Polish Energy Partners Capital Group

CONSOLIDATED QUARTERLY REPORT FOR THE FIRST QUARTER ENDED MARCH 31, 2007 PREPARED WITH THE PROVISIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Warsaw, April 24, 2007

(in thousand zlotys)

CONSOLIDATED BALANCE SHEET **A s s e t s**	31.03.2007	31.12.2006	31.03.2006
I.Fixed Assets (long-term)	**397 964**	**348 568**	**300 507**
1. Tangible fixed assets	149 471	103 705	58 614
2. Intangible fixed assets	355	369	23
3. Goodwill of the subsidiaries	710	569	132
4. Investment property	-	-	-
5. Financial assets	297	516	8 364
6. Financial assets valued at equity method	-	-	747
7. Long-term receivables	236 977	236 418	231 850
8. Deferred tax assets	-	-	-
9. Other fixed assets	10 154	6 991	777
II. Current assets (short-term)	**113 982**	**77 630**	**84 700**
1.Inventory	1 731	1 932	1 814
2.Trade receivables	24 127	17 962	21 366
3.Income tax receivables	-	1	-
4.Other short-term receivables	33 038	27 085	16 964
5.Accrued income and deferred cost	2 742	1 449	2 548
6.Other short-term assets	6 668	4 122	3 340
7.Short-term financial assets	-	-	1 334
8.Cash and cash equivalents	45 675	25 079	37 333
T o t a l A s s e t s	**511 946**	**426 199**	**385 207**

(in thousand zlotys)

CONSOLIDATED BALANCE SHEET **Total Equity and Liabilities**	31.03.2007	31.12.2006	31.03.2006
I. Shareholders' Equity	**118 104**	**106 742**	**117 614**
1.Share capital	36 979	36 979	36 369
2.Unpaid share capital	-	(132)	(279)
3.Surplus of sales issue above nominal value (agio)	28 124	28 124	28 321
4.Treasury shares	-	-	-
5.Reserve capital from option valuation	3 369	2 583	1 429
6.Other reserve capital	19 210	19 210	28 267
7.Profit/loss from previous years	19 041	18 493	18 010
8.Profit/loss for the period	10 450	549	5 497
9.Minority interest	930	936	-
II. Long-term liabilities	**320 951**	**276 140**	**238 686**
1.Bank loans and borrowings	310 080	266 005	231 923
2.Deferred tax liability	2 051	1 395	2 679
3.Provisions	2 578	2 577	2 532
4.Accruals and deferred income	5 827	5 901	1 001
5.Other liabilites	415	262	551
III. Short-term liabilities	**72 891**	**43 317**	**28 906**
1.Bank loans and borrowings	44 478	25 888	19 361
2.Trade liabilities	14 832	8 397	2 363
3.Income tax liabilities	2 090	152	214
4.Other liabilites	4 715	2 237	4 213
5.Provisions	2 917	2 627	1 419
6.Accruals and deferred income	3 858	4 016	1 336
Total Capital and Liabilities	**511 946**	**426 199**	**385 207**

(in thousand zlotys)

CONSOLIDATED PROFIT AND LOSS STATEMENT	**31.03.2007**	**31.03.2006**
Continued activity		
I. Sales income	26 670	18 137
II. Cost of goods sold	(10 660)	(9 159)
III. Gross profit on sales (I-II)	**16 009**	**8 978**
IV. Selling expense	-	-
V. General and administration costs	(3 381)	(3 359)
including management option valuation	(786)	(397)
VI. Profit on sales (III-IV-V)	**12 628**	**5 619**
VII. Other operating income	247	62
VIII. Other operating expense	(20)	(10)
IX. Operating profit (VI+VII-VIII)	**12 855**	**5 671**
X. Financial income	5 338	3 824
w tym zysk rozpoznany ze spółki zależnej SM	-	-
XI. Financial expense	(4 868)	(2 407)
XII. Profit/Loss from subordinate units	-	(9)
XIII. Gross profit/loss (IX+X-XI+/-XII)	**13 325**	**7 080**
XIV. Corporate income tax	2 881	1 583
XV. Net profit/loss from continued activity	**10 444**	**5 497**
Discontinued activity		
XVI. Profit/loss from discontinued activity	-	-
XVII. Net profit/loss	10 444	5 497
Distribution of profit/loss:	**10 444**	**5 497**
Parent company sharefolders	10 450	
Minority shareholders	(6)	
Net profit/loss	10 444	5 497
Weighted average number of shares	18 391 650	18 255 581
Basic EPS (in zł)	**0,57**	**0,30**
Weighted average diluted number of shares	18 391 650	18 255 581
Diluted EPS (in zł)	**0,57**	**0,30**

Financial income		
	31.03.2007	**31.03.2006**
a) financial income from dividends and share in profit	-	0
b) financial income due from loans granted	295	158
c) other interest - leasing	3 690	2 457
interest due from lease of assets	904	700
d) foreign exchange	1 213	1 054
-unrealized	1 487	1 020
-realized	(274)	34
e) reversal of provision for doubtful debt	-	-
f) gain on securities trade	-	29
g) other financial income	140	126
Financial income, total	**5 338**	**3 824**

(in thousand zlotys)

