POLISH ENERGY PARTNERS CAPITAL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

TOGETHER WITH THE INDEPENDENT AUDITORS' OPINION

PREPARED WITH PROVISIONS OF INTERNATIONAL

FINANCIAL REPORTING STANDARDS

Stephen Klein – President of the Management Board	*Anna Kwarcińska – Vice - President of the Management Board*
Michał Kozłowski – Member of the Management Board	*Agnieszka Grzeszczak – Chief Accountant*

Warsaw, February 26, 2007

(in thousand zlotys)

CONSOLIDATED BALANCE SHEET Assets	Note	31.12.2006	31.12.2005 restated
I.Fixed Assets (long-term)		**348 567**	**294 696**
1. Tangible fixed assets	13,14	103 705	55 925
2. Intangible fixed assets	11	369	27
3. Goodwill of the subsidiaries	12	569	132
4. Investment property		-	-
5. Financial assets	16,17	516	5 637
6. Financial assets valued at equity method		-	756
7. Long-term receivables	15,48	236 418	231 587
8. Deferred tax assets	26	-	-
9. Other fixed assets	18	6 991	632
II. Current assets (short-term)		**77 630**	**84 829**
1.Inventory	19	1 932	1 986
2.Trade receivables	20	17 962	17 859
3.Income tax receivables	20	1	446
4.Other short-term receivables	20	27 085	17 732
5.Accrued income and deferred cost	23	1 449	1 194
6.Other short-term assets	22	4 122	2 692
7.Short-term financial assets	21	-	1 319
8.Cash and cash equivalents	24	25 079	41 601
Total Assets		**426 198**	**379 525**

Consolidated Balance Sheet

(in thousand zlotys)

CONSOLIDATED BALANCE SHEET **Total Equity and Liabilities**	Note	31.12.2006	31.12.2005 restated
I. Shareholders' Equity		**106 742**	**111 621**
1.Share capital	25	36 979	36 369
2.Unpaid share capital		(132)	(378)
3.Surplus of sales issue above nominal value (agio)		28 124	28 321
4.Treasury shares		-	-
5.Reserve capital from option valuation	58	2 583	1 032
6.Other reserve capital		19 210	28 267
7.Profit/loss from previous years		18 493	8 669
8.Profit/loss for the period		549	9 341
9.Minority interest		936	-
II. Long-term liabilities		**276 140**	**238 417**
1.Bank loans and borrowings	28,29	266 005	232 656
2.Deferred tax liability	26	1 395	1 791
3.Provisions	27	2 577	2 521
4.Accruals and deferred income	32	5 901	1 021
5.Other liabilites		262	428
III. Short-term liabilities		**43 316**	**29 487**
1.Bank loans and borrowings	30,31	25 888	20 490
2.Trade liabilities	30	8 396	3 960
3.Income tax liabilities	30	152	14
4.Other liabilites	30	2 237	2 063
5.Provisions	27	2 627	1 602
6.Accruals and deferred income	32	4 016	1 358
Total Capital and Liabilities		**426 198**	**379 525**

(in thousand zlotys)

CONSOLIDATED PROFIT AND LOSS STATEMENT	Noty	31.12.2006	31.12.2005
Continued activity			
I. Sales income	35	62 715	61 097
II. Cost of goods sold	36	(31 801)	(35 043)
III. Gross profit on sales (I-II)		**30 914**	**26 054**
IV. Selling expense		-	-
V. General and administration costs	36	(14 051)	(13 152)
including management option valuation		(1 551)	(1 032)
VI. Profit on sales (III-IV-V)		**16 863**	**12 902**
VII. Other operating income	37	1 381	1 356
VIII. Other operating expense	38	(17 950)	(1 082)
IX. Operating profit (VI+VII-VIII)		**294**	**13 176**
X. Financial income	39	13 795	11 959
XI. Financial expense	40	(11 605)	(12 616)
XII. Profit/Loss from subordinate units		(661)	6
XIII. Gross profit/loss (IX+X-XI+/-XII)		**1 823**	**12 525**
XIV. Corporate income tax	26,41	1 304	3 184
XV. Net profit/loss from continued activity		**519**	**9 341**
Discontinued activity			
XVI. Profit/loss from discontinued activity		-	-
XVII. Net profit/loss		**519**	**9 341**
Distribution of profit/loss:		**519**	**9 341**
Parent company sharefolders		549	9 341
Minority shareholders		(30)	-
Net profit/loss	10	519	9 341
Weighted average number of shares	10	18 255 142	18 050 422
Basic EPS (in zł)	10	**0,03**	**0,52**
Weighted average diluted number of shares	10	18 255 142	18 050 422
Diluted EPS (in zł)	10	**0,03**	**0,52**

Polish Energy Partners Capital Group

Consolidated Financial Statements For The Year Ended December 31, 2006

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)	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	Minority interest	TOTAL
Equity at the beginning of the period - 01.01.2006	36 369	(378)	28 321	1 032	28 267	18 010	-	-	111 621
Changes in capital in the period	610	246	(197)	1 551	(9 057)	483	549	936	(4 879)
a) increase	610	(610)	286	1 551	-	-	549	966	3 352
- net profit	-	-	-	-	-	-	549	-	549
- shares issue	610	(610)	-	-	-	-	-	-	-
- shares issue above nominal value	-	-	286	-	-	-	-	-	286
- control takeover over susbidiary	-	-	-	-	-	-	-	966	966
- from distribution of profit (over the minimal value required by law)	-	-	-	-	-	-	-	-	
- from distribution of rpofits from previous years	-	-	-	-	-	-	-	-	-
- from management options valuation	-	-	-	1 551	-	-	-	-	1 551
b) decrease	-	(856)	483	-	9 057	(483)	-	30	8 231
- net loss	-	-	-	-	-	-		30	30
- dividend payment	-	-	-	-	9 057	-	-	-	9 057
- payment due	-	(856)	-	-	-	-	-	-	(856)
- coverage of loss	-	-	483	-	-	(483)	-	-	-
- movement to reserve capital	-	-	-	-	-	-	-	-	-
Equity at the end of the period - 31.12.2006	36 979	(132)	28 124	2 583	19 210	18 493	549	936	106 742

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, 2006

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)	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	Minority interest	TOTAL
restated									
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 pofits 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**

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

Consolidated Cash Flow Statement

(in thousand zlotys)

Consolidated Cash Flows Statement	Note	31.12.2006	31.12.2005
A.Cash flow from operating activities - indirect method			
I.Gross profit/loss		**1 823**	**12 525**
II.Adjustments for:		**5 725**	**(8 672)**
1.Profit/ loss from associates and jointly controlled entities which are companies		661	(17)
2.Depreciation	36	3 086	2 857
3.Foreign exchange gains/losses		(1 309)	2 310
4.Interest and dividends received and paid		(711)	(826)
5.Result on investment activity		67	362
6.Corporate income tax		(1 251)	(1 278)
7.Change in provisions		1 081	(758)
8.Change in inventory		54	(95)
9.Change in receivables	42	(5 642)	(14 256)
10.Change in short term liabilities, without loans and credits	42	(842)	1 317
11.Change in deferred income and accruals	42	(1 929)	(1 398)
12. Other changes	42	12 460	3 110
III.Net cash flow from operating activities (I+/-II)		**7 548**	**3 853**
B.Net cash flow from investing activities			
I. Inflows due to investing activities		**28 196**	**22 418**
1. Sale of intangible and tangible fixed assets		1 432	87
2. Sale of investments in tangible fixed assets and intangible assets		-	-
3. Sale of other financial assets, including:		68	118
- sale of financial assets		-	-
- dividends and shares in profit		54	118
- repayment of granted long term loans		-	-
- interest		-	-
- other inflows from financial assets		14	-
4. Other investment inflows	42	26 696	22 213
II.Outflows due to investing activities		**76 142**	**46 356**
1. Purchase of intangible and tangible fixed assets		41 830	26 420
2. Investments in property and intangibles		-	-
3. Purchase of other financial assets, including:		5 413	2 518
- purchase of financial assets		229	115
- long-term loans granted		5 184	2 403
4. Dividends and other payments paid to minority shareholders,		-	-
5. Acquisition of subsidiary net of fixed assets taken over		(267)	-
6.Other investing outflows	42	29 166	17 418
III.Net cash flow from investing activities (I-II)		(47 946)	(23 938)

(in thousand zlotys)

C.Net cash flow from financing activities			
I.Inflows from financing activities		**66 053**	**52 795**
1. Issue of shares and capital instruments		1 144	136
2.Loans and borrowings		57 094	52 659
3. Issue of bonds		-	-
4. Other		7 815	-
II.Outflows due to financing activities		**44 296**	**25 792**
1.Purchase of treasury shares		-	-
2.Dividends and others payments to shareholders		9 193	126
3.Share issue related expenditure		-	-
4.Repayments of loans and credits		23 856	15 557
5.Repayments of bonds		-	-
6.Repayments of other financial liabilities		-	-
7.Finance lease payments		350	278
8.Interest paid		10 897	9 831
9.Other		-	-
III.Net cash flow from financing activities (I-II)		**21 757**	**27 003**
D.Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)		**(18 641)**	**6 918**
E.Balance sheet change in cash and cash equivalents, including:		**(17 847)**	**5 015**
- changes in cash and cash equivalents resulting from foreign exchange gains/losses		794	(572)
F.Cash and cash equivalents at the beginning of the period		**42 949**	**36 603**
G.Cash and cash equivalents at the end of the period, including :		**25 102**	**42 949**
- restricted cash and cash equivalents		23	6 025

Reconciliation of cash and cash equivalents presented in teh consolidated cash flow statement with the balance sheet items		**31.12.2006**	**31.12.2005**
7. Short-term financial assets in balance sheet		-	1 319
8.Cash and cash equivalent in balance sheet		25 079	41 601
Cash of social fund		23	29
Total		25 102	42 949

G.Cash and cash equivalents at the end of the period in the cash flow statement		25 102	42 949
Presentation of sources of external finance (cash flow statement)		**31.12.2006**	**31.12.2005**
pos. C.I.2 Incomes from loans and credits		57 094	52 659
pos. C.II.4 Payoff from loans and credits		(23 856)	(15 557)
Change in sources of external finance, including:		33 238	37 102
investment debt draw, net		37 682	37 089
drawing/repayment of VAT facility, net		(4 444)	13

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 all other Group entities period of operation is unlimited.

(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, 2006. Consolidated financial statements include the comparative financial data for the 12 months period ended December 31, 2005.

1.3 Management Board Member and Supervisory Board Members

The Management Board of the parent company as of December 31, 2006 comprised of:

Stephen Klein	President of the Management Board
Anna Kwarcińska	Vicepresident of the Management Board
Michał Kozłowski	Member of the Management Board

On March 21, 2006 Supervisory Board of the parent company appointed Ms Anna Kwarcińska for the position of Vicepresident of the Management Board for the next three year period.

Members of the Company's Management Board as at December 31, 2006 were as follows:

Zbigniew Prokopowicz	Chairman of the Supervisory Board
Michał Rusiecki	Vice-president of the Supervisory Board
Aleksander Kacprzyk	Supervisory Board Member
Krzysztof Sędziowski	Supervisory Board Member
Artur Olszewski	Supervisory Board Member

On November 3, 2006 the parent company received written resignation of Mr Andrew Cowley from the Supervisory Board Membership in the company.

Mr Michał Rusiecki and Mr Aleksander Kacprzyk resigned from Supervisory Board Membership effective for December 31, 2006.

On January 10, 2007 the General Shareholders Meeting appointed to the Supervisory Board Mr Krzysztof Sobolewski, Mr Wojciech Sierka and Mr Krzysztof Kaczmarczyk.

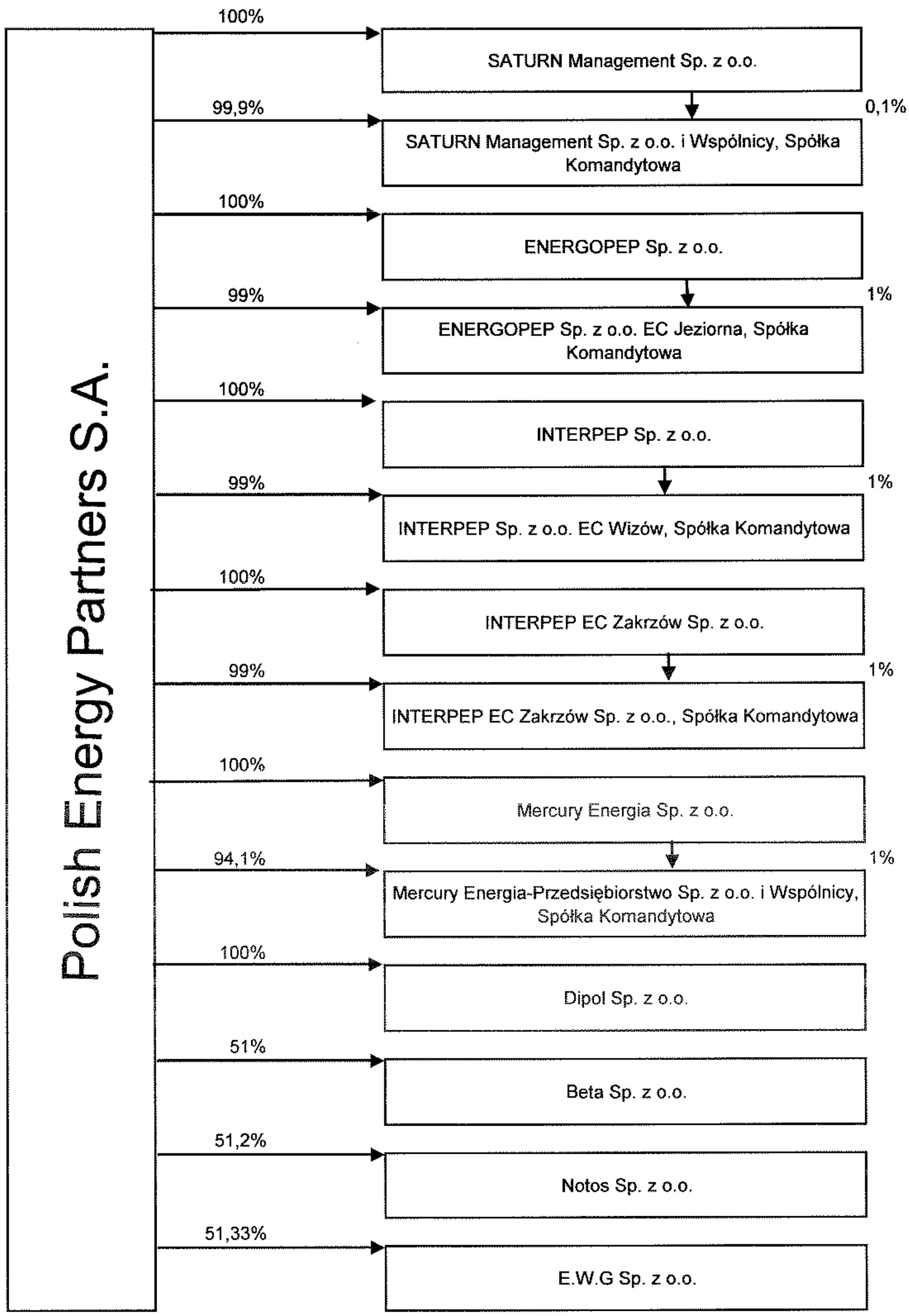
2. Going concern assumption

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, 2006. 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.

In 2006 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, 2006 the total capital of that company was negative and amounted to PLN 6,257 thousands. Had the profitability of that company remained negative there would be a significant risk for this company to operate as a going concern. Parent company which is the limited partner issued written representation 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.

In 2006 one of the subsidiaries Interpep Sp. z o.o., EC Wizów, Spółka komandytowa reported loss which increased the negative net assets value. As of December 31, 2006 the total capital of that company was negative and amounted to PLN 2,517 thousands. Had the profitability of that company remained negative there would be a significant risk for this company to operate as a going concern. Parent company which is the limited partner issued written representation 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. Group's Structure



3.1 Entities comprising the Capital Group

(in thousand zlotys)

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	Percentage share of the Group in capital
Polish Energy Partners S.A.	Warszawa, ul. Wiertnicza 169	Energy sector services	-
Saturn Management Sp. z o.o. i Wspólnicy Spółka komandytowa	Warszawa, ul. Wiertnicza 169	Energy sector services	100%
Energopep Sp. z o.o., EC Jeziorna, Spółka komandytowa	Warszawa, ul. Wiertnicza 169	Energy sector services	100%
Dipol Sp. z o.o.	Warszawa, ul. Wiertnicza 169	Energy sector services	100%
Interpep Sp. z o.o. EC Wizów Sp. Komandytowa	Warszawa, ul. Wiertnicza 169	Production of heat and electricity	100%
Interpep EC Zakrzów Sp. z o.o. Sp. Komandytowa	Warszawa, ul. Wiertnicza 169	Production of heat and electricity	100%
Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa*)	Warszawa, ul. Wiertnicza 169	Production of heat and electricity	94,2%
Interpep Sp. z o.o.	Warszawa, ul. Wiertnicza 169	Management, supervision and advisory in conducting business activities	100%
Energopep Sp. z o.o.	Warszawa, ul. Wiertnicza 169	Production of heat and electricity	100%
Saturn Management Sp. z o.o.	Warszawa, ul. Wiertnicza 169	Management, supervision and advisory in conducting business activities, market and public opinion research	100%
Notos Sp. z o.o.	Szczecin, ul. Wojska Polskiego 154	Production and distribution of electricity	51%
E.W.G Sp. z o.o.	Szczecin, ul. Wojska Polskiego 154	Production and distribution of electricity	51,33%
BETA Sp. z o.o.	Szczecin, ul. Wojska Polskiego 154	Production and distribution of electricity	51,20%
Mercury Energia Sp. z o.o.	Warszawa, ul. Wiertnicza 169	Production and distribution of electricity and heat	100%
Interpep EC Zakrzów sp. z o.o.	Warszawa, ul. Wiertnicza 169	Production and distribution of electricity and heat	100%

*) On October 1, 2006 the parent company became unlimited partner of Mercury Energia Sp. z o.o. i Wspólnicy Spółka Komandytowa and gained control over that company.

4. Comparability of the data presented

The consolidated financial statements as of December 31,2006 and December 31, 2005 were prepared with the provisions of International Financial Reporting Standards and International Accounting Standards.

5. Acceptance of the consolidated financial statements

The consolidated financial statement was accepted by the Management Board for publication on February 26, 2007.

