TERMOELEKTRARNA ŠOŠTANJ

ANNUAL REPORT
for the financial year 2005

Skupina GEN

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1 LETTER BY THE MANAGING DIRECTOR

Dear Sirs!

We have been striving for many years to maintain the position of the largest thermal energy system in Slovenia, providing our customers with a reliable, safe, competitive and environmentally friendly source of electric and thermal energy. Successfully again in 2005.

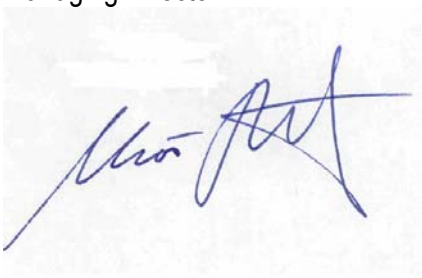
I am very proud of both the financial results of the Company and the production figures, as we managed to increase the profit and the production of electricity in comparison to 2004.

The favourable results are the achievement of the entire team's commitment and its awareness that a power plant such as the Šoštanj thermal plant would not be able to maintain good results were it not for constant improvements and streamlining processes, as these are a prerequisite for a successful production of high-quality electric energy.

We are successfully pursuing the strategic development objectives, being well-aware of the fact that constant progress is required if we are to further maintain outstanding results and retain the competitive advantage over other players in the energy market.

I am proud of the Šoštanj power plant team, who provides good results and I am convinced that it will continue to do so in the future.

Managing Director:



2 REPORT BY THE SUPERVISORY BOARD

In accordance with Article 13 of the Articles of Association, Termoelektrarna Šoštanj d.o.o. (hereafter also TEŠ) reports to the shareholder, Holding Slovenske elektrarne d.o.o. which has the mandate and authority of an assembly, and has therefore prepared the following report on the audit of the Company's Annual Report for 2005:

2.1 Supervision over the operations of the Company in the financial year 2005

The Supervisory Board of TEŠ consisted of the following members as until 23 August 2005:

- Mr. Ladislav TOMŠIČ , Chairman
- Mr. Jože DIMNIK, Deputy Chairman
- Ms. Marta MRAVLJAK Member, employee representative

From 24 August 2005 on, the Supervisory Board consists of the following members:

- Mr. Ivan ATELŠEK, Chairman
- Mr. Franc ROSEC , Deputy Chairman, employee representative
- Mr. Franc SEVER

In the financial year 2005 the Company was represented and managed by the Managing Director, Dr. Uroš Rotnik, who had been reappointed by the Supervisory Board at its first regular session for a four-year period.

In the reporting period, the Supervisory Board continued to actively monitor and supervise the Company's business operations at ten regular and two correspondence sessions in 2005, whereby four regular and two correspondence sessions were held by the Supervisory Board active until 23 August 2005.

The below key issues were dealt with by the Supervisory Board:

2.1.1 The Company's Development Plan until 2013

The Supervisory Board actively monitored activities related to the realisation of the development plan, in particular the construction of the new generating unit No. 6, which was ranked as first priority at the 3rd Strategic Development Conference. As regards this issue, the Supervisory Board was acquainted with the pre-investment basis for the construction of the generating unit No. 6 at the second Strategic Development Conference and granted approval to continue the procedures and activities referring to the construction.

2.1.2 The Company's Business Plan for 2005

After discussing it in December 2004, the Supervisory Board discussed the Company's Business Plan at its 27th regular session held on 17 February 2005. The Supervisory Board expressed approval to the Business Plan by exposing the issue related to the planned loss, the valuation of foreign currencies on the Quarterly level, and the issue of high maintenance cost for power generating units Nos. 1-3.

2.1.3 Investments

In the financial year 2005 the Supervisory Board's attention was particularly focused on investments, by verifying whether they were substantiated and by checking the eligibility criteria. During the discussion, the Supervisory Board granted approval for signing the contract on connection to the gas network signed with Geoplin plinovodi d.o.o. and for signing an Annex to the original Contract on the supply of gas turbines, and expressed consent to the Resolution on the start of the public tender procedure for the supply and installation of two utilizers within the gas turbine project.

2.1.4 Current operations

The Supervisory Board regularly monitored and controlled the Company's operations. Interim reports on business operations were regularly discussed, the report on the investments of the Company's available funds in the period 1-12/2005 as well as the depreciation rates of tangible fixed assets were dealt with. During the discussions held in connection with the legal transactions which require approval pursuant to Article 34 of the Articles of Association, the Supervisory Board directed the discussion and the verification to public procurement procedures and public tenders for suppliers, and checked the relevant facts and figures by examining business documents. In the said period, the Supervisory Board held discussions on the Program for dealing with stranded investments prepared by the Company's management, in compliance with the "Ordinance on stranded costs rescuing programme in electricity producing undertakings in the Republic of Slovenia", and assessed it as being appropriate for presentation at the Ministry of the Economy.

From August on, the Members of the Supervisory Board criticised the individual items of expenses, in particular to own use of electric power; the expenses incurred in the entire operations were monitored at all sessions of the Supervisory Board.

2.2. Verification of the Annual Report of the Company for 2005

The Supervisory Board has established that the Annual Report was submitted within the set deadlines that it gives a true and fair view of the Company's operations in 2005 both in terms of contents and composition. The Supervisory Board was informed on the fact that the net profit for 2005 in the amount of 82,787,724.59 SIT was allocated to coverage of loss brought forward from previous periods, whereas the remaining loss from previous periods in the amount of 2,303,058,888.56 SIT was covered by the utilisation of the general equity revaluation adjustment.

The members of the Supervisory Board devoted special attention to the management's report on the relations with the controlling company and other Group companies and came to a conclusion that there were no actions undertaken or omitted that would cause damage to the Company. Hence the Supervisory Board approved the Report.

After the checking and examining of the Annual Report, the Supervisory Board had no remarks and hence approved it at the 9th regular session held on 25 May 2006.

The Supervisory Board was presented the Auditor's Report. The audit of the financial statements for the financial year 2005 was carried out by the audit firm KPMG, podjetje za revidiranje, d.o.o., Ljubljana. In the report, the auditor expressed his opinion that the financial statements with notes thereto give a true and fair view of the financial position of the Company as of 31 December 2005, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards. The Management Report is in conformity with the audited financial statements.

The Supervisory Board approved the Auditor's Report.

After the final checking of the Annual Report, the Supervisory Board herewith expresses no remarks on the Annual Report of Termoelektrarna Šoštanj d.o.o. for 2005 and thus approves it; the Supervisory Board suggests herewith to the shareholder which has the mandate and authority of an assembly to, in compliance with the Articles on Association, release members of the Supervisory Board and the Managing Director from responsibility for the Company's management during the preceding year.

Chairman of the Supervisory Board:

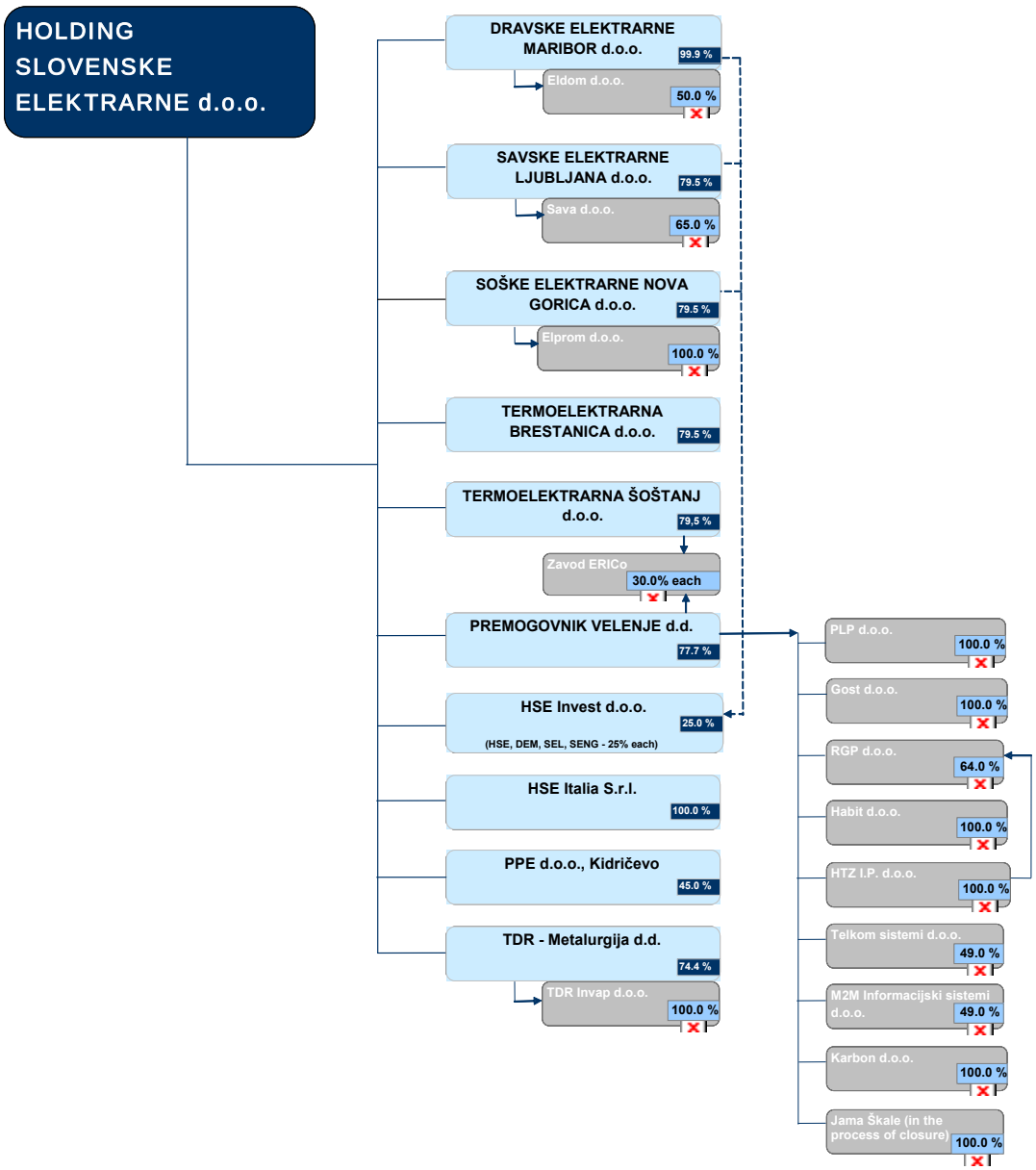
Ivan ATELŠEK

Šoštanj, on 26 May 2006

3 A REPORT BY THE MANAGEMENT BOARD ON THE RELATIONS WITH THE CONTROLLING COMPANY AND OTHER GROUP COMPANIES

Termoelektrarna Šoštanj, d.o.o. is a member of Holding Slovenske elektrarne. The company Holding Slovenske elektrarne, d.o.o., registered at Koprska 92, Ljubljana, is the major shareholder of TEŠ as at 31 December 2005 (79.5%) and the controlling company, which prepared the consolidated annual report for 2005 for the Group members.

Group members in 2005:



Pursuant to Articles 478 and 479 of the Companies Act, the Company's management presented a report on the relations with the controlling company and other Group members, in which the following was reported:

Based on the circumstances as known at the moment of entering any contracts on legal transactions with the controlling company and other Group companies, TE Šoštanj d.o.o. ascertains that no detriment was experienced from respective transactions in 2005, and/or that no legal transaction was

entered into by the Company in 2005 which would cause damage to the Company and would be a consequence of exercising a dominant influence of Holding Slovenske elektrarne, d.o.o. over the Company.

4 SIGNIFICANT EVENTS IN 2005

JANUARY
A survey for assessing the organisational climate and employee satisfaction was carried out in January. The results are more favourable than those recorded by a group of advisory firms within the Chamber of Commerce and Industry in Slovenia (the so-called SiOK survey). Particularly favourable ratings were recorded in the categories 'attitude towards quality', 'loyalty to the organisation', and 'internal relations'.

FEBRUARY
At its 27th regular session, the Supervisory Board expressed approval to the Business Plan for 2005.

APRIL
Amendments were made to the job classification, so as to provide for higher efficiency when carrying out tasks referring to the current operations as well as the Company's development.

MAY
An audit of the occupational health and safety management system according to the OHSAS 18001 standard was carried out by the certification body in May, resulting in the issue of compliance certificate. By acquiring this certificate, TEŠ is one of the first power plants worldwide to obtain the OHSAS 18001 certificate. Within this standard, measures were taken in connection with the human treatment of labour force.

JUNE
Prime Minister Mr. Janez Janša, accompanied by Minister for Economic Affairs Mr. Andrej Vizjak and Minister of the Environment and Spatial Planning Mr. Janez Podobnik, visited TEŠ on 29 June and was acquainted with the Company's operations as well as with its development plans.

JULY
On 18 July, the so far largest and most complex overhaul of the 275 MW generating unit commenced. The said generating unit had been in operation from 1972 on and had generated as many as 230,000 equivalent operating hours by that time.

AUGUST
The shareholders' meeting was carried out on 23 August, at which the shareholders were acquainted with the Annual Report 2004, including the Auditor's Report and the Report by the Supervisory Board, and issued a release from responsibility for management during the preceding year to the management and the Supervisory Board. Two new members of the Supervisory Board were appointed by the shareholders' meeting at the same session, to act as representatives of the shareholders: Mr. Ivan Atelšek and Mr. Franc Sever.

SEPTEMBER
After a successful completion of the overhaul of the generating unit No 4, the first synchronisation of the unit was carried out on 22 September. Furthermore, Mr. Uroš Rotnik was reappointed Managing Director for another period of four years.

The third Strategic Conference of the HSE Group was carried out in September, where the decision was adopted to rank the construction of the new generating unit No. 6 as first priority, its significance thus being the same as the construction of gas turbines in the generating unit No. 5.

NOVEMBER

The government of the Republic of Slovenia was informed on the variant solutions of the layout of the mobile gasworks R25D for the section that extends from the branch of principal gasworks M2 at Šentrupert to the TEŠ. As the most suitable solution the variant was selected that combines several variants by particular sections.

An Annex was signed to the tripartite agreement entered into by Holding Slovenske elektrarne, d.o.o., Termoelektrarna Šoštanj, d.o.o. and Premogovnik Velenje, d.d., for the period from 1 January 2005 to 31 December 2006, setting forth the timing regarding the monthly deliveries of coal and electric energy for 2006.

DECEMBER

At its 6th regular session held on 22 December 2005, the Supervisory Board adopted the Business Plan for 2006. The Business Plan sets out the targets regarding the cost-cutting measures referring to operating expenses (excluding the costs of fuel, overhaul, amortisation/depreciation and own use) by 2% compared to the figures realised in 2004.

On 23 December 2005, Contracts on the purchase and sale of the business shares were signed in a notary form, by which the shareholders (GRADIS SPO d. d., KAD – prvi pokojninski sklad, KD Holding and INFOND Holding sold their shareholdings to Holding Slovenske elektrarne d. o. o.. The latter thus became the sole shareholder of TEŠ.

Financial highlights

	REAL. 2005	PLAN 2005	REAL. 2004	REAL. 2003	index 2:3	index 2:4	index 2:5
1	2	3	4	5	6	7	8
Revenues in TSIT	45,183,758	40,880,765	23,475,363	22,554,965	110.5	192.5	200.3
Profit/Loss for the period in TSIT	82,788	-3,551,526	73,043	-1,662,987		113.3	
Assets in TSIT	72,999,263	76,959,630	75,553,152	80,004,695	94.9	96.6	91.2
Capital in TSIT	47,510,627	48,881,875	47,427,839	47,354,796	97.2	100.2	100.3
Long-term indebtedness in TSIT	12,318,807	12,538,276	16,639,061	19,896,973	98.2	74.0	61.9
Net production in GWh	3,641	3,400	3,550	3,465	107.1	102.6	105.1
Share in electric energy consumption in Slovenia (in %)	28		29	29		96.6	96.6
Investments in TSIT	2,370,249	5,908,000	1,452,310	2,765,448	40.1	163.2	85.7
Average No. of employees	568	570	577	580	99.6	98.4	97.9

5 MANAGEMENT REPORT

5.1 Company Profile

Termoelektrarna Šoštanj d.o.o. is a private limited liability company owned by five shareholders. The major shareholder is Holding Slovenske elektrarne d.o.o. (HSE d.o.o.) holding 79.5% of the Company's share capital.

2005 faced a change in the ownership structure. The shareholders Megainvest, družba za investicije in nepremičnine, d.d. and Kompas sklad 2 Naložbe, d.d. sold their shares to the company Gradis SPO, d.d., Ljubljana, which became the shareholder on 10 June 2005.

Shareholders and their holdings as of 31 December 2005

		Amount	Share in %
1.	Holding Slovenske elektrarne, d.o.o.	15,500,918,902.30	79.500000
2.	Kmečka družba Holding, finančna družba, d.d.	3,562,361,949.10	18.270386
3.	Kapitalska družba pokojninskega in invalidskega zavarovanja, d.d.	200,654,033.24	1.029100
4.	Infond Holding, finančna družba, d.d.	117,038,156.59	0.600257
5.	Gradis strojno prometna operativa d.d.	117,038,156.59	0.600257
	Total	19,498,011,197.82	100.000000

On 23 December 2005 the shareholders listed above sold their holdings to HSE d.o.o., which acted in compliance with Article 417 of the Companies Act and reported the acquisition of the individual shareholdings to the Managing Director, as follows: Gradis d.d. on 19 January 2006, KAD-prvi pokojninski sklad on 30 January 2006, KD Holding d.d. 15 February 2006 and Infond Holding d.d. on 23 February 2006.

Objects of the Company

There are several business activities registered by the Company. The main Company's activity is Production of electricity in TE or NE (NACE classification No. E/40.112) and steam and hot water supply (NACE classification No. E/40.300).