Financial costs		
	31.03.2007	**31.03.2006**
a) financial costs from interest	4 713	2 352
b) foreign exchange	-	-
-unrealized	-	-
-realized	-	-
c) increase of revaluation provision	-	-
d) provisons and other costs od credits	107	15
e) other financial costs	48	40
Total financial costs	**4 868**	**2 408**

(in thousand zlotys)

Consolidated Cash Flows Statement	31.03.2007	31.03.2006
A.Cash flow from operating activities - indirect method		
I.Gross profit/loss	**13 325**	**7 080**
II.Adjustments for:	**(13 590)**	**(3 032)**
1.Profit/ loss from associates and jointly controlled entities which are companies	-	(2)
2.Depreciation	2 262	668
3.Foreign exchange gains/losses	(1 351)	(819)
4.Interest and dividends received and paid	694	(110)
5.Result on investment activity	-	3
6.Corporate income tax	(285)	49
7.Change in provisions	267	(108)
8.Change in inventory	(5 012)	297
9.Change in receivables	(2 279)	(494)
10.Change in short term liabilities, excluding loans and borrowings	(8 236)	(1 037)
11.Change in deferred income and accruals	(434)	(1 228)
12. Other changes	784	(251)
III.Net cash flow from operating activities (I+/-II)	**(264)**	**4 048**
B.Net cash flow from investing activities		
I. Inflows due to investing activities	**7 702**	**6 209**
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	-	-
4. Other investment inflows	7 702	6 174
II.Outflows due to investing activities	**43 486**	**7 150**
1. Purchase of intangible and tangible fixed assets	35 840	3 682
2. Investments in property and intangibles	-	-
3. Purchase of other financial assets, including:	97	2 590
- purchase of financial assets	97	-
- long-term loans granted	-	2 590
4. Dividends and other payments paid to minority shareholders,	-	-
5. Acquisition of subsidiary net of fixed assets taken over	(7)	-
6.Other investing outflows	7 549	878
III.Net cash flow from investing activities (I-II)	**(35 784)**	**(941)**
C.Net cash flow from financing activities		
I.Inflows from financing activities	**67 789**	**761**
1. Issue of shares and capital instruments	132	100
2.Loans and borrowings	67 657	661
3. Issue of bonds	-	-
4. Grants received	-	-
II.Outflows due to financing activities	**11 243**	**8 608**
1.Purchase of treasury shares	-	-
2.Dividends and others payments to shareholders	2	20
3.Other than payments for shareholders expense resulting from profit distribution	-	-
4.Repayments of loans and borrowings	6 896	6 165
5.Repayments of bonds	-	-
6.Repayments of other financial liabilities	-	-
7.Finance lease payments	37	88
8.Interest paid	4 308	2 335
9.Other financial expense	-	-
III.Net cash flow from financing activities (I-II)	**56 546**	**(7 847)**
D.Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)	**20 498**	**(4 740)**
E.Balance sheet change in cash and cash equivalents, including:	**20 580**	**(4 268)**
- changes in cash and cash equivalents resulting from foreign exchange gains/losses	**91**	**472**
F.Cash and cash equivalents at the beginning of the period	**25 101**	**42 949**
G.Cash and cash equivalents at the end of the period, including :	**45 689**	**38 681**
- restricted cash and cash equivalents	14	15

(in thousand zlotys)

Reconciliation of cash and cash equivalents presented in the consolidated cash flow statement with the balance sheet items	31.03.2007	31.03.2006
Short-term financial assets in balance sheet	-	1 334
Cash and cash equivalent in balance sheet	45 675	37 333
Cash of social fund	14	14
Total	45 689	38 681

Cash and cash equivalents at the end of the period in the cash flow statement	45 689	38 681
Presentation of sources of external finance (cash flow statement)	**31.03.2007**	**31.03.2006**
pos. C.I.2 Incomes from loans and borrowings	67 657	661
pos. C.II.4 Payoff from loans and borrowings	(6 896)	(6 165)
Change in sources of external finance, including:	**60 761**	**(5 504)**
investment debt draw, net	46 444	(3 698)
drawing/repayment of VAT facility, net	14 317	(1 806)

(in thousand zlotys)

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	Minority interest	TOTAL
Equity at the beginning of the period - 01.01.2007	**36 979**	**(132)**	**28 124**	**2 583**	**19 210**	**19 042**	**-**	**936**	**106 741**
Changes in capital in the period	**-**	**132**	**-**	**786**	**-**	**-**	**10 450**	**(6)**	**11 362**
a) increase	**-**	**-**	**-**	**786**	**-**	**-**	**10 450**	**-**	**11 236**
- net profit	-	-	-	-	-	-	10 450	-	10 450
- from management options valuation	-	-	-	786	-	-	-	-	786
b) decrease	**-**	**(132)**	**-**	**-**	**-**	**-**	**-**	**6**	**(126)**
- net loss	-	-	-	-	-	-	-	6	6
- dividend payment	-	(132)	-	-	-	-	-	-	(132)
Equity at the end of the period - 31.03.2007	**36 979**	**-**	**28 124**	**3 369**	**19 210**	**19 042**	**10 450**	**930**	**118 104**

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

(in thousand zlotys)