6. Accounting policies applied

6.1 Changes in the accounting principles applied

In the year beginning January1, 2006 the following new standards and interpretation and amendments to the existing standards came into force:

- Amendment to IAS 19 employee benefits – this amendment introduces the possibility of allowed alternative way to recognize actuarial gains and losses in the equity. It also imposes additional requirements for some multiplant programs. Additionally this amendment imposes new disclosure requirements. As the Group is not going to change its accounting principles relating to recognition of actuarial gains and losses and does not participate in multiplant program the application of the amended IAS 19 has only changed the disclosure requirements.
- Amendments to IAS 39 option value in fair value – this amendment reduces the application of option value in fair value to fair value through profit and loss. Due to the fact that the Group categorized to the financial instruments valued in fair value through profit and loss only financial instruments held for trading the amendment of IAS 39 does not impact the presented assets and liabilities and their values.
- Amendment to IAS 39 and IFRS 4 financial guarantee agreement – the amendment introduces the obligation to recognize liability due from financial guarantees granted in fair value and then revaluation of this liability to the higher of (a) unsettled balance of received and paid commissions or (b) the amount of resources to pay the liability. This amendment does not apply to the Group accounts.
- Amendment to the IAS 39 Accounting for cash flow hedge in case of planned intercompany transactions – this amendment allows to treat the risk of foreign exchange in planned intercompany transactions as hedged item in the consolidated financial statement if (a) this transaction is done in a currency different than the functional currency of either parties of the transaction and (b) the risk of foreign exchange will impact the consolidated profit or loss. Due to the fact that the Group companies do not have transactions in foreign currency other than functional currency of either party the amendment to the IAS 39 does not apply to the Group.
- Amendment to IAS 21 The effects of changes in foreign exchange rates. As a result all foreign exchange differences on cash items which are part of the net investment of the Group in the entitiy opertaing in foreign country are treated as spearate component of shareholders equity in the consolidated financial statements, irrespective of the currency in which gaiven monetary item is expressed. This amendment does not apply to the Group accounts.
- IFRS 6: exploration for and evaluation of mineral resources – this standard applies to the companies operating in exploration industry and does not apply to the Group.
- Interpretation IFRIC 4 Determining Whether an Arrangement Contains a Lease - this interpretation imposes the obligation to verify the agreements which do not have a legal form

of lease, but which could result in the right to use an asset. As a result of agreement verification the Management of the Company stated that this interpretation does not apply to the Group.

- Interpretation IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds - interpretation does not apply to the Group and its transactions.
- Interpretation IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment - interpretation does not apply to the Group and its transactions.

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

The following standards and interpretations were issued by the International Accounting Standards Board („IASB") or International Financial Reporting Interpretation Committee („IFRIC") but are not in force yet:

- Amendments to the IAS 1 Presentation of financial statements, disclosure of information about equity (binding from January 1, 2007)
- IFRS 7 Financial instruments, disclosure of information (binding from January 1, 2007)
- IFRS 8 operational segments (binding from January 1, 2009)
- Interpretation IFRIC 7 Application of approach relying on restatement in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies (binding March 1, 2006)
- Interpretation IFRIC 8 Scope of IFRS 2 (binding May 1, 2006)
- Interpretation IFRIC 9 Assessment of embedded derivatives (binding June 1, 2006)
- Interpretation IFRIC 10 Interim financial reporting and impairment (binding November 1, 2006)
- Interpretation IFRIC 11 Group and Treasury shares transactions (binding March 1, 2007)
- Interpretation IFRIC 12 Service Concession Arrangements (binding January 1, 2008)

(in thousand zlotys)

6.3 Fundamental Error

The type of adjustments that the Group had to include and its impact on total assets and net result is presented in the table below:

	Total Assets as of December 31, 2005	Net result as of December 31, 2005
Data presented in the published consolidated financial statements	378 739	9 341
6.3.1. Additional liability due from BRE loan	786	-
Data presented in these financial statements	379 525	9 341

6.4 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, 2006 and the comparable period from January 1, to December 31, 2005. The consolidated financial statements were prepared based on the historic cost convention which was modified in relation to financial instruments valued at fair value.

The consolidated financial statements together with the comparable data for the period of 12 months ended December 31, 2006 was subject to audit by certified auditor.

6.5 Compliance representation

The presented consolidated financial statements were prepared with the provisions of International Financial Reporting Standards ("IFRS") and IFRS voted by the EU. 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").

IFRS include standards and interpretations accepted by IFRS Council and the Interpretation Committee of the IFRS.

6.6 Significant values based on professional judgment and estimates

Some information provided in the consolidated financial statements is based on estimates and on the professional judgment of the management. These values resulting from estimates and judgment will often not coincide with real values. Among assumptions and estimates which had the most significant impact when valuing and recognizing assets and liabilities are the following:

- leases classification – Group as lessor,
- management options,

- depreciation rates,
- impairment write-downs,
- provisions for doubtful debts,
- provisions for court cases.

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

The functional currency of the parent company and its subsidiaries and the reporting currency of the consolidated financial statements is Polish zloty.

6.8 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 form these transactions were completely eliminated in consolidation. Unrealized losses are eliminated unless it proves impairment.

6.9 Investment in associates

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.

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.

6.10 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.

6.11 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 purchased in separate transactions are initially valued in the purchase price or cost. The value of intangible assets purchased as a result of business combination is their fair value as at the date of the transaction. After initial recognition the intangible assets are presented in purchase price or cost less amortization and impairment write downs. The cost for intangible assets produced in house except for cost of research and development are not capitalized but expensed as incurred.

The Group states whether the economic useful life of the intangible assets is limited or unlimited. Intangible assets with limited economic useful life are amortized over its usage period and are tested for impairment every time any indications of such impairment appear. The period and method of amortization of intangible assets with limited economic useful life are tested for impairment at least once a year.

Expected economic useful lives are as follows:

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

Changes to the estimated economic useful life or the expected way of consumption of the economic benefit being the result of asset use are accounted for through proper change of the period or amortization method and are treated as changes in estimates. The amortization of intangible assets with limited economic useful life is presented in profit and loss account in the category that represents the function of given intangible asset.

Intangible assets with unspecified economic useful life and these which are not used are every year tested for impairment in relation to each asset or on the cash generating unit level. In case of other intangible assets it is assessed every year whether there are any indications of impairment. The estimated useful lives are also verified yearly and if needed, adjusted with effect from starting the just ended operating period.

6.12 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 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 as a separate component of the asset.

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

Perpetual usufruct to land	20 years
Buildings, premises and other civil and water engineering structures	20 years
Plant and machinery	from 2.5 years to 20 years
Vehicles	from 2.5 years to 5 years
Other fixed assets	from 5 years to 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 currying 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.

6.13 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.

6.14 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.

6.15 Leasing

Group as the leasee

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.

6.16 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.

6.17 Short- and long-term receivables

(in thousand zlotys)

Trade receivables except for receivables described in 6.15 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.

6.18 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:

	31.12.2006	31.12.2005
USD	2,9105	3,2613
EUR	3,8312	3,8598
CAD	2,5077	2,8093
CHF	2,3842	2,4788
GBP	5,7063	5,6253

6.19 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.

6.20 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.

6.21 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.

6.22 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 s 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.

6.23 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.

6.24 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.

6.25 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.

6.26 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

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.

6.27 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 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 classifies 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.

6.28 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.

6.29 Impairment of financial assets

An assessment is made at each balance sheet date by the Group's companies to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired.

Assets recognized at amortized cost

If there are objective indications that there is a loss incurred as a result of diminution in value of loans and receivables valued at amortized cost, then the amount of revaluation due from impairment is equal to the difference between the carrying value of the financial asset and the present value of the future cash flows (excluding all future losses due from lack of collection of receivables, which have not been incurred yet) discounted with application of primary discount rate (which is interest rate established at initial recognition). The carrying value of the asset is reduced directly or through reserve. The cost is incurred in the profit and loss account.
The Group assesses firstly whether there are objective indications of impairment of particular financial assets which individually are significant and indications of impairment which individually are not significant. If as a result of the analysis there are no objective indications of impairment of an individually assessed financial asset, irrespective of whether it is significant or not the Group includes this asset of the group of financial asset with similar credit risk and assesses jointly the impairment. Assets which are assessed individually for impairment and for which the impairment was recognized or it was assessed that the current impairment will not change are not taken into account in group test for impairment.
If in the next period the impairment write down lowered and this lowering can be objectively related to the event after the impairment was recognized than the previous impairment is reversed. The later reversal of the impairment is recognized in the profit and loss account in the scope in which as of the date of the reversal the carrying value of an asset does not exceed its amortized cost.

Financial assets recognized at cost

If there are objective indications that an impairment exists of an unquoted financial instrument which is not valued in fair value because its fair value cannot be reliably estimated or derivative instrument which is embedded and must be settled through delivery of such an unquoted financial instrument then the amount of impairment is established as the difference between carrying value of the financial asset and present value of future cash flows discounted with current market discount rate for similar financial instruments.

Financial assets available for sale

If there are objective indications that an impairment exists of an available for sale financial asset then the difference between purchase price of this asset (less principal repayment and amortization) and its present fair value less any impairment write downs of this asset previously recognized in the profit and loss account is booked from equity to the profit and loss account. It is not allowed to recognize in the profit and loss account any reversal of the impairment of equity instruments categorized as available for sale. If in the next period the fair value of a debt instrument available for sale increases and this increase can be objectively assessed with an event after the impairment was recognized in the profit and loss account then the reversal of impairment is recognized in the profit and loss account.

6.30 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.(" Transactions settled in equity instrument").

Transactions settled in equity instrument

The cost of such equity transactions with management board members is valued at fair value at the date of granting of such rights. Fair value is estimated based on binominal model or Balck-Scholes-Merton model. When valuing the transactions settled in equity instrument there are no conditions relating to the effectiveness/ results taken into consideration apart from these which are related to the share price of the parent company ("market conditions").

The cost of transactions settled in equity instruments is recognized together with associated increase in equity in the period in which the effectiveness//results conditions were met and ending in the day in which specified employees will receive the rights (rights grant date). The cumulative cost resulting from the transactions settled in equity instrument for each balance sheet date till grant date reflects the time passage of receiving rights and the number of awards, to which rights – in the opinion of the Management as of that date, based on the possibly best estimates of the equity instrument number will be purchased.
No costs are recognized from awards to which the rights are not finally purchased, except for awards in case of which the purchase of rights depends on market conditions which are treated as purchased irrespective of meeting the market conditions, under the condition of meeting other conditions relating to effectiveness.
In case of modifications of granting the awards settled in equity instruments, in order to meet minimum requirements only costs are incurred as if in case the conditions were not modified. Moreover, the cost is recognized of each increase in transaction market value as a result of modifications, valued as of the date of modification.
In case of deletion of award settled in equity instrument it is treated in the way as if the rights were purchased in the date of deletion and all the costs due from the award not incurred yet are immediately recognized. However, in case of replacement of deleted award with new award – specified as deputy award in the day of grant, the award deleted and the new award are treated as if it is a modification of the primary award which is in the way described in the above paragraph.

As of the day of the financial statement the option on its own shares do not have significant dilution effect of the earnings per share.

6.31 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.

6.31.1. 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.

6.31.2. 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.

6.31.3. 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.

6.31.4. Dividends

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

6.31.5. 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.

6.32 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.

6.33 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.

6.34 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.

6.35 Certificates of origin

Certificates of origin of green energy are recognized in revenues and costs in the moment of production when it is probable that the Group will achieve economic benefit.

(in thousand zlotys)

7. 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.

31.12.2006	Continued operations			
	Outsourcing - operating service	Other outsourcing - production of electricity and heat	Wind energy	Total
Revenues from third party sales	33 017	29 698	-	62 715
Intersegment transactions	-	-	-	-
Total revenues	33 017	29 698	-	62 715
Result of segment	**21 765**	**6 776**	**903**	**29 444**
Unallocated expenses	-	-	-	(10 847)
Other operating income/expense	-	-	-	(15 758)
Operating profit	**-**	**-**	**-**	**2 839**
Financial income/cost	-	-	-	(1 016)
Gross profit	**-**	**-**	**-**	**1 823**
Income tax	-	-	-	(1 304)
Net profit	**-**	**-**	**-**	**519**
Segment assets	296 622	64 954	64 623	426 198
Unallocated assets	-	-	-	-
Total assets	**296 622**	**64 954**	**64 623**	**426 198**
Segment liabilities	234 967	42 199	40 896	318 062
Unallocated liabilities	-		-	1 395
Total liabilities	**234 967**	**42 199**	**40 896**	**319 457**
Purchase of intangible and tangible fixed assets, including	**132**	**4 227**	**37 471**	**41 830**
- Tangible fixed assets	132	4 227	37 471	41 830
- Inangible assets	-			-
Depreciation	105	2 980	1	3 086
Impairment write downs		-	-	(19 010)

The line Other operating costs there is the amount of 12,878 thousands PLN which constitutes the impairment write down of the segment „Other outsourcing activity – production of heat and electricity"), which is presented in Note 43 in detail.

(in thousand zlotys)

31.12.2005 Restated	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	61 362	23 091	379 525
Unallocated assets	-	-	-	-
Total assets	295 072	60 576	23 091	**379 525**
Segment liabilities	239 594	25 293	1 226	266 113
Unallocated liabilities	-	1 791	-	1 791
Total liabilities	239 594	27 084	1 226	**267 904**
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
- Inangible assets	11	21	7	39
Depreciation	132	2 725	-	2 857
Impairment write downs	-	-	-	(2 270)

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 des not have any geographical sectors.

8. 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
31.12.2006	3.8991	3.7565	4.1065	3.8312
31.12.2005	4.0233	3.8223	4.2756	3.8598

(in thousand zlotys)

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

	31.12.2006		31.12.2005	
CONSOLIDATED BALANCE SHEET	thd. zł	thd. EUR	thd. zł	thd. EUR
Total Assets	426 198	111 244	379 525	98 328
I. Fixed assets	348 567	90 981	294 696	76 350
II. Current assets	77 630	20 263	84 829	21 978
Total capital and liabilities	426 198	111 244	379 525	98 328
I. Shareholders' Equity	106 742	27 861	111 621	28 919
II. Liabilities and provisions for liabilities	319 456	83 383	267 904	69 409

(in thousand zlotys)

CONSOLIDATED PROFIT AND LOSS STATEMENT	31-12-2006		31-12-2005	
	thd. zł	thd. EUR	thd. zł	thd. EUR
I. Sales income	62 715	16 085	61 097	15 186
II. Cost of goods sold	(31 801)	(8 156)	(35 043)	(8 710)
III. Gross profit on sales	30 914	7 929	26 054	6 476
IV. Selling expense	-	-	-	-
V. General and administration costs	(14 051)	(3 604)	(13 152)	(3 269)
VI. Profit on sales	16 863	4 325	12 902	3 207
VII. Other operating income	1 381	354	1 356	337
VIII. Other operating expense	(17 950)	(4 604)	(1 082)	(269)
IX. Operating profit	294	75	13 176	3 275
X. Financial income	13 796	3 538	11 959	2 972
XI. Financial expense	(11 605)	(2 976)	(12 616)	(3 136)
XII. Profit/Loss from subordinate units	(661)	(170)	6	1
XIII. Gross profit/loss	1 823	467	12 525	3 112
XIV. Gross profit/loss	1 823	467	12 525	3 112
XV. Corporate income tax	(1 304)	(334)	(3 184)	(791)
XVI. Net profit/loss	519	133	9 341	2 321

Consolidated Cash Flows Statement	31-12-2006		31-12-2005	
	thd. zł	thd. EUR	thd. zł	thd. EUR
I.Gross profit/loss	1 823	467	12 525	3 113
II.Adjustments	5 725	1 469	(8 672)	(2 155)
A.Cash flow from operating activities	7 548	1 936	3 853	958
B.Net cash flow from investing activities	(47 946)	(12 297)	(23 938)	(5 950)
C.Net cash flow from financing activities	21 757	5 580	27 003	6 712
D.Net change in cash and cash equivalents	(18 641)	(4 780)	6 918	1 720

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

- balance sheet items – average exchange rated published by NBP as of December 31, 2006 and December 31, 2005 which were presented in the note 8 of this financial statement,

(in thousand zlotys)

- 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 2006 and 2005 which were presented in note 8 of this financial statement

10. 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.

Earnings per share		
	31.12.2006	**31.12.2005**
a) Net profit	519	9 341
b) Weighted average number of shares	18 255 142	18 050 422
c) Earnings per share (in zloty)	0.03	0.52

date	Number of shares	New issue	Number of months	Number of shares to the weighted average
2006-01-01	18 184 673		2	3 030 779
2006-03-17	18 255 581	70 908	8	12 170 387
2006-11-24	18 305 081	49 500	1	1 525 423
2006-12-13	18 342 641	37 560	1	1 528 553

Weighted average number of ordinary shares in 2006	**18 255 142**
Dilution effect	0
Weighted diluted number of ordinary shares in 2006	**18 255 142**

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.

(in thousand zlotys)

11. Intangible assets

reported as of 31-12-2006

Intangible fixed assets	a patents, licences, concessions	computer software	Total intangible fixed assets
1. Gross book value of intangible fixed assets at the beginning of the period	**624**	**284**	**624**
a) increase, including:	371	330	371
- purchase	371	330	371
b) decrease, including:	(48)	(48)	(48)
- sale and liquidation	(48)	(48)	(48)
2. Gross book value of intangible fixed assets at the end of the period	**947**	**566**	**947**
3. Accumulated amortization at the beginning of the period	**(597)**	**(279)**	**(597)**
- amorization in the period	(27)	(11)	(27)
- decrease	48	48	48
- sale and liquidation	48	48	48
-transfers	(2)	(2)	(2)
4. Accumulated amortization at the end of the period	**(578)**	**(244)**	**(578)**
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	**27**	**5**	**27**
8. Net book value of intangible fixed assets at the end of the period	**369**	**322**	**369**

reported as of 31-12-2005

Intangible fixed assets	a patents, licences, concessions and similar assets:	computer software	Total intangible fixed assets
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
b) decrease, including:	-	-	-
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)
- amorization in the period	(50)	(32)	(50)
- decrease	-	-	-
4. Accumulated amortization at the end of the period	(597)	(279)	(597)
5. Impairment write-downs at the beginning of the period	-	-	-
- increase	-	-	-
- decrease	-	-	-
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**

(in thousand zlotys)

12. Business combinations and minority shares purchase

Goodwill from consolidation		
	31.12.2006	31.12.2005
Dipol Sp. z o.o.	132	132
Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa	437	-
Total carrying value	**569**	**132**

Goodwill from consolidation (changes)		
	31.12.2006	31.12.2005
Goodwill at the beginning of the period	**132**	**-**
Increase due to control takeover	437	132
Decrease due to impairment write off	-	-
Decrease due to sales	-	-
Goodwill at the end of the period	**569**	**132**

Fair value of the identifiable assets and liabilities of Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa as of the acquisition date is as follows:

	Carrying value	Fair value at acquisition date
Tangible fixed assets	21 957	21 957
Inatngibles	302	2
Cash and cash equivalents	268	268
Trade receivables	350	350
Total Assets	**22 877**	**22 577**
Bank loans and borrowings	20 057	20 057
Trade liabilities	1 614	1 614
Other financial liabilities	106	106
Provsiosn for deferred tax	-	137
Total Liabilities	**21 777**	**21 914**
Net assets	1 100	663
Goodwill at acquisition date	437	-

Cash inflow due to acquisition is as follows:

Net cash taken over together with subsidiary	267
Cash paid	-
Net cash inflow	267

On October 1 , 2007 the Company took over control on Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa. The control takeover was done by setting the unlimited partner Mercury Energia Sp. z o.o. of the company Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa. Mercury Energia Sp. z o.o. is fully dependant subsidiary of Polish Energy Partners SA. Aa a result of the above transaction the share in capital and share in profit did not change in comparison to the prior period. Due to the fact that in 2006 the share in profit of the Group in Mercury Energia Sp. z o.o. i Wspólnicy, Sp. Komandytowa did not change teh moment of control takeover does not affect the Group's reported net profit. Had the combination taken place at the begining oif the year the net profit would not have changed but the revenues from continued activity would have amounted to 63 714 thousand zlotys.

