Polish Energy Partners Capital Group

CONSOLIDATED QUARTERLY REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2006 PREPARED WITH THE PROVISIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Warsaw, April 26, 2006

(in thousand zlotys)

CONSOLIDATED BALANCE SHEET Assets	31.03.2006	31.12.2005	31.03.2005
I.Fixed Assets (long-term)	**300 507**	**293 910**	**278 117**
1. Tangible fixed assets	58 614	55 139	34 252
2. Intangible fixed assets	23	27	21
3. Goodwill of the subsidiaries	132	132	-
4. Financial assets	8 364	5 637	4 247
5. Financial assets valued at equity method	747	756	-
6. Long-term receivables	231 850	231 587	239 548
7. Deferred tax assets	-	-	-
8. Other fixed assets	777	632	49
II. Current assets (short-term)	**84 700**	**84 829**	**67 444**
1.Inventory	1 814	1 986	1 711
2.Trade liabilities	21 366	17 859	7 548
3.Income tax receivables	-	446	-
4.Other short-term receivables	16 964	17 732	19 897
5.Accrued income and deferred cost	2 548	1 194	4 477
6.Other short-term assets	3 340	2 692	1 402
7.Short-term financial assets	1 334	1 319	1 956
8.Cash and cash equivalents	37 333	41 601	30 453
Total Assets	**385 207**	**378 739**	**345 561**

CONSOLIDATED BALANCE SHEET Total equity and Liabilities	31.03.2006	31.12.2005	31.03.2005
I. Shareholders' Equity	**117 614**	**111 621**	**107 047**
1.Share capital	36 369	36 370	35 865
2.Unpaid share capital	(279)	(378)	-
3.Surplus of sales issue above nominal value (agio)	28 321	28 321	28 321
4.Treasury shares	-	-	-
5.Reserve capital from option valuation	1 429	1 032	551
6.Other reserve capital	28 267	28 267	28 267
7.Profit/loss from previous years	18 010	8 669	8 670
8.Profit/loss for the period	5 497	9 341	5 374
9.Minority interest	-	-	-
II. Long-term liabilities	**238 686**	**237 712**	**211 667**
1.Bank credits and loans	231 923	231 951	207 540
2.Deferred tax liability	2 679	1 791	360
3.Provisions	2 532	2 521	2 510
4.Accruals and deferred income	1 001	1 021	1 257
5.Other liabilites	551	428	-
III. Short-term liabilities	**28 906**	**29 406**	**26 846**
1.Bank credits and loans	19 361	20 409	8 654
2.Trade liabilities	2 363	3 960	2 297
3.Income tax liabilities	214	14	805
4.Other liabilites	4 213	2 063	11 582
5.Provisions	1 419	1 602	1 692
6.Accruals and deferred income	1 336	1 358	1 817
Total Capital and Liabilities	**385 207**	**378 739**	**345 561**

(in thousand zlotys)

CONSOLIDATED PROFIT AND LOSS STATEMENT	31.03.2006	31.03.2005
Continued activity		
I. Sales income	18 137	19 031
II. Cost of goods sold	**(9 159)**	**(9 475)**
III. Gross profit on sales (I-II)	**8 978**	**9 556**
IV. Selling expense	-	-
V. General and administration costs	**(3 359)**	**(3 285)**
including management option program valuation	**(397)**	**(550)**
VI. Profit on sales (III-IV-V)	**5 619**	**6 271**
VII. Other operating income	62	8
VIII. Other operating expense	**(10)**	**(17)**
IX. Operating profit (VI+VII-VIII)	**5 671**	**6 261**
X. Financial income	3 824	3 493
XI. Financial expense	**(2 407)**	**(2 666)**
XII. Profit/Loss from subordinate units	(9)	(3)
XIII. Gross profit/loss (IX+X-XI+/-XII)	**7 080**	**7 086**
XIV. Corporate income tax	1 583	1 712
XV. Net profit/loss from continued activity	**5 497**	**5 374**
Discontinued activity		
XVI. Profit/loss from discontinued activity	-	-
XVII. Net profit/loss	5 497	5 374
Distribution of profit/loss:	**5 497**	**5 374**
Parent company sharefolders	5 497	5 374
Minority shareholders	-	-
Net profit/loss	5 497	5 374
Weighted average number of shares	18 255 581	17 932 392
Basic EPS (in zł)	**0,30**	**0,30**
Weighted average diluted number of shares	18 255 581	17 932 392
Diluted EPS (in zł)	**0,30**	**0,30**

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Financial income		
	31.03.2006	**31.03.2005**
a) financial income from dividends and share in profit	0	-
b) due from loans granted	158	73
c) other interest - leasing	2 457	2 838
interest due from lease of assets	700	631
d) foreign exchange	1 054	298
-unrealised	1 020	305
-realised	34	(6)
e) reversal of provision for doubtful debt	-	-
f) gain on securities trade	29	256
g) other financial income	126	29
Financial income, total	**3 824**	**3 493**

(in thousand zlotys)