Bodies of the Company are as follows:

- Assembly
- Supervisory Board
- Management

Supervisory Board:

- Mr. Ivan Atelšek, Chairman
- Mr. Franc Sever, Member
- Mr. Franc Rosec, Member

The Company's Management:

- The Company is managed by the Managing Director, Mr. Uroš Rotnik.

5.2 Mission and strategic goals

The Company's mission is the production of electric and thermal energy to be provided to the users in sufficient quantities, thus contributing to the quality of work and lives of the electric energy users.

The strategy of TEŠ is based on the Company's mission and is focused on the future. TEŠ will maintain the position of the largest thermal energy system in Slovenia. Our primary long-term goal is to increase the production capacities, providing our customers with a reliable, safe, competitive and environmentally friendly source of electric and thermal energy by the use of various primary sources.

The annual goals as set by TEŠ in the Business Plan for 2005 have been successfully maintained.

The production of electric and thermal energy

In 2005, the actual gross production amounted to 4,138.6 GWh of electricity, whereas own use amounted to 497.9 GWh (12.03% of the total production), and 3,640.7 GWh entered the network, representing an increase by 240.7 GWh or 7.1% compared to the planned production for 2005.

The amount of electric energy generated in 2005 by TEŠ corresponds to 54.3% of the total generation within the HSE Group. The companies within the HSE Group accounted for 52.7% of the total electric energy generated in Slovenia in 2005.

In 2005, the productivity per employee recorded by the Company amounted to 6.41 GWh per employee and was up by 4.2% compared to 2004 (6.15 GWh/employee in 2004).

Thermal energy production amounted to 449.9 GWh in 2005, thus exceeding the plans by 40.4 GWh and improving the production results of the previous year by 24.4 GWh.

Then Company managed to achieve very high operational availability factors: a 99.9% availability of the generating units Nos. 1–3, a 99.7% availability of the generating unit No. 4, and a 99.9% of the generating unit No. 5.

A major overhaul of the generating unit No. 4 was carried out successfully and was completed a week before the deadline.

The sale of electric and thermal energy

The measurable sales goals referring to the electric and thermal energy were exceeded, due to market demands for additional supply of electric and thermal energy. In terms of quantity, the sale was 7.1 % above the planed sales, thus generating higher revenues from the sale of electric energy by 10.5%. The sales plans for thermal energy were exceeded by 9.9%. Revenues from the sale of thermal energy exceeded the plans by 11.3%, which is due to the terms and conditions negotiated upon the sale.

Providing for an appropriate infrastructure, skills, efficiency, and availability of human resources

The goal to ensure the appropriate structure, skills, efficiency, and optimum availability of the human resources was, taking into account the measurable criteria, exceeded with the staff with employment contracts of unlimited duration; as of 31 December 2005, the Company employed 547 staff for an unlimited period of time, i.e. 7 employees less than planned. The decrease is a result of the

organisational changes (both carried-out and planned ones), and of the continuing downwards trend in terms of employee numbers.

84 internal and 522 external trainings were carried out in 2005. In the reporting period, extensive trainings for employees that are to perform another type of work within the production sector, thus increasing staff availability and efficiency. In addition to the above-mentioned trainings, 43 employees (7.7%) took part in the education programmes aimed at acquiring a higher education level; 19 employees completed their education programmes and acquired a higher education level in 2005.

The sickness leave of staff employed for an unlimited period increased in 2005 and accounted for 5.81% of the total hours (5.47% in 2004); since 2002, when it accounted for 6.65% of the total hours, it has been on a downwards trend.

An employee satisfaction survey was performed again in the past financial year, showing more favourable results than other comparable surveys.

The purchase of primary sources, spare parts, materials and services

The business goal was achieved by negotiating the optimum delivery terms with our suppliers. The criteria have been set by comparing the competitive advantages of the individual suppliers, by assessing the product quality of various providers, by performing a business analysis of the selected and the eligible suppliers, and by negotiating the best possible delivery terms. The supply of limestone and liquid fuels was higher due to an increase in production.

Ensuring liquidity and cost-efficiency

In this context, TEŠ has been successful in liquidity management and thus settled due liabilities on a regular basis, taking into account the fundamental principles of long-term solvency and short-term liquidity. In 2005, the Company recorded expenses corresponding to 101.5% of the planned, but concluded the financial year in positive figures due to an increase in the sales over the planned sales. The positive result was used to cover the loss from previous years. In 2005, TEŠ recorded strong cash flow from ordinary operations, which enabled the Company to repay the loan liabilities within the set deadlines, to enter new investments, and to utilize the remaining positive balance in the cash-flow for short-term investments. As at the end of the reporting period, the Company did not record liquidity surplus. Operating expenses were successfully managed and controlled in 2005, a fact which reflects in the difference between the projected and realised operating result.

5.3 The characteristics of the economic environment in 2005

2005 was marked by a high increase in the prices of crude oil and oil derivatives. Due to the harmonisation of the Slovene legislation with the European law, the amended tax laws came into force at the beginning of the year.

The annual growth of GDP in Slovenia (rapidly growing from the beginning of 2005 to slightly drop later during the year) corresponded to 3.9%. The growth was moderately slower in 2005 than in the preceding year. A gradual stabilisation of inflation continued. On average, the cost-of-living index did not change in December, the total increase in 2005 corresponded to 2.3%, i.e. by 0.9% less than in 2004. A gradual slowdown of inflation has resulted from stringent implementation of macroeconomic policies and, in the last Quarterly, the lowering of oil prices in the global market, which as a consequence

contributed to the lowering of oil prices in the Slovene market. In November, the inflation rate decreased thus fulfilling the nominal convergence criterion – by the year-end, Slovenia had fulfilled two macroeconomic criteria for the adoption of the euro (interest rate, inflation).

The euro exchange rate at the mid exchange rate of the Bank of Slovenia as at 31 December 2005 amounted to 239.58 SIT, i.e. dropped by 0.07% in nominal terms, whereas the dollar exchange rate amounted to 202.43 SIT/USD as at 31 December 2005, and showed a strong increase of 14.86%. Formally, Slovenia has not yet fulfilled the exchange-rate stability criterion, despite the fact that within the 18-month period since joining the exchange rate mechanism (ERM II), the tolar-euro exchange rate has not deviated by more than 0.15% from the central parity (maximum fluctuation allowed: ±15%). A stable exchange rate must namely be maintained for a period of at least two years in order to be able to adopt the euro.

In 2005, the Slovene economy faced several major investment projects in the field of electric energy, and several long-term development programmes were verified. Despite the relatively unfavourable situation for electric energy production, the plans were met or even exceeded, thus enabling the Company to carry on the strategy of a safe, highly competitive and environmentally friendly supply of electric energy throughout Slovenia.

2005 was less favourable in terms of hydrological situation, resulting in equally less favourable production results of power plants. Hence the total electric energy produced in Slovenia in 2005 decreased by 1.1% compared to 2004: thereof, the production of hydro power plants was down by as much as 15.7%, and on the other hand, the production of the nuclear power plant was up by 7.7% and thus the highest ever. While the production figures in the hydro power plants were lower, the thermal power plants recorded an increase by 0.4%. Facing lower production and increased consumption (by 3.3%), the net export of electricity dropped to 1.4% of the total generation (5.6% in 2004). In the period 1995-2005 the production of electric energy increased by 16.2%, whereas the consumption of electric energy increased twice faster i.e. by 34.1%, showing that new energy sources are required in Slovenia.

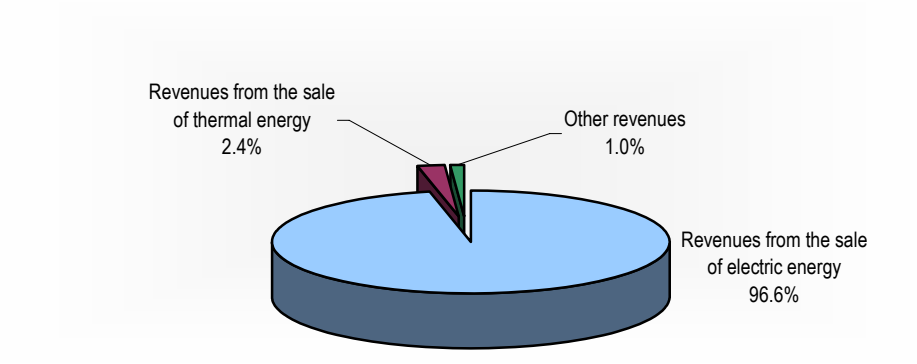
The electricity markets of the EU members, including Slovenia, dealt with the rising prices of electric energy in 2005. The higher prices result from an increase in fuel prices, a lack of new energy sources along with the ever growing demand, from trading with emission allowances, from the increasingly restrictive tax legislation and from the increasing number of intermediaries between the producer and the end-user.

On 16 February 2005 the Kyoto Protocol entered into force, a binding global treaty for the signatory states to limit the greenhouse gas emissions by 2012. 26.3 millions of emission allowance lots were made available to Slovenia in the first ETS period (2005-2007) within the EU Emission Trading System, where one lot equals one ton of carbon dioxide. An emission trading registry was established in November 2005, to account for all transactions regarding the change of the ownership of emission allowance lots. Although the trading with emission allowances was launched in 2005 across the EU, it is not yet operative in Slovenia.

5.4 Sales and customers

TEŠ generated 44,810,020 thousand SIT of net sales revenues in 2005. The sale of electric energy is carried out within the Holding Slovenske elektrarne d.o.o., the leading Slovene electricity producer and trader. We are the largest production facility within the HSE Group, providing for nearly a half of the total electric energy traded within HSE.

Structure of net sales revenues

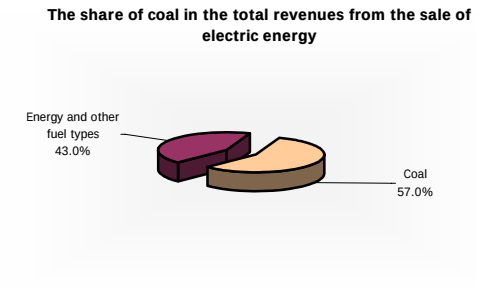


As regards the net sales revenues, Holding Slovenske elektrarne d.o.o. is the major buyer, its share accounting for 96.6 percent of the total sales.

The sale of electric energy

The majority of TEŠ sales was carried out on the basis of a Long-term Agreement on the purchase of coal, lease of output and purchase of electricity, signed between TEŠ, HSE and Premogovnik Velenje d.d. (hereafter: the Velenje coal mine), which shall expire in 2015. Original and supplementary coal quantities (in GJ) have been set forth by the Agreement, to be purchased by TEŠ from the Velenje coal mine, whereby Holding Slovenske elektrarne as the buyer of electric energy shall purchase the electric energy at the prices agreed by the agreements signed on an annual basis. The signing of a long-term agreement will bring significant changes into the buyer-seller relationship. TEŠ sell the electric energy at a price that includes the cost of coal.

An agreement for the sale of 3,528 GWh was signed for 2005.

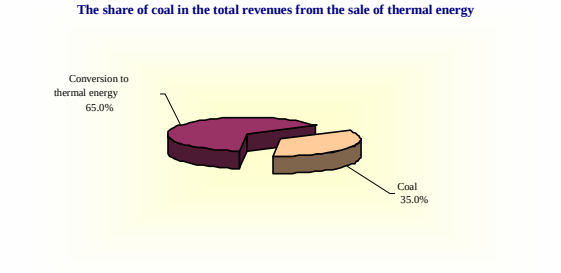


The company sold 3,640.7 GWh of electric energy, i.e. 7.1% above the plans set forth in the Business Plan 2005 and 2.6% above the previous year's figures. Net sales in 2005 were higher than planned by 10.5%.

The sale of thermal energy

The sale of thermal energy for the Šaleška Valley distance heating system accounted for 2.4% of the total sales revenues. The sale of thermal energy is based on a contract on the sale and purchase of thermal energy signed with the Velenje utility services company (Komunala Velenje).

In 2005, 449.9 MWh of thermal energy was sold, i.e. 9.9% more than planned and 5.7% above the previous year's figures. Revenues from the sale of thermal energy to the Velenje utility services were higher than set out in the Company's Business Plan by 11.3%.



Other sales

In addition to the above, the Company sells system services to the Velenje utility services company, services of disposal of powdered animal remains by incineration, electro-powder and REA gypsum, meals in the factory canteen, and waste material.

5.5 Supply and suppliers

Suppliers play an increasingly significant role in the implementation of development and strategic goals of the Company. Our strategic supplier is the Velenje coal mine. The coal for the production of electric and thermal energy accounts for the major portion of the purchases.

The purchase of coal for the production of electric energy is carried out in accordance with the Long-term Agreement on the purchase of coal, lease of output and purchase of electricity, signed between TEŠ, HSE and the Velenje coal mine. For 2005, an agreement and annexes were signed on the procurement of additional 41,400 TJ of coal, separately for the purchase of the original and supplementary (A; B, and C) coal quantities. The purchase of 41,826 TJ of coal totalled 29,580,753 thousand SIT, VAT included.

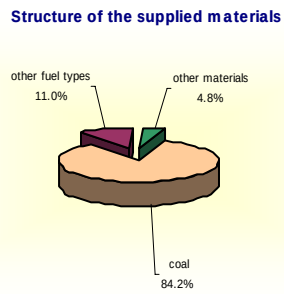
The supplier of coal for the production of thermal power is, again, the Velenje coal mine. The supply is based on an annual plan of demands for coal. The purchase totalled 973,128 thousand SIT, VAT included.

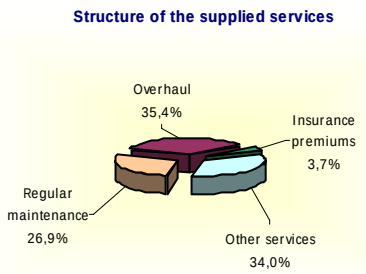
The search for the most favourable sources of products and services by reputable domestic and foreign suppliers is one of our priorities. In addition to the suppliers of raw materials, the major suppliers include the suppliers of equipment and the providers of major maintenance services. In order to avoid any interruptions in the supply of energy, the selection of a high-quality supplier is of high significance.

2005 was marked by further instability of the iron industry, followed by reasonable stabilisation of the situation in the second half of the year. Nevertheless, the suppliers were not ready to take over the risk of market fluctuations by signing annual contracts. Therefore the supply is based on the current requirements for raw materials.

Streamlining measures have been implemented in order to rationalise the operations: we are decreasing the inventories on stock, optimizing procurement quantities, and signing contracts with as favourable terms and conditions as reasonably possible.

The structure of the supplied material and services is as follows:





The agreement on the purchase of two gas turbo aggregates for the generating unit 5 signed with Siemens, Ljubljana, in the total value of 28,550 thousand EUR (VAT excluded) accounts for the major portion within the total amount of investments.
In compliance with the aforesaid agreement, the Company paid a 15-percent advance payment to Siemens in 2005.

5.6 Production

Data on the plant and equipment

PLANT UNIT	START OF OPERATIONS	NO. OF AGGREGATES	NOMINAL POWER (in MW)	ACTUAL NET POWER (in MW)
- unit No 1	1956	1	32,000	25,000
- unit No 2	1956	1	32,000	25,000
- unit No 3	1960	1	94,000	69,000
- unit No 4	1972	1	324,000	248,000
- unit No 5	1977	1	377/406	305,000
Total 1- 5		**5**	**859/888**	**672,000**

Electric energy production in TEŠ

3,640.7 GWh of electric energy was generated by TEŠ in 2005, which represented an excess of 240.7 GWh (7.1%) above the contract value, and an increase against the previous year's figures by 91 GWh (2.6%).

TEŠ	2005			Realisation 2005 / plan 2005 in %	Difference in realisation 2005 - plan for 2005 in MWh
	Gross production in MWh	Net production in MWh	Own use in MWh		
units 1-3	676,792	603,448	73,344	124.7	119,448
unit 4	1,367,438	1,206,152	161,286	102.4	28,152
unit 5	2,094,430	1,831,145	263,285	105.4	93,145
Total units 1-5	4,138,660	3,640,745	497,915	107.1	240,745

Thermal energy production

449.9 GWh of thermal energy was generated by TEŠ in 2005, and was above the planned quantities by 9.9.%, and above the previous year's figures by 5.7%.

The use of fuel

4,014.2 Thousand tonnes of coal was used in 2005 for the production of electric and thermal energy; thereof 3,871.3 Thousand tonnes for electricity production and 142.9 Thousand tonnes of the production of thermal energy.
The average calorific value of the coal used by TEŠ in 2005 amounted to 10,803 kJ/kg (2004: 10,301 kJ/kg).

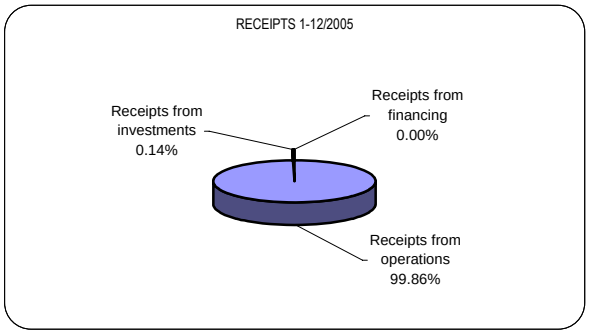
5.7 Financial operations

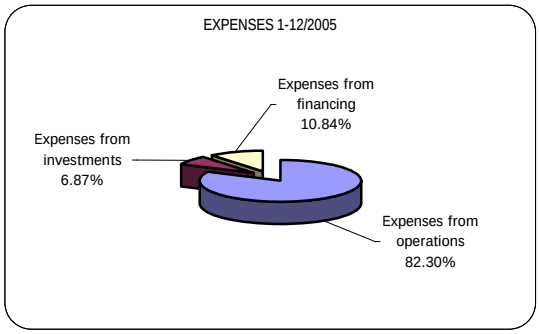
Maintaining a long-term solvency and short-term liquidity is the primary task of financial management, enabling a smooth operation of other business functions.

