Polish Energy Partners Capital Group

DIRECTORS' REPORT
ON THE ACTIVITIES OF POLISH ENERGY PARTNERS CAPITAL GROUP
FOR THE YEAR ENDED 31 DECEMBER 2009

Warsaw, 10 February 2010

The parent company of the Polish Energy Partners S.A. Capital Group is Polish Energy Partners S.A., hereinafter referred to as the "Issuer", which was entered in the Register of Entrepreneurs kept by the District Court for the capital city of Warsaw, XX Commercial Department of the National Court Register on 17 July 1997 under number KRS 26545.

1. Organisation of the issuer's capital group and identification of entities covered by consolidation and changes in the group's organisation, including reasons for the changes

Organisation of the issuer's capital group is presented in Note 3 to the consolidated financial statements.

2. Basic economic and financial data disclosed in the annual financial statements, including a description of factors and events (including unusual ones) having a significant effect on the issuer's operations and profits earned or losses incurred for the year. Outlook for the development of the issuer's operations within at least the next financial year.

The Issuer's key economic and financial data is presented in the table below:

Basic economic and financial data [PLN million]	2009	2008	Change	Change [%]
Revenue from sales	106.1	96.1	10.0	10.4
Adjusted EBITDA including interest on leased property and share in the profits of wind farms	71.8	55.1	16.7	30.3
Net profit	46.9	33.3	13.6	40.8
Net profit after elimination of the effect of exchange differences arising on balance sheet valuation	44.7	36.0	8.7	24.2

The following factors had an effect on the results for the year ended 31 December 2009 compared with the results for the year 2008:

<u>At the level of EBITDA</u>

- Higher revenue from distribution of benefits between the Group and Mondi compared with 2008
- Recognition of revenue from the Tytan project
- Higher green energy revenue due to higher prices of green certificates and higher amounts in Saturn CHP Plant
- Recognition of revenue from GPBE Północ
- Better operating results of the remaining facilities
- Lower revenue from sale of reduced CO_2 emission units ("Joint Implementation Mechanism") due to the lack of one-off recognition of revenue of PLN 3.2 million for the years 2006-2007, which took place in the first half of 2008 in the Mercury and the Puck Wind Farm projects
- Lower operating income compared with 2008 due to the lack of sale of the Wizów CHP Plant project and reversal of provisions (PLN 2.8 million)

<u>At the level of EBITDA including interest on leased property and share in the profits of wind farms:</u>

- sale of shares in wind farms was PLN 16.1 million higher than in 2008

2009

[PLN million]	Suwałki and Tychowo Wind Farms	Jarogniew /Mołtowo Wind Farm	Jarogniew/ Mołtowo Wind Farm		Total
Date of sale	**Q1**	**Q1**	**Q3**	**Q4**	**Q1,Q2,Q3**
% of shares sold	30%	70%	30%	-	
EBITDA	0.0	7.7	0.4	-	**8.1**
Adjusted EBITDA	11.8	11.0	4.5	-	**27.3**
Finance income	11.8	3.3	4.1	-	**19.2**
Net profit	9.7	8.9	3.7	-	**22.3**

2008

[PLN million]			Tychowo Wind Farm		Total
Date of sale	**Q1**	**Q1**	**Q3**	**Q4**	**Q1,Q2,Q3**
% of shares sold	-	-	70%	**-**	
EBITDA	-	-	7.9	**-**	**7.9**
Adjusted EBITDA	-	-	11.2	**-**	**11.2**
Finance income	-	-	3.3	**-**	**3.3**
Net profit	-	-	9.0	**-**	**9.0**

<u>At the level of Net Profit:</u>

- Impact of EBITDA
- Higher income from foreign exchange gains arising on balance sheet date valuation of assets and liabilities denominated in EUR, amounting to PLN 2.6 million, compared with PLN 3.3 million expense recognised in 2008
- Lower income from interest earned on bank deposits
- No adjustment of deferred tax – in 2008, an adjustment was made to the deferred tax from previous years for the recognition of exchange differences on a foreign currency loan and lease receivables. The net adjustment of PLN 4.2 million gave rise to permanent difference within income not included in taxable profits. This income resulted from valuation of the loan in the previous years, for which the related deferred tax was also recognised as a charge to profit or loss for the previous years. As a result, the income tax expense for 2008 was reduced, which resulted in the effective tax rate becoming considerably lower.

POWER GENERATION OUTSOURCING

Saturn CHP Plant

Revenue from distribution of benefits between the Group and one of its clients, including benefits from trading in energy subject to preferential prices ("energy generated using renewable sources", "green energy") had a significant impact on the results for the year 2009. Revenue from green energy was higher in 2009 due to higher prices of green certificates. In addition, the Group recognised revenue on the Tytan project.

Zakrzów CHP Plant

In 2009, this facility generated results in excess of the budget.

Jeziorna CHP Plant

In 2009, this facility generated results in excess of the budget.

Mercury Power Plant

The level of production in the Mercury Power Plant was lower than in the previous year due to the amount of gas supplied by coking plants being lower than expected. The lower level of production was compensated by the sale of surplus CO_2.

WIND POWER PRODUCTION

Puck Wind Farm

The wind farm's electricity production in 2009 was lower than budgeted due to poor wind conditions.

Development of Wind Farm Projects

Like in the previous years, in 2009 the Issuer focused its efforts on expanding its wind farm portfolio. The wind farm portfolio is built on the basis of a cooperation agreement with EPA Sp. z o.o. concerning the development of wind turbine system projects. The agreement binding up until the end of 2013 grants the Company a pre-emptive right to purchase all of the projects developed under the agreement on attractive terms. In the 1st quarter of 2009, an annex was signed to the agreement under which the total size of the projects covered by the pre-emptive right with a defined purchase price was increased from 300 MW to 600 MW. This annex is a significant step towards the achievement of the targets set by PEP for the development of wind power production by 2014. An in-house development team added 5 new projects in 2009. The total portfolio of projects under development currently exceeds 1,000 MW, and they are expected to be finalised in 2014.

The sales of a 100% stake in the Jarogniew/Mołtowo Wind Farm with a capacity of 20 MW to Elektrownia Połaniec Spółka Akcyjna – Grupa Electrabel Polska ("Electrabel") and 30% stakes in the Suwałki and Tychowo Wind Farms are part of the above strategy. The impact of these transactions has been described above.

Wind Farms under Implementation

Łukaszów Wind Farm [34MW] and Modlikowice Wind Farm [24MW]

In December 2009, a contract for the supply of turbines was signed with Vestas Polska Sp. z o.o. and a long-term agreement for the sales of power and green certificates with Polska Energia – PKH Sp. z o.o. from the Tauron Group. Contracts for the remaining construction work are expected to be signed in the 1st quarter of 2010.

In addition, applications were submitted for EU grants. All of the projects have undergone formal assessment, were included in the primary list of projects applying for funding under the Operational Programme Infrastructure and Environment, Measure 9.4 Energy Production from Renewable Sources (bid 1/PO IiŚ/9.4/2009) and obtained a funding of PLN 40 million each (a total of PLN 80 million). Grants cover 24% of the estimated budget for the Modlikowice project and 18% of the budget for the Łukaszów project. The funding means that PEP will have internal resources required to implement these projects. As a result, it will also increase PEP's ability to implement subsequent projects in the area of renewable energy generation. In accordance with the procedure in place, once complete project documentation has been submitted to and accepted by the implementation body, the grant agreement will be signed within approximately 12 months of that date. Project documentation includes among others contracts for the supply of turbines, other construction contracts, agreements for the sale of power and property rights and agreements for the funding of projects using debt instruments. It is expected that the agreement will be signed by the end of the 2nd quarter of 2010.

In addition, there is a possibility of expanding the project in the future up to 85 MW, which is the maximum capacity specified in the connection agreement.

Sale of Wind Farm Projects

The Jarogniew/Mołtowo Wind Farm Project

On 9 January 2009, PEP finalised a transaction with Elektrownia Połaniec Spółka Akcyjna - Grupa Electrabel Polska ("Electrabel") as provided for in the shareholders agreement of 12 December 2008 on the sale of the wind farm construction project in the vicinity of Gościno with a total installed capacity of approximately 20 MW (the "Jarogniew/Mołtowo Wind Farm"), carried out by Beta Sp. z o.o. ("Beta"), as a result of which Electrabel acquired a 70% shareholding in Beta. The total value of PEP's revenue from the implementation of the Shareholders Agreement amounted to PLN 14,010 thousand. The amount was paid on 9 January 2009.

Subsequently, on 30 July 2009, the following agreements were signed by PEP with Elektrownia Połaniec Spółka Akcyjna – Grupa GDF Suez Energia Polska ("GDF Suez"): (i) a conditional agreement for the sale ("Sale Agreement") of 90 shares in Beta Sp. z o.o. ("Beta"), representing 30% of its share capital and (ii) a support agreement ("Support Agreement"). Under the Sale Agreement and the Support Agreement, GDF Suez will pay PEP a total net amount of PLN 4,700 thousand, in the following manner:
- PLN 1,167 thousand – payable immediately upon the fulfilment of the conditions precedent; the conditions precedent had been fulfilled and the amount was paid on 6 October 2009;
- PLN 200 thousand – payable by 30 September 2009; the amount was paid on 6 October 2009;
- PLN 125 thousand – payable by 30 April 2010;
- PLN 3,133 thousand – payable on the date of the start-up of the Jarogniew/Mołtowo wind farm.

In addition, as a result of the above transaction PEP received a refund of shareholder loans granted to Beta for a total amount of PLN 2,242 thousand (including interest). These funds were designated for investments in renewable energy projects.

The Suwałki and Tychowo Wind Farm Projects

In the 1st quarter of 2009, the following were sold to RWE Renewables Polska Sp. z o.o. ("RRP"):

1) 60 shares in Park Wiatrowy Suwałki Sp. z o.o. ("PWS"); and
2) 54 shares in Park Wiatrowy Tychowo Sp. z o.o. ("PWT"),

representing 30% of the share capital of each of the companies.

For the sale of shares in PWS, RRP paid PEP a total amount of PLN 6,500 thousand in the following manner: 1/3 of the price (PLN 2,145 thousand) was paid on the date of the sale, while 2/3 of the price (PLN 4,355 thousand) was paid on the date of the start-up of the Suwałki wind farm (i.e.15 December 2009).

For the shares in PWT, RRP will pay PEP a total amount of PLN 5,500 thousand in the following manner: PLN 27 thousand was paid on the date of the sale, PLN 1,800 thousand will be payable upon the change of the permit for the construction of the Tychowo wind farm and after PWT has signed an agreement for connection of the Tychowo wind farm to the power network, while the amount of PLN 3,673 thousand will be payable on the date of the start-up of the Tychowo wind farm.

Under each of the Sales Agreements, PEP is required to support RRP in the construction of, respectively, the Suwałki and Tychowo wind farms, and in the event of a failure to provide such support it will be liable for additional costs incurred by PWS or PWT due to the lack of support, however not more than PLN 4,355 thousand for PWS and not more than PLN 3,673 thousand for PWT.

In addition, as a result of the above transaction PEP received an immediate refund of shareholder loans granted to PWS for a total amount of PLN 31,966 thousand (including interest) on 30 March 2009 and loans granted to PWT for a total amount of PLN 2,419 thousand (including interest) on 21 April 2009. These funds were designated for investments in renewable power projects.

The sale of non-controlling interests in PWS and PWT and in Beta is part of PEP's strategy to retain all interests in some of the developed wind farms and to earn a maximum premium on the sale of shares in selected wind farms. PEP's management analyses market conditions on an on-going basis to ensure that:

- the above relationship is most favourable for the shareholders both in short- and long-term,
- PEP's financial, human and organisational resources are most effectively engaged in the implementation of its projects.

Therefore, the decision about the sale of shares in PWS and PWT and Beta was taken to ensure prompt realisation of profits by the shareholders and to enable increased concentration of resources on the implementation of projects fully owned by PEP.

Power Generation Outsourcing

As part of the development of outsourcing and generation of power using biomass, the Company signed an agreement with Mondi Świecie S.A. under which PEP carries out the "Tytan" project to maximise generation of renewable energy and minimise CO_2 emission by converting the K1 pulverised coal-fired boiler of the OP140 type into a biofuel boiler operating in the Bubbling Fluidised Bed (BFB) technology. Construction work was ended in September 2009 and the unit was made operational in October 2009.