Consolidated Cash Flows Statement	31.03.2006	31.03.2005
A.Cash flow from operating activities - indirect method		
I.Gross profit/loss	**7 080**	**7 086**
II.Adjustments for:	**(3 032)**	**(8 563)**
1.Profit/ loss from associates and jointly controlled entities which are companies	(2)	3
2.Depreciation	668	718
3.Foreign exchange gains/losses	(819)	(25)
4.Interest and dividends received and paid	(110)	(191)
5.Result on investment activity	3	-
6.Corporate income tax	49	-
7.Change in provisions	(108)	(272)
8.Change in inventory	297	181
9.Change in receivables	(494)	(10 531)
10.Change in short term liabilities, without loans and credits	(1 037)	3 153
11.Change in deferred income and accruals	(1 228)	(2 150)
12. Other changes	(251)	551
III.Net cash flow from operating activities (I+/-II)	**4 048**	**(1 477)**
B.Net cash flow from investing activities		
I. Inflows due to investing activities	**6 209**	**5 768**
1. Sale of intangible and tangible fixed assets	35	-
2. Sale of investments in tangible fixed assets and intangible assets	-	-
3. Sale of other financial assets, including:	(0)	-
- sale of financial assets	-	-
- dividends and shares in profit	(0)	-
- repayment of granted long term loans	-	-
- interest	(0)	-
- other inflows from financial assets	-	-
4. Other investment inflows	6 174	5 768
II.Outflows due to investing activities	**7 150**	**1 712**
1. Purchase of intangible and tangible fixed assets	3 682	1 220
2. Investments in property and intangibles	-	-
3. Purchase of other financial assets, including:	2 590	133
- purchase of financial assets	-	133
- long-term loans granted	2 590	-
4. Dividends and other payments paid to minority shareholders,	-	-
5.Other investing outflows	878	359
III.Net cash flow from investing activities (I-II)	**(941)**	**4 056**
C.Net cash flow from financing activities		
I.Inflows from financing activities	**761**	**521**
1. Issue of shares and capital instruments	100	-
2.Loans and credits	661	521
3. Issue of bonds	-	-
4. Other	-	-
II.Outflows due to financing activities	**8 608**	**7 289**
1.Purchase of treasury shares	-	-
2.Dividends and others payments to shareholders	20	12
3.Share issue related expenditure	-	-
4.Repayments of loans and credits	6 165	4 597
5.Repayments of bonds	-	-
6.Repayments of other financial liabilities	-	-
7.Finance lease payments	88	40
8.Interest paid	2 335	2 640
9.Other	-	-
III.Net cash flow from financing activities (I-II)	**(7 847)**	**(6 768)**
D.Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)	**(4 740)**	**(4 189)**
E.Balance sheet change in cash and cash equivalents, including:	**(4 268)**	**(4 189)**
- changes in cash and cash equivalents resulting from foreign exchange gains/losses	472	-
F.Cash and cash equivalents at the beginning of the period	**42 949**	**36 603**
G.Cash and cash equivalents at the end of the period, including :	**38 681**	**32 414**
- restricted cash and cash equivalents	15	6 337

(in thousand zlotys)

Reconciliation of cash and cash equivalents presented in teh consolidated cash flow statement with the balance sheet items	**31.03.2006**	**31.03.2005**
7. Short-term financial assets in balance sheet	1 334	1 956
8.Cash and cash equivalent in balance sheet	37 333	30 453
Cash of social fund	14	5
Total	38 681	32 414
		-
G.Cash and cash equivalents at the end of the period in the cash flow statement	38 681	32 414

Presentation of sources of external finance (cash flow statement)	**31.03.2006**	**31.03.2005**
pos. C.I.2 Incomes from loans and credits	661	521
pos. C.II.4 Payoff from loans and credits	(6 165)	(4 597)
Change in sources of external finance, including:	**(5 504)**	**(4 076)**
investment debt draw, net	(3 698)	(1 720)
drawing/repayment of VAT facility, net	(1 806)	(2 356)

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Treasury shares	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousands PLN									
Equity at the beginning of the period - 01.01.2006	**36 369**	**(378)**	**28 321**	**-**	**1 032**	**28 267**	**8 669**	**-**	**102 280**
Changes in capital in the period	**-**	**99**	**-**	**-**	**397**	**-**	9 341	**5 497**	**15 334**
a) increase	**-**	**-**	**-**	**-**	**397**	**-**	**9 341**	**5 497**	**15 235**
- net profit							9 341	5 497	14 838
- shares issue									-
- shares issue above nominal value									-
- from distribution of profit (required by law)									-
- from distribution of profit (over the minimal value required by law)									-
- from distribution of rpofits from previous years									-
- from management options valuation					397				397
b) decrease	**-**	**(99)**	**-**	**-**	**-**	**-**	**-**	**-**	**(99)**
- net loss	-	-	-	-	-	-	-	-	-
- dividend payment	-	(99)	-	-	-	-	-	-	(99)
- redemption of shares	-	-	-	-	-	-		-	-
- coverage of loss	-	-	-	-	-	-		-	-
- movement to reserve capital	-	-	-	-	-	-	-	-	-
Equity at the end of the period - 31.03.2006	**36 369**	**(279)**	**28 321**	**-**	**1 429**	**28 267**	**18 010**	**5 497**	**117 614**

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

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Treasury shares	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousands PLN									
Equity at the beginning of the period - 01.01.2005	**35 865**	**-**	**36 459**	**-**	**-**	**9 392**	**19 406**	**-**	**101 122**
Changes in capital in the period	**-**	**-**	**(8 138)**	**-**	**551**	**18 875**	(10 736)	**5 374**	**5 926**
a) increase	**-**	**-**	**-**	**-**	**551**	**18 875**	**8 139**	**5 374**	**32 939**
- net profit						18 875	8 139	5 374	32 388
- shares issue									-
- shares issue above nominal value									-
- from distribution of profit (required by law)									-
- from distribution of profit (over the minimal value required by law)									-
- from distribution of rpofits from previous years									-
- from management options valuation					551				551
b) decrease	**-**	**-**	**8 138**	**-**	**-**	**-**	**18 875**	**-**	**27 013**
- net loss									-
- dividend payment							18 875		18 875
- redemption of shares									-
- coverage of loss			8 138						8 138
- movement to reserve capital			-						-
Equity at the end of the period - 31.03.2005	**35 865**	**-**	**28 321**	**-**	**551**	**28 267**	**8 670**	**5 374**	**107 048**

(in thousand zlotys)

Simplified standalone financial statement of PEP S.A. for the first quarter ended March 31, 2006

