Polish Energy Partners Capital Group

CONSOLIDATED QUARTERLY REPORT FOR THE SECOND QUARTER ENDED JUNE 30, 2005 PREPARED IN ACCORDANCE WITH INETRNATIONAL FINANCIAL REPORTING STANDARDS

Warsaw, 12 August 2005

Assets				
I. Fixed Assets	271 732	278 721	282 758	294 179
1. Intangible fixed assets	615	624	650	702
2. Goodwill	132	-	-	-
3. Tangible fixed assets	33 330	34 253	33 879	30 508
4. Long-term receivables	233 792	239 548	243 651	260 767
4.1. From affiliates	259	-	-	-
4.2. From others	233 533	239 548	243 651	260 767
5. Long- term investments	3 843	4 247	4 045	1 190
5.1. Real estate	-	-	-	-
5.2. Intangible fixed asset	-	-	-	-
5.3. Long-term financial assets	3 843	4 247	4 045	1 190
a) in subsidiaries and jointly controlled entities	3 843	4 247	4 045	1 190
b) in other companies	-	-	-	-
5.4. Other long-term investments	-	-	-	-
6. Long-term prepayments and deferred costs	20	49	533	1 012
6.1. Deferred tax assets	-	-	533	906
6.2. Other prepayments and deferred costs	20	49	-	106
II. Current assets	82 382	67 438	57 925	60 967
1. Inventory	1 746	1 711	1 891	1 366
2. Short-term receivables	22 945	27 445	16 013	12 256
2.1. Receivables from affiliates	37	87	75	58
2.2. Receivables from others	22 908	27 358	15 938	12 198
incl. Tax, social security receivables	174	-	413	29
incl. CIT receivable	172	-	13	-
incl. trade	8 680	13 944	4 366	2 453
3. Short-term investments	52 222	32 413	36 602	45 840
3.1. Short-term financial assets	52 222	32 413	36 602	45 840
a) in affiliates	-		-	-
b) in other companies	-		-	154
c) cash and cash equivalents	52 222	32 413	36 602	45 686
3.2. Other short-term investments	-		-	-
4. Short-term prepayments and deferred costs	5 469	5 869	3 419	1 505
T o t a l A s s e t s	354 114	346 159	340 683	355 146

Total equity and Liabilities	30.06.2005	31.03.2005	31.12.2004	30.06.2004
I. Shareholders' Equity	109 151	107 642	101 512	100 057
1. Share capital	36 230	35 865	35 865	35 865
2. Unpaid share capital (negative amount)	(365)		-	-
3. Treasury shares (negative amount)	-		-	-
4. Reserve capital	28 321	28 321	36 459	36 459
5. Reserve capital from option valuation	700	551	-	-
6 Other reserve capital	28 267	28 267	9 392	9 392
7. Profit/loss from previous years	9 057	9 060	13 179	13 179
8. Profit/loss for the period	6 941	5 578	6 617	5 162
9. Appropriation of profit during the year (negative amount)	-	-	-	-
II. Liabilities and provisions	244 963	238 517	239 171	255 089
1. Provisions	4 932	4 561	4 144	3 884
1.1. Deferred tax provision	311	360	-	-
1.2. Provision for retirement and similar obligations	765	526	530	457
a) long-term	619	470	470	424
b) short-term	146	56	60	33
1.3. Other provisions	3 856	3 675	3 614	3 427
a) long-term	2 050	2 040	2 030	1 700
b) short-term	1 806	1 635	1 584	1 727
2. Long-term liabilities	217 444	207 540	210 906	226 637
2.1. To affiliates	-	-	-	-
2.2. To other companies	217 444	207 540	210 906	226 637
incl. Bank loans	217 444	207 540	210 906	226 637
3. Short-term liabilities	20 363	23 342	21 014	22 580
3.1. To affiliates	11	-	-	69
3.2. To other companies	20 158	23 141	20 927	22 299
short term bank loans	473	985	7 090	8 516
long term bank loans due in one year	15 893	14 760	11 842	9 237
trade liabilities	1 499	2 436	2 690	1 623
tax, social security liabilities	2 102	4 769	1 212	1 735
CIT liability	-	807	-	49
3.3 Special Funds	194	201	87	212
4. Accruals and deferred income	2 224	3 074	3 107	1 988
4.1 Negative goodwill	-	-	-	-
4.2 Other accruals and deferred income	2 224	3 074	3 107	1 988
a) long-term	1 139	1 257	1 178	1 342
b) short-term	1 085	1 817	1 929	646
Total Capital and Liabilities	354 114	346 159	340 683	355 146
	-	-	-	-

Book Value	109 151	107 047	101 512	100 057
Weighted average number of shares	17 953 906	17 932 392	17 932 392	747 183
Book value per one share (in zł)	6	6	6	134
Weighted average diluted number of shares	17 953 906	17 932 392	17 932 392	747 183
Diluted book value per one share (in zł)	6	6	6	134

* Share value split from 48 zł to 2 zł was registerd in KRS on September 2, 2004

OFF BALANCE SHEET ITEMS	**30.06.2005**	**31.03.2005**	**31.12.2004**	**30.06.2004**
1. Contingent Assets				
2. Contingent Liabilities	49 810	49 710	49 710	39 210
2.1. For affiliates	49 810	49 710	49 710	39 210
- guarantees given	49 810	49 710	49 710	39 210
3. Other				42
Total off-balance sheet items	49 810	49 710	49 710	39 252