The financial policy of TEŠ enables optimization of business operations in terms of the management of liabilities and receivables, financing and investing activities, financial risk management, and the cooperation with financial institutions.

In 2005, financial operations were primarily focused upon the supply of funds to be used for R&D financing, and upon the return on revenue. Short-term liquidity was maintained by efficient cash-flow management as well as by systematic monitoring of cash flows. The Company did not manage to complete the planned capital increase in 2005. Furthermore, no new loans were taken on. Capital investments were realised in a lower amount than planned.

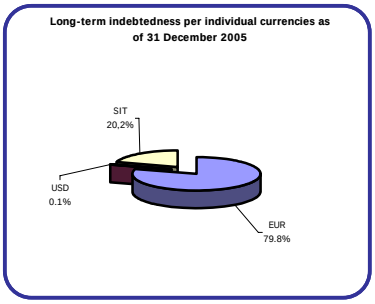
An analysis of the financial results for 2005 reveals that the Company's operations are financed mainly from the sale of electricity (96.5% of all receipts). The major portion of operating expenses represents payments for coal used for electric energy generation (61.9%) and expenses for maintenance, raw materials, and services (19.5%). All expenses from investments were used for investments and were financed from the Company's own funds. Expenses from financing activities were utilised for repayment of interest and principal related to long-term loans that had been taken on for the construction of generating units and water purification plants within the generating units of TEŠ.

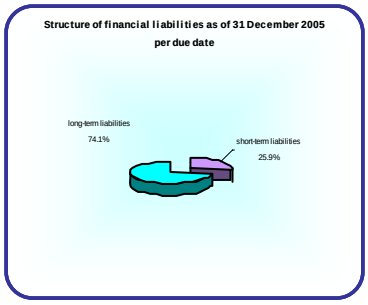


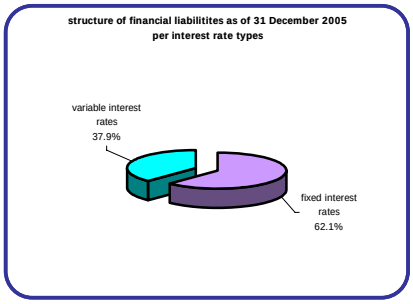


TEŠ complies with business and financial standards and the Financial Operations Act. As it is evident from both the horizontal and vertical analysis of the structure of the Company's assets and liabilities, the Company lacks long-term sources of assets. Fixed assets and inventories with a long-term status account for as much as 91% of the total long-term assets, showing that the Company carries out a capital-intensive business activity.

Liabilities from financing dropped by 4,878,574 thousand SIT in 2005, mainly due to the repayment of principal amounts as stipulated by loan contracts. Financial liabilities arise from the financing of the construction of generating units and purification plants within these units, as well as from refinancing in the past years. The structure of loans as of 31 December 2005 is as follows: 61.2% - loans obtained from foreign banks; 38.7% - loans obtained from domestic banks; and 0,1% loans obtained from other institutions.







Balance sheet total has been decreasing for several years in a row, resulting from losses recorded in the periods before 2004, intense loan repayment activities, the amortisation that had been accounted for but not financially covered, and stranded investments.

5.7.1 Increased competitive advantages

Striving to increase its competitive advantages, TEŠ endeavours to lower the expenses, introduce new technologies, and a decrease in the number of employees.

As reflected in the Company's accounts, TEŠ has directed special attention to cost-cutting measures. By setting up appropriate policies, the Company managed to reverse the upwards trend in the expenses area. The business plan for 2006 includes a further decrease in the share of expenses in the total Company's operations.

The top priority of TEŠ remains a safe and reliable supply of electricity in Slovenia, and – despite of the cost-cutting measures – the provision of all necessary maintenance services and new investments, along with safety and health at work.

By taking into account the various financing options and by selecting the most favourable financial sourcing, the Company does its best to decrease the financing cost and consequently to lower the investment amounts in new projects.

5.7.2 Accounting ratios

in 000 SIT		2005	2004
Equity financing rate			
1.	Liabilities (in broader sense)	72,999,263	75,553,152
2.	Equity	47,510,627	47,427,839
Equity financing rate = 2 / 1		***65.08 %***	***62.77 %***
Long-term financing rate			
1.	Equity	47,510,627	47,427,839
2.	Long-term financial and operating liabilities	12,318,807	16,639,061
3.	Long-term provisions	2,512,262	2,733,058
4.	Total (1+2+3)	62,341,696	66,799,958
5.	Liabilities (in broader sense)	72,999,263	75,553,152
Long-term financing rate = 4 / 5		***85.40 %***	***88.41 %***
Operating fixed assets rate			
1.	Tangible fixed assets	63,965,245	67,012,685
2.	Intangible fixed assets	74,459	44,938
3.	Total fixed assets at carrying amount (1+2)	64,039,704	67,057,623
4.	Assets	72,999,263	75,553,152
Operating fixed assets rate = 3 / 4		***87.73 %***	***88.76 %***
Long-term investment rate			
1.	Tangible fixed assets	63,965,245	67,012,685
2.	Intangible fixed assets	74,459	44,938
3.	Long-term investments	94,637	109,489
4.	Long-term operating receivables	25,316	24,932
5.	Total (1+2+3+4)	64,159,657	67,192,044
6.	Assets	72,999,263	75,553,152
Long-term investment rate = 5 / 6		***87.89 %***	***88.93 %***
Equity to operating fixed assets			
1.	Capital	47,510,627	47,427,839
2.	Long-term provisions	2,512,262	2,733,058
3.	Tangible fixed assets	63,965,245	67,012,685
4.	Intangible fixed assets	74,459	44,938
5.	Total fixed assets at net carrying amount (2+3)	64,039,704	67,057,623
Equity to operating fixed assets = (1+2) / 5		***0.78***	***0.75***

Immediate solvency ratio

1.	Cash in bank, cheques, and cash in hand	8,707	672
2.	Short-term investments	12,958	13,486
3.	Total liquid assets (1+2)	21,665	14,158
4.	Short-term financial and operating liabilities	10,425,424	8,700,193
	Immediate solvency ratio = 3 / 4	***0.002***	***0.002***

Quick ratio

1.	Cash in bank, cheques, and cash in hand	8,707	672
2.	Short-term investments	12,958	13,486
3.	Short-term receivables	6,406,757	6,101,920
4.	Total (1+2+3)	6,428,422	6,116,078
5.	Short-term financial and operating liabilities	10,425,424	8,700,193
	Quick ratio = 4 / 5	***0.62***	***0.70***

Current ratio

1.	Current assets	8,849,016	8,381,784
2.	Long-term operating receivables	25,316	24,932
3.	Deferred costs (expenses) and accrued revenues	15,906	4,256
4.	Total short-term assets (1-2+3)	8,839,606	8,361,108
5.	Short-term financial and operating liabilities	10,425,424	8,700,193
	Current ratio = 4 / 5	***0.85***	***0.96***

Operating efficiency ratio

1.	Operating revenues (net sales + other operating revenues)	45,072,642	23,108,658
2.	Cost of goods, materials and services	33,137,040	11,326,099
3.	Labour cost	3,749,376	3,551,377
4.	Write downs and write-offs	6,497,324	6,207,369
5.	Other operating expenses	730,269	898,190
6.	Total operating expenses (2+3+4+5)	44,114,009	21,983,035
	Operating efficiency ratio = 1 / 6	***1.02***	***1.05***

Net return on equity ratio – ROE

1.	Net profit for the period	82,788	73,043
2.	Average capital	47,469,233	47,391,318
	Net return on equity = 1 / 2	***0.002***	***0.002***

Equity financing rate

Company's equity has a 65% share among total liabilities. The Company finances its operations through own and borrowed funds. . Compared to the previous year, the equity financing rate increased during the year due to the increase in capital (profit for 2005) and due to a decrease in long-term financial liabilities (repayment of principal).

Long-term financing rate

More than 85% of the Company's assets are financed on a long-term basis. Compared to 2004 the long-term financing rate has dropped by 3 percentage points due to a decrease in long-term financial and operating liabilities to banks, and thus in the total liabilities.

Operating fixed assets rate

Within the assets structure the share of tangible and intangible fixed assets is recorded at 87.7%. As investments made in 2005 were lower than the accumulated amortisation/depreciation, the operating fixed assets rate decreased by 1 percentage point compared to the previous period.

Long-term investments rate

The long-term investment rate refers to the share of long-term assets among total assets. In 2005 the ratio was established at 87.9 % which is 1 percent less than in 2004. The decrease is attributable to a decrease in tangible fixed assets recorded in the reporting year.

Equity to operating fixed assets

The equity-to-operating-fixed-assets ratio represents a balance between equity and operating fixed assets. The ratio for 2005 was determined at 0.78 meaning that most of those Company's assets with the lowest liquidity is financed by means of the owner's equity. Compared to 2004 the ratio increased by 4 % as fixed assets decreased due to lower investments.

Immediate solvency ratio

The immediate solvency ratio was recorded at 0, showing that as of the balance sheet date, the Company did not have liquid assets at its disposal, which was in accordance with the cash-flow planning.

Quick ratio

Quick ratio shows whether the Company finances short-term assets through short-term liabilities or also long-term. The ratio's value is 0.62% in 2005. The ratio shows a decrease over the previous year's figures, which is mostly due to higher liabilities to other Group companies (the purchase of coal from the Velenje coal mine).

Current ratio

The current ratio reflects the financing of short-term assets by means of short-term liabilities. Due to an increase in short-term financial and operating liabilities, the current ratio decreased to 0.85 % in 2005 (0.96% in 2004).

Operating efficiency ratio

Operating revenues exceed operating expenses by 2% in the reporting year. The operating efficiency ratio decreased in comparison to 2004.

Net return on equity ratio - ROE

The net-return-on-equity ratio (ROE) indicates that the Company generated very little profit per 100 SIT of funded capital: only 0.20 SIT per 100 SIT of funded capital. Compared to 2004 the ratio remained unchanged.

5.8 Risk Management

Nowadays, the Company is exposed to rapidly increasing changes, in the markets of raw materials and finished products, labour market, as well as in business practices – in all these areas, the changes have been more or less expected. The risk exposure has thus increased. Many types of risks have been identified, practically related to all areas of the Company's operations, and each of these risks is sooner or later reflected in the Company's results.

Risk identification on a timely basis, regular risk monitoring and risk management represent a prerequisite for a successful and efficient management of business objectives. The task of the persons authorised for risk management is to, considering the given business environment and the current situation, assure the best possible ratio between the expected profit and the risks involved.

In its everyday operations, TEŠ faces various types of risks, in particular the following:

Operating risks, referring to the Company's ability to generate revenues and manage the expenses as well as maintaining the value of the Company's assets.

- Volumetric risk occurs from the uncertainty referring to the quantity of fuel, production, and supply of electricity. The uncertainty of production mostly arises in connection with the question whether the Company will be able to generate the required amounts of energy, along with the issues of the possible shortfalls in productions due to outages, technological or ecological limitations in production, as well as insufficient supply of fuel.
  Volumetric risk is mostly mitigated by planning both the maintenance of the existing plants and equipment and new investments in a timely and professional manner. To mitigate risks related to the supply of coal, the Company signed the Long-term Agreement on the purchase of coal, lease of output and purchase of electricity for 2005 and 2006 with the Velenje coal mine, by which the Velenje coal mine is obliged to sell and deliver coal in accordance with the planned monthly consumption of coal to be used for electricity production (original and supplementary quantities set forth in TJ).

- Market risk embodies the risk arising from the uncertainty as to the environmental levy and the danger of loss of the current market. The market risk arising from the uncertainty as to the environmental levy will be mitigated mostly by the implementation of new technologies, as presented in the HSE Group Development Plan 2004-2013, including the measures to be implemented in order to improve the human and environmental safety and health.
  In order to hedge from market risk, the Company signed the Long-term Agreement on the purchase of coal, lease of output and purchase of electricity with HSE and the Velenje coal mine (in 2004). The Agreement sets forth original and supplementary coal quantities in GJ, which will be purchased by TEŠ from the Velenje coal mine, whereby Holding Slovenske elektrarne as the buyer of electric energy shall purchase the entire generated electric energy at prices agreed by the agreements signed on an annual basis.

- The risk of decrease in the value of the Company's assets includes the risk of destruction, obsolesce, or any other form of decrease of business assets. The significant assets have been insured at an insurance company and cover all types of insurance.

Financial risks mostly refer to the Company's ability to control financial expenses, financial liabilities, and to ensure long-term solvency.

- Credit risk is a risk that trade and other receivables (arising from commercial credits) will be discharged in default or will not be discharged at all.
  Credit risk is mitigated by regular monitoring of outstanding receivables, paying particular attention to tardy payers, imposing default interest, securing the receivables and, in cases when debtors are not very likely to repay the debts, by netting policies. Credit risk is moderate, as the annual contract that was signed with the major buyer includes elements to secure the receivables. There was no need for filing applications for execution of writ against non-payers in 2005.

- Liquidity risk is a risk that a company will have no sufficient liquid assets to discharge its current payment obligations. The risk is moderate, as the majority of net sales revenues are generated in the domestic market, with a buyer whose payments are stable and regular. Likewise, trade liabilities and financial liabilities are known in advance.
  Liquidity risk is mitigated by financial management, in particular by the planning of future cash-flows, by regular contacts to the major buyer, and by good business relationships with the major Slovene banks. In 2005, the Company invested free funds in the money market at the highest attainable rates, without causing a lack of liquid assets which would result in the need to take on further loans.

- Exchange rate and interest rate risk. Considering the fact that a part of the long-term sources of assets (i.e. long-term loans obtained at domestic and foreign banks) is denominated in foreign currencies, the Company has been facing both exchange rate and interest rate risks. Exchange rate risk includes the risk that the value of the Company's assets will change as a result of exchange rate fluctuations, mostly EUR/SIT. According to the Company's estimates, the exposure to exchange rate risk is insignificant, due to the stringent exchange rate policy by the Bank of Slovenia and fulfilling the convergence criteria for the adoption of euro.
  Interest rate risk arises from the possibility that the interest rates will fluctuate. Both the exchange and the interest rate risks are hedged by regular monitoring of the fluctuations of the individual exchange and interest rates.

  In order to resolve this issue, TEŠ has applied such risk hedging policies that involve derivative financial instruments and the replacement of the existing loans by more favourable loans.

- Inflation rate risk arises from the possibility of an increase in the purchase prices of materials and services which the Company were not able to transfer to the selling prices of electricity and thermal energy. The inflation rate risk is hedged by regular monitoring of the macroeconomic policies and by signing supply contracts at fixed prices.

Operating risks are mostly related to the design, execution and monitoring of business processes and activities in the Company. The exposure to risks is moderate, as the ISO 9001 quality management system, the ISO 14001 environmental management system and the OHSAS 18001 occupational health and safety standard were implemented. Within these systems, the execution of business processes and activities as well as the responsibilities and authorisations are set forth. The compliance with the standards is checked by regular internal and external verifications.

In order to prevent software deficiencies, significant attention is paid to the development and the functioning of the IT infrastructure.

Regulatory risks derive from the amendments of and the uncertainties in the interpretation of the pertaining legislation and executive acts, which are not in control of the Company. Due to constant changes in the existing legislation, compliance is assured by ongoing trainings carried out by the competent institutions. In order to improve internal controls and decrease the tax risks, a preventive tax compliance check was carried out in 2005. The Company is subject to external audit of financial statements.

5.9 Performance analysis

Major factors that influenced the operations of TEŠ in 2005:

- Signing of a long-term contract on the purchase of coal, lease of output and purchase of electricity with HSE and the Velenje coal mine;
- Signing of a tripartite agreement with Holding Slovenske elektrarne, d.o.o. and the Velenje coal mine for the period 2005-2006 (in December 2004);
- Signing of The Business Plan for 2005, which was approved by the Supervisory Board in February 2005.

A long-term Agreement on the purchase of coal, lease of output and purchase of electricity was signed between TEŠ, HSE and the Velenje coal mine in September 2004, for a period from 2005 until 2015. Original and supplementary coal quantities (in GJ) have been set forth by the Agreement, to be purchased by TEŠ from the Velenje coal mine, whereby Holding Slovenske elektrarne as the buyer of electric energy shall purchase the electric energy at the prices agreed by the contracts signed on an annual basis.

Compared to the period 2002-2004, when the services of TEŠ were limited to the transfer of coal to electricity and the cost price did not include the cost of the raw material (coal), signing of the long-term agreement has brought significant changes into the Company's business relationship with HSE. In accordance with the Long-term Agreement, TEŠ purchases coal for electric and thermal energy production from the Velenje coal mine; the selling price includes the cost of coal again; electricity production sold to HSE is charged in terms of net production, and thermal energy is again sold to the Velenje utility services company.

5.9.1 Performance results

	2005	2004	2003	2002
Operating efficiency ratio = operating revenues /operating expenses	1.02	1.05	1.01	1.09
Revenues per employee in thousand SIT	79,549	40,771	38,888	36,004
Revenue profitability = profit (loss) / revenues	0.002	0.003	-0.074	-0.038

TEŠ completed 2005 with 82,788 thousand SIT of profit. Despite the planned loss for 2005 in the amount of 3,351,526 thousand SIT, the Company managed to record profit, since revenue growth exceeded the plans by 10.5% while expenses exceeded the plans by 1.5% only.

5.9.2 Revenues and expenses

Revenues

Operating revenues in the amount of 45,072,641 thousand SIT, thus exceeding the plans for 2005 by 10.3% and exceeding the previous year's figures by 95% (however, the comparison to 2004 is not relevant, as the selling price of electric and thermal energy in 2004 only included the processing of coal for electricity and thermal energy production; while the cost of coal was borne by HSE). The deviations from the planned figures result from the increased revenues from the electric and thermal energy sold (larger quantities, higher prices). The structure of net sales revenues was as follows:

- revenues from the sale of electricity 96.6%;
- revenues from the sale of thermal energy 2.4%;
- other revenues 1%.

