
interest due from lease of assets	2 100	2 823
d) reversal of provision for doubtful debt	107	-
e) gain on securities trade	526	910
f) other financial income	195	250
Financial income, total	11 959	13 530

39 Financial costs

	31.12.2005	31.12.2004
a) financial costs from interest	9 623	10 930
b) foreign exchange	2 579	5 858
-unrealised	3 141	6 043
-realised	(562)	(185)
c) increase of revaluation provision	52	2 018
d) provisions and other costs of credits	266	237
e) other financial costs	96	96
Total financial costs	12 616	19 139

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40 Current income tax

	31.12.2005	31.12.2004
1. Consolidated gross profit (loss)	18 802	27 603
2. Consolidation adjustments	(6 414)	(18 904)
3. Differences between gross profit and tax base for corporate income tax	-	-
a) Income	(28 003)	(46 769)
- revenue to be recognized in next fiscal period	(7 350)	(3 563)
- revaluation of cash	(32 840)	(36 754)
- unpaid interest on loans	(257)	(159)
- interest on investment	144	(255)
- dividends from limited liabilities companies	(118)	-
- release of provisions	(617)	(10 827)
- received grants	(79)	(200)
- settlement of temporary differences from previous years	932	168
- repayment of principal in financial lease payment	11 789	3 384
- settlement of revenues included in prior period	634	1 552
- other income	(241)	(115)
b) costs	20 298	48 221
- undocumented costs	42	17
- costs not related to revenues	120	51
- costs from other period	6	21
- payments to PFRON	44	49
- payment for non obligatory societies	29	44
- expense for owners and members	1 152	123
- insurance policy of management board	28	9
- accounting depreciation	2 723	2 734
- tax depreciation	(24 677)	(10 451)
- costs - liquidation costs	40	-
- costs - capital part of lease	(220)	(92)
- costs - revaluation of cash	35 113	38 212
- costs - reserves	293	1 889
- costs - valuation of receivables	408	308
- costs - revaluation of settlements	(60)	-
- costs - salaries paid in due date	(35)	-
- costs - tax deductible from sales of heat and electricity	2 655	3 204
- costs - loans revaluation	1 270	2 708
- costs - losses	398	-
- costs - provision for bonuses	415	264
- costs - provision for fixed assets	432	898
- costs - interest paid	(808)	(840)
- costs - revaluation write offs	55	1 998
- costs - financial capitalized in assets leased in financial lease	142	7 113
- costs - other capitalized in assets leased in financial lease	19	405
- costs - settlement of costs related to assets in financial lease	(668)	(677)
- costs - movment of other costs in accordance with payment date	1 164	-
- other costs	218	233
4. Tax Basis before tax loss from previous years	4 683	10 151
4a. Tax loss settlement from previous years (negative number)	-	(4 184)
Donations	10	-
4b. Tax basis after tax loss	4 683	5 967
5. Income tax at current tax rate 19%	19%	19%
6. Increase, lowering, tax deductions	30	-
7. Current income tax expense in the declaration to tax authority	860	1 133
8. Income tax at effective tax rate 19% (2004: 19%)	3 572	5 245

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	31.12.2005	31.12.2004
Current income tax expense	860	1 133
Change in deferred tax balance	2 324	1 055
Income tax reported in profit and loss account	3 184	2 188
	31.12.2005	31.12.2004
Revenue permanent not taxed	37	38
Costs permanently not tax deductible	3 535	1 061
Tax loss settled	-	4 184
Income tax at effective tax rate 19% (2004: 19%)	3 572	5 245

41 Cash flows – explanatory notes

Cash flows from operation activity - other adjustments

	2 005	2 004
management options	1 032	-
sale of assets under construction	2 078	-
Impairment write down	-	(6 178)
Total other adjustments	3 110	(6 178)

Other investment inflows

	2 005	2 004
Repayment of principal and interest from financial lease	22 213	15 160
Total	22 213	15 160

Other investment outflows

	2 005	2 004
Outflows for leased fixed assets	17 418	33 471
Total	17 418	33 471

restricted cash

	2 005	2 004
deposit*	5 986	6 326
Social fund	39	20
Total	6 025	6 346

* Restriction results from bank loan agreement for project Saturn and constitutes collateral of equity for the project

42 Financial Risk Management – goals and rules

Financial instruments issued or possessed by the Group can cause – on a standalone or combined basis – one or several classes of significant risk.

The main financial instruments the Group uses comprise bank loans, financial lease contracts with buy back option, cash and short term deposits. The main goal of these instruments is to supply sufficient

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amounts of cash for Group operations. The Group has also other financial instruments such like trade receivables and liabilities which arise as a result of normal business operations.

The main classes of risk resulting from financial instruments include interest rate risk, currency risk and credit risk. The Management of the company verifies and reconciles the rules of each class risk management – these rules are discussed in an abbreviated form below. The Group also monitors the market price risk relating to all of its financial instruments.

42.1 Interest Rate Risk

The exposure of Group to the risk of changes in interest rates refers mainly to long term financial liabilities.

The Group manages the interest costs by using the variable interest instruments. The Group does not apply any hedging using derivative financial instruments.

42.2 Currency Risk

The currency risk refers mainly to the changes in EUR foreign exchange rate in relation to the open asset currency position in the financial lease transaction. This risk is described in detail in Note 45 relating to leases. The position is not hedged in order to eliminate the exchange rate volatility.

42.3 Credit Risk

The Group concludes contracts only with renowned companies with stable financial position. All clients who would like to have extended credit line are subject to detailed verification. Moreover due to instant monitoring of receivables balances the Group is only slightly exposed to the overdue receivables balance risk.

In relation to other financial assets of the Group, cash and cash equivalents and assets available for sale the credit risk for the Group arises when the counterparty is not able to pay its obligations and the maximum exposure to such risk is equal to the carrying value of such instruments. The Group concludes such financial instruments contracts only with renowned financial institutions.

There is no significant credit risk concentration in the Group.

43 Information on financial instruments

43.1 Presentation of financial instruments – changes in value of financial instruments by category

As of December 31, 2005 the Capital Group PEP had the following financial instruments classified into the following groups (in thousand zlotys):

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	Cash equivalents (bonds, treasury bills, open end funds)	Originating loans and receivables	Available for sale (shares)	Fair value through profit and loss
Opening Balance	17.034	3.036	1.009	-
Increase, including::	25 354	2 403	25	1.319*
Purchase of treasury bills and bonds	25 259	-	-	1.319
Loans granted	-	2.280	-	-
Interest	95	123	-	-
Purchase of shares	-	-	25	-
Decrease, including:	38.869	-	80	-
Sale of treasury bills and bonds	38.869	-	-	-
Interest reclassification	-	-	-	-
Shares return	-	-	80	-
Revaluation	-	-	-	-
Closing Balance	3 519	5.439	954	1.319

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As of December 31, 2004 the Capital Group PEP had the following financial instruments classified into the following groups (in thousand zlotys):

	Cash equivalents (bonds, treasury bills, open end funds)	Originating loans and receivables	Available for sale (shares)
Opening Balance	7.560	-	140
Increase, including::	148.409	3.036	918
Purchase of treasury bills and bonds	148.094	-	-
Loans granted	-	2.923	-
Interest	315	113	
Purchase of shares	-	-	918
Decrease, including:	138.935	-	49
Revaluation			49
Sale of treasury bills and bonds	138.935	-	-
Closing Balance	17.034	3.036	1.009

The value of available for sale financial instruments consists of shares in affiliates. These shares are not listed on any active market so their fair value can not be reliably measured. Due to this fact the shares are recognized in the balance sheet at cost.

The detailed description of valuation methods of financial instruments in discussed in Note 6.25 in the Notes to the Consolidated Financial Statements.

44 The characteristics of financial instruments

a) Fair value through profit and loss financial assets

As of the balance sheet date the Group had the following financial assets through profit and loss:

1,248 bonds with face value of 1,248 thousand zlotys – these bonds were purchased by Saturn Management Sp. z o.o. i Wspólnicy, Spółka Komandytowa from BRE Bank on August 12, 2005 for the amount of 1,299 thousand zlotys. The maturity of these bonds is June 24, 2008.

Unrealized gains from valuation of these bonds as of the balance sheet date amount to 20 thousand zlotys.

As of the balance sheet date the Company had the following shares in investment funds:

- Górnośląskie Towarzystwo Funduszy Inwestycyjnych S.A.:

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10,779 units purchased on June 8, 2005 for the amount of 1,654 thousand zlotys,

Unrealized gains due from increase in value of these units in GTFI S.A. amount to 26 thousand zlotys as of balance sheet date,

- in ING Towarzystwie Funduszy Inwestycyjnych S.A.

560 units purchased on June 8, 2005 for the amount of 100 thousand zlotys,

9,444 units purchased on June 16, 2005 for the amount of 1,700 thousand zlotys,

Unrealized gains due from increase in value of these units in ING Towarzystwie Funduszy Inwestycyjnych S.A. amount to 39 thousand zlotys as of balance sheet date,

b) Loans granted and receivables

The parent company granted the following loans to its affiliates:

1. To the company Merkury Energia – Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością, spółka komandytowa:

The loan agreement was signed on June 25, 2004 for the amount of 2,750 thousand zlotys. The borrower is obliged to repay the loan in two equal installments on March 31, 2010 and October 31, 2010.

The loan agreement was signed on September 30, 2005 for the amount of 700 thousand zlotys. The borrower is obliged to repay the loan in two equal installments on December 31, 2010 and May 31, 2011.

The loan agreement was signed on November 4, 2005 for the amount of 1,000 thousand zlotys. The borrower is obliged to repay the loan in two equal installments on December 31, 2010 and May 31, 2011.

The loan agreement was signed on December 27, 2005 for the amount of 580 thousand zlotys. The borrower is obliged to repay the loan in two equal installments on December 31, 2010 and May 31, 2011.

The borrower uses the loan to finance and refinance payments to domestic and foreign subcontractors including these payments which result from investment needs to complete the signed agreements i.e. with Zakłady Koksownicze „Wałbrzych” S.A.

Interest is calculated on monthly basis. The interest on the loan amounts to 10%.

The interest due as of December 31, 2005 and December 31, 2004 amounted to 298 thousand zlotys and 110 thousand zlotys.

The table below presents the loans in the specific periods:

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Borrower	Date of agreement	Total limit of the loan according to the agreement (thd. zlotys)	Balance of the amount due	Balance of interest due	Date of repayment	Interest	End of grace period	Collateral
Mercury Energia-Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa Comax Spółka z ograniczoną Odpowiedzialnością Spółka komandytowa	25.06.2004	2.750	2.750	385	31.10.2010	fixed, 10%	Interest due from the day of loan drawing till the day of issuing of first invoice for electricity delivered by the borrower will be capitalized	No collateral
Mercury Energia-Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa Comax Spółka z ograniczoną Odpowiedzialnością Spółka komandytowa	30.09.2005	700	700	15	31.05.2011	fixed, 10%	Interest due from the day of loan drawing till the day of issuing of first invoice for electricity delivered by the borrower will be capitalized	No collateral
Mercury Energia-Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa Comax Spółka z ograniczoną Odpowiedzialnością Spółka komandytowa	4.11.2005	1.000	1 000	9	31.05.2011	fixed, 10%	Interest due from the day of loan drawing till the day of issuing of first invoice for electricity delivered by the borrower will be capitalized	No collateral
Mercury Energia-Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa Comax Spółka z ograniczoną Odpowiedzialnością Spółka komandytowa	27.12.2005	580	580	-	31.05.2011	fixed, 10%	Interest due from the day of loan drawing till the day of issuing of first invoice for electricity delivered by the borrower will be capitalized	No collateral
TOTAL		5.030	5.030	409				

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Reported as at December 31, 2004

Borrower	Date of agreement	Total limit of the loan according to the agreement (thd. zlotys)	Balance of the amount due	Balance of interest due	Date of repayment	Interest	End of grace period	Collateral
Mercury Energia-Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością Spółka komandytowa	25.06.2004	2.750	2.750	110	31.10.2010	fixed, 10%	Interest calculated till March 2005 will be capitalized, and the interest repayment from April 2005 will be on monthly basis	No collateral
Dipol Spółka z o.o.	20.10.2004	306	173	3		fixed, 9,5%	After starting economic activity which is expected in April 2006	No collateral
TOTAL			2.923	113				

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c) Interest on loans granted

In the year ended December 31, 2005 and December 31, 2004 the Group did not realize revenue from loans granted. In the profit and loss account the interest accrued was incurred for the year 2005 and 2004 respectively.

	Interest realized	Unrealized due within					Total interest
Year ended 31.12.2005		Till 3 months	3-12 months	1 – 5 years	> 5 years	Total unrealized	
Interest on long term financial receivables from affiliates	-	-	-	-	299	299	299
Total	-	-	-	-	299	299	299

	Interest realized	Unrealized due within					Total interest
Year ended 31.12.2004		Till 3 months	3-12 months	Year ended 31.12.2005		Till 3 months	3-12 months
Interest on long term financial receivables from affiliates	-	-	-	-	110	110	110
Total	-	-	-	-	110	110	110

d) financial assets available for sale

On December 20, 2005 the Parent Company purchased 50% shares in Notos Sp. z o.o. in the amount of 25 thousand zlotys.

45 Interest Rate Risk

The carrying value of financial instruments bearing the interest rate risk is presented in the table below in the aging breakdown.

Year ended December 31, 2005

<i>Variable interest rate</i>	<i><1year</i>	<i>1–2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>Total</i>
Cash	24 367						24 367
Bank loans amounting 39,812 thousands zlotys	4 948	3 327	3 682	3 484	2 237	5 300	29 978
Bank loans in EURO amounting 229,382 thousands zlotys	15 461	16 848	18 612	20 062	21 636	136763	229 382

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<i>Fixed interest rate</i>	<i><1year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>Total</i>
Cash assets	17,263	—	—	—	—	—	17,263
Loans granted	—	—	—	—	3,136	2,302	5,438

Year ended December 31, 2004

<i>Variable interest rate</i>	<i><1year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>Total</i>
Cash	36 603	—	—	—	—	—	36 603
Bank loans amounting 20,989 thousands zlotys	4 408	2 503	2 797	3 152	2 954	5 174	20 989
Bank loans in EURO amounting 206,162 thousands zlotys	11 837	14 064	15 049	16 104	17 229	131 879	206 162

<i>Fixed interest rate</i>	<i><1year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>>5 years</i>	<i>Total</i>
Cash assets	—	—	—	—	—	—	—
Loans granted	—	176	—	—	—	2,860	3,036

The interest on variable interest financial instruments is reviewed in periods shorter than one year. Other Group's financial instruments which were not presented in the above tables are not subject to interest and therefore are not subject to interest rate risk.