In the goodwill amounting to 300 thousand zlotys there are some intangibles, which can not be separated and valued reliably in the subsiadiary due to its character. The items in this goodwill include busienss concept of Mercury project.

(in thousand zlotys)

13. Tangible fixed assets

reported as of 31-12-2006

	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	545	12 575	32 109	1 296	624	9 049	13 779	69 977
a) increase, including:	530	5 650	22 172	477	147	76 451	-	105 427
- purchase	530	5 650	22 172	477	147	76 451	-	105 427
b) decrease, including:	-	-	(108)	(400)	(72)	(29 316)	(13 779)	(43 675)
- sale and liquidation	-	-	(108)	(400)	(72)	(237)	-	(817)
- other	-	-	-	-	-	(22 892)	-	(22 892)
- trasnfers	-	-	-	-	-	(6 187)	(13 779)	(19 966)
2. Gross book value of tangible fixed assets at the end of the period	1 075	18 225	54 173	1 373	699	56 184	-	131 729
3. Accumulated depreciation at the beginning of the period	(13)	(3 020)	(8 277)	(498)	(483)	-	-	(12 291)
- depreciation in the period	(1)	(693)	(2 016)	(284)	(65)	-	-	(3 059)
- decrease, including:	-	-	79	54	69	-	-	202
- sale and liquidation	-	-	79	54	69	-	-	202
- transfers	-	(28)	(126)	-	(2)	-	-	(156)
4. Accumulated depreciation at the end of the period	(14)	(3 741)	(10 341)	(728)	(481)	-	-	(15 305)
5. Impairment write-downs at the beginning of the period	-	-	(1 533)	-	-	(228)	-	(1 761)
- increase	(35)	(3 483)	(7 441)	-	-	-	-	(10 959)
- decrease	-	-	-	-	-	-	-	-
6. Impairment write-downs at the end of the period	(35)	(3 483)	(8 974)	-	-	(228)	-	(12 720)
7. Net book value of tangible fixed assets at the beginning of the period	532	9 555	22 300	798	140	8 821	13 779	55 925
8. Net book value of tangible fixed assets at the end of the period	1 026	11 001	34 859	645	218	55 956	-	103 705

Due to indications of asset impairment in EC Wizów the Group preformed an impairment test for these assets. As a result of this test an impairment loss in the amount of 10,959 thousand zlotys was identified, which lowered the carrying value of assets and charged the profit and loss account. The impairment write down is presented in Note 43 in details.

As of December 31, 2006 the land and buildings were pledged for bank loan repayment.

(in thousand zlotys)

reported as of 31-12-2005

	Tangible fixed assets							
restated	- 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	12 032	30 875	798	566	2 951	-	47 271
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)
- trasnfers	-	-	-	-	-	(2 211)	-	(2 211)
2. Gross book value of tangible fixed assets at the end of the period	545	12 575	32 109	1 296	624	9 049	13 779	69 977
3. Accumulated depreciation at the beginning of the period	(10)	(2 402)	(8 042)	(328)	(424)	-	-	(11 206)
- depreciation in the period	(3)	(697)	(1 944)	(170)	(66)	-	-	(2 880)
- decrease, including:	-	79	1 709	-	7	-	-	1 795
- sale and liquidation	-	79	1 709	-	3	-	-	1 791
- other	-	-	-	-	4	-	-	4
- transfers	-	-	-	-	-	-	-	-
4. Accumulated depreciation at the end of the period	(13)	(3 020)	(8 277)	(498)	(483)	-	-	(12 291)
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	9 630	21 504	470	142	2 951	-	34 736
8. Net book value of tangible fixed assets at the end of the period	532	9 555	22 299	798	141	8 821	13 779	55 925

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 preformed 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.

(in thousand zlotys)

14. Fixed assets – ownership structure

Tangible fixed assets - Ownership structure		
	31.12.2006	**31.12.2005**
a) owned	103 064	55 428
b) used based on lease agreement	641	497
Total tangible fixed assets	**103 705**	**55 925**

15. Long term receivables

Long term receivables		
	31.12.2006	**31.12.2005**
a) From affiliates	-	-
b) From others - leasing	236 418	231 587
Long term receivables, net	**236 418**	**231 587**
c) Provisions for long term receivables	913	-
Long term receivables, gross	235 505	231 587

16. Long term financial assets

Long-term financial assets		
	31.12.2006	31.12.2005
a) in subsidiaries	516	198
- shares	355	198
- loans graned	161	-
b) in associates	-	6 195
- shares	-	756
- loans graned	-	5 439
c) in other entities	-	-
- shares	-	-
- loans graned	-	-
Total long-term financial assets	516	6 393

17. Long term financial assets

(in thousand zlotys)

reported as of 31.12.2006

Shares in affiliates

	a	b	c	d	e	f	g	h
No.	Name of the Company with indication of legal form	Seat of the company	Description of activity	Affiliate type (subsidiary, jointly controlled entity, associate), with description of direct and indirect relations	consolidation method used (equity method or indication that the company is excluded from consolidation)	date of effective control/ jointly control/ significant influence	vaule of shares at historical cost	revaluation adjustements
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	28.03.2002	50	-
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	29.07.2003	50	-
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	24.09.2001	50	-
4	Notos Spółka z ograniczoną odpowiedzialnością*)	Al.Wojska Polskiego 156 Szczecin	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	20.12.2005	26	-
5	Mercury Energia Spółka z ograniczoną odpowiedzialnością*)	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	31.05.2006	50	-
6	E.W.G Spółka z ograniczoną odpowiedzialnością*)	Al.Wojska Polskiego 156 Szczecin	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	31.05.2006	103	-
7	Interpep, EC Zakrzów Spolka z ograniczoną odpowiedzialnością*)	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	07.06.2006	50	-
8	Beta Spółka z ograniczoną odpowiedzialnością*)	Al.Wojska Polskiego 156 Szczecin	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	31.05.2006	26	-

**) no data

(in thousand zlotys)

Shares in affiliates

	a	h	i	j	k	l	m						
											other equity including:		
No.	Name of the Company with indication of legal form	revaluation adjustements	book value of shares	percentage share in capital	share in votes in shreholders meeting	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		Profit/loss from previous years	Net profit/loss
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością	-	50	100,00	100,00	no data	28	50	-	-	(22)	(19)	(3)
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	-	50	100,00	100,00	no data	49	50	-	-	(1)	-	(1)
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	-	50	100,00	100,00	no data	248	50	-	-	198	-	198
4	Notos Spółka z ograniczoną odpowiedzialnością*)	-	26	51,00	51,00	no data	50	50	**)	**)	**)	**)	**)
5	Mercury Energia Spółka z ograniczoną odpowiedzialnością*)	-	50	100,00	100,00	no data	50	50	-	-	-	-	-
6	E.W.G Spółka z ograniczoną odpowiedzialnością*)	-	103	51,33	51,33	no data	75	75	**)	**)	**)	**)	**)
7	Interpep, EC Zakrzów Spolka z ograniczoną odpowiedzialnością*)	-	50	100,00	100,00	no data	50	50	-	-	-	-	-
8	Beta Spółka z ograniczoną odpowiedzialnością*)	-	26	51,20	51,20	no data	50	50	**)	**)	**)	**)	**)

**) no data

Shares in affiliates

No.	a	n			o			p	r	s	t
	Name of the Company with indication of legal form	Liabilities and provisions of the entity, including:	long term liabilities	short term liabilities	receivables of the enitty, including:	long term liabilities	short term liabilities	total assets of the entity	sales revenue	Unpaid by the issuer share capital	dividend received or due from the entity during the last financial year
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością	1	-	1	-	-	-	29	-	-	-
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	-	-	-	-	-	-	49	-	-	-
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	21	-	21	24	5	19	269	-	-	67
4	Notos Spółka z ograniczoną odpowiedzialnością*)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)
5	Mercury Energia Spółka z ograniczoną odpowiedzialnością*)	-	-	-	-	-	-	-	-	-	-
6	E.W.G Spółka z ograniczoną odpowiedzialnością*)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)
7	Interpep, EC Zakrzów Spolka z ograniczoną odpowiedzialnością*)	-	-	-	-	-	-	-	-	-	-
8	Beta Spółka z ograniczoną odpowiedzialnością*)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)

**) no data

(in thousand zlotys)

reported as of 31.12.2005

Shares in affiliates

No.	a	b	c	d	e	f	g	h	i
	Name of the Company with indication of legal form	Seat of the company	Description of activity	Affiliate type (subsidiary, jointly controlled entity, associate), with description of direct and indirect relations	consolidation method used (equity method or indication that the company is excluded from consolidation)	date of effective control/ jointly control/ significant influence	vaule of shares at historical cost	revaluation adjustements	book value of shares
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	28.03.2002	45	-	45
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	29.07.2003	50	-	50
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	ul. Wiertnicza 169, 02-952 Warszawa	rendering od services in the energy sector	subsidiary	exluded from consolidation due to immaterial financial data	24.09.2001	50	-	50
4	Mercury Energia - Przedsiebiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością , Spółka komandytowa *)	ul. Wandy 16, 40-322 Katowice	rendering od services in the energy sector	associate	exluded from consolidation due to immaterial financial data	23.01.2004	800	(44)	756
5	Mars Management, s.r.o*)	Ostrava, 28.rijna 270/854 kod 709 00	Financial, economic and organizational advisory services, wholesale activities, service and sales intermediary	subsidiary	exluded from consolidation due to immaterial financial data	20.09.2004	28	-	28
6	Notos Sp. z o.o.*)	Al.Wojska Polskiego 156 Szczecin	rendering od services in the energy sector	associate	exluded from consolidation due to immaterial financial data	20.12.2005	25	-	25

*) unaudited financial statements

**) no data

(in thousand zlotys)

Shares in affiliates

No.	a	j	k	l	m						
									other equity including:		
	Name of the Company with indication of legal form	percentage share in capital	share in votes in shreholders meeting	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		Profit/loss from previous years	Net profit/loss
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	100	100	no data	28	50	-	-	(22)	(19)	(3)
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	100	100	no data	49	50	-	-	(1)	-	(1)
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	100	100	no data	116	50	-	-	66	-	66
4	Mercury Energia - Przedsiebiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością , Spółka komandytowa *)	50	50	no data	1 791	1 880	-	-	(89)	(99)	10
5	Mars Management, s.r.o*)	100	100	no data	28	28	**)	**)	**)	**)	**)
6	Notos Sp. z o.o.*)	100	50	no data	50	50	**)	**)	**)	**)	**)

*) unaudited financial statements
**) no data

(in thousand zlotys)

Shares in affiliates

No.	a	n			o			p	r	s	t
	Name of the Company with indication of legal form	Liabilities and provisions of the entity, including:			receivables of the enitty, including:			total assets of the entity	sales revenue	Unpaid by the issuer share capital	dividend received or due from the entity during the last financial year
			long term liabilities	short term liabilities		long term liabilities	short term liabilities				
1	ENERGOPEP Spółka z ograniczoną odpowiedzialnością *)	1	-	1	-	-	-	29	-	-	-
2	INTERPEP Spółka z ograniczoną odpowiedzialnością *)	-	-	-	-	-	-	49	-	-	-
3	SATURN MANAGEMENT Spółka z ograniczoną odpowiedzialnością *)	93	-	93	7	5	2	209	-	-	118
4	Mercury Energia - Przedsiebiorstwo Produkcyjno Usługowe i Pośrednictwa Comax Spółka z ograniczoną odpowiedzialnością , Spółka komandytowa *)	17 235	15 119	2 115	2 325	-	2 325	19 026	45	-	-
5	Mars Management, s.r.o*)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)
6	Notos Sp. z o.o.*)	**)	**)	**)	**)	**)	**)	**)	**)	**)	**)

*) unaudited financial statements
**) no data

(in thousand zlotys)

18. Other fixed assets

Other fixed assets		
	31.12.2006	**31.12.2005**
a) capitalized expense for wind farm development	6 352	308
b) cost reimbursement	639	324
Total other fixed assets	**6 991**	**632**

19. Inventory

Inventory		
	31.12.2006	**31.12.2005**
a)raw materials	2	9
b) goods for resale	1 908	1 945
c) inventory prepaid	22	32
Total inventory	**1 932**	**1 986**

20. Short term receivables

Short term receivables		
	31.12.2006	**31.12.2005**
a) trade receivables	17 962	17 859
- from affiliates	10	17
- other	17 952	17 842
b) CIT receivable	1	446
c) other receivables	27 085	17 732
- from other taxes	8 860	1 655
- from financial lease	17 989	15 566
- other	236	511
Total short term receivables, net	**45 048**	**36 037**
d) provisions for doubtful debt	6 290	509
Total short term receivables, gross	51 338	36 546

21. Short term financial assets

Short-term financial assets		
	31.12.2006	**31.12.2005**
a) in other entities	-	1 319
- bonds	-	1 319
Total short-term financial assets	-	**1 319**

(in thousand zlotys)

22. Other short term assets

Other short term assets		
	31.12.2006	31.12.2005
a) accrued income	4 100	2 507
b) cost reimbursement	22	185
Total other short term assets	**4 122**	**2 692**

23. Accrued income and deferred cost

Accrued income and deferred cost		
	31.12.2006	31.12.2005
a) insurance	914	934
b) prepayments	3	218
c) projects settled in next periods	4	3
d) ohter	528	39
Total accrued income and deferred cost	**1 449**	**1 194**

24. Cash and cash equivalents

Cash and cash equivalents		
	31.12.2006	31.12.2005
Cash and cash equivalents	25 079	41 601
- Cash in hand and in bank	25 079	38 082
- deposits and investment funds shares	-	3 519
Total cash and cash equivalents	**25 079**	**41 601**

(in thousand zlotys)

25. Share capital

Share capital (structure)								
Class/ issue	Type of share	Type of preferrence	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*	unpreferred shares	no limitation	2 213 904	4 428	cash payment	19-07-2001***)	01-01-1998 ****)
B	to the bearer	unpreferred shares	no limitation	2 304 960	4 610	cash payment	19-07-2001*)	01-01-1998
C	to the bearer	unpreferred shares	no limitation	515 256	1 031	cash payment	19-07-2001*)	01-01-1999
D	to the bearer	unpreferred shares	no limitation	566 064	1 132	cash payment	19-07-2001*)	01-01-1999
E	to the bearer	unpreferred shares	no limitation	1 338 960	2 678	cash payment	19-07-2001*)	01-01-1999
F	to the bearer	unpreferred shares	no limitation	544 800	1 090	cash payment	19-07-2001*)	01-01-2000
G	to the bearer	unpreferred shares	no limitation	683 376	1 367	cash payment	19-07-2001*)	01-01-2001
H	to the bearer	unpreferred shares	no limitation	288 000	576	cash payment	20-08-2001	01-01-2001
I	to the bearer	unpreferred shares	no limitation	856 704	1 713	cash payment	15-04-2002	01-01-2002
J	to the bearer	unpreferred shares	no limitation	3 835 056	7 670	cash payment	09-08-2002	01-01-2002
K	to the bearer	unpreferred shares	no limitation	1 640 688	3 281	cash payment	22-08-2002	01-01-2002
L	to the bearer	unpreferred shares	no limitation	3 144 624	6 289	cash payment	22-08-2002	01-01-2002
M	to the bearer	unpreferred shares	no limitation	182 359	365	cash payment	09-06-2005	01-01-2004
N	to the bearer	unpreferred shares	to the moment of full payment for shares, shares entitled to pro-rata dividend	69 922	140	cash payment	26-01-2006	01-01-2005
O	registered	unpreferred shares	to the moment of full payment for shares, shares entitled to pro-rata dividend	70 908	142	cash payment	17-03-2006	01-01-2006
P	to the bearer	unpreferred shares	to the moment of full payment for shares, shares entitled to pro-rata dividend	37 560	75	cash payment	13-12-2006	01-01-2006
R	to the bearer	unpreferred shares	to the moment of full payment for shares, shares entitled to pro-rata dividend	49 500	99	cash payment	24-11-2006	01-01-2006
S	registered	unpreferred shares	to the moment of full payment for shares, shares entitled to pro-rata dividend	147 026	294	cash payment	*****)	01-01-2006
Total number of shares				18 489 667				
Total share capital					36 979			
Nominal value of one share in zlotys					2	**)		

* Based on the resolution of General Shareholders Meeting of Polish Energy Partners S.A. fom 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

*****) till the date of teh financial statement the last share capital increase was not registered

(in thousand zlotys)

reported as of 31.12.2005

Share capital (structure)

Class/ issue	Type of share	Type of preferrence	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*	unpreferred shares	no limitation	2 213 904	4 428	cash payment	19-07-2001***)	01-01-1998 ****)
B	to the bearer	unpreferred shares	no limitation	2 304 960	4 610	cash payment	19-07-2001*)	01-01-1998
C	to the bearer	unpreferred shares	no limitation	515 256	1 031	cash payment	19-07-2001*)	01-01-1999
D	to the bearer	unpreferred shares	no limitation	566 064	1 132	cash payment	19-07-2001*)	01-01-1999
E	to the bearer	unpreferred shares	no limitation	1 338 960	2 678	cash payment	19-07-2001*)	01-01-1999
F	to the bearer	unpreferred shares	no limitation	544 800	1 090	cash payment	19-07-2001*)	01-01-2000
G	to the bearer	unpreferred shares	no limitation	683 376	1 367	cash payment	19-07-2001*)	01-01-2001
H	to the bearer	unpreferred shares	no limitation	288 000	576	cash payment	20-08-2001	01-01-2001
I	to the bearer	unpreferred shares	no limitation	856 704	1 713	cash payment	15-04-2002	01-01-2002
J	to the bearer	unpreferred shares	no limitation	3 835 056	7 670	cash payment	09-08-2002	01-01-2002
K	to the bearer	unpreferred shares	no limitation	1 640 688	3 281	cash payment	22-08-2002	01-01-2002
L	to the bearer	unpreferred shares	no limitation	3 144 624	6 289	cash payment	22-08-2002	01-01-2002
M	registered	unpreferred 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	unpreferred 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. fom 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

(in thousand zlotys)

Shareholders owning over 5% of total number of shares:

Shareholder	Number of shares	Number of votes	Share
Pioneer Pekao Investment Management	1 030 034	1 030 034	5,62%
PZU Asset Management	1 200 000	1 200 000	6,54%
SICAV IXIS AM EMERGING EUROPE	1 034 920	1 034 920	5,64%
Generali OFE	2 062 464	2 062 464	11,24%
Millennium Funds*	933 186	933 186	5,09%
Other (free float)	**12 082 037**	**12 082 037**	**65,87%**
Total	18 342 641	18 342 641	100,0%

* Funds managed by Millennium TFI, ie. Millennium FIO Akcji, Millennium FIO Zrównoważony oraz Millennium FIO Stabilnego Wzrostu

(in thousand zlotys)

26. Deferred Tax

Income tax (current and deferred)		
Profit and loss account	**31.12.2006**	**31.12.2005**
Current income tax	1 837	860
Current income tax expense	1 837	860
Adjustements to current income tax expense referring to prior periods	-	-
Deferred tax	(533)	2 324
Related to provision for and reversal of temporary differences	(533)	2 324
Total income tax expense presented in the profit and loss account	1 304	3 184

(in thousand zlotys)