BALANCE SHEET Assets	31.03.2006	31.12.2005	31.03.2005
I.Fixed Assets (long-term)	**111 997**	**102 490**	**72 623**
1. Tangible fixed assets	6 027	6 661	33 346
2. Intangible fixed assets	-	-	2
3. Investment property	30 324	28 348	-
4. Financial assets	75 176	67 167	39 220
5. Long-term receivables	6	6	6
6. Deferred tax assets	-	-	-
7. Other fixed assets	464	308	49
II. Current assets (short-term)	**29 959**	**30 535**	**51 861**
1.Inventory	1 017	1 305	1 116
2.Trade liabilities	8 727	6 697	9 134
3.Income tax receivables	-	432	-
4.Other short-term receivables	9 561	181	-
5.Accrued income and deferred cost	116	155	2 893
6.Short-term financial assets	19	4 903	14 648
7.Cash and cash equivalents	10 519	16 862	24 070
Total Assets	**141 956**	**133 025**	**124 484**

BALANCE SHEET Total equity and Liabilities	31.03.2006	31.12.2005	31.12.2005
I. Shareholders' Equity	**111 919**	**93 128**	**89 526**
1.Share capital	36 369	36 369	35 865
2.Unpaid share capital	(279)	(378)	-
3.Surplus of sales issue above nominal value (agio)	28 321	28 321	28 321
4.Treasury shares	-	-	-
5.Reserve capital from option valuation	1 429	1 032	551
6.Other reserve capital	28 267	28 267	28 267
7.Profit/loss from previous years	(483)	(66)	(66)
8.Profit/loss for the period	18 295	(417)	(3 412)
9.Minority interest	-	-	-
II. Long-term liabilities	**23 260**	**22 651**	**19 659**
1.Bank credits and loans	17 864	18 030	15 979
2.Deferred tax liability	1 739	1 078	360
3.Provisions	2 105	2 094	2 063
4.Accruals and deferred income	1 001	1 021	1 257
5.Other liabilites	551	428	-
III. Short-term liabilities	**6 777**	**17 245**	**15 298**
1.Bank credits and loans	2 911	2 774	2 301
2.Trade liabilities	1 210	2 900	2 324
3.Income tax liabilities	214	-	805
4.Other liabilites	767	9 775	7 839
5.Provisions	1 136	1 198	1 424
6.Accruals and deferred income	539	598	605
Total Capital and Liabilities	**141 956**	**133 025**	**124 484**

(in thousand zlotys)

CONSOLIDATED PROFIT AND LOSS STATEMENT	31.03.2006	31.03.2005
Continued activity		
I. Sales income	5 697	8 548
II. Cost of goods sold	(2 971)	(7 351)
III. Gross profit on sales (I-II)	**2 726**	**1 197**
IV. Selling expense	-	-
V. General and administration costs	(2 733)	(2 661)
including management option program valuation	(397)	(550)
VI. Profit on sales (III-IV-V)	**(7)**	**(1 464)**
VII. Other operating income	22	1
VIII. Other operating expense	(875)	(554)
IX. Operating profit (VI+VII-VIII)	**(860)**	**(2 017)**
X. Financial income	20 880	795
including profit from subsidiary SM	20 363	-
XI. Financial expense	(370)	(478)
XII. Profit/Loss from subordinate units		
XIII. Gross profit/loss (IX+X-XI+/-XII)	**19 650**	**(1 700)**
XIV. Corporate income tax	1 355	1 712
XV. Net profit/loss from continued activity	**18 295**	**(3 412)**
Discontinued activity		
XVI. Profit/loss from discontinued activity		
XVII. Net profit/loss	18 295	(3 412)
Distribution of profit/loss:	**18 295**	**(3 412)**
Parent company sharefolders		
Minority shareholders		
Net profit/loss	18 295	(3 412)
Weighted average number of shares	18 255 581	17 932 392
Basic EPS (in zł)	**1,00**	**(0,19)**
Weighted average diluted number of shares	18 255 581	17 932 392
Diluted EPS (in zł)	**1,00**	**(0,19)**

(in thousand zlotys)

Cash Flows Statement	31.03.2006	31.12.2005	31.03.2005
A.Cash flow from operating activities - indirect method			
I.Gross profit/loss	**19 650**	**2 041**	**(1 700)**
II.Adjustments for:	**(22 946)**	**(816)**	**(1 849)**
1.Profit/ loss from associates and jointly controlled entities which are companies	-	-	-
2.Depreciation	643	2 716	672
3.Foreign exchange gains/losses	(221)	771	-
4.Interest and dividends received and paid	(20 224)	(8 665)	240
5.Result on investment activity	3	435	-
6.Corporate income tax	50	(1 278)	-
7.Change in provisions	(52)	(184)	(320)
8.Change in inventory	287	(15)	174
9.Change in receivables	(1 602)	(691)	(2 946)
10.Change in short term liabilities, without loans and credits	(2 106)	1 211	118
11.Change in deferred income and accruals	(121)	1 774	(338)
12. Other changes - options	397	3 110	551
III.Net cash flow from operating activities (I+/-II)	**(3 296)**	**1 225**	**(3 549)**
B.Net cash flow from investing activities			
I. Inflows due to investing activities	**2 038**	**28 892**	**1 357**
1. Sale of intangible and tangible fixed assets	-	3	-
2. Sale of investments in tangible fixed assets and intangible assets	-	-	-
3. Sale of other financial assets, including:	2 038	28 889	1 357
- sale of financial assets	-	-	-
- dividends and shares in profit	1 986	12 569	1 157
- repayment of granted long term loans	-	9 206	-
- interest	52	471	200
- other inflows from financial assets	-	6 643	-
4. Other investment inflows	-	-	-
II.Outflows due to investing activities	**4 858**	**41 910**	**1 342**
1. Purchase of intangible and tangible fixed assets	1 988	7 462	1 209
2. Investments in property and intangibles	-	-	-
3. Purchase of other financial assets, including:	2 870	34 448	133
- purchase of financial assets	280	31 545	133
- long-term loans granted	2 590	2 903	
4. Dividends and other payments paid to minority shareholders,	-	-	-
5.Other investing outflows	-	-	-
III.Net cash flow from investing activities (I-II)	**(2 820)**	**(13 018)**	**15**
C.Net cash flow from financing activities			
I.Inflows from financing activities	**761**	**4 371**	**-**
1. Issue of shares and capital instruments	100	126	-
2.Loans and credits	661	4 245	-
3. Issue of bonds	-	-	-
4. Other	-	-	-
II.Outflows due to financing activities	**1 112**	**4 072**	**1 032**
1.Purchase of treasury shares	-	-	-
2.Dividends and others payments to shareholders	-	-	-
3.Share issue related expenditure	-	-	-
4.Repayments of loans and credits	691	2 265	543
5.Repayments of bonds	-	-	-
6.Repayments of other financial liabilities	-	-	-
7.Finance lease payments	88	278	40
8.Interest paid	333	1 529	449
9.Other	-	-	-
III.Net cash flow from financing activities (I-II)	**(351)**	**299**	**(1 032)**
D.Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)	**(6 467)**	**(11 494)**	**(4 566)**
E.Balance sheet change in cash and cash equivalents, including:	**(6 343)**	**11 774**	**4 566**
- changes in cash and cash equivalents resulting from foreign exchange gains/losses	**125**	**(280)**	
F.Cash and cash equivalents at the beginning of the period	**16 862**	**28 636**	**28 636**
G.Cash and cash equivalents at the end of the period, including :	**10 519**	**16 862**	**24 070**
- restricted cash and cash equivalents	-	5 996	6 333