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	Minority interest	TOTAL
restated									
Equity at the beginning of the period - 01.01.2006	**36 369**	**(378)**	**28 321**	**1 032**	**28 267**	**18 010**	**-**	**-**	**111 621**
Changes in capital in the period	**-**	**99**	**-**	**397**	**-**	**-**	**5 497**	**-**	**5 993**
a) increase	**-**	**-**	**-**	**397**	**-**	**-**	**5 497**	**-**	**5 894**
- net profit	-	-	-	-	-	-	5 497	-	5 497
- from management options valuation	-	-	-	397	-	-	-	-	397
b) decrease	**-**	**(99)**	**-**	**-**	**-**	**-**	**-**	**-**	**(99)**
- dividend payment	-	(99)	-	-	-	-	-	-	(99)
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**

(in thousand zlotys)

Simplified standalone financial statement of PEP S.A. for the first quarter ended March 31, 2007

CONSOLIDATED BALANCE SHEET Assets	31.03.2007	31.12.2006	31.03.2006
I.Fixed Assets (long-term)	**107 516**	**110 816**	**111 997**
1. Tangible fixed assets	999	1 080	6 027
2. Intangible fixed assets	344	353	-
3. Investment property	24 220	24 665	30 324
4. Financial assets	74 757	78 178	75 176
5. Long-term receivables	6	6	6
6. Deferred tax assets	-	182	-
7. Other fixed assets	7 190	6 352	464
II. Current assets (short-term)	**17 492**	**12 585**	**29 959**
1.Inventory	1 171	1 397	1 017
2.Trade receivables	5 686	5 259	8 727
3.Income tax receivables	-	-	-
4.Other short-term receivables	992	1 158	9 561
5.Accrued income and deferred cost	225	165	116
6.Short-term financial assets	-	-	19
7.Cash and cash equivalents	9 418	4 606	10 519
Total Assets	**125 008**	**123 401**	**141 956**

CONSOLIDATED BALANCE SHEET Total Equity and Liabilities	31.03.2007	31.12.2006	31.03.2006
I. Shareholders' Equity	**84 731**	**87 089**	**111 919**
1.Share capital	36 979	36 979	36 369
2.Unpaid share capital	-	(132)	(279)
3.Surplus of sales issue above nominal value (agio)	28 124	28 124	28 321
4.Treasury shares	-	-	-
5.Reserve capital from option valuation	3 369	2 583	1 429
6.Other reserve capital	19 210	19 210	28 267
7.Profit/loss from previous years	325	-	(483)
8.Profit/loss for the period	(3 276)	325	18 295
9.Minority interest	-	-	-
II. Long-term liabilities	**18 176**	**18 353**	**23 260**
1.Bank loans and borrowings	15 041	15 958	17 864
2.Deferred tax liability	584	-	1 739
3.Provisions	2 135	2 132	2 105
4.Accruals and deferred income	1	1	1 001
5.Other liabilites	415	262	551
III. Short-term liabilities	**22 101**	**17 959**	**6 776**
1.Bank loans and borrowings	3 507	3 736	2 911
2.Trade liabilities	922	5 477	1 210
3.Income tax liabilities	1 645	152	214
4.Other liabilites	14 471	6 422	767
5.Provisions	1 275	1 275	1 136
6.Accruals and deferred income	281	897	538
Total Capital and Liabilities	**125 008**	**123 401**	**141 956**

(in thousand zlotys)

CONSOLIDATED PROFIT AND LOSS STATEMENT	31.03.2007	31.03.2006
Continued activity		
I. Sales income	3 668	5 697
II. Cost of goods sold	(2 538)	(2 971)
III. Gross profit on sales (I-II)	**1 130**	**2 726**
IV. Selling expense	-	-
V. General and administration costs	(2 725)	(2 733)
including management option valuation	(786)	(397)
VI. Profit on sales (III-IV-V)	**(1 595)**	**(7)**
VII. Other operating income	709	22
VIII. Other operating expense	-	(875)
IX. Operating profit (VI+VII-VIII)	**(886)**	**(860)**
X. Financial income	323	20 880
w tym zysk rozpoznany ze spółki zależnej SM	-	20 363
XI. Financial expense	(327)	(370)
XII. Profit/Loss from subordinate units	-	-
XIII. Gross profit/loss (IX+X-XI+/-XII)	**(890)**	**19 650**
XIV. Corporate income tax	2 386	1 355
XV. Net profit/loss from continued activity	**(3 276)**	**18 295**
Discontinued activity		
XVI. Profit/loss from discontinued activity		
XVII. Net profit/loss	(3 276)	18 295
Distribution of profit/loss:	**(3 276)**	**18 295**
Parent company sharefolders		
Minority shareholders		

Net profit/loss	(3 276)	18 295
Weighted average number of shares	18 391 650	18 255 581
Basic EPS (in zł)	**(0,18)**	**1,00**
Weighted average diluted number of shares	18 391 650	18 255 581
Diluted EPS (in zł)	**(0,18)**	**1,00**

(in thousand zlotys)