	Deferred tax					
	Consolitated balance sheet		Consolidated profit and loss account		Goodwill	
Deferred tax	**31.12.2006**	**31.12.2005**	**31.12.2006**	**31.12.2005**	**31.12.2006**	**31.12.2005**
Deferred tax liability						
fixed assets	240	598	(495)	459	137	-
receivables	829	892	(63)	892	-	-
cash	13	16	(3)	(43)	-	-
loans	20	87	(67)	87	-	-
lease receivalbes	48 703	46 997	1 706	(903)	-	-
liabilities	4 636	4 410	226	1 990	-	-
	-	-	-	-	-	-
Gross deferred tax liability	**54 441**	**53 000**	1 304	**2 482**	**137**	**-**
Deferred tax asset						
fixed assets	1 789	-	1 789	(139)	-	-
cash	50	187	(137)	8	-	-
receivables	844	166	678	(207)	-	-
loans	-	59	(59)	51	-	-
liabilities	583	697	(114)	697	-	-
provisions	1 169	1369	(200)	885	-	-
lease asstes	48 600	48 731	(131)	(1 137)	-	-
loss for previous periods	11	-	11	-	-	-
Acrruals and deferrals	-	-	-	-	-	-
Gross deferred tax asset	**53 046**	**51 209**	1 837	**158**	**-**	**-**
Deferred tax expense	-	-	(533)	2 324	137	-
Net deferred tax asset/liability	1 395	1 791	-	-	-	-

(in thousand zlotys)

EFFECTIVE TAX RATE	31.12.2006	31.12.2005
Income tax expense in profit and loss account	1 304	3 184
Current income tax expense	1 837	860
Deferred income tax	(533)	2 324
Earnings before tax	**1 823**	**12 525**
Tax on earnings before tax at 19% tax rate (2005:19%)	346	2 380
Adjustments to current income tax resulting from prior periods	(71)	(192)
Tax non deductible costs, including	911	679
undocumented costs	5	8
costs not related to revenues	78	23
costs from other period	4	1
payment for non obligatory societies		6
expense for owners and members of SE	312	219
interest	174	-
loan revaluation	-	241
provisions	173	11
other	164	170
1% share in tax profit/loss of limited liability companies	19	9
Not taxable revenues	24	66
grants	13	
dividends	10	22
other	-	44
Tax charge	1 304	3 184

(in thousand zlotys)

27. Provisions

	31.12.2006	31.12.2005
Long-term provisions		
Retirement and similar provisions	465	450
Other provisions - recultivation	2 112	2 071
Total long-term provisions	**2 577**	**2 521**

Short-term provisions

Retirement and similar provisions	182	196
Other provisions	2 445	1 406
Total short-term provisions	**2 627**	**1 602**

Movements in other long-term and short-term provisions

Balance at the begining of period	**4 123**	**4 143**
creation of provisions	1 744	561
release of provisions	(341)	(273)
use of provisions	(323)	(309)
movement provisions to long-term provisions	-	(83)
movement provisions to short-term provisions	-	84
Balance at the end of period	**5 203**	**4 123**

The balance of other short term provisions includes provision for litigayion with EUR in the amount of 731 thd. zlotys and provsions related to the costs of termination of the project EC Wizów in the amount of 1 062 thd. zlotys.

28. Long term liabilities (ageing)

Long term liabilities (ageing)		
	31.12.2006	**31.12.2005 restated**
a) from 1 to 3 years	64 046	42 776
b) from 3 to 5 years	63 319	47 097
c) over 5 years	138 640	142 783
Long-term liabilities, Total	**266 005**	**232 656**

(in thousand zlotys)

29. Long term liabilities from bank loans and borrowings

reported as of 31.12.2006

Name of the Company with indication of legal form	Seat	Loan/Borrowing limit as in the agreement		Amount of loan/credit to repay		Condition of interest	Effective interest rate %	Repayment date
		thousand PLN	currency	thousand PLN	currency			
BRE Bank S.A.	**Warszawa**	**11 851**	**PLN**	3 251	**PLN**	**WIBOR 1-month plus margin**	**7,4**	**July 2009**
Collateral								
Mortgage amounting to 600 thousand PLN								
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								
Interpep Sp. z o.o.EC Wizów Sp.k. -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 insurnce as of 31 December 2006 amounts to 11,316thousand zlotys)								
BRE Bank S.A.	**Warszawa**	**17 332**	**PLN**	8 644	**PLN**	**WIBOR 1-month plus margin dependant on Company's results**	**6,4**	**June 2012**
Collateral								
Power of attorney to dispose of the current account and debt servicing account in BRE Bank S.A.								
cession agreement of rights pertaining to Interpep EC Zakrzów Sp. z o.o. Sp.k. Resulting from heat delivery contract to POLAR SA and insurance agreement								
Agreement for security assignment (applying to the Polar investment)								
Registration Pledge up to the amount of 35,000 thousand PLN								
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 Wrocław until the day of purchase of this real estate from Polar SA by the borrower								

(in thousand zlotys)

PEKAO S.A.	**Warszawa**	**4 906**	**PLN**	**4 063**	**PLN**	**WIBOR 1-month plus margin**	5,9	**August 2015**
Collateral								
Own bill of exchange								
Power of attorney to dispose of the current account of the borrower and Energopep Sp. z o.o. EC Jeziorna Sp. Komandytowa								
cession of receivables related to the agreements for heat and electricity deliveries concluded between Energopep Sp. z o.o. EC Jeziorna Sp.Komandytowa, a Metsa Tissue S.A., Ecotex Polska Sp. z o.o., Konstans Sp. z o.o.								
agreement on transfer for collateral of receivables from insurance agreement 37,485 thd. PLN								
agreement on cession of receivables of Polish Energy Partners SA towards ENERGOPEP Sp. z o.o. EC Jeziorna Sp.k. Due from lease agreement- 13,552 thd. PLN								
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 1,113 thousand PLN								
Pledge up to the amount of 4,906 thousand PLN								
submission to execution and submission to execution to hand over the pledged assets								
BRE Bank S.A.	**Warszawa**	**74 600**	**EUR**	**211 363**	**59 724 EUR**	**'- basic rate EURIBOR 1-month plus margin**	4,0	**repayment in instalments, last principal is paid on 20.12.2015**
Collateral								
Power of attorney to dispose of the current account and debt servicing account in BRE Bank S.A.								
agreement with BRE Bank S.A. Relating to maintianing banlk accounts - projects Saturn i Jupiter,								
Agreement for pledge over shares in the Saturn Management Sp. z o.o. together with the transfer of PEP S.A. Rights								
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. realting 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. kom. And BRE relating to Registration Pledge on the rights to bak account acess together with power of attorney up to the amount of:								
Submission to execution to BRE Bank S.A								
Agreement on transfer for security, covering all current and future receivables up to the amount								
Guarantees assignment Agreement for transfer of rights and claims from granted by the business partner								
Agreement on mortgage on perpetual usufruct and onwership of the buildings for BRE Bank								
Mortgage for BRE and Kreditanstalt fur Wiederaufbau in the amount of amounting to EUR 45 million each.								
Agreement on cession of rights from General Agreement up to the amounts resulting from debt outstanding								
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								
Pledge on SM Sp. z o.o. rights as the unlimited partner of the Subsidiary								
guarantee of Mondi Packaging Świecie S.A. up to the amount being minimum of : amount of three months costs of debt tand the amount of 3,000 thousand zlotys till 20 December 2016								

(in thousand zlotys)

Raiffeisen Bank Polska SA	**Warszawa**	**21 600**	EUR	32 441	8 687 EURO	**- basic rate EURIBOR 1-month plus margin**	**5,6**	**repayment in instalments, last principal is paid on 31.12.2021**
Collateral								
agreement on transfer for collateral of receivables from insurance agreement								
agreement on cession for security of receivables and right from project agreements								
agreement on cession of receivables and rights from guarantee								
Power of attorney to dispose of the current accounts								
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account, up to 33,525 thousand EUR								
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on assets, up to 33,525 thousand EUR								
submission to execution of the borrower up to 33,525 thousand EUR								
two registration pledges on fixed assets of DIPOL sp. z o.o. For Raiffeisen Bank Polska SA each in the amount of 4,269.3 thd. EUR								
registration pledge for Raiffeisen Bank Polska SA 8,538.7 thd. EUR								
six registration pledges for Raiffeisen Bank Polska SA each in 4,269.3 thousand EUR								
Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until July 31, 2009								
Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until August 30, 2009								
Registration plegde agreement on shares in DIPOL sp. z o.o. Concluded between PEP SA and Raiffeisen 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 Raiffeisen 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.								

(in thousand zlotys)

BRE BANK SA	**Warszawa**	**9 000**	**PLN**	**6 243**	**PLN**	**WIBOR 1-miesięczny plus marża banku**	6,4	**repayment in instalments, last principal is paid on 20.02.2010**
Collateral								
Pledge Notarial Act								
Agreement of Polish Energy Partners SA on registration pledge on right together with power of attorney 10.500 thd. PLN								
Agreement of PP-U i P Comax Sp. z o.o. on registration pledge on right together with power of attorney 10.500 thd. PLN								
Registration pledge on enterprise 13,500 thd. PLN								
Agreement on cession for security								
Power of attorney to dispose of the current account								
Agreement on support concluded between: BRE Bankiem SA, PP-U i P Comax sp. z o.o., PEP SA, and the borrower								
Guarantee agreement of Polish Energy Partners S.A. 10,500 thd. PLN, valid till 30.06.2007								
submission to execution 10,500 thd. PLN, valid till 31.12.2013								
submission to execution of assets with register pledge- valid till 31.12.2013.								
submission to execution of limited partner (Polish Energy Partners SA) - 10,500 thd. PLN, valid till 31.07.2007.								
Razem				**266 005**				

(in thousand zlotys)

reported as of 31.12.2005

Long term liabilities from loans and borrowings

Name of the Company with	Seat	Loan/Borrowing limit as in the agreement		Amount of loan/credit to repay		Condition of interest	Effective interest rate %	Repayment date
indication of legal form		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**
Collateral								
Mortgage amounting to 600 thousand PLN								
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								
Interpep Sp. z o.o.EC Wizów Sp.k. -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 insurnce as of 31 December								
BRE Bank S.A.	**Warszawa**	**17 332**	PLN	9 920	PLN	**WIBOR 1-month plus margin dependant on Company's results**	**8,7**	**June 2012**
Collateral								
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 35,000 thousand PLN								
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 Wrocław until the day of purchase of this real estate from Polar SA by the borrower								

(in thousand zlotys)

PEKAO S.A.	**Warszawa**	**4 906**	**PLN**	**3 953**	**PLN**	**WIBOR 1-month plus margin**	6,7	**August 2015**
Collateral								
Own bill of exchange								
Power of attorney to dispose of the current account of the borrower and Energopep Sp. z o.o. EC Jeziorna Sp. Komandytowa								
cession of receivables related to the agreements for heat and electricity deliveries concluded between Energopep Sp. z o.o. EC Jeziorna Sp.Komandytowa, a Metsa 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 Jeziorna which are used to generate and deliveries of electricity and heat together with cession of insurance policy 1,113 thousand PLN								
Pledge up to the amount of 4,906 thousand PLN								
submission to execution and submission to execution to hand over the pledged assets								
BRE Bank S.A.	**Warszawa**		**74.600 tys. EUR**	**213 922**	**55.423 tys. EUR**	**- basic rate EURIBOR 1-month plus margin**	4,0	**repayment in instalments, last principal is paid on 20.12.2015**
Power of attorney to dispose of the current account and debt servicing account in BRE Bank S.A.								
agreement with BRE Bank S.A. Relating to maintianing banlk accounts - projects Saturn i Jupiter,								
Agreement for pledge over shares in the Saturn Management Sp. z o.o. together with the transfer of PEP S.A. Rights								
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. realting 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. kom. And BRE relating to Registration Pledge on the rights to bak account acess together with power of attorney up to the amount of:								
Submission to execution to BRE Bank S.A								
Agreement on transfer for security, covering all current and future receivables up to the amount								
Agreement on transfer for security, covering all current and future receivables up to the amount								
Guarantees assignment Agreement for transfer of rights and claims from granted by the business partner								
Agreement on mortgage on perpetual usufruct and onwership of the buildings for BRE Bank								
Mortgage for BRE and Kreditanstalt fur Wiederaufbau in the amount of amounting to EUR 45 million each.								
Agreement on cession of rights from General Agreement up to the amounts resulting from debt outstanding								
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								
Pledge on SM Sp. z o.o. rights as the unlimited partner of the Subsidiary								
guarantee of Mondi Packaging Świecie S.A. up to the amount being minimum of : amount of three months costs of debt tand the amount of 3,000 thousand zlotys till 20 December 2016								

(in thousand zlotys)

Raiffeisen Bank Polska SA	**Warszawa**	**21 600**	EUR	-	EURO	**- basic rate EURIBOR 1-month plus margin**	-	**repayment in instalments, last principal is paid on 31.12.2021**
Collateral								
agreement on transfer for collateral of receivables from insurance agreement								
Power of attorney to dispose of the current accounts								
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account, up to 33,525 thousand EUR								
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on assets, up to 33,525 thousand EUR								
submission to execution of the borrower up to 33,525 thousand EUR								
two registration pledges on fixed assets of DIPOL sp. z o.o. For Raiffeisen Bank Polska SA each in the amount of 4,269.3 thd. EUR								
registration pledge for Raiffeisen Bank Polska SA 8,538.7 thd. EUR								
six registration pledges for Raiffeisen Bank Polska SA each in 4,269.3 thousand EUR								
Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until August 30, 2009								
Registration plegde agreement on shares in DIPOL sp. z o.o. Concluded between PEP SA and Raiffeisen 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 Raiffeisen 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.								
Total				232 656				

(in thousand zlotys)

30. Short term liabilities

Short term liabilities		
	31.12.2006	31.12.2005 restated
a) bank loans and borrowings	25 888	20 490
b) trade payables	8 396	3 960
- to affiliates	8 396	3 960
c) income tax liabilities	152	14
d) other liabilities	2 237	2 063
- taxes, customs and social security liabilities	1 752	1 015
- other financial liabilities	191	137
- payroll liabilities	249	70
- Special Funds	5	9
- other financial liabilities	40	833
Total short term liabilities	**36 673**	**26 527**

31. Short term liabilities from bank loans and borrowings

reported as of 31.12.2006

Short term liabilities from loans and borrowings

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	ıousand zlo	currency		
BRE Bank S.A.	Warszawa	11 851	PLN	1 610	PLN	long term debt (amount payable within one year time)	
Collateral							
Presented in long-term liabilities note							
BRE Bank S.A.	Warszawa	13 500	PLN	1 573	PLN	long term debt (amount payable within one year time)	
Collateral							
Presented in long-term liabilities note							
PEKAO S.A.	Warszawa	4 906	PLN	553	PLN	long term debt (amount payable within one year time)	
Collateral							
Presented in long-term liabilities note							

BRE BANK	**Warszawa**	**equal amount in PLN of 453 thd. EUR**	**current account**	**-**	**-**	**WIBOR 1-month + bank margin**	**to 31.03.2007**

Collateral

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, 2008.

BRE BANK	**Warszawa**	**3.500 thd. PLN**	**VAT**	**-**	**-**	**WIBOR 1-month + bank margin**	**to 31.03.2007**

Collateral

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 pertaning to PEP from Mondi Packaging Paper Świecie S.A. Relating to 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, 2008.

BRE BANK	Warszawa	74.600 thd.EUR	investment debt	17 786	4.160 thd. EUR	long term debt (amount payable within one year time)

Collateral

Presented in long-term liabilities note

Raiffeisen Bank Polska SA	**Warszawa**	**21 600**	**EUR**	**2 057**	**EUR**	**- basic rate EURIBOR 1-month plus margin**	**repayment in instalments, last principal is paid on 31.12.2021**
Collateral							
Presented in long-term liabilities note							
Raiffeisen Bank Polska SA	**Warszawa**	**3.000**	**PLN**	**-**	**PLN**	**WIBOR 1-week + margin**	**to 30.06.2007**
Collateral							
agreement on transfer for collateral of receivables from insurance agreement							
agreement on cession for security of receivables and right from project agreements							
agreement on cession of receivables and rights from guarantee							
Power of attorney to dispose of the current account							
Power of attorney to dispose of the current accounts							
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account							
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank accounts							
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on assets							
submission to execution of the borrower							
two registration pledges on fixed assets of DIPOL sp. z o.o. For Raiffeisen Bank Polska SA							
registration pledge for Raiffeisen Bank Polska SA							
six registration pledges for Raiffeisen Bank Polska SA							
submission to execution of PEP SA							
submission to execution of PEP SA							
Registration plegde agreement on shares in DIPOL sp. z o.o. Concluded between PEP SA and Raiffeisen 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 Raiffeisen Bank Polska SA.							

(in thousand zlotys)

Raiffeisen Bank Polska SA	**Warszawa**	**17.000**	**PLN**	**-**	**PLN**	**WIBOR 1-month + bank margin**	**to 31.03.2007**
Collateral							
Disposition of the borrower submitted to the Tax Office in order to transfer VAT returns to the VAT account							
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account							
Power of attorney to dispose of the VAT account in Raiffeisen Bank Polska SA							
Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2009.							
BRE BANK SA	**Warszawa**	**9 000**	**PLN**	**2 309**	**PLN**	**WIBOR 1-month + bank margin**	**repayment in instalments, last principal is paid on 20.02.2010**
Collateral							
Presented in long-term liabilities note							
Total				**25 888**			

reported as of 31.12.2005

Short term liabilities from loans and borrowings

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	iousand zlo	currency		
BRE Bank S.A.	**Warszawa**	**11 851**	**PLN**	**1 450**	**PLN**	**long term debt (amount payable within one year time)**	
Collateral							
Presented in long-term liabilities note							
BRE Bank S.A.	Warszawa	13 500	PLN	1 134	PLN	long term debt (amount payable within one year time)	
Collateral							
Presented in long-term liabilities note							
PEKAO S.A.	**Warszawa**	**4 906**	**PLN**	**271**	**PLN**	**long term debt (amount payable within one year time)**	
Collateral							
Presented in long-term liabilities note							

BRE BANK	**Warszawa**	**equal amount in PLN of 74,600 thd.EUR**	**investment debt**	**15 461**	**equal amount in PLN 4,006 thd. EUR**	**long term debt (amount payable within one year time)**	
Collateral							
Presented in long-term liabilities note							
Raiffeisen Bank Polska SA	**Warszawa**	**3.000**	**PLN**	**-**	**PLN**	**WIBOR 1-week + margin**	**to 30.06.2007**
Collateral							
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 Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account							
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank accounts							
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on assets							
submission to execution of the borrower							
two registration pledges on fixed assets of DIPOL sp. z o.o. For Raiffeisen Bank Polska SA							
registration pledge for Raiffeisen Bank Polska SA							
six registration pledges for Raiffeisen Bank Polska SA							
submission to execution of PEP SA							
submission to execution of PEP SA							
Registration plegde agreement on shares in DIPOL sp. z o.o. Concluded between PEP SA and Raiffeisen 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 Raiffeisen Bank Polska SA.							
Raiffeisen Bank Polska SA	**Warszawa**	**17.000**	**PLN**	**2 174**	**PLN**	**WIBOR 1-month + bank margin**	**to 31.03.2007**
Collateral							
Disposition of the borrower submitted to the Tax Office in order to transfer VAT returns to the VAT account							
Agreement with Raiffeisen Bank Polska SA relating to registration pledge on receivables due from bank account							
Power of attorney to dispose of the VAT account in Raiffeisen Bank Polska SA							
Submission to execution according to the Article 97 of the Banking Act as of August 29 1997 until March 31, 2009.							
Total				**20 490**			

(in thousand zlotys)

32. Accrued cost and deferred income

Accruals and deferred income	31.12.2006	31.12.2005
Long-term accruals and deferred income		
a) deferred income	5 901	1 021
Long-term accruals and deferred income, total	**5 901**	**1 021**
Short-term accruals and deferred income		
a) futures salaries and bonuses	1 091	934
b) costs of outsourced services	197	251
c) other	753	95
d) holiday pay accrual	51	-
d) deferred income - grant	1 924	79
Short-term accruals and deferred income, total	**4 016**	**1 358**

33. Assets and liabilities of social fund

SOCIAL FUND ASSETS AND LIABILITIES	31.12.2006	31.12.2005
a) loans granted to employees	3	4
b) cash	23	47
c) liabilities to the fund	21	38
Net balance	**5**	**14**
fees due to the social funde in current year	122	133

34. Contingent liabilities

Contingent Liabilities to affiliates	31.12.2006	31.12.2005
a) guarantees granted	21 572	21 611
b) other (due from limited liability sum in LLP):	39 310	39 310
- to subsidiaries	39 310	38 650
- to associates	-	660
c) court cases	-	394
Total contingent liabilities to affiliates	**60 882**	**61 315**

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.