Changes in Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Treasury shares	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousands PLN									
Equity at the beginning of the period - 01.01.2006	**36 369**	**(378)**	**28 321**	**-**	**1 032**	**28 267**	**(483)**	**-**	**93 128**
Changes in capital in the period	**-**	**99**	**-**	**-**	**397**	**-**	**-**	**18 295**	**18 791**
a) increase	**-**	**-**	**-**	**-**	**397**	**-**	**-**	**-**	**397**
- net profit	-	-	-	-	-	-	-	-	-
- shares issue	-	-	-	-	-	-	-	-	-
- shares issue above nominal value	-	-	-	-	-	-	-	-	-
- from distribution of profit (required by law)	-	-	-	-	-	-	-	-	-
- from distribution of profit (over the minimal value required by law)	-	-	-	-	-	-	-	-	-
- from distribution of rpofits from previous years	-	-	-	-	-		-	-	-
- from management options valuation	-	-	-	-	397	-	-	-	397
b) decrease	**-**	**(99)**	**-**	**-**	**-**	**-**	**-**	**(18 295)**	**(18 394)**
- net loss	-	-	-	-	-	-	-	(18 295)	(18 295)
- dividend payment	-	(99)	-	-	-	-	-	-	(99)
- redemption of shares	-	-	-	-	-	-	-	-	-
- coverage of loss	-	-	-	-	-	-	-	-	-
- movement to reserve capital	-	-	-	-	-	-	-	-	-
Equity at the end of the period - 31.03.2006	**36 369**	**(279)**	**28 321**	**-**	**1 429**	**28 267**	**(483)**	**18 295**	**111 919**

Changes in Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Treasury shares	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousands PLN									
Equity at the beginning of the period - 01.01.2005	**35 865**	**-**	**36 459**	**-**	**-**	**9 392**	**(6 193)**	**16 865**	**92 388**
Changes in capital in the period	**504**	**(378)**	**(8 138)**	**-**	**1 032**	**18 875**	**6 127**	**(17 282)**	**740**
a) increase	**504**	**(378)**	**-**	**-**	**1 032**	**18 875**	**25 002**	**(417)**	**44 618**
- net profit	-	-	-	-	-	-	16 865	(417)	16 448
- shares issue	504	(378)	-	-	-	-	-	-	126
- shares issue above nominal value	-	-	-	-	-	-	8 137	-	8 137
- from distribution of profit (required by law)	-	-	-	-	-	18 875	-	-	18 875
- from distribution of profit (over the minimal value required by law)	-	-	-	-	-	-	-	-	-
- from distribution of rpofits from previous years	-	-	-	-	-	-	-	-	-
- from management options valuation	-	-	-	-	1 032	-	-	-	1 032
b) decrease	**-**	**-**	**8 138**	**-**	**-**	**-**	**18 875**	**16 865**	**43 878**
- net loss	-	-	-	-	-	-	-	16 865	16 865
- dividend payment	-	-	-	-	-	-	-	-	-
- redemption of shares	-	-	-	-	-	-	-	-	-
- coverage of loss	-	-	8 138	-	-	-	-	-	8 138
- movement to reserve capital	-	-	-	-	-	-	18 875	-	18 875
Equity at the end of the period - 31.12.2005	**36 369**	**(378)**	**28 321**	**-**	**1 032**	**28 267**	**(66)**	**(417)**	**93 128**

Changes in Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Treasury shares	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousands PLN									
Equity at the beginning of the period - 01.01.2005	**35 865**	**-**	**36 459**	**-**	**-**	**9 392**	**(6 193)**	**-**	**75 523**
Changes in capital in the period	**-**	**-**	**(8 138)**	**-**	**551**	**18 875**	**6 127**	**(3 412)**	**14 003**
a) increase	**-**	**-**	**-**	**-**	**551**	**18 875**	**25 002**	**-**	**44 428**
- net profit	-	-	-	-	-	-	16 865	-	16 865
- shares issue	-	-	-	-	-	-	-	-	-
- shares issue above nominal value	-	-	-	-	-	-	8 137	-	8 137
- from distribution of profit (required by law)	-	-	-	-	-	18 875	-	-	18 875
- from distribution of profit (over the minimal value required by law)	-	-	-	-	-	-	-	-	-
- from distribution of rpofits from previous years	-	-	-	-	-		-	-	-
- from management options valuation	-	-	-	-	551	-	-	-	551
b) decrease	**-**	**-**	**8 138**	**-**	**-**	**-**	**18 875**	**3 412**	**30 425**
- net loss	-	-	-	-	-	-	-	3 412	3 412
- dividend payment	-		-	-	-	-	-	-	-
- redemption of shares	-	-	-	-	-	-	-	-	-
- coverage of loss	-	-	8 138	-	-	-	-	-	8 138
- movement to reserve capital	-	-	-	-	-	-	18 875	-	18 875
Equity at the end of the period - 31.03.2005	**35 865**	**-**	**28 321**	**-**	**551**	**28 267**	**(66)**	**(3 412)**	**89 526**