Consolidated Cash Flows Statement	31.03.2007	31.03.2006
A.Cash flow from operating activities - indirect method		
I.Gross profit/loss	**(890)**	**19 650**
II.Adjustments for:	**(3 858)**	**(22 946)**
1.Profit/ loss from associates and jointly controlled entities which are companies	-	-
2.Depreciation	603	643
3.Foreign exchange gains/losses	(6)	(221)
4.Interest and dividends received and paid	(3)	(20 224)
5.Result on investment activity	-	3
6.Corporate income tax	(130)	50
7.Change in provisions	3	(52)
8.Change in inventory	227	287
9.Change in receivables	(261)	(1 602)
10.Change in short term liabilities, without loans and credits	(4 405)	(2 106)
11.Change in deferred income and accruals	(670)	(121)
12. Other changes	784	397
III.Net cash flow from operating activities (I+/-II)	**(4 748)**	**(3 296)**
B.Net cash flow from investing activities		
I. Inflows due to investing activities	**13 876**	**2 038**
1. Sale of intangible and tangible fixed assets	-	-
2. Sale of investments in tangible fixed assets and intangible assets	-	-
3. Sale of other financial assets, including:	13 876	2 038
- sale of financial assets	-	-
- dividends and shares in profit	8 087	1 986
- repayment of long term loan	-	-
- interest	-	52
- other inflows from financial assets	5 789	-
4. Other investment inflows	-	-
II.Outflows due to investing activities	**2 979**	**4 858**
1. Purchase of intangible and tangible fixed assets	69	1 988
2. Investments in property and intangibles	-	-
3. Purchase of other financial assets, including:	2 072	2 870
- purchase of financial assets	97	280
- long-term loans granted	1 975	2 590
4. Dividends and other payments paid to minority shareholders,	-	-
5. Acquisition of subsidiary net of fixed assets taken over	838	-
III.Net cash flow from investing activities (I-II)	**10 897**	**(2 820)**
C.Net cash flow from financing activities		
I.Inflows from financing activities	**132**	**761**
1. Issue of shares and capital instruments	132	100
2.Loans and borrowings	-	661
3. Issue of bonds	-	-
4. Other	-	-
II.Outflows due to financing activities	**1 476**	**1 113**
1.Purchase of treasury shares	-	-
2.Dividends and others payments to shareholders	-	-
3.Share issue related expenditure	-	-
4.Repayments of loans and credits	1 147	691
5.Repayments of bonds	-	-
6.Repayments of other financial liabilities	-	-
7.Finance lease payments	37	88
8.Interest paid	292	334
9.Other	-	-
III.Net cash flow from financing activities (I-II)	**(1 344)**	**(352)**
D.Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)	**4 805**	**(6 468)**
E.Balance sheet change in cash and cash equivalents, including:	**4 812**	**6 463**
- changes in cash and cash equivalents resulting from foreign exchange gains/losses	**6**	**125**
F.Cash and cash equivalents at the beginning of the period	**4 606**	**16 862**
G.Cash and cash equivalents at the end of the period, including :	**9 418**	**10 519**
- restricted cash and cash equivalents	-	-

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousand zlotys								
Equity at the beginning of the period - 01.01.2007	**36 979**	**(132)**	**28 124**	**2 583**	**19 210**	**325**	**-**	**87 089**
Changes in capital in the period	**-**	**132**	**-**	**786**	**-**	**-**	**(3 276)**	**(2 358)**
a) increase	**-**	**-**	**-**	**786**	**-**	**-**	**-**	**786**
- from management options valuation	-	-	-	786	-	-	-	786
b) decrease	**-**	**(132)**	**-**	**-**	**-**	**-**	**3 276**	**3 144**
- net loss	-	-	-	-	-	-	3 276	3 276
- payment for capital	-	(132)	-	-	-	-	-	(132)
Equity at the end of the period - 31.03.2007	**36 979**	**-**	**28 124**	**3 369**	**19 210**	**325**	**(3 276)**	**84 731**

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousand zlotys								
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	**610**	**246**	**(197)**	**1 551**	**(9 057)**	**483**	**325**	**(6 039)**
a) increase	**610**	**-**	**287**	**1 551**	**-**	**483**	**325**	**3 256**
- net profit	-	-	287	-	-	-	325	612
- shares issue	610	-	-	-	-	-	-	610
- profit/ loss from previous years distribution	-	-	-	-	-	483	-	483
- from management options valuation	-	-	-	1 551	-	-	-	1 551
b) decrease	**-**	**(246)**	**484**	**-**	**9 057**	**-**	**-**	**9 295**
- net loss	-	-	484	-	-	-	-	484
- payment for capital	-	(246)	-	-	-	-	-	(246)
- dividends	-	-	-	-	9 057	-	-	9 057
Equity at the end of the period - 31.12.2006	**36 979**	**(132)**	**28 124**	**2 583**	**19 210**	**-**	**325**	**87 089**

Changes in Consolidated Shareholders' Equity	Share capital	Unpaid share capital	Surplus of sales issue above nominal value (agio)	Reserve capital from option valuation	Other reserve capital	Profit/loss from previous years	Profit/loss for the period	TOTAL
in thousand zlotys								
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**	**-**	**-**	**18 295**	**18 692**
- net profit	-	-	-	-	-	-	18 295	18 295
- from management options valuation	-	-	-	397	-	-	-	397
b) decrease	**-**	**(99)**	**-**	**-**	**-**	**-**	**-**	**(99)**
- payment for capital	-	(99)	-	-	-	-	-	(99)
Equity at the end of the period - 31.03.2006	**36 369**	**(279)**	**28 321**	**1 429**	**28 267**	**(483)**	**18 295**	**111 919**

Explanatory Notes
To the financial statements for the first quarter of 2007 ended March 31, 2006

1 Accounting policies applied

1.1 Changes in the accounting principles applied

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

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

1.2 Format and the basis of preparing the consolidated financial statements

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, 2007 till March 31, 2007 and the comparable period from January 1, 2006 till March 31, 2006.