Debt financing was acquired in August 2009. Saturn Management Spółka z ograniczoną odpowiedzialnością i Wspólnicy, Spółka Komandytowa signed annex 9 with (i) BRE Bank Spółka Akcyjna ("BRE"), (ii) Bank PeKaO S.A. ("PeKaO) and (iii) European Bank for Reconstruction and Development ("EBRD") as the lenders and (iv) Kreditanstalt fuer Wiederaufbau ("KFW") as the refinanced bank to the Loan Agreement No. 17/010/02/D/IK of 10 April 2002, under which the amount of the loan made available to SM was increased by EUR 33,600,000.00 and additionally the KFW loan was refinanced by PeKaO. The new tranche of the loan was designated for the implementation of the Tytan and Saturn CHP Plant Modernisation projects. As a result of signing the aforementioned annex and the funds becoming available, SM acquired full funding for the implementation of the Tytan Project and the Modernisation Project (modernisation of the Saturn CHP Plant). This resulted in a refund to the Group of the funds engaged by it in the implementation of the aforementioned projects, amounting to approximately PLN 55 million. These funds were designated for the implementation of subsequent renewable energy projects and for the reduction of short-term debt.

The implementation of the two projects by SM will result in (i) the increase of the profits earned by the Group under the Saturn Project (including the increase of profits from generation of "green" energy), (ii) enhancing energy security for Mondi Świecie S.A. and ensuring the process steam necessary for proper functioning of the new paper-making machine, (iii) reduction of CO_2 emission as well as (iv) reduction of energy costs for Mondi Świecie S.A.

Biomass used in Power Generation

The projects of Grupa PEP Biomasa Energetyczna (GPBE) began to be implemented in 2008. The implementation of projects related to the supply of straw pellets to the power generation industry results from legal requirements for power-generating companies engaged in co-combustion of biomass and fossil fuels to use a specified amount of the so-called agricultural biomass. In response to the market demand for agricultural biomass, the supply of which continues to be limited, the Company decided to commence, through GPBE, operations in the area of supply of agricultural biomass. The majority of boilers in the Polish professional power generation sector are pulverised coal-fired boilers. Pellets were selected as the best form of combusting biomass due to a number of reasons, in particular low transportation costs, easy internal transportation and very good conditions for co-combustion with coal.

In its facilities in Sępólno Krajeńskie, GPBE Północ carries out production of pellets under a long-term contract with Dalkia Łódź S.A. ("Dalkia"). The facilities operate at full production capacity.

In addition, localisation has been selected for the facilities of GPBE Południe, which will produce pellets under a long-term contract with Energokrak Spółka z ograniczoną odpowiedzialnością ("Energokrak") of the EDF Group for the supply of 40,000 tonnes per year. The facilities will be located in the Wałbrzych Economic Zone, in Ząbkowice Śląskie. The process of signing contracts for the supply of parts of technological line is currently being finalised. Construction work will begin in February or March 2010, depending on weather conditions. The facilities are expected to be commissioned in September 2010.

The Company also won a tender for the supply of additional tonnes of straw for Dalkia beginning from 2011. The target value of the supplies, amounting to 21,000 tonnes, is set to be achieved in 2014. The contract will be performed by GPBE Północ and GPBE Południe.

On 28 August 2009, a contract for the supply of biomass was signed on behalf of the Company with Elektrownia Połaniec S.A. – Grupa GDF Suez Energia Polska. The intention is that the contract will be performed by the newly set up subsidiary of the Company, Grupa PEP – Biomasa Energetyczna Wschód Spółka z ograniczoną odpowiedzialnością ("GPBE Wschód"). Under the contract, GPBE Wschód will provide the Recipient with straw pellets in the amount of 60,000 tonnes beginning from 1 January 2012 and 5,000 tonnes in the period from 1 September 2011 to 31 December 2011. The contract was concluded for a defined period of time from 1 January 2011 to 31 December 2017. GPBE Wschód may be liable to pay contractual penalties to the Recipient if it fails to supply pellets in the number specified in the contract. The amount of the contractual penalties will be equal to 10% of the value of pellets not supplied. In addition, GPBE Wschód will be required to pay a contractual penalty in the event of termination of the contract due to its fault, in the following amounts: (i) PLN 25,000 thousand in the first year of the contract, (ii) PLN 21,875 thousand in the second year of the contract, (iii) PLN 18,750 thousand in the third year of the contract, (iv) PLN 15,675 thousand in the fourth year of the contract, (v) PLN 12,500 thousand in the fifth year of the contract, (vi) PLN 9,375 thousand in the sixth year of the contract and (vii) PLN 6,250 thousand in the seventh year of the contract. Upon the transfer of the rights and obligations under the contract to GPBE Wschód, the Company will be required to guarantee GPBE Wschód's liabilities in respect of the contractual penalties discussed in this paragraph. The payment of the contractual penalty excludes the Recipient's right to seek additional compensation. The Recipient may be required to pay contractual penalties to the Supplier if it fails to supply pellets in the number specified in the contract. The amount of the contractual penalties will be equal to 10% of the value of uncollected pellets. At the same time, the Recipient may also be required to pay contractual penalties to GPBE Wschód if it fails to accept pellets in the number specified in the contract. The amount of the contractual penalties will be equal to the value of pellets not accepted. In addition, the Recipient will be required to pay a contractual penalty to GPBE Wschód in the event of termination of the contract due to its fault, in the following amounts: (i) PLN 25,000 thousand in the first year of the contract, (ii) PLN 21,875 thousand in the second year of the contract, (iii) PLN 18,750 thousand in the third year of the contract, (iv) PLN 15,675 thousand in the fourth year of the contract, (v) PLN 12,500 thousand in the fifth year of the contract, (vi) PLN 9,375 thousand in the sixth year of the contract and (vii) PLN 6,250 thousand in the seventh year of the contract, with a proviso that the Recipient may be released from the obligation to pay a contractual penalty in the event it purchases GPBE Wschód's production facilities for a price equal to the amount of the contractual penalty. The payment of the contractual penalties excludes GPBE Wschód's right to seek additional compensation. The estimated value of the contract, calculated as the total amount of revenue for the entire term of the contract, amounts to PLN 156,037,500. In order to perform the contract, in the 3rd quarter of 2011, GPBE Wschód will launch a straw-to-pellets processing plant in the south-eastern Poland. This plant will be the third facility of this type in the Group. In 2009, a plant was launched in Sępólno Krajeńskie, which mainly supplies pellets to Dalkia Łódź. In the 4th quarter of 2010, production will be launched in the plant in Ząbkowice Śląskie, which will mainly sell to the EDF Polska companies. Beginning from 2012, once all the three plants have been commissioned, production will amount to approximately 150,000 tonnes. Sales are based on long-term contracts with EDF Polska, Dalkia Polska and GDF Suez Polska, for a total amount exceeding 140,000 tonnes in 2012. PEP S.A.'s strategy is to achieve a leading position in the supplies of biomass to large Polish system-based power plants in 2012.

Outlook for development

In the next financial year, like in the previous years, the Company will focus its efforts on the expansion of its wind farm portfolio. The wind farm portfolio is built on the basis of a cooperation agreement with EPA Sp. z o.o. concerning the development of wind turbine system projects and based on an in-house development team in PEP, which added 5 new projects in 2009. The agreement with EPA, binding up until the end of 2013, grants the Company a pre-emptive right to purchase all of the projects developed under the agreement on attractive terms.

PEP has a large portfolio of wind farm projects. Up to the end of 2009, it finalised the development of 206 MW, of which 96 MW have already been sold (Suwałki WF, Tychowo WF, Jarogniew/Mołtowo WF), 30 MW are under an advanced phase of the selling process, 22 MW operate within the PEP Group (the Puck Wind Farm) and 58 MW (Łukaszów WF, Modlikowice WF) are under an advanced phase of construction. The Łukaszów and Modlikowice wind farms are expected to become operational in the second half of 2011. PEP expects that, by the end of 2014, it will have completed the development of approximately 1,000 MW, of which 260 MW will become operational within the PEP Group by the end of 2013.

In accordance with the communicated financing strategy for wind farms development, the objective of which is to ensure increased net earnings per share while retaining all of the shares in some wind farms and earning premium on the sale of shares in the remaining ones, in 2010, as it was the case in 2009, PEP plans to sell all of its shares in selected projects and to retain 100% of its shares in the remaining projects. Decisions regarding individual projects are taken upon the completion of their development phase. PEP's Management analyses market situation on an on-going basis to ensure that the relationship between the aforementioned key components of its strategy is most favourable for the shareholders.

Power Generation Outsourcing

As part of the development of outsourcing and generation of power using biomass, in 2010 the Group will develop a project relating to the construction and operation of a biofuel power plant with a capacity of 30-35 MW serving the KGHM Group. Shares in this power plant will be acquired by PEP and KGHM TFI.

In addition, the Issuer will take steps to acquire two other significant projects for major industrial companies.

The construction of facilities for industrial customers which are 100% based on biofuel is aimed at enhancing their energy independence as well as implementing the strategy for generation of energy using renewable sources, leading to the reduction of energy costs.

As a result of implementing the above projects, PEP will obtain benefits from the following outsourcing projects based on green energy.

Biomass used in Power Generation

Grupa PEP Biomasa Energetyczna (GPBE) started to implement its projects in 2008. The implementation of projects related to the supply of straw pellets to the power generation industry results from legal requirements for power-generating companies engaged in co-combustion of biomass and fossil fuels to use a specified amount of the so-called agricultural biomass. In response to the market demand for agricultural biomass, the supply of which continues to be limited, the Company decided to commence, through GPBE, operations in the area of supply of agricultural biomass. The majority of boilers in the Polish professional power generation sector are pulverised coal-fired boilers. Pellets were selected as the best form of combusting biomass due to a number of reasons, in particular low transportation costs, easy internal transportation and very good conditions for co-combustion with coal.

The GPBE Południe facilities which will produce pellets under a long-term contract for the supply of 40,000 tonnes per year with Energokrak Spółka z ograniczoną odpowiedzialnością ("Energokrak") of the EDF Group are expected to be commissioned in September 2010. These facilities will be located in the Wałbrzych Economic Zone, in Ząbkowice Śląskie.

In 2010, production will be organised in other facilities, GPBE Wschód, which is engaged in the production of pellets under a long-term contract with Elektrownia Połaniec S.A. It is expected that production in these facilities will be launched at the end of 2011.

In communiqué No. 54/2009, the Board of Directors published forecasted results for 2010.

Item	**Budget 2010**	**Actual 2009**	**Change**
[PLN million]			
EBITDA	86.0	50.3	35.7
EBITDA including interest on the lease of own property and share in the profits of wind farms	90.0	71.8	18.2
Consolidated Net Profit	56.0	46.9	9.1
Consolidated Net Profit adjusted for exchange differences arising on balance sheet valuation	56.0	44.7	11.3

The forecast for the year 2010 is based on the forecasts of the individual companies in the PEP S.A. Group for the financial year 2010, including the assumptions presented below:

- The operating profit of the whole Group will be higher than budgeted for 2009 due to the full year of operation, at full capacity, of the Tytan project in the Saturn CHP Plant and the Sępólno pellet production plant in Grupa PEP Biomasa Energetyczna;

- The budgeted figures include revenue from the sale of shares in the developed wind farms;
- In accordance with the adopted policy, a fixed PLN/EUR exchange rate was applied in the projection period. The forecast does not include exchange differences arising on the valuation of assets and liabilities at the balance sheet date;
- Additionally, the beginning of the construction of the Modlikowice and Łukaszów wind farms with a total capacity of 58 MW is scheduled for 2010;
- The development of wind farm projects with a total capacity exceeding 300 MW is planned to be completed by the end of 2010.