46 Capital Group as lessor

46.1 Reconciliation of gross investment lease as at the balance sheet date with the present value of minimum lease payments as at the balance sheet date:

in PLN	as of 31.12.2005 in total	to 1 year	from 1 to 5 years	over 5 years
Exchange rate PLN/EUR 3.8598				
Gross investment lease	311 506	20 949	105 734	184 823
Net lease investment	247 147	15 597	79 946	151 604
Minimum lease payments	311 505	20 948	105 734	184 823
Unrealized financial revenues	64 359	5 352	25 788	33 219
Unguaranteed residual accruing to the lessor				
Conditional lease payments	85 588	7 738	26 555	51 295

Conditional lease payments recognized in the profit and loss account for the period January 1, 2005 – December 31, 2005 amounted to 9,712 thousands zlotys.

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in PLN	as of 31.12.2005 in total	to 1 year	from 1 to 5 years	over 5 years
Exchange rate PLN/EUR 4.079				
Gross investment lease	338 249	18 542	92 575	227 132
Net lease investment	254 650	11 961	69 747	172 942
Minimum lease payments	338 249	18 542	92 575	227 132
Unrealized financial revenues	83 599	6 582	22 827	54 189
Unguaranteed residual accruing to the lessor				
Total provisions for doubtful debts resulting from minimum lease payments				
Conditional lease payments	117 841	7 893	27 463	82 484

Conditional lease payments recognized in the profit and loss account for the period January 1, 2004 – December 31, 2004 amounted to 10,495 thousands zlotys.

46.2 Description of risks related to the financial lease transaction:

Market Risks

a/ foreign exchange risk

The foreign exchange risk of the financial lease transaction relates only to this part of the investment which was financed through own equity of the lessor. The target financing structure is 87% loans 13% equity. The above results from the financing of lease through bank loan denominated in EURO which is the settlement currency of the transaction.

b/ fair value risk related to the interest rate

The mechanism of the lease transaction hedges the lessor against the impact of interest rate volatility.

c/ price risk

The price risk is nonexistent in this transaction.

Credit Risk

The credit risk related to this transaction is related to the credit risk of Mondi Packaging Paper Swiecie („MONDI”). MONDI is large and stable listed company so the credit risk is being evaluated at low level.

Liquidity risk (financing)

Liquidity risk related to this transaction is related to MONDI liquidity risk. MONDI is large and stable listed company so the liquidity risk is being evaluated at low level.

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Cash flow risk related to the interest rate

The mechanism of the lease transaction hedges the lessor against the impact of interest rate volatility.

Description of key points in the lease agreements:

On April 29th 2002, MONDI, SM and the Issuer concluded a general agreement (amended by Annex No. 1 of December 15th 2004), governing the parties' cooperation on optimizing the operation and financial aspects of MONDI's activities, including the reduction of energy expenses. Moreover, the following specific agreements were concluded: agreement for sale and lease back of the Saturn CHP Plant by MONDI; agreement for execution of an investment and modernization programme with SM's assistance, and 20-year agreement for operation of the Saturn CHP Plant by SM. The general agreement establishes the following economic objectives:

- Financing and construction of a new CFB by SM on the premises of the Saturn CHP Plant (the CFB has been successfully constructed and handed over), as well as execution by SM of the Facility Upgrading Programme, and enhancing the Facility's operational efficiency to reduce electricity and heat expenses over the next 20 years,
- Sharing of profits and risks related to the operation and maintenance of the Facility and ensuring energy security for MONDI through failure-free and continuous generation of electricity and heat, with agreed volumes and parameters,
- Improvement of the environmental protection conditions through the use of the bio fuels produced by MONDI.

Energy Alliance

The parties' economic cooperation is based on the Energy Alliance, understood as the concept which assumes close links between the objectives and results of SM's activities as the Facility operator and the investor under the investment and modernization programme, and the objectives and results of MONDI as the energy generator who uses this energy, where one party cannot draw profits at the expense of the other party, and their cooperation must develop harmoniously regardless of the market conditions, ensuring long-term business security and economic profit.

Subject of the Agreement is lease on the land real estate situated in Świecie, comprising lots Nos. 105/62, 105/63, 105/64, 105/65, 105/68, 105/69, total area 6.8173 hectares, under the right of perpetual usufruct held by SM, all buildings and constructions constituting components of the real estate classified as fixed assets and simultaneously as separate real properties, other fixed assets and items of property specified in the appendix to the agreement ("the Facility").

In accordance with the provisions of the agreement FS will use the Facility for production of electricity and heat on its own behalf and on its own account. The agreement obligates FS to pay a lease rent to SM. The agreement was concluded for the period of 20 years commencing from the date of the agreement, and may be extended for another 5 years. Liability of the parties for non-performance or improper performance of obligations stipulated by the agreement caused by events amounting to Force Majeure has been excluded.

47 Off balance sheet items, in particular contingent liabilities, including guarantees granted by the parent company

a) Contingent liabilities

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	31.12.2005	31.12.2004
a) guarantees granted	21 611	10 500
b) other (due from limited liability sum in LLP):	39 310	39 210
- to subsidiaries	38 650	38 550
- to associates	660	660
c) court cases	394	-
Total contingent liabilities to affiliates	61 315	49 710

Guarantees granted:

PEP SA issued a guarantee for BRE BANK SA with seat in Warsaw. The guarantee issued amounts to 10.500.000 PLN and secures the liability of "Mercury Energia - Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Spółka z ograniczoną odpowiedzialnością" Spółka komandytowa to BRE BANK SA which results from bank loan in the amount of 9.000.000 PLN. The liability of PEP SA ceases within the period of 2 years started from completion of Mercury project but not later than June 30, 2007. PEP SA did not receive any guarantee fee. PEP S.A. is a 50% shareholder in "Mercury Energia - Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Spółka z ograniczoną odpowiedzialnością" Spółka komandytowa.

On November 23, 2005 PEP SA concluded with Raiffeisen Bank Polska with its registered office in Warsaw guarantee agreement. Pursuant to the guarantee agreement PEP granted to Raiffeisen Bank Polska guarantee which relates to the loan agreement concluded between Dipol Sp. Z o.o. as borrower and Raiffeisen Bank Polska as lender. The guarantee granted by PEP in the amount of up to 1,350,000 EURO can be exercised till July 31, 2007 and in the amount of up to 5,900,378 PLN can be exercised till the day which is six months from the date of statements issued by EkoFundusz Foundation about final settlement of the grant.

PEP SA did not receive any reimbursement for the guarantee granting. PEP SA is 100% owner of Dipol Sp. Z o.o.

Moreover, the collateral for bank loans comprises additional contingent liability described below.

In 1999 the Parent Company drew a long-term credit in BRE Bank S.A. in amount of PLN 11,850.0 thousand. The final repayment date is in July 2009.

The collateral for the credit is:

- a) Mortgage amounting to PLN 600.0 thousand,
- b) Own bill of exchange,
- c) Registration Pledge— its value according to the base agreement equals USD 1,142.0 thousand,
- d) Registration Pledge— its value according to the base agreement equals PLN 5,300 thousand,
- e) Claims Security Assignment relating to the project.

The interest is based on WIBOR 1 month plus bank margin.

The liability outstanding as at December 31, 2005 relating to the abovementioned credit agreement amounts to PLN 6,311 thousand. According to the credit repayment schedule the amount of PLN 1,310 thousand was repaid in period from January 1, 2005 to December 31, 2005.

In December 1999 the Parent Company drew a long term credit for the purpose of building the Polar heat and power generating plant which amounted to PLN 17,332.0 thousand.

The final repayment date is in June 2012.

The collateral for the credit is:

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-
- a) Power of attorney to dispose of the current account and debt servicing account in BRE Bank S.A.,
 - b) Agreement for security assignment (applying to the Polar investment),
 - c) Registration Pledge,
 - d) Mortgage securing an existing or future claim up to the amount of PLN 17,332.0 thousand set up on the real estate belonging to Polar S.A. in Wroclaw until the day of purchase of this real estate from Polar SA by the borrower.

The interest is calculated based on the WIBOR plus margin, which is calculated based on the financial ration of the Company.

Debt outstanding as at December 31, 2005 resulting from this credit agreement amounts to PLN 10,269 thousand. According to the credit repayment schedule the amount of PLN 933 thousand was repaid in period from January 1, 2005 to December 31, 2005

On April 10, 2002 BRE Bank S.A. granted to the Subsidiary an investment credit up to the amount of €74,600.0 thousand intended for financing the SATURN and JUPITER project costs.

The credit balance as at December 31, 2005 amounted to 59,368 thousand EUR. Interest accrued as of the balance sheet date amounted to 60 thousand EUR. The valuation was made based on the NBP average exchange rate. The bank loan amounts to 229,149 thousand zlotys and the accrued interest 233 thousand zlotys.

The collateral for the credit is:

- a) Power of attorney to dispose of the current account and debt servicing account in BRE Bank S.A.
- b) Agreement with BRE Bank about current account relating to project Saturn and Jupiter,
- c) Registration Pledge on shares in Saturn Management Sp. z o.o. together with transfer of PEP S.A. rights,
- d) Agreement between PEP S.A. and BRE relating to the Registration Pledge on bank transfer basis,
- e) Pledge on PEP S.A. rights as the limited partner of the Subsidiary and PEP S.A. rights,
- f) Agreement between SM sp. kom. and BRE relating to Registration Pledge on the rights to bank account access together with power of attorney,
- g) Submission to execution,
- h) Power of attorney for BRE Bank to dispose of all of the bank accounts of the borrower held in bank,
- i) Agreement between PEP S.A. and BRE Bank S.A. relating to securing assignment - Saturn project,
- j) Agreement for pledge over assets incorporated in the company's enterprise
- k) Agreement on transfer for security, covering all current and future receivables up to the maximum amount of EUR 90 million ,
- l) Agreement for security transfer of title to BRE Bank SA of the ownership of the tangible fixed assets purchased from MONDI based on the Purchase / Sale Agreement together with all the relating rights from guarantees and warranties, including those granted by the producer,
- m) Agreement on mortgage on perpetual usufruct and ownership of the buildings for BRE Bank,
- n) Mortgage for BRE and Kreditanstalt fur Wiederaufbau in the amount of amounting to EUR 45 million each,

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- o) Agreement on cession of rights from General Agreement up to the amounts due to the banks from Credit Agreements (Investment, VAT and overdraft),
- p) Agreement on cession of rights from Construction Agreement, other significant construction agreements and Insurance Agreements up to the amounts due to the banks from Credit Agreements (Investment, VAT and overdraft),
- q) Agreement on cession of rights from agreements with MONDI, Construction agreement and significant agreements with construction companies, insurance agreements up to the amounts resulting from debt outstanding,
- r) Guarantee of MONDI up to the amount being minimum of: amount of three months costs of debt and 3,000 thousand zlotys.

In 2005 BRE Bank S.A. granted to subsidiary Saturn Management Sp. z o.o. i Wspólnicy, Spółka komandytowa VAT facility up to the amount of 9,498 thousand zlotys, to finance the costs of project Saturn and Jupiter.

As of December 31, 2005 the outstanding debt amounted to 2,171 thousand zlotys. Interest accrued as of the balance sheet date amounted to 3 thousand zlotys.

The collateral for the credit is:

- a) Statement of the appropriate tax office, presented on borrower's request, including an obligation to return the VAT on VAT Account, and in case of not obtaining such statement a statement of the borrower including assurance of returning VAT on VAT account or, if obtaining such statements would not be possible, an obligation of the borrower to make transfers of the amounts acquired as VAT return on VAT account, according to the bank accounts agreement,
- b) Security assignment of rights of the borrower from the Project documentation other than Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies,
- c) German Guarantee Assignment Agreement of the borrower's rights to Diligent Execution Guarantees, Warranties and Obligations of the Parent Companies,
- d) Power of attorney for BRE Bank to dispose of all of the bank accounts of the borrower held in bank,
- e) Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2007.
- f) cession of rights pertaining to PEP from Mondi Packaging Paper Świecie S.A. from General Agreement

In 2004 BRE Bank S.A. granted to subsidiary Saturn Management Sp. z o.o. i Wspólnicy, Spółka komandytowa overdraft facility up to the amount of 453 thousand zlotys, to finance current working capital. Till December 31, 2005 the loan was not used.

On November 22, 2005 PEAKO SA bank granted to the parent company a long term investment bank loan for financing and refinancing of purchase and modernization of energy assets comprising EC Jeziora which were purchased from Metsa Tissue.

Final repayment date – August 2015.

The collateral for this bank loan are:

- a) Own bill of exchange issued by the borrower
- b) Power of attorney for BRE Bank to dispose of the bank accounts of the borrower and Energopep Sp. z o.o. EC Jeziora Sp. Komandytowa held in PEAKO SA bank,
- c) cession of receivables related to the agreements for heat and electricity deliveries concluded between Energopep Sp. z o.o. EC Jeziora Sp. Komandytowa, a Metsa Tissue S.A., Ecotex Polska Sp. z o.o., Konstans Sp. z o.o.

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- d) Registration Pledge up to the amount of on assets of EC Jeziorna which are used to generate and deliveries of electricity and heat together with cession of insurance policy up to the amount of 1,113 thousand PLN
- e) mortgage in the amount of 4,906 thousand PLN
- f) submission to execution and submission to execution to hand over the pledged assets

The interest is based on WIBOR 1 month plus bank margin.

The liability outstanding as at December 31, 2005 relating to the abovementioned credit agreement amounts to PLN 4,864 thousand.

On November 23, 2005 Raiffeisen Bank Polska SA granted to the subsidiary Dipol Sp. z o.o. a long term investment bank loan for financing of construction of 22MW wind farm located near Puck. The loan amount is 21,600 thousand PLN.

Final repayment date – December 2021.

The collateral for this bank loan are:

- a) agreement on transfer of any compensation received from insurance agreement,
- b) power of attorney to dispose of the current account,
- c) power of attorney to dispose of the current accounts,
- d) agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account,
- e) agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank accounts,
- f) registration pledge on assets,
- g) registration pledge agreement on shares in DIPOL sp. z o.o.,
- h) submission to execution of the borrower
- i) two registration pledges on fixed assets of DIPOL sp. z o.o. For Raiffeisen Bank Polska SA each in 4.269,3 thousand EUR,

The interest is based on EURIBOR 1 month plus bank margin.

As of December 31, 2005 the subsidiary did not draw the loan. Pursuant to the repayment schedule the bank loan shall be repaid in monthly installments starting from July 31, 2007.

On November 23, 2005 Raiffeisen Bank Polska SA granted to the subsidiary Dipol Sp. z o.o. an overdraft facility up to the amount of 3,000 thousand zlotys.

Final repayment date – June 2007.