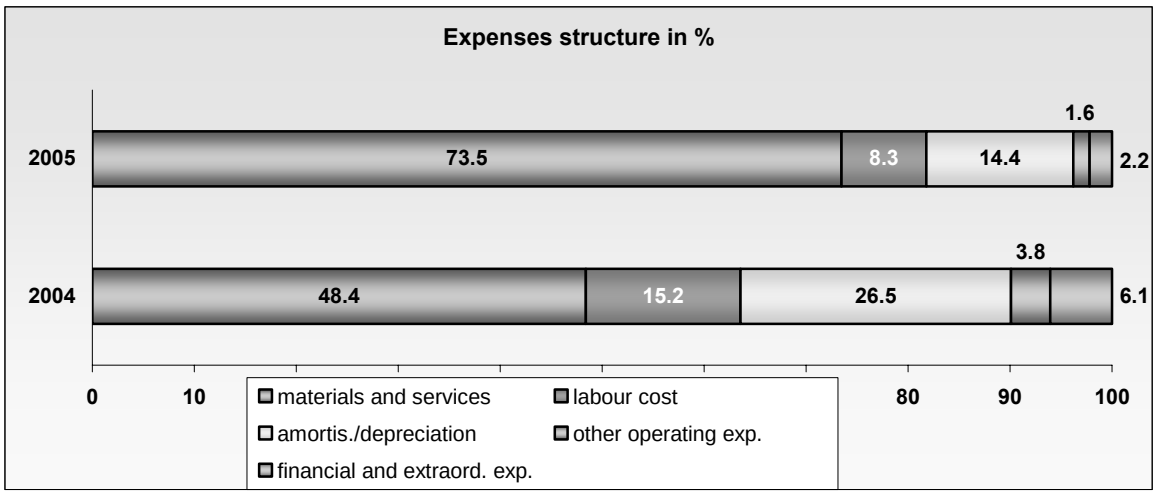
In addition to the revenues from sales, TEŠ generated 111,117 thousand SIT financing revenues and extraordinary revenues in 2005.

Expenses

The Company recorded 45,100,971 thousand SIT of expenses in 2005, thus exceeding the planned figures by 1.5%, and the previous year's figures by 92.7%.

The target in the Business Plan for 2005, referring to the limit for operating expenses (exclusive of fuel costs, own use, and maintenance cost), was set at 2% nominal decrease in expenses compared to the actual 2003 expenses. These expenses remained 0.6% below the limit in 2005 (14,352,200 thousand SIT).

The comparison to the previous year's expenses is not relevant, as the expenses in 2004 did not include the cost of coal as it was covered by HSE, and the expenses in 2005 did not include own use of electricity. Provided that the cost of coal and own use are not included in the calculation, the Company recorded a 3.8% growth in expenses in 2005 against 2004, meaning that – under consideration of the 2.5% inflation rate – the real growth corresponded to 1.3% (the increase in fuel cost was due to increased production).

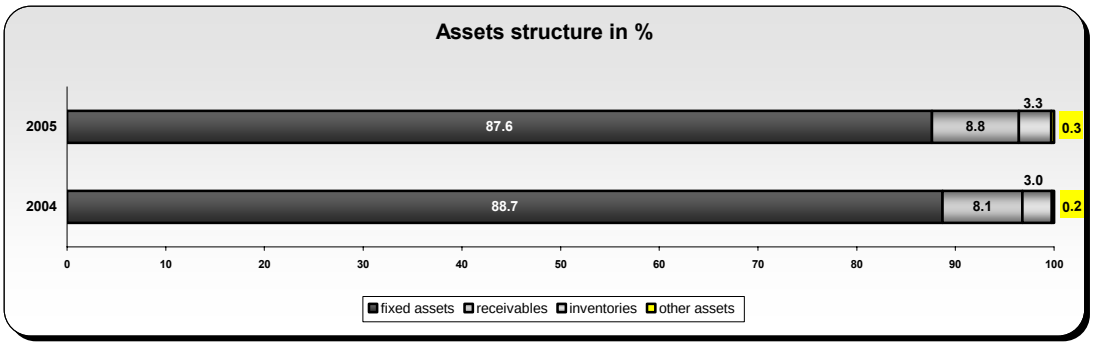


5.9.3 Assets and liabilities

As of 31 December 2005, the Company's assets amounted to 72,999,263 thousand SIT, showing a decrease of 3.4% against the previous year's figures. Considering the 2.3% inflation rate (December 2005/December 2004), the decrease in real terms corresponded to 5.6%. The decrease in the balance sheet total results from the lower values in tangible fixed assets. Investments in tangible fixed assets are limited due to a deficit in the Company's funds.

In the total assets structure, the share of fixed assets was decreased by 4.5% compared to 2004 (investments in tangible fixed assets were lower than the accumulated depreciation in 2005).

The increase in the share of current assets resulted from higher inventories and operating receivables (receivables due from Holding Slovenske elektrarne, d.o.o., which are based upon the signed Annex to the Agreement on cooperation in the production of electric energy in December 2005).



As of 31 December 2006, the share of capital accounted for 65.1%, of the total 'capital and liabilities', showing an increase both in comparison to the plans for 2005 and the actual 2004 figures.
Compared to the balance as at 31 December 2004, the Company recorded an increase in capital: an increase of 0.2% in nominal terms, and of 2.1% in real terms, considering the inflation rate.
The Business Plan 2005 included an increase in share capital by 5 billion SIT due to the planned capital increase procedure. However, the capital increase procedure was not carried out.

If the capital were revalued by the factor of cost of living index (2.3%) the Company would have recorded a loss for the accounting period in the amount of 1,008,052 thousand SIT.

Compared to 2004, the long-term financial and operating liabilities decreased by 26% (principal repayment), whereas the short-term financial and operating liabilities increased due to short-term liabilities to Group companies (i.e. liabilities due to the Velenje coal mine for the coal which had not been recorded in 2004).

5.9.4 Profit for the period by business segments

	Revenues in thousand SIT	Expenses in thousand SIT	Profit for 2005 in thousand SIT	Profitability of revenues = profit/revenues
Produced electricity	43,968,342	43,925,840	+42,502	0.001
Steam and hot water supply	1,095,683	1,071,865	+23,818	0.020
Factory canteen	251,615	247,325	+4,290	0.017
Public standard	52,713	40,535	+12,178	0.230

In 2005, profit was recorded in all business segments. Revenues and expenses by business segments include own services and materials used (intra-Company services) referring to the company canteen, beverages for demanding working conditions, and other.

5.10 Research and development

TEŠ is entering a new investment cycle driven by the need for technological upgrade. The technological renovation will result in the shutdown of the units whose working life is coming to an end, whereas those units (B5) which will continue to operate after 2020 will be upgraded and brought in line with the best available technologies (BAT). New equipment must be in line with the so-called BAT principle. The comparability of the power plant by means of BAT criteria will bring competitive advantages in electricity production and enable the Company to sustain high environmental standards.

The constantly increasing net efficiency has become the target for the purchase of new generating units and has also started to provide the guideline when upgrading the existing units.

As every year, the above-mentioned R&D goals were targeted on two levels. The first level represents the preparation of the design documentation, monitoring the operation of technological devices as well as the evaluations. In the Business Plan, these activities are referred to as “investments in the modernisation of technological procedures”.
The second level represents the “study documentation”, reflecting the Company’s long-term strategy of technological development. Prior to taking any major steps in the R&D area, the Company’s visions are reconsidered by means of surveys referring to the developments in the electricity market and to energy resources, the broad environmental guidelines and practice, as well as the developments in the electricity production technology on the global market.

5.11 Investments

The useful lives of certain items of equipment in TEŠ are about to expire, as certain parts have been in operation since as early as 1956, when the generating units 1 and 2 were constructed, whereas the youngest parts have been in use since the construction of the generating unit No 5 in 1977. Considering the current state of the individual items of equipment and the Company’s strategic goals, a decision was made for the modernisation of the equipment, so as to enable safe and reliable operations until the expiry of their targeted useful lives. The modernisation project has been carried out on the basis of an

analysis of the equipment's operation history, events occurred, an estimate of the remaining useful lives and safety measures.
The Investments Plan 2005 was prepared on the following bases:

1. The targeted useful life of the generating units 1 and 2 will expire at the end of 2008 due to increased use in the past and future years, and the useful life of unit No 3 will expire in 2010.
2. The targeted useful life of generating unit No 4 will expire in 2011(2017).
3. The targeted useful life of generating unit No 5 will expire in 2025.
4. In 2004, the Company started preliminary activities referring to the combined gas-steam process on the unit No. 5.
5. In 2005, preliminary activities referring to the construction of the new steam generating unit No 6 were started.
6. By investing in the existing units, the Company provides the planned generation of 3,100 GWh of electricity, the additional 300 GWh of electricity, as well as for the same level of safety and operational availability as in the previous years.
7. Major investments in generating unit No 4 refer to the overhaul that was carried out in 2005.

During 2005, the Company completed the following projects that had been initiated in the previous years, as follows:

- BLR 1 reconstruction
- Change of the 1 AT transformer
- Dry ash and slag transport from unit No. 4
- Renewal of the control system in unit No. 4
- Renewal of the middle pressure safety station in unit No. 4
- Renewal of the RDP 4 vents
- Renewal of the ignition device of the unit No. 4
- Renewal of the circulating pumps of RDP4
- Renewal of the boiler house of the unit No. 4
- Replacement of the exit collectors of the boiler in unit No 4
- Replacement of the steam superheater at the P3 boiler of the generating unit No. 4
- Replacement of the piping of the secondary superheater in unit No. 4
- Renewal of decarbonatisation

and new projects were initiated:

- Anti-noise barrier of the cooling tower in unit No.4
- Replacement of the ignition device in unit No. 5
- Construction of a new generating unit, No. 6

Certain projects extend over several years and will be continued in 2006:

- Anti-noise barrier of the cooling tower in unit No.4
- Accumulation reservoir of waste water
- Reconstruction of the industrial plumbing installations
- Combined gas-steam process in unit No. 5
- Construction of a new generating unit, No. 6

As evident from the below schedule, 2,370,249 thousand SIT were invested in fixed assets in the period from January to December, revealing a 40.1 % realisation of the Annual Plan 2005, which is mostly due to the postponed signing of a contract with the main contractor for the investment in PKS unit 5 (September 2005).

BUSINESS PLAN 2005

in thousand SIT

No.	INVESTMENT	Sources of assets in 2005						
		Amortisation/Depreciation	Other own assets capital increase	Loans		Co-investments	Budget funds	Total
				foreign	domestic			
1	VvZP unit No. 3	20,000						**20,000**
2	VvZP unit No. 4	683,500	895,500					**1,579,000**
3	VvZP unit No. 5	60,000						**60,000**
4	VvZP - COMMON BUILDINGS	255,000						**255,000**
5	Design documents and study documentation	50,000						**50,000**
6	Minor investments	145,000						**145,000**
7	Business IT system	85,000						**85,000**
8	PKS of unit No. 5		3,714,000					**3,714,000**
TOTAL INVESTMENTS		**1,298,500**	**4,609,500**	**0**	**0**	**0**	**0**	**5,908,000**

REALISATION OF THE BUSINESS PLAN 2005 in the period I - XII 2005

in thousand SIT

No.	INVESTMENT	Sources of assets in 2005						
		Amortisation/Depreciation	Other own assets	Loans		Co-investments	Budget funds	Total
				foreign	domestic			
1.0	VvZP unit No. 3							**0**
1.1	VvZP unit No. 1, priority class II	10,742						**10,742**
2.0	VvZP unit No. 4	682,125	1,006,350					**1,688,475**
2.1	VvZP unit No. 4, priority class II	21,556						**21,556**
3	VvZP unit No. 5							**0**
4.0	VvZP - Common buildings	63,406						**63,406**
4.1	VvZP - Common buildings, priority class II	647						**647**
5	Design documents and study documentation	74,757						**74,757**
6	Minor investments	209,597						**209,597**
7	Business IT system	0	95,325					**95,325**
8	PKS unit No. 5 and PKS 5/gas	0	153,223					**153,223**
TOTAL INVESTMENTS		**1,062,830**	**1,254,898**	**0**	**0**	**0**	**0**	**2,317,728**

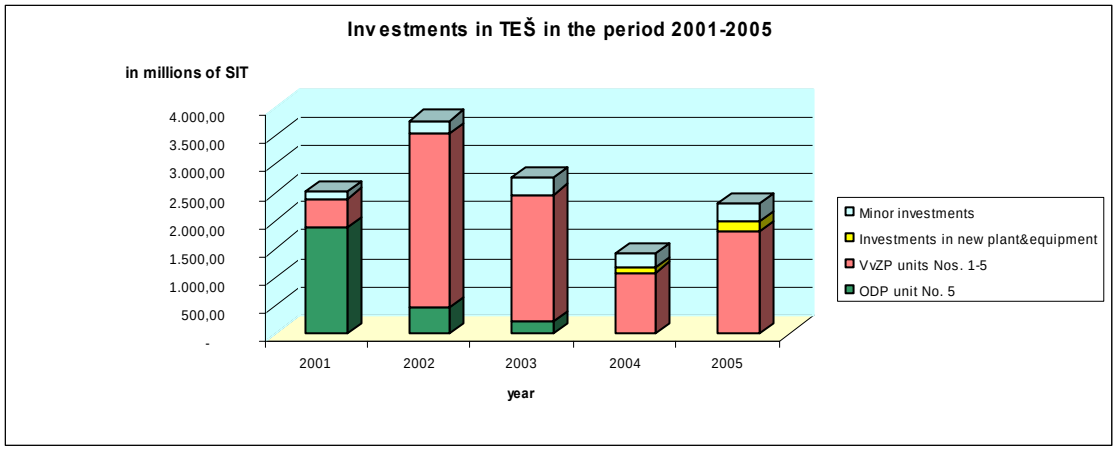
INVESTMENTS FROM PREVIOUS YEARS THAT HAD NOT BEEN INCLUDED IN THE BUSINESS PLAN 2005

in thousand SIT

No.	INVESTMENT	Sources of assets in 2005						
		Amortisation/Depreciation	Other own assets	Loans		Co-investments	Budget funds	Total
				foreign	domestic			
1	VvZP unit No. 3	0	4,270					**4,270**
2	VvZP unit No. 4	0	25,053					**25,053**
3	VvZP unit No. 5	0	863					**863**
4	Unit No. 6	0	22,335					**22,335**
								0
								0
TOTAL INVESTMENTS		**0**	**52,521**	**0**	**0**	**0**	**0**	**52,521**

Investments in the existing power generating units are mostly carried out to extend their useful lives and/or eliminate the technological and technical risks in providing the planned (and additionally required) quantities of electricity as well as in assuring the operating availability as set forth by the contract. Investments in common buildings enabled an unobstructed operation of the plant, representing a precondition for the operation of the individual generating units.

In order to achieve the above targets, continuous investments in the existing plant and equipment are required, as they are already considerably out-of-date. The below diagram presents investments in new plants and equipment for TEŠ within the last five years.



By means of upgrading the gas turbines, the capacities of the generating unit No. 5 will be improved; the nominal power will be increased by 84 MW.
In the combined process with additional gas turbines installed, the waste heat available in the exhaust stream will be used for cogeneration of the steam plan. The new investment will increase power generation capacities in which the entire planned coal will be used as provided for by the long-term agreement on coal supply, while at the same time reducing CO_2 emissions, as well as decrease electricity prices, and comply with the mandatory requirements of the Kyoto Protocol.

To comply with the requirements for the increased electricity production, resulting from the rising demands from the end-users, TEŠ capacities will be expanded - a new generating unit No. 6 with the capacity of 500 MW will be added, while other old and technologically outdated units whose useful life is about to expire will be replaced.
The construction of generating unit No. 6 fuelled by coal will not entirely eliminate carbon dioxide emissions, but will considerably lower them if compared to the existing units (lower values per kWh) as a result of the higher efficiency of the new technologies.

5.12 Maintenance

The maintenance strategy is set so as to enable the realisation of short-term as well as long-term objectives of the Company.

Short-term objectives encompass:

- ensurance that workplaces are safe and healthy for employees,
- rational use of materials used,
- rational use of working time,
- reduction of time-limits as regards the repair of individual installations,
- preventing the occurrence or repeating defects,
- utmost possible operational readiness of the power plant as a whole,
- eco-friendly production of electrical and thermal energy.

Long-term objectives include:

- selling electrical and thermal energy at a low price,
- keeping a competitive position on the electricity market,
- keeping the status as a producer of electrical and thermal energy based on lignite processing,
- making individual generating units operational up till their planned service life (units 1, 2 – 2008, unit 3 – 2010, unit 4 –2011(2017), and unit 5 – 2025).

The strategy is based upon not only own but also foreign experiences and is adjusted to modern trends. The maintenance system is supported by the MAKSIMO software. As regards the issue of maintenance the Company for a number of years now acts upon »the state of the device« and »preventive maintenance (overhauls)«. However, the maintenance strategy tardily changes in favour of »the state of device« principal. This is reflected in the conduction of overhauls on individual units that changed from two to three years and then to six years, whereas after completing the overhauls on individual groups of devices no further overhauls have been planned for the generating units. An effective maintenance strategy as well as the achievement of related objectives is in any case conditioned by good knowledge of devices as well as an experienced operating and maintenance personnel.

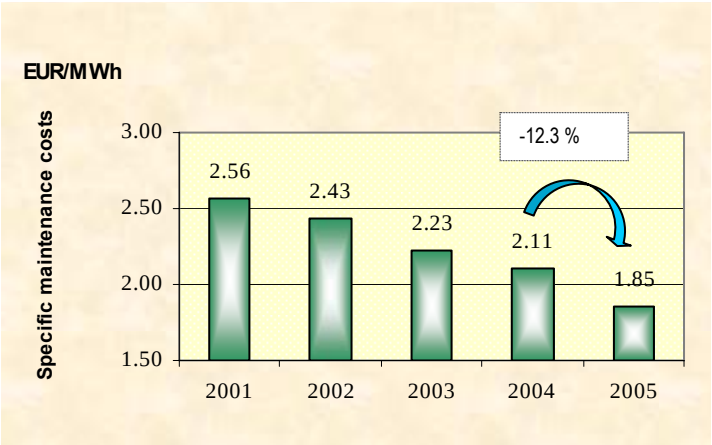
With reference to age and working hours, the devices used in TEŠ are subject to quite an intensive maintenance. The maintenance procedures are conducted on the basis of monitoring the operations of the devices, the operational events, the estimate on the remaining useful life with the help of destructive and non-destructive methods of materials control, requirements for a safe and reliable operation, and operating guidelines or strategies that are adopted as for operations and maintenance of devices.