CONSOLIDATED PROFIT AND LOSS STATEMENT	Q2 30.06.2005	Q2 30.06.2004	cumulative 30.06.2005	cumulative 30.06.2004
I. Sales of products, goods for resale and materials, including:	13 830	11 180	33 075	28 001
- from affiliates	38	1	74	1
1. Sales of products	13 830	11 180	33 075	27 999
2. Sales of goods for resale and materials	-	-	-	2
II. Cost of sold products, goods for resale and materials, incl.	(9 269)	(7 353)	(18 744)	(16 729)
- from affiliates	(172)	-	(172)	-
1. Cost of products sold	(9 269)	(7 353)	(18 744)	(16 729)
2. Cost of sold goods for resale and materials	-	-	-	-
III. Gross profit/loss on sales (I-II)	4 561	3 827	14 331	11 272
IV. Cost of sales	-	(2)	-	(19)
V. General management costs	(3 408)	(2 926)	(6 151)	(5 645)
VI. Profit/loss on sales (III-IV-V)	1 153	899	8 180	5 608
VII. Other operating income	595	1 443	603	2 218
1. Profit from the sale of fixed assets	73	-	73	-
2. Grants received	39	139	39	161
3. Other operating income	483	1 304	491	2 057
VIII. Other operating expenses	(449)	(68)	(467)	(90)
1. Loss on the sale of fixed assets	(3)	-	(3)	-
2. Revaluation of fixed assets	-	-	(14)	-
3. Other operating expenses	(446)	(68)	(450)	(90)
IX. Operating profit/loss (VI+VII-VIII)	1 299	2 274	8 316	7 736
X. Przychody finansowe	3 184	3 399	6 677	7 012
1. Dividends and profit shares, including:	118	-	118	-
- from affiliates	118	-	118	-
2. Interest, including:	3 001	3 399	5 940	6 405
- from affiliates	73	-	146	-
3. Profit from the sale of investments	-	-	-	-
4. Revaluation of investments	-	-	-	-
5. Other	65	-	619	607
XI. Financial expense	(3 049)	(5 796)	(6 265)	(8 170)
1. Interest, including:	(2 582)	(3 085)	(5 161)	(5 530)
- from affiliates	-	-	-	-
2. Loss from the sale of investments	-	-	-	-
3. Revaluation of investments	-	-	-	-
4. Other	(467)	(2 711)	(1 104)	(2 640)
XII. Profit/loss on sale of subordinate units or part of them	-	-	-	-
XIII. Operating profit/loss before extraordinary itemsj (IX+X-XI+/-XII)	1 434	(123)	8 728	6 578
XIV. Result on extraordinary items (XIV.1. - XIV.2.)	-	-	-	-
1. Zyski nadzwyczajne	-	-	-	-
2. Straty nadzwyczajne	-	-	-	-
XIV. Profit before tax (XII+/-XIII)	1 434	(123)	8 728	6 578
XV. Corporate income tax	(68)	231	(1 781)	(1 416)
a) current income tax expense	(118)	(428)	(937)	(735)
b) deferred tax	50	659	(844)	(681)
XVI. Other obligatory charges	-	-	-	-
XVII. Profit/Loss from subordinate units valued equity method	(3)	-	(6)	-
XVIII. Profits/Losses of minority	-	-		
XVII. Net Profit (XIV-XV-XVI)	1 363	108	6 941	5 162
Net profit annualized	1 363	108	6 941	5 162
Weighted average number of shares	17 953 906	747 183	17 953 906	747 183
Basic earnings per share	0,08	0,14	0,39	7
Weighted average diluted number of shares	17 953 906	747 183	17 953 906	747 183
Diluted earnings per share	0,08	0,14	0,39	7

	Q2	Q2	cumulative	cumulative
Consolidated Cash Flow Statement	30.06.2005	30.06.2004	30.06.2005	30.06.2004
A. Cash flow from operating activities - indirect method				
I. Net profit	1 363	108	6 941	5 162
II. Adjustments for:	3 131	6 408	(4 224)	15 601
1. Minority profit/loss	-	-	-	-
2. Profit/ loss from associates and jointly controlled entities which are companies	(4)	-	-	-
3. Depreciation	747	376	1 522	1 129
- goodwill or negative goodwill amortization from affiliates	-	-	-	-
4. Foreign exchange gains/losses	371	5 539	330	5 059
5. Interest and dividends received and paid	154	1 084	(496)	660
6. Result on investment activity	(70)	(148)	(70)	(151)
7. Change in provisions	191	195	788	105
8. Change in inventory	(35)	1 114	145	1 492
9. Change in receivables	11 032	(1 738)	1 326	8 752
10. Change in short term liabilities, without loans and credits	(9 364)	(150)	(6 161)	(2 641)
11. Change in deferred income and accruals	(40)	136	(2 308)	1 196
12. Other changes	149	-	700	-
III. Net cash flow from operating activities (I+/-II)	4 494	6 516	2 717	20 763
B. Net cash flow from investing activities				
I. Inflows due to investing activities	7 488	4 607	13 256	7 528
1. Sale of intangible and tangible fixed assets	1 517	(2)	1 517	-
2. Sale of investments in tangible fixed assets and intangible assets	-	-	-	-
3. Sale of other financial assets, including:	117	-	117	-
a) in affiliates	117	-	117	-
- sale of financial assets	-	-	-	-
- dividends and shares in profit	117	-	117	-
- repayment of granted long term loans	-	-	-	-
- interest	-	-	-	-
- other inflows from financial assets	-	-	-	-
b) in other companies	-	-	-	-
- sale of financial assets	-	-	-	-
- dividends and shares in profit	-	-	-	-
- repayment of granted long term loans	-	-	-	-
- interest	-	-	-	-
- other inflows from financial assets	-	-	-	-
4. . other investment inflows	5 854	4 609	11 622	7 528
II. Outflows due to investing activities	(1 609)	(18 559)	(3 522)	(24 851)
1. Purchase of intangible and tangible fixed assets	(851)	(1 764)	(2 271)	(2 016)
2. Investments in property and intangibles	-	-	-	-
3. Purchase of other financial assets, including:	(46)	(1 050)	(180)	(1 050)
a) in affiliates	(46)	(890)	(180)	(890)
- purchase of financial assets	(46)	(890)	(180)	(890)
- long-term loans granted	-	-	-	-
b) in other companies	-	(160)	-	(160)
- purchase of financial assets	-	-	-	-
- long-term loans granted	-	(160)	-	(160)
4. Dividends and other payments paid to minority shareholders,	-	-	-	-
5. Other investing outflows	(712)	(15 745)	(1 071)	(21 785)
III. . Net cash flow from investing activitiesj (I-II)	5 879	(13 952)	9 734	(17 323)