On May 22, 2006 PEP S.A. issued bill of exchange in blanco up to the amount of 1,865,500.00 PLN, as collateral for the grant received by Saturn Management Sp. z o.o. i Wspólnicy, Spółka komandytowa from National Fund of Environmental Protection and Maritime Economy Warsaw. The period of validity of this contingent liability resulting from issue of this bill of exchange amounts to 5 years from the date of completion of the project which was subsidized.

Additionally bank loans collateral is contingent liability presented in the Note 29.

Legal proceedings in court:

- Court proceedings initiated by PKP CARGO SA of Warsaw as the plaintiff, against PEP SA for payment of PLN 148,546.28 with interest. The litigation was raised on October 24th 2003. On November 10th 2004, the Regional Court in Katowice issued a judgment whereby the Company was obliged to pay the disputed amount. On November 25th 2004, the Company appealed against the ruling and motioned for it to be reversed and for the claim against the Company to be overruled, or for the judgment to be reversed and for the case to be submitted for re-examination. On December 13, 2005 the Appealing Court in Katowice changed the above mentioned judgment in the way that the Company (together with Katowicki Holding Węglowy S.A.) is obliged to pay to PKP Cargo SA the amount of 60,577.15 PLN plus interest calculated from June 26, 2003 and costs of court proceedings in the amount of 1,444 PLN. Moreover the Company was adjudged the costs of appealing proceedings in the amount of 5,696 PLN. Due to the fact that based on the contract between the Company and Katowicki Holding Węglowy S.A. the Company was obliged to cover the coal transportation costs, the Company on January 9, 2006 paid the adjudged amount to PKP Cargo SA less the costs of appealing proceedings. PKP Cargo S.A. claimed cassation from the above mentioned judgment. The copy of the claim was received by the Company. On October 6, 2006 the Majority Court rejected the cassation claim of PKP Cargo S.A.
- Court proceedings initiated by Zbigniew Sobczyk as the plaintiff, for declaring the notice of termination of an employment contract as ineffective. The court of first instance rejected the claim. The plaintiff appealed against the ruling which was rejected. On June 21, 2006 the appealing of the plaintiff was rejected. The plaintiff claimed cassation from the above mentioned judgment to the Majority Court.
- On May 16th 2002, the President of the URE issued a decision No. OWA 25/2002 on imposing a penalty of PLN 856,000 on the Company for failure to comply with the obligation to submit a tariff used by the Company for approval by the President of URE. As a result of the appeal filed by the Company against the President of URE's decision, on June 25th 2003 the Anti-Trust and Consumer Protection Court of the District Court in Warsaw modified the decision by reducing the amount of penalty to PLN 60,000. In May 2004, as a result of the last resort appeal filed by the President of URE, the Supreme Court reversed the judgment of the Anti-Trust and Consumer Protection Court of the District Court in Warsaw and referred the case for re-trial to the Anti-Trust and Consumer Protection Court of the District Court in Warsaw. On April 4th 2005 (after the date of this Prospectus' update), the Regional Court in Warsaw reversed URE's decision and referred the case for re-examination. On March 7, 2006 the Appealing Court

(in thousand zlotys)

reversed the judgment of the Regional Court and referred the case for re-examination by the Regional Court. According to the judgment date September 21, 2006 the fine for the Company has been lowered to the amount of 723 thousand zlotys. The Company appealed from the sentence of the Regional Court. Case in progress.

- 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.. The Company does not accept the claim of K&K Consultants Sp. z o.o. On June 21, 2006 the Regional Court in Warsaw has issued the sentence in which it cancels the claim of K&K Consultants Sp. z o.o. in total. The information possessed by the Company indicates that there was no appealing from the above sentence by K&K Consultants Sp. z o.o. so the sentence is now in force.

35. Sales revenue

Net revenues from sales of goods (structure - by type)		
	31.12.2006	**31.12.2005**
revenues from sales of energy	1 589	834
revenues from sales of heat	22 931	23 219
revenues from conculiting projects	799	4 088
revenues from sales of over standard quality and guarantee of deliveries	467	351
revenues from cost reimbursement and reinvoicing	9	-
revenues from leasing and operating of the leased assets	32 835	32 540
sale of goods	138	65
revenues from CO2 emission rights sale	3 947	-
Total net revenues from sales of goods	**62 715**	**61 097**

36. Costs by kind

Costs by kind		
	31.12.2006	31.12.2005
a) depreciation	3 086	2 858
b) material and energy used	16 991	18 370
c) external services	6 368	9 068
d) taxes and fees	2 176	1 882
e) payroll, including:	13 985	12 933
management options	1 551	1 032
f) social security and payroll related charges	2 074	2 210
g) other costs by kind	1 433	961
Total costs by kind	**46 113**	**48 282**
Value of sold goods and materials (positive amount)	138	278
Change in value of work in progress and finished goods	(399)	(365)
Cost of asset construction for own purposes (negative amount)	-	-
Selling costs (negative amount)	-	-
General and administration costs (negative amount)	(14 051)	(13 152)
Cost of goods sold	**31 801**	**35 043**
Total cost of goods sold	**31 801**	**35 043**

(in thousand zlotys)

37. Other operating income

Other operating income		
	31.12.2006	31.12.2005
a) reversal of impairment wrtie-downs and release of provisions	46	500
- provisions for doubtful debt	44	283
- other write-offs	2	217
b) other, including:	1 335	856
-received penalties and compensation	73	360
-accelerated grant settlement	1 090	-
-revenue from lease of fixed assets	12	-
-other	159	423
-profit from sales of nonfinancial fixed assets	1	73
Total other operating income	**1 381**	**1 356**

38. Other operating costs

Other operating expense		
	31.12.2006	31.12.2005
a) revaluation of assets, including:	16 810	528
-receivables	5 826	41
-liquidation costs	25	55
-impairment of fixed assets	10 959	432
b) other, including:	1 140	554
-penalties, compensations	-	23
-donations	48	21
-costs of Warsaw Stock Exchange entry	-	483
-provisions	1 062	-
-other	30	27
Total other operating expense	**17 950**	**1 082**

39. Financial income

Financial income		
	31.12.2006	31.12.2005
a) financial income from dividends and share in profit	54	118
b) due from loans granted	1 017	757
c) other interest - leasing	11 068	10 256
interest due from lease of assets	2 066	2 100
d) foreign exchange	1 088	-
-unrealized	1 688	-
-realized	(600)	-
e) reversal of provision for doubtful debt	-	107
f) gain on securities trade	29	526
g) other financial income	539	195
Financial income, total	**13 795**	**11 959**

(in thousand zlotys)

40. Financial costs

Financial costs		
	31.12.2006	31.12.2005
a) financial costs from interest	10 632	9 623
b) foreign exchange	480	2 579
-unrealized	489	3 141
-realized	(9)	(562)
c) increase of revaluation provision	-	52
d) provisons and other costs od credits	330	266
e) other financial costs	163	96
Total financial costs	**11 605**	**12 616**

(in thousand zlotys)

41. Current income tax

Current income tax expense		
	31.12.2006	31.12.2005
1. Consolidated gross profit (loss)	16 952	18 802
2. Consolidation adjustements	(15 129)	(6 414)
3. Differences between gross profit and tax base for corporate income tax	-	-
a) Income	(2 214)	(27 995)
- revenue to be recognized in next fiscal period	(1 071)	(7 342)
- revaluation of cash	(10 287)	(32 840)
- unpaid interest on loans	177	(257)
- interest on investment	64	144
- dividends from limited liabilities companies	(54)	(118)
- release of provisions	(892)	(617)
- received grants	(1 090)	(79)
- settlement of temporary differences from previous years	-	932
- repayment of principal in financial lease payment	15 752	11 789
- settlement of revenues included in prior period	1 917	634
- foreign exchange from balance sheet valuation	(6 019)	-
- other income	(65)	(241)
- valuation of receivables	(366)	-
- revenue in construction period	299	-
- valuation of liabilities	(580)	-
b) costs	10 434	21 299
- undocumented costs	27	42
- costs not related to revenues	411	120
- costs from other period	22	1 020
- payments to PFRON	78	44
- payment for non obligatory societies	29	29
- expense for owners and members of SB	1 640	1 152
- insurance policy of management board	-	28
- accounting depreciation	3 100	2 723
- tax depreciation	(25 772)	(24 677)
- costs - liquidation costs	41	40
- costs - capital part of lease	(175)	(220)
- costs - revaluation of cash	9 507	35 113
- costs - reserves	2 496	292
- costs - valuation of receivables	4 483	408
- costs - revaluattion of settlements	48	(60)
- costs - salaries paid in due date	174	(37)
- costs - tax deductible from sales of heat and electricity	(582)	2 646
- costs - loans revaluation	-	1 270
- costs - losses	-	398
- costs - provisiosn for bonuses	160	415
- costs - provisiosn for fixed assets	10 959	432
- costs - interest paid	(41)	(808)
- costs - revaluation write offs	913	55
- costs - financial capitalized in assets leased in financial lease	712	142
- costs - other capitalized in assets leased in financial lease	-	19
- costs - settlement of costs related to assets in financial lease	(5 130)	(668)
- costs - movment of other costs in accordance with payment date	-	1 164
- other costs	184	218
- costs - interest on loan	595	-
- costs - interest and fees not tax deductible	321	-
- costs - balance sheet valuation of loans	98	-
- costs - settlement of costs incurred in prior period	(196)	-
- costs related to revenues during construction period	(101)	-
- costs - foreign exchange from balance sheet valuation	6 434	-

(in thousand zlotys)

4. Tax Basis before tax loss from previous years	10 043	5 692
4a.Tax loss settlement from previous years (negative number)	-	-
Donations	-	-
4b.Tax basis after tax loss	10 043	5 692
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	1 908	1 052
8.Income tax at effective tax rate 19%	(71)	(192)
9.Tax at 19% rate (2005: 19%)	3 221	3 572

	31.12.2006	31.12.2005
Current income tax expense	1 837	860
Change in deferred tax balance	(533)	2 324
Income tax reported in profit and loss account	1 304	3 184

42. Cash flows – explanatory notes

Cash flows from operation activity - other adjustements

	31.12.2006	31.12.2005
management options	1 551	1 032
sale of assets under cosntruction	-	2 078
Impairment write down	10 959	-
Grants received	(50)	-
Total other adjustements	**12 460**	**3 110**

Inne wpływy inwestycyjne

	31.12.2006	31.12.2005
Repayment of principal and interest from financial	26 696	22 213
Total	**26 696**	**22 213**

Other investment outflows

	31.12.2006	31.12.2005
Outflows for leased fixed assets	27 188	17 418
Expense for wind farm projects	1 978	-
Total	**29 166**	**17 418**

restricted cash

	31.12.2006	31.12.2005
deposit*	-	5 986
Social fund	22	39
Total	**22**	**6 025**

* Restriction results from bank loan areement for project Saturn and consitutes collateral of equity for the project

(in thousand zlotys)

Reasons for differences between balance sheet changes of praticular items and changes presented in cash flow statement

Receivables:	**31.12.2006**
Balance sheet change in long and short term receivables net	(14 287)
Changes in receivables due from financial lease after provisions	8 466
Changes in receivables due from advances for dividend	164
Changes in investment receivables	15
Changes in receivables presented in cash flow statement	**(5 642)**

Accruals and deferals	**31.12.2006**
Balance sheet change in acrcruals and deferals	7 283
Changes in other assets	(1 745)
Lease interest accrued	90
grants received	(7 766)
Consolidation adjustements	209
Changes in accruals and deferals in cash flow statement	**(1 929)**

Liabilities:	**31.12.2006**
Balance sheet change in short and long term liabilities	4 444
changes in investment liabilities	(4 795)
Changes in liabilities due from financial lease	351
Changes in liabilities in cash flow statement	(842)

43. Impairment

In course of first half of the 2006 the financial condition of one of the Group's customers, Wizów chemical plant S.A. („Wizów") deteriorated significantly. As a result the bad debt of Wizów significantly increased and the actions which were taken to improve the situation did not succeed. Moreover, in the mid of June 2006 Wizów stopped production. On august 4, 2006 the Group filed with the Regional Court the claim for bankruptcy of Wizów.

As a result of the above facts the Management of the Group took the decision to create revaluation provision for the assets engaged in this project (receivables and fixed assets) and to create necessary provisions for the costs of termination of the project.

The profit and loss account as a result of the revaluation provision for the assets engaged in the project and created provisions for other costs related to termination of the project was charged in the following way:

Type of revaluation or provision	Amount	Valuation	Recognition in profit and loss account

Impairment write down of fixed assets	(10,959.4)	Valuation of fixed assets in the net sales price	Other operating cost
Recognition of revenue due from grant received to finance the above fixed assets	980.4	Accelerated settlement to the revenues of grant for the turbogenerator	Other operating revenues
Provision for doubtful debt	(4,926.6)	Full provision for the gross amount of the receivables due	Other operating cost
Other provisions	(1,062.0)	Estimate based on the best knowledge of the Company includes other cost of termination of the project	Other operating cost
Deferred tax on the created revaluations and provisions	2,865.2	Deferred tax asset for temporary differences relating to the above figures	Tax
TOTAL	**(13,102.4)**		

In third quarter due to the fact that Interpep Spółka z ograniczoną odpowiedzialnością, EC Wizów Spółka Komandytowa with seat in Warsaw („IP") concluded with Rolmex Spółka Akcyjna („Rolmex") and Wizów three party agreement relating to temporary heat supplies by IP to Wizów through Rolmex, heat sales to Wizów has been temporarily reestablished. Moreover the claim for bankruptcy of Wizów has been withdrawn.

Moreover based on this agreement Wizów repaid part of its liabilities due to the Company in the amount of 200 thousand zlotys.

The above mentioned agreement was concluded for specified period till December 31, 2006. Based on this agreement Rolmex was delivered heat generated by IP. The heat delivery was conducted based on prepayments from Rolmex. It should be mentioned that the value of heat sales did not exceed the value of prepayments received.

The abovementioned agreement was prolonged till January 31, 2007 and on that day ceased.

Early February based on the decision of the Regional Court in Jelenia Góra Wizów has been put into liquidation bankruptcy proceeding.

As of the date of the financial statements heat is being delivered to Wizów in the amounts sufficient for space heating and machinery maintenance. As of the date of this report there are no condition precedent which indicate the chance to restore production in the near future.

The Management of the parent company would like to stress that the Group forecast for 2006 presented in the current report 50/2005 would have been met, if the impact of the impairment write down and lost contribution of Wizów would have been omitted.

44. 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 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.

44.1 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.

44.2 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 48 relating to leases. The position is not hedged in order to eliminate the exchange rate volatility.

44.3 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.

45. Information on financial instruments

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

As of December 31, 2006 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)	Fair value through profit and loss
Opening Balance	**3,519**	**5,439**	**954**	**1,319**
Increase, including::	-	161	254	51
Purchase of treasury bills and bonds	-	-	-	-
Loans granted	-	154		
Interest	-	7		51
Purchase of shares	-	-	254	-
Decrease, including:	3,519	5,439	853	1,370
Sale of treasury bills and bonds	3,519	-	-	1,266
Interest reclassification	-	-	-	-
Shares return	-	-	28	-
Revaluation	-	-	-	-
Interest received	-	-	-	104
Consolidation adjustments due to control takeover in 2006	-	5,439	825	-
Closing Balance	-	**161**	**355**	-

The value of available for sale financial instruments consists of shares in affiliates. These shares are using the equity pick up method. The value of other assets except fro originating loans reflects their fair value. In case of originated loans it is practically impossible to measure in fair value because these loans were given to affiliate.

The detailed description of valuation methods of financial instruments in discussed in Note 6.27 in the Notes to the Consolidated Financial Statements.

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

(in thousand zlotys)

	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	-
Write offs	-	-	-	-
Closing Balance	**3,519**	**5,439**	**954**	**1,319**

The value of available for sale financial instruments consists of shares in affiliates. These shares are using the equity pick up method. The value of other assets except fro originating loans reflects their fair value. In case of originated loans their fair value does not differ from carrying value.

The detailed description of valuation methods of financial instruments in discussed in Note 6.27 in the Notes to the Consolidated Financial Statements.

46. The characteristics of financial instruments

Fair value of liabilities and financial assets is equal to their carrying value except for investment in unlisted financial instruments.

a) Fair value through profit and loss financial assets

As of the balance sheet date the Group did not have financial assets through profit and loss:

On December 5, 2006 Saturn Management Sp. z o.o. i Wspólnicy, Spółka Komandytowa sold for 1,300 thosuand zlotys 1,248 bonds with face value of 1,248 thousand zlotys, out of this amount 32 thousand was accrued interest. 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. In 2006 the total interest received by the Company due from bonds amounted to 104 thousand zlotys.

(in thousand zlotys)

b) Loans granted and receivables

The parent company granted the following loans to its affiliates:

Reported as at December 31, 2006

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
E.W.G Spółka z ograniczoną odpowiedzialnością	3.02.2006	70	70	4	After commencement of operations	fixed, 8.4%	After commencement of operations	No collateral
E.W.G Spółka z ograniczoną odpowiedzialnością	28.06.2006	40	40	3	After commencement of operations	fixed, 8.4%	After commencement of operations	No collateral
AMON Spółka z ograniczoną odpowiedzialnością	12.12.2006	44	44	-		fixed, 8.4%	After commencement of operations	No collateral
Total		154	154	7				

Reported as at December 31, 2005

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 Odpowiedzialnościa 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

(in thousand zlotys)

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**				

c) Interest on loans granted

In the year ended December 31, 2006 the Group did not realize revenue from loans granted. In the profit and loss account the interest accrued was incurred for the year 2006.