The collateral for this bank loan are:

- a) agreement on transfer of any compensation received from insurance agreement,
- b) power of attorney to dispose of the current account,
- c) power of attorney to dispose of the current accounts,
- d) agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account,
- e) agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank accounts,
- f) registration pledge on assets,
- g) registration pledge agreement on shares in DIPOL sp. z o.o.,

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- h) submission to execution of the borrower
- i) two registration pledges on fixed assets of DIPOL sp. z o.o. For Raiffeisen Bank Polska SA each in 4.269,3 thousand EUR,

The interest is based on WIBOR 1 week plus bank margin.

As of December 31, 2005 the subsidiary did not draw the loan. Pursuant to the repayment schedule the bank loan shall be repaid June 30, 2007.

On November 23, 2005 Raiffeisen Bank Polska SA granted to the subsidiary Dipol Sp. z o.o. an VAT bridge facility up to the amount of 17,000 thousand zlotys.

Final repayment date – March 2007.

The collateral for this bank loan are:

- a) instruction of the borrower submitted to the proper tax authority informing to reimburse all VAT to the VAT account,
- b) agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank accounts,
- c) Power of attorney for Raiffeisen Bank Polska SA to dispose of VAT facility bank account of the borrower held in Raiffeisen Bank Polska SA,
- d) Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2009.

The interest is based on WIBOR 1 month plus bank margin.

As of December 31, 2005 the subsidiary did not draw the loan. Pursuant to the repayment schedule the bank loan shall be repaid March 31, 2007.

Litigation:

On October 17, 2005 the Company received a lawsuit, in which K&K Consultants Sp. z o.o. claims from the Company 394 thousand zloty plus interest as a reimbursement for termination by the Company of agreement concluded with K&K Consultants Sp. z o.o.. File is pending. In the opinion of the Management of the Company the risk of failing this lawsuit is remote.

b) Tax settlements

Tax settlements and regulated areas of business activities (i.e. foreign currencies and customs issues) can be subject to control by administrative authority which is entitled to impose heavy and adverse fines and sanctions. Due to lack of stable legal regulations in Poland there is a lack of integrity and high level of vagueness in the binding regulations. The differences in interpretation of tax regulations in the tax offices and companies cause conflicts and area of uncertainty. Due to the above the tax risk in Poland is significantly higher than in other countries with higher developed tax systems.

The tax settlements may be subject of control over 5 years period started from the end of year in which the tax liability was paid. As a result of such control the tax liability of the group may be increased. According to the Group as at December 31, 2005 all provisions for recognized and countable tax risks were calculated.

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c) Investment liabilities

As of December 31, 2005 the Group plans to incur capital expenditure in 2006 for tangible fixed assets and capital investments in the amount of approximately 127 millions zloty. The funds will be spent on purchase of new machines and equipment.

48 Profit distribution

On March 23, 2005 the General Shareholders Meeting voted the resolution stating that:

- Changes to the resolution dated June 3, 2004 regarding coverage of loss incurred in 2003 in the amount of 8,138 thousand zlotys from additional paid in capital
- The profit of the parent company for the year 2004 in the amount of 18,875 thousand PLN will distributed to the reserve capital for dividend payment or advance for dividend
- Apportion of reserve capital for dividend payment from the profit for 2002 which in 2005 will not be distributed.

49 Liabilities to State Budget or local authority budgets

The Capital Group did not report any liabilities towards State Budget or local authority budgets resulting from purchasing of buildings.

50 Information on revenue, costs and results of discontinued operations

Till December 31, 2005 the Group did not discontinue any activities and no plans exist to discontinue any significant activity in the next period.

51 Information on significant related party transactions

As of the end of December 31, 2005 the Capital Group reported sales to entities excluded from consolidation in the amount of 144 thousand zlotys.

All of the Company's transactions with related party in the specific periods are presented in the tables below:

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Balance as at December 31, 2005

	Saturn Management Spółka z ograniczoną odpowiedzialnością i Wspólnicy, Spółka komandytowa	ENERGOPEP Spółka z ograniczoną odpowiedzialnością EC Jeziorna Spółka komandytowa	Dipol Sp. z o.o.*	Interpep Spółka z ograniczoną odpowiedzialnością EC Wizów Spółka Komandytowa *	Interpep Spółka z ograniczoną odpowiedzialnością EC Zakrzów Spółka Komandytowa *	Total consolidated entities	Saturn Management Sp. z o.o.*	ENERGOP EP Sp. z o.o.*	INTERPEP Sp. z o.o.*	Mercury Energia - o.o., Spółka komandytowa*	Total entities excluded from consolidation	Total affiliates
Purchases	65	395	-	-	-	460	-	-	-	-	-	460
Sale of products	1,670	1,756	4,216	722	734	9,098	-	1	-	144	145	9,243
Sale of materials and goods	-	8,518	-	-	-	8,518	-	-	-	-	-	8,518
Total Sales	1,670	10,274	4,216	722	734	17,616	-	1	-	144	145	17,761
Receivables except for loans	388	7,174	276	884	897	9,619	-	1	-	15	16	9,635
Liabilities except for loans	17	353	-	-	-	370	-	-	-	-	-	370
Loans granted (in balance sheet)	4,885	-	796	-	-	5,681	-	-	-	5,030	5,030	10,711
Interest due(P&L)	489	-	49	-	-	538	-	-	-	409	409	947
Interest received (P&L)	472	-	0	-	-	472	-	-	-	-	-	472
Dividends received	9,384	-	-	-	-	9,384	118	-	-	-	118	9,502

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Balance as at December 31, 2004

	Saturn Management Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka komandytowa	ENERGOPEP Spółka z ograniczoną odpowiedzialnością EC Jeziora Spółka komandytowa	Total consolidated entities	Saturn Management Sp. z o.o.*	ENERGOPEP Sp. z o.o.*	Dipol Sp. z o.o.*	INTERPEP Sp. z o.o.*	Mercury Energia Przemysłowo Usługowe i Pośrednictwa Comax Sp. z o.o., Spółka komandytowa*	Total entities excluded from consolidation	Total affiliates
Purchases	25	346	371	-	-	-	-	-	-	371
Sale of products	687	1.816	2.503	1	1	-	-	72	74	2.577
Sale of materials and goods	-	7.566	7.566	-	-	-	-	-	-	7.566
Total Sales	687	9.382	10.069	1	1	-	-	72	74	10.143
Receivables except for loans	204	3.195	3.399	-	-	-	-	15	15	3.414
Liabilities except for loans	5.933	141	6.074	-	-	-	-	-	-	6.074
Loans granted (in balance sheet)	14.581	-	14.581	-	-	173	-	2.750	2.923	17.504
Interest due(P&L)	104	-	104	-	-	3	-	110	113	217
Interest received (P&L)	662	-	662	-	-	3	-	110	113	775
Dividends received	20.044	-	20.044	-	-	-	-	-	-	20.044

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52 Information on joint ventures

On March 15, 2004 the parent company signed a joint venture agreement with Przedsiębiorstwo Projektowo-Serwisowe Elektroniki, Pomiarów w zakresie Automatyki, EPA Sp. z o.o. relating to development of wind farm projects.

Development expenditure is agreed between the joint venture partners on the annual basis. Till December 31, 2005 the parent company incurred development expenditure in the amount of 4,378 thousand zlotys. The effect of the cooperation in 2005 was the completion of development of 22MW wind farm project located near Puck. Pursuant to the released current reports the Group plans to complete the construction of wind farm in Puck till December 31, 2006.

The parent company plans to incur development expenditure for wind farm projects in the amount of approximately 2,000 thousand zlotys in the period of one year ended December 31, 2006.

Share in profits amounts to 50% for each party of the joint venture.

53 Employment

In 2004- 2005 the average employment in the Capital Group classified into groups, calculated as the average of the end of month levels, amounted to:

Number of employees	31.12.2005	31.12.2004
Blue collar employees	106	126
White collar employees	38	41
Total employment	144	167

54 Remuneration, including profit based bonuses, paid or payable to members of the management and supervisory bodies (in cash or in nature)

In 2004 and 2005 the remuneration of the Management Board amounted to:

	31.12.2005	31.12.2004
Management Board		
Stephen Klein	339	-
Grzegorz Skarżyński	428	345
Anna Kwarcieńska	347	358
Wojciech Cetnarski	194	
Michał Kozłowski	17	

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Robert Stelmaszczyk	-	437
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In 2004 and 2005 the Management Board Members and Supervisory Board Members of the parent company did not receive any remuneration resulting from being in the management boards of related companies.

Till December 31, 2005 the members of the Supervisory Bodies received remuneration in the amount of 340 thousand zlotys, including Mr. Zbigniew Prokopowicz 340 thousand zlotys. In 2005 other members of the Supervisory Bodies did not receive the remuneration.

55 Loans and other similar benefits granted to members of the management and supervisory bodies their spouses, brother, sisters, heirs and other related persons.

In the year ended December 31, 2005 there were no transactions with Management Board Members and Supervisory Board Members.

56 Presentation of changes in Company's shares or rights to these shares (options) held by managing and supervising persons in the period of 12 months ended December 31, 2005

During the period of year ended December 31, 2005 there was an option plan for the management and employees in the parent company. The option plan is described in the table below:

Option plan beneficiaries	Management and supervisory persons	Employees, other persons rendering services for the company or its subsidiaries and supervising persons
Grant Date	18.03.2005	18.03.2005
Vesting Date	30.09.2005/ 31.12.2005 and 30.09.2006/ 31.12.2006	30.09.2005/ 31.12.2005 and 30.09.2006/ 31.12.2006
Expiry date	01.09.2007	01.09.2007
No of shares in the program	203 420	121 996
No of options granted	203 420	0
Exercise price/share	2 PLN	2 PLN
Type of settlement	Share emission	Share emission
Conditions of exercise	<ul style="list-style-type: none"> - the managing person is in Management Board - the managing person has received vote of acceptance from the general shareholders meeting for the proper financial year - the average share price for the 6 months as at 30.09.2005/ 31.12.2005 and 30.09.2006/ 31.12.2006 respectively amounts to 1,74 USD recalculated to Polish zloty or other payment currency binding in Poland 	Option grant through resolution of Management Board after positive opinion of Supervisory Board

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The fair value of option was estimated based on the binominal model. The fair value amounts to:

Options September 30, 2005 – 5.87 PLN

Options December 31, 2005 – 5.90 PLN

Options September 30, 2006 – 5.94 PLN

Options December 31, 2006 – 5.96 PLN

The table below presents the change of number of options granted in the period of the fourth quarter ended December 31, 2005.

	Number of options	Average price
Number of options as at January 1, 2005	-	-
Options granted	203 420	-
Options exercised	69 922	2 PLN
Number of options as at December 31, 2005	133 498	-

On April 21, 2005 the Supervisory Board of PEP S.A. voted the resolution regulating the condition for CEO Stephen Klein in which the Supervisory Board obliged itself to establish till December 31, 2005 detailed regulation about the Management Option for Stephen Klein. Stephen Klein will be entitled to purchase till June 30, 2008 not more than 358 00 shares of new issue at the exercise price equal to the price paid by investors in the initial public offer. The detailed conditions of the option plan were accepted by the Supervisory Board on November 3, 2005. The option program for Mr. Stephen Klein is presented in the table below:

The option program of Mr. Stephen Klein is presented below:

Option plan beneficiaries	Mr. Stephen Klein
Grant Date	3.11.2005
Vesting date	30.06.2006 30.06.2007 10.06.2008
Expiry date	01.07.2008
No of shares in the program	358 000
No of options granted	358 000
Exercise price/share	7,8 PLN
Type of settlement	Share emission
Conditions of exercise	- the managing person is in Management Board - the managing person has received vote of acceptance from the general shareholders meeting

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	for the proper financial year
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The fair value of option was estimated based on the Black-Scholes-Merton model. The fair value amounts to:

Options June 30,2006 – 1.27PLN

Options June 30,2007 – 1.43PLN

Options June 10,2008 – 1.49 PLN

The charge into the profit and loss account for the year 2005 resulting from the above mentioned option programs amounted to 1,032 thousand zlotys.

On 13th December 2005, Mr. Wojciech Cetnarski submitted his resignation from the Board of Directors, effective from 13th December 2005. In consequence the conditions allowing for option exercise by Mr. Wojciech Cetnarski cannot be met.

On 13th December 2005, Mr. Grzegorz Skarżyński submitted his resignation from the Board of Directors, effective from 31st December 2005. Mr. Grzegorz Skarżyński is entitled to exercise its option for 35 454 shares of the Company which is vested December 31, 2005. As a result of the resignation the conditions allowing for exercise of option for 12 515 company shares granted to Mr. Grzegorz Skarżyński on December 31, 2006 cannot be met.

On January 31, 2006 the Supervisory Board voted a resolution based on which: (i) the right for 12,515 options to the Company shares pertaining to Mr. Grzegorz Skarżyński was transferred to Mr. Stephen Klein, (ii) the right for 47,969 options to the Company shares pertaining to Mr. Wojciech Cetnarski was transferred to Mr. Stephen Klein, (iii) Mr. Stephen Klein was granted 9,516 options to the Company shares, Mr. Michał Kozłowski was granted 34,511 options and Mr. Zbigniew Prokopowicz was granted 30,000 options. The above mentioned options will be besting after December 31, 2006. The eligible persons will purchase the shares at nominal value of PLN 2. The shares will be issued by the Management based on the statutory prerogative to issue shares within the specified limit.

57 Information on significant prior period events recognized in current year consolidated financial statements

In the period of year 2005 there were no events relating to prior periods recognized in the current financial statements.

58 Information on post balance sheet events not reflected in the consolidated financial statements

Up to the date of preparation of these consolidated financial statements i.e. till March 1, 2006, there were no events that were not, but should have been, disclosed in the consolidated financial statements.

59 Business combinations

Till December 31, 2005 there were no business combinations within the Capital Group structure.

60 Information on CO2 emission rights for the years 2005-2007

As of January 1, 2005 the act date December 22, 2004 about CO2 and other substances emission trading (Journal of Laws 281. pos. 2784) which defines the rules for emission trading which has the goal to limit these emissions in an profitable and economically efficient way. PEP Group is subject to this act. Pursuant to the regulation of Ministry Council date December 27, 2005 about acceptance of National Allocation Plan for CO2 emissions in the year 2005-2007 and the list of installations temporarily excluded from the emission trading system in the period from January 1, 2005 to December 31, 2007 the installations belonging to PEP received the emission rights in this period. According to this allocation the yearly emission rights for CO2 in years 2005-2007 amount to 125,500 tons of CO2. Based on the preliminary unaudited reports claiming the emission in 2005 erupted by PEP installations the amount of CO2 emissions in 2005 were 95,438 tons. As a result of the concluded by the Group outsourcing contracts the surplus of emission rights over the factual emission in the amount of 5,800 tons will be realized by the Group customers. The 2005 surplus in the amount of 24,262 tons can be realized by the Group in subsequent years. In the years 2006-2007 the Group does not plan emissions above the limit allocated to its installations.