Explanatory Notes
To the financial statements for the first quarter ended March 31, 2006

1 Accounting policies applied

1.1 Changes in the accounting principles applied

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

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

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

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

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

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

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

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

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

1.3 Format and the basis of preparing the consolidated financial statement

The consolidated financial statements were prepared in accordance with the provisions of International Accounting Standards and International Financial Reporting Standards and with the decree of Ministry Board dated October 19, 2005 in relation to current and periodical information submitted by the issuers of securities (Journal of Laws dated October 26, 2005) and covers the period from January 1, 2006 till March 31, 2006 and the comparable period from January 1, 2005 till March 31, 2005.

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

1.4 Compliance representation

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

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

The Group applied the IFRS ruling as at March 31, 2006.

The presented consolidated financial statements comply with all IFRS requirements, so they present a complete and fair view of financial situation of the Company as of March 31, 2006 and March 31, 2005 in accordance with IFRS requirements.

1.5 Estimates

Professional judgment

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

- leasing classification – the Group as the lessor,

Uncertainty of estimates

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

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

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

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

1.7 The principles of consolidation

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

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

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

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

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

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

1.8 Goodwill

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

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

1.9 Intangible assets

Intangible assets include assets which meet following criteria:

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

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

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

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

Expected economic useful lives are as follows:

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

1.10 Property, plant and equipment

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

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

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

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

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

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

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

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

1.11 Assets under construction

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

1.12 Shares in joint ventures

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

1.13 Leasing

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

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

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

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

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

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

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

1.14 Inventory

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

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

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

1.15 Short- and long-term receivables

Trade receivables except for receivables described in 6.13 are recognized and carried at original invoice amount less an allowance for any doubtful and uncollectible amounts.

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

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

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

Receivables include also receivables from financial lease.

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

1.16 Foreign Currency Transactions

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

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

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

(in thousand zlotys)

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

	31.03.2006	31.12.2005	31.03.2005
USD	3,2491	3,2613	3,1518
EUR	3,9357	3,8598	4,0837
CAD	2,7935	2,8093	2,5980
CHF	2,4913	2,4788	2,6341
GBP	5,6503	5,6253	5,9291

1.17 Cash and cash equivalents

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

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

1.18 Prepaid and accrued expenses

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

1.19 Share capital

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

1.20 Provisions

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

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

1.21 Provisions for jubilee awards and retirement allowances

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

1.22 Loans and borrowings

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

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

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

1.23 Borrowing costs

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

1.24 Deferred Tax

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

Deferred tax liabilities are recognized on all taxable temporary differences:

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

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

1.25 Financial instruments

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

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

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

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

Originating loans and receivables are valued using amortized cost method.

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

Positive and negative difference between fair value and historical costs, after deferred tax, relating to available for sale assets (if active market exists or fair value can be reliably measured) is recorded in revaluation capital. The loss in value of available for sale financial assets is recorded as financial cost in the profit and loss account.

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

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

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

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

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

1.26 Impairment of assets

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

1.27 Recognition of revenues

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

1.27.1 Sale of goods and products

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

1.27.2 Provision of services

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

1.27.3 Interest

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

1.27.4 Dividends

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

1.27.5 Government Grants

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

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

1.28 Earnings per share

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

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

1.29 Contingent liabilities and assets

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

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

1.30 Emission rights

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

1.31 Share based payments

The management board member of the Group receive share based payments which means that they render services in exchange for shares or rights to obtain shares. The cost of such equity transactions with management board members is valued at fair value at the date of granting of such rights. The cumulated cost resulting from such equity transactions as at each balance sheet date till the date of obtaining the rights reflects the flow of rights, number of awards to which right – in the opinion of management board as at that date based on best estimate of number of equity instruments – will finally be acquired. As of the date of these financial statements the share options do not have dilutive effect on the earnings per share.

(in thousand zlotys)

2. Subsidiaries included in the consolidated financial statements for the first quarter ended March 31, 2006

The consolidated financial statements for the first quarter of 2006 comprise the accounts of the parent company PEP S.A. and its five controlled subsidiaries.

Subsidiaries included in the consolidation using the full acquisition method:

No.	Name and seat	Share of parent company and other Group entities in the capital of the subsidiary
1	Dipol Sp. z o.o. Warszawa, Ul. Wiertnicza 169	100%
2	Energopep Sp. z o.o., EC Jeziorna Spółka Komandytowa Warszawa, Ul. Wiertnicza 169	100%
3	Saturn Management Sp. z o.o. i Wspólnicy Spółka Komandytowa, Warszawa, Ul. Wiertnicza 169	100%
4	Interpep Sp. z ograniczoną odpowiedzialnością EC Wizów Sp. Komandytowa, Warszawa, ul. Wiertnicza 169	100%
5	Interpep Sp. z ograniczoną odpowiedzialnością EC Zakrzów Sp. Komandytowa, Warszawa, ul. Wiertnicza 169	100%

Associates consolidated using the equity method:

No.	Name and seat	Share of parent company and other Group entities in the capital of the subsidiary
1	MERCURY Energia –Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Sp. z o. o., Spółka komandytowa Katowice, Ul. Wandy 16	50%

Companies excluded from the consolidation for first quarters 2006 due to the fact that their standalone and total financial data are immaterial for true and fair presentation of the financial situation and the financial result of the Group are included in the table below:

No.	Name and seat	Share of parent company and other Group entities in the capital of the subsidiary
1	Interpep Sp. z o.o. Warszawa, Ul. Wiertnicza 169	100%
2	Energopep Sp. z o.o., Warszawa, Ul. Wiertnicza 169	100%
3	Saturn Management Sp. z o.o., Warszawa, ul. Wiertnicza 169	100%