3. Description of the structure of consolidated assets and liabilities, including from the perspective of Group's liquidity

	Ratio	Details	Value
1	Return on assets	Net profit/loss	
		Average assets for the year	7.6%
2	Return on equity	Net profit/loss	
		Average equity for the year	22.5%
3	Profit margin	Net profit/loss	
		Sales revenue	44.2%
4	Liquidity I	Current assets	
		Short-term creditors	2.23
5	Liquidity II	Cash and cash equivalents	
		Short-term creditors	0.78
6	Debtors days	Average trade debtors for the year	
		x 365 days	52 days
		Sales of finished goods and goods for resale	
7	Creditors days	Average trade creditors for the year	
		x 365 days	119 days
		Cost of goods for resale and raw materials sold	
8	Inventory days	Average inventories for the year x 365 days	
		Cost of goods for resale and raw materials sold	235 days
9	Stability of financing	Equity + long-term provisions + long-term liabilities	
		Total liabilities, provisions and equity	88.7%
10	Debt ratio	(Total liabilities and provisions)*100	
		Total assets	64.6%

4. Identification of significant risks and the extent of exposure

Risks associated with the business environment of the PEP S.A. Group

Competition risk

The Group has a dominant position in the segment of industrial power generation outsourcing.

Considering the attractiveness of investing on this market, an increase is expected in the competition in this segment, including from strong foreign capital entities, which may affect both the Group's ability to acquire new outsourcing contracts and the attractiveness of the terms of completion of the following projects.

Due to the systematic increase in the demand for power generated using renewable sources caused by the existing legal regulations, a small level of supply of this type of energy and the expected growth of its prices, the attractiveness of investing in the generation of power using renewable sources is increasing. As a result, it is expected that competition on this market will increase. The Issuer started to operate wind farms and is in the course of development of the following units. Due to atmospheric and environmental limitations in Poland, this is the source which, in addition to biomass combustion, is perceived as providing the largest opportunities for production of "green" energy in Poland. It is likely that companies from Western Europe and the United States of America, which have gained experience in this area in other markets, will be interested in the construction of wind farms in Poland.

Proper location of the facilities is essential for the profitability of investments in wind power production. The Issuer signed an agreement (which provides it with pre-emptive rights) for the development of wind farm projects with EPA Sp. z o.o., which is a leading wind farm project developer in Poland. Under this agreement, the Issuer has been provided with an access to information on the best locations for wind farms, the results of wind measurements taken in Poland and practical experience resulting from construction of wind farms in Poland, which gives it a competitive advantage due to the fact that collection of such data is costly and time-consuming. In addition, the Issuer created an in-house team for the development of wind farm projects which is currently carrying out 11 projects.

The Group acquired a unique experience in Poland in the implementation of outsourcing projects, including both the development and implementation of optimal technological solutions as well as construction of appropriate legal, tax and financial structures, which gives it a significant competitive advantage. In addition, the Group focuses on high quality of services rendered to clients, systematic improvement of competence in the area of advanced technologies as well as improvement of management techniques.

Risk associated with economic conditions in Poland

The achievement of the strategic goals set by the Group and its budgeted financial results is affected, among others, by macroeconomic conditions, which are beyond the control of the Group companies. These factors include, for example, GDP growth, inflation index, general condition of Polish economy, changes in legislation. Any unfavourable changes in macroeconomic conditions may result in a decrease of the Issuer's budgeted revenues or an increase of its operating expenses.

Currency risk

Part of the contracts concluded by the Group with energy consumers provide for payments in EUR. As a result, fluctuations of the EUR exchange rate may affect the amount of revenue earned by the Group after translation into PLN.

The Group companies mitigate the impact of the currency risk on the profitability of their projects by using the so-called natural currency hedge, under which if a given project generates income which must be translated from a foreign currency, then majority of costs of construction, modernisation and day-to-day functioning of such facility (a combined heat and power plant or a wind farm) are incurred in the same currency. In addition, loans taken out to finance the project are also denominated in the currency of the future revenue.

On the other hand, the Group companies do not apply hedging in order to eliminate non-monetary differences arising on the re-measurement of non-monetary assets and liabilities denominated in a foreign currency at the balance sheet date. The sensitivity of the Issuer's profit or loss before tax (due to changes in the fair value of non-monetary assets and liabilities) to reasonably possible changes in the EUR exchange rate, with all other variables held constant, is presented in Note 36.2 to the consolidated financial statements.

Interest rate risk

The share of debt in the financing structure of the Group is high. In accordance with the Group's strategy, which is aimed at maximisation of the rate of return on equity, the projects developed by the Group are financed by debt in more than 50%. According to the loan agreements concluded by the individual Group companies, interest on loans is determined based on variable interest rates. A significant rise in the market interest rates above the values expected by the Issuer and included in project budgets may have an adverse effect on the Group's results. The Issuer is aware of this risk and makes efforts to counteract it and to prevent any potential adverse effects by a continuous monitoring of the conditions on the money market, effective finance management and incorporation of clauses providing for client's participation in the interest rate risk in the contracts made with the clients.

Risk of fluctuations of commodity prices and availability of commodities used in the production process

The Issuer and members of its Capital Group use the following commodities in the production of electricity and heat: natural gas, hard coal and agricultural biomass.

Hard coal is used by the Group for the production of electricity and heat in the Saturn and Jeziorna CHP Plants. In 2009, the Group had 3 key hard coal suppliers. The Issuer endeavours to prevent concentration on a single coal supplier. None of the coal suppliers exceeded a 15% share in the total costs of purchase of all goods and services. The decreasing production capacities of Polish mines may affect the volume of coal supplies and result in the rise of its prices. The growing demand for coal, decrease in the level of its production, increase in transport and import costs may affect the profitability of production of electricity and heat generated using coal.

Natural gas is only used by the Group for the production of heat at the Zakrzów CHP Plant. The main suppliers of gas fuel in Poland are the companies from the PGNiG group. The fuel is mainly imported from Russia and, to a lesser extent, is extracted by PGNiG. Any problems with the supply of gas by PGNiG in an amount necessary to satisfy the existing demand may result in the reduction of the supply of gas fuel to the customers. In such a case the Group may be unable to fulfil its obligations relating to the supply of heat to its customers.

The Issuer's subsidiary, Grupa PEP Biomasa Energetyczna (GPBE), is engaged in the production of pellets using agricultural biomass for the power industry. Pellets are produced out of cereal and rape straw. The main suppliers of such straw are the farmers in the vicinity of the production plant. Due to higher effectiveness of harvesting, processing and transportation of raw material, GPBE prefers large straw suppliers holding acreage of 100 hectares and more. The total number of farmers supplying straw oscillates around 100-110, which considerably reduces the risk of not receiving sufficient amount of straw from the individual suppliers. The volume and price of the supplies of straw may be affected by the amount of harvested crops and rape as well as weather conditions.

The Issuer hedges against this risk by conducting an exhaustive research and analyses of the availability of straw on local agricultural markets. In addition, the Company applies price formulas in the supplies of pellets to its customers, under which the price of the pellets depends on both the price of straw and the inflation index.

The Issuer and the Group companies apply mechanisms which involve a transfer of the risk of change, in order to hedge against adverse effects of fluctuations in the prices of raw materials used in production. In principle, the prices of electricity and heat and the prices of biofuel sold by the Group are linked to the prices of coal, natural gas and straw. However, it cannot be precluded that, despite the use of hedging mechanisms, fluctuations in the prices of raw materials may affect the results of the Issuer and of the Capital Group.

Risk associated with Polish energy market

The energy market in Poland is only partly regulated. While thermal energy and gas fuel markets are regulated, the market of electricity is only partly controlled by the relevant public authorities. These authorities include in particular the President of the Energy Regulatory Office (*Urząd Regulacji Energetyki* – URE), which is a central administrative body appointed by the Prime Minister. Under the Energy Law, this body is responsible for regulation of fuel and energy markets as well as promotion of competition in the power industry. The scope of competencies and responsibilities of the President of URE includes, among others, granting, amendment and withdrawal of concessions for production, storage, transmission and trade in fuel and energy as well as control of the fulfilment by the entities subject to Energy Law of their obligations under this law and the relevant executive regulations. The powers of the President of URE also include agreeing draft development plans for energy companies, resolving disputes between different energy companies and between energy companies and their customers as well as approval and control of the rates and charges used by energy companies for compliance with the principles set out in relevant regulations, in particular the principle of protecting consumers against unreasonable prices. The President of URE may also impose penalties on concession holders, including significant monetary penalties. As a result, the Issuer cannot eliminate altogether the risk that the President of URE will make an unfavourable use of his rights towards PEP and its Capital Group. Nonetheless, the Issuer mitigates this risk by taking all steps to ensure that it conducts its operations in conformity with the requirements of the Energy Law and the executive regulations issued based on this law.

Due to the considerable degree of implementation of competitive market mechanisms in the power industry, holders of concessions for generation of electricity are exempt from the obligation to submit their electricity rates and charges for approval, although they are still required to do so in respect of electricity provided to households. It must be, however, emphasised that the rates and charges for electricity generated by PEP are not subject to approval by the President of URE. Despite the fact that, in principle, the Energy Law does not require approval of electricity rates and charges by the President of URE, they should be set up in accordance with the principles and guidelines included in this law and in the relevant executive regulations. It must be emphasised that, in principle, the current provisions of the Energy Law ensure coverage of reasonable operating expenses.
Potential amendments may prove to be unfavourable for the Issuer, but the Issuer's influence on the decisions taken at the community and country-wide level is very limited.

The risk of approval of heat rates and charges by the President of URE

The Group companies generating heat are required to submit their rates and charges for the sale of heat to the President of URE. In accordance with law, the table of rates and charges should ensure coverage of reasonable budgeted costs of generating heat in a given period

plus a return on equity. The approval of the rates and charges by the President of URE is intended to protect consumers against unreasonable rises of the prices of heat. In practice, the rates and charges are calculated by the President of URE using certain assumptions which may differ from the actual level of operating expenses incurred by the Group companies. Consequently, there is a risk that the President of URE will approve a table of rates and charges that will not ensure a sufficient return on equity for the heat generator, or even not cover the costs of generating heat. Additionally, there is a risk that the rates and charges for the next period will be approved with a delay, which means that the heat generator will have to apply the rates for the previous period, which may not ensure a sufficient return on equity. The realisation of such risk may result in the Group achieving results below the expected ones.
The companies which are exposed to the risk relating to heat rates and charges are the Jeziorna and Zakrzów CHP Plants. The impact of this risk on the Group's results is limited due to the relatively small share of the revenue earned by those two plants from the sale of heat in the total revenues of the Group.

Risk of changes in legislation

In the Issuer's opinion, certain risk may arise from the frequent changes in law or different, often contradictory, interpretations of legal regulations. Potential changes in legislation, including in particular laws governing business activity and taxes, labour law, commercial law (including law of commercial companies and capital markets) and environmental protection law may have an adverse effect on the business conducted by the Issuer and its Capital Group. It must be emphasised that Polish law is in the final phase of adjustment to EU law, which is not without an effect on the legal environment in which the Group operates. Additionally, Polish law is being amended on an on-going basis to reflect the changes occurring in EU regulations. In particular, the implementation of the new regulations concerning business transactions may give rise to interpretation problems, inconsistent court judgments, or unfavourable interpretations adopted by public administration authorities.

It must also be emphasised that, in addition to general regulations applicable to each type of business activity, the Group's operations are subject to specific regulations resulting from the provisions of the Energy Law and the relevant executive regulations. Those regulations are often imprecise, resulting frequently in the lack of unambiguous interpretation. This in turn may give rise to problems with their application. Since those regulations are subject to frequent changes, the legal environment in which the Issuer operates is not fully stable. Accordingly, there is a risk that future changes in the state policy and the resulting changes in legal regulations may have an adverse effect on the business conducted by the Issuer and members of its Capital Group.

Risk of unstable taxation system

The Polish taxation system is characterised by frequent changes in tax regulations, many of which have not been formulated with a sufficient precision and consequently do not allow unambiguous interpretation. Interpretation of tax regulations is subject to frequent changes and both the practices applied by tax authorities and the case law regarding taxation continue to be inconsistent. One of the aspects of the insufficient precision of tax law is the lack of regulations setting out formal procedures for final verification of the accuracy of calculation of tax liabilities for a given period. Tax declarations and the amount of actual tax payments may be inspected by tax authorities within a period of five years of the end of the year in which the tax liability was payable.
As a result of Poland's accession to the European Union, Polish laws, including tax regulations, became subject to the process of adaptation to EU law and harmonisation with regulations binding in other EU countries. This process is still pending and creates an opportunity for further stabilisation of Polish tax regulations, which may considerably mitigate the risk of an unstable taxation system.