Polish Energy Partners S.A.
ul. Wiertnicza 169
02-952 Warszawa

Warsaw, March 1, 2006

CEO letter to the Shareholders

Dear Shareholders,

The year 2005 was the 8th year of Company's operation. In this year the Company and its Capital Group continued the actions started in 2004. These actions formulate the basis of further development of the Company and its Capital Group both through increase of the quality of services rendered and increase of its scope as well. In consequence the market position and the credibility of the Company and its Capital Group increased.

As a consequence the market position and the credibility of the Company and its Capital Group have improved.

Significant events

It is to my pleasure to inform you that in 2005 the Group delivered Net Profit of 9.3 mPLN in comparison to 6.6 mPLN in 2004. The significant increase in Net Profit is due to Group's participation in the production of renewable energy from biomass. The Group operates a combined heat and power plant which is one of the most significant producers of renewable energy ("green energy") from biomass combustion. In 2005 the Group increased the return on equity and net profit margin to the level of 9.1% and 15.3% respectively.

Moreover the most significant events in 2005 related to the operational activity of the Capital Group include:

- Start of listing on the Warsaw Stock Exchange in May 2005
- Conclusion of an agreement with one of the key customers for implementation of an investment project (hereinafter referred to as "the Jupiter Project") in a heat and power plant owned by the Group which covers the replacement of an existing turbine set with new steam, extraction and back-pressure turbine set. The value of the Jupiter Project amounts to app. 40 million zlotys.

- Conclusion of a set of agreements comprising the Wind Farm project with capacity of 22MW located in Puck. The Group signed long term power purchase agreement, construction agreement and financing agreements supporting necessary funds to construct the Wind Farm. Production of green electricity in Wind Farm Puck is planned for January 2007.
- Completion of the works for Arctic Paper S.A. located in Kostrzyń related to preparation for construction of new industrial combined heat and power plant, gas fired. The new CHP will replace the old one, coal fired.

Prospects and plans

PEP will leverage its position in the energy outsourcing and wind power generation sectors to become the leading renewable energy company in Poland

The Group plans to continue to grow Industrial Energy Outsourcing activities within Poland, targeting sizeable opportunities, where biomass expertise can be leveraged

The Group plans also to develop existing pipeline and relationships to capitalize on opportunities in the wind energy market. PEP plans to capture over 10% of wind capacity in Poland from 2007 and grow share in the following years. In order to meet these goals the Group plans to secure rights in projects of total capacity of 150MW and will invest in these projects. These projects shall be completed by the end of 2009 based on precedent price conditions. The Group has already approximately 90MW in identified projects.

The Group plans also to develop new business line which is production of biomass for energy sector. In 2006 the Group plans to prepare business plan and to plant trial crops of most promising species.

As a consequence of the plans presented above the Net profit delivered in 2006 should be at the level of 12 mPLN which is higher by 29% to the 2005 figure.

Truly Yours,

*Stephen Klein – President of the Management Board,
CEO*

POLISH ENERGY PARTNERS CAPITAL GROUP

**POLISH ENERGY PARTNERS CAPITAL GROUP DIRECTORS' REPORT
FOR 12 MONTHS PERIOD
ENDED DECEMBER 31, 2005**

Warsaw, March 1, 2006

Polish Energy Partners S.A. (hereinafter referred to as a "Parent Company") has been incorporated by the Notarial Deed dated July 17, 1997. The Parent Company is registered with the National Court Register held by the District Court for the city of Warsaw, XX Economic Department of the National Court Register, Entry no. KRS 0000026545. The Company has been allocated a statistical number, REGON 012693488. The seat of the Parent Company is at 169 Wiertnicza St. in Warsaw. The year 2005 was the 4th year of Group's operation. The financial year is the same as tax year. In this year the Company and its Capital Group continued the actions started in 2004. These actions formulate the basis of further development of the Company and its Capital Group both through increase of the quality of services rendered and increase of its scope as well. The market position of the Group improved and the Group's credibility on the market increased which enables the Group to acquire new capital and new investors.

1. Group's structure with indication of entities subject to consolidation and entities excluded from consolidation

The description of Group's structure is enclosed in the Note 4 to the consolidated financial statement.

2. Discussion of main financial figures disclosed in the yearly financial statements, in particular description of events and factors, including unusual events that have material impact on the issuer's activity and reported profits or losses in the current financial year and discussion of the development perspectives within at least next one financial year

The consolidated financial statement for the year 2005 presents the consolidated balance sheet as at 31 December 2005 with total assets amounting to 378,739 thousand zlotys. For the year 2005 the Group reported net profit in the amount of 9,341 thousand zlotys, sales revenue in the amount of 61,096 thousand zlotys and operating profit in the amount of 13,176 thousand zlotys.

Factors and events unusual and infrequent in nature are:

- Included in the operating profit there is an amount resulting from option valuation granted to managing and supervisory persons. The cost was estimated at 1,032 thousand zlotys.
- In the third quarter of 2005 the Company realized revenue from sales of developed project for the combined hat and electricity plant to Arctic Paper S.A.

The Subsidiary company Saturn Management Sp. z o.o. i Wspólnicy, Spółka Komandytowa („Saturn Management”), which in 2002 purchased from Mondi Packaging Paper Świecie S.A. a set of tangible and intangible assets designed for generation of electrical energy and heat is consolidated within the Polish Energy Partners S.A. Group. Saturn Management leased to Mondi Packaging Paper Świecie S.A. the abovementioned assets and signed an agreement for rendering service of maintaining and operating those assets. Saturn Management continues the agreed Investment – Modernization Program on the heat plant site.

Considering the fact, that the lease agreement fulfills the criteria of the financial lease included in the International Financial Reporting Standards, the leased fixed assets have been presented in the attached financial statements as receivables from financial lease. Construction in progress ("CIP") presented in our financial statements is presented in the amount corresponding to the unpaid investment liabilities as of December 31, 2005 relates to the Investment – Modernization Program.

The receivables amount resulting from financial lease has been presented in this report in the following way (in PLN thousand):

Long term receivables	231.587	thousand zlotys
Other short term receivables	15.566	thousand zlotys

In the next financial year the Company plans to focus its efforts on extension of its wind farm portfolio. The wind farm portfolio is built based on a joint venture agreement with Przedsiębiorstwem Projektowo-Serwisowym Elektroniki, Pomiarów w zakresie Automatyki,

Polish Energy Partners capital group directors' report
for 12 months period ended December 31, 2005

EPA Sp. z o.o. in relation to development of wind farm projects. The Company plans to construct wind farm portfolio of total power of 150MW till 2010.

The Group plans also to supply biomass which is a substitute of fossil fuels to power plants in Poland. In 2006 the first actions are to be taken in order to meet this goal. The effects of these actions will be reflected in the profit and loss account in the subsequent years.

3. Characteristics of assets and liability structure of the consolidated balance sheet including liquidity perspective

	2005	2004
Total assets	378 739	340 277
Shareholders' funds	111 621	101 124
Net profit/loss	9 341	6 653
Return on assets	2,5%	2,0%
<hr/>		
Net profit		
Total assets		
Return on equity	9,1%	7,0%
<hr/>		
Net profit		
Shareholders' funds		
Net sales profitability	15,3%	13,3%
<hr/>		
Net profit/ (loss)		
Sales revenue		
Liquidity I	2,88	2,37
<hr/>		
Current assets		
Short-term liabilities		
Liquidity III	1,41	1,50
<hr/>		
Trade securities + cash		
Short-term liabilities		
Stability of financing	92,2%	92,8%
Shareholders' funds + provisions + long-term liabilities		
Total liabilities and equity		
Debt ratio (%)	70,5%	70,3%
(Total liabilities and equity – shareholders' funds)		
x 100		
Total assets		

Return ratios at all levels indicate increase in efficiency of the Group in 2005 in relation to 2004. The Group reported significant increase in return on equity and net profit margin.

The liquidity ratio I indicates insignificant increase in 2005 in relation to 2004. The ratio is at satisfying level, taking into account that over 90% of current assets are cash and short term receivables.

The liquidity ratio III indicates insignificant decrease in 2005 in relation to 2004. The ratio is at satisfying level in both years and does not constitute risk for timely repayment of short term receivables.

The stability of financing was not subject to significant changes in 2005. The Group finances in significant percentage its activity with long term liabilities.

4. Description of main risks and threats together with assessment of risk level

Risk related to competition

The Issuer is active on the market of industrial energy outsourcing. At present, the PEP Group enjoys a dominant position in this segment of the power market, with an approximately 77% share in heat generation, computed as percentage share of total heat supplied under outsourcing projects functioning on the Polish market and known to the Issuer. Given the market's attractiveness for investors, the Company anticipates that competition will intensify, also on part of financially-strong foreign operators, which may affect the PEP Group's ability to attract new outsourcing contracts and to negotiate good terms and conditions of project execution. PEP SA has gathered unique experience on the Polish market in the area of both the development and implementation of optimally-customized technological solutions as well as construction of the right legal, fiscal and financial structures – which secures PEP SA a significant competitive edge. Furthermore, the PEP Group believes it crucial that the provided services are of top quality and that its qualifications are regularly enhanced by know-how relating to cutting-edge technologies and more effective management methods.

Given the steady growth in demand for energy generated from renewable sources (required under regulations currently in force), its small supply, and, as a consequence, the anticipated rise in its prices, investments in green energy generation are becoming increasingly more attractive. Thus, this market segment is likely to also see the tightening of competition. The Issuer plans to launch wind farm operations. Given the weather and environmental constraints in Poland, this is the energy source which in addition to biomass combustion, is viewed as one offering the greatest potential as a source of green energy. This segment of the Polish power market is likely to attract Western European and American companies with relevant experience gathered on other markets. From the project profitability's perspective, the factor of utmost importance is the location of wind farms. The Issuer has concluded an exclusive agreement for development of wind farm projects with Przedsiębiorstwo Projektowo-Serwisowe Elektroniki, Pomiarów i Automatyki EPA Sp. z o.o., a leading developer of wind energy projects in Poland. Under the agreement, PEP SA has access to information on best sites for wind farms, results of wind measurements, and hands-on experience in execution of wind farms in Poland. Thus, the Issuer is provided with an edge over any potential competition, as the gathering of such data is time-consuming and costly.

Risk related to the general economic situation in Poland

Implementation of the strategic goals assumed by the Issuer and the projected financial results are influenced, among others, by macroeconomic factors, which are independent of the Company's activities. These factors include GDP growth, the inflation rate, general situation in Polish economy and changes in the legislation. Unfavorable changes of the macroeconomic indicators may adversely affect the Issuer's projected revenue or increase its operating costs.

Currency risk

Part of the PEP Group's agreements with its customers provide for payments in foreign currency. Therefore, exchange rate fluctuations can affect the Group's revenue as translated into the Polish currency. The Issuer's Group mitigates the effect of the currency risk on the projects' profitability by using natural hedging – in projects which involve currency conversions into the zloty, the majority of expenses incurred in connection with the construction, upgrading and operation of the CHP plants are borne in the same currency. This also refers to loans incurred to finance the projects.

Interest rate risk

The share of debt in the structure of the Group's financing is high. According to the PEP Group's strategy, which assumes maximization of return on equity, 80% of the financing of the projects under development comes in the form of debt. Under loan agreements concluded by the Group companies, interest on the contracted loans accrues at variable rates. A considerable increase in market interest rates above the values projected by the Issuer and assumed in project budgets may adversely affect the PEP Group's financial performance. The Issuer is aware of such risks and in order to prevent their possible adverse effects it continuously monitors the money market situation, efficiently manages its financial resources, and includes in its agreements with customers clauses which provide for the customers' participation in the interest rate risk.

Risk of fluctuations of coal and natural gas prices and risk related to the availability of these resources

The Issuer and its Group companies use natural gas, hard coal and biomass to generate electricity and heat.

In Poland, the PGNiG Group is the main supplier of gas, which comes mainly from Russia. If PGNiG encounters any difficulties in importing the gas in quantities required to satisfy the existing needs, gas supplies to customers may be limited. In a case like this, market prices of natural gas would probably rise, and it could also happen that the Issuer and its Group would not be able to purchase required amounts of the fuel gas. This could limit the business activities of the Issuer and the members of its Group.

The Issuer and its Group have implemented mechanisms intended to protect them against adverse effects of fluctuations of the natural resource prices. As a rule, prices of electricity and heat are linked to prices of hard coal and natural gas. However, there can be no assurance that the financial results of the Issuer and its Group will not be adversely affected in spite of implementing mechanisms protecting against price fluctuations.

Risk related to polish energy market

The energy market in Poland is regulated. The President of the Energy Regulatory Authority (URE) is the body appointed under the Energy Law to perform tasks related to the regulation of the fuel and energy management and promotion of competition in the power sector. The President of URE's powers and responsibilities include: granting, amending and revoking licenses; approval of draft development plans for power companies; settling disputes between power companies and between power companies and their customers; approval and control of tariffs in the energy sector in terms of their compliance with the regulations, especially with the principle of customer protection against unjustified pricing. The President of URE has the power to impose penalties on licensed operators.

In its present form, the Energy Law substantially ensures covering justified operating expenses of power companies. The producers' right to include their profit in the heat tariffs is limited, particularly by the overriding principles provided for in the energy law, such as the principles of protecting customer interests. Thus, profit earning potential depends, to a large extent, on the company's ability to reduce operating costs.

As the process of implementing competitive market mechanisms in the power sector is well advanced, licensed power producers are exempt from the obligation to file electricity tariffs for

approval (subject to certain exceptions). PEP SA's electricity tariffs are not subject to approval by the URE. However, the tariffs must be prepared according to the principles provided for in the Energy Law and secondary legislation thereto. On the other hand, PEP SA is required to draw up heat tariffs and obtain their approval by the URE.

Draft amendments to the Energy Law are currently being considered by the Polish Parliament. It is proposed that the amendments open way for including profits in tariffs to a larger extent than currently. Draft amendments to the Energy Law have been approved by the Sejm (the lower chamber of Polish Parliament). The approved draft amendments are favorable to heat producers, as they provide for the possibility of including the cost of capital invested in energy-related activities in the tariffs. The secondary legislation to the Energy Law is also to be amended. The final wording of the new regulations has not been determined yet; however, the draft amendments approved by the Sejm will most probably not be changed materially. Detailed rules for the inclusion of the cost of capital invested by heat producers in their activities will be stipulated in the secondary legislation. In addition, the government may also change its policy and strategy for the power sector in the future.

At present, the Energy Law does not provide for a situation where a power company applies for the approval of a tariff and uses previous tariff rates in its settlements with customers while the approval is pending. Currently, the Issuer is awaiting approval of the tariffs for the EC Jeziorna, while applying the tariff effective in the previous period. There is a small risk that the prices in the new tariff will be lower than those in the previous one, but in the Issuer's opinion, the possible difference will be immaterial.