3. Information on adjustments on provisions and asset allowances

As of March 31, 2006 the provision for deferred tax liability and deferred tax assets were as follows:

Provision for deferred tax liability in thousands PLN

Title	Balance at December 31, 2005	Changes in first quarter	Balance at March 31, 2006
Leasing receivables	46 997	360	47 357
Cash valuation	-	18	18
Labilities valuation	4 409	(899)	3 510
Securities valuation	12	(6)	6
Loan valuation	88	19	107
Fixed assets	600	(148)	452
Receivables	894	(107)	787
Total	53 000	(763)	52 237

Deferred tax asset: in thousands PLN

Title	Balance at December 31, 2005	Changes in first quarter	Balance at March 31, 2006
Leased assets	48 731	(1 064)	47 667
Provisions	1 194	(13)	1 181
Fixed assets	209	-	209
Cash valuation	189	(79)	110
Receivables valuation	164	(51)	113
Short term liabilities	556	(381)	175
Loans and credits	59	(59)	-
Capital lease	107		107
Other	-	(4)	(4)
Total	51 209	(1 651)	49 558

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

Asset/ Liability – deferred tax: in thousands PLN

Title	Balance at December 31, 2005	Changes in first quarter	Balance at March 31, 2006
Asset/(Liability) deferred tax net	(1 791)	(888)	(2 679)

Impairment write downs in thousands PLN

Title	Stan na 31.12.2005	Changes in first quarter	Balance at March 31, 2006
Change in impairment of fixed assets	1 761	-	1 761
Change in provision for doubtful debt	509	-	509
Total	2 270	-	2 270

(in thousand zlotys)

4. Net revenues form sales of products – by geography

Net revenues from sales of goods (structure - by type)	31.03.2005	31.03.2006
Domestic, including:	19 245	18 137
- from affiliates	36	36
Export	-	-
Net revenues from sales of goods, total	19 245	18 137
- from affiliates	36	36

5. Short description of significant achievements or failures of the Company in the period covered by this report including list of the most important events relating to these achievements or failures

In the first quarter of 2006 in the wind farm project completed by PEP's subsidiary Dipol Sp. z o.o. the construction works started. The completion of contract is on schedule without delays. The completion of construction works is planned for December 2006 and the commencement of operations for January 2007.

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

Cost savings program in general and administration costs has been implemented.

Moreover, three wind farm projects with total capacity of 90 MW are in the advanced development stage. The commencement of construction is planned for 2007 and operations for 2008.

6. Description of factors and events especially unusual in nature which have significant impact on the reported financial results

In the first quarter of 2006 revenues resulting from share of benefits between the Group and one of its clients had significant impact on the reported financial result. The above mentioned benefits result from sale of electricity at preferred prices ("renewable energy", "green energy").

Due to bad weather condition in winter time more coal was burnt in the CFB boiler which together with scheduled boiler overhaul caused lower EBITDA than in 2005.

7. Explanation of seasonality and cyclicality of Company's activity in the reported period

The Capital Group PEP operates in the industrial energy outsourcing market. Key accounts consume heat and electricity in its production plants for the production purposes. The demand for heat and electricity for production purposes indicates no seasonality. However some of the heat delivered is consumed to heat the buildings. The above refers both to industrial and municipal offtakers. Demand for building heating indicates seasonality which is higher in 1st and 4th quarter of the financial year. The seasonality of this demand does not have significant impact on the reported financial result. Seasonality of the Group reported results in the first quarter is due to share of benefits between the Group and one of its clients which are mainly benefits from sale of electricity at preferred prices ("renewable energy", "green energy").

8. Information on issue, buy back, repayment of debt and equity securities

The Group does not make any issues of debt securities. Up to the date of this report the parent company in the period of first quarter ended March 31, 2006 did not make any issue of debt or equity securities.

9. Information on dividend paid or declared, in total and per share, together with ordinary share part preferred shares

As described in the current report 48/2005 the management of the company decided to announce its dividend policy. According to this policy the management will recommend to the general shareholders meeting to apportion the profit for 2005 in the amount of 9 million zlotys to the shareholders. Moreover, the management declared that it will recommend to the general shareholders meeting payment of dividend from profits realized in future years. The amount of dividend paid from future profits should be higher than dividend paid in 2006 by at least 10%, depending on the financial results of the company.
As described in the current report 18/2006, dated April 19, 2006 the Management of the Company publicly announced the proposed resolution no 18 about dividend payment. Pursuant to this resolution the Management proposes the dividend in the amount of 9,057,375.50 zlotys. The dividend will amount to PLN 0.50 per share. Only shareholders entitled to the Company's shares on 16 May 2006 shall receive dividend. Dividend shall be paid on May 30, 2006.

On March 22, 2006 General Shareholders Meeting decided to distribute the profit of the subsidiary Saturn Management Spółka z ograniczoną odpowiedzialnością i Wspólnicy, Spółka komandytowa for the year 2005 to the shareholders.

10. Indication of post balance sheet events which are not accounted for in the report but could significantly impact future financial results o the Group

Up to the date of this report there were no events which are not accounted for in these financial statements which could significantly impact the future financial results of the Group.

11. Indication of changes in Group structure

In the first quarter ended March 31, 2006 there was no changes to the structure of the Capital Group.

12. Information on contingent assets or liabilities which were identified in the period covered by this report

In the period from the last financial year till March 31, 2006 the contingent liabilities did not change and amount to 61 315 thousand zlotys.

13. Management's opinion in relation to the achievement of the previously published forecasts for current year, taking into account the results presented in the current report.

The Management of the parent company maintains the forecasts published in current report no 50/2005 published on April 12, 2005 and no 2/2006 dated January 25, 2006.