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

1.3 Compliance representation

The presented consolidated financial statements were prepared with the provisions of International Financial Reporting Standards ("IFRS") and IFRS voted by the EU. As of the date of these financial statements, taking into consideration the process of implementation of IFRS in the EU and the scope of business of the Company there is no difference between IAS, IFRS and the interpretations related to them published in form of a decree of European Commission ("IFRS approved for application by the EC").

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

1.4 Significant values based on professional judgment and estimates

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

- leases classification – Group as lessor,

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

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

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

1.6 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.

1.7 Investment in associates

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

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

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

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

Expected economic useful lives are as follows:

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

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

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

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 as a separate component of the asset.

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

Perpetual usufruct to land	20 years
Buildings, premises and other civil and water engineering structures	20 years
Plant and machinery	from 2.5 years to 20 years
Vehicles	from 2.5 years to 5 years
Other fixed assets	from 5 years to 7 years

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

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

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

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

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 6.15 are recognized and carried at original invoice amount less an allowance for any doubtful and uncollectible amounts.

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

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

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

Receivables include also receivables from financial lease.

(in thousand zlotys)

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.

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

	31.03.2007	31.12.2006	31.03.2006
USD	2,9058	2,9105	3,2491
EUR	3,8695	3,8312	3,9357
CAD	2,5199	2,5077	2,7935
CHF	2,3815	2,3842	2,4913
GBP	5,6867	5,7063	5,6503

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 Impairment of financial assets

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

Assets recognized at amortized cost

If there are objective indications that there is a loss incurred as a result of diminution in value of loans and receivables valued at amortized cost, then the amount of revaluation due from impairment is equal to the difference between the carrying value of the financial asset and the present value of the future cash flows (excluding all future losses due from lack of collection of receivables, which have not been incurred yet) discounted with application of primary discount rate (which is interest rate established at initial recognition). The carrying value of the asset is reduced directly or through reserve. The cost is incurred in the profit and loss account.

The Group assesses firstly whether there are objective indications of impairment of particular financial assets which individually are significant and indications of impairment which individually are not significant. If as a result of the analysis there are no objective indications of impairment of an individually assessed financial asset, irrespective of whether it is significant or not the Group includes this asset of the group of financial asset with similar credit risk and assesses jointly the impairment. Assets which are assessed individually for impairment and for which the impairment was recognized or it was assessed that the current impairment will not change are not taken into account in group test for impairment.

If in the next period the impairment write down lowered and this lowering can be objectively related to the event after the impairment was recognized than the previous impairment is reversed. The later reversal of the impairment is recognized in the profit and loss account in the scope in which as of the date of the reversal the carrying value of an asset does not exceed its amortized cost.

Financial assets recognized at cost

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

Financial assets available for sale

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

1.28 Share based payments

The management board member of the Group receive share based payments which means that they render services in exchange for shares or rights to obtain shares.(" Transactions settled in equity instrument").

Transactions settled in equity instrument

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

The cost of transactions settled in equity instruments is recognized together with associated increase in equity in the period in which the effectiveness//results conditions were met and ending in the day in which specified employees will receive the rights (rights grant date). The cumulative cost resulting from the transactions settled in equity instrument for each balance sheet date till grant date reflects the time passage of receiving rights and the number of awards, to which rights – in the opinion of the Management as of that date, based on the possibly best estimates of the equity instrument number will be purchased.

No costs are recognized from awards to which the rights are not finally purchased, except for awards in case of which the purchase of rights depends on market conditions which are treated as purchased irrespective of meeting the market conditions, under the condition of meeting other conditions relating to effectiveness.

In case of modifications of granting the awards settled in equity instruments, in order to meet minimum requirements only costs are incurred as if in case the conditions were not modified. Moreover, the cost is recognized of each increase in transaction market value as a result of modifications, valued as of the date of modification.

In case of deletion of award settled in equity instrument it is treated in the way as if the rights were purchased in the date of deletion and all the costs due from the award not incurred yet are immediately recognized. However, in case of replacement of deleted award with new award – specified as deputy award in the day of grant, the award deleted and the new award are treated as if it is a modification of the primary award which is in the way described in the above paragraph.

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

1.29 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.

1.29.1. 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.

1.29.2. 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.

1.29.3. 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.

1.29.4. Dividends

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

1.29.5. 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.

1.30 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.

1.31 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.

1.32 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.

(in thousand zlotys)

1.33 Certificates of origin

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

2. Subsidiaries included in the consolidated financial statements for the first quarter ended March 31, 2007

The consolidated financial statements for the first quarter of 2007 comprise the accounts of the parent company PEP S.A. and the following subsidiaries:

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

BETA Sp. z o.o.	Szczecin, ul. Wojska Polskiego 154	Production and distribution of electricity	51,20%
Mercury Energia Sp. z o.o.	Warszawa, ul. Wiertnicza 169	Production and distribution of electricity and heat	100%
Interpep EC Zakrzów sp. z o.o.	Warszawa, ul. Wiertnicza 169	Production and distribution of electricity and heat	100%

3. Information on adjustments on provisions and asset allowances

As of March 31, 2007 the provision for deferred tax liability and deferred tax assets were as follows:

Provision for deferred tax liability — in thousands PLN

Liability

Title	Balance at December 31, 2006	Changes in first quarter	Balance at March 31, 2007
Leasing receivables	48 703	1 290	49 993
Cash valuation	13	(13)	-
Labilities valuation	4 636	(515)	4 121
Securities valuation	-	-	-
Loan valuation	20	57	77
Fixed assets	240	52	292
Receivables	829	(443)	386
Total	54 441	426	54 868

Deferred tax asset: — in thousands PLN

Asset

Title	Balance at December 31, 2006	Changes in first quarter	Balance at March 31, 2007
Leased assets	48 731	(264)	48 467
Provisions	1 194	(66)	1 128
Fixed assets	209	1 952	2 161
Cash valuation	189	(167)	22
Receivables valuation	164	678	842
Short term liabilities	556	(360)	196
Loans and borrowings	59	(59)	-
Capital lease	107	(107)	-
Prior year losses	-	-	-
Total	51 209	1 607	52 816

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, 2006	Changes in first quarter	Balance at March 31, 2007
Asset/(Liability) deferred tax net	(3 232)	1 181	(2 051)

Impairment write downs — in thousands PLN

Title	Balance at December 31, 2006	Changes in first quarter	Balance at March 31, 2007
Change in impairment of fixed assets	12 720	-	12 720
Change in provision for doubtful debt	7 203	(40)	7 163
Total	19 923	(40)	19 883

4. Net revenues form sales of products – by geography

Net revenues from sales of goods (structure - by type)	31.03.2006	31.03.2007
Domestic, including:	18 137	26 670
- from affiliates	36	-
Export	-	-
Net revenues from sales of goods, total	18 137	26 670
- from affiliates	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

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

Projects

EC Saturn

In the first quarter of 2007 revenues resulting from share of benefits between the Group and one of its clients had significant impact on the reported financial result. The above mentioned benefits result from sale of electricity at preferred prices ("renewable energy", "green energy"). Moreover, as a result of completion of Jupiter project, milder winter time in 2007 and time shift of the planned maintenance overhaul of CFB boiler fro quarter 1 to quarter 2 of 2007 the production of green electricity is in first quarter of 2007 by 33% higher than in the comparable period of 2006.

EC Zakrzów

The project is operating in accordance with the budget.

EC Wizów

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

The three party agreement has been concluded for specified period till December 31, 2006. Based on this agreement Rolmex has offtaken heat generated by IP. The heat deliveries were conducted based on prepayments from Rolmex. It should be mentioned that the value of heat sales did not exceed the value of prepayments received. Moreover, based on this agreement Wizów repaid part of its liabilities due to the Company in the amount of 200 thousand zlotys. The agreement has been prolonged till January 31, 2007 and then terminated.

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

In the period of first quarter of 2007 heat was delivered to Wizów in a limited amount. As of the date of this report there are no condition precedents which indicate the chance to restore production in the near future.

EC Jeziorna

In the first quarter of 2007 the project operated significantly better than in the first quarter of 2006 but below budgeted results for 2007.

Mercury

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

In order to complete the above mentioned agreement the company Mercury Energia Spółka Komandytowa was set up. Comax was the unlimited partner and PEP was the limited partner.

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

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

The production of Mercury Energia in the first quarter of 2007 was higher than budgeted.

Jupiter

The goal of the project which started in 2005 by the subsidiary Saturn Management Sp. z o.o. i Wspólnicy, Spółka Komandytowa is to construct new turbine which will allow for optimization of the CHP operations (lower energy production cost) and will increase the renewable electricity production (revenue from green electricity). PEP revenue will be due from engaged capital and additional green electricity production.
On January 12, 2007 Polish Energy Partners's subsidiary Saturn Management Spółka z ograniczoną odpowiedzialnością i Wspólnicy, Spółka Komandytowa (hereinafter referred as to "SM") signed with

Alsotm Power Spółka z ograniczoną odpowiedzialnością a protocol of conditional acceptance of a steam turbogenerator (the so-called Jupiter project), meaning that SM began operating the turbogenerator.
The completion of the project is on time and budget.

The project Jupiter has been completed and its effects are visible in the results of green electricity production by EC Saturn.

Wind Farm Puck

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

Starting from January 10, 2007 PEP's subsidiary Dipol has the necessary concession for electricity generation in the wind farm, which is the final step of the investment process.

The wind farm started electricity generation in December 2006. In the period of first quarter of 2007 the electricity generation on the wind farm was slightly higher than budgeted. It was mainly caused by good wind conditions in January 2007.

New Projects

The Company completed development process of wind farm Suwałki with estimated capacity of 38MW. The Company is in the process of the announced strategy which is to sell majority stake in the farm. The completion of this transaction is planned for quarter 2 of 2007. It is probable that together with the sale of stake in Suwałki wind farm another sale of stakes in 32 MW wind farm project will be completed. The development of the 32MW project has prolonged due to tardiness of authorities responsible for issuing grid connection terms. The completion of the development of the mentioned project is planned for end 2007/early 2008. Also completion of development of another 20MW wind farm project is planned for end 2007/early 2008.
Moreover, for the years 2008 and 2009 the Company predicts to complete development of wind farms with total capacity of 74MW and 118 MW respectively.

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

In the first quarter of 2007 the contribution from three new projects had significant impact – project Jupiter, wind farm Puck and ME Mercury.