The risk of an unstable taxation system, including in particular the risk of the tax authorities adopting a different interpretation of tax regulations from the one adopted by the Issuer, does exist and may have an adverse effect on the operations, results, financial position and outlook for the Issuer's development.

Risk of non-compliance with regulations concerning environmental protection

The business activities conducted by the Issuer and the individual members of its Capital Group are subject to a number of legal regulations relating to environmental protection. In particular, an obligation exists or may arise to obtain integrated permits, allowances for the emission of gases or dust into the air, or allowances for waste production and management. In addition, due to the EU system of trading in CO_2 allowances, it became necessary to obtain the relevant allowances for the installations used by the Issuer or members of its Capital Group in their operations.

The fulfilment of the requirements resulting from laws on environmental protection may entail expenditures for preparation of relevant applications as well as adaptation of installations to comply with such requirements. At the date of authorisation of this Prospectus, the Issuer and its subsidiaries obtained all permits and allowances required under environmental protection. In addition, in accordance with the National Plan for Allocation of CO_2 Allowances for the years 2008-2012, the Issuer's subsidiaries and jointly controlled entities obtained allowances for specified amounts of annual CO_2 emissions which are necessarily entailed by their projects. Under the National Allocation Plan, the allowances acquired by Saturn CHP Plant amounted to 318,335 (Mg CO_2), Jeziorna CHP Plant: 62,757, ME: 35,605, and Zakrzów CHP Plant: 7,966. The Issuer believes that the number of allowances is sufficient until 2012.

Risks associated with the Issuer's business activities

Risk of lack of funding for investment projects

The Issuer seeks to achieve a project finance formula of 70%-80% share of external funding and 30%-20% own share. Construction of new wind farms, upgrade of existing facilities and development of projects related to the outsourcing of production of electricity and heat will require substantial resources. New projects will be funded through bank loans, own funds, the issue of shares (only on condition that the share price reflects the fair value of the company) and the sale of stakes in selected projects.

The Issuer's historical experience in the preparation of investments and securing funding indicates that professionally designed business plans and good relations maintained with financial institutions will ensure appropriate funding for the individual projects.

In case of difficulties with the acquisition of entities interested in buying shares, ineffective issue of shares, difficulties in obtaining bank loans, the Group may postpone the implementation of individual investment projects. In such circumstances, the Issuer will consider other forms of financing for the proposed projects, including a temporary reversal of the ratio between the shares sold and retained.

Risk of new projects being unsuccessful

The Group carries out an intensive development plan and implements a significant number of investments in the segment of power generation outsourcing, development and construction of wind farms and production of pellets using agricultural biomass. The projects carried out by the Issuer entail significant capital expenditures. The expenditures are particularly high in the area of development and construction of wind farms, which is the area in which the Issuer plans further development and is currently conducting a number of projects. The Issuer's decisions on commencing development phase are based on detailed financial models, expert studies and technical analyses which are prepared by a specialised Business Development Department. The above-mentioned analyses take into account a number of assumptions, including assumptions relating to the volume of generated electricity, sales revenue, production costs, the size of the required investment and costs of its financing. There is a risk that the Issuer adopts assumptions that are more favourable than the actual ones, which will result in the Group achieving a lower than expected return on the investment in a given project. In addition, the costs of preparing the project before entering into the development phase are also significant, especially in the segment of construction of wind farms. Unsuccessful implementation of a project means that these expenses will not be recoverable.

The Business Development Department has an extensive experience in all aspects of project preparation and implementation, such as development, facilities' operations or funding. The Issuer systematically improves its project management techniques and carefully selects locations for wind farm investments, so as to minimise the risk of achieving an unsatisfactory return on the investment and the risk of incurring significant expenses for preparation of a project which is not probable of implementation. In addition, the Issuer concluded an agreement for the development of wind farm projects with EPA Sp. z o.o., which is a leading wind farm project developer in Poland. Under this agreement, the Issuer has been provided with an access to information on the best locations for wind farms, the results of wind measurements taken in Poland as well as practical experience resulting from construction of wind farms in Poland.

Risk of inability to complete or delayed implementation of investment plans

Investments in industrial power generation outsourcing and renewable energy production are one of the key elements of the Group's development strategy.

In the event of delays in implementation or inability to complete investment projects, there is a risk that the operating targets are not achieved within the specified deadline, as a result of which the Issuer's financial performance will be worse that it would have been had the project been completed in accordance with the plan.

In its efforts to realise its investment plans, the Group takes steps to minimise the above risk (among others, by precise planning and analysis of factors that may affect its ability to achieve targets, on-going monitoring of results and immediate response to signals indicating that the achievement of the targets may be endangered). The Company's management carefully prepares the process of implementation of particular projects, by planning in detail all technological aspects and ensuring sufficient funding.

Risk of competition in acquiring locations for wind farm projects

Due to enhanced support for renewable energy production in the EU and in Poland, the financial attractiveness of wind farm projects has increased, which results in an increased competition in acquiring locations for such projects. However, due to the fact that the Company commenced its operations in the area of wind farm development as early as in 2003, it has an experience in acquiring locations as well as a wide portfolio of defined wind farm projects. In addition, under the agreement with EPA the Company currently holds a pre-emptive right to purchase projects of a minimum of 300 MW at a pre-agreed fixed price. In addition, the Issuer set up an in-house wind farm project development team which is currently conducting 11 projects. Therefore, the Company believes that it will be able to complete the assumed development of 1,000 MW by 2014, in excess of the original plan.

Risk of dependence on key customers

Each of the industrial power outsourcing projects developed and implemented by the Issuer is addressed, in practice, to one or several customers, which are manufacturing companies. As the Group's activity grows, new outsourcing projects are implemented and the Group expands into the renewable energy market, the share of individual customers in the structure of revenue will be gradually reduced. Currently, only one customer's share in the Group's total sales revenue exceeds 10%.

Risk associated with financial condition of customers

Within the segment of industrial power generation outsourcing, the Group earns revenue based on long-term agreements for the supply of electricity and heat concluded with one or several customers. The financial condition of the customers and their ability to pay their liabilities to PEP is, therefore, of key importance for successful implementation of the projects, the results achieved by the Group as well as its financial condition. Additionally, a rapid decrease in the customer's power consumption may affect the efficiency of energy production. Before entering into outsourcing contracts and setting to implementation of projects, the Issuer performs a comprehensive review of potential customers, sometimes with the support of external consultants, for their ability to meet their liabilities to PEP, as well as a review of the outlook for future developments in the industries in which they operate. The Group carefully selects customers out of industries with a good market potential. The Issuer conducts a detailed analysis of the customer's technological process and electricity and heat requirements, and the commencement of any project is preceded by a several months' cooperation with the customer.

Risk of seasonality

The wind conditions determining production of electricity by wind farms are characterised by an uneven distribution over a year. In autumn and wintertime they are significantly better than in spring or summertime. The Issuer decided to construct wind farms in the indicated locations based on professional wind measurements confirmed by independent and renowned experts. However, it cannot be precluded that the actual wind conditions will vary from those adopted in the models prepared for the particular investment projects.

Risk of temporary suspension of production due to break down, destruction or loss of assets

A serious breakdown, damage, loss of part or all of the property, plant and equipment held by the Group may result in a temporary suspension of production. In such a case the Group may experience difficulties in timely performance of contracts, which may in turn result in contractual penalties. Such a situation may not only result in the decrease of the quality of client service, but may additionally lead to significant deterioration of financial performance.
The Group holds an insurance against loss of gross margin as well as property insurance; hence a potential damage, destruction or breakdown will be at least partly compensated by the compensation received under the insurance contracts.

The Issuer and members of its Capital Group believe that their insurance contracts provide them with a sufficient coverage against the risks associated with their business activities. However, it cannot be precluded that the amount of losses caused by the events covered by the insurance policy may exceed the limits stated therein. In addition, one cannot preclude occurrence of other events that have not been covered by the insurance, which may result in the Company incurring significant expenses to cover the loss.

Risk of loss of key personnel

Both the Issuer and the Group companies conduct their operations mainly based on the knowledge and experience of their highly qualified staff. Due to the deficit of specialists in the area of industrial power generation outsourcing as well as possible activities taken by both the current and future competitors to take them over by offering them competitive terms of employment and remuneration, there is a risk of loss of personnel that is of key importance for the development of the Issuer and the Group. This might affect the Issuer's performance and strategy implementation. The risk of loss of key personnel is mitigated by the following:

- the Issuer's high internal corporate culture ensuring employees' identification with the Company,
- appropriate structuring of the remuneration system, fostering incentive and loyalty,
- a share option incentive scheme for key personnel,
- knowledge management and an extensive training programme.

<u>Risk associated with operating activities of combined heat and power plants</u>

In operations conducted by combined heat and power plants, there is a risk of not achieving the expected performance and availability of the facilities as well as the risk of non-compliance with the terms of power supply contracts. The Issuer's experience shows that the risk of unexpected breakdowns resulting in the exceeding of facilities' operating budgets is low. To mitigate this risk, PEP S.A. improves procedures for operating facilities and enters into insurance contracts, or applies contractual clauses which enable it to transfer any potential additional costs to sub-contractors.

5. Statement of compliance with corporate governance rules

a) Identification of the Issuer's set of corporate governance rules and the place in which it is publicly available

The Code of Best Practices for WSE Listed Companies dated 4 July 2007. Available at the following WWW address: http://corp-gov.gpw.pl/

b) Departures from the set of corporate governance rules referred to under letter a), including identification of those rules and reasons for non-compliance

The Company does not conduct on-line broadcasts of General Meetings, nor does it record such meetings. Due to considerable costs entailed by such activities, the Company does not intend to enable on-line broadcasts or to record General Meetings. The Company believes that the existing method of communicating the progress of General Meetings to the shareholders, i.e. publishing the contents of the resolutions adopted by the General Meeting, is sufficient.

c) Main features of the Issuer's internal control and risk management systems used in preparing separate and consolidated financial statements

The Company's Board of Directors is responsible for the effectiveness of the internal control and risk management systems in the process of preparation of financial statements.

Periodical financial statements and management reports are prepared by the Accounting Department and the Department of Internal Control, Reporting, Modelling and Analyses, under the technical supervision of the Director for Finance and Administration - Board Member.

The information included in the financial statements is derived from the financial and accounting system, in which accounting entries are made based on documents prepared in accordance with the Company's Accounting Policy, which has been approved by the Board of Directors and is based on the International Financial Reporting Standards. Such documents are first reviewed by eligible individuals for formal, accounting and technical accuracy.

The effectiveness of the internal control system is assured by a number of regulations and internal procedures approved by the Company's Directors, including those relating to the flow of accounting documentation, description of vouchers, making purchases on behalf of the Company, incurring liabilities by the Company, conducting physical counts, sale of fixed assets and other items held by the Company, decision-taking process, budgeting process etc.

Data security is ensured by an on-going verification and updating of access restrictions and passwords to the financial and accounting system as well as by the procedures for the creation and storage of back ups.

Annual and semi-annual reports (separate and consolidated) are subject to independent audits (annual reports) or reviews (semi-annual reports) by a statutory auditor selected by the Supervisory Board on the basis of authorisation included in the Company's Statutes.

Prior to publication, the audited annual reports of the Company are approved by the Board of Directors and the Supervisory Board.

After the hard close, each month the Company prepares management reports which include, among others, an analysis of key financial data and operating ratios and a comparison of current results with the budget, along with explanations for any significant variances from the budget. Such reports are distributed on a monthly basis among the members of the Board of Directors and Supervisory Board.

The Company's internal controls enable early identification, assessment and minimisation of risks and ensure accuracy of the information included in financial statements.

As a result, the financial statements prepared by the Company are true and fair, which is confirmed by auditors' reports.

d) Shareholders holding, either directly or indirectly, significant stakes, including the number of shares held, their percentage share in the share capital, number of voting rights attached and their percentage share in the total vote at the General Meeting

The details of shareholders holding, either directly or indirectly, significant stakes are presented in Note 20.2 to the consolidated financial statements.

e) Holders of all securities giving special control powers, including a description of such powers

The Company did not issue any securities giving special control powers.

f) Restrictions on exercising voting rights, such as a restriction on the exercise of voting rights by the holders of a specified portion or number of votes, timing restrictions on the exercise of voting rights, or provisions according to which, with the entity's involvement, the equity rights attached to securities are separated from the ownership of such securities

There are no restrictions on the exercise of voting rights such as a restriction on the exercise of voting rights by the holders of a specified portion or number of votes, timing restrictions on the exercise of voting rights, or provisions according to which, with the entity's involvement, the equity rights attached to securities are separated from the ownership of such securities.

g) Restrictions on the transfer of ownership of the Issuer's securities

There are no restrictions on the transfer of ownership of the Issuer's securities.

h) Rules for appointing and dismissing members of executive bodies and their powers, including the right to take decisions on the issue or redemption of shares

The Company's Board of Directors consists of one to five members, including the President and Vice-president of the Board. The term of office is 3 (three) consecutive years. Board members are not appointed for a joint term of office.