C. Net cash flow from financing activities				
I. Inflows from financing activities	16 989	16 899	17 510	25 239
1. Issue of shares and capital instruments	-	-	-	-
2. Loans and credits	16 989	16 899	17 510	25 239
3. Issue of bonds	-	-	-	-
4. Other	-	-	-	-
II. Outflows due to financing activities	(7 553)	(6 031)	(14 341)	(16 311)
1. Purchase of treasury shares	-	1 180	-	-
2. Dividends and others payments to shareholders	(68)	-	(68)	-
3. Share issue related expenditure	-	6 299	-	-
4. Repayments of loans and credits	(4 265)	(10 731)	(8 862)	(10 731)
5. Repayments of bonds	-	-	-	-
6. Repayments of other financial liabilities	-	-	-	-
7. Finance lease payments	(89)	(28)	(89)	(57)
8. Interest paid	(3 131)	(2 751)	(5 322)	(5 523)
9. Other	-	-	-	-
III. Net cash flow from financing activitiesj (I-II)	9 436	10 868	3 169	8 928
Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)	19 809	3 432	15 620	12 368
Balance sheet change in cash and cash equivalents, including:	15 620	12 368	15 620	12 368
- changes in cash and cash equivalents resulting from foreign exchange gains/losse	-	-		
Cash and cash equivalents at the beginning of the period	32 413	42 254	36 602	33 318
Cash and cash equivalents at the end of the period (F+/- D), including :	52 222	45 686	52 222	45 686
- restricted cash and cash equivalents*	6 266	7 044	6 266	7 044

*) cash restriction results from the agreement between the Company and the bank

Changes in Consolidated Shareholders' Equity	30.06.2005	31.03.2005	31.12.2004	30.06.2004
I Equity at the beginning of the period	101 512	101 512	94 897	94 897
- adjustements to opening balance	-	-	-	-
Ia Equity at the beginning of the period restated to comparable data	101 512	101 512	94 897	94 897
1. Share capital at the beginning of the period	35 865	35 865	35 865	35 865
1.1. Changes in share capital	365	-	-	-
a) increase	365	-	-	-
- share issue	365	-	-	-
b) decrease	-	-	-	-
1.2. Share capital at the end of the period	36 230	35 865	35 865	35 865
2. Unpaid share capital at the beginning of the period	-	-	-	-
2.1. Changes in unpaid share capital	(365)	-	-	-
a) increase	(365)	-	-	-
b) decrease	-	-	-	-
2.2. Unpaid share capital at the end of the period	(365)	-	-	-
3. Treasury shares at the beginning of the period	-	-	-	-
3.1. Changes in treasury stocks	-	-	-	-
a) increase	-	-	-	-
b) decrease	-	-	-	-
3.2. Treasury shares at the end of the period	-	-	-	-
4. Reserve capital at the beginning of the period	36 459	36 459	36 459	36 459
4.1. Changes in reserve capital	(8 138)	(8 138)	-	-
a) increase	-	-	-	-
b) decrease	(8 138)	(8 138)	-	-
- coverage of unallocated losses	(8 138)	(8 138)	-	-
- other	-	-	-	-
4.2. Reserve capital at the end of the period	28 321	28 321	36 459	36 459

5.	**Reserve capital from option valuation at the beginning of the period**	-	-	-	-
5.1.	Changes in reserve capital from option valuation	700	551	-	-
a)	increase	700	551	-	-
	- option valuation	700	551	-	-
b)	decrease	-	-	-	-
	- disbursement of fixed assets	-	-	-	-
	- impairment of fixed assets	-	-	-	-
	- revaluation of long term investments	-	-	-	-
	- other	-	-	-	-
5.2.	**Reserve capital from option valuation at the end of the period**	700	551	-	-
6.	**Other reserve capital at the beginning of the period**	9 392	9 392	9 392	9 392
6.1.	Changes in other reserve capital	18 875	18 875	-	-
a)	increase	18 875	18 875	-	-
b)	decrease	-	-	-	-
6.2.	**Other reserve capital at the end of the period**	28 267	28 267	9 392	9 392
7.	**FX differences from recalculation of affiliates**	-	-	-	-
7.	**Zysk (strata) z lat ubiegłych na początek okresu**	19 796	19 796	13 562	13 562
7.1.	**Undistributed profits (unallocated losses) from previous years at**	19 796	19 796	13 562	13 562
-	adjustements to opening balance	-	-	(383)	(383)
7.2.	**Undistributed profits (unallocated losses) from previous years at the beginning of the period, restated**	19 796	19 796	13 179	13 179
a)	increase	8 138	8 139	-	-
	- distrbution of retained earnings	8 138	8 139	-	-
b)	decrease	(18 875)	(18 875)	-	-
	- coverage of previous losses	-	-	-	-
	- increase of share capital	-	(18 875)	-	-
	- increase in other reserve capital	(18 875)	-	-	-
7.3.	**Undistributed profit from previous years at the end of the period**	9 057	9 060	13 179	13 179
7.4.	**Unallocated losses from previous years at the beginning of the peri**	-	-	-	-
		-	-	-	-
-	adjustements to opening balance	-	-	-	-
7.5	**Unallocated losses from previous years at the beginning of the period, restated to comparable data**	-	-	-	-
a)	increase	-	-	-	-
	- movement of unallocated losses	-	-	-	-
b)	decrease	-	-	-	-
	- coverage of unallocated losses	-	-	-	-
7.6	**Unallocated losses from previous years at the end of the period**	-	-	-	-
7.7	**Undistributed profits/unallocated losses from previous years at the**	9 057	9 060	13 179	13 179
8.	**Net result**	6 941	5 578	6 617	5 162
a)	**net profit**	6 941	5 578	6 617	5 162
b)	**Net loss**	-	-	-	-
c)	**profit distribution**	-	-	-	-
II.	**Equity at the end of the period**	109 151	107 642	101 512	100 057
III.	**Equity after proposed profit appropriation/loss cover age**	109 151	107 642	101 512	100 057