The complete maintenance system is divided into:

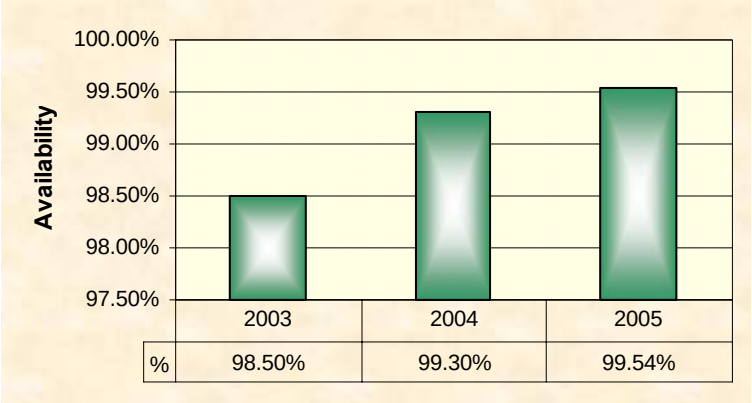
Regular preventive maintenance encompasses check-ups, controls, analyses and the performance of procedures that enable reliable operation of all devices. This group includes also repairs such as replacement of individual groups of devices. Maintenance procedures that cannot be excluded are conducted while the generating units are shut down (mostly during weekends).

Overhauls of production units and individual groups of devices; hereby, several types of maintenance activities are considered as for example check-ups and measurements, installations and dismantling, repairs and exchange of spare parts that claim the withdrawal of devices or whole production units from service.

The Company earmarked 4,430,000 thousand SIT for maintenance, of which 1,655,000 thousand SIT for regular maintenance and 2,775,000 thousand SIT for overhauls. 98% or 1,616,779 thousand SIT of planned funds were utilised for regular maintenance, while 83% or 2,299,723 thousand SIT of earmarked funds were used for overhauls. Thus, we additionally improved the set objective of an annual 2 percent decrease of funds, used for maintenance. Picture 1 shows the decrease in specific costs of regular maintenance. These costs may be compared on an annul base, whereas the costs of overhauls not – this is mostly due to the fact that the biggest cost refers to the overhaul of the production unit, where there are major differences in terms of size, age and technology. Picture 2 shows the operating availability of the past three years. Irrespective of decreasing maintenance costs, the trend of increase is clearly evident. Our estimate is that the said availability was very high in 2005 and it shall be difficult to exceed this figure.



Picture 1: Specific costs of regular maintenance



Picture 2: Availability of operating units

A review of regular maintenance costs for individual units shows us following:

- maintenance costs for generating units 1 and 2 were very low, which is also in line with the Company's strategy of investing not more than required, since the two units shall be withdrawn from service in 2008.
- Costs for the gypsum and ash system exceeded the planned figures by 60%. This is mostly due to the expansion of the gypsum transport system on unit 4 and the specific technology that requires a very intensive maintenance and cleaning of the systems due to strict eco projects.
- Costs were also exceeded in the area of coal transport, which is attributable to the exchange of certain transport conveyor belts, whose service life cannot be forecasted precisely (foreign object damage, etc.) due to the specific technology.
- Excess of costs in the field of joint devices is a consequence of the legislation that defines their scope as well as maintenance periods (all lifting appliances, air conditioning units, engines, etc.).
- Costs of all other devices were below the planned figures.

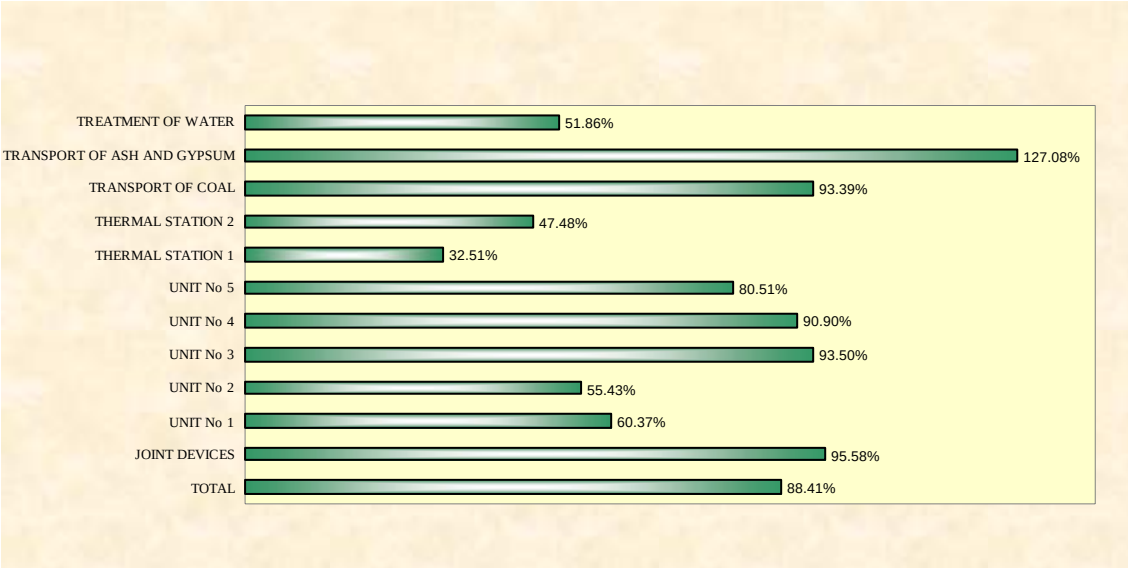
Overhaul costs comprise following:

- A major overhaul was performed on the generating unit 4 in the reporting period, namely from 18 July till 23 September. In spite of the scope and the complexity of the project, the overhaul was concluded one week prior to the planned term. The projected value of the overhaul on the unit 4 was 2,026,000 thousand SIT. Notwithstanding, the respective overhaul cost amounted to 1,862,000 thousand SIT or 92 % of the projected cost.
- Except for the minor excess of costs on the generating unit 3, the costs on other units were quite below the planned figures.

The above-mentioned may be summarised as follows:

- High-quality maintenance was performed in connection with the devices, which is evident also from quite high contractual availability of the drive-units. Such high availability shall be difficult to surpass.
- Taking into account the fact that 3,916,502 thousand SIT (88% of planned funds) were used for maintenance, we may conclude that all maintenance procedures were carried out in a cost-effective way and in accordance with main long-term objectives i.e. electricity price decrease.

Picture 3: Joint costs of maintenance

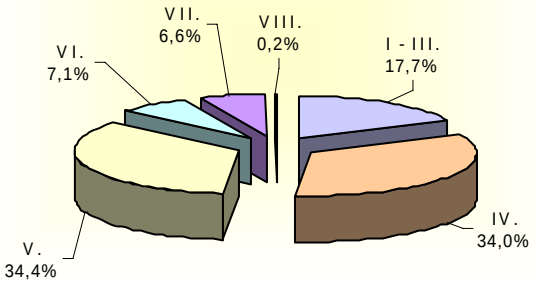


5.13 Staff

As of the balance sheet date the Company numbers 547 full-time employees, which is 7 employees less than planned. This is mostly due to organisation changes made and anticipated, as well as due to the trend of staff reduction.

In addition to the full-time employees, the Company has also 10 part-time employees and 4 trainees, thus by the year-end the total number of staff is recorded at 561, which is 9 employees less than in 2004. The average number of employees in the previous year was 568. As at the balance sheet date, the average age structure of staff was 44 years and 5 months, whereas the average seniority is recorded at 24 years and 3 months. The staff structure included 483 male employees and 64 female employees.

Qualification profile of full-time employees



Education and training

43 employees or 7.7% are reported to undergo training in the school year 2005/2006. In 2005, 19 employees concluded their studies and obtained a higher level of education.
In addition to work study, 84 internal and 522 external training for the energy facility administrator have been concluded.

Issue of invalidity

In 2005 the Company employed 58 occupationally disabled (10.21%) of which 23 disabled are employed as part-time and 35 disabled as full-time; in the reporting period three employees were retired due to occupational disability, while 3 disabled (category III) were retired due to age.

Sick leave

In 2005, the sick leave was recorded at 66,656 hours (2004: 63,864 hours) or 8,332 working days. As for full-time employees, the sickness ratio was 5.81%, which indicated an increase by 5.47% compared to the previous financial year.

Scholarship programme

The mission and vision of TEŠ includes also the care for broader social environment, which is quite conditional due to the Company's impact on the environment. The respective issue is implemented thorough the scholarship policy and the scope of funds that the Company earmarked in the annual budget plan. By planning the scope of funds we establish and ensure the possibility of getting high-quality staff. A high degree of company loyalty – which is very important due to its specific nature – is maintained and developed by awarding scholarships to staff's children. As of the year-end, the Company records 127 scholars, which indicates a decrease of 10.6% compared to the previous year's figures.

5.14 Quality management system

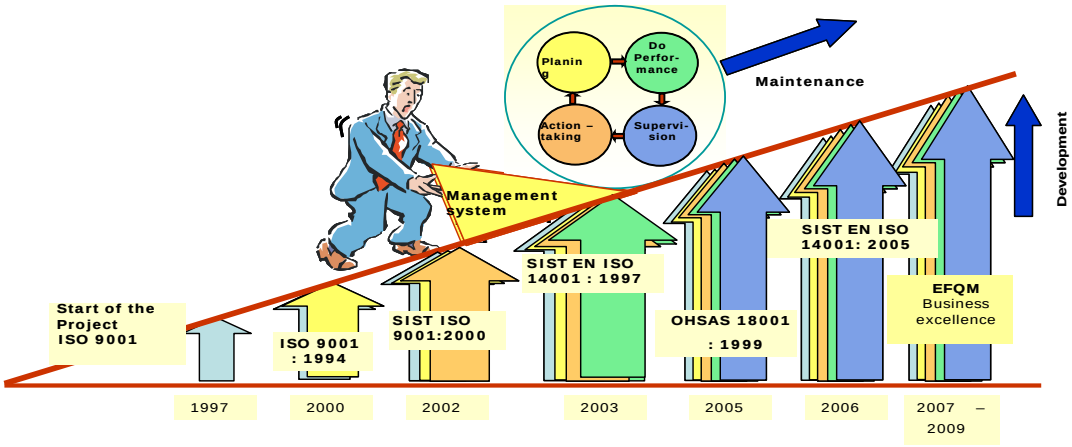
TEŠ has an integrated management system consisting of: the quality management system pursuant to SIST ISO 9001:2000, environmental management system pursuant to SIST EN ISO 14001:1997, and safety and health at work management system pursuant to OHSAS 18001:1999.
In May 2005, the Company obtained the international occupational health and safety management system certificate OHSAS 18001:1999. Hence, we became the first power plant in the world to have obtained the OHSAS 18001 certificate from TÜV Management Service GmbH.
The performance and efficiency of the system established is determined via integrated internal audits and external audits conducted by the certification body. An external audit in 2005 established no deficiencies that would result from an inefficient or malfunctioning management system.

The efficiency of TEŠ's management system under SIST ISO 9001:2000, SIST EN ISO 14001:2005 and OHSAS 18001:1999 was substantiated by TÜV Management Service with positive observations made in following areas:

- Company's development:
  - improving of technologies and processes that relate to improving environmental effects,
  - planning and preparing the exchange and supplementation of the basic technologies of power plants based on the age of individual generating units as well as requirements for using technologies that shall enable lower CO_2 emissions.
- Permanent improvement: the Company achieves permanent improvement by applying the methodology of standard (internal audits, management review, data analysis, corrective measures) and by improving its processes and selection of goods. The inventive activity was successfully introduced in 2005 and 15 proposals have been submitted.

- As for the field of environmental effects, intensified measures are being applied for preventing higher concentration of SO_2 in TEŠ's area of influence.
- Internal audits – the Company applies a systematic approach to integrated internal audits.

Management system development



Development of the integrated management system in TEŠ

The management system was upgraded with activities focusing on increasing the satisfaction of customers, owners as well as employees. Thus following activities have been carried out: analysis of customer satisfaction, a survey and analysis of employee satisfaction, defining of a communication plan as regards the introduction of the OHSAS 18001 management system, introduction of the OHSAS 18001 management system, defining and conducting the environmental management programme as well as the programme of safety and health at work (25% of programmes is considered multiannual). The introduction of the new OHSAS 18001 management system was fortified by an adequate training of the processes owners and internal auditors.

By the end of 2005 the Company started activities for the transition to the new version of the SIST EN ISO 14001:2005 standard. The transition was winded up by the issuance of the certificate in 2006. We have for this purpose organised a training on the environmental legislation and the SIST EN ISO 14001:2005 standard for all processes owners and internal auditors.

In 2007, the Company shall start introducing the EFQM excellence model with the aim of conducting the first self-assessment in 2008 and applying for the recognition of business excellence.

5.15 Environmental performance

The basic activity of TEŠ is the conversion of lignite's primary energy into electrical and thermal energy. The essential environmental characteristics of such an activity are relatively major quantities of flammable gas, ash and other combustion products, cooling water required, as well as noise emission.

In order to control these environmental characteristics, TEŠ decided to optimise between the upgrading of new devices for lowering emissions on existing units and the replacing of capacities with new cleaner technologies that boast of environmental as well as sustainable advantages. A more effective utilisation of fuels results in a less unfavourable transforming of environment (due to sinking of coal areas) and extends inventories of the energy product. By a more effective utilisation of fuel the Company also spares the environment since the emissions of greenhouse gases are lower and so are the costs of the purchase of CO_2 permissions that the Company has to acquire. As TEŠ gave priority to new technologies and no major investments were required to be made in additional capacities as regards devices for reducing emissions, we have decided to make the internal rules stricter again. The aforesaid additional capacities include the reconstruction of the electric filter on the generating unit 4 that was carried out during the repairmen. Due to extreme lack of space the reconstruction could not be conducted in the usual manner.

Based on all measures described we were able to keep the annual average of pollutant (NOx, CO and dust) below the emission limit value. As the previous year was marked by a relatively long but urgent repair of the desulphurisation facility, we were not able to lower the emission of sulphur dioxide as much as we hoped for. The average concentration of sulphur dioxide at the unit 2 namely exceeded the annual limit value. Notwithstanding, we have succeeded to lower the number of overruns on the Company's mostly exposed locations by introducing internal measures. Compared to 2004, the number of overruns in Šoštanj was lowered by approximately 40% and in Veliki vrh by 52%. Compared to the reference year 2002 that is considered as the most productive period in history, we were able to lower the number of overruns in 2005 by 90% in Šoštanj and by 80% in Veliki vrh, which exceeded the planned figure of 70% for all locations together. Irrespective of the results achieved, we must increase the capacity of the desulphurisation device over the next two years as well as improve the working of primary measures and in this way also adjust the emission concentration on a monthly and daily level for units that shall be kept in operation.

A more effective material utilisation was not applied solely with the long-term use of fuel but also with the combustion waste. Due to the aforesaid TEŠ started an extensive research in the previous period focusing on the suitable preparation of a stabiliser and by the year-end obtain a favourable opinion by the Slovenian National Building and Civil Engineering Institute on the applicability of the gypsum/ash mixture, which is won from production waste and used as construction filler for mining-sinkings. Based on this opinion the Company applied in December for an authorisation to conduct waste recovery by applying the R 5 procedure in accordance with the Rules on the management of waste that categorises recovery of waste into a useful raw material.

As previous years also this reporting period was marked by continuing the implementation of numerous European regulations, in which TEŠ's experts actively participated.

As for the area of protection of air, we have continued with the implementation of the directive on large combustion installations that resulted in a new systematisation of installations in TEŠ; accordingly the former six installations were combined in three combustion installations (according to the 'three-chimney rule'). Although this new systematisation – where each boiler actually represents one production unit with its own characteristics – caused several operational difficulties, the Company successfully mastered them.

5.16 Safety of the working environment

Safety of the working environment

The activity bases on the Health and Safety at Work Act that obliges the employer to ensure safety and health to employees during the performance of work. Hence the employer has to observe measures that ensure health and safety at work, including prevention of risks and hazards at work, as well as informing and training of staff providing suitable organisation and material resources.
In 2005, the department for safety at work carried out precautionary measures that increased the safety level at all activities and on all organisational levels. The Company also obtained the OHSAS 18001 certificate.

Education and training

In 2005, the Company employed 17 new staff for whom 17 seminars were organised with the emphasis on the basics of occupational and fire safety, rights of the new staff under the employment relationship, as well as obligations that they must pursue. 73 employees, who were moved to other workplaces within the Company, underwent training referring to occupational and fire safety.

Health care

Preventive checkups of staff in the technical and maintenance department have been carried out at the occupational medicine clinic in Velenje.

Occupational accidents

We have pursuited to lower the number of accidents at work by 5% compared to 2004 and achieved a favourable result. By the end of the year the respective rate decreased by 43%. No serious accidents have occurred. Written opinions have been issued on accidents at work. A preliminary analysis of workplaces was conducted focusing on ecological measurements and physical load as for workers who were moved to more suitable workplaces due to invalidity reasons.

Operation of the production units and its impact on environment

Noise measurements have been conducted within and outside the fence of the thermal power plant during different operational phases. The measurement results represent the basis for the noise monitoring project that is planned for the coming period. The scope of measuring the impact on the environment was completed also with measuring the ionising and non-ionising radiations.

Safety statement with risk assessment

An audit of the safety statement with risk assessment was required due to changed classification of posts.