The Board of Directors is appointed by the Supervisory Board, which also specifies the number of Board members for each term of office.

The Board of Directors manages the Company and represents it towards external parties.

Any matters connected with the running of the Company which have not been reserved by the Law or the Statutes for the General Meeting or Supervisory Board are within the scope of competence of the Board of Directors.

The Board of Directors has no power to take decisions on the issue of shares.

i) Amendments to the Issuer's Statutes or Articles of Association

Any amendments to the Statutes require resolution of the General Meeting passed by the majority of ¾ of votes cast.

j) Procedure and main powers of the General Meeting and a description of shareholder rights and exercise of shareholder rights, including rules arising from the Rules of Procedure of the General Meeting, if any such document has been enacted, unless they result directly from the provisions of law

Description of procedure

The General Meeting acts on the basis of: (i) Code of Commercial Companies, (ii) other generally accepted regulations, (iii) the Statutes and (iv) the Rules of Procedure of the General Meeting.

Depository certificates give a right to participate in the General Meeting. The certificate should indicate the number of shares and include a clause that the shares will not be issued before the end of the General Meeting. In order to participate in a General Meeting, a shareholder must submit his or her certificate at the Company's head office, at least one week in advance of the date of the General Meeting. Shareholders may participate in a General Meeting either personally or by proxy. A proxy for participation in a General Meeting should be executed in writing. In addition, in the case of proxies granted by corporate entities or commercial partnerships, the proxy should be accompanied by a document confirming the powers of the individuals appointing the proxy to represent the shareholder.

Voting at a General Meeting is public. Secret ballot is held if it is required by law (e.g. for voting on personnel-related matters) or at the request of a shareholder.

General Meetings are convened by placing an announcement on the company's web site and in the manner set out for communicating current information under the laws on public offering, conditions governing the introduction of financial instruments to organised trading, and public companies. The announcement should be made at least twenty six days in advance of the date of the General Meeting.

Main powers of the General Meeting

The powers of the General Meeting are specified in Article 20.1 of the Company's Statutes and include:

a) reviewing and approving the Directors' Report and the financial statements of the Company;

b) accepting performance of the Supervisory Board and the Board of Directors;

c) deciding on allocation of profits or absorption of losses;

d) setting up and cancelling specific funds;

e) setting up the basis for and the amount of remuneration for Supervisory Board members;

f) amending the scope of the Company’s activities;

g) amending the Company's Statutes;

h) increasing or decreasing share capital;

i) deciding on business combination or transformation of the Company;

j) dissolving the Company and winding it up;

k) issue of debentures, including convertible debentures;

l) selection of liquidators;

ł) all decisions regarding claims for damages caused at the Company’s incorporation or during the course of administration or supervision;

m) disposal of the Company’s enterprise or its substantial part;

n) considering and deciding on matters raised by the Supervisory Board, Board of Directors or shareholders.

The General Meeting is also empowered to appoint and dismiss members of the Supervisory Board (under Article 10.2 of the Statutes). In addition, under Article 368 § 1 of the Code of Commercial Companies, the General Meeting may dismiss members of the Board of Directors.

Shareholder rights and their exercise

The main shareholder right is the right to take part in a General Meeting and to exercise voting rights.

In addition, a shareholder or shareholders representing at least 10% of the share capital may request that a General Meeting be convened and that specific matters are included on its agenda (Article 400 § 1 CCC).

In addition, shareholders have the right to file a claim with a court of law against the Company for repealing a resolution or a claim for declaring invalidity of a General Meeting resolution.

k) Composition of the issuer’s executive, supervisory or administrative bodies and their committees and changes therein during the last financial year, and description of the scope of their activities

<u>Supervisory Board</u>

Composition

No.	Name and surname	Position
1.	Stephen Klein	Chairman
2.	Artur Olszewski	Member
3.	Krzysztof Sobolewski	Member
4.	Marek Gabryjelski	Member
5.	Krzysztof Sędzikowski	Member
6.	Krzysztof Kaczmarczyk	Member

The Supervisory Board consists of five or six members. The number of members of a Supervisory Board of a given term of office is set by the General Meeting. The term of office is 3 (three) years, except for the term of office of the first Supervisory Board, which lasts 1 (one) year. Members of the Supervisory Board are not appointed for a joint term of office.

Members of the Supervisory Board are appointed and dismissed as follows:

a) a shareholder holding shares which represent at least 33% of the Company's share capital has the right to appoint and dismiss 2 members of the Supervisory Board, including the Chairman. If more than one shareholder holds shares representing at least 33% of the Company's share capital, the Chairman is appointed by the shareholder who holds the greatest number of the Company's shares;

b) the remaining members of the Supervisory Board are appointed and dismissed by the General Meeting.

As, at present, none of the Company's shareholders holds at least 33% of the Company's share capital, all members of the Supervisory Board are appointed and dismissed by the General Meeting.

On 11 May 2009, Mr Wojciech Sierka resigned from the position of a Supervisory Board member.

On 21 May 2009, the General Meeting appointed Mr Marek Gabryjelski to the Supervisory Board.

Scope of activities

The Supervisory Board acts on the basis of: (i) Code of Commercial Companies, (ii) other generally accepted regulations, (iii) the Statutes and (iv) Rules & Regulations of the Supervisory Board.

No committees have been set up within the Supervisory Board.

The scope of competence of the Supervisory Board includes:

a) evaluation of the Company's financial statements for the preceding financial year;

b) providing comments on the Directors' report and their motions on appropriation of profits (including distribution of dividends) or absorption of losses as well as draft resolutions proposed for the General Meeting and any other significant material presented to the shareholders in connection with General Meeting;

c) auditing and approving annual operating and financial plans for the Company ("the Company's Budget") and for the Projects in which the Company invests ("Project Budget") as well as any significant amendments thereto, and requesting the Directors to submit detailed reports on their performance;

"A Project" means a company, activity or an undertaking related to generation, transmission or distribution of electricity or heat, or supply, trading in or distribution of fuel, in which the Company is a shareholder, investor, developer or administrator;

d) auditing and approving strategic plans for the Company's development;

e) providing the General Meeting with a written report on the results of the activities referred to under letters a), b) above;

f) appointing, dismissing and suspending the Company's Directors, including the President, Vice-president or the whole Board of Directors;

g) determining the number of members of the Board of Directors for the next term;

h) determining salaries and other emoluments to the Directors;

i) delegating its member(s) to temporarily perform the activities of the Company's Directors in the event of dismissing or suspending the entire Board of Directors or where the Board of Directors is unable to act due to other reasons;

j) giving consent for disposal, lease, exchange or other disposal of the Company's assets, including the Company's shares in any Project, either as part of a single transaction or several related transactions, whose market value exceeds the equivalent of USD 100,000 (one hundred thousand), calculated using the average rate announced by the President of the National Bank of Poland on the date of the transaction ("the Exchange Rate");

k) giving consent for incurring a bank loan, incurring or extending other loans by the Company or incurring other type of debt except for: (i) trade payables incurred in the course of normal business operations, (ii) taxes that are not yet due and payable, (iii) short-term debt arising from other items, where the portion that has not been provided for in the Company's approved budget does not exceed in total the PLN equivalent of USD 250,000 (two hundred and fifty thousand) according to the Exchange Rate;

l) giving consent for the Company's expenditures exceeding the PLN equivalent of USD 250,000 (two hundred and fifty thousand) according to the Exchange Rate, incurred either as part of a single transaction or a number of related transactions, except for expenditures approved and specified in the Company's approved annual budget or incurred by the Company in the course of its normal operations, with a proviso that capital expenditures are not deemed to be incurred in the course of normal business operations;

m) giving consent for the Company's participation in legal transactions with any of the following entities:

i) an entity in which the Company holds shares, either directly or indirectly, unless the Company holds, either directly or indirectly, 100% (one hundred percent) of the entity's share capital;

ii) member of the Company's Board of Directors;

iii) member of the Supervisory Board;

n) giving consent for the Company's entering into a partnership, registered partnership or limited partnership agreement, agreement for participation in profits or revenues or any other similar agreement under which the Company's revenues or profits are or may be shared with other individuals or entities;

o) giving consent for the setting up of branches and subsidiaries by the Company, for the purchase or take-up of shares in other entities as well as for entering into commercial partnership agreements with entities other than those in which the Company holds, either directly or indirectly, 100% (one hundred percent) of the share capital;

p) giving consent for issuing suretyships or guarantees by the Company and for any encumbrances of the Company's assets in each case where the total amount of such suretyships, guarantees or other encumbrances would exceed or exceeds the PLN equivalent of USD 100,000.00 (one hundred thousand) according to the Exchange Rate, unless such an encumbrance have been provided for in the Company's approved budget;

r) selecting or changing the Company's auditor;

s) giving consent for establishing proxies and for the amount of their remuneration;

t) giving consent for a conclusion, a significant amendment to or termination of a contract the value of which exceeds the PLN equivalent of USD 500,000 (five hundred thousand) according to the Exchange Rate, relating to the rendering of energy services, power purchases, facilities management, lease, turn-key deliveries and works, maintenance and operation of equipment, the incurring of loans, supply of fuels and other contracts relating to the Projects in which the Company is engaged, including any amendments to the orders placed under turn-key agreements, unless the given activity has been provided for in the Company's approved budget;

u) giving consent for the terms of financing Projects and for any significant amendments thereto;

v) giving consent for any significant changes to the accounting policies applied by the Company;

w) giving consent for the Company's purchase or disposal of a real estate, perpetual usufruct or property interest, unless the given activity has been provided for in the Company's approved budget or in the Project budget.

Board of Directors

Composition

No.	Name and surname	Function
1.	Zbigniew Prokopowicz	President
2.	Anna Kwarcińska	Vice-president
3.	Michał Kozłowski	Vice-president

The scope of activities of the Board of Directors has been described in paragraph 5 h) above.

6. Proceedings pending before a court, a body competent for arbitration proceedings or a public administration body, including information on:

a. proceedings concerning the issuer's or its subsidiary's liabilities or receivables whose value equals at least 10% of the issuer's equity, indicating: subject of proceedings and the issuer's standpoint

There were no proceedings concerning the issuer's or its subsidiary's liabilities or receivables whose value equals at least 10% of the issuer's equity.

b. two or more proceedings concerning liabilities and receivables whose total value equals, respectively, at least 10% of the issuer's equity, indicating the total value of proceedings concerning liabilities and receivables separately, the issuer's standpoint in the case and, with respect to major proceedings concerning liabilities and receivables - with an indication of their subject, the disputed amount, the date of instituting of proceedings and the parties involved

There were no proceedings concerning liabilities and receivables whose total value equals, respectively, at least 10% of the issuer's equity.

c. other proceedings

On 20 April 2007, Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa, the Company's subsidiary, filed an overpayment claim concerning excise tax of PLN 651,182 for the period May 2006 - February 2007. The claim was made on the grounds of incompatibility of Polish excise regulations with the Community legislation in the scope of excise tax payers. The Company believes that under the horizontal Directive 92/12 Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa was not subject to excise tax for a portion of the electricity sold. In its decision of 18 June 2007, the Head of the Customs Office in Wałbrzych refused to acknowledge Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa's overpayment. In the letter dated 4 July 2007, Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa appealed against the decision of the Head of the Customs Office in Wałbrzych. In the decision of 10 October 2007, the Director of the Customs Chamber in Wrocław upheld the challenged decision of the Head of the Customs Office in Wałbrzych. On 10 November, Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa filed a complaint with the Voivodship Administrative Court in Wrocław against the decision of the Director of the Customs Chamber in Wrocław. On 28 March 2008, the District Administrative Court's ruling fully acknowledged the allegations made in the complaint. The court confirmed that domestic excise regulations, whereby electricity generator is subject to excise obligations even if it sells electricity to distributors, infringe the Community law. Such provisions cannot therefore be applied against the taxpayers and should be consistently ignored by the tax authorities when issuing tax decisions. The court also confirmed that although the economic burden of the tax may then be shifted to the purchaser of energy (or a distributor), it is not a condition that prevents the return of the overpayment in excise tax. The decisions of the Head of Customs Office and the Director of the Customs Chamber refusing the refund of the overpayment were therefore repealed. On 30 May 2008, the Director of the Customs Chamber filed a cassation complaint against the Voivodship Administrative Court's ruling favourable for Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa. The cassation complaint is to be addressed by the Supreme Administrative Court on 10 November 2009. The Supreme Administrative Court suspended the proceedings until the Constitutional Tribunal has ruled on the legal matter.