Simplified standalone financial statement of PEP S.A. for the second quarter ended June 30, 2005

BALANCE SHEET	30.06.2005	31.03.2005	31.12.2004	30.06.2004
Assets				
I. Fixed Assets	65 271	72 623	72 340	80 722
1. Intangible fixed assets	1	2	14	41
- goodwill	-		-	-
2. Tangible fixed assets	32 173	33 346	32 767	27 252
3. Long-term receivables	265	6	12	24
3.1. From affiliates	259	-	-	-
3.2. From others	6	6	12	24
4. Long- term investments	32 812	39 220	39 014	52 393
4.1. Real estate	-	-	-	-
4.2. Intangible fixed asset	-	-	-	-
4.3. Long-term financial assets	32 812	39 220	39 014	52 393
a) in subsidiaries and jointly controlled entities	32 812	39 220	39 014	52 393
b) in other companies		-	-	-
4.4. Other long-term investments	-	-	-	-
5. Long-term prepayments and deferred costs	20	49	533	1 012
5.1. Deferred tax assets	-	-	533	906
5.2. Other prepayments and deferred costs	20	49	-	106
II. Current assets	58 983	51 861	53 045	45 858
1. Inventory	1 144	1 116	1 290	1 350
2. Short-term receivables	8 659	9 134	6 182	11 770
2.1. Receivables from affiliates	3 821	3 825	3 414	10 499
2.2. Receivables from others	4 838	5 309	2 768	1 271
incl. Tax, social security receivables	174	-	13	-
incl. CIT receivable	172	-	13	-
incl. trade	4 515	5 159	2 619	1 022
3. Short-term investments	46 513	38 718	43 321	32 552
3.1. Short-term financial assets	46 513	38 718	43 321	32 552
a) in affiliates	5 145	14 648	14 685	-
b) in other companies	-	-	-	-
c) cash and cash equivalents	41 368	24 070	28 636	32 552
3.2. Other short-term investments	-	-	-	-
4. Short-term prepayments and deferred costs	2 667	2 893	2 252	186
T o t a l A s s e t s	124 254	124 484	125 385	126 580

Total equity and Liabilities	30.06.2005	31.03.2005	31.12.2004	30.06.2004
I. Shareholders' Equity	95 962	89 526	92 388	94 115
1. Share capital	36 230	35 865	35 865	35 865
2. Unpaid share capital (negative amount)	(365)	-	-	-
3. Treasury shares (negative amount)	-		-	-
4. Reserve capital	28 321	28 321	36 459	36 459
5. Reserve capital from option valuation	700	551	-	-
6 Other reserve capital	28 267	28 267	9 392	9 392
7. Profit/loss from previous years	(66)	(66)	(6 193)	(6 193)
8. Profit/loss for the period	2 875	(3 412)	16 865	18 592
9. Appropriation of profit during the year (negative amount)	-		-	-
II. Liabilities and provisions	28 292	34 958	32 997	32 465
1. Provisions	3 915	3 847	3 476	3 229
1.1. Deferred tax provision	311	360	-	-
1.2. Provision for retirement and similar obligations	33	26	25	25
a) long-term	33	23	**22**	19
b) short-term	-	3	3	6
1.3. Other provisions	3 571	3 461	3 451	3 204
a) long-term	2 050	2 040	2 030	1 700
b) short-term	1 521	1 421	1 421	1 504
2. Long-term liabilities	15 360	15 979	16 580	17 721
2.1. To affiliates	-	-	-	-
2.2. To other companies	15 360	15 979	16 580	17 721
incl. Bank loans	15 360	15 979	16 580	17 721
3. Short-term liabilities	7 378	13 270	11 069	9 880
3.1. To affiliates	3 709	7 300	6 074	5 738
3.2. To other companies	3 583	5 884	4 931	4 053
short term bank loans	-	-	-	-
long term bank loans due in one year	2 361	2 301	2 243	2 118
trade liabilities	850	2 115	2 106	1 302
tax, social security liabilities	355	1 413	563	618
CIT liability	-	806	-	49
3.3 Special Funds	86	86	64	89
4. Accruals and deferred income	1 639	1 862	1 872	1 635
4.1 Negative goodwill	-	-	-	-
4.2 Other accruals and deferred income	1 639	1 862	1 872	1 635
a) long-term	1 139	1 257	1 178	1 341
b) short-term	500	605	694	294
Total Capital and Liabilities	124 254	124 484	125 385	126 580
	-	-	-	-
Book Value	95 962	88 933	92 388	94 115
Weighted average number of shares	17 953 906	17 932 392	17 932 392	747 183
Book value per one share (in zł)	5	5	5	126
Weighted average diluted number of shares	17 953 906	18 199 433	17 932 392	747 183
Diluted book value per one share (in zł)	5	5	5	126

OFF BALANCE SHEET ITEMS	30.06.2005	31.03.2005	31.12.2004	30.06.2004
1. Contingent Assets				
2. Contingent Liabilities	49 810	49 710	49 710	39 210
2.1. For affiliates	49 810	49 710	49 710	39 210
- guarantees given	49 810	49 710	49 710	39 210
3. Other				42
Total off-balance sheet items	49 810	49 710	49 710	39 252