	Interest realized	**Unrealized due within**					**Total interest**
Year ended 31.12.2006		**Till 3 months**	**3-12 months**	**1 – 5 years**	**> 5 years**	**Total unrealized**	
Interest on long term financial receivables from affiliates	-	-	-	-	7	7	7
Total	-	-	-	**-**	**8**	**8**	**8**

	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**

(in thousand zlotys)

d) financial assets available for sale

On May 31, 2006 the Parent Company purchased shares in Mercury Energia Spółka z ograniczoną odpowiedzialnością, Notos Sp. z ograniczoną odpowiedzialnością, Beta Spółka z ograniczoną odpowiedzialnością i E.W.G Spółka z ograniczoną odpowiedzialnością in the amount of 50 thousand zlotys, 0.5 thousand zlotys, 25.6 thousand zlotys and 102.6 thousand zlotys respectively.

On June 7, 2006 the Parent Company purchased shares in Interpep EC Zakrzów Spółka z ograniczoną odpowiedzialnością in the amount of 50 thousand zlotys.

47. 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, 2006

Variable interest rate

	<1year	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash	-	-	-	-	-	-	-
Bank loans amounting 28,246 thousands zlotys	6 045	13 117	6 007	2 191	886	-	28 246
Bank loans in EURO amounting 263,647 thousands zlotys	19 843	28 547	30 911	33 482	29 515	121 349	263 647

Fixed interest rate

	<1year	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash assets	25 079						25 079
Loans granted						162	162

Year ended December 31, 2005

Variable interest rate

	<1year	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*
Cash	24 367	-	-	-	-	-	24 367
Bank loans amounting 23,763 thousands zlotys	5 029	3 636	3 997	3 564	2 237	5 300	23 763
Bank loans in EURO amounting 229,383 thousands zlotys	15 461	16 848	18 612	20 062	21 636	136 764	229 383

Fixed interest rate

	<1year	*1–2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*>5 years*	*Total*

Cash assets	17,263	–	–	–	–	–	17,263
Loans granted	–	–	–	–	3,136	2,302	5,438

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.

48. Capital Group as lessor

48.1 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 Exchange rate PLN/EUR **3.8312**	as of 31.12.2006 in total	to 1 year	from 1 to 5 years	over 5 years
Gross investment lease	355 296	26 693	124 994	203 609
Net lease investment	254 407	17 989	93 093	143 325
Minimum lease payments	355 296	26 693	124 994	203 609
Unrealized financial revenues	100 889	8 704	31 901	60 284
Unguaranteed residual accruing to the lessor				
Conditional lease payments	58 465	9 436	29 399	19 630

Conditional lease payments recognized in the profit and loss account for the period January 1, 2006 – December 31, 2006 amounted to 15,014 thousands zlotys.

in PLN Exchange rate PLN/EUR **3.8598**	as of 31.12.2005 in total	to 1 year	from 1 to 5 years	over 5 years
Gross investment lease	311 506	20 949	105 734	184 823
Net lease investment	247 147	15 566	79 946	151 641
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 and for the period January 1, 2005–June 30, 2005 amounted to 5,826 thousands zlotys.

48.2 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.

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.

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

a) Contingent liabilities are presented in Note 34

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 heave 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, 2006 all provisions for recognized and countable tax risks were calculated.

c) Investment liabilities

As of December 31, 2006 the Group plans to incur capital expenditure in 2007 for tangible fixed assets and capital investments in the amount of approximately 16 millions zloty. The funds will be spent on purchase of new machines and equipment.

50. Profit distribution

On April 27, 2006 the General Shareholders Meeting voted the resolution stating that:

- Coverage of loss incurred by the Company in 2005 from reserve capital in the amount of 417 thousand zlotys,
- Distribution of reserve capital to cover the negative difference on profit/loss from previous years which is due to restatement of financial statement as of January 1, 2005 to the IFRS voted by proper body of EU,

- Distribution of part of the reserve capital created from profits of the Company in the year 2002 and 2004 in the amount of 9,057 thousand zlotys in the form of dividend to the Company's shareholders..

The Management of the Company intends to deliver to the Supervisory Board final proposal for 2006 profit distribution and potential payment of reseve capital in the form of dividend till May 2007.

The Management will propose to the Supervisory Board that the profit for 2006 potentially increased to achieve the target value fo dividend in the amount of PLN 9.9 million will be in full distributed to the shareholders in line with the announced dividend policy.

51. 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.

52. Information on revenue, costs and results of discontinued operations

Till December 31, 2006 the Group did not discontinue any activities and no plans exist to discontinue any significant activity in the next period.

53. Information on significant related party transactions

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

(in thousand zlotys)

Balance as at December 31, 2006

	Saturn Management Spółka z ograniczoną odpowiedzialnością i Wspólnicy, Spółka komandytowa	ENERGOPEP Spółka z ograniczona odpowiedzialnością EC Jeziorna Spółka komandytowa	Dipol Sp. z o.o.	Interpep Spółka z ograniczoną odpowiedzialnością EC Wizów Spółka Komandytowa*)	Interpep EC Zakrzów Spółka z ograniczoną odpowiedzialnością Spółka Komandytowa*)	Mercury Energia Spółka z ograniczoną odpowiedzialnością, Spółka komandytowa*)	Saturn Management Sp. z o.o.*	ENERGOPEP Sp. z o.o.*	INTERPEP Sp. z o.o.*	Interpep EC Zakrzów Spółka z o.o.*	Mercury Energia Spółka z o.o.*	Total related entities
Purchases	44	309	-	-	-	-	-	-	-	-	-	**353**
Sale of products	823	2.001	37	2.218	4.239	156	-	1	-	1	1	**9.477**
Sale of materials and goods	-	7.629	-	-	-	-	-	-	-	-	-	**7.629**
Total Sales	823	9.630	37	2.218	4.239	156	-	1	-	**1**	**1**	**17.106**
Receivables except for loans	114	8.899	11	2.356	2.102	102	-	3	-	**3**	**3**	**13.593**
Liabilities except for loans	12	421	-	-	-	-	-	-	-	-	-	**433**
Loans granted (in balance sheet)	.	-	-	-	-	11.865	-	-	-	-	-	**11.865**
Interest due(P&L)	71	-	52	-	-	896	-	-	-	-	-	**1.019**
Interest received (P&L)	71	-	52	-	-	-	-	-	-	-	-	**123**
Dividends received	20.363	-	-	-	-	-	54	-	-			**20.417**

(in thousand zlotys)

									-	-	

* financial statements unaudited

Balance as at December 31, 2005

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

* financial statements unaudited

(in thousand zlotys)

54. 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.

On March 13, 2006 the Company concluded with EPA Sp. z o.o. an annex to an agreement of 15th March 2004 for economic cooperation with regard to development of wind farm projects.

Under the Agreement, the Company and EPA jointly develop projects of wind farms and share the costs of development. The Agreement shall remain in effect by December 31, 2010 (originally, the Agreement was to be effective for three years after the date of the conclusion of the Agreement.) Under the Agreement, the Company has the pre-emptive right of purchase to all projects developed with regard to the Agreement. Moreover, pursuant to the Annex, the price of the next projects for the total nominal capacity of 150MW to be purchased by the Company has been set.

The investment expense is agreed between the partners of the joint venture in yearly periods. Up to the December 31, 2006 the parent company incurred expense of approximately PLN 2.8m. The parent company plans to expense for next wind farm projects the amount of approximately PLN 7.5m till December 31, 2007.

The current effect of the joint venture is the preparation for construction wind farm project of capacity of 22MW located near Puck. According to the published current reports the Group plans to complete the construction of wind farm in Puck as of December 31, 2006. Moreover, two wind farm projects with total capacity of 70 MW are in the advanced development stage. The commencement of construction is planned for 2007 and operations for 2008.

55. Employment

In the periods ended December 31, 2006 and December 31, 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	31.12.2006	31.12.2005
Blue collar employees	115	106
White collar employees	44	38
Total employment	**159**	**144**

(in thousand zlotys)

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

In the 12 months periods ended December 31, 2006 and December 31, 2005 the remuneration of the Management Board amounted to:

	31.12.2006	31.12.2005
Management Board		
Stephen Klein	568	339
Grzegorz Skarżyski	-	428
Anna Kwarcińska	372	347
Wojciech Cetnarski	-	194
Michał Kozłowski	430	17

In the 12 months periods ended December 31, 2006 and December 31, 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, 2006 the members of the Supervisory Bodies received remuneration in the amount of 310 thousand zlotys, including Mr. Zbigniew Prokopowicz 310 thousand zlotys. The resolution of GSM dated April 27, 2006 established remuneration in the amount of 3 thousand zlotys gross to Mr. Artur Olszewski and Mr. Krzysztof Sędzikowski from April 27, 2006 and June 12, 2006 respectively.

57. 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 period ended December 31, 2006 there were no transactions with Management Board Members and Supervisory Board Members.

58. 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, 2006

In 2006 there was an option plan for the management and supervisory persons in the parent company. The option plan is described in the table below:

(in thousand zlotys)

Option plan beneficiaries	Management and supervisory persons
Grant Date	18.03.2005
Vesting Date	30.09.2005/ 31.12.2005 and 30.09.2006/ 31.12.2006
Expiry date	01.09.2007
No of shares in the program	325 416
No of options granted	325 416
Exercise price/share	2 PLN
Type of settlement	Share emission
Conditions of exercise	- None. The loss of right to options in case of resignation or dismissal before September 30, 2006 and December 31, 2006.

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

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. The fair value of these options has been calculated based on the Black-Scholes-Merton model. The fair value of one option was calculated at 8.63 zlotys.

The table below presents the change of number of options granted in the period of the 12 months period ended December 31, 2006.

(in thousand zlotys)

	Number of options	**Average exercise price**
Number of options as at January 1, 2006	**133 498**	-
Options granted	**134 511**	-
Loss of right to options	**12 515**	
Options exercised	**255 494**	**2 PLN**
Number of options as at December 31, 2006	**0**	-

In order to meet the Company's obligations resulting from Management Option Program implemented in the Company in relation to (i) Ms. Anna Kwarcińska – Management Board Member and (ii) Mr. Grzegorz Skarżyński – ex Vice-president of the Management Board there was a private offer, which means without public offer and admission of the shares to the public trade, of 70,908 ordinary registered shares of the Company. The offer of the Company's shares was structured in the way that Ms. Anna Kwarcińska and Mr. Grzegorz Skarżyński purchased 34,454 ordinary registered shares class O each. The issue price of class O shares was 2PLN per share. Ms. Anna Kwarcińska and Mr. Grzegorz Skarżyński paid at the issue ¼ of the issue price of class O shares.

In order to meet the Company's obligations resulting from Management Option Program implemented in the Company in relation to Mr Zbigniew Prokopowicz – Supervisory Board Chairman there was a private offer, which means without public offer and admission of the shares to the public trade, of 37,560 ordinary registered shares of the Company. The offer of the Company's shares was structured in the way that Mr Zbigniew Prokopowicz purchased 37,560 ordinary registered shares class R each. The issue price of class R shares was 2PLN per share and was paid in full on issue.

In order to meet the Company's obligations resulting from Management Option Program implemented in the Company in relation to Ms. Anna Kwarcińska – Vice-president of the Management Board , Stephen Klein - President of the Management Board, Michał Kozłowski - Management Board Member and Mr Zbigniew Prokopowicz – Supervisory Board Chairman there was a private offer, which means without public offer and admission of the shares to the public trade, of 147,026 ordinary registered shares of the Company of class S. The offer of the Company's shares was structured in the way that Anna Kwarcińska purchased 12,515 shares , Stephen Klein purchased 70,000 shares, Michał Kozłowski purchased 34,511 shares and Zbigniew Prokopowicz purchased 30,000 ordinary registered shares class S . The issue price of class S shares was 2PLN per share and was paid in full on issue except for 12,515 shares which were paid at the issue ¼ of the issue price .

The option program for CEO - Mr. Stephen Klein

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.

(in thousand zlotys)

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 issue
Conditions of exercise	Conditions relating to the June30, 2006 tranche - none. The loss of right to options in case of resignation or dismissal before June 30, 2006. Conditions relating to the June30, 2007 and June 10, 2008 tranches - 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 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

Due to the fact that on July 1, 2006 Mr. Stephen Klein received the right to purchase 89,500 shares based on the share option program, the Management Board of the Company voted on August 18, 2006 the resolution to conditionally increase the share capital of the Company by the amount of 179,000 zlotys in order to issue subscription warrants on shares of P class. The mentioned conditional increase of share capital has been registered by the Registry Court. Till the date of this report Mr. Stephen Klein exercised his right to exchange the subscription warrants for Company's shares in relation to 49,500 shares class P. The P class share price amounted to 7.8 PLN ands was covered in full.

(in thousand zlotys)

The charge into the profit and loss account for the year 2006 resulting from the above mentioned option programs amounted to 1,551 thousand zlotys.

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

In the year 2006 there were no events relating to prior periods recognized in the current financial statements.

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

On January 10, 2007 which is after the balance sheet date the General Shareholders Meeting voted the resolution relating to issue of subscritption warrants of class 2 and conditional increase of share capital through shares issue of class T excluding drawing right of current shareholders in order to enable purchase the shares to the eligible persons included in the management option program.

The results of the voting of the above management option program will be incurred in the profit and loss account for the year 2007 and following years.

The descritpion of the program is presented in the table below:

Option plan beneficiaries	Ms Anna Kwarcińska, Mr Stephen Klein, Mr Michał Kozłowski, Mr Zbigniew Prokopowicz
Grant Date	10.01.2007
Vesting date	01.07.2008 01.07.2009 01.07.2010
Expiry date	30.09.2010
No of shares in the program	945 800
No of options granted	855 210
Exercise price/share	11.41PLN
Type of settlement	Share issue after subscription warrants issue
Conditions of exercise	The option program includes 12 tranches, Tranches 1,4,7, 10 – have vesting date from 01.07.2008 Tranches 2, 5, 8, 11 – have vesting date from 01.07.2009 Tranches 3, 6 ,9, 12 – have vesting date from 01.07.2010 Purchase of subscription warrants depends on fulfillment of the following necessary conditions: Conditions to vest tranches 1,2,3 and conditions to vest tranches 10,11,12 in

(in thousand zlotys)

	respective years. After fulfillment of the above mentioned conditions it is possible for tranches 4-9 to vest. The condition to vest of tranches 1,2,3 is to achieve the higher relation of the Companys share price for the preiod of 6 months preceding the year of vesting to the share price for the peiord of 6 months preceding the year of vesting the reights by two years to the relation of WIG index for the same periods. The conditions to vest of tranches 4,5,6 is to achieve the higher relation of the Companys share price for the preiod of 6 months preceding the year of vesting to the share price for the peiord of 6 months preceding the year of vesting the reights by two years to the relation of WIG index for the same periods multiplied by 1.07 The condition to vest of tranches 7,8,9 is to acheive EBITDA per share higher than 1.64 PLN in 2007 for tranche 7, 1.97 PLN in 2008 for tranche 8 and 2.36 PLN in 2009 for tranche 9. The condition to vest of tranches 10,11,12 is to acheive EPS not lower than 0.78 PLN in 2007 for tranche 10, 0.92 PLN in 2008 for tranche 11 oand 1.08 PLN in 2009 for tranche 12. In case the vesting conditions are not met in 2007 and/or in 2008 teh option program assumes the possobility of vesting these options in after meeting additional criteria in subsequent years. The detailed rules of the option program were published in the current report no. 3/2007

61. Business combinations

Till December 31, 2006 there were no business combinations within the Capital Group structure.

62. 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 audited reports claiming the emission in 2005 erupted by PEP installations the amount of CO2 emissions in 2005 were 89,221 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 8,730 tons will be realized by the Group customers.

As of the date of the financial statements from the preliminary reports relating to the emissions of CO2 in 2006 results that the Group posseses proper amount of CO2 emission rights for the purpose of settlement of the actual emission in 2006.

In 2006 teh Group sold CO2 emission rights for 77 500 tons and relized revenue in the amount of 3,947 thousand zlotys.

In 2007 the Group does not plan emissions of CO2 at the level higher than the allocation of the emission rights.

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 2006 of Polish Energy Partners Capital Group (the "Group") for which Polish Energy Partners S.A. is the holding company, with its registered office located in Warsaw, at ul. Wiertnicza 169, containing:

   - the consolidated balance sheet as at 31 December 2006 with total assets amounting to 426,198 thousand zlotys,
   - the consolidated profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 519 thousand zlotys,
   - the consolidated statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net decrease in shareholders' equity amounting to 4,879 thousand zlotys,
   - the consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash outflow amounting to 17,847 thousand zlotys and
   - the additional notes and explanations. ("the attached consolidated financial statements")

2. The truth and fairness[1] 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 fairly[2] the financial position and financial results of the Group.

3. We conducted our audit of the attached consolidated financial statements, except for the matter described in section 4 below, 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.

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[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. As it is presented in the Note 43 of to the additional notes and explanations to the attached consolidated financial statements during 2006 the financial situation of one of the Group's major customers deteriorated. When assessing the risk of further cooperation with that client, the Parent Company's Management Board made impairment write-downs against fixed assets directly engaged in the production of energy for that client and against receivables from that client, and created a provision for the potential costs of discontinuation of production for that client. Total amount of the provision and impairment write-downs against the above assets resulted in the decrease of the net result in the year 2006 by 13,102 thousand zlotys. As at December 31, 2006 the remaining net book value of tangible fixed assets in the amount of 970 thousand zlotys reflects in the Parent Company Management's opinion the expected market value of these assets expressed in the net selling prices less selling costs. The provision for the potential costs of discontinuation of production in the amount of 1,062 thousand zlotys is to the best knowledge of the Parent Company Management's an estimate of potential losses related to this issue. As at the date of this report we were not able to verify the appropriateness of these estimates.

5. In our opinion, except for the potential consequence of the matter described in section 4 above, 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 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006;
   - 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 2006 to 31 December 2006 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).

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, 26 February 2007

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

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

Warsaw, February 26, 2007

CEO letter to the Shareholders

Dear Shareholders,

The year 2006 was the 8th year of Company's operation. In this year the Company and its Capital Group continued the actions started in 2005. 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

The most significant events in 2006 related to the operational activity of the Capital Group include:

- Creation of revaluation provision for the assets engaged in this project (receivables and fixed assets) and to create necessary provisions for the costs of termination of the project which adversely impacted profit and loss account with the amount of PLN 13.1m. Had the impact of this provision been omitted, the profit of the Group for 2006 would have been at the level of PLN 13.6m which significantly exceeds the profit forecast for 2006 of PLN 12m
- Increase in renewable energy ("green energy") production in 2006 by 13% in relation to 2005 which in conjunction with price increase for green electricity significantly contributed to the increase in net profit for the Group
- Realization of PLN 3.9m of revenues from selling CO_2 certificates
- Completion of Puck Wind Farm construction with total capacity of 22MW. The Wind Farm started electricity generation in December 2006. Early January 2007 the Wind Farm obtained permission/concession from URE for electricity generation. The effects of the project will be reflected in the profit and loss account for 2007 and subsequent years.

- Completion of Jupiter project which is steam turbine construction at Saturn heat and power plant. The construction was on time and budget. The effects of the project will be reflected in the profit and loss account for 2007 and subsequent years.
- Completion of construction of Mercury power plant which is fired with coke gas. Moreover in the first days of January 2007 the new 15 year agreement with Coke Plant "Wałbrzych" S.A. for coke gas deliveries and electricity offtake was concluded which is the final step of the project completion.
- In 2006 the modernization program in Jeziorna heat and power plat was completed. There is an expectation for operational results improvement in 2007 relating to the performance in 2006 which in turn was significantly improved over 2005.