Fire safety

The reporting period recorded two smaller fires that were extinguished by employees and caused no major damage.

5.17 Environment responsibility

TEŠ is well aware of its influence on the environment in which it works and functions. This is mostly due to the impact that the electricity has on the environment and therefore TEŠ feels fully responsible for the town's development and participates in as well as provides financial support to numerous projects. The company cooperates with several educational institutions, supports activities in the project »Young researcher« (Mladi raziskovalec), makes donations to cultural associations (e.g. octet TEŠ and MPZS Šoštanj). It sponsors KK »ELEKTRA« Šoštanj, OK Šoštanj-Topolšica and several other clubs and

associations. TEŠ is actively involved in various humanitarian projects providing help to institutions as well as to individuals.

5.18 Information Technology

IT Department in TEŠ is primarily engaged in IT support activities related to business functions both within TEŠ and HSE. In cooperation with subcontractors, we made sure that the IT systems' operation was coordinated, stable and reliable. We prevented the interruptions of the business processes which would be due to any breaks in the operation of the individual system units. The information gained from the acquired data was available all the time and to every person with an appropriate clearance, and were presented in a clear, efficient and user-friendly manner.

Both the IT personnel and the system users constantly face new challenges referring to the successful management of information. There is also the challenge to provide every system user with exactly the required information. We have entered a portal implementation period: personal portals, group portals, web portals, etc.

New technologies have provided tools for a simplified design of portals as well as portal contents management. Therefore, we decided to perform an in-depth system modernisation: in cooperation with the key users in the individual business areas, we are developing various technical, functional, design and content-related solutions for an implementation of a portal.
While certain portal elements were implemented already last year, we plan to complete the entire portal by May 2006.

Our everyday business lives are filled with vast piles of paperwork and huge amounts of documents in electronic form. In order to maintain efficiency, one must be able to quickly access the right version of a document, to know the document's history, as well as to maintain the high confidentiality requirements.
The electronic archive enables centralised document storage in various formats. The users are able to access the system via a web browser, whereby access restrictions may be activated to satisfy confidentiality requirements, limiting the access to certain documents to certain users or user groups.
To meet internal requirements, TEŠ has developed a highly efficient document processing system (invoices, order forms, contracts, and supply orders). This electronic archive has significantly simplified and accelerated the document management process, resulting in an improved organisation of the Company's everyday operations, high customer satisfaction results, and the saving of time.
The system has web access, enabling remote users to access it by the usual web browsers.

The option to allocate user rights on the document or on the user level has ensured a high level of system security. Only authorised persons are granted access to the system and every such access is recorded as well as all changes are traced. Digital certificates are used for user identification.
User activities are constantly recorded, thus enabling traceability of all events within a document's life cycle.
We plan to upgrade the electronic archive by providing system support to the invoicing process.

In 1999, TEŠ successfully implemented the MAXIMO software, thus successfully establishing an IT maintenance system. Today, the MAXIMO system is used for recording all events in connection with the maintenance processes. The MAXIMO database includes a detailed history of every maintenance procedure.
However, after 6 years of the use of MAXIMO application, we have reached a point when the system solution must be expanded. This includes the preparation and, off course, the application of all the

analyses that may be performed on the basis of the data input and that will be used as a prerequisite for swift and efficient identification of actions and measures to be taken by the management on various levels.
Therefore a project was launched in September to start the implementation of an upgrade in terms of technology (WEB architecture) and programming (additional functions): Maximo 5.2.
This version will be used for the implementation of the IT support which will enable us to prepare analyses at any time and at any location required, and use them as support for decision-making for maintenance. The analyses will be prepared for the individual sites and the individual items of equipment – these will include the analyses of the most common errors and their causes, of the problems incurred, and of the measures taken. Analyses of the spare parts used during the maintenance and analyses of the work performed by the Company's employees and outsourcers, inventories analyses, analyses of the wear and tear of the usage of work equipment, and a number of other types of analysis.

Active network equipment (switches, network connections, routers, etc.) represent the heart of an IT system. To provide for an appropriate configuration and selection of active components, the latest developments and IT safety requirements must be followed. However, ensuring system reliability by providing for an active equipment configuration is not enough. System capacities must be monitored and regularly expanded, the equipment must be regularly upgraded. This year, mail servers were upgraded (by MS Exchange 2003), as well as anti-virus protection (by Sophos software), mail and web sweeper, and servers used for distribution of critical Windows patches (WSUS servers). Furthermore, Microsoft Operations Manager for server management and monitoring was deployed and put to use.
Our new software tool - Systems Management Server – has provided system administrators with a central overview over the existing software and hardware of all computers. Moreover, Systems Management Server has provided us with the option to install certain software to several local users at a time. We have started the project of a central monitoring system which will be fully launched next year.
It will carry out automatic server operation checks (internet connection, e-mail, VPN access, LDAP, etc.), perform diagnostic procedures and port status checks, automatic network error detection and provide system overload notifications. Any issues will be communicated to the system administrators by automatically generated e-mail or SMS messages.

Constant upgrades and updates are also required in the IT systems used for production and environmental treatment. During the change in the management system of the generating unit No 4, the surveillance system interface had to be replaced entirely to comply with the OPC standards. The 110KV junction management and surveillance system was renovated, as the equipment was already old and out-of-date. It was substituted by new hardware, by Windows XP operating system, and by iFIX software, thus unifying the entire process management system of TEŠ.
By substituting the controllers in the generating units 1, 2, and 3 by new ones with an improved capacity, we managed to unify emission and imission controlling stations. All stations are now interlinked by means of a local area network, resulting in not only software unification but also in easier software maintenance due to on-line access.

5.19 Significant events after the balance sheet date

Act on the establishment of the company

Upon acquiring all shares in the company TE Šoštanj d.o.o., Holding Slovenske elektrarne d.o.o. became the sole owner and as at 14 February 2006 adopted the Act on the establishment of a limited liability company that supersedes in full the Articles of Association dated 20 September 2005.

Changes in the Slovenian Accounting Standards

As new Slovenian Accounting Standards (SAS) came into force as at 1 January 2006, the prospective financial statements in the Business Plan for 2006 are required to be prepared in accordance with the new SAS not later than by 30 June 2006. The modified prospective financial statements shall be presented to the Supervisory Board together with related explanations.

50 years of TEŠ

TEŠ celebrates its 50th anniversary in 2006. The first kilowatt hours of electricity were generated by Termoelektrarna Šoštanj on 16 May 1956. The event signified the beginning of a new era of accelerated construction of production capacities which ended in 1977. This resulted in the construction of the biggest thermal energy complex that provides 30 percent of electric energy required in Slovenia and still represents the backbone of the Slovenian electricity system. The company's anniversary shall be commemorated with numerous festivities, as well as the publication of a special book entitled »50 years of light for Slovenia«.

Investments

The Decision on the public display of the national location plan proposal for R25D gas pipeline section from the connection to the M2 main gas pipeline at Šentrupert to TEŠ was published in the Official Journal of the Republic of Slovenia.

In April 2006, the Supervisory Board plans to adopt the investment programme for the generating unit 6 and in autumn the tender procedure shall start for subcontracting for the main components.

6 ACCOUNTING REPORT OF TEŠ

6.1 Introductory notes

The financial statements of the Company have been prepared in compliance with Slovenian Accounting Standards 2001 that base upon the Slovenian Companies Act and the Accounting Rules (2003). The Company has no subsidiaries and hence not subject to the preparation of consolidated financial statements.
General rules of valuation have been observed during the preparation of financial statements, namely:

- going concern assumption,
- consistent use of valuation method,
- prudence,
- consideration of revenues and expenses irrespective of their payment,
- individual valuation of assets and liabilities.

and fundamental accounting assumptions:

- accrual,
- going concern, and
- true and fair presentation under a fluctuating value of the euro and individual prices.

The qualitative accounting characteristics are understandability, relevance, reliability, and comparability.

TEŠ is a large company and thus obliged at the year-end to prepare an annual report, which is subject to an audit under § 54 of the Companies Act and according to terms laid down in the auditing legislation.

Financial statements for 2005 are fully comparable with financial statements for 2004, as the information for the previous accounting period is disclosed in the same amounts as recorded in the previous period. Individual items of financial statements are disclosed in terms of their significance that depends upon the amount of the individual item.

Financial statements have been prepared using the Slovene tolar (SIT) as the unit of currency, rounded to the nearest thousand

6.1.1 Exchange rate and method of translation into domestic currency

Items in financial statements that are denominated in foreign currencies are translated into local currency in the balance sheet and the income statement on the day of accrual, using the middle exchange rate of the Bank of Slovenia.
The balance of assets and liabilities expressed in a foreign currency, have been translated into Slovene tolars at the middle exchange rate of the Bank of Slovenia as at 31 December 2005.

	31.12.2005	31.12.2004
EUR (middle exchange rate)	239.5756	239.7430
USD (middle exchange rate)	202.4297	176.2427
CHF (middle exchange rate)	154.0382	155.1132
HRK (middle exchange rate)	32.5201	31.4055

6.1.2 Regional and business segments

Accounting information on operations is presented in terms of business and regional segment.

Regional segment is considered a geographical segment, in which countries of a certain region are included. The Company operates on the territory of Republic of Slovenia.

TEŠ comprises following business segments:
- production of electricity,
- supply of steam and hot water,
- canteen and
- public services.

Business segment is an organisational unit that is autonomous and responsible for the operating result. It is a market-oriented organisational part of a company that generates an operating result based on its transactions. Information used for reporting by business segments bases on data collected for external reporting and additionally also on data that the company collects for the use of internal reporting.

6.2 Auditor's Report

TO THE SHAREHOLDERS OF TERMOELEKTRARNA ŠOŠTANJ D.O.O.

We have audited the accompanying balance sheet of the company Termoelektrarna Šoštanj d.o.o. as of 31 December 2005, and the related income statement, the cash flow statement, the statement of changes in equity, and the notes thereto for the year then ended. We have also read the Management Report. These financial statements, prepared in accordance with the Slovenian Accounting Standards, and the notes thereto are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

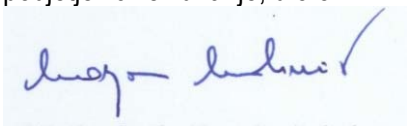
We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants and other auditing regulations issued by Slovenian Institute of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Company as of 31 December 2005, the results of its operations, its cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards issued by Slovenian Institute of Auditors.

The Management Report is in conformity with the audited financial statements.

KPMG SLOVENIJA

podjetje za revidiranje, d.o.o.



Marjan Mahnič, B. Sc. Ec.

Partner and Certified Auditor

Ljubljana, 3 May 2006

6.3 Financial Statements

BALANCE SHEET
as at 31 December 2005

in 000 SIT

ITEM		2005	2004
ASSETS		72,999,263	75,553,152
A.	FIXED ASSETS	64,134,341	67,167,112
I.	Intangible fixed assets	74,459	44,938
1.	Deferred operating cost		
2.	Deferred R&D cost		
3.	Concessions, patents, licenses, trademarks, and similar rights and assets	74,459	44,938
4.	Goodwill		
5.	Advances for intangible fixed assets		
II.	Tangible fixed assets	63,965,245	67,012,685
1.	Land and buildings	11,227,389	12,165,657
	a) Land	540,887	540,887
	b) Buildings	10,686,502	11,624,770
2.	Manufacturing plant and equipment	50,271,714	53,439,203
3.	Other plant and equipment	735,275	732,689
4.	Tangible fixed assets being acquired	1,730,867	675,136
	a) Advances for tangible fixed assets	1,303,940	211,477
	b) Tangible fixed assets in course of construction	426,927	463,659
5.	Breeding and working cattle		
6.	Long-term plantations		
III.	Long-term investments	94,637	109,489
1.	Interests in group companies		
2.	Long-term receivables from investments in group companies		
3.	Interests in associates		
4.	Long-term receivables from associates		
5.	Other long-term shares	14,259	14,259
6.	Other long-term receivables from investments	80,378	95,230
7.	Own shares		
B.	CURRENT ASSETS	8,849,016	8,381,784
I.	Inventories	2,395,278	2,240,774
1.	Materials	2,395,270	2,191,550
2.	Work in progress		
3.	Products and merchandise		
4.	Advances for inventories	8	49,224
II.	Operating receivables	6,432,073	6,126,852
a)	Long-term operating receivables	25,316	24,932
	1. Long-term trade receivables		
	2. Long-term receivables due from group companies excluding associates	310	
	3. Long-term receivables due from associates		
	4. Long-term receivables due from other entities	25,006	24,932
	5. Long-term called-up capital unpaid		
b)	Short-term operating receivables	6,406,757	6,101,920
	1. Short-term trade receivables	373,220	58,415
	2. Short-term receivables due from group companies excluding associates	5,689,787	5,932,803
	3. Short-term receivables due from associates		
	4. Short-term receivables due from other entities	343,750	110,702
	5. Short-term called-up capital unpaid		
III.	Short-term investments	12,958	13,486
1.	Short-term interests in group companies excluding associates		
2.	Short-term interests in associates		
3.	Own shares		
4.	Short-term investments in other entities	12,958	13,486
IV.	Cash in bank, cheques and cash in hand	8,707	672
C.	DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES	15,906	4,256
	OFF BALANCE SHEET ASSETS	67,087,908	57,856,889

ITEM		2005	2004
LIABILITIES		72,999,263	75,553,152
A.	EQUITY	47,510,627	47,427,839
I.	Called-up capital	19,498,011	19,498,011
1.	Share capital	19,498,011	19,498,011
2.	Uncalled capital		
II.	Capital reserves		
III.	Revenue reserves		
1.	Legal reserves		
2.	Reserves for own shares		
3.	Statutory reserves		
4.	Other revenue reserves		
IV.	Net profit or loss from previous periods		-2,385,846
V.	Net profit or loss for the period		
VI.	Equity revaluation adjustments	28,012,616	30,315,674
1.	General equity revaluation adjustment	28,009,845	30,312,903
2.	Specific equity revaluation adjustment	2,771	2,771
B.	PROVISIONS	2,512,262	2,733,058
1.	Provisions for pensions and similar liabilities		
2.	Provisions for taxes		
3.	Other provisions	2,512,262	2,733,058
C.	FINANCIAL AND OPERATING LIABILITIES	22,744,231	25,339,254
a)	Long-term financial and operating liabilities	12,318,807	16,639,061
	1. Long-term financial liabilities from bonds		
	2. Long-term financial liabilities to banks	12,299,886	16,606,081
	3. Long-term financial liabilities from advances		
	4. Long-term trade payables		
	5. Long-term bills payable		
	6. Long-term financial and operating liabilities to group companies excluding associates		
	7. Long-term financial and operating liabilities to associates		
	8. Long-term financial and operating liabilities to other entities	18,921	32,980
b)	Short-term financial and operating liabilities	10,425,424	8,700,193
	1. Short-term financial liabilities from bonds		
	2. Short-term financial liabilities to banks	4,299,490	4,861,804
	3. Short-term financial liabilities from advances	33	1,030
	4. Short-term trade payables	2,606,668	2,182,313
	5. Short-term bills payable		
	6. Short-term financial and operating liabilities to group companies excluding associates	2,913,356	607,428
	7. Short-term financial and operating liabilities to associates		
	8. Short-term financial and operating liabilities to other entities	605,877	1,047,618
D.	ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	232,143	53,001
	OFF BALANCE SHEET LIABILITIES	67,087,908	57,856,889

Šifra dejavnosti : 40.102
Davčna številka: 92189903

INCOME STATEMENT
January - December 2005

in 000 SIT

ITEM		2005	2004
1.	Net sales	44,810,020	22,872,956
a)	On the domestic market	44,798,427	22,870,437
	- from transaction with group companies	43,315,010	22,345,450
	- from transaction with other related companies		
	- from transactions with other entities	1,483,417	524,987
b)	On the foreign market	11,593	2,519
2.	Change in the value of inventories of products and work in progress	0	0
3.	Capitalised own products and/or services	30,502	0
4.	Other operating revenues (including operating revenues from revaluation)	232,120	235,702
5.	Cost of goods, materials and services	33,137,040	11,326,099
a)	Purchase cost of goods and materials sold and materials used	28,707,781	6,503,366
b)	Cost of services	4,429,259	4,822,733
6.	Labour cost	3,749,376	3,551,377
a)	Cost of wages and salaries	2,541,386	2,421,389
b)	Social security costs	579,926	542,869
	- pension insurance cost	372,970	348,978
c)	Other labour cost	628,064	587,119
7.	Amortisation and depreciation expense	6,497,324	6,207,369
a)	Amortisation and depreciation expense, and operating expenses from revaluation of tangible and intangible fixed assets	6,492,584	6,204,782
b)	Operating expenses from revaluation of current assets	4,740	2,587
8.	Other operating expenses	730,269	898,190
OPERATING PROFIT		958,633	1,125,623
9.	Financial revenues from shares	0	0
a)	Financial revenues from interests in group companies excluding associates		
b)	Financial revenues from interests in associates		
c)	Other financial revenues from interests (including financial revenues from revaluation)		
10.	Financial revenues from long-term receivables	0	884
a)	Financial revenues from long-term receivables due from group companies excluding associates		
b)	Financial revenues from long-term receivables due from associates		
c)	Other financial revenues from long-term receivables (including financial revenues from revaluation)		884
11.	Financial revenues from short-term receivables	95,080	64,303
a)	Financial revenues from short-term receivables due from group companies excluding associates		
b)	Financial revenues from short-term receivables due from associates		
c)	Other financial revenues from short-term receivables (including financial revenues from revaluation)	95,080	64,303
12.	Financial expenses for long-term and short-term investment write-offs	338	127
a)	Financial expenses for revaluation of investments in group companies excluding associates		
b)	Financial expenses for revaluation of investments in associates		
c)	Other financial expenses for revaluation	338	127
13.	Interest expenses and financial expenses for other liabilities	986,057	1,418,324
a)	Interest expenses and financial expenses for other liabilities to group companies excluding associates		
b)	Interest expenses and financial expenses for other liabilities to associates		
c)	Other interest expenses and financial expenses for liabilities	986,057	1,418,324
PROFIT FROM ORDINARY ACTIVITIES		67,318	-227,641
14.	Income tax from ordinary activities		
15.	NET PROFIT FROM ORDINARY ACTIVITIES	67,318	-227,641
16.	Extraordinary revenues	16,037	301,517
17.	Extraordinary expenses	567	833
a)	Extraordinary expenses less equity revaluation adjustment	567	833
b)	Extraordinary expenses for equity revaluation adjustment		
18.	PROFIT FROM EXTRAORDINARY ACTIVITIES	15,470	300,684
TOTAL OPERATING PROFIT		82,788	73,043