(in thousand zlotys)

14. Indication of shareholders with at least 5% of Shares or the Total Vote at the Issuer's General Shareholders Meeting as at the date of the release of this report

Shareholder	As at January 25, 2006 (date of release of the Q4/2005 report)*			
	No of shares	Share in total capital	No of votes in GSM	Share in votes in GSM
Polish Enterprise Fund L.P.	8 666 049	47,66%	8 666 049	47,66%
Polenergy Investments B.V.	The shareholder did not register for the general shareholders meeting on December 23, 2005			

* Pursuant to the shareholder registered on GSM dated December 23, 2005

The Company has been notified that the shareholders of the Company - Polish Enterprise Fund L.P., Polish Private Equity Fund I, and Polish Private Equity Fund II (hereinafter referred to as the „Funds" sold 5,973,883 shares of the Company. The sales transactions took place on 14th February 2006 (400,000 shares were sold) and on the 16th of February 2006 (5,573,883 shares) and were settled on 17th February 2006. Before the sale the Funds held 8,942,163 shares of the Company representing 49.17% of votes at the Company's General Meeting and 49.17% of the Company's share capital. After the sale the Funds hold 2,968,280 shares of the Company representing 2,968,280 votes at the Company's General Meeting (16.32% of the total number of votes) and **16.32%** of the Company's share capital.
The Company has been notified that the Company's shareholder - Polenergy Investments B.V. (hereinafter referred to as "Polenergy") sold 2,338,117 shares of the Company. The sale transaction was settled on 17th February 2006. Before the sale Polenergy held 3,499,871 shares of the Company representing 19.24% of votes at the Company's General Meeting and 19.24% of the Company's share capital. After the sale Polenergy holds 1,161,754 shares of the Company representing 1,161,754 votes at the Company's General Meeting (6.39% of the total number of votes) and **6.39%** of the Company's share capital.
The Company has been notified that American Life and Reinsurance Company (hereinafter referred to as "Alico"), acquired through AIG Otwarty Fundusz Emerytalny (managed by AIG Powszechne Towarzystwo Emerytalne) and AIG Asset Management (Polska) S.A. (as part of commissioned foreign securities portfolio management) 1,455,603 shares of the Company. As a result, as at 17th February 2006, Alico holds the Company's shares representing **8.0045%** of the Company's share capital and 1,455,603 votes at the Company's General Meeting of Shareholders (8.0045% of the total number of votes). Before the said acquisition, Alico held 55,603 shares of the Company.
The Company has been notified that PZU Asset Management S.A. with its registered office in Warsaw (hereinafter referred to as "PZU AM") purchased beyond organized trading 1,200,000 shares of the Company. As a result, as at 17th February 2006, PZU AM held (as part of commissioned foreign securities management portfolio) the Company's shares representing **6.60%** of the Company's share capital and 1,200,000 votes at the Company's General Meeting of Shareholders (6.60% of the total number of votes). Before the said acquisition, PZU AM did not hold the Company's shares.

(in thousand zlotys)

15. Changes in shares (options) owned by management and supervisory persons in the period from the last published report

During the period of first quarter ended March 31, 2006 there was an option plan for the management and supervisory persons in the parent company. The option plan is described in the table below:

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

The fair value of option was estimated based on the binominal model. The fair value amounts to:
Options September 30, 2005 – 5.87 PLN
Options December 31, 2005 – 5.90 PLN
Options September 30, 2006 – 5.94 PLN
Options December 31, 2006 – 5.96 PLN

On 13th December 2005, Mr. Wojciech Cetnarski submitted his resignation from the Board of Directors, effective from 13th December 2005. In consequence the conditions allowing for option exercise by Mr. Wojciech Cetnarski cannot be met.
On 13th December 2005, Mr. Grzegorz Skarżyński submitted his resignation from the Board of Directors, effective from 31st December 2005. Mr. Grzegorz Skarżyński is entitled to exercise its option for 35 454 shares of the Company which is vested December 31, 2005. As a result of the resignation the conditions allowing for exercise of option for 12 515 company shares granted to Mr. Grzegorz Skarżyński on December 31, 2006 cannot be met.
On January 31, 2006 the Supervisory Board voted a resolution based on which: (i) the right for 12,515 options to the Company shares pertaining to Mr. Grzegorz Skarżyński was transferred to Mr. Stephen Klein, (ii) the right for 47,969 options to the Company shares pertaining to Mr. Wojciech Cetnarski was transferred to Mr. Stephen Klein, (iii) Mr. Stephen Klein was granted 9,516 options to the Company shares, Mr. Michał Kozłowski was granted 34,511 options and Mr. Zbigniew Prokopowicz was granted 30,000 options. The above mentioned options will be besting after December 31, 2006. The eligible persons will purchase the shares at nominal value of PLN 2. The shares will be issued by the Management based on the statutory prerogative to issue shares within the specified limit.

(in thousand zlotys)

The table below presents the change of number of options granted in the period of the first quarter ended March 31, 2006.

	Number of options	Average price
Number of options as at January 1, 2006	133 498	-
Options granted	134 511	-
Loss of right to options	12 515	
Options exercised	70 908	2 PLN
Number of options as at March 31, 2006	184 586	-

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

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

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

Option plan beneficiaries	Mr. Stephen Klein
Grant Date	**3.11.2005**
Vesting date	**30.06.2006** **30.06.2007** **10.06.2008**
Expiry date	**01.07.2008**
No of shares in the program	**358 000**
No of options granted	**358 000**
Exercise price/share	**7,8 PLN**
Type of settlement	Share emission
Conditions of exercise	Conditions relating to the June30, 2006 tranche - none. The loss of right to options in case of resignation or dismissal before June 30, 2006. Conditions relating to the June30, 2007 and June 10, 2008 tranches - the managing person is in Management Board - the managing person has received vote of acceptance from the general shareholders meeting for the proper financial year

The fair value of option was estimated based on the Black-Scholes-Merton model. The fair value amounts to:
Options June 30,2006 – 1.27PLN
Options June 30,2007 – 1.43PLN
Options June 10,2008 – 1.49 PLN
The charge into the profit and loss account for the first quarter of 2006 resulting from the above mentioned option programs amounted to 397 thousand zlotys.