In the Issuer's case, as well as in the case of all the other companies in the power sector, there is a risk that the URE will refuse to recognize particular expenses borne by the Issuer as justified ones, which may lead to a lack of possibility to recover the expenses through heat charges paid by customers. Similarly, there exists a risk that the URE will not permit, in the future, to increase the prices of the heat energy in proportion to the rise in expenses, or that it will impose penalties on licensed operators. Based on its to-date experience, the Issuer is seeking ways to reduce the risk. Thanks to the use of efficient technological solutions and the Issuer's ability to deliver energy outside the transmission network (without incurring transmission costs); the prices offered by the PEP Group are competitive in comparison to market prices.

Risk related to customers' financial standing

The PEP Group derives revenues from developed and implemented industrial energy outsourcing projects under long-term agreements for electricity and heat supplies. Therefore, customers' financial standing and their ability to pay liabilities towards PEP SA constitute a key factor for the success of the projects as well as the PEP Group's financial performance and standing. A sudden fall in energy consumption by a customer may also affect the efficiency of energy generation. Prior to concluding outsourcing agreements and commencing investment projects, the Issuer conducts a thorough analysis of the potential customers, sometimes using the services of external consultants, with a view to assessing the customers' creditworthiness and prospects for their respective sectors. The PEP Group is very careful in selecting its customers from sectors with good market potential. The Issuer analyses in great detail the customer's technological process and the project launch is preceded by several-month cooperation of the two parties.

Risk of dependence on key customers

Every industrial energy outsourcing project, developed and implemented by the Issuer, is in reality prepared for one customer – a production company. To-date, the PEP Group has implemented four projects in this area. The share of each of the Group's customers in the revenue structure exceeded 10%, which means dependence on the customers. With the development of the Group's activity, execution of new outsourcing projects and the Group's

expansion on the renewable energy market, particular customers' shares in the revenue structure will be diminishing.

Risk of loss of key personnel

The activities of the Issuer and the Group are based primarily on the knowledge and experience of their highly qualified personnel. Due to the limited availability of experts in industrial energy outsourcing, and the possible attempts by the existing and future competitors to take over the experts by offering them attractive terms of employment and remuneration, there is a risk of losing the employees who are of key importance for the development of the Issuer and its Group. This could adversely affect the Issuer's financial performance and strategy.

The risk is mitigated through:

- High corporate culture of the Issuer, which helps the employees identify themselves with the Company;
- Attractive of remuneration schemes focusing on incentives and promoting loyalty;
- Knowledge management and extensive training program.

Risk of CHP plant operations

CHP plant operations involve the risk of failure to achieve the projected efficiency and availability of the plant, and failure to meet the contractual terms of energy supplies. The Issuer's experience shows that the risk of unexpected breakdowns leading to the plants' operational budget overruns is limited. To mitigate this risk, PEP SA enhances operational procedures and concludes insurance agreements, or applies contractual clauses whereby any potential additional costs are transferred onto subcontractors.

5. Information on main products, goods or services together in amount and value and share of particular products, goods and services (if they are material) or its group in the total sales of the issuer and changes in this area in the financial year

Net revenues from sales of goods (structure - by type)	31.12.2005	
revenues from sales of energy		834
electricity delivered	[MWh]	2 542
revenues from sales of heat		23 219
heat delivered	[GJ]	666 686
revenues from consulting projects		4 088
revenues from sales of over standard quality and guarantee of deliveries		351
revenues from leasing and operating of the leased assets		32 538
sale of goods		65
Total net revenues from sales of goods		61 096

6. Information on delivery markets, with the breakdown into domestic and foreign markets and information about sourcing of raw materials, goods and services with a statement on dependency from one or more suppliers and customers and in case one supplier or customer achieves at least 10% share in revenues or sourcing costs– the name of the supplier or customer and its share in revenues or sourcing costs and its formal relations with the issuer

In 2005 there were no changes in sales markets of the Capital Group. All of the production or services were sold to domestic customers. Due to the character of the business of the issuer – production of heat and electricity for a specified client in the analyzed period there was dependency on the customers.

Name of the customer	Product sold	Relation with Capital Group	2005
Mondi Packaging Paper Świecie S.A.	Lease and CHP maintenance service	No capital relations	53%
Zakłady Chemiczne Wzów S.A.	Deliveries of heat and electricity	No capital relations	11%
Polar S.A.	Deliveries of heat and electricity	No capital relations	12%
Metsa Tissue S.A.	Deliveries of heat and electricity	No capital relations	15%

The main raw materials used by the Group to produce heat and electricity are currently gas and coal. In previous years the Group was dependant on PGNiG S.A. PGNiG S.A. was the only deliverer of gas in Poland. Starting from 2004 there is a possibility to purchase gas on free market. However there is still and will be existent the dependency from transmission network of PGNiG S.A.

Name of supplier	Region	Product purchased	Relation with Capital Group	2005
PGNiG S.A.	Śląski region	Gas	No capital relations	21%
TransLis S.A.	Mazowiecki region	Coal	No capital relations	21%

7. Information on agreements concluded with significant impact on issuer's business, including agreements which were disclosed to the issuer and are concluded between the shareholders, insurance agreements or cooperation agreements

Pursuant to the requirements stated in the Regulation of Finance Ministry date October 19, 2005 in relation to the current and periodic information disclosed by the issuers of securities the issuer discloses information on the significant agreements in form of current reports.

8. Information on organizational or capital relations of the issuer with other entities and description of its main domestic and foreign capital investment (securities, financial instruments, intangible assets and investment property), including capital investments outside its capital group and the financing methods and description of deposit structure or main investments done within the capital group within the current financial year

The capital structure of the Group was presented in the financial statement. Information on capital relations of the issuer were presented in the Notes 4 and 24 to the financial statement.

9. Description of related party transactions, if the one or total transactions value concluded by the given related party exceeds 500,000 Euro in the period from the beginning of the financial year

Information on related party transactions is presented in the financial statement on the Note 51 to the financial statement.

10. Information on bank loans drawn, credits with special emphasis on maturity dates and on guarantees granted

Information on bank loans and credits are presented in the financial statement on the Notes 28, 30 and 46 to the financial statement.

11. Information on loans granted, together with maturity date, and guarantees granted with special emphasis on loans, guarantees granted to affiliates

Information on loans granted is presented in the financial statement in the Note 43 to the financial statement.

12. In case of share issue in the period covered by this report – description of spending of the issue inflows

In 2005 financial year there was no share issue.

13. Discussion of differences between the reported financial statements in the yearly report and the previously published forecasts of results for the current year

Forecasted category	Forecast (adjusted if applies)	Result	Comments
Sales revenue (including net interest on leased assets)	64.8 mPLN	63.4 mPLN	Difference is due to lower heat and electricity demand resulting from delays in investment programs completion by the Group customers. The forecast was prepared assuming completion of these investment programs by the customers which should result in higher production of Group customers and in consequence higher heat and electricity demand.
Net Profit	9.0 mPLN	9.0 mPLN	The reported net profit includes financial cost of 2.6 mPLN from foreign exchange resulting from balance sheet valuation. The above cost was not included in the forecast which was prepared under the assumption of flat exchange rate of EUR and USD as at December 31, 2004 and 2005.
Adjusted operating cash flow (operating cash flows increased with income from equity and debt fees reported in cash flow in other investment income less investment VAT receivables)	40.9 mPLN	25.5 mPLN	The difference is due to later than assumed receivables repayment by the Group customers. Receivables due in December 2005 were mainly repaid in January 2006 and not in December 2005 as it was assumed in the forecast. Moreover due to changes in invoicing schedule of capital expenditure in the wind farm project the Group provided bridge finance for the VAT on capital expenditure while in the forecast it was assumed that the above VAT will be financed by VAT loan facility.
Estimated capital expenditure	71.1 mPLN	46.3 mPLN	The difference is due to changes in invoicing schedule of capital expenditure in one of the projects executed by the Group. The unrealized capital expenditure was shifted to 2006.

14. Assessment, together with judgment relating to financial management with particular emphasis on ability to meet the liabilities and description of potential threats and actions that the issuer has taken or plans to take in order to mitigate these threats

The main part of financial liability of the issuer and its capital group consists of bank loans, which are disclosed in detail in the financial statements. All of the financial liabilities of the issuer and its capital group are being paid without any significant delays. In the financial year 2005 there were no threats of liability repayment on time.

15. Assessment of ability to complete investment plans, including capital investments, in comparison to the owned cash resources, including to the potential changes in financing structure:

The Capital Group PEP operates on the industrial energy outsourcing market and the renewable energy market by running the Saturn CHP which produces energy from biomass combustion. The issuer plans to increase its share in renewable energy by producing wind energy.

Growth factors:

- Specialization in execution of industrial power outsourcing projects tailored to the needs of specific customers;

- Focus on customers with good financial standing and operating on strategically sound markets;
- Development of highly qualified management and engineering personnel having the skills required for the management of existing and development of new projects;
- Strengthening of the position on the renewable energy market – construction of wind farms;

PEP strives to finance its specific project on 80% basis of bank loan, and 20% to be financed with own equity. The Company has now the assumed share of funds to finance its planned capital expenditure.

16. Assessment of factors and unusual events which impact the reported result for the current financial year, together with assessment of the level of impact of these factor and events on the reported results and events which significantly impact reported results in the current financial year or which could have potential significant impact in the subsequent years;

In the first quarter of 2005 revenues resulting from share of benefits between the Group and one of its clients had significant impact on the reported financial result. The above mentioned benefits result from sale of electricity at preferred prices ("renewable energy", "green energy").

In the first quarter of 2005 the implementation of industrial energy outsourcing project in Konstancin Jeziorna was started which was described in the prospectus as project C, which was continued in quarters II and III. Due to purchase of the remaining 50% of shares in Dipol Sp. z o.o. the Company became the sole owner of the wind farm project for 22MWe, described in the prospectus as project B. In the period of second, third and fourth quarter ended respectively June, 30, September 30, December 31 2005 the Company continued the implementation of these two new projects. The milestones were achieved in line with the assumed deadlines and the expenses for development of new projects were not overrun.

On 28 July 2005, the Company and its subsidiary, Saturn Management Spółka z ograniczoną odpowiedzialnością i wspólnicy, Spółka Komandytowa ("SM") and Mondi Packaging Paper Świecie S.A. ("Mondi"), concluded an Annex to Contract for Provision of Services and Mutual Co-operation of the Parties, made on 29 April 2002 and an Annex to the General Contract made on 29 April 2002 ("the Annexes"). Pursuant to the Annexes SM committed to implement an investment project (hereinafter referred to as "the Jupiter Project") in a heat and power plant owned by SM, described in the prospectus as Project A, which covers the replacement of an existing turbine set with new steam, extraction and back-pressure turbine set. Moreover, the annexes specify the method of calculation of part of fees as well as principles of mutual settlements made between Mondi and SM. The value of the Jupiter Project amounts to app. 40 million zlotys.

On 25 July 2005, the Company's subsidiary - Saturn Management Spółka z o.o. i Wspólnicy, Spółka Komandytowa ("SM") concluded a contract for technical services, supplies and construction works ("the Contract") with Alstom Power Spółka z o.o. ("the Contractor"). Under the said Contract, the Contractor shall construct, deliver and sell to SM a complete, assembled and ready-to-work steam turbo-generator and render all other services related thereto. Value of the contract: 38,600 thousands zlotys. In the cases provided for in the Contract, the Contractor shall pay agreed penalties to SM, but not exceeding 20% of the total contractual amount.

In the third quarter of 2005 the Company completed the works related to preparation for construction of new industrial combined heat and power plant, gas fired, for Arctic Paper S.A. located in Kostrzyń. The new CHP will replace the old one, coal fired. New CHP with 130MWt of thermal power and 20MWe of electrical power will replace the existing, unecological coal fired CHP. The specialists from PEP not only prepared economically and technically optimal technological configuration of new CHP but which is very important assured the supplies of gas by negotiating 20 year contract for gas delivered from local fields and operated by PGNiG

S.A. in the roundabouts of Kostrzyń at Odra. The CHP project is a typical example of using the local gas fields for energy projects which implements the ecological effect with economical effectiveness.

In fourth quarter 2005 the subsidiary named Dipol Sp. Z o.o. continued the development of wind farm project. As a result the following contracts have been signed:

- described in current report 46/2005 contract with Polenergia S.A. headquartered in Warsaw (hereinafter referred to as "Polenergia") for the sale of property rights to certificates of origin of electricity generated in renewable sources (hereinafter referred to as the "Contract"). Pursuant to the Contract, Dipol shall sell Polenergia the property rights to certificates of origin of electricity generated in renewable sources (hereinafter referred to as the "Rights"), and Polenergia shall purchase the Rights from Dipol. The number of Rights sold by Dipol shall be determined based on the volume of renewable energy generated by Dipol. The said production volume in 2006 specified in the Contract amounts to 10,000 MWh, and by 2007 51,000 MWh a year. The Contract shall be effective by 31st December 2021.
- described in current report 47/2005 contract with contract for the construction of a wind farm with the capacity of 22MW ("the Contract") with the company Gamesa Wind GmbH with its registered office in Aschaffenburg, Germany ("Gamesa"). Under the Contract, Gamesa shall construct a wind farm with the capacity of 22MW by 31 December 2006. Dipol shall pay the Agreed Price of EURO 23,800,000 (PLN 95,818,800) to Gamesa.
- described in current report 51/2005 contract with Raiffeisen Bank Polska with its registered office in Warsaw (hereinafter referred to as the "Bank"), (i) an investment loan contract and (ii) VAT loan contract (hereinafter referred to as the "Contracts"). Under the Contracts the Bank granted Dipol the following:
 - (i) an investment loan in the amount of EUR 21,600,000 (PLN 84,758,400),
 - (ii) a short-term loan in the amount of PLN 3,000,000 and
 - (iii) a VAT loan (i.e. VAT financing loan) in the amount of PLN 17,000,000 (hereinafter referred to as the "Loans").

The investment loan shall be repaid by December 31, 2021. The short-term loan shall be repaid by June 30, 2007. VAT loan shall be repaid by March 31, 2007.

- described in current report 55/2005 contract with a contract for sale of electrical energy produced by RSE (renewable sources of energy) (hereinafter referred to as the "Contract") with Koncern Energetyczny ENERGA S.A. with its registered office in Gdańsk (hereinafter referred to as "ENERGA"). Pursuant to the provisions of the Contract, Dipol shall sell to ENERGA electrical energy produced in Puck Wind Farm.

In the fourth quarter due to subcontractor problems there are delay and cost overrun against the budgeted figures in the project Mercury. Project Mercury assumes construction of 8MW power plant, which will use coke gas being a waste from coke production and which will be supplied by Coke Plant Wałbrzych. The investment completion is expected in June 2006.