In the first quarter of 2007 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").

Unrealized foreign exchange differences from balance sheet valuation of assets and liabilities denominated in foreign currencies have significant impact on the Group's result. As of March 31, 2007 the Group had passive currency position in EURO. In the period of 1 quarter ended March 31, 2007 the Group achieved 1,213 thousand zlotys of financial income from foreign exchange differences.

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 space 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.

Moreover, the wind conditions which determine electricity production in the wind farm are unequally distributed over the year. In the autumn- winter time the wind conditions are significantly better than in the spring- summer time.

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

In the first quarter of 2007 there were small share issues related to the share option program totaling 294 052 zlotys.

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

The Management Board will advise to the Supervisory Board that the profit for 2006 shall stay in the company. According to the Management Board reinvestment of free cash in the development of wind energy is the best to increase value of the Company.

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.

(in thousand zlotys)

11. Indication of changes in Group structure

In the first quarter ended March 31, 2007 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, 2007 the contingent liabilities increased and amount to 60 934 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 67/2006 published on December 11, 2006.

Moreover the Management would like to stress that the forecast does not include premiums which can be realized from selling stakes in the developed wind farm projects.

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

Shareholders owning over 5% of total number of shares as of March 31, 2007:

Shareholder	Number of shares	Number of votes	Share
Pioneer Pekao Investment Management	1 030 034	1 030 034	5,57%
PZU Asset Management	1 200 000	1 200 000	6,49%
SICAV IXIS AM EMERGING EUROPE	1 034 920	1 034 920	5,60%
Generali OFE	2 062 464	2 062 464	11,15%
PKO Funds*	922 582	922 582	4,99%
Millennium Funds**	933 186	933 186	5,05%
Other (free float)	11 306 481	11 306 481	61,15%
Total	**18 489 667**	**18 489 667**	**100,0%**

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

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

Managing and supervisory persons as of March 31, 2007 have the following number of shares of the parent company:

(in thousand zlotys)

Shares	31.12.2006	Increase as a result of motivational programs	Increase as a result of share purchase	Decrease	31.03.2007
Management Board	78 362	117 026	0	0	**195 388**
Supervisory Board	48 244	30 000	90 149	0	**168 393**
Total	**126 606**	**147 026**	**90 149**	**0**	**363 781**

As of March 31, 2007 there were following option programs for Management Board, supervisory person and key employees:

<u>I Option program is described in the table below:</u>

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

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

The option program for CEO - Mr. Stephen Klein

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

(in thousand zlotys)

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

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

The fair value of option was estimated based on the Black-Scholes-Merton model. The fair value amounts to:
Options June 30, 2006 – 1.27PLN
Options June 30, 2007 – 1.43PLN
Options June 10, 2008 – 1.49 PLN

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

<u>II Option program</u>

On January 10, 2007 which is after the balance sheet date the General Shareholders Meeting voted the resolution relating to issue of subscription warrants of class 2 and conditional increase of share capital through shares issue of class T excluding drawing right of current shareholders in order to enable purchase the shares to the eligible persons included in the management option program.
The results of the voting of the above management option program will be incurred in the profit and loss account for the year 2007 and following years.

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

Option plan	Ms Anna Kwarcińska, Mr Stephen Klein, Mr Michał Kozłowski, Mr Zbigniew

beneficiaries	Prokopowicz, key employees
Grant Date	10.01.2007, 01.03.2007
Vesting date	01.07.2008 01.07.2009 01.07.2010
Expiry date	30.09.2010
No of shares in the program	945 800
No of options granted	895 210
Exercise price/share	11.41PLN
Type of settlement	Share issue after subscription warrants issue
Conditions of exercise	The option program includes 12 tranches, Tranches 1,4,7, 10 – have vesting date from 01.07.2008 Tranches 2, 5, 8, 11 – have vesting date from 01.07.2009 Tranches 3, 6 ,9, 12 – have vesting date from 01.07.2010 Purchase of subscription warrants depends on fulfillment of the following necessary conditions: Conditions to vest tranches 1,2,3 and conditions to vest tranches 10,11,12 in respective years. After fulfillment of the above mentioned conditions it is possible for tranches 4-9 to vest. The condition to vest of tranches 1,2,3 is to achieve the higher relation of the Companys share price for the period of 6 months proceeding the year of vesting to the share price for the period of 6 months proceeding the year of vesting the rights by two years to the relation of WIG index for the same periods. The conditions to vest of tranches 4,5,6 is to achieve the higher relation of the Companys share price for the period of 6 months preceding the year of vesting to the share price for the period of 6 months preceding the year of vesting the rights by two years to the relation of WIG index for the same periods multiplied by 1.07 The condition to vest of tranches 7,8,9 is to achieve EBITDA per share higher than 1.64 PLN in 2007 for tranche 7, 1.97 PLN in 2008 for tranche 8 and 2.36 PLN in 2009 for tranche 9. The condition to vest of tranches 10,11,12 is to achieve EPS not lower than 0.78 PLN in 2007 for tranche 10, 0.92 PLN in 2008 for tranche 11 and 1.08 PLN in 2009 for tranche 12. In case the vesting conditions are not met in 2007 and/or in 2008 the option program assumes the possibility of vesting these options in after meeting additional criteria in subsequent years. The detailed rules of the option program were published in the current report no. 3/2007

The table below presents changes in option programs in the period of first quarter of 2007:

	I option program	Option program for CEO	II option program
Total number of options granted in the program	325 416	358 000	895 410

(in thousand zlotys)

Number of options available for exercise in quarter 1 2007	147 026	40 000	0
Number of options exercised as of January 1, 2007	178 390	49 500	0
Number of options exercised in the period of quarter 1 2007	147 026	0	0
Number of options exercised as of March 31, 2007	325 416	49 500	0
Number of options available for exercise till the end of the program	0	308 500	0
Average strike price of the options exercised	2	7,8	11,41

The charge into the profit and loss account for the first quarter of 2007 ended March 31, 2007 resulting from the above mentioned option programs amounted to 786 thousand zlotys.