	Q2	Q2	cumulative	cumulative
PROFIT AND LOSS STATEMENT	30.06.2005	30.06.2004	30.06.2005	30.06.2004
I. Sales of products, goods for resale and materials, including:	7 277	6 269	15 825	15 458
- from affiliates	3 003	2 254	6 262	4 848
1. Sales of products	5 118	4 569	11 244	11 730
2. Sales of goods for resale and materials	2 159	1 700	4 581	3 728
II. Cost of sold products, goods for resale and materials, incl.	(6 716)	(4 696)	(14 067)	(11 994)
- from affiliates	(1 987)	(1 726)	(4 372)	(3 666)
1. Cost of products sold	(5 003)	(3 266)	(10 097)	(8 844)
2. Cost of sold goods for resale and materials	(1 713)	(1 430)	(3 970)	(3 150)
III. Gross profit/loss on sales (I-II)	561	1 573	1 758	3 464
IV. Cost of sales	-	-	-	-
V. General management costs	(2 680)	(2 476)	(4 790)	(4 736)
VI. Profit/loss on sales (III-IV-V)	(2 119)	(903)	(3 032)	(1 272)
VII. Other operating income	308	1 433	309	2 204
1. Profit from the sale of fixed assets	-	-	-	-
2. Grants received	39	139	39	161
3. Other operating income	269	1 294	270	2 043
VIII. Other operating expenses	(1 341)	(3)	(1 895)	(5)
1. Loss on the sale of fixed assets	(3)	-	(3)	(1)
2. Revaluation of fixed assets	(893)	-	(1 447)	-
3. Other operating expenses	(445)	(3)	(445)	(4)
IX. Operating profit/loss (VI+VII-VIII)	(3 152)	527	(4 618)	927
X. Financial income	10 100	20 252	10 895	20 892
1. Dividends and profit shares, including:	9 502	20 044	9 502	20 044
- from affiliates	9 502	20 044	9 502	20 044
2. Interest, including:	292	208	590	430
- from affiliates	207	170	426	343
3. Profit from the sale of investments	-	-	-	-
4. Revaluation of investments	-	-	-	-
5. Other	306	-	803	418
XI. Financial expense	(592)	(1 454)	(1 621)	(1 811)
1. Interest, including:	(409)	(430)	(858)	(859)
- from affiliates	-	-	-	-
2. Loss from the sale of investments	-	-	-	-
3. Revaluation of investments	-	-	-	-
4. Other	(183)	(1 024)	(763)	(952)
XII. Profit/loss on sale of subordinate units or part of them	-	-	-	-
XIII. Operating profit/loss before extraordinary itemsj (IX+X-XI+/-XII)	6 356	19 325	4 656	20 008
XIV. Result on extraordinary items (XIV.1. - XIV.2.)	-	-	-	-
1. Extraordinary gains	-	-	-	-
2. Extraordinary losses	-	-	-	-
XIV. Profit before tax (XII+/-XIII)	6 356	19 325	4 656	20 008
XV. Corporate income tax	(69)	231	(1 781)	(1 416)
a) current income tax expense	(118)	(428)	(937)	(735)
b) deferred tax	49	659	(844)	(681)
XVI. Other obligatory charges	-	-	-	-
XVII. Net Profit (XIV-XV-XVI)	6 287	19 556	2 875	18 592
	-	-		
Net Profit (Loss)	6 287	19 556	2 875	18 592
Weighted average number of shares	17 953 906	747 183	17 953 906	747 183
Basic earnings per share	0,35	26	0	25
Weighted average diluted number of shares	17 953 906	747 183	17 953 906	747 183
Diluted earnings per share	0,35	26	0	25

Cash Flow Statement	Q2 30.06.2005	Q2 30.06.2004	cumulative 30.06.2005	cumulative 30.06.2004
A. Cash flow from operating activities - indirect method				
I. Net profit	6 287	19 556	2 875	18 592
II. Adjustments for:	(9 709)	(19 987)	(9 846)	(14 731)
1. Minority profit/loss	-	-	-	-
2. Profit/ loss from associates and jointly controlled entities which are companies	-	-	-	-
3. Depreciation	738	325	1 427	1 029
- goodwill or negative goodwill amortization from affiliates	17	-	-	-
4. Foreign exchange gains/losses	264	729	264	625
5. Interest and dividends received and paid	(9 287)	(19 722)	(9 047)	(19 460)
6. Result on investment activity	3	-	3	3
7. Change in provisions	399	321	439	62
8. Change in inventory	(28)	(222)	146	(465)
9. Change in receivables	469	4 190	(2 477)	4 144
10. Change in short term liabilities, without loans and credits	(2 218)	(4 718)	(1 232)	(1 335)
11. Change in deferred income and accruals	(215)	(890)	(69)	666
12. Other changes	149	-	700	-
III. Net cash flow from operating activities (I+/-II)	(3 422)	(431)	(6 971)	3 861
B. Net cash flow from investing activities				
I. Inflows due to investing activities	23 277	6 897	24 634	7 071
1. Sale of intangible and tangible fixed assets	1 503	-	1 503	-
2. Sale of investments in tangible fixed assets and intangible assets	-	-	-	-
3. Sale of other financial assets, including:	21 774	6 897	23 131	7 071
a) in affiliates	21 774	7 071	23 131	7 071
- sale of financial assets	-	-	-	-
- dividends and shares in profit	5 773	6 784	6 930	6 784
- repayment of granted long term loans	9 206	-	9 206	-
- interest	152	287	352	287
- other inflows from financial assets	6 643	-	6 643	-
b) in other companies	-	(174)	-	-
- sale of financial assets	-	-	-	-
- dividends and shares in profit	-	-	-	-
- repayment of granted long term loans	-	-	-	-
- interest	-	(174)	-	-
- other inflows from financial assets	-	-	-	-
4. . other investment inflows	-	-	-	-
II. Outflows due to investing activities	(1 540)	(1 428)	(2 882)	(1 496)
1. Purchase of intangible and tangible fixed assets	(1 120)	(378)	(2 329)	(446)
2. Investments in property and intangibles	0	0	0	0
3. Purchase of other financial assets, including:	(420)	(1 050)	(553)	(1 050)
a) in affiliates	(420)	(1 050)	(553)	(1 050)
- purchase of financial assets	(47)	(890)	(180)	(890)
- long-term loans granted	(373)	(160)	(373)	(160)
b) in other companies	-	-	-	-
- purchase of financial assets	-	-	-	-
- long-term loans granted	-	-	-	-
4. Dividends and other payments paid to minority shareholders,	-	-	-	-
5. Other investing outflows	-	-	-	-
III. . Net cash flow from investing activitiesj (I-II)	21 737	5 469	21 752	5 575