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 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 300MW and will invest in these projects. These projects shall be completed by the end of 2009 based on precedent price conditions.
Moreover, two wind farm projects with total capacity of 70 MW are in the advanced development stage. The commencement of construction is planned for 2007 and operations for 2008/2009. The development of next 20MW wind farm project will have been completed by the end of 2007. The commencement of construction is planned for 2008 and operations for 2009. For the years 2008 and 2009 the Company predicts to complete development of wind farms with total capacity of 74MW and 118 MW respectively.

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 new business line which is production of biomass fuels for the energy sector. In 2006 the Group prepared business plan, which will be implemented in the course of 2007. The first effects of the business plan for the profit and loss account should be visible in 2008 and subsequent years.

As a consequence of the plans presented above the Net profit delivered in 2007 should be at the level of PLN17.2m.

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, 2006

Warsaw, February 26, 2007

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 5th year of Group's operation and 9th year of Parent Company'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 2005. 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 3 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 2006 presents the consolidated balance sheet as at 31 December 2006 with total assets amounting to 426,198 thousand zlotys. For the year 2006 the Group reported net profit in the amount of 519 thousand zlotys, sales revenue in the amount of 62,715 thousand zlotys and operating profit in the amount of 294 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 1,551 thousand zlotys.
- In course of first half of the 2006 the financial condition of one of the Group's customers, Wizów chemical plant S.A. („Wizów") deteriorated significantly. As a result the bad debt of Wizów significantly increased and the actions which were taken to improve the situation did not succeed. Moreover, in the mid of June 2006 Wizów stopped production. On August 4, 2006 the Group filed with the Regional Court the claim for bankruptcy of Wizów.

  As a result of the above facts the Management of the Group took the decision to create revaluation provision for the assets engaged in this project (receivables and fixed assets) and to create necessary provisions for the costs of termination of the project.

  The profit and loss account as a result of the revaluation provision for the assets engaged in the project and created provisions for other costs related to termination of the project was charged in the following way:

Type of revaluation or provision	Amount	Valuation	Recognition in profit and loss account
Impairment write down of fixed assets	(10,959.4)	Valuation of fixed assets in the net sales price	Other operating cost
Recognition of revenue due from grant received	980.4	Accelerated settlement to the	Other operating revenues

to finance the above fixed assets		revenues of grant for the turbogenerator	
Provision for doubtful debt	(4,926.6)	Full provision for the gross amount of the receivables due	Other operating cost
Other provisions	(1,062.0)	Estimate based on the best knowledge of the Company includes other cost of termination of the project	Other operating cost
Deferred tax on the created revaluations and provisions	2,865.2	Deferred tax asset for temporary differences relating to the above figures	Tax
TOTAL	**(13,102.4)**		

In third quarter due to the fact that Interpep Spółka z ograniczoną odpowiedzialnością, EC Wizów Spółka Komandytowa with seat in Warsaw („IP") concluded with Rolmex Spółka Akcyjna („Rolmex") and Wizów three party agreement relating to temporary heat supplies by IP to Wizów through Rolmex, heat sales to Wizów have been temporarily reestablished. Moreover the claim for bankruptcy of Wizów has been withdrawn.
Moreover based on this agreement Wizów repaid part of its liabilities due to the Company in the amount of 200 thousand zlotys.

The above mentioned agreement has been concluded for specified period till December 31, 2006. Based on this agreement Rolmex has offtaken heat generated by IP. The heat deliveries were conducted based on prepayments from Rolmex. It should be mentioned that the value of heat sales did not exceed the value of prepayments received. The agreement has been prolonged till January 31, 2007 and in this date terminated.

Early February based on the decision of the Regional Court in Jelenia Góra Wizów has been put into liquidation bankruptcy proceeding.

As of the date of the financial statements heat is being delivered to Wizów in the amounts sufficient for space heating and machinery maintenance. As of the date of this report there is no condition precedent which indicates the chance to restore production in the near future.

Had the impact of Wizów project been excluded from the Group results, which is the contribution of the project and the above provision, the profit and loss account of the Group for the 12 months ended December 31, 2006 and the comparable data would have been as presented in the table below:

CONSOLIDATED PROFIT AND LOSS STATEMENT	31.12.2006	31.12.2005
CONTINUED ACTIVITY		
I. Sales income	56 147	54 364
II. Cost of goods sold	(27 224)	(30 082)
III. Gross profit on sales (I-II)	**28 923**	**24 282**
IV. Selling expense	-	-
V. General and administration costs	(14 051)	(13 152)
including managment option program valuation	(1 551)	(1 032)
VI. Profit on sales (III-IV-V)	**14 872**	**11 130**
VII. Other operating income	401	1 033
VIII. Other operating expense	(1 070)	(1 082)
IX. Operating profit (VI+VII-VIII)	**14 202**	**11 082**
X. Financial income	13 555	11 947
lease interest	2 066	2 100
XI. Financial expense	(11 057)	(11 983)
XII. Profit/Loss from subordinate units	(661)	6
XIII. Gross profit/loss (IX+X-XI+/-XII)	**16 039**	**11 051**
XIV. Corporate income tax	3 836	2 904
XV. Net profit/loss from continued activity	**12 203**	**8 147**
DISCONTINUED ACTIVITY		
XVI. Profit/Loss from discontinued activity	-	-
XVII. Net profit/loss	12 203	8 147
Distribution of profit/loss:	**12 203**	**8 147**
Parent company shareholders	12 203	8 147
Minority shareholders	-	-

Unrealized foreign exchange differences from balance sheet valuation of assets and liabilities denominated in foreign currency have also significant impact on the Group's results. As of December 31, 2006 the Group had a long foreign currency position in EURO. Due to depreciation of Polish zloty as of December 31, 2006 in relation to December 31, 2005 the Group realized financial income in the year 2006 1,199 thousand zloty as a result of unrealized foreign exchange differences.

As of December 31, 2006 the Group has passive (short) currency position in EURO amounting to approximately 140 thousand EUR. In 2007 due to planned investment debt drawing in EURO in the amount of 11 million EURO the currency position will be short and will amount to approximately 11.1 million EURO.
In 2007 the changes in foreign exchange rate of zloty to EURO may have significant impact on the unrealized foreign exchange differences. The result on unrealized foreign exchange differences in 2007 will mainly depend on relation of the exchange rate at December 31, 2007 to the rate at December 31, 2006 and respectively appreciation/depreciation of zloty against EURO will have positive/negative impact on net profit in the amount of approximately 89 thousand zlotys for 1 grosz of difference to exchange rate at December 31, 2006 (3.8312 PLN/EURO).
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, 2006 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	236.412	thousand zlotys
Other short term receivables	17.989	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, 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 300MW till 2010.

The Group plans also to supply biomass which is a substitute of fossil fuels to power plants in Poland. In 2007 the first actions are to be taken in order to meet this goal.

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

	2006	**2005**
Total assets	426 198	379 525
Shareholders' funds	106 742	111 621
Net profit/loss	519	9 341
Return on assets	0,1%	2,5%
$\frac{\text{Net profit}}{\text{Total assets}}$		
Return on equity	0,46%%	9,1%
$\frac{\text{Net profit}}{\text{Shareholders' funds}}$		
Net sales profitability	0,82%	15,3%
$\frac{\text{Net profit/ (loss)}}{\text{Sales revenue}}$		
Liquidity I	1,79	2,88
$\frac{\text{Current assets}}{\text{Short-term liabilities}}$		
Liquidity III	0,58	1,41
$\frac{\text{Trade securities + cash}}{\text{Short-term liabilities}}$		

	2006	2005
Stability of financing	89,8%	92,2%
$\frac{\text{Shareholders' funds + provisions + long-term liabilities}}{\text{Total liabilities and equity}}$		
Debt ratio (%)	75,0%	70,5%
$\frac{\text{(Total liabilities and equity – shareholders' funds) x 100}}{\text{Total assets}}$		

Return ratios at all levels indicate decrease in efficiency of the Group in 2006 in relation to 2005. The decrease is mainly due to the provisions created for project Wizów. Had the provision been excluded the efficiency ratios would have indicate improvement in efficiency of the Group operations in 2006.

The liquidity ratio I indicates decrease in 2006 in relation to 2005. 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 decrease in 2006 in relation to 2005. Taking into account the fact the part of the short term liabilities relate to investment liabilities which have secured financing from long term investment debt one can conclude that the level of the ratio is at satisfactory level.

The stability of financing was not subject to significant changes in 2006. 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.

It can not be excluded that 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)		31.12.2006
revenues from sales of energy		1 589
electricity delivered	[MWh]	16 407
revenues from sales of heat		22 932
heat delivered	[GJ]	624 494
revenues from consulting projects		799
revenues from sales of over standard quality and guarantee of deliveries		467
revenues from leasing and operating of the leased assets		32 835
sale of goods		138
Revenues from re-invoicing and cost reimbursement		9
Revenues for CO2 emission rights sale		3 947
Amount of emission rights sold	[t CO2]	77 500
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 2006 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	2006
Mondi Packaging Paper Świecie S.A.	Lease and CHP maintenance service	No capital relations	52%
Zakłady Chemiczne Wizów S.A.	Deliveries of heat and electricity	No capital relations	10%
Polar S.A.	Deliveries of heat and electricity	No capital relations	12%
Metsa Tissue S.A.	Deliveries of heat and electricity	No capital relations	8%

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 Capital Group PGNiG S.A. Capital Group 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 Capital Group PGNiG S.A.

Name of supplier	Region	Product purchased	Relation with Capital Group	2006

PGNiG S.A.	Śląski region	Gas	No capital relations	24%
TransLis S.A.	Mazowiecki region	Coal	No capital relations	11%

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 3, 17 and 25 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 53 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, 29, 34 and 53 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 53 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 2006 financial year there were small share issues related to the share option program. Proceeds from share issue amounted to 610 thousand zlotys and were used to cover current costs.

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	Adjusted Forecast	Result	Comments
Sales revenue	59.3 mln PLN	62.7 mln PLN	Difference is due to the following factors: in the second half of the year 2006 the Group delivered heat to Wizów chemical plant even though no deliveries were assumed and higher than estimated revenues from CO2 emission rights sale and higher revenues from sale of "green" certificates
Sales revenue (including net interest on leased assets)	61.3 mln PLN	64.7 mln PLN	Difference is due to the following factors: in the second half of the year 2006 the Group delivered heat to Wizów chemical plant even though no deliveries were assumed and higher than estimated revenues from CO2 emission rights sale and higher revenues from sale of "green" certificates
EBITDA (including net interest on leased assets)	1.9 mln PLN	3.3 mln PLN	Difference is due to the following factors: in the second half of the year 2006 the Group delivered heat to Wizów chemical plant even though no deliveries were assumed and higher than estimated revenues from CO2 emission rights sale and higher revenues from sale of "green" certificates
EBITDA	3.9 mln PLN	5.4 mln PLN	Difference is due to the following factors: in the second half of the year 2006 the Group delivered heat to Wizów chemical plant even though no deliveries were assumed and higher than estimated revenues from CO2 emission rights sale and higher revenues from sale of "green" certificates
Net Profit	(1.6) mln PLN	0.5 mln PLN	Difference is due to the following factors: in the second half of the year 2006 the Group delivered heat to Wizów chemical plant even though no deliveries were assumed and higher than estimated revenues from CO2 emission rights sale and higher revenues from sale of "green" certificates

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 2006 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.
PEP strives to finance its specific project on 80% basis of bank loan, and 20% to be financed with own equity. The construction of next wind farm with total capacity of 282MW will require

on average EUR 338 – 395 m to finance capital expenditure. The Group must arrange sufficient funds to finance the equity part. The strategy for equity finance has been worked out based on the analysis of the market situation and investors' expectations. The strategy assumes sale of majority stakes in the developed wind farms which allows for increase in shareholder value by:

- reinvestment of profits on wind farm stake sale,
- cancellation of equity needs through share issuer,
- participation in wind farm stake sale.

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;

The description by projects which are part of PEP Group is presented below.

Projects

EC Saturn

In 2006 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"). Moreover the production of green electricity is in 2006 by 13% higher than in the comparable period of 2005.

EC Zakrzów

The project is operating in accordance with the budget.

EC Wizów

In course of first half of the 2006 the financial condition of one of the Group's customers, Wizów chemical plant S.A. („Wizów") deteriorated significantly. As a result the bad debt of Wizów significantly increased and the actions which were taken to improve the situation did not succeed. Moreover, in the mid of June 2006 Wizów stopped production. On August 4, 2006 the Group filed with the Regional Court the claim for bankruptcy of Wizów.

As a result of the above facts the Management of the Group took the decision to create revaluation provision for the assets engaged in this project (receivables and fixed assets) and to create necessary provisions for the costs of termination of the project.

In third quarter due to the fact that Interpep Spółka z ograniczoną odpowiedzialnością, EC Wizów Spółka Komandytowa with seat in Warsaw („IP") concluded with Rolmex Spółka Akcyjna („Rolmex") and Wizów three party agreement relating to temporary heat supplies by IP to Wizów through Rolmex, heat sales to Wizów have been temporarily reestablished. Moreover the claim for bankruptcy of Wizów has been withdrawn.

The above mentioned agreement has been concluded for specified period till December 31, 2006. Based on this agreement Rolmex has offtaken heat generated by IP. The heat deliveries were conducted based on prepayments from Rolmex. It should be mentioned that the value of heat sales did not exceed the value of prepayments received.

Moreover, based on this agreement Wizów repaid part of its liabilities due to the Company in the amount of 200 thousand zlotys. Till December 15, 2006 the repayment schedule and method of repayment of Wizów debt to the Company should have been agreed. The agreement has been prolonged till January 31, 2007 and then terminated.

Early February based on the decision of the Regional Court in Jelenia Góra Wizów has been put into liquidation bankruptcy proceeding.

As of the date of the financial statements heat is being delivered to Wizów in the amounts sufficient for space heating and machinery maintenance. As of the date of this report there are no condition precedents which indicate the chance to restore production in the near future.

EC Jeziorna

Jeziorna modernization program has been carried out as a result of the contractual guarantee of PEP to supply energy at closely defined technological parameters to its customer Metsa Tissue S.A. The program was designed to:

- improve the efficiency of heat and electricity production,
- improve reliability of supplies,
- improve safety of operations,
- improve the economics of production,

In relation to this modernization program the following targets have been achieved:

- achieved boilers' efficiency, savings in coal consumption, back-up source of heat has been created,
- savings in purchasing electricity for own needs and sourcing of raw water production,
- increased level of control over heat and electricity production by balancing the production process using additional measures,
- decreased heat transmission losses,
- increased availability and reliability of energy assets (in particular in winter season)

The key investments relating to the improvement of availability and reliability of energy assets (boilers, turbogenerator, water treatment station, steering, and measurement systems) were completed till December 31, 2006.

In 2007 there is an expectation for significant operational performance against 2006 results.

Mercury

Mercury project has been started in the beginning of 2004. On January 14, 2004 Comax – the later business partner of PEP – concluded with Coke Plant "Wałbrzych" S.A. the so called agreement no. 2/BMO/2003. The agreement assumed that in the proximity of Coke Plant seat an energy power plant of 8MW installed capacity will be constructed. The power plant was assumed to produce electricity using the coke gas which is by-product of the technological process of the Coke Plant.
In order to complete the above mentioned agreement the company Mercury Energia Spółka Komandytowa was set up. Comax was the unlimited partner and PEP was the limited partner.

In order to secure financing for the project completion Mercury Energia concluded loan agreement with BRE Bank S.A. PEP issued repayment guarantee of the Mercury Energia loan.

The construction of the power plant was contracted to General Contractor Tawi. Due to the fact that in June 2005 there was unexpected change in Management Board of Coke Plant the cooperation between Coke Plant and Mercury Energia deteriorated. This and the deteriorating financial standing of General Contractor resulted in significant delays of power plant construction. It was essential that PEP took over the construction work which in consequence resulted in completion of construction works in August 2006. On August 1, 2006 Mercury

Energia obtained permission for operations of the power plant. Since then the power plant is working (consumes gas and produces electricity) and Mercury Energia purchases coke gas from Coke Plant and sells electricity to local electricity distributor based on temporary conditions.

Moreover the technological changes which were applied by the Coke Plant in its production process caused the agreement 2/BMO/2003 to be renegotiated assuming that the changes applied will not lower the profitability of Mercury Energia. From the start of negotiations the Management Board of Coke Plant was replaced twice which adversely impacts the agreement conclusion.

On 18th January 2007, Mercury Energia Spółka z ograniczoną odpowiedzialności i Wspólnicy, Spółka Komandytowa (hereinafter referred as the "ME") - a subsidiary company of Polish Energy Partners Spółka Akcyjna, hereby informs that the ME concluded an agreement for the supply of coke-oven gas and electricity with Zakłady Koksownicze "Wałbrzych" Spółka Akcyjna (hereinafter referred to as "ZKW"). Under the agreement, ME is obliged to collect the coke-oven gas supplied by ME in quantities as set out in the agreement, pay for the supplied coke-oven gas and to supply electricity to ZKW. Under the agreement, ZKW is obliged to supply the coke-oven gas to ME in quantities as set out in the agreement, purchase electricity from ME with precedence over other suppliers and to pay for the supplied coke-oven gas. The term of the agreement shall be by 31st December 2021. The agreement may be terminated only upon a gross breach of its provisions.

Projects in construction

Jupiter

The goal of the project which started in 2005 by the subsidiary Saturn Management Sp. z o.o. i Wspólnicy, Spółka Komandytowa is to construct new turbine which will allow for optimization of the CHP operations (lower energy production cost) and will increase the renewable electricity production (revenue from green electricity). PEP revenue will be due from engaged capital and additional green electricity production.
On January 12, 2007 Polish Energy Partners's subsidiary Saturn Management Spółka z ograniczoną odpowiedzialności i Wspólnicy, Spółka Komandytowa (hereinafter referred as to "SM") signed with Alsotm Power Spółka z ograniczoną odpowiedzialnością a protocol of conditional acceptance of a steam turbogenerator (the so-called Jupiter project), meaning that SM began operating the turbogenerator.
The completion of the project is on time and budget.

Wind Farm Puck

In 2006 PEP's subsidiary Dipol Sp. z o.o. completed the construction works for 11 wind turbines with total capacity of 22MW. The completion of the project is on time and budget.

Starting from January 10, 2007 PEP's subsidiary Dipol has the necessary concession for electricity generation in the wind farm, which is the final step of the investment process. The wind farm started electricity generation in December 2006. As a result of the above mentioned concession Dipol will be allowed to receive certificates of origin for the electricity produced from renewable source ("green certificate"). The buyer of the green certificates is Polenergia S.A. with its seat in Warsaw ("Polenergia") based on the agreement concluded on October 20, 2005. Main provisions of this agreement disclosed in the current report dated October 20, 2005 are presented below.

1. Subject of 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 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.

2. Material terms of the Contract

The price of Rights disposed of by Dipol company shall be determined pursuant to a formula specified in the Contract. It will be based on the base amount specified in the Contract, as well as Dipol's selling price of conventional energy and documented variable cost of balancing 1 MWh incurred by Dipol. Moreover, the price may be subject, upon Dipol's request, to indexation as of 1 January 2008. The entire (i.e. effective over the whole period) estimated value of the Contract amounts to app. PLN 140 million.