On 17 December 2007, Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa filed an overpayment claim concerning excise tax of PLN 418,248 for the period March-October 2007. The claim was made on the grounds of incompatibility of Polish excise regulations with the Community legislation in the scope of excise tax payers. The Company believes that under the horizontal Directive 92/12 Mercury

Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa was not subject to excise tax for a portion of the electricity sold. On 4 February 2008, the Head of the Customs Office in Wałbrzych refused to acknowledge the overpayment. Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa appealed against the said decision to the Customs Chamber. On 29 April 2008, the Director of the Customs Chamber issued a decision upholding the appealed decision of the Head of the Customs Office in Wałbrzych. Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa filed a complaint with the Voivodship Administrative Court against the decision of the Director of the Customs Chamber. On 29 September 2008, the Voivodship Administrative Court's ruling fully acknowledged the allegations made in the complaint. The decisions of the Head of the Customs Office and the Director of the Customs Chamber refusing the refund of the overpayment were therefore repealed. The Director of the Customs Chamber filed a cassation complaint against the Voivodship Administrative Court's ruling. The cassation complaint is to be addressed by the Supreme Administrative Court on 10 November 2009. The Supreme Administrative Court suspended the proceedings until the Constitutional Tribunal has ruled on the legal matter.

On 19 June 2008, Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa filed an overpayment claim concerning excise tax of PLN 307,778.00 for the period November 2007 - April 2008. The claim was made on the grounds of incompatibility of Polish excise regulations with the Community legislation in the scope of excise tax payers. The Company believes that under the horizontal Directive 92/12 Mercury Energia Spółka z ograniczoną odpowiedzialnością i Wspólnicy Spółka Komandytowa was not subject to excise tax for a portion of the electricity sold. The case is currently being considered by the Voivodship Administrative Court in Wrocław, which suspended the proceedings until the Constitutional Tribunal has ruled on the legal matter.

Under a decision of the Mazowiecki Voivodship Inspector for Environmental Protection dated 12 June 2009, a PLN 10,000.00 penalty was imposed on Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa for failing to timely report the data necessary to create the National Pollutant Release and Transfer Register for 2007. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa appealed against that decision to the Chief Inspector for Environmental Protection. On 29 September 2009, the Chief Inspector for Environmental Protection dismissed the appeal. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa did not file any complaint against that decision with the Voivodship Administrative Court and paid the penalty.

A decision of the Marshal of the Mazowieckie Voivodship dated 30 April 2009 imposed an obligation on Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa to pay PLN 107,012.00 as an increased environmental fee for introducing gases and dust into the air between 1 January 2007 and 3 April 2007. The fee was increased because Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa failed to obtain an integrated permit by 30 June 2006. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa appealed to the Local Board of Appeal (*Samorządowe Kolegium Odwoławcze*) in Warsaw arguing, *inter alia*, that the deadline for Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa to obtain the integrated permit was 30 October 2007, not 30 June 2006. On 8 June 2009, the Local Board of Appeal in Warsaw upheld the challenged decision. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa filed a complaint against the decision of the Local Board of Appeal in Warsaw with the Voivodship Administrative Court in Warsaw. On 16 October 2009, the Voivodship Administrative Court dismissed the Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa's complaint. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa did not file a cassation appeal and paid the increased environmental fee.

A decision of the Marshal of the Mazowieckie Voivodship dated 30 April 2009 imposed an obligation on Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka

Komandytowa to pay PLN 118,384.00 as an increased environmental fee for introducing gases and dust into the air in the second half of 2006. The fee was increased because Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa failed to obtain an integrated permit by 30 June 2006. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa appealed to the Local Board of Appeal in Warsaw arguing, *inter alia*, that the deadline for Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa to obtain the integrated permit was 30 October 2007, not 30 June 2006. On 8 June 2009, the Local Board of Appeal in Warsaw upheld the challenged decision. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa filed a complaint against the decision of the Local Board of Appeal in Warsaw with the Voivodship Administrative Court in Warsaw. On 16 October 2009, the Voivodship Administrative Court dismissed the Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa's complaint. Energopep Spółka z ograniczoną odpowiedzialnością, EC Jeziorna, Spółka Komandytowa did not file a cassation appeal and paid the increased environmental fee.

On 28 December 2009, Grupa PEP – Biomasa Energetyczna Spółka z ograniczoną odpowiedzialnością received a statement of claim under arbitration proceedings from EOS Enrico Chelidonio for the payment of (i) EUR 135,423.00 as the last instalment of fee payable under the supply and installation contract, and (ii) EUR 179,187.00 as contractual penalty for termination of the contract. Grupa PEP – Biomasa Energetyczna Spółka z ograniczoną odpowiedzialnością rejected these claims as ill-founded and brought a counterclaim for (i) EUR 35,837.50 as contractual penalty for delay, (ii) PLN 673,423.72 as reimbursement of costs incurred to complete the works, and (iii) PLN 158,600.00 as compensation for losses. The case is pending before the Court of Arbitration at the International Chamber of Commerce.

7. Information on main goods or services along with their value and volume and share of individual products, goods and services (if significant) or of their groups in the issuer's total sales, as well as on movements in this respect in a given financial year

NET REVENUE FROM SALE (BY TYPE OF ACTIVITY) [PLNm]		**31 Dec 2009**	**31 Dec 2009**
Net revenue from sale of electricity		15.5	14.6 %
Volume of electricity sold	[MWh]	76,330	-
Net revenue from sale of heat		18.5	17.5%
Volume of heat sold	[GJ]	393.8	-
Net revenue from consulting projects		0.8	0.8%
Net revenue from sale of top quality goods and services and guaranteed supplies		1.2	1.1%
Revenue from leases and operator's activities		46.5	43.9%
Revenue from sale of straw		0.4	0.4%
Revenue from sale of pellets		2.7	2.5%
Net revenue from certificates of origins		6.6	6.2%
Accrued net revenue from reduced CO_2 emission (Joint Implementation Mechanism)		2.3	2.2%
Revenue from sale of wind farms development		10.2	9.6%
Net revenue from sale of CO_2 emission allowances		1.3	1.2%
Volume of CO_2 emission allowances sold	[t CO2]	23,643	-
Other revenue		0.1	0%
Total net revenue from sale		**106.1**	**100 %**

8. Information about markets, including a breakdown into domestic and foreign markets, and information about sources of supply of materials for production of goods and services, identifying concentration on one or more customers and suppliers and, where the share of one customer or supplier reaches a least 10% of total sales - the name of the supplier or customer, its participation in the sales or supplies, and its formal relationship with the issuer

In the course of 2009, all goods and services were provided to domestic customers. Because of the nature of the business conducted, which involves production of heat and electricity for a specific customer, each of the industrial power outsourcing projects developed and implemented by the Issuer is addressed, in practice, to one or several customers, which are manufacturing companies. As the Group's activity grows, new outsourcing projects are implemented and the Group expands into the renewable energy market, the share of individual customers in the structure of revenue will be gradually reduced. Currently, only one customer's share in the Group's total sales revenue exceeds 10%.

Customer	**Item sold**	**Relationships with the Group**	**2009**
Mondi Świecie S.A.	Lease and operation of a CHP plant	none	57%

The main raw materials used by the Group to produce heat and electricity and pellets from biomass are natural gas, coal and straw.
The Group does not depend on one supplier of coal and straw. It buys gas from PGNiG SA, but has possibilities to purchase fuel gas on the market. However, the Group is dependent on the transmission networks of the PGNiG SA Group.
Below are presented other suppliers of goods and services, whose share in 2009 amounted to at least 10% of total sales revenue.

Supplier	Item sold	Relationships with the Group	2009
Metso Power OY	Costs of preparatory works for the Tytan project	none	21%
EPA Sp. z o.o.	Costs of preparatory works for wind farm projects	none	15%

9. Information about significant contracts signed by the issuer, including any shareholders (partners) agreements, insurance contracts or cooperation agreements known to the issuer

In line with the requirements set out in the Minister of Finance's decree dated 19 October 2005 on current and periodic information disclosed by issuers of securities, the Issuer provides information on significant contracts in the form of current communications.

10. Information about organisational or capital relationships between the issuer and other entities and identification of its major domestic and foreign investments (securities, financial instruments, intangible assets and property), including equity investments made outside its capital group and description of their funding, and a description of the structure of major equity investments or major investments made within the issuer's capital group in the financial year

The Group's capital structure has been described in the financial statements. The Issuer's capital relationships have been presented in Note 3 to the consolidated financial statements.

11. Information on significant non-arm's length transactions made by the issuer or its subsidiary with related parties, together with their amounts and details of their nature - the obligation is fulfilled by indicating the location of the disclosure in the financial statements

Details of related party transactions are presented in Note 40 to the consolidated financial statements.

12. Information about loan agreements made and terminated in a given financial year, providing at least their amounts, type and amount of the interest rate, currency and maturity dates

Details of loans taken out are presented in Notes 23, 24 and 25 to the consolidated financial statements.

13. Information about loans granted in a given financial year, with particular emphasis on loans to the issuer's related entities, indicating at least their amounts, type and amount of the interest rate, currency and maturity dates

Details of loans granted are presented in Note 40 to the consolidated financial statements.

14. Information about suretyships and guarantees obtained and provided in a given financial year, with particular emphasis on suretyships and guarantees provided to the issuer's related entities

Details of suretyships or guarantees granted the issuer or its subsidiary to a single entity or its subsidiary are presented in Note 27.1 to the consolidated financial statements. Presented below are the details of suretyships and guarantees received:

Entity responsible / issuer of a guarantee or suretyship	Basis	Value	Period
Polenergia/Millenium Bank	Agreement for the sale of property rights (green certificates)	PLN 1,000,000	19/04/2010
Metso Power OY/Metso Corporation OY	Contract for the supply of a boiler	EUR 710,000	31/02/2010
Stabo GmbH/Deustche Bank	Contract for the supply of a steam drum	EUR 22,650	14/10/2010
Energoremont, Ulikowscy, Sp. J/Millenium Bank	Contract for boiler overhaul	PLN 899,500	08/12/2010
Alstom Power Sp. z o.o./PKO BP	Contract for turbine overhaul and upgrade	PLN 1,149,100	13/11/2010

15. In the case of the issuing of securities during the period covered by the report - a description of how the issuer used proceeds until the report date

In 2009, there were minor share issues related to the Company's stock option schemes. The related proceeds amounted to PLN 5,263 thousand and were used to cover current expenses.

16. Explanation of differences between the financial results disclosed in the annual report and previously published forecasts

Item	2009 forecast	2009 actual	Difference	Comment
Sales revenue	123.7	106.1	-17.6	The forecast assumed only the sale of a majority stake in wind farm projects presented under sales revenue. In 2009 both majority and minority stakes were sold which is reflected in both sales revenue and finance income. Therefore, sales revenue is correspondingly lower while finance income is higher than forecasted. Furthermore, higher operating income was earned due to higher efficiency of facilities and higher prices of green energy.
EBITDA	58.8	50.3	-8.5	The forecast assumed only the sale of a majority stake in wind farm projects presented under sales revenue. In 2009 both majority and minority stakes were sold which is reflected in both sales revenue / operating expenses and finance income / finance costs. Therefore, sales revenue is correspondingly lower than forecasted, while finance income is higher. As a result, EBITDA is lower. The forecasted result on the sale of stakes in wind farm projects has been achieved. Furthermore, EBITDA is influenced by higher operating income earned due to higher efficiency of facilities and higher prices of green energy.
Adjusted EBITDA	70.3	71.8	1.5	At the adjusted EBITDA level, the effect of different presentation of sale of majority and minority stakes in individual P&L items has been eliminated. The forecasted result on the sale of stakes in wind farm projects has been achieved. Furthermore, EBITDA is influenced by higher operating income earned due to higher efficiency of facilities and higher prices of green energy.
Net profit	44.0	46.9	2.9	Impact of the factors influencing EBITDA; positive effect of foreign exchange differences (non-cash) on the balance sheet valuation
Net profit adjusted for the effect of foreign exchange differences	44.0	44.7	0.7	EBITDA's impact

17. Assessment, together with justification, of the management of financial resources, with particular emphasis on the ability to meet obligations, and identification of potential risks and actions the issuer has taken or intends to take to address these risks

The most important part of the issuer's and its capital group's financial liabilities are bank loans, the details of which have been described in the financial statements. All liabilities of the issuer and its group are fulfilled without major delays. In the FY 2009, there were no risks to the settlement of liabilities.