C. Net cash flow from financing activities				
I. Inflows from financing activities	-	-	-	-
1. Issue of shares and capital instruments	-	-	-	-
2. Loans and credits	-	-	-	-
3. Issue of bonds	-	-	-	-
4. Other	-	-	-	-
II. Outflows due to financing activities	(1 017)	(942)	(2 049)	(1 846)
1. Purchase of treasury shares	-	-	-	-
2. Dividends and others payments to shareholders	-	-	-	-
3. Share issue related expenditure	-	-	-	-
4. Repayments of loans and credits	(559)	(484)	(1 102)	(932)
5. Repayments of bonds	-	-	-	-
6. Repayments of other financial liabilities	-	-	-	-
7. Finance lease payments	(49)	(28)	(89)	(57)
8. Interest paid	(409)	(430)	(858)	(857)
9. Other	-	-	-	-
III. Net cash flow from financing activitiesj (I-II)	(1 017)	(942)	(2 049)	(1 846)
Net change in cash and cash equivalents (A.III+/-B.III+/-C.III)	17 298	4 096	12 732	7 590
Balance sheet change in cash and cash equivalents, including:	17 298	4 096	12 732	7 590
- changes in cash and cash equivalents resulting from foreign exchange gains/losse	-	0		
Cash and cash equivalents at the beginning of the period	24 070	28 456	28 636	24 962
Cash and cash equivalents at the end of the period (F+/- D), including :	41 368	32 552	41 368	32 552
- restricted cash and cash equivalents*	6 266	7 044	6 266	7 044

*) cash restriction results from the agreement between the Company and the bank

Changes in Shareholders' Equity	30.06.2005	31.03.2005	31.12.2004	30.06.2004
I Equity at the beginning of the period	92 388	92 388	75 523	75 523
- adjustements to opening balance	-	-	-	-
Ia Equity at the beginning of the period restated to comparable data	92 388	92 388	75 523	75 523
1. Share capital at the beginning of the period	35 865	35 865	35 865	35 865
1.1. Changes in share capital	365	-	-	-
a) increase	365	-	-	-
- share issue	365	-	-	-
b) decrease	-	-	-	-
1.2. Share capital at the end of the period	36 230	35 865	35 865	35 865
2. Unpaid share capital at the beginning of the period	-	-	-	-
2.1. Changes in unpaid share capital	(365)	-	-	-
a) increase	(365)	-	-	-
b) decrease	-	-	-	-
2.2. Unpaid share capital at the end of the period	(365)	-	-	-
3. Treasury shares at the beginning of the period	-	-	-	-
3.1. Changes in treasury stocks	-	-	-	-
a) increase	-	-	-	-
b) decrease	-	-	-	-
3.2. Treasury shares at the end of the period	-	-	-	-
4. Reserve capital at the beginning of the period	36 459	36 459	36 459	36 459
4.1. Changes in reserve capital	(8 138)	(8 138)	-	-
a) increase	-	-	-	-
b) decrease	(8 138)	(8 138)	-	-
- coverage of unallocated losses	(8 138)	(8 138)	-	-
4.2. Reserve capital at the end of the period	28 321	28 321	36 459	36 459

5.	**Reserve capital from option valuation at the beginning of the period**	-	-	-	-
5.1.	Changes in reserve capital from option valuation	700	551	-	-
	a) increase	700	551	-	-
	- revaluation of long term investments	700	551	-	-
	b) decrease	-	-	-	-
5.2.	**Reserve capital from option valuation at the end of the period**	700	551	-	-
6.	**Other reserve capital at the beginning of the period**	9 392	9 392	9 392	9 392
6.1.	Changes in other reserve capital	18 875	18 875	-	-
	a) increase	18 875	18 875	-	-
	b) decrease	-	-	-	-
6.2.	**Other reserve capital at the end of the period**	28 267	28 267	9 392	9 392
7.	**Zysk (strata) z lat ubiegłych na początek okresu**	10 672	10 672	(6 193)	(6 193)
7.1.	**Undistributed profits (unallocated losses) from previous years at**	17 279	17 279	414	414
	- adjustements to opening balance	-	-	-	-
7.2.	**Undistributed profits (unallocated losses) from previous years at the beginning of the period, restated**	17 279	17 279	414	414
	a) increase	-	-	-	-
	b) decrease	(18 875)	(18 875)	-	-
	- increase in other reserve capital	(18 875)	(18 875)	-	-
7.3.	**Undistributed profit from previous years at the end of the period**	(1 596)	(1 596)	414	414
7.4.	**Unallocated losses from previous years at the beginning of the peri**	(6 607)	(6 607)	(6 607)	(6 607)
	- adjustements to opening balance	-	-	-	-
7.5	**Unallocated losses from previous years at the beginning of the period, restated to comparable data**	(6 607)	(6 607)	(6 607)	(6 607)
	a) increase	8 137	8 137	-	-
	- movement of unallocated losses	8 137	8 137	-	-
	b) decrease	-	-	-	-
7.6	**Unallocated losses from previous years at the end of the period**	1 530	1 530	(6 607)	(6 607)
7.7	**Undistributed profits/unallocated losses from previous years at the**	(66)	(66)	(6 193)	(6 193)
8.	**Net result**	2 875	(3 412)	16 865	18 592
a)	**net profit**	2 875	(3 412)	16 865	18 592
b)	**Net loss**	-	-	-	-
c)	**profit distribution**	-	-	-	-
II.	**Equity at the end of the period**	95 962	89 526	92 388	94 115
III.	**Equity after proposed profit appropriation/loss cover age**	95 962	89 526	92 388	94 115

Explanatory Notes
To the financial statements for the second quarter ended June 30, 2005

1. Format and the basis of preparing the financial statements included in the report.

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 March 21, 2005 in relation to current and periodical information submitted by the issuers of securities (Journal of Laws dated March 25, 2005).