3. Agreed penalties specified in the Contract

In the case of termination of the contract for which Polenergia is responsible, Polenergia shall pay Dipol agreed penalty in amount equivalent to the product of the planned number of Rights to be disposed of by the end of the Contract period and average price for the Rights paid by Polenergia over 6 months prior to Contract termination.
Should Dipol, starting from 2006, sell (without authorization specified in the Contract) the Rights to Polenergia in number lower than 65% of the planned sale for a given year specified in the Contract, Dipol shall pay agreed penalties to Polenergia.

The amount of agreed penalty to be paid by Dipol shall be based on the number of Rights below 65% of the planned sale for a given year and not disposed of by Dipol and, depending on situation, on a substitute fee specified in the Energy Law, or penalty paid by Polenergia.
As the bases for agreed penalty are variable, it is not possible to determine the maximum amount of agreed penalty.

The Contract does not provide for a possibility to claim damages exceeding the amount of agreed penalty.

New Projects

On March 13, 2006 the Company concluded with EPA Sp. z o.o. an annex ("Annex") to an agreement of 15th March 2004 for economic cooperation with regard to development of wind farm projects ("Agreement"). Under the Agreement, the Company and EPA jointly develop projects of wind farms and share the costs of development. The Agreement shall remain in effect by December 31, 2010 (originally, the Agreement was to be effective for three years after the date of the conclusion of the Agreement.) Under the Agreement, the Company has the pre-emptive right of purchase to all projects developed with regard to the Agreement. Moreover, pursuant to the Annex, the price of the next projects for the total nominal capacity of 150MW to be purchased by the Company has been set.

Moreover, two wind farm projects with total capacity of 70 MW are in the advanced development stage. The commencement of construction is planned for 2007 and operations for 2008. By the end of 2007 completion of development of a 20MW project is expected, in 2008 the construction will be started and in 2009 operations.
For the years 2008 and 2009 the Company predicts to complete development of wind farms with total capacity of 74MW and 118 MW respectively.

Other events:

In 2006 the Group sold CO2 emission rights and received revenues in the amount of 3,947 thousand zlotys.

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 2007.

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.

Under the Regulation dated December 19 2005, of the Minister of Economic Affairs, regarding the particular obligation to obtaining and redemption of certificates of origin, payment of substitution fee and purchase of heat and electricity produced in renewable sources 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) 5.1% in 2007;

4) 7.0% in 2008;

5) 8.7% in 2009;

6) 10.4% in 2010,

7) 10.4% in 2011,

8) 10.4% in 2012,

9) 10.4% in 2012

10) 10.4% in 2013

11) 10.4% in 2014.

The volume of currently generated "green" electricity is insufficient – according to ARE's data, in 2004, mere 3,146 GWh of renewable energy was produced. 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 substitution fee at the rate of 240 PLN in 2006 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 350/MWh and is expected to grow further.

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 2006, installed capacity of wind electricity generating units totaled 153 MW, and the production was below 196.3 GWh according to the data of Polish Wind Energy Association. 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 1,800 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;

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 300MW in wind farm projects in cooperation with EPA Sp. z o.o. by the end of 2010.
- The Group plans to supply biomass which is a substitute for fossil fuels to Polish power plants. In 2007 these actions will be continued 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 2006 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 2006 were presented in the Note 1.3 to the financial statement.

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, 2007 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

After the increase of the share capital by the Management of the Company within the limit of target capital by 294,052 PLN through issue of 147,026 ordinary shares of class S, which has not been registered yet, the Management is entitled to increase the share capital of the Company within the limit of the target capital by 537,000 PLN.

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 o 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 Kwarcińska 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 in case Ms Anna Kwarcińska terminates the agreement, and 9 months in case the agreement is terminated by the Company.

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 252 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 56 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 58 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	Options exercised till 31.12.2006	Exercise price
Zbigniew Prokopowicz	137 482	137 482	2PLN
Stephen Klein	358 000	49 500	7,8 PLN
Stephen Klein	70 000	70 000	2PLN
Anna Kwarcińska	47 969	47 969	2PLN
Michał Kozłowski	34 511	34 511	2PLN
Grzegorz Skarżyński	35 454	35 454	2PLN

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 Kwarcińska	78 362 shares of Polish Energy Partners S.A. with total nominal value of 156 724 PLN
Zbigniew Prokopowicz	37 560 shares of Polish Energy Partners S.A. with total nominal value 75 120 PLN

In relation to the option program the Company issued 147,026 ordinary shares of class S. The shares were bough tin the following way:

1. Zbigniew Prokopowicz bought 30,000 shares;
2. Stephen Klein bought 70,000 shares;

3. Michał Kozłowski bought 34,511 shares;
4. Anna Kwarcińska bought 12,515 shares.

Till the date of this report the share issue of class S has not been registered yet.

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 25 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 Issuer is not disclosed any agreements which may result in future changes in the proportion of shares owned by current shareholders.

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 2006 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 O 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.

The Company submitted request for listing of ordinary to the bearer shares of class R to the Warsaw Stock Exchange.

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 15, 2006 between Polish Energy Partners S.A. and Ernst & Young Audit Sp. z o.o. with seat in, Rondo ONZ 1, 00-124 Warsaw for

- review of financial statements for the period of 6 months ended June 30, 2006
- review of consolidated financial statements for the period of 6 months ended June 30, 2006
- audit of Company's financial statements for the year ended December 31, 2006
- audit of consolidated financial statements for the year ended December 31, 2006
- audit of subsidiary Saturn Management Sp. z o.o. i Wspólnicy Sp. k. for the year ended December 31, 2006
- audit of subsidiary Energopep Sp. z o.o., EC Jeziorna, Sp. k. for the year ended December 31, 2006
- audit of subsidiary Dipol Sp. z o.o. for the year ended December 31, 2006

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 2005 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 2006 collected fees totaling 92 thousand zlotys.
For services other than mentioned above the company Ernst & Young Audit Sp. z o.o. in 2005 collected fees totaling 15 000 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 29, 34 and 49 to the financial statements.

Stephen Klein - President of the Management Board

Anna Kwarcińska – Vice-president of the Management Board

Michał Kozłowski – Member of the Management Board

POLISH ENERGY PARTNERS

CAPITAL GROUP

LONG FORM AUDITOR'S REPORT
SUPPLEMENTING THE OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

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.

(in thousands PLN)

As at December 31, 2006, the Company's issued share capital amounted to PLN 36,979 thousand. Equity of the Group at this day amounted to PLN 106,742 thousand.

Based on the information submitted in accordance with art 69 Act on the public offer and conditions for introduction of financial instruments to the organized trading system and public companies dated July 25, 2005 (Journal of Laws nr 184 from 2005 pos. 1539, with amendments) the capital structure of the parent company as of December 31, 2006 was as follows:

	Number of shares	Number of votes	Par value of shares	% of equity
Pioneer Pekao Investment Management	1 030 034	1 030 034	2.00	5,62%
PZU Asset Management	1 200 000	1 200 000	2.00	6,54%
SICAV IXIS AM EMERGING EUROPE	1 034 920	1 034 920	2.00	5,64%
Generali OFE	2 062 464	2 062 464	2.00	11,24%
Millennium Funds*	933 186	933 186	2.00	5,09%
Other shareholders (free float)	12 082 037	12 082 037	2.00	65,87%
	18 342 641	18 342 641		100.0%

** Funds managed by Millennium TFI, i.e. Millennium FIO Akcji, Millennium FIO Zrównoważony oraz Millennium FIO Stabilnego Wzrostu

Based on the minutes from the Management Board meetings dated December 12, 2006 and based on the provisions of the National Court Register dated January 11, 2007 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	18,184,673	35,865
Increase – resolution dated February 3, 2006- issue class O	70,908	142
Increase – resolution dated August 18, 2006- issue class P	49,500	99
Increase – resolution dated October 13, 2006- issue class R	37,560	75
Increase – resolution dated December 12, 2006- issue class S	147,026	294
Closing Balance	18,489,667	36,979

Till the date of this report the last capital increase was not registered with the National Court Register.

Members of the Company's Management Board as at February 26, 2007 were as follows:

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

During the financial year and after the balance sheet date there were no changes in the Management Board of the parent company.

(in thousands PLN)

2. Entities included in the Capital Group

As at December 31, 2006, apart from the Parent Company, the following subsidiaries (direct and indirect) were included in the Polish Energy Partners Capital Group:

Entity name	Consolidation method	Type of opinion	Name of authorized entity that audited financial statements	Balance sheet date
Saturn Management Sp. z o.o. i Wspólnicy Sp. Komandytowa	full	unqualified	Ernst & Young Audit Sp. z o.o.	December 31, 2006
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, 2006
Dipol Sp. Z o.o.	full	unqualified	Ernst & Young Audit Sp. z o.o.	December 31, 2006
Interpep Sp. z o.o., EC Wizów, Sp. komandytowa	full	Not applicable	Not applicable	December 31, 2006
Interpep Sp. z o.o. EC Zakrzów, Sp. Komandytowa	full	Not applicable	Not applicable	December 31, 2006
Mercury Energia Sp. Z o.o. i Wspólnicy sp. Kom.	full	Not applicable	Not applicable	December 31, 2006
Saturn Management Sp. z o.o.	Excluded from consolidation	Not applicable	Not applicable	December 31, 2006
Energopep Sp. z o.o.	Excluded from consolidation	Not applicable	Not applicable	December 31, 2006
Interpep Sp. z o.o.	Excluded from consolidation	Not applicable	Not applicable	December 31, 2006
Interpep EC Zakrzów Sp. Z o.o.	Excluded from	Not applicable	Not applicable	December 31, 2006

(in thousands PLN)

	consolidation			
Mercury Energia Sp. Z o.o.	Excluded from consolidation	Not applicable	Not applicable	December 31, 2006
Notos Sp.z o.o.	Excluded from consolidation	Not applicable	Not applicable	December 31, 2006
Beta Sp. Z o.o.	Excluded from consolidation	Not applicable	Not applicable	December 31, 2006
E.W.G. Sp. Z o.o.	Excluded from consolidation	Not applicable	Not applicable	December 31, 2006

The type and impact resulting from changes in relation to prior year in the scope of the entities included in is presented in Note 3 of the additional notes and explanations to the consolidated financial statements for the year ended December 31, 2006.

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 April 26, 2006.

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 June 15, 2006 we audited the consolidated financial statements for the 12 months period ended December 31, 2006.

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 February 26, 2007 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 Capital Group (the "Group") for which Polish Energy Partners S.A. is the holding company, with its registered office located in Warsaw, at ul. Wiertnicza 169, containing:

- the consolidated balance sheet as at 31 December 2006 with total assets amounting to 426,198 thousand zlotys,
- the consolidated profit and loss account for the period from 1 January 2006 to 31 December 2006 with a net profit amounting to 519 thousand zlotys,

- the consolidated statement of changes in shareholders' equity for the period from 1 January 2006 to 31 December 2006 with a net decrease in shareholders' equity amounting to 4,879 thousand zlotys,
- the consolidated cash flow statement for the period from 1 January 2006 to 31 December 2006 with a net cash outflow amounting to 17,847 thousand zlotys and
- the additional notes and explanations. ("the attached consolidated financial statements")

2. The truth and fairness[1] 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 fairly[2] the financial position and financial results of the Group.

3. We conducted our audit of the attached consolidated financial statements, except for the matter described in section 4 below, 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. As it is presented in the Note 43 of to the additional notes and explanations to the attached consolidated financial statements during 2006 the financial situation of one of the Group's major customers deteriorated. When assessing the risk of further cooperation with that client, the Parent Company's Management Board made impairment write-downs against fixed assets directly engaged in the production of energy for that client and against receivables from that client, and created a provision for the potential costs of discontinuation of production for that client. Total amount of the provision and impairment write-downs against the above assets resulted in the decrease of the net result in the year 2006 by 13,102 thousand zlotys. As at December 31, 2006 the remaining net book value of tangible fixed assets in the amount of 970 thousand zlotys reflects in the Parent Company Management's opinion the expected market value of these assets expressed in the net selling prices less selling costs. The provision for the potential costs of discontinuation of production in the amount of 1,062 thousand zlotys is to the best knowledge of the Parent Company Management's an estimate of potential losses related to this issue. As at the date of this report we were not able to verify the appropriateness of these estimates.

[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"
[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"

5. In our opinion, except for the potential consequence of the matter described in section 4 above, 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 2006 to 31 December 2006, as well as its financial position[3] as at 31 December 2006;

   - 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 2006 to 31 December 2006 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). "

   The audit of the consolidated financial statements was performed in the period from January 19, 2007 to February 26, 2007 and in the parent Company from January 19, 2007 to February 26, 2007.

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

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 February 26, 2007 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 for the year ended December 31, 2005 were audited by Mr. Marcin Zieliński certified auditor (no 10402/7665) 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, 2005 the unqualified opinion.

The Group's consolidated financial statements for the year ended December 31, 2005, were approved by the Shareholders at the General Shareholders Meeting on April 27, 2006.

The Group's consolidated financial statements for the year ended December 31, 2005 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 May 19, 2006.

The introduction to the consolidated financial statements, the consolidated balance sheet for the year ended December 31, 2005, consolidated profit and loss account, consolidated changes in the equity, and consolidated cash flow for the year ended December 31, 2005 with the auditors' opinion, the excerpt from the resolution approving the consolidated financial statements, the excerpt from the resolution about profit distribution were published in Monitor Polski B no. 1485 on December 21, 2006.

(in thousands PLN)

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 2004-2006 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 and December 31, 2006.

The ratios for 2006 were calculated based on the consolidated financial statements for the year ended December 31, 2006 without including the effect of the qualification expressed in the auditor's opinion.

The ratios for 2005 were calculated based on the consolidated financial statements for the year ended December 31, 2006 including the fact the data for 2005 include the adjustment for fundamental error described in Note 6.3 of the additional notes and explanations to the consolidated financial statements for the year ended December 31, 2006.

	2006	**2005**	**2004**
Total assets	426,198	378,739	340,277
Shareholders' funds	106,742	111,621	101,124
Net profit/loss	519	9,341	6,653
Return on assets	0.1%	2.6%	1.9%
$\frac{\text{Net profit}}{\text{Total assets}}$			
Return on equity	0.5%	8.8%	6.8%
$\frac{\text{Net profit}}{\text{Shareholders' funds at the beginning of the period}}$			
Net sales profitability	0.8%	15.3%	13.3%
$\frac{\text{Net profit/ (loss)}}{\text{Sales revenue from sales of finished goods and goods for resale}}$			
Liquidity I	1.79	2.88	2.37
$\frac{\text{Current assets}}{\text{Short-term liabilities+ Short-term accruals + Short-term provisions}}$			

	2006	2005	2004
Liquidity III	0.58	1.41	1.50
Trade securities + cash / Short-term liabilities			
Receivable days	104 days	66 days	51 days
Trade receivables x 365 / Sales revenue			
Creditor days	71 days	35 days	42 days
Trade creditors x 365 / Costs of goods for resale and raw materials sold + cost of production of finished products sold			
Inventory days	22 days	20 days	27 days
Inventory x 365 / Cost of goods for resale and raw materials sold + cost of production of finished products sold			
Stability of financing	89.8%	92.9%	89.9%
Shareholders' funds + provisions + long-term liabilities / Total liabilities and equity			
Debt ratio (%)	75.0%	70.5%	70.3%
(Total liabilities and equity – shareholders' funds) x 100 / Total assets			
Rate of inflation:			
yearly average	1.0%	2.1%	3.5%
December to December	1.4%	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 2006:

In 2006 the efficiency ratios were lower in comparison to the previous years which were caused by the lower reported net profit for the current financial year in comparison to the net profit reported by the Group in 2004 and 2005.

The return on asset in 2006 was lower in comparison to 2005 by 2.5% from 2.6% to 0.1%, and the return on equity decreased by more than 8% from 8.8% to 0.5%. The net sales profitability decreased in 2006 in relation to 2005 by 14.5% from 15.3% to 0.8%.

The liquidity ratio I (current liquidity) decreased from the level of 2.88 as of December 31, 2005 to the level of 1.79 as of December 31, 2006 due to the increase of short term liabilities by 14 million zlotys and decrease of current assets by more than 7 million zlotys. In 2004 the liquidity ratio I amounted to 2.37. The liquidity ratio III (cash liquidity) also decreased from the level of 1.41 as of December 31, 2005 to the level of 0.58 as of December 31, 2006. In 2004 the liquidity ratio III amounted to 1.50.

The receivables turnover decreased in comparison to previous years and amounts to 104 days, while in 2005 it amounted to 66 days. In 2004 the ratio amounted to 51 days. The creditor days which amounted to 71 days in 2006 were higher by 36 days in comparison to the year 2005, while in 2004 it amounted to 27 days.

The inventory turnover was longer than in the previous year by 2 days and was at the level of 22 days due to decrease in cost of goods sold in 2006 in comparison to the year 2005 while the level of inventory was the same. In 2004 the ratio was at the level of 27 days.

The stability of financing ratio was lower by 2% from 02.2% in 2005 to 89.8% as of December 31, 2006 and the debt ratio increased by 4% and amounted to 75% as of December 31, 2006 while at the end of 2005 it amounted to 70.6%. As of December 31, 2004 the ratios amounted to 92.8% and 70.3% respectively. 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, 2006 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, 2006 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, 2006.
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, 2006 the total capital of that company was negative and amounted to PLN 6,257 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, 2006. In the audited financial year there were no changes to the applied accounting policies.

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, 2006.

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

It is included in the auditor's opinion the qualification related to the lack of possibility to verify of the appropriateness of the management estimates which were presented in the Note 43 to the consolidated financial statements. Parent Company's Management Board made impairment write-downs against fixed assets directly engaged in the production of energy for that client and against receivables from that client, and created a provision for the potential costs of discontinuation of production for that client. Total amount of the provision and impairment write-downs against the above assets resulted in the decrease of the net result in the year 2006 by 13,102 thousand zlotys. As at December 31, 2006 the remaining net book value of tangible fixed assets in the amount of 970 thousand zlotys reflects in the Parent Company Management's opinion the expected market value of these assets expressed in the net selling prices less selling costs. The provision for the potential costs of discontinuation of production in the amount of 1,062 thousand zlotys is to the best knowledge of the Parent Company Management's an estimate of potential losses related to this issue.

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 and 12 of the explanatory notes to the consolidated financial statements.

3.2. Shareholders' funds including minority interest

The amount of shareholders' funds including minority interest is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority interest amounted to 936 thousand zlotys. The minority interest is properly calculated and consistent with the consolidation documentation.

Information on shareholders' funds has been presented in Note 25 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, 2006 and comprised the financial data for the period from January 1, 2006 to December 31, 2006.

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, 2006.

7. REASONS FOR EXCLUSION FROM CONSOLIDATION AND APPLICATION OF EQUITY ACCOUNTING METOHOD IN THE INTERNATIONAL FINANCIAL REPORTING STANDARDS APPROVED BY EURPEAN 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 and of the asset value expert responsible for valuation of fixed assets of Mercury Energia Sp. Z o.o. i Wspólnicy Spółka komandytowa in accordance with the provisions of International Financial Reporting Standards.

Certified Auditor
No 10402/7665

on behalf of
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Ident. no. 130

Marcin Zieliński

Artur Żwak
Certified Auditor
No 9894/7366

Warsaw, 26 February 2007