18. Feasibility assessment of investment projects, including equity investments, compared to the resources available, considering possible changes in the funding structure

PEP aims to finance individual projects in 70%-80% by loans and in 30%-20% by own resources. Projects carried out by Biomasa Energetyczna, due to their specific nature, achieve greater internal funding of 35%. Own contribution to these projects will be covered in a significant part from own resources.

As at 31 December 2009, the Group plans to incur expenditures in 2010 on property, plant and equipment for an estimated total amount of about PLN 280m by the end of 2010. These amounts will be used to purchase new machinery and equipment in the existing projects, in particular, to finance the construction of Modlikowice and Łukaszów wind farms, capital expenditures in Saturn CHP Plant, construction of two new plants producing pellets - in southern Poland in Ząbkowice Śląskie and in the eastern part of the country near Zamość. The Group also plans to incur expenditures in 2010 to construct biomass-fired power plants and for wind farms development.

The Group uses EU funding opportunities: grants have been applied for in the case of the Łukaszów WF and Modlikowice WF projects. All the projects have undergone formal assessment and were included in the primary list of projects applying for funding under the Operational Programme Infrastructure and Environment Measure 9.4 Energy production from renewable sources (bid 1/PO IiŚ/9.4/2009) and obtained a funding of PLN 40 million each (a total of PLN 80 million). Grants cover 24% of the estimated budget for the Modlikowice project and 18% of the budget for the Łukaszów project. The funding means that PEP will have internal resources required to implement these projects. As a result, it will also increase PEP's ability to implement subsequent projects in the area of renewable energy.

The portfolio of wind farms will be developed using own resources only.

19. Assessment of factors and unusual events affecting the results for the financial year, indicating the impact of such factors or unusual events on the achieved results, and major events having a significant impact on the business and financial results of the issuer's capital group in the financial year or whose effects are possible in subsequent years

Section 2 addresses in detail significant events affecting the Issuer's operations and results. All of them are typical of its business activity.

20. Description of external and internal factors important for the issuer's development and of the outlook for its development at least until the end of the financial year following the financial year for which the accounts have been included in the annual report, including market strategies developed, and policy for the issuer's group development

<u>External factors important for the Capital Group's development</u>

<u>Poland's EU membership</u>

Being a Member State, Poland must adapt its legislation on energy to the EU standards. The Community shapes the energy market in Member States by means of directives issued by the European Parliament. In relation to PEP SA's operations, the most important directives concern:

Power generation from renewable sources - (Directive 2001/77/EC) - The EU promotes "green" energy to reduce dependence on imported energy carriers as well as to reduce the exploitation and pollution of the environment.

Reduction of emissions to the environment - (Directives 2003/87/EC, 2001/80/EC, 280/2004/EC) - EU Member States are obliged to introduce mechanisms to reduce emissions of greenhouse gases into the atmosphere, in accordance with the provisions of the Kyoto Protocol.

Promotion of effective ways to produce energy - (Directive 2004/8/EC) - The EU believes that increasing the share of cogeneration, i.e. the generation of electricity in combination with heat, triggers reduction of greenhouse gas emissions into the atmosphere. Therefore, it introduced mechanisms to promote this technology.

Boosting competitiveness - (Directive 2003/54/EC) - The EU's strategic objective is to increase the competitiveness of energy market by enabling consumers to choose suppliers of energy. This creates a major opportunity for the development of power generation sources located close to the end-user.

Poland aligns legislation governing the energy market to European standards as laid down by the directives of the European Parliament. As a consequence, most of the industrial CHP plants that do not meet the environmental protection standards will have to be upgraded and energy production from renewable sources must increase. Also, energy consumption is expected to increase as it is currently lower by about 40% in Poland than in the "old" European Union. Projected changes in the Polish energy market will create opportunities for development of the activities carried out by the Issuer. PEP's facilities already meet the European standards for environmental protection. PEP invests and intends to invest in power generation from renewable sources - the Saturn CHP Plant in Świecie has a modern CFB boiler, the largest in Poland, suitable for co-firing biomass. Furthermore, having assumed an increased market demand for "green" energy from renewable energy sources resulting from the regulations, PEP intends to invest in facilities that produce energy from wind power. The Issuer uses cogeneration as the leading technology in industrial installations developed for end-users, making it possible to offer competitive price without the costs of energy transmission network. Furthermore, most power plants prepared and managed by the Issuer achieved a significant reduction in greenhouse gas emissions, using environmentally friendly technologies and solutions.

The consequence of Polish accession to the European Union is also the reduction of barriers to operating in other Member States. On the one hand, it offers the possibility to expand the Issuer's reach to the markets of other EU Member States, but on the other, especially in the context of projected growth in the demand for renewable energy in Poland, may bring foreign competitors.

<u>Macro factors</u>

Economic growth in Poland to a large extent influences the results of companies operating on the Polish market as well as their investment plans. The apparent economic upturn can be expected to increase investment, inter alia, in the modernisation of production processes, which may also be associated with the upgrade of industrial CHP plants. This allows the Issuer to expect a growing demand for its services.

Economic conditions, and thus the volume of investment and consumer demand, are important for the condition of current and future customers of the Issuer and its Capital Group. Therefore, it affects their ability to meet obligations towards the PEP Group. According to the macroeconomic forecasts, economic growth in Poland should be continued at the rate forecasted by the government – up to 5% in 2008.

<u>Growth of the outsourcing services market</u>

As part of their efforts to be more competitive on the Polish market, companies decide to separate support functions that are not directly related to the core activity and to outsource them to specialised organisations. This allows reducing costs of functions previously managed internally and allows focusing on the core business. Furthermore, it is possible – at least partially – to transfer operational risks associated with the support activities to the outsourcer. So far outsourcing has gained popularity in IT solutions and services, security, catering and cleaning services. It is expected that a growing number of areas will be outsourced and more businesses will decide on this step. Given the projected need for upgrade of industrial CHP plants, and due to increasing requirements related to environmental protection, it can be expected that many energy-intensive manufacturers will decide to hire specialised companies to design, implement and manage modern energy facilities, in particular those based on biomass fuel.

Growth of renewable energy market

The need to adjust the Polish energy market to the requirements of EU membership creates potential for dynamic development of power generation from renewable sources. Even before the accession to the European Union, Poland undertook to fulfil the obligations regarding production of electricity from renewable sources. Under the Minister of Economy's decree of 14 August 2008 on the detailed scope of obligations to obtain and produce certificates of origin for redemption, payment of substitute fee and purchase of electricity and heat produced from renewable energy sources (Journal of Laws No. 156, item 969 dated 14 August 2008), power companies are obliged to purchase renewable energy (in the form of the so-called green certificates) so that its share in the total electricity purchased be no less than:

1) 7.0 % - in 2008;
2) 8.7 % - in 2009;
3) 10.4 % - in 2010;
4) 10.4 % - in 2011;
5) 10.4 % - in 2012;
6) 10.9 % - in 2013;
7) 11.4 % - in 2014;
8) 11.9 % - in 2015;
9) 12.4% - in 2016;
10) 12.9% - in 2017.

Currently, the volume of "green" energy produced is not sufficient - at the beginning of 2008, the share of renewable energy in total energy consumed in the European Union was 8.5%. EU directives assume the share in 2010 at 12% and in 2020 at 20%.

Also in Poland, the volume of renewable energy purchased by the distributors should gradually increase up to the level of 7,500 GWh in 2010 – based on a conservative assumption that total energy consumption in Poland will not change compared to the level of recent years, i.e. about 105,000 GWh per year (source: PSE). Failure to achieve the required share of renewable energy in the volume of sales by entities providing energy to the end-users triggers the obligation to pay a substitute fee at PLN 258.89 in 2009 per each MWh of undelivered green energy. The substitute fee is subject to annual inflation adjustment. Prices of renewable energy are not regulated and because of the low supply and high demand continue to grow. Currently, the price paid for wind energy has already exceeded PLN 370/MWh and is expected to grow.

Given the existing climate and geological conditions in Poland, in practice the main sources of domestic production of green energy may be combustion of biomass and wind power. High expectations are associated particularly with the development of wind power market - about 30% of the country features conditions allowing use of wind farms and 5% has very favourable conditions for the production of wind power. The best locations are along the Baltic Sea coast. In 2009, according to the Polish Wind Energy Association, the installed capacity of power generation was 724 MW, and production in 2009 amounted to 864.5 GWh. According to the Safire prognostic model, used by the European Commission in drawing up development strategies and implementation programs for renewable energy, wind power production in Poland should reach 4,800 GWh in 2010 and 6,000 GWh in 2020. Generating 4,800 GWh requires an installed output of 2,000 MW, which means that the market is still ready for power plants exceeding the rated power of 1,500 MW.

Competitors

Market for outsourcing of industrial CHP plants does not feature much competition. Prospects for development of both the outsourcing of industrial CHP plant and the renewable energy market may help to increase competition in those segments of the energy market. Unique experience and competence of the Issuer in developing, financing and managing complex energy solutions should enable PEP to compete effectively.

Funding available for the developed projects

The Issuer seeks to achieve a project finance formula of 70%-80% share of external funding and 30%-20% own share. Construction of new wind farms, upgrade of existing facilities and development of projects related to the outsourcing of production of electricity and heat will require substantial resources. New projects will be funded through bank loans, own funds, the issue of shares (only on condition that the share price reflects the fair value of the company) and the sale of stakes in selected projects.

The Issuer's experience in the preparation of investments and securing funding indicates that professionally designed business plans and good relations maintained with financial institutions will ensure appropriate funding for the individual projects.

In case of difficulties with the acquisition of entities interested in buying shares, ineffective issue of shares, difficulties in obtaining bank loans, the Group may postpone the implementation of individual investment projects. In such circumstances, the Issuer will consider other forms of financing for the proposed projects, including a temporary reversal of the ratio between the shares sold and retained.

Internal factors important for the Capital Group's development

Efficiency of facilities

PEP continuously monitors operations of the facilities it manages, which ensures quick response to potential threats to achieving their planned performance and availability and ensures performance under power supply contracts. Furthermore, the Group improves procedures for operating facilities and enters into insurance contracts or applies contractual clauses which enable it to transfer any additional operating costs to subcontractors.

Development of operations in the scope of new projects

The ability to create and manage new projects is crucial to be able to compete in the industrial power outsourcing market and the renewable energy market and thus is crucial for financial results that will be achieved in the future. PEP has a highly qualified and committed managers and engineers who are involved in implementing the strategy. During almost 10 years of its operations PEP has built an experienced Project Development Team that ensures continuity of works on new projects and their successful completion. The team has gained unique experience on the Polish market which ensures solutions customised to individual needs and abilities of customers thanks to using the most advanced energy technologies and legal structures. In addition, the Issuer systematically raises the Group's efficiency, among others by applying modern IT solutions for project budgeting and monitoring costs.

Outlook for the development of the Capital Group's activities

Detailed description of growth perspectives has been included in section 2 hereof.

The Group operates on the industrial power outsourcing market and the renewable energy market by using the Saturn CHP Plant generating energy from biomass and the Puck wind farm. The Group also produces biomass fuel that it supplies to industrial customers. The

Issuer intends to further increase its share in the renewable energy market by generating wind power, biomass power in dedicated entities and producing fuel from biomass.