CASH FLOW STATEMENT (Format II)
January - December 2005

in 000 SIT

	ITEM	2005	2004
A.	CASH FLOWS FROM OPERATING ACTIVITIES		
a)	Inflows	44,735,963	22,967,025
	Operating revenues	45,039,635	23,108,136
	Extraordinary revenues associated with operations	16,037	301,517
	Opening less closing operating receivables	-308,059	-466,136
	Opening less closing deferred costs (expenses) and accrued revenues	-11,650	23,508
b)	Outflows	35,506,133	17,008,196
	Operating expenses excluding depreciation and long-term provisions	37,618,260	15,777,230
	Extraordinary expenses associated with operations	567	833
	Income tax and other taxes not included in operating expenses	0	0
	Closing less opening inventories	154,504	-211,763
	Opening less closing operating liabilities	-2,088,056	1,474,036
	Opening less closing accrued costs (expenses) and deferred revenues	-179,142	-32,140
c)	Net cash from operating activities	9,229,830	5,958,829
B.	CASH FLOWS FROM INVESTING ACTIVITIES		
a)	Inflows	92,912	134,992
	Financial revenues associated with investing activities (excluding revaluation)	77,769	50,620
	Extraordinary revenues associated with investing activities		
	Offset decrease in intangible fixed assets (excluding revaluation)		
	Offset decrease in tangible fixed assets (excluding revaluation)		
	Offset decrease in long-term investments (excluding revaluation)	14,615	84,337
	Offset decrease in short-term investments (excluding revaluation)	528	35
b)	Outflows	3,244,671	1,591,425
	Financial expenses associated with investing activities (excluding revaluation)	196	27
	Extraordinary expenses associated with investing activities		
	Offset increase in intangible fixed assets (excluding revaluation)	44,319	36,791
	Offset increase in tangible fixed assets (excluding revaluation)	3,200,156	1,554,607
	Offset increase in long-term investments (excluding revaluation)		
	Offset increase in short-term investments (excluding revaluation)		
c)	Net cash used in investing activities	-3,151,759	-1,456,433
C.	CASH FLOWS FROM FINANCING ACTIVITIES		
a)	Inflows	16,452	400,961
	Financial revenues associated with financing activities (excluding revaluation)	16,452	7,909
	Extraordinary revenues associated with financing activities		
	Increase in equity (excluding net profit)		
	Offset increase in long-term provisions (excluding revaluation)		
	Offset increase in long-term financial liabilities (excluding revaluation)		
	Offset increase in short-term financial liabilities (excluding revaluation)		393,052
b)	Outflows	6,086,488	4,903,085
	Financial expenses associated with financing activities (excluding revaluation)	973,693	1,152,372
	Extraordinary expenses associated with financing activities		
	Decrease in equity (excluding net loss for the period)	2,771	
	Offset decrease in long-term provisions (excluding revaluation)	220,796	229,569
	Offset decrease in long-term financial liabilities (excluding revaluation)	4,327,244	3,521,144
	Offset decrease in short-term financial liabilities (excluding revaluation)	561,984	
	Decrease in dividends payable		
c)	Net cash used in financing activities	-6,070,036	-4,502,124
D.	Cash and cash equivalents at end of period	8,707	672
x)	Net increase in cash and cash equivalents	8,035	272
+ y)	Cash and cash equivalents at beginning of period	672	400

STATEMENT OF CHANGES IN EQUITY for 2005

in 000 SIT

ITEMS		Called-up capital		Capital reserves	Revenue reserves				Net profit/loss from previous periods		Net profit/loss for the period		Equity revaluation adjustments		Total
		Share capital	Uncalled capital		Legal reserves	Reserves for own shares	Statutory reserves	Other revenues reserves	Net profit from previous periods	Net loss from previous periods	Net profit for the period	Net loss for the period	General equity revaluation adjustment	Specific equity revaluation adjustment	
A.	Opening balance	19,498,011								-2,385,846			30,312,903	2,771	47,427,839
B.	Transfers to equity														
a)	Subscription of called share capital														
b)	Subscription of uncalled share capital														
c)	Call-up of subscribed share capital														
d)	Entry of additional payments of equity														
e)	Entry of net profit or loss for the period										82,788				82,788
C.	Transfers within equity														0
a)	Distribution of net profit for 2005 as equity component based on a resolution of the Management									82,788	-82,788				0
b)	Transfer of net profit or loss from previous periods to the general equity revaluation adjustment									2,303,058			-2,303,058		0
D.	Transfers from equity														0
E.	Closing balance	19,498,011								0	0		28,009,845	2,771	47,510,627
	ACCUMULATED PROFIT														

STATEMENT OF CHANGES IN EQUITY for 2004

in 000 SIT

	ITEMS	Called-up capital		Capital reserves	Revenue reserves				Net profit/loss from		Net profit/loss for the period		Equity revaluation adjustments		Total
		Share capital	Uncalled capital		Legal reserves	Reserves for own shares	Statutory reserves	Other revenues reserves	Net profit from previous periods	Net loss from previous periods	Net profit for the period	Net loss for the period	General equity revaluation adjustment	Specific equity revaluation adjustment	
A.	Opening balance	19,498,011								-2,458,889			30,312,903	2,771	47,354,796
B.	Transfers to equity														
a)	Subscription of called share capital														
b)	Subscription of uncalled share capital														
c)	Call-up of subscribed share capital														
d)	Entry of additional payments of equity														
e)	Entry of net profit or loss for the period										73,043				73,043
C.	Transfers within equity														
a)	Distribution of net profit for 2005 as equity component based on a resolution of the Management									73,043	-73,043				
D.	Transfers from equity														
E.	Closing balance	19,498,011								-2,385,846	0	0	30,312,903	2,771	47,427,839
	ACCUMULATED PROFIT									-2,385,846					-2,385,846

6.4 Disclosure and valuation of items in the financial statements and notes thereto

6.4.1 Balance sheet

6.4.1.1 Intangible fixed assets

Accounting policies:

Intangible fixed assets include investments in concessions, patents, licences, trademarks, and similar rights and assets.

Upon initial recognition intangible fixed assets are valued at their historical cost, which is inclusive of import and other non-refundable duties and costs, as well as interest from loans, raised for acquisition of intangible fixed assets, up till the date when the asset is ready for use. As for the Note 1 to SAS 2 'Emission coupons' issued by the Professional Council of the Slovenian Institute of Auditors, the emission coupons are valued by applying the formula '1 tolar for 1 coupon'.

Intangible fixed assets are amortised by the use of the straight-line method of amortisation (single-asset amortisation) taking into account the useful life of an item of intangible fixed asset. The useful life of more significant groups of intangible fixed assets ranges from 2 to 5 years.

Revaluation of intangible fixed assets is a process of recognising adjustment to their carrying amounts. It appears as revaluation due to impairment. The recoverable amount is the value of the asset in use. Intangible fixed assets should not be revalued due to their strengthening.

Notes:

Intangible fixed assets 74,459 thousand SIT

in thousand SIT	2005	2004	Index
Licences and other software	61,063	44,938	136
Emmssion coupons	13,396		
Total	74,459	44,938	166

Most part of additions refers to the acquisition of new software and services relating to the upgrading of the Maximo information system amounting to 28,386 thousand SIT.
Based upon the Environment Protection Act and the Ordinance on the national plan for the allocation of emission coupons for 2005-2007, the Company received 13,395,813 emission coupons.

Movement of intangible fixed assets

PURCHASE COST	Balance at 1 Jan	Increase	Disposal	Transfer	Impairment	Balance at 31 Dec
Licences and other software	48,217	30,923				79,140
Emission coupons		13,396				13,396
Total	48,217	44,319				92,536

ACCUMULATED AMORTISATION	Balance at 1 Jan	Amortisation	Increase	Disposal/Transfer/Impairment	Balance at 31 Dec	CARRYING AMOUNT AT	CARRYING AMOUNT AT
Licences and other software	3,279	14,798			18,077	61,063	44,938
Emission coupons						13,396	
Total	3,279	14,798			18,077	74,459	44,938

6.4.1.2 Tangible fixed assets

Accounting policies:

Tangible fixed assets are land, buildings, plant and equipment, as well as other equipment and fixed assets being acquired. Low-value assets, the useful life of which exceeds one year, are also considered tangible fixed assets that were made ready for use.

A tangible asset is initially evaluated at cost of purchase, which includes its purchase price, and purchase costs that might be attributed to bringing the asset to working condition for its intended use, particularly the costs of transport and installation. Cost of purchase includes also interest from loans raised for the acquisition of the tangible fixed asset, up till the date when the assets was activated for its intended use. It is decreased by discounts received.

Subsequent expenditure on an item of tangible fixed assets

Subsequent expenditure on an item of tangible fixed assets increases its cost when it increases its future economic benefits in excess of the originally assessed future economic benefits. The subsequent expenditure enabling extension of the useful life of the asset initially reduces the accumulated depreciation.

Expenditure on repair or maintenance of tangible fixed assets is made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset. As such, it is recognised as an expense when incurred.

Amortisation / Depreciation

The carrying amount of an item of tangible fixed assets and intangible fixed assets is reduced through depreciation or amortisation, respectively. The depreciation of an item of tangible fixed assets begins on the first day of the month following the beginning of the activity for which it is intended. Spare parts of higher value are treated as tangible fixed assets that are subject to depreciation irrespective of the date when their use started.

The straight-line method of depreciation is applied. Depreciation of tangible fixed assets is accounted for individually. Land is not subject to depreciation.

In 2002 the depreciation rates applied with tangible fixed assets based upon a valuation of fixed assets, carried out in 2001 and adapted to the expected useful life of an individual production unit. Consequently, the depreciation rates of individual building and equipment differ in respect of the expected useful life for individual fixed assets.

Rates of amortisation/depreciation applied:

Name	Amortisation/Depreciation of real property	Amortisation/Depreciation of manufacturing plan
UNIT 1	1.57 - 7.78%	2 - 3.6%
UNIT 2	1.57 - 7.78%	2 - 6%
UNIT 3	1.57 - 7.78%	0.7 - 6.8%
UNIT 4	0.97 - 3.76%	0.9 - 16.9%

Equipment purchased in 2005 is amortised using rates ranging from 6.7% to 33.33%, irrespective of the expected useful life.

Notes:

Tangible fixed assets 63,965,245 thousand SIT

in thousand SIT	2005	2004	Index
Land	540,887	540,887	100
Buildings	10,686,502	11,624,770	92
Manufacturing plant and equipment	50,271,714	53,439,203	94
Other plant and equipment	735,275	732,689	100
Advances for tangible fixed assets	1,303,940	211,477	617
Tangible fixed assets under in course of construction	426,927	463,659	92
Total	63,965,245	67,012,685	95

Movement of tangible fixed assets

PURCHASE COST	Baalance at 1 Jan	Increase	Disposal	Transfer	Streng-thening	Impair-ment	Balance at 31 Dec
Land	540,887						540,887
Buildings	50,802,468		-1,424	1,290			50,802,334
Manufacturing plant and equipment	231,285,311	88,580	-3,293,476	1,970,776			230,051,191
Other plant and equipment	1,962,660	185,420	-40,989	-3,652			2,103,439
Tangible fixed assets in course of construction	463,659	2,065,326		-2,102,058			426,927
TOTAL	285,054,985	2,339,326	-3,335,889	-133,644			283,924,778

ACCUMULATED DEPRECIATION	Balance at 1 Jan	Depreciation	Disposal	Transfer	Strengtheni ng/Impapir	Balance at 31 Dec	CARRYING AMOUNT AT	CARRYING AMOUNT AT
Land						-	540,887	540,887
Buildings	39,177,698	1,016,024	-32	-77,858		40,115,832	10,686,502	11,624,770
Manufacturing plant and equipment	177,846,108	4,730,845	-2,741,331	-56,145		179,779,477	50,271,714	53,439,203
Other plant and equipment	1,229,971	174,014	-36,180	359		1,368,164	735,275	732,689
Tangible fixed assets in course of construction						-	426,927	463,659
TOTAL	218,253,777	5,920,883	-2,777,543	-133,644		221,263,473	62,661,305	66,801,208

Land 540,887 TSIT

The book value of land has not changed.

Buildings 10,686,502 thousand SIT

Increase in the buildings' value refers to investments made in production's reliability. Capitalisations resulted in an increase of purchase costs by 1,290 thousand SIT, as well as in a decrease of accumulated depreciation by 77,858 thousand SIT.

Manufacturing plant and other equipment 51,006,989 thousand SIT

The value of manufacturing plant and other equipment increased on the basis of new acquisitions as well as capitalisations made in order to improve reliability. Capitalisations had an impact on the increase of purchase cost by 1,967,124 thousand SIT, and a decrease of the accumulated depreciation by 55,786 thousand SIT.

Manufacturing plant and other equipment considered ruined and of no practical value were written off, thus causing a decrease in their value.

Advances for tangible fixed assets 1,303,940 thousand SIT

Advances for tangible fixed assets refer to advances to suppliers made in connection with the construction of the combined gas system on the generating unit 5 (1,233,052 thousand SIT), investments in production generating units (68,202 thousand SIT), and other advances amounting to 2,686 thousand SIT.

Tangible fixed assets in course of construction 426,927 thousand SIT

Most of tangible fixed assets in course of construction represent investments made in generating unit 4 (ensuring production of electricity) for achieving the same equivalent availability and safe operations as in previous years. In the reporting period the Company's planned investments in the production's reliability were realised in the amount of 1,784,826 thousand SIT, while the amount 30,185 thousand SIT refers to plans from previous years.

Movement of tangible fixed assets in course of construction

in thousand SIT	Balance as at 31 December	Increase	Decrease	Balance as at 1 January
Combined gas system for block 5 and PKS 5/gas	250,600	153,223		97,377
Investments in the production's reliability	35,558	1,815,011	-2,102,058	322,605
Investment related documentation	118,434	74,757		43,677
Investments in unit 6	22,335	22,335		-
TOTAL	426,927	2,065,326	-2,102,058	463,659

Investments hereof were financed on the basis of internal sources of financing. In 2005, projects from previous year as well as the current year were capitalised in the amount of 2,102,058 thousand SIT. Most of the capitalised projects increased the value of manufacturing plant and equipment. The total value of unfinished projects is recorded at 426,927 thousand SIT.

6.4.1.3 Investments

Accounting policies:

Investments represent assets, held by the company for the purpose of increasing its financial revenues over a longer or shorter period of time through the return from the investments.

Investments are initially recognised at the purchasing costs, which are either the value of the cash payment or of its equivalents, or at the fair value of the consideration given by the investor at the date of exchange plus the costs directly associated with the investment.

Revaluation of investments is a process of recognising an adjustment to their carrying amount. It usually appears as the revaluation of long-term investments due to their strengthening, their impairment or derecognition of their impairment. Impairment is possible if there is reliable market data that enable the increase of the book value. Investments expressed in a foreign currency are translated at the middle exchange rate of the Bank of Slovenia on the balance sheet date.

A portion of long-term investments maturing within one year from the balance sheet date are recorded under short-term investments.

Notes:

Long-term investments 94,637 thousand SIT

Movement of long-term investments

in thousand SIT	Balance as at 31 Dec	Decrease or transfer to short-term portion	Revaluation	Balance 1 Jan
Other long-term investments in equity	14,259			14,259
Long-term loans granted	43,442	-14,756	-96	58,294
Other	36,936			36,936
TOTAL	94,637	-14,756	-96	109,489

The Company is the co-founder of the Environmental Research & Industrial Cooperation »ERICo« Velenje. The Cooperation is engaged mainly in the scientific-research activity. The Company holds a 30-percent share in the Cooperation, which is valued by using the cost method.
Long-term loans granted in the amount of 43,442 thousand SIT refer mostly to housing loans based on provisions of the Housing Act (Official Journal of RS no. 18/91). They are revalued as forecasted contract between creditor and debtor in compliance with the growth of position for estimating the apartment's value.

Other long-term invested assets in the amount of 36,936 thousand SIT refer to assets invested in rest-homes (Krvavec, Rab, Portorož).

The fair value of long-term investments equals the book value that is recorded in the balance sheet. As of the balance sheet date, the investments are recorded as undue. We estimate the investments as not risky.

Short-term investments 12,958 thousand SIT

in thousand SIT	2005	2004	Index
Interest	340	366	93
Short-term portion of long-term loans	12,618	13,120	96
TOTAL	12,958	13,486	96

6.4.1.4 Inventories

Accounting policies:

Inventories of materials comprise quantities held in store, in the process of completion and modification, in transit from a supplier, if previously accepted by the buyer.

An item of inventories of materials is initially recognised at cost comprising its purchase price, any import duties and non-refundable purchase taxes, and directly attributable costs of acquisition. A portion of inventories represent also advances for inventories.

As for the valuation of inventories of material, low-value assets and recording of costs and expenses, the Company applies the method of weighted average prices. As at the year-end, inventories are not adjusted as if during the year the FIFO-method would have been applied. The Company applies the FIFO-method solely for the valuation of coal's use, since the coal that was bought first is also used first. The Company does not disclose inventories of coal.

Inventories of material and low-value assets are not subject to revaluation due to their strengthening.