17. Description of and projections regarding external and internal factors with a material bearing on the development of the issuer and its group and perspectives of issuer's development for at least one year after the year for which the current financial statement is prepared, including elements of its market strategy;

External Factors significant for the development of the Capital Group

Poland's Membership in the European Union

Poland's membership in the European Union requires that the Polish legal regulations governing the power sector should be harmonized with the respective EU standards. The European community shapes the energy markets in the member states through Directives issued by the European Parliament. The key directives which affect PEP SA's activities concern the following issues:

- ❑ Production of renewable energy – (Directive 2001/77/EC) – The EU promotes “green” energy in order to reduce the dependence of European markets on imports of energy carriers, as well as to mitigate the use and contamination of the natural environment.
- ❑ Reduction of pollutant emissions – (Directives 2003/87/EC, 2001/80/EC and 280/2004/EC) – Under these directives, the EU member states are obliged to implement mechanisms for the reduction of greenhouse gas emissions to the atmosphere, in line with the Kyoto Protocol.
- ❑ Promotion of efficient energy production technologies – (Directive 2004/8/EC) – The EU has found that an increased share of cogeneration of electricity and heat in energy production contributes to the reduction of greenhouse gas emissions to the atmosphere. Accordingly, the EU has implemented mechanisms for the promotion of cogeneration technology.
- ❑ Enhancement of the market competitiveness – (Directive 2003/54/EC) – The EU's strategic objective is to enhance the competitiveness on the energy market through energy customers' freedom to select any supplier of energy. This creates ample opportunity for the development of energy generation plants close to end-users.

Poland has been harmonizing legal regulations governing the energy market with the European standards as stipulated in the European Parliament's directives. This renders the upgrading of the majority of industrial CHP plants indispensable, as these plants currently do not meet the environmental protection standards. Also indispensable is an increase in electricity generation from renewable energy sources. An increase in electricity consumption in Poland is also anticipated, as currently this consumption is approximately 40% lower than in the “old” member states of the European Union. The changes expected on the Polish energy market will fuel development of the Issuer's business. PEP SA's facilities already meet the European environmental protection standards. PEP SA has been investing and intends to invest in electricity generation from renewable energy sources: at the Saturn CHP Plant in Świecie, Poland's largest state-of-the-art CFB boiler, adapted to biomass co-combustion, was commissioned. Moreover, in anticipation of an increase in demand for “green” energy from renewable sources (provided for in the directives and regulations), PEP SA intends to invest in wind electricity generating units. The Issuer uses cogeneration as the leading technology in industrial units designed for end users, which enables them to be supplied with electricity at competitive prices, free from network transmission charge. Moreover, the majority of power units designed and managed by the Issuer record significant reductions of gas emissions, owing to the application of environment-friendly technologies and solutions.

Another consequence of Poland's accession to the European Union is a partial lifting of barriers for business development by Polish companies' activities in the member states. On the one hand, this opens up a possibility of expanding onto the markets in other member states; on the other, though, it may result in a stronger competition from foreign companies, especially given the expected growth of the demand for renewable electricity.

Macroeconomic Factors

The pace of growth of Poland's economy to a large degree affects the financial performance, as well as investment plans, of companies operating on the Polish market. A marked improvement in the economic conditions paves the way for more investments, including those relating to the modernization of production processes, also including the modernization of industrial CHP plants. This justifies the Issuer expectations that enterprises will become increasingly more interested in the services provided by PEP SA.

The economic situation and, consequently, investors' and consumers' demand is material to the existing and potential customers of the Issuer and its Group, thus affecting the customers' ability to perform their obligations towards the PEP Group. According to macroeconomic forecasts, the economic growth in Poland should continue at a rate projected by the government that is up to 5% in 2005.

Growth of the Outsourcing Services Market

In order to improve their competitive positions on the Polish market, companies are deciding to outsource non-core auxiliary functions from specialist undertakings. This policy enables companies to reduce costs of performing these functions and focus on their core business.

Moreover, operating risks relating to the outsourced auxiliary activities may be, if only partially, passed on the services providers. Outsourcing is already relatively common in a number of areas, including IT solutions and servicing, facility protection and management, as well as cleaning and catering services. Forecasts speak of an ever-broadening range of services to be outsourced in the future by an increasing number of organizations. Given the anticipated demand for upgrading industrial CHP plants, as well as more stringent environmental protection requirements, a large number of organizations with energy-consuming production processes are expected to start commissioning design, construction and management of modern power facilities from specialist providers.

Development of the Debt Instruments Market

PEP SA seeks to finance its individual projects in 80% with debt and in 20% with equity. Thus the access to long-term debt instruments is material to the Issuer's ability to execute new projects. The Issuer's to-date experience proves that the availability of project finance, that is financing appropriately harmonized with a project's schedule and profile, is rather limited in Poland. Most of the banks are not prepared to offer project finance instruments, and raising financing on the Polish debt securities market, dominated by treasury securities, is difficult. On the developed West-European markets, access to such financing is easier. Increasingly stronger competition on the banking services market and the growing assets under management of pension and investment funds should create more opportunities for raising project debt financing at more attractive prices.

Development of the Renewable Energy Market

The fact that the Polish power market must be aligned with the requirements imposed on Poland as an EU member is conducive to the dynamic developments in power generation from renewable sources.

Even prior to its accession to the European Union, Poland had undertaken to perform obligations pertaining to renewable electricity production. On January 1st 2005, the Regulation of the Minister of Economic Affairs and Labor, dated December 9th 2004, on purchases of electricity and heat generated from renewable sources (Dz.U. of 2004, No. 267, item 2656) came into force. Under this Regulation, electricity distributors are required to purchase renewable electricity in such amounts that the share of renewable energy in the total volume of purchased electricity is not less than:

- 1) 3.1% in 2005;
- 2) 3.6% in 2006;
- 3) 4.3% in 2007;
- 4) 5.4% in 2008;
- 5) 7.0% in 2009;
- 6) 9.0% in 2010,
- 7) 9.0% in 2011,
- 8) 9.0% in 2012,
- 9) 9.0% in 2012
- 10) 9.0% in 2013
- 11) 9.0% in 2014.

The volume of currently generated "green" electricity is insufficient – according to ARE's data, in 2003, mere 1,750 GWh of renewable energy was produced. In 2004, power utilities are required to purchase approximately 2,805 GWh of renewable energy. The volume of electricity produced from renewable sources purchased by the utilities should gradually grow, to reach 7,500 GWh in 2010, at a conservative assumption that total consumption of electricity in

Poland will not change in comparison with recent years, that is approximately 105,000 GWh pa (according to PSE SA's data). For failure to perform the obligation, the utilities will pay penalties at the rate of 200% of the previous-year average selling price of renewable energy for each 1 MWh of the deficit of renewable energy in the utility's total sales volume. Prices of electricity produced from renewable energy sources are not regulated and, given the limited supply and large demand, they have been growing. Currently, the price of wind electricity exceeds PLN 280/MWh and is expected to reach PLN 300/MWh before 2010, and the value of the wind energy market – approximately PLN 2.25bn.

Given the weather and geological conditions in Poland, biomass combustion and wind force are practically the main sources of development of "green" energy production in Poland. Especially the wind electricity market is expected to grow, as approximately 30% of the country's area enjoys conditions supporting the operation of wind farms, and on 5% of the country's area, recorded wind force creates conditions very favorable to wind electricity generation. The best locations are spread along the coast of the Baltic Sea. In 2003, installed capacity of wind electricity generating units totaled 58 MW, and the production was below 150 GWh. According to the Safire forecast model, used by the European Commission for the purposes of developing growth strategy and implementation programs for the renewable energy sector, the volume of wind electricity produced in Poland should reach 4,800 GWh in 2010 and 6,000 GWh in 2020. The generation of 4,800 GWh requires 2,000 MW of installed capacity, meaning that the market can still absorb wind power plants with a total capacity of over 1,900 MW.

Development of the Power Outsourcing Market

The industrial power outsourcing market is expected to grow. Currently it is a young market, as the first outsourcing contract of this type in Poland was concluded in 1998 by PEP SA. As the operator of four CHP plants, the Issuer is currently the market leader. Furthermore, the industrial power outsourcing market is characterized by large potential. Currently, in Poland there are 877 CHP plants which operate at production plants. The majority of them require modernization and adaptation to the operating requirements applicable in the European Union. These plants are potential customers for industrial power outsourcing. The Issuer's Executive Board identified a group of 88 organizations – potential customers of PEP SA – by performing an analysis of data on annual heat consumption, cost of energy, competitive position and financial standing of CHP plant owners.

Market Position of Competitors

The industrial power outsourcing market features very little competition. Currently, apart from the PEP Group, there are four entities offering this type of services on the Polish market. The PEP Group, with the largest number of completed outsourcing projects, is the leader; its market share measured by the amount of supplied heat (GJ) is 76%. The development prospects, both in terms of the market of industrial power outsourcing and the market of renewable energy, may be conducive to heightened competition in those segments of the power market. The Issuer's unique expertise and competence in the field of establishing, financing and managing complex power solutions should contribute to making PEP SA a strong market player.

Internal Factors Material to the Development of PEP and the PEP Group

Operational Efficiency of PEP Facilities

PEP SA is continually monitoring the operation of facilities under its management. Therefore, it can quickly react to any possible threats to its projected capacity and availability and avoid any instances of failing to meet its contractual energy supply obligations. Additionally the PEP Group improves operational procedures and concludes insurance agreements, or uses contractual clauses which enable PEP SA to transfer possible additional costs onto subcontractors.

Expansion of Operations to Develop New Projects

The ability to launch and manage new projects is of critical importance for the ability to compete on the industrial power outsourcing market and the renewable energy market, and consequently for the future financial results. PEP SA employs a highly qualified management and engineering personnel committed to implementation of the Company's strategic objectives. During the seven years of operations PEP SA has established an experienced Business Development Department to guarantee continuity of work on new projects and their successful completion; furthermore, the Company has unique experience on the Polish market, permitting it to flexibly customize its solutions to meet individual customers' needs and capabilities by relying on cutting-edge energy technologies and advanced legal structures. Moreover, the Issuer gradually improves the efficiency of the Group's operations by applying advanced IT solutions in budgeting and cost control processes.

Description of the Development Prospects of the PEP Group

The Capital Group PEP operates on the industrial energy outsourcing market and the renewable energy market by running the Saturn CHP which produces energy from biomass combustion. The issuer plans to increase its share in renewable energy by producing wind energy.

Growth factors:

- Specialization in execution of industrial power outsourcing projects tailored to the needs of specific customers;
- Focus on customers with good financial standing and operating on strategically sound markets;
- Development of highly qualified management and engineering personnel having the skills required for the management of existing and development of new projects;
- Strengthening of the position on the renewable energy market – construction of wind farms;
- Launch of outsourcing activities outside Poland – in Central Europe;

18. Development strategy and investment plans of the Capital Group of the Issuer and key directions in the development of the capital group of the issuer

The Capital Group PEP will leverage its position in the industrial energy outsourcing sector and generation of wind energy in order to become leading company on the Polish renewable energy market. The management of the Issuer believes that due to exploitation of increase and profitability of these markets will be able to generate very attractive returns from investments to its shareholders.

The development strategy of the Issuer and its Capital Group for the next years is concentrated in increase of shareholders' wealth, among others through the following actions:

- Maintenance of development of industrial energy outsourcing in Poland by completion of large enough projects in which the issuer can exploit its biomass experience
- Strengthening its position in the suppliers of renewable energy market, completion of developed wind farm projects. The Group plans to secure 150MW in wind farm projects in cooperation with EPA Sp. z o.o. and securing further wind farm projects with total capacity of 128MW from other developers in order to have in Poland by the end of 2010 total capacity of 300 MW in wind farms.
- The Group plans to supply biomass which is a substitute for fossil fuels to Polish power plants. In 2006 the first actions are to be taken in order to meet this goal. The effects of these actions will be reflected in the profit and loss account in the subsequent years.

- Systematical cost reduction through tight expenditure control in particular projects and through control of headquarters costs („continuous improvement”).

19. Changes in the key principles of management of the issuer's enterprise and its capital group:

In financial year 2005 there were no changes in the key principles of management of the Issuer's enterprise and the Capital Group.

20. Changes in the management and supervisory board of the issuer within last financial year, rules governing appointment and dismissal of managing persons and competences of managing persons, in particular the right to issue or buy back shares

Changes in the composition of managing and supervisory bodies in 2005 were presented in the Note 1.3 to the financial statement.

In 2005 the rules governing the appointment and dismissal of supervisory persons (Supervisory board members) were changed. Based on art. 10.2 and 10.3 of the Statute (binding as of July 20, 2005), the members of the Supervisory Board were appointed in the following way:

“10.2 Until Polenergy Investments B.V. with its seat in Amsterdam (“Polenergy”) and/or any of the Funds sells the shares in Company, which sale results in the obligation to inform of such sale, Supervisory Board members shall be appointed and removed in the following way:

- a) Polish Private Equity Fund I, Polish Private Equity Fund II and Polish Enterprise Fund shall appoint and remove jointly three Supervisory Board members, including the Chairman;*
- b) Polenergy Investments B.V shall appoint and remove three Supervisory Board members.*

10.3 Once Polenergy and/or any of the Funds sells the shares in Company, which sale results in the obligation to inform of such sale, Supervisory Board members shall be appointed and removed in the following way:

- a) a shareholder holding shares representing 33% of the Company's share capital shall be entitled to appoint and remove 2 Supervisory Board members;*
- b) the remaining Supervisory Board members shall be appointed and removed by the General Meeting.”*

Due to the fact that the public offer of the Company's shares was completed on May 4, 2005, as of that day the rules for appointment of Supervisory Board members mentioned in art. 10.2 above were binding any more.

Starting from July 20, 2005 – day of Court registration of changes in the Statute voted by the General Shareholders Meeting on July 4, 2005 the Supervisory Board is appointed in the following way:

- “a) a shareholder holding shares representing 33% of the Company's share capital shall be entitled to appoint and remove 2 Supervisory Board members including the Chairman; shall there be more than one shareholder representing at least 33% of Company's share capital the Chairman is appointed the shareholder with majority share in Company's capital*
- b) the remaining Supervisory Board members shall be appointed and removed by the General Meeting.”*

As of February 20, 2006 there are no shareholders exceeding 33% share in Company's share capital. In Consequence all the Supervisory Board members are appointed and dismissed by the General Shareholders Meeting.

Right of the managing persons to vote a resolution about issue or buy back of Company's shares

Till March 7, 2005 which is the day of registration of changes in the Statute introduced based on the resolution of General Shareholders Meeting dated March 1, 2005 the Management of the Company had the right to increase the share capital within the target capital by the amount of 6,936,048 zlotys.