16. Legal proceedings in court, arbitrage procedure to which the issuer is a party

- Court proceedings initiated by PKP CARGO SA of Warsaw as the plaintiff, against PEP SA for payment of PLN 148,546.28 with interest. The litigation was raised on October 24th 2003. On November 10th 2004, the Regional Court in Katowice issued a judgment whereby the Company was obliged to pay the disputed amount. On November 25th 2004, the Company appealed against the ruling and motioned for it to be reversed and for the claim against the Company to be overruled, or for the judgment to be reversed and for the case to be submitted for re-examination. On December 13, 2005 the Appealing Court in Katowice changed the above mentioned judgment in the way that the Company (together with Katowicki Holding Węglowy S.A.) is obliged to pay to PKP Cargo SA the amount of 60,577.15 PLN plus interest calculated from June 26, 2003 and costs of court proceedings in the amount of 1,444 PLN. Moreover the Company was adjudged the costs of appealing proceedings in the amount of 5,696 PLN. Due to the fact that based on the contract between the Company and Katowicki Holding Węglowy S.A. the Company was obliged to cover the coal transportation costs, the Company on January 9, 2006 paid the adjudged amount to PKP Cargo SA less the costs of appealing proceedings. PKP Cargo S.A. claimed cassation from the above mentioned judgement. The copy of the claim was received by the Company.
- Court proceedings initiated by Zbigniew Sobczyk as the plaintiff, for declaring the notice of termination of an employment contract as ineffective. The court of first instance rejected the claim. The plaintiff appealed against the ruling. The file is pending.
- On May 16th 2002, the President of the URE issued a decision No. OWA 25/2002 on imposing a penalty of PLN 856,000 on the Company for failure to comply with the obligation to submit a tariff used by the Company for approval by the President of URE. As a result of the appeal filed by the Company against the President of URE's decision, on June 25th 2003 the Anti-Trust and Consumer Protection Court of the District Court in Warsaw modified the decision by reducing the amount of penalty to PLN 60,000. In May 2004, as a result of the last resort appeal filed by the President of URE, the Supreme Court reversed the judgment of the Anti-Trust and Consumer Protection Court of the District Court in Warsaw and referred the case for re-trial to the Anti-Trust and Consumer Protection Court of the District Court in Warsaw. On April 4th 2005 (after the date of this Prospectus' update), the Regional Court in Warsaw reversed URE's decision and referred the case for re-examination. On March 7, 2006 the Appealing Court reversed the judgment of the Regional Court and referred the case for re-examination by the Regional Court.
- On October 17, 2005 the company received a citation from K&K Consultants Sp. z o.o. in which the K&K Consultants Sp. z o.o. requires compensation in the amount of 394,171.40 zlotys plus interest for terminating the agreement by the Company. The Company does not accept the requirements of K&K Consultants Sp. z o.o. The file is pending.

17. Information on guarantees issued by the Company or its subsidiary if the total value of existing guarantees equals at least 10% of shareholder's capital

PEP SA issued a guarantee for BRE BANK SA with seat in Warsaw. The guarantee issued amounts to 10.500.000 PLN and secures the liability of "Mercury Energia - Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Spółka z ograniczoną odpowiedzialnością" Spółka komandytowa to BRE BANK SA which results from bank loan in the amount of 9.000.000 PLN. The liability of PEP SA ceases within the period of 2 years started from completion of Mercury project but not later than June 30, 2007. PEP SA did not receive any guarantee fee. PEP S.A. is a 50% shareholder in "Mercury Energia - Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Spółka z ograniczoną odpowiedzialnością" Spółka komandytowa.
In the period ended March 31, 2006 PEP SA has granted to "Mercury Energia - Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Spółka z ograniczoną odpowiedzialnością" Spółka komandytowa loans in the total amount of 5,030 thousands PLN. The repayment of the loans will be in two installments: on March 31, 2010 and October 31, 2010.

On November 23, 2005 PEP SA concluded with Raiffeisen Bank Polska with its registered office in Warsaw guarantee agreement. Pursuant to the guarantee agreement PEP granted to Raiffeisen Bank Polska guarantee which relates to the loan agreement concluded between Dipol Sp. Z o.o. as borrower and Raiffeisen Bank Polska as lender. The guarantee granted by PEP in the amount of up to 1,350,000 EURO can be exercised till July 31, 2007 and in the amount of up to 5,900,378 PLN can be exercised till the day which is six months from the date of statements issued by EkoFundusz Foundation about final settlement of the grant. PEP SA did not receive any reimbursement for the guarantee granting. PEP SA is 100% owner of Dipol Sp. Z o.o.

In the period of one year ended December 31, 2005 PEP SA has granted to Dipol Sp. z o.o. loans in the total amount of 795.86 thousands PLN. The repayment of the loans will be on first call of PEP SA or after the commencement of operations by Dipol Sp. z o.o. which is to produce and sell electricity, within 3 months starting from the first invoice date.

On February 3, 2006 PEP S.A. and DIPOL Sp. z o.o. concluded an agreement based on which as of January 31, 2006 the mutual receivables and liabilities were compensated. The receivables result from loan granted by PEP S.A. to DIPOL Sp. z o.o. and liabilities result from PEP S.A. obligation to increase the capital of DIPOL Sp. z o.o. in the amount of 854,114.40 PLN.

18. Other information which in the opinion of the Company is material for the assessment of its human resources, financial situation, reported financial result and changes of the abovementioned and information which is material to assess the ability to repay its liabilities;

In the opinion of the Company there is no other information, except for the presented in the prospectus, current and periodical reports which is important to assess the ability to repay the liabilities of the Company.

19. Indication of factors which may have impact in the opinion of the Company on the achieved financial result within at least one quarter ahead

In the opinion of the Company the following factors may have impact on the achieved financial result (both on standalone and consolidated basis) in the period of at least one quarter:

- Macroeconomic situation of Poland;
- EURO and USD foreign exchange against zloty
- Changes in prices of coal, gas, biomass and availability of these commodities
- Changes in prices of “green electricity” certificates
- Financial standing of Company’s customers.