2. Accounting policies 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 starting from January 1, 2004 or later. IFRS 1 requires from the Company to account for every asset and liability in its financial statements which is required in IFRS. Pursuant to IFRS 1 the Company can value its property plant and equipment at fair value as of the date of first adoption of IFRS and treat this fair value as deemed cost of these assets as at that date.

The disclosures in these consolidated financial statements are in accordance with IAS 34 Interim financial statements.

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

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

- The entities comprising the Group established the deemed cost of property, plant and equipment through fair value valuation as of the first adoption of IFRS;
- 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.

The consolidated financial statements were prepared in accordance with the historical cost principle which was modified in case of:

- Fixed assets and intangible fixed assets
- Investments
- Financial Instruments
- Provisions
- Accrued costs and Deferred Income

2.1 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.

At the moment, 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.

The Group applied the IFRS ruling as at June 30, 2005 and expects no material changes as at December 31, 2005.

The presented financial statements comply with all IFRE requirements, so they present a complete and fair view of financial situation of the Company in all of the presented periods.

2.2 Estimates

The financial statements prepared in accordance with IFRS requires from the Management to prepares several estimates which impact the value of assets and liabilities presented in the financial statements. The estimates base on the best knowledge of the Management but however the real results may differ from expectations.

2.3 Functional currency and the reporting currency

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

2.4 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, 2004 with amendments. 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.

2.5 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.

2.6 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.

Following the initial recognition, intangible assets are valued at their purchase price or manufacturing cost less accumulated depreciation and write-down due to permanent loss of value. Initially, intangible assets acquired as a business combination are valued at fair value.

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

Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Company. Intangible assets are depreciated using a straight-line method over the assets' estimated economic useful lives.

2.7 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.

The Group performed valuation to fair value and treated this value as deemed cost as of January 1, 2004 which is the date of transfer to IFRS (see point 6)

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 removed form 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 derecognizing was done.

2.8 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.

2.9 Leasing

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.

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.

2.10 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.

2.11 Short- and long-term receivables

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

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

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

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

Receivables include also receivables from financial lease.

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

2.12 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:

	30.06.2005	31.12.2004
USD	3,3461	2,9904
EUR	4,0401	4,0790
CAD	2,7185	2,4827
CHF	2,6072	2,6421
GBP	6,0251	-

2.13 Cash and cash equivalents

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

For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks and treasury bills if they have a maturity of three months or less that were not part of investment activities.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 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.

2.19 Borrowing costs

Borrowing costs including foreign exchange resulting from loans denominated in foreign currencies are expensed as incurred which is in accordance with benchmark treatment of IAS 23.

2.20 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.

2.21 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.

2.22 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 and any impairment loss recognized for the difference between the recoverable amount and the carrying amount. The costs of any write-down are included in other operating expenses, except where they reverse a previous revaluation, where the revaluation reserve is decreased.

2.23 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.

2.24 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.

2.25 *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.

2.26 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.

2.27 Dividends

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

2.28 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.

2.29 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.

2.30 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.

2.31 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.

3. Information on adjustments on provisions and asset allowances

As of June 30, 2005 the provision for deferred tax liability and deferred tax assets were as follows:

Provision for deferred tax liability in thousands PLN

Title	Balance at 31.12.2004	Changes in 2quarters	Balance at 30.06.2005
Leasing receivables	49 868	(76)	49 792
Provisions	307	415	722
Fixed Assets	20	(2 344)	(2 324)
Securities valuation	163	(139)	24
Receivables valuation	374	433	807
Liabilities valuation	54	340	394
Loan valuation	-	320	320
Other	123	(48)	75
Total	50 909	(1419)	49 490

Deferred tax asset: in thousands PLN

Title	Balance at 31.12.2004	Changes in 2 quarters	Balance at 30.06.2005
Leased assets	47 900	(1 409)	46 491
Short term liabilities	2 420	836	3 256
Cash and equivalents valuation	44	(30)	14
Loan valuation	12	28	40
Total	50 376	(575)	49 801

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

Asset/ Liability – deferred tax: in thousands PLN

Title	Balance at 31.12.2004	Changes in 2 quarters	Balance at 30.06.2005
Asset/ Liability – deferred tax:	533	(844)	(311)

Impairment write downs

Title	Balance at 31.12.2004	Changes in 2 quarters	Balance at 30.06.2005
Change in impairment of fixed assets	1 329	-	1 329
Change in provision for doubtful debt	2 769	(269)	2 500
Total	4 098	(269)	3 829

4. Net revenues form sales of products – by geography

Net revenues form sales of products – by geography	30.06.2004	30.06.2005
domestic:	27 999	33 075
- from affiliates	1	74
export	-	-
Net revenues form sales of products	27 999	33 075
- from affiliates	1	74

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

On May 11, 2005 the Management of the Warsaw Stock Exchange in its resolution decided to allow 17.932.392 ordinary shares of class A, B, C, D, E, F, G, H, I, J, K and L for listing on the ordinary market of the Warsaw Stock Exchange in Warsaw.

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

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

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

In second quarter 2005 there were no event unusual in nature which have impact on the reported financial result.

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.

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 second quarter ended June 30, 2005 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

The Management of the parent company did not declare any dividend for the year 2004. Pursuant to the resolution of General Shareholders Meeting dated March 23, 2005 the profit of the parent company for the year 2004 in the amount of 18,875 thousand PLN was apportioned to the reserve capital for dividend payment or advance for dividend.