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

Court cases:

- Court proceedings initiated by Zbigniew Sobczyk as the plaintiff, for declaring the notice of termination of an employment contract as ineffective. The court of first instance rejected the claim. The plaintiff appealed against the ruling which was rejected. On June 21, 2006 the appealing of the plaintiff was rejected. The plaintiff claimed cassation from the above mentioned judgment to the Majority Court.
- On May 16th 2002, the President of the URE issued a decision No. OWA 25/2002 on imposing a penalty of PLN 856,000 on the Company for failure to comply with the obligation to submit a tariff used by the Company for approval by the President of URE. As a result of the appeal filed by the Company against the President of URE's decision, on June 25th 2003 the Anti-Trust and Consumer Protection Court of the District Court in Warsaw modified the decision by reducing the amount of penalty to PLN 60,000. In May 2004, as a result of the last resort appeal filed by the President of URE, the Supreme Court reversed the judgment of the Anti-Trust and Consumer Protection Court of the District Court in Warsaw and referred the case for re-trial to the Anti-Trust and Consumer Protection Court of the District Court in Warsaw. On April 4th 2005 (after the date of this Prospectus' update), the Regional Court in Warsaw reversed URE's decision and referred the case for re-examination. On March 7, 2006 the Appealing Court reversed the judgment of the Regional Court and referred the case for re-examination by the Regional Court. According to the judgment date September 21, 2006 the fine for the Company has been lowered to the amount of 723 thousand zlotys. The Company appealed from the sentence of the Regional Court. Case in progress.

- Mercury Energia Spółka z ograniczoną odpowiedzialnością I Wspólnicy, Spółka Komandytowa received a lawsuit from Tawi Corporation Spółka z ograniczoną odpowiedzialnością for payment of 8,594.28 zlotys plus interest. Mercury in reply for the lawsuit called for settlement claim. Case in progress.

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 94.1% shareholder in "Mercury Energia - Przedsiębiorstwo Produkcyjno-Usługowe i Pośrednictwa COMAX Spółka z ograniczoną odpowiedzialnością" Spółka komandytowa.
On November 23, 2005 PEP SA concluded with Raiffeisen Bank Polska with its registered office in Warsaw guarantee agreement. Pursuant to the guarantee agreement PEP granted to Raiffeisen Bank Polska guarantee which relates to the loan agreement concluded between Dipol Sp. Z o.o. as borrower and Raiffeisen Bank Polska as lender. The guarantee granted by PEP in the amount of up to 1,350,000 EURO can be exercised till July 31, 2007 and in the amount of up to 5,900,378 PLN can be exercised till the day which is six months from the date of statements issued by EkoFundusz Foundation about final settlement of the grant. PEP SA did not receive any reimbursement for the guarantee granting. PEP SA is 100% owner of Dipol Sp. Z o.o.
On May 22, 2006 PEP S.A. issued bill of exchange in blanco up to the amount of 1,865,500.00 PLN, as collateral for the grant received by Saturn Management Sp. z o.o. i Wspólnicy, Spółka komandytowa from National Fund of Environmental Protection and Maritime Economy Warsaw. The period of validity of this contingent liability resulting from issue of this bill of exchange amounts to 5 years from the date of completion of the project which was subsidized.

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 foreign exchange against zloty

  Unrealized foreign exchange differences from balance sheet valuation of assets and liabilities denominated in foreign currencies have significant impact on the Group's

result. As of March 31, 2007 the Group had passive currency position of approximately million 10.5 EURO.
In the period of 1 quarter ended March 31, 2007 the Group achieved 1,213 thousand zlotys of financial income from foreign exchange differences.

In period from April 1 2007 to December 31, 2007 the changes in foreign exchange of zloty to EURO could have significant impact on unrealized foreign exchange differences. The result on foreign exchange differences in 2007 will be dependent on the relation of the foreign exchange on December 31, 2007 to the foreign exchange on March 31, 2007 whereas respectively appreciation/depreciation of zloty towards EURO will have positive/negative impact on net profit in the amount of approximately 85 thousand zlotys for each grosz of difference in relation to foreign exchange from March 31, 2007 (3.8695 PLN/EURO).

The forecast of the Group's net result for 2007 was prepared under assumption of no impact of foreign exchange differences on the forecasted net profit.

- Changes in prices of "green electricity" certificates
- Wind conditions in the region of wind farm Puck
- Level of premium received from sale of majority stake in wind farm Suwałki which has total capacity of 38 MW
- Changes in prices of coal, gas, biomass and availability of these commodities
- Financial standing of Company's customers.