After the above mentioned changes to the Statute and changes introduced based on the General Shareholders Meeting dated April 15, 2005 (registered on July 20, 2005) the Management is allowed to increase the Company's share capital within the limits of target capital by the amount of 1,366,832 zlotys. Based on above mentioned right on February 27, 2006 the Management voted two resolutions about increase of share capital by (i) 139,844 zlotys (resolution dated November 7, 2005, N class share issue) and (ii) 141,816 zlotys (resolution dated February 3, 2006, O class share issue). The increase in share capital within the limit of target capital voted in the resolution dated February 3, 2006 has not yet been registered by the Court.

21. All agreements concluded between the Issuer and the managing persons which assume compensation in case of resignation or dismissal from occupied position without any significant reason or if their dismissal is due to merger or takeover of the issuer;

The president of the Management Board Stephen Klein is not party of any agreement with the Company. The conditions of fulfillment of the President of the Management Board by Mr. Stephen Klein, including the salary, are specified in the resolution of the Supervisory Board. The above mentioned resolution states that among other, in case of dismissal of Mr. Stephen Klein from the position of Management Board Member he is entitled and obliged to render his services for the Company for the period of 9 months withholding the right to salary, excluding the case of dismissal due to Mr. Stephen Klein fault. In case of resignation of Mr. Stephen Klein he is entitled and obliged to render his services for the Company for the period of 6 months withholding the right to the salary.

Ms Anna Kwarciańska is party of the work agreement with the Company. The above mentioned agreement is concluded for unspecified period. The termination period amounts to 6 months.

Mr. Michał Kozłowski is party of the work agreement with the Company. The agreement was concluded for the period of mandate for Mr. Michał Kozłowski for Management Board Member. In case of dismissal of Mr. Michał Kozłowski from the Management Board he is entitled to the compensation in the amount of 255 thousand zlotys gross, excluding the case of dismissal due to Mr. Michał Kozłowski fault. In case of resignation of Mr. Michał Kozłowski he is entitled to the compensation of 168 thousand zlotys gross.

22. The amount of salaries, bonuses and other rewards, including these resulting from motivation programs or bonus programs based on issuer's equity, including programs based on bonds convertible, subscribe warrants (in cash, nature or whatever other form) paid, due or potentially due, separately for each managing or supervisory persons of the issuer, no matter if they were incurred in the costs or resulted from profit distribution, in case the issuer is parent company or significant investor – separately, information on value of the salaries and bonuses received as a result of being in management bodies of the affiliates, if the specific information was disclosed in the financial statements – the duty is treated as fulfilled if the specific reference to the financial statements was made

The salaries of managing and supervisory persons were presented in the Note 54 to the financial statements.

The Company has introduced option program for managing and supervisory persons. Based on this program which was described in detail in Note 55 to the financial statement, the options were granted to the managing and supervisory persons as it is presented in the table below:

Management Board Member or Supervisory Board Member	Amount of options	Exercise price
Zbigniew Prokopowicz	107 482	2PLN
Stephen Klein	358 000	7,8 PLN
Anna Kwarciańska	47 969	2PLN
Grzegorz Skarżyński	35 454	2PLN

Moreover, in 2005 the Company issued shares at nominal price of 2PLN of class M which was fully absorbed by the current and former Management Board Members of the Issuer in the following way:

Robert Stelmaszczyk acquired 96 543 shares
Anna Kwarciańska acquired 42 908 shares
Grzegorz Skarżyński acquired 42 908 shares.

23. In case of capital companies – indication of total number and nominal value of all shares of the issuer and shares in related parties of the issuer which are in possession of managing and supervisory persons (for each person separately)

Anna Kwarciańska	78 362 shares of Polish Energy Partners S.A. with total nominal value of 156 724 PLN
Zbigniew Prokopowicz	69 922 shares of Polish Energy Partners S.A. with total nominal value 139 844 PLN

24. Indication of shareholders owed directly or indirectly through affiliates, at least 5% of total votes on the general shareholders meeting of the issuer, together with indication of number of shares owed, their percentage share in the share capital, number of votes these entities have and their percentage share in total amount of votes on the shareholders meeting

Information on the shareholders of the Issuer is presented in the Note 24 to the financial statement.

25. Information on disclosed to the issuer agreements (including these signed after the balance sheet date) as a result of which changes in the proportion of shares owned by the current shareholders and bondholders may occur;

The shareholders of the Company - Polish Enterprise Fund L.P., Polish Private Equity Fund I, Polish Private Equity Fund II, (hereinafter referred to as the "Funds") concluded with a BZ WBK S.A. Brokerage House (hereinafter referred to as "BZ WBK") a lockup agreement. Under the agreement, the Funds shall not sell any of the Company's shares held within 9 months after the allocation of the Company's shares of 14th and 16th February 2006, excluding the sale (i) in case of public call or (ii) as a response to significant demand for the Company's shares, provided that BZ WBK agrees for such a transaction.

The Company's shareholder - Polenergy Investments B.V. (hereinafter referred to as "Polenergy") concluded with BZ WBK S.A. Brokerage House (hereinafter referred to as "BZ WBK") a lockup agreement. Under the agreement, Polenergy shall not sell any of the Company's shares held within 9 months after the allocation of the Company's shares as part of the shares sale being conducted by BZ WBK, excluding the sale (i) in case of a public call or (ii) as a response to significant demand for the Company's shares, provided that BZ WBK agrees for such a transaction.

26. Indication of all owners of shares which have special control rights to the issuer together with the description of such rights;

There are no owners of shares which have special control rights of the Issuer.

27. Information on control over employee shares programs;

Due to the fact that the option program in the Company refers to the specified persons and the criteria of option exercise are objective i.e. being the management board member of the company on a specified day there is no need to implement control over employee share program. The Company informs about the increase of the share capital relating to the realization of the option program. Moreover the net profit for 2005 includes the valuation of cost relating to the option program for managing and supervising persons.

28. Indication of all limitations relating to changes in ownership of the issuer's shares and all limitations in relation to effect vote right from issuer's shares

Shares of class M and N are registered shares. In consequence the mentioned shares are not listed on the Warsaw Stock Exchange. The statute of the Company does not contain any limitations on trading of the registered shares. All the shares "to the bearer" are listed on the Warsaw Stock Exchange and are not subject to any trade limitations excluding those resulting from the governing law.

29. Information on:

I. date of conclusion of agreement between the issuer and the company entitled to perform audit of financial statements for the audit or review of financial statements or consolidated financial statements and on period for which such an agreement was concluded,

a) Agreement dated June 30, 2005 between Polish Energy Partners S.A. and Ernst & Young Audit Sp. z o.o. with seat in, ul. E.Plater 53, 00-113 Warsaw for review of financial statements for the period of 6 months ended June 30, 2005 and for review of consolidated financial statements for the period of 6 months ended June 30, 2005

b) Agreement dated November 4, 2005 between Polish Energy Partners S.A. and Ernst & Young Audit Sp. z o.o. with seat in, ul. E.Plater 53, 00-113 Warsaw:

- for audit of Company's financial statements for the year ended December 31, 2005
- for audit of consolidated financial statements for the year ended December 31, 2005
- for audit of subsidiary Saturn Management Sp. z o.o. i Wspólnicy Sp. k. for the year ended December 31, 2005
- for audit of subsidiary Energopep Sp. z o.o., EC Jeziorna, Sp. k. for the year ended December 31, 2005

b) total fee resulting from the agreement with the entity entitled to perform audit of financial statements, due and paid fees resulting from audit and review of financial statements and if the company prepares consolidated financial statements resulting from audit and review of consolidated financial statements,

The total fee resulting from the above mentioned agreements amounts to 75 000 EURO.

The audit of all standalone financial statements and the consolidated financial statements for the year 2004 was performed by Ernst&Young Audit Sp. z o.o. Total fee amounted to 75 000 EURO.

c) total other fees resulting from other agreements with entity entitled to perform audit of financial statements or consolidated financial statements, for other services than these mentioned under b) relating to current financial year,

For services other than mentioned above the company Ernst & Young Audit Sp. z o.o. in 2005 collected fees totaling 15 000 EURO.

For services other than mentioned above the company Ernst & Young Audit Sp. z o.o. in 2004 collected fees totaling 43 000 EURO.

30. Description of significant off balance sheet items including breakdown by entity, item and value

The description of significant off balance sheet items including breakdown by entity, item and value is presented in the Notes 33 and 46 to the financial statements.

*Stephen Klein – President of the Management Board
from June 10, 2005*

*Zbigniew Prokopowicz – Supervisory Board Member
designated to time limited position of President of the
Management Board of the parent company in charge
from 21 November 2004 to June 10, 2005*

*Grzegorz Skarżyński – Vice - President of the
Management Board till December 31, 2005*

*Wojciech Cetnarski – Vice - President of the
Management Board from June 10, 2005 till December
13, 2005*

Anna Kwarcieńska – Member of the Management Board

*Michał Kozłowski – Member of the Management
Board from December 13, 2005*

POLISH ENERGY PARTNERS
CAPITAL GROUP

**LONG FORM AUDITOR'S REPORT
SUPPLEMENTING THE OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. GENERAL NOTES

1. Background

Polish Energy Partners S.A. (hereinafter referred to as a "Parent Company" or a "Company") is a Parent Company in the Polish Energy Partners Capital Group (hereinafter referred to as a "Capital Group" or a "Group"). The Parent Company has been incorporated by the Notarial Deed dated July 17, 1997. The seat of the Parent Company is at 169 Wiertnicza St. in Warsaw.

The parent company is issuer of securities enumerated in the art. 4 of the Regulation of European Parliament and the European Union Council dated July 19, 2002 no. 1606/2002/WE regulating the application of International Accounting Standards (Journal of Laws WE L dated September 11, 2002 p.1; Journal of Laws UE Polish special issue, chapter 13, vol. 29 p.609) and based on the provisions of art 55.6a of Accounting Act dated September 22, 1994 prepares the consolidated financial statements of the Group in accordance with International Financial Reporting Standards which were accepted by EU. This obligation refers to the financial statements prepared for the financial year beginning in 2005.

On July 19, 2001, the Parent Company was registered with the National Court Register under entry no. KRS 0000026545.

The Company was granted NIP: 526-18-88-932 on September 16, 1997 and statistical number, REGON 012693488 on August 1, 1997.

The primary scope of the Parent Company's business activities is generation and distribution of electrical energy and heat. In addition, the scope of the Parent Company's business activities includes:

- General building and land engineering, performing specialized construction works,
- Construction of building installations,
- Other forms of granting loans except those activities to the performance of which the concession or permission is needed or which are restricted for the scope of activities of banks,
- Research and development works in the area of natural and technical sciences,
- Management and sale of properties at its own expense,
- Contracted property management,
- Financial and accounting activities;
- Constructional, urban and technological design and architecture,
- Business and management consulting;
- Other commercial activities not classified anywhere else,
- Other educational activities not classified anywhere else,
- Wholesale of solid, liquid, gas fuels and related products.

The scope of business activities of subsidiaries is connected to the activities of the Parent Company.

Polish Energy Partners Capital Group
Long form auditors' report supplementing the opinion
on the financial statements
for the year ended December 31, 2005
(in thousands PLN)

As at December 31, 2005, the Company's issued share capital amounted to PLN 36,369 thousand. Equity of the Group at this day amounted to PLN 111,621 thousand.

In accordance with the Company's list of shareholders who had 5% of all votes and registered for the General Shareholders Meeting on December 23, 2005 the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of equity
Polish Enterprise Fund L.P.	8,666,049	8,666,049	2.00	47,66%
Other shareholders	9,518,624	9,518,624	2.00	52,34%
	-----	-----		-----
	18,184,673	18,184,673		100.0%
	=====	=====		=====

:

Based on the minutes from the Management Board meetings dated November 7, 2005 and February 3, 2006 and based on the provisions of the National Court Register dated January 31, 2006 and after the balance sheet date up to the date of this report there were following changes to the shareholders' nominal equity

	Number of shares	Par value of shares
Opening Balance	17,932,392	35,865
Increase on June 9, 2005	182,359	364
Increase, resolution dated November 11, 2005	69,922	140
Increase, resolution dated February 3, 2006	70,908	142
	-----	-----
Closing Balance	18,255,581	36,511
	=====	=====

Till the date of this report two last capital increases were not registered with the National Court Register.

Members of the Company's Management Board as at March 1, 2006 were as follows:

Stephen Klein	-	President
Michał Kozłowski	-	Member
Anna Kwarcińska	-	Member

On June 10, 2005, the Supervisory Board adopted the resolution no.1 to appoint Mr. Stephen Klein for the position of President of the Management Board and adopted the resolution no.2 to appoint Mr. Wojciech Cetnarski for the position of Vice President.

*Polish Energy Partners Capital Group
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The Supervisory Board adopted the resolution no.1 dated December 13, 2005 in which it accepted the resignation of Mr. Grzegorz Skarżyński from Management Board with effect on December 31, 2005. In the resolution no.2 dated December 31, 2005 Mr. Grzegorz Skarżyński was suspended from Vice President of the Company with the effect as of the date of the resolution.

The Supervisory Board adopted the resolution no.3 dated December 13, 2005 in which it accepted the resignation of Mr. Wojciech Cetnarski from Management Board with effect on December 13, 2005.

The Supervisory Board adopted the resolution no.4 dated December 13, 2005 in which it appointed Mr. Michał Kozłowski to the Management Board with the effect as of the date of the resolution.

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2. Entities included in the Capital Group

As at December 31, 2005, apart from the Parent Company, the following subsidiaries (direct and indirect) were included in the Polish Energy Partners Capital Group:

<u>Entity name</u>	<u>Consolidation method</u>	<u>Type of opinion</u>	<u>Name of authorized entity that audited financial statements</u>	<u>Balance sheet date</u>
Saturn Management Sp. z o.o. i Wspólnicy Sp. Komandytowa	full	unqualified	Ernst & Young Audit Sp. z o.o.	December 31, 2005
Energopep Sp. z o.o. EC Jeziorna, Sp. komandytowa	full	unqualified, with an emphasis of matter	Ernst & Young Audit Sp. z o.o.	December 31, 2005
Dipol Sp. z o.o.	full	Not applicable	Not applicable	December 31, 2005
Interpep Sp. z o.o., EC Wizów, Sp. komandytowa	full	Not applicable	Not applicable	December 31, 2005
Interpep Sp. z o.o. EC Zakrzów, Sp. Komandytowa	full	Not applicable	Not applicable	December 31, 2005
Interpep Sp. z o.o.	Excluded for consolidation	Not applicable	Not applicable	December 31, 2005
Energopep Sp. z o.o.	Excluded for consolidation	Not applicable	Not applicable	December 31, 2005
Saturn Management Sp. z o.o.	Excluded for consolidation	Not applicable	Not applicable	December 31, 2005
Mars Management s.r.o.	Excluded for consolidation	Not applicable	Not applicable	December 31, 2005
Notos Sp. z o.o.	Excluded for consolidation	Not applicable	Not applicable	December 31, 2005

In the Group's consolidated financial statements for the year ended December 31, 2005 the company MERKURY Energia – Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Sp. z o.o., Spółka komandytowa was consolidated using the equity method.