On April 28, 2005 General Shareholders Meeting decided to distribute the profit for dividend payment of the subsidiary Saturn Management Spółka z ograniczoną odpowiedzialnością i Wspólnicy, Spółka komandytowa.

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 second quarter ended June 30, 2005 there was no changes to the structure of the Capital Group.

12. Information about contingent assets and liabilities, identified in the period covered by this report

In the period of 6 months ended June 30, 2005 contingent liabilities increased by 100 thousand zlotys. The amount includes limited liability in two subsidiaries: Interpep Sp. z ograniczoną odpowiedzialnością EC Wizów Sp. Komandytowa (50 thd. zlotys) and Interpep Sp. z ograniczoną odpowiedzialnością EC Zakrzów Sp. Komandytowa (50 thd. 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 4/2005 published on April 12, 2005.

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 April 20, 2005				As at August 12, 2005			
	No of shares	Share in total capital	No of votes in GSM	Share in votes in GSM	No of shares	Share in total capital	No of votes in GSM	Share in votes in GSM
Polish Enterprise Fund L.P.	10 605 768	59,1%	6 340 163	35,0%	8 666 049	48,3%	6 340 163	35%
Polenergy Investments B.V.	6 151 440	34,3%	6 151 440	34,3%	3 499 871	19,5%	3 499 871	19,5%

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

During the period of second quarter ended June 30, 2005 there was and option plan for the management and employees in the parent company. The option plan is described in the table below:

Option plan beneficiaries	Management and supervisory persons	Employees, other persons rendering services for the company or its subsidiaries and supervising persons
Grant Date	30.09.2005/ 31.12.2005 and 30.09.2006/ 31.12.2006	30.09.2005/ 31.12.2005 and 30.09.2006/ 31.12.2006
Expiry date	01.09.2007	01.09.2007
No of shares in the program	203 420	121 996
No of options granted	203 420	0
Exercise price/share	2 PLN	2 PLN
Type of settlement	Share emission	Share emission
Conditions of exercise	- the managing person is in Management Board - the managing person has received vote of acceptance from the general shareholders meeting for the proper financial year - the average share price for the 6 months as at 30.09.2005/ 31.12.2005 and 30.09.2006/ 31.12.2006 respectively amounts to 1,74 USD recalculated to Polish zloty or other payment currency binding in Poland	Option grant through resolution of Management Board after positive opinion of Supervisory Board

The estimated fair value of one option as at June 30, 2005 amounts to 7.45 PLN. The fair value was estimated based on the valuation of the Capital Group as at June 30, 2005. The emission price at which the shares will be issued when the option is exercised is equal to its nominal value and amounts to 2 zlotys per one share.

The table below presents the change of number of options granted in the period of the second quarter ended June 30, 2005.

	Number of options	Average price
Number of options as at January 1, 2005	-	-
Options granted	203 420	-
Options exercised	-	-
Number of options as at June 30, 2005	203 420	-

The charge into the profit and loss account for the period of two quarters ended June 30, 2005 amounts to 700 thousand zlotys. The charge into the profit and loss account for the period of first quarter ended March 31, 2005 amounts to 551 thousand zlotys.

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.

On June 10, 2005 the Supervisory Board of PEP S.A. voted the resolution in which it gave power of attorney to the Chairman of the Supervisory Board to sign management contract with Wojciech Cetnarski – Vice-president, in which it obliged to regulating the condition for CEO Stephen Klein in which the Supervisory Board obliged itself to establish till December 31, 2005 establish till December 31, 2005 detailed regulation about the Management Option for Wojciech Cetnarski. Wojciech Cetnarski will be entitled to purchase till June 30, 2008 not more than 47 969 shares of new issue at the exercise price equal to 2 zlotys per share.

Conditions to exercise these options are as follows:

- The managing person is member of management board as at the option grant date
- The managing person has received vote of acceptance from the GSM for the proper financial year,

And especially in case of Wojciech Cetnarski's option

- Average stock price of the Company on the WSE for the period of 3 months before June 30, 2006, June 30, 2007, and June 30, 2008 will amount at least 8.74 zloty, 9.78 zloty and 10.96 zloty, respectively.

In case if it is indicates the Management Option may be exercised through warrant issue or other financial instrument, which entitle to Option Shares.

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 Issuer was obliged to pay the disputed amount. On November 25th 2004, the Issuer appealed against the ruling and motioned for it to be reversed and for the claim against the Issuer to be overruled, or for the judgment to be reversed and for the case to be submitted for re-examination.
- 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 announced that he would appeal against the ruling.
- 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 December 17th 2004, the President of URE instigated ex officio administrative proceedings concerning imposing of a fine on the Issuer in connection with certain irregularities discovered in the Issuer's operations, namely using prices and tariffs without first submitting them for approval by the President of URE. The fine imposed by the President of URE in the decision OWA Nr 22/2005 dated July 26, 2005 amounted to 20 thousand zlotys for the period from January 1, 2003 to December 31, 2004 and in the amount of 45 thousand zlotys for the period from January 1, 2003 to July 26, 2005.

- In November 2003, the Issuer applied to the President of URE for approval of the tariff for heat supplies and the tariff for electricity supplies by the Wizów CHP Plant and the Zakrzów CHP Plant. On December 10th 2004, the President of URE refused to grant approval for these tariffs. On December 29th 2004, the Issuer filed another application to the President of URE for approval of the tariff for heat supplies by the Wizów CHP Plant and the Zakrzów CHP Plant. The procedure was discontinued in the decision OWA – 4210-113-(21) /2005/782/RW dated July 26, 2005 due to planned extraction of EC Wizów and EC Zakrzów for which new plan tariffs were submitted.
- Following the Issuer's application of January 20th 2005, proceedings were instigated before the President of URE. The Issuer applied for a license for business activities comprising trade in, transmission and distribution of gas. The licenses were granted on April 21, 2005. On June 29, 2005 the Company applied to the President of URE to cancel these licenses due to change in the planned business activity.

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.

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 and availability of these commodities
- Financial standing of Company's customers.