Growth factors:

- specialisation in the implementation and configuration of customised industrial power outsourcing projects based on biomass,
- focus on customers with good standing and operating in growth markets,
- developing qualified management, financial and engineering staff with competencies necessary to manage the existing and set up new projects,
- strengthening position on the renewable energy market – construction of wind farms and biomass-fuelled plants and building a development team,
- achieving a significant position on the biomass supplies market.

Please see sections 2 and 18 hereof for a detailed description of the Issuer's Capital Group growth opportunities.

21. Changes in the basic management principles of the issuer and its capital group

There were no changes in the basic management principles of the issuer and its capital group in FY 2009.

22. Any agreements made between the issuer and members of its executive bodies providing for compensation in the event of resignation or dismissal from their positions without a valid reason or if their removal or dismissal is due to the issuer's acquisition

Board President, Zbigniew Prokopowicz, is a party to an employment contract with the Company. The contract was made for an indefinite period and may be terminated by either party with twelve months' notice. In the event of termination by the Company or by Mr Zbigniew Prokopowicz for reasons attributable to the Company prior to 1 July 2011, the Company will be obliged to pay to Mr Zbigniew Prokopowicz a contractual penalty equal to an overall salary due to him from the date of termination until 1 July 2011, but not less than PLN 840,000.

Ms Anna Kwarcińska is a party to an employment contract with the Company. This contract is made for an indefinite period. The notice period is 12 months. In the case of termination by the Company or by Ms Anna Kwarcińska for reasons attributable to the Company before 1 July 2011, the Company will pay a contractual penalty amounting to an overall salary due from the date of termination of the contract until 1 January 2012, but no less than PLN 408,000. In the case of resignation from the Board, the Company will be obliged to pay a compensation of PLN 204,000.

Mr Michał Kozłowski is a party to an employment contract with the Company. This contract is made for an indefinite period. The notice period is 12 months. In the case of termination by the Company or by Mr Michał Kozłowski due to reasons attributable to the Company prior to 1 July 2011, the Company will be obliged to pay a contractual penalty equal to overall salary due from the date of termination until 1 January 2012, but not less than PLN 408,000. In the case of resignation from the Board, the Company will be obliged to pay compensation of PLN 204,000.

23. The amount of salaries, awards or benefits, including those resulting from incentive or bonus schemes based on the issuer's equity, including schemes based on bonds with pre-emptive rights, convertible bonds, subscription warrants (in cash, in kind or in any other form), paid, payable or potentially payable, separately for each of the members of the issuer's executive and supervisory personnel, irrespective of whether they were properly included in costs or resulted from the distribution of profits; if the issuer is the parent company, a partner in a jointly controlled entity or a significant investor -- separate information about remuneration and awards received for performing their functions in the authorities of subordinated entities; if relevant disclosures were presented in the financial statements - the obligation is fulfilled by identifying their location in the financial statements

Salaries of executive and supervisory personnel are set out in Note 42 to the consolidated financial statements.
The Company has a stock option scheme for its executive and supervisory personnel. Under this scheme, further described in Note 44 to the consolidated financial statements, options were granted to the executive and supervisory personnel as shown in the table below:

Member of Board of Directors, Supervisory Board or Key Management	Number of options available in the entire scheme	Number of options exercised until 31 Dec 2009	Number of options granted until 31 Dec 2009	Number of granted and unexercised	Number of options available in 2010	Exercise price (PLN)
2nd Option Scheme (2007, 2008 and 2009)	945 800	461 239	623 868	162 629	321 931	
Zbigniew Prokopowicz	302 400	199 934	199 934	0		11,41

					102 466	
Stephen Klein	30 543	20 362	20 362	0	10 181	11,41
Anna Kwarcińska	233 946	77 982	155 964	77 982	77 982	11,41
Michał Kozłowski	233 946	77 982	155 964	77 982	77 982	11,41
Key Managers	144 965	84 979	91 644	6 665	53 320	11,41

24. Total number and par value of all shares of the issuer and shares in the issuer's related entities, which are held by members of the issuer's executive and supervisory bodies (for each person separately)

As at 31 December 2009, members of the issuer's executive and supervisory bodies held the following stakes in the parent company:

Shares	As at 31 December 2008	Additions under incentive schemes	Additions due to acquisition	Disposals	As at 31 December 2009
Board of Directors	9,000	355,898	0	-221,964	142,934
Zbigniew Prokopowicz	9,000	199,934	0	-66,000	142,934
Anna Kwarcińska	0	77,982	0	-77,982	0
Michał Kozłowski	0	77,982	0	-77,982	0
Supervisory Board	143,200	20,362	2,000	-154,000	11,562
Stephen Klein	143,200	20,362	0	-154,000	9,562
Artur Olszewski	0	0	2,000	0	2,000
Krzysztof Sędzikowski	0	0	0	0	0
Wojciech Sierka	0	0	0	0	0
Krzysztof Sobolewski	0	0	0	0	0
Krzysztof Kaczmarczyk	0	0	0	0	0
Marek Gabryjelski	0	0	0	0	0
Total	152,200	376,260	2,000	-375,964	154,496

As at 31 December 2009, the following members of executive and supervisory bodies were entitled to take up shares of the Company under the stock option scheme:

Anna Kwarcińska – 77,982 shares;
Michał Kozłowski – 77,982 shares.

As at 31 December 2009, the Company was running a stock option scheme for the Board of Directors, Supervisory Board member and key staff.

<u>2nd stock option scheme</u>
On 10 January 2007, the General Meeting of Shareholders adopted a resolution on the issue of Series 2 subscription warrants and a conditional increase of the share capital by the issuance of T-class shares excluding the pre-emptive rights of the existing shareholders in order to allow stock option scheme participants to take up those shares.

The scheme is described in the following table:

Beneficiaries	Ms Anna Kwarcińska, Mr Stephen Klein, Mr Michał Kozłowski, Mr Zbigniew Prokopowicz, the Company's key staff
Grant date	10 January 2007, 01 March 2007, 14 December 2007
Vesting date	01 July 2008 01 July 2009 01 July 2010
Expiry date	30 September 2010
Number of options in the scheme	945,800
Number of options granted	945,800
Option exercise – share acquisition price PLN/share	PLN 11.41
Mode of settlement	Issue of shares preceded with issue of subscription warrants
Exercising terms and conditions	Option scheme features 12 tranches: Tranches 1,4,7, 10 - vesting date from 01 July 2008 Tranches 2, 5, 8, 11 - vesting date from 01 July 2008 Tranches 3, 6, 9, 12 - vesting date from 01 July 2008 Acquisition of Subscription Warrants is subject to the fulfilment of following necessary conditions: Vesting conditions for tranches 1,2,3 and tranches 10,11,12 in the respective years. Only after the aforementioned conditions have been fulfilled will it be possible to obtain the right to tranches 4-9. Rights to tranches 1,2,3 will be obtained if the ratio of the Company's price for the period of 6 months of the year preceding the vesting year and the price for the period of 6 months preceding the vesting year by two years is higher than the ratio of WIG index for the same periods. Rights to tranches 4, 5, 6 will be obtained if the ratio of the Company's price for the period of 6 months of the year preceding the vesting year and the price for the period of 6 months preceding the vesting year by two years is higher than the ratio of WIG index for the same periods multiplied by 1.07. Rights to tranches 7, 8, 9 will be obtained if the Company's EBITDA per share is higher than PLN 1.64 in 2007 for Tranche 7, PLN 1.97 in 2008 for Tranche 8, and PLN 2.36 in 2009 for Tranche 9. Rights to tranches 10, 11, 12 will be obtained if the EPS index is not less than PLN 0.78 in 2007 for Tranche 10, PLN 0.92.97 in 2008 for Tranche 11, and PLN 1.08 in 2009 for Tranche 12. In the case of non-fulfilment of vesting conditions in 2007 and / or 2008 the option scheme provides for the possibility of obtaining the rights to those options upon the fulfilment of additional conditions in subsequent years. Please see current report RB 03/2007 for detailed T&C of the scheme. If any entity calls for at least 100% of the shares of the Company, the acquisition of rights will be accelerated for options where the vesting conditions have been met even if (i) the Company's financial statements have not been commented on by the Supervisory Board or approved by the General Meeting of Shareholders, and (ii) before 30 June of the respective year. Furthermore, if as a result of the call an entity which operates as an energy generator, either directly or through its related entities, acquires at least an 80% stake in the Company and the entities that reported to the Company about holding, in any form, more than 5% of the Company's shares sell, as a result of the Call, at least 70% of the total stake held by such entities, then the call for all options will be accelerated, but the number of options will be reduced by 0.85% for each full month after the end of the call to the end of the year for which the options were due.

The fair value of options was established using the Black-Scholes-Merton model. The fair value of options granted in January and March 2007 is as follows:

Options – tranches 1, 4 – PLN 5.62
Options – tranches 2, 5, 7, 10 – PLN 6.51
Options – tranches 3, 6, 8, 9, 11, 12 – PLN 7.26

The fair value of options granted on 14 December 2007 is as follows:

Options – tranches 1, 4 – PLN 17.69

Options – tranches 2, 5, 7, 10 – PLN 18.29
Options – tranches 3, 6, 8, 9, 11, 12 – PLN 18.95

The table below presents changes in the options scheme in the year ended 31 December 2009:

	2nd Option Scheme
Total number of options granted under the scheme	945,800
Number of options exercised as at 1 January 2009	0
Number of options exercised during four quarters of 2009	461,239
Number of options exercised as at 31 December 2009	461,239
Number of options available until the end of the scheme	321,931
Number of exercisable options	162,629
Weighted average exercise price	11.41

The expense recognised in profit or loss under the stock options schemes for the year ended 31 December 2009 amounted to PLN 1,800 thousand (2008: PLN 2,732 thousand).

25. Information about contracts known to the issuer (including those entered into after the balance sheet date) which may result in future changes in shareholding by existing shareholders and bondholders

The Issuer is not aware of any contracts that could result in future changes in shareholding by the existing shareholders.

26. Information about control of stock option schemes

Due to the fact that the Company's options scheme concerns identifiable persons and the criteria for exercising rights are objective, universally available or confirmed by external bodies, there is no need for a control of employee stock option schemes. The Company notifies on capital increases associated with the scheme on an on-going basis. The result for 2009 accounted for the cost of options granted to executive and supervisory personnel.

27. Information about:

a) date when the issuer entered into a contract with an entity authorised to audit financial statements for an audit or review of separate or consolidated financial statements and term of the contract

Contract of 8 July 2009 between Polish Energy Partners S.A. and Ernst & Young Audit Sp. z o.o. seated in Warsaw, Rondo ONZ 1, 00-124 Warszawa for:

- review of the Company's financial statements for the 6-month period ended 30 June 2009,
- review of consolidated financial statements for the 6-month period ended 30 June 2009,
- audit of the Company's financial statements for the year ended 31 December 2009,
- audit of consolidated financial statements for the year ended 31 December 2009,
- audit of the financial statements of Saturn Management Sp. z o.o. i Wspólnicy Sp. k., a subsidiary, for the year ended 31 December 2009,

- audit of the financial statements of Energopep Sp. z o.o., EC Jeziorna, Sp. k., a subsidiary, for the year ended 31 December 2009,
- audit of the financial statements of Dipol Sp. z o.o., a subsidiary, for the year ended 31 December 2009.

Contract of 8 October 2009 between Grupa PEP Biomasa Energetyczna Sp. z o.o. and Ernst & Young Audit Sp. z o.o. seated in Warsaw, Rondo ONZ 1, 00-124 Warszawa for:

- audit of the financial statements of Grupa PEP Biomasa Energetyczna Sp. z o.o., a subsidiary, for the year ended 31 December 2009.

b) fee for the entity authorised to audit financial statements, paid or payable for the financial year

Total fee under the abovementioned contracts is PLN 310 thousand.

Fee for other services provided by Ernst & Young Audit Sp. z o.o. in 2009 is PLN 33 thousand.

Ernst & Young Audit Sp. z o.o audited all separate and consolidated financial statements for 2008. Total fee for 2008 was PLN 300 thousand.

28. Significant off-balance sheet items (indicating the entity involved, nature and value of the item)

A description of off-balance sheet items indicating the entity involved, nature and value of the item has been included in Note 27 to the consolidated financial statements.

Zbigniew Prokopowicz – President of the Board

Anna Kwarcińska – Vice-president of the Board

Michał Kozłowski – Vice-president of the Board