Comparing to previous year in 2005 there were following changes in the scope of entities subject to consolidation:

- The Parent Company purchased 50% of shares in Dipol Sp. z o.o.
- The following entities were incorporated Interpep Sp. z o.o., EC Wizów Sp. komandytowa, Interpep Sp. z o.o., EC Zakrzów Sp. komandytowa. The Parent company has 100% shares in the above companies.

3. Consolidated financial statements

3.1. Auditor's opinion and audit of consolidated financial statements

Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1 is an authorized audit firm registered on the list of certified auditors (No. 130).

Ernst & Young Audit Sp. z o.o. was appointed to audit the Group's consolidated financial statements by the Supervisory Board on January 28, 2005.

Ernst & Young Audit Sp. z o.o. and the chartered accountant in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as stipulated by Art. 66.2 and 3 of the Accounting Act of 29 September 1994 (uniform text: Journal of Laws of 2002 No 76, with subsequent amendments) (hereinafter "the Act").

Based on the agreement concluded with the Management Board of the Parent Company, dated November 4, 2005, we audited the consolidated financial statements for the 12 months period ended December 31, 2005.

Our responsibility was to express an opinion on the consolidated financial statements on the basis of our audit. The auditing procedures were designed in such a way as to enable us to express an opinion on the consolidated financial statements taken as a whole.

Our procedures did not extend to supplementary information which does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an auditors' opinion dated March 1, 2006 which was as follows:

"To the Supervisory Board of Polish Energy Partners S.A.

1. We have audited the attached consolidated financial statements for the year ended 31 December 2005 of Polish Energy Partners (the "Group") with its registered office located in Warsaw, at ul. Wiertnicza 169, containing:
 - the consolidated balance sheet as at 31 December 2005 with total assets amounting to 378,739 thousand zlotys,

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- the consolidated profit and loss account for the period from 1 January 2005 to 31 December 2005 with a net profit amounting to 9,341 thousand zlotys,
 - the consolidated statement of changes in shareholders' equity for the period from 1 January 2005 to 31 December 2005 with a net increase in shareholders' equity amounting to 10,497 thousand zlotys,
 - the consolidated cash flow statement for the period from 1 January 2005 to 31 December 2005 with a net cash inflow amounting to 5,015 thousand zlotys and
 - the additional notes and explanations.
2. The truth and fairness¹ of the attached consolidated financial statements and the proper maintenance of the accounting records are the responsibility of the holding company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these consolidated financial statements, in all material respects, present truly and fairly² the financial position and financial results of the Group.
3. We conducted our audit of the consolidated financial statements in accordance with the following regulations being in force in Poland:
- chapter 7 of the Accounting Act dated 29 September 1994 (the "Accounting Act"),
 - the auditing standards issued by the National Chamber of Auditors,
- in order to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Management of the holding company, as well as evaluating the overall presentation of the financial statements. We believe our audit has provided a reasonable basis to express our opinion on the consolidated financial statements taken as a whole.
4. The consolidated financial statements for the prior financial year ended 31 December 2004 were subject to our audit and dated 24 February 2005 we issued on these consolidated financial statements an unqualified opinion with emphasis of matter relating to the reversal of impairment write-downs and release of provisions as a result of the improvement of financial situation of one of key customers of the Company.
5. In our opinion, the attached consolidated financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Group's operations for the period from 1 January 2005 to 31 December 2005, as well as its financial position³ as at 31 December 2005;

¹ Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

² Translation of the following expression in Polish: "rzetelne, prawidłowe i jasne"

³ Translation of the following expression in Polish: "sytuacja majątkowa i finansowa"

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- have been prepared appropriately in all material aspects with the provisions of the International Financial Reporting Standards, which were adopted by the EU;
 - fulfils all the law requirements which impact the form and content of the financial statements.
6. We have read the Directors' Report for the period from 1 January 2005 to 31 December 2005 discussing the Group activity and the principles of preparing yearly consolidated financial statements ("Directors' Report") and conclude that the information derived from the attached consolidated financial statements reconciles with the consolidated financial statements. The information included in the Directors' Report corresponds with the Regulation of Finance Minister dated 19 October, 2005 in relation to current and periodical information submitted by the issuers of securities (Journal of Laws no. 209 pos. 1744).
7. As at the date of the issuance of this opinion, the consolidated financial statements for the year ended 31 December, 2004 have not been filed at the National Court Register and have not been submitted for publication in Monitor Polski B, as required by the provisions of the Accounting Act. "

The audit of the consolidated financial statements was performed in the period from January 30, 2006 to March 1 2006 and in the parent Company from January 30, 2006 to March 1, 2006.

3.2. Representations provided and availability of data

The Management Board of the Company confirmed its responsibility for the truth and fairness of the consolidated financial statements and consolidation documentation. The Company's Management Board provided us with all financial statements of the Group companies included in the consolidated financial statements consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation from the Management Board of the Company, dated March 1, 2006 confirming:

- the complete disclosure of information in the consolidation documentation,
- the inclusion of all contingent liabilities in the consolidated financial statements,
- the disclosure in the consolidated financial statements of all material events from the balance sheet date to the date of the representation,

The representation also confirmed that the information provided to us was true and fair to the best of the Parent Company Management Board's knowledge and belief, and that it included all events that could have an effect on the consolidated financial statements.

3.3. Information on the Group's prior year consolidated financial statements

The Group's financial statements, prepared in accordance with Polish Accounting Standards, for the year ended December 31, 2004 were audited by Mr. Jarosław Wajer certified auditor (no 10208/7529) acting on behalf of Ernst & Young audit Sp. z o.o. with seat in Warsaw, Emilii Plater 53, listed in audit firm register under no. 130. The certified auditor acting on behalf of the audit firm issued to these financial statements for the year ended December 31, 2004 the unqualified opinion with emphasis of matter relating to the release of the provisions and impairment write ups as a result of improvement of one of the Group's customers.

The Group's consolidated financial statements for the year ended December 31, 2004, were approved by the Shareholders at the General Shareholders Meeting on April 15, 2005.

The Group's consolidated financial statements for the year ended December 31, 2004 with the auditors' opinion, the excerpt from the resolution approving the consolidated financial statements and the Group's report on activities were filed in the National Court Register on July 8, 2005.

Till March 1 2006, the introduction to the consolidated financial statements, the consolidated balance sheet for the year ended December 31, 2004, consolidated profit and loss account, consolidated changes in the equity, and consolidated cash flow for the year ended December 31, 2004 with the auditors' opinion, the excerpt from the resolution approving the consolidated financial statements, the excerpt from the resolution about profit distribution were not filed in Monitor Polski B.

4. FINANCIAL SITUATION

4.1. Basic data and financial ratios

Selected financial ratios which characterize financial situation of Polish Energy Partners Capital Group in years 2004-2005 are presented below, the ratios were calculated on the basis of the financial information included in the consolidated financial statements for the year ended December 31, 2005.

The financial ratios for the year 2003 were not presented because the Group changed its applied accounting standards to the International financial Reporting Standards, which were adopted by the UE in 2005 and these data for previous years is not available.

	2005	2004
Total assets	378.739	340.277
Shareholders' funds	111.621	101.124
Net profit/loss	9.341	6.653
Return on assets	2.6%	1.9%
<div style="text-align: center;"> <hr/> Net profit <hr/> Total assets </div>		
Return on equity	8.8%	6.8%
<div style="text-align: center;"> <hr/> Net profit <hr/> Shareholders' funds at the beginning of the period </div>		
Net sales profitability	15,3%	13,3%
<div style="text-align: center;"> <hr/> Net profit/ (loss) <hr/> Sales revenue from sales of finished goods and goods for resale </div>		
Liquidity I	2,88	2,37
<div style="text-align: center;"> <hr/> Current assets <hr/> Short-term liabilities+ Short-term accruals + Short-term provisions </div>		
Liquidity III	1,41	1,50
<div style="text-align: center;"> <hr/> Trade securities + cash <hr/> Short-term liabilities </div>		

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	2005	2004
Receivable days	66 days	51 days
<hr/>		
$\frac{\text{Trade receivables} \times 365}{\text{Sales revenue}}$		
Creditor days	35 days	42 days
<hr/>		
$\frac{\text{Trade creditors} \times 365}{\text{Costs of goods for resale and raw materials sold} + \text{cost of production of finished products sold}}$		
Inventory days	22 days	27 days
<hr/>		
$\frac{\text{Inventory} \times 365}{\text{Cost of goods for resale and raw materials sold} + \text{cost of production of finished products sold}}$		
Stability of financing	92,9%	89,9%
<hr/>		
$\frac{\text{Shareholders' funds} + \text{provisions} + \text{long-term liabilities}}{\text{Total liabilities and equity}}$		
Debt ratio (%)	70,5%	70,3%
<hr/>		
$\frac{(\text{Total liabilities and equity} - \text{shareholders' funds}) \times 100}{\text{Total assets}}$		
Rate of inflation:		
yearly average	2,1%	3,5%
December to December	0,7%	4,4%

4.2 Comments on changes in financial ratios

The analysis of the presented figures and ratios indicates the following trends in 2005:

In 2005 the efficiency ratios improved in comparison to the previous year which was caused by the higher reported net profit for the current financial year in comparison to the net profit reported by the Group in 2004.

The return on asset in 2005 were higher in comparison to 2004 by almost one percentage point from 1.9% to 2.6%, and the return on equity increased by two percentage points from 6.8% to 8.8%. The net sales profitability increased in 2005 in relation to 2004 by two percentage points from 13.3% to 15.3%.

The liquidity ratio I (current liquidity) increased from the level of 2.37 as of December 31, 2004 to the level of 2.88 as of December 31, 2005 due to the increase of short term receivables

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by 20 million zlotys. The liquidity ratio III (cash liquidity) insignificantly decreased from the level of 1.5 as of December 31, 2004 to the level of 1.41 as of December 31, 2005.

The receivables turnover decreased in comparison to previous year and amounts to 66 days. The creditor days which amounted to 35 days in 2005 were lower by 7 days in comparison to the year 2004.

The inventory turnover was shorter than in the previous year by 7 days and was at the level of 20 days due to increase in cost of goods sold in 2005 in comparison to the year 2004 while the level of inventory was the same.

The stability of financing ratio and the debt ratio are generally at the same level in both compared periods. The Group applies relatively high level of leverage however the main part of liabilities is long term which positively impacts the debt ratio.

4.3 Going concern

Nothing came to our attention during the audit that would cause us to believe that the Company is unable to continue as a going concern for the period of at least twelve months subsequent to December 31, 2005 as a result of any intentional or compulsory discontinuing or significant limitation in its activities.

In Note 2 in the explanatory notes to the audited Group financial statements for the year ended December 31, 2005 the Company's Management Board stated that the financial statements of subsidiaries, associates and joint ventures included in the consolidated financial statements were prepared on the basis that these companies will be going concerns for the period of at least twelve months subsequent to December 31, 2005.

During the current financial year one of the subsidiaries Energopep Sp. z o.o., Warszawa ul. Wiertnicza 169 reported loss which increased the negative net assets value. As of December 31, 2005 the total capital of that company was negative and amounted to PLN 4,872 thousands. Had the profitability of that company remained negative there would be a significant risk for this company to operate as a going concern. We have received written representation from the parent company being the limited partner supporting the company in the period of at least the next 12 months. According to the Commercial Code limited partner is responsible for the liabilities of the company up to the limitation sum which is PLN 50 thousand.

II. SPECIFIC COMMENTS

1. COMPLETENESS AND ACCURACY OF CONSOLIDATION DOCUMENTATION

During the audit we have not noted any material irregularities in the consolidation documentation which were not subsequently corrected that could have a material effect on the audited consolidated financial statements. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. ACCOUNTING POLICIES FOR THE VALUATION OF ASSETS AND LIABILITIES

The Group's accounting policies and principles are detailed in Note 6 in the additional explanatory notes to the Group's consolidated financial statements for the year ended December 31, 2005. In the audited financial year, based on the provisions of art. 55.6a of the Accounting Act the Group changed the applied accounting standards to the International Financial Reporting Standards, which were adopted by UE. The effects of the changes in the accounting principles are presented in the additional explanatory note 7 to the Group's consolidated financial statements for the year ended December 31, 2005.

3. FEATURES OF CONSOLIDATED FINANCIAL STATEMENTS

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended December 31, 2005.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1. Goodwill on consolidation and amortization

The principles applied to calculate goodwill the principles to assess impairment and the impairment write downs for the financial year and till the balance sheet date are presented in the Note 6 of the explanatory notes to the consolidated financial statements.

3.2. Shareholders' funds

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation.

Information on shareholders' funds has been presented in Note 24 of the additional explanatory notes to the consolidated financial statements.

3.3. Financial year

Financial statements of the Capital Group forming the basis for the consolidated financial statements of entities included in the capital Group were prepared as of December 31, 2005 and comprised the financial data for the period from January 1, 2005 to December 31, 2005.

4. CONSOLIDATION ADJUSTMENTS

4.1. Elimination of inter-company balances (debtors and creditors) and inter-company transactions (revenues and expenses) of consolidated companies

All eliminations of inter-company balances (debtors and creditors) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2. Elimination of unrealized gains/losses of the consolidated companies, included under assets, as well as relating to dividends

All eliminations of unrealized gains/losses of the consolidated companies, included under assets, as well as relating to dividends reconcile with the consolidation documentation

5. DISPOSAL OF ALL OR PART OF SHARES IN A SUBORDINATED ENTITY

During the financial year the Group did not sell any shares in subordinated entities.

6. ITEMS WHICH HAVE AN IMPACT ON THE GROUP'S RESULT FOR THE YEAR

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended December 31, 2005.

7. REASONS FOR EXCLUSION FROM CONSOLIDATION AND APPLICATION OF EQUITY ACCOUNTING METHOD IN THE INTERNATIONAL FINANCIAL REPORTING STANDARDS APPROVED BY EUROPEAN UNION

During the process of preparation of the consolidated financial statements there were no exclusions from the consolidation methods or application of the equity accounting that would have resulted in the modifications in the auditors' opinion.

8. WORK OF THE EXPERT

During our audit we have taken into account the results of the work of the independent actuary responsible for the calculation of present value of liabilities towards employees other than remuneration.

Certified Auditor
No 10402/7665

on behalf of
Ernst & Young Audit Sp. z o.o.,
Rondo ONZ 1, 00-124 Warszawa
Ident. no. 130

Marcin Zieliński

Artur Żwak
Certified Auditor
No 9894/7366

Warsaw, 1 March 2006