Notes:

Inventories 2,395,278 thousand SIT

in thousand SIT	2005	2004	Index
Material	2,357,034	2,149,445	110
Low-value assets and packaging	38,236	42,105	91
Advances for inventories	8	49,224	
Total	2,395,278	2,240,774	107

Most of inventories of material refer to spare parts (1,670,536 thousand SIT) and maintenance material (571,998 thousand SIT) required to eliminate problems occurring in the manufacturing plant and equipment and thus ensuring operations.

During inventory-taking the Company established inventory surplus in the amount of 5,236 thousand SIT and inventory deficit amounting to 2,625 thousand SIT. Due to the change of quality of stock material, the Company has written off material in the amount of 8,427 thousand SIT in 2005.

The book value of inventories does not exceed the net realisable value.

6.4.1.5 Operating receivables

Accounting policies:

Operating receivables include trade receivables (users of electricity and thermal energy) and other receivables relating to operating revenues.

Receivables of all categories are initially recognised at amounts recorded in the relevant documents under the assumption that they will be collected (invoices, debit notes, contracts). Original receivables may subsequently be increased or reduced by any contractually justified amount, irrespective of received payment or another form of collection. Receivables expressed in a foreign currency are translated at the middle exchange rate of the Bank of Slovenia on the balance sheet date.

Advances are disclosed in the balance sheet in respect of items, which they refer to..

Receivables believed not to be settled by their due date or in their full amount should be disclosed as doubtful receivables and, in the event of litigation, as disputable receivables

Notes:

Operating receivables 6,432,073 thousand SIT

in thousand SIT	2005	2004	Index
Long-term receivables due from other entities	25,006	24,932	100
Long-term operating receivables due from group companies	310	-	
Short-term trade receivables	383,173	64,742	592
Short-term operating receivables due from group companies	5,689,787	5,932,803	96
Short-term operating receivables due from other entities	343,750	110,702	311
Allowances for receivables	-9,953	-6,327	157
Total	6,432,073	6,126,852	105

As of the balance sheet date, the fair value of operating receivables equalled their book value.

Operating receivables in terms of maturity

a) Long-term operating receivables

in thousand SIT	amount of receiva	till 3 years	m 3 to 5 years	over 5 years
Long-term operating receivables due from other entities	25,006	3,094		21,912
Long-term operating receivables due from group companies	310	310		

Long-term operating receivables are not secured and not due. The major part refers to long-term advance in the amount of 21,913 thousand SIT made for a 10-year compensation according to a contract concluded with the parish of St. Martin (Župnija Sv.Martina) in Velenje.

b) Short-term operating receivables

in thousand SIT	amount of receiva	undue	maturity of up to 3 months	maturity from 3 to 6 months	maturity from 6 to 9 months	maturity over 9 months
Short-term trade receivables	383,173	368,584	2,800	2,927	6,466	2,396
Short-term operating receivables due from companies of the HSE Group	5,680,802	5,680,802				
Short-term operating receivables due from group companies - other	8,985	7,860	1,125			
Short-term operating receivables due from other entities	343,750	343,750				

Major part of receivables due from group companies refers to Holding Slovenske elektrarne d.o.o. in connection with the sale of electricity; they are secured with a blank bill. Receivables are settled within deadlines or with minimum delays.

Other receivables are not required to be secured due to their specific nature.

Movement of allowances for receivables

in thousand SIT	as at 31 Dec	Utilisation	Formation	as at 1 Jan
Short-term trade receivables	9,953	1,114	4,740	6,327

Receivables not settled within 90 days after their maturity are considered doubtful, whereas also individual assessment of each receivable is taken into account.

6.4.1.6 Cash in bank, cheques and cash in hand

Accounting policies:

Cash includes cash in hand, deposits (up till 3 months) and cash in transit.

The carrying amount of an item of cash is the same as its initial nominal value until the need for its revaluation arises. Cash denominated in foreign currency is translated into domestic currency at the middle exchange rate on the date of receipt. Cash denominated in foreign currency in the balance sheet is translated at the middle exchange rate of the Bank of Slovenia as at the balance sheet date.

Notes:

Cash 8,707 thousand SIT

in thousand SIT	2005	2004
Cash in hand (Tolar)	152	88
Cash in bank	6,360	551
Bank accounts (foreign currency)	2,195	33
Total	8,707	672

6.4.1.7 Deferred costs (expenses) and accrued revenues

Accounting policies:

As of the balance sheet date the item of deferred costs (expenses) and accrued revenues includes short-term deferred costs. Short-term deferred costs and expenses are reasonable and base on relevant documents. Should the real items subsequently change the actual costs or regular expenses are modified by the amount of the difference.

Notes:

Short-term deferred costs (expense) and accrued revenues 15,906 thousand SIT

in thousand SIT	2005	2004
Short-term deferred costs (expenses) and accrued revenues	15,906	4,256

Short-term deferred costs in the amount of 15,906 thousand SIT refer to services charged but no t yet rendered in 2005.

6.4.1.8 Off balance sheet assets

Notes:

Off balance sheet assets 67,087,908 thousand SIT

in thousand SIT	2005	2004	Index
Off balance sheet assets	67,087,908	57,856,889	116

The item of off balance sheet assets comprises guarantees, assignments of claim, indemnities and other liabilities, liabilities to shareholders, receivables in connection with unutilised tax loss from previous periods, receivables due from employees referring to low-value assets, tools, means of protection and other.

The increase in off balance sheet assets represents the Company's liability due to the bank (guarantee issued in the local currency and referring to the contract on supplying the main equipment for the gas turbo-aggregates

6.4.1.9 Equity

Accounting policies:

Liabilities to owners are considered total equity of a company. It is defined by the amounts invested by owners and the amounts generated during operation.

Notes:

Equity 47,510,627 thousand SIT

The share capital of the Company is defined in the latter's Articles of Association and recorded in the register of companies. It was paid in by the Company's owners. Share capital is held in the local currency. The owners of share capital are entitled to all other components of total equity in proportion with their interests in the share capital.

Total equity consists of share capital, general equity revaluation adjustment and specific equity revaluation adjustment.

The Company's share capital amounts to 19,498,011 thousand SIT and equals the subscribed capital.

The net loss for 2004 amounted to 2,385,846 thousand SIT. The net profit for the period in the amount of 82,788 thousand SIT was used for covering part of the net loss from previous periods. The Company's Management adopted a resolution based on which the remaining part of the loss from previous periods amounting to 2,303,058 thousand SIT was to be covered by the general equity revaluation adjustment.

The general equity revaluation adjustment amounted to 28,009,845 thousand SIT and decreased in the reporting period due to the aforesaid coverage of loss from previous periods in the amount of 2,303,058 thousand SIT.

Specific equity revaluation adjustment amounted to 2,771 thousand SIT and refers to land.

The movement within the equity structure is presented in the Statement of Changes in Equity.

6.4.1.10 Long-term provisions

Accounting policies:

Long-term provisions are formed on the basis of assets acquired free of charge for investments in Company's fixed assets. Provisions are used for the credit of operating revenues in compliance with the accounted depreciation.

The book value of long-term provisions equals their historical value, decreased by amounts used until the need for their increase or decrease arises.

Notes:

Long-term provisions 2,512,262 thousand SIT

in thousand SIT	Assets	Balance as at 31 Dec	Increase	Decrease	Balance as at 1 Jan
ODP unit 4	State budget	930,975		-93,099	1,024,074
	EKO fund	968,974		-96,898	1,065,872
RDP unit 5	State budget	521,959		-32,623	554,582
Managing system of unit 4	Accrual of revenues of 1994	81,581		-6,949	88,530
Emission coupons		8,773	13,396	-4,623	-
Total		2,512,262	13,396	-234,192	2,733,058

In 2005, long-term provisions recorded a decrease by 234,192 thousand SIT to the credit of operating revenues. They were utilised in the amount of depreciation of tangible fixed assets for 2005.

Long-term provisions include also emission coupons that the Company received from the government.

6.4.1.11 Liabilities (Debts)

Accounting policies:

Liabilities are divided into financial and operating, as well as short-term and long-term liabilities.

Initially long-term and short-term liabilities of all categories are carried at amounts recorded in the relevant documents, assuming that the creditors demand their payment. At a later stage initially short-term liabilities may be directly increased (interest, other payables) by the amount determined in agreement with the creditor. Liabilities may also be decreased on the basis of payments or settlement by the amount agreed with the creditor. Long-term liabilities are decreased also by amounts that are to be paid within one year and which are recorded under short-term liabilities.

Liabilities should not be revalued as the result of a change of the purchasing power of the national currency, apart from the long-term liabilities (debts) expressed in a foreign currency and the exchange rate has fluctuated following their initial recognition, and apart from those expressed in the national currency for which the two parties agreed that revaluation adjustments should be made with the view of maintaining their real value. Liabilities denominated in foreign currencies are translated into the expressions of the local currency at the middle exchange rate of Bank of Slovenia effective on the balance sheet date.

Notes:

Long-term financial liabilities 12,307,462 thousand SIT

in thousand SIT	2005	2004	Index
Long-term loans from domestic banks	4,121,005	6,424,434	64
Long-term loans from other entities	7,576	17,970	42
Long-term loans from foreign banks	8,178,881	10,181,647	80
TOTAL	12,307,462	16,624,051	74

Major part of long-term loans (i.e. 81.2%) is denominated in EUR, whereas 18.7% is recorded in the local currency and 0.1% in USD. In the reporting period, loans bore interest rates ranging from 2.41% to 7.47%.

Long-term financial liabilities in terms of maturity

in thousand SIT	2005
Maturity from 1 to 3 years	9,050,472
Maturity from 3 to 5 years	1,861,157
Maturity of over 5 years	1,395,832

Movement of long-term financial liabilities

in thousand SIT	Balance as at 1 Jan	Repayment of principal	Revaluation	Balance 31 Dec 2005 Total	Short-term portion	Long-term portion
Long-term loans from foreign banks	12,178,698	1,996,127	-8,033	10,174,538	1,995,657	8,178,881
Long-term from domestic banks	9,289,187	2,864,397	47	6,424,837	2,303,833	4,121,005
Long-term loans from other entities	27,980	10,287	222	17,915	10,340	7,576
TOTAL	21,495,865	4,870,811	-7,764	16,617,290	4,309,830	12,307,462

In 2005, repayment of the principal and interest was conducted within maturity dates and according to depreciation plans.

Portion of long-term financial liabilities amounting to 4,309,830 thousand SIT that is due for payment in 2006 is recorded among short-term financial liabilities.

Short-term financial liabilities 4,309,830 thousand SIT

in thousand SIT	2005	2004	Index
Short-term portion of long-term loans from domestic banks	2,303,833	2,864,753	80
Short-term portion of long-term loans from foreign banks	1,995,657	1,997,051	100
Short-term portion of long-term loans from other entities	10,340	10,010	103
TOTAL	4,309,830	4,871,814	88

Short-term financial liabilities are short-term portions of long-term loans or principals that mature in 2006 pursuant to loan contracts.

Insurance of financial liabilities

in thousand SIT	2005	2004
Guarantees by the state	12,111,628	15,604,264
Assignment and pledge of receivables	4,487,747	5,863,621
Bills	17,915	27,980
TOTAL	16,617,290	21,495,865

As of the balance sheet date 72.9% of Company's financial liabilities are secured by state guarantees, 27% are secured by assignment or pledge of receivables, and 0.1% of liabilities are secured by bills.

Long-term operating liabilities 11,345 thousand SIT

in thousand SIT	2005	2004	Index
Long-term operating liabilities	11,345	15,009	76

Long-term operating liabilities in the amount of 11,345 thousand SIT refer to the Stanovanjski in Odškodninski sklad Republike Slovenije (Housing Fund of the Republic of Slovenia) and the sold apartments in compliance with the Housing Act (Official Journal of the RS no. 18/91). Liabilities are

revalued in order to maintain their real value in compliance with the growth of position for estimating the apartment's value.

Short-term operating liabilities 6,115,594 thousand SIT

in thousand SIT	2005	2004	Index
Short-term liabilities to group companies	2,913,356	607,428	480
Short-term payables to suppliers	2,606,668	2,182,313	119
Short-term payables to employees	220,572	222,178	99
Short-term liabilities to the state and other institutions	235,920	604,210	39
Other liabilities	139,078	212,250	66
TOTAL	6,115,594	3,828,379	160

Most part of short-term liabilities to group companies represents Premogovnik Velenje d.d. for the purchase of fuel for the production of electricity and thermal energy in the amount of 2,904,212 thousand SIT.

The Company settles all liabilities within set deadlines, thus no overdue liabilities are recorded.

6.4.1.12 Accrued costs (expenses) and deferred revenues

Accounting policies:

As of the balance sheet date the item of accrued costs (expenses) and deferred revenues comprises accrued costs or expenses that ground on relevant documents and are defined or estimated on the actual level of these costs. If the real items subsequently change, the costs incurred or the regular expenses are increased by the amount of the difference.

Notes:

Accrued costs (expenses) and deferred revenues 232,143 thousand SIT

in thousand SIT	2005	2004	Index
Accrued costs or expenses	232,143	52,535	442
Deferred revenues	-	466	-
TOTAL	232,143	53,001	438

6.4.2 Income statement

6.4.2.1 Revenues

Accounting policies:

Revenues are recognised if increases in economic benefits during the accounting period are associated with increases in assets or decreases in liabilities, and the increases can be measured reliably. Revenues are recognised when it is probable that cash receipts will flow from it, unless they were achieved on origin.

Operating revenues

Most of operating revenues are generated through the production and the sale of electricity and thermal energy. Operating revenues are recognised upon the sale of products and measured on the basis of selling prices, indicated in invoices or other documents.
Other operating revenues refer to the utilisation of long-term provisions for fixed assets, and to operating revenues from revaluation.

Financial revenues:

Financial revenues represent revenues from investments and appear in connection with short-term and long-term investments, as well as in connection with receivables. Financial revenues are recognised when charged, irrespective of receipts, provided there is no significant uncertainty as to their amount, maturity and collectability.
Interest is recognised in proportion to the period elapsed, as well as with reference to the outstanding principal and the valid interest rate
Financial revenues from revaluation are recorded in the case of disposal of long-term and short-term investments, taking account also of the previous equity revaluation adjustment, resulting from the strengthening of investments.

Extraordinary revenues:

Extraordinary revenues comprise extraordinary items. They are recorded at actual amounts.

Notes:

Net sales 45,183,759 thousand SIT

in thousand SIT	2005	2004	Index
Operating revenues	45,072,642	23,108,658	195
- domestic market	45,061,049	23,106,139	195
- foreign market	11,593	2,519	460
Financial revenues	95,080	65,187	146
Extraordinary revenues	16,037	301,517	5
TOTAL	45,183,759	23,475,362	192

Most of the operating revenues referring to the domestic market were generated with the sale of electricity and thermal energy. In 2005 revenues from the sale of electricity and thermal energy have increased by 99% and cannot be compared to revenues made in the previous financial year. This increase is a result of modified sale-and-purchase relations in the reporting period, when the cost of coal became the component part of the selling price of produced and sold thermal energy.

6.4.2.2 Expenses

Accounting policies:

Expenses are recognised if during the accounting period the decrease in economic benefits is related to the decrease of asset or to the increase of liability and if the relevant decrease can be measured without fail.

Operating expenses:

- Cost of goods, materials and services

Cost of material refers to consumables. The amount of this cost (expenses) equals the purchase price increased by import duties and non-refundable purchase taxes, as well as directly attributable costs of acquisition. The amount of cost (expenses) of materials used or cost of goods and materials is influenced also by inventory differences established with inventories of material, and by discounts at the purchase price.
Cost of services represents expenses not defined either as cost of materials, depreciation, wages and contributions or financing cost.

- Labour cost

Labour cost comprise gross wages and salaries, contributions from gross wages and salaries, social security costs and other labour costs (remunerations, meals allowance, commuting expenses, etc.) that the Company accounts for in compliance with the legislation, the collective agreement and other internal acts.

- Other operating expenses

Other operating expenses include expenses that are not comprehended by either of the two aforesaid categories.

Operating expenses from revaluation are recognised at the time of revaluation, irrespective of their effect upon the operating result.
Operating expenses from revaluation arise in connection with the impairment of tangible fixed assets, intangible fixed assets, and current assets.

Financial expenses:

Financial expenses represent expenses for financing and investment. Financial expenses are recognised when charged, irrespective of payments.
Financial expenses from revaluation arise in connection with impairment of long-term and short-term investments and strengthening of long-term and short-term liabilities.

Extraordinary expenses:

Extraordinary expenses comprise extraordinary items. They are recorded at actual amounts.
Extraordinary expenses comprise also the revaluation adjustment of the operating profit, which in accordance with the requirement for capital maintenance, maintains the purchasing power of capital, measured in euros.

Notes:

Expenses 45,100,971 thousand SIT

in thousand SIT	2005	2004	Index
Operating expenses	44,114,009	21,983,035	201
- cost of materials and services	33,137,040	11,326,099	293
- labour cost	3,749,376	3,551,377	106
- amortisation and depreciation expense	6,497,324	6,207,369	105
- other	730,269	898,190	81
Financial expenses	986,395	1,418,451	70
Extraordinary expenses	567	833	68
TOTAL	45,100,971	23,402,319	193

In 2005, 58.6% of operating expenses refer to the purchase of coal and related dependent costs and expenses.

6.4.3 Cash flow statement

The cash flow statement reveals changes in balances of cash and cash equivalents over the financial year.

The cash flow statement has been prepared by applying the sequential report form. Data in the cash flow statement is obtained from the balance sheets for the current and previous year and the income statement for the current period. In order for the inflows to be as close as possible to receipts, and outflows as close as possible to expenses, additional eliminations were made in the cash flow statement.

As for the operating activity, the Company generated inflows for keeping up operations, repaying loans and for making new investments. The cash flow statement for 2005 reveals that the operating activity generated 9,229,830 thousand SIT of inflows that were used for investments in the amount of 3,151,759 thousand SIT and financing in the amount of 6,070,036 thousand SIT.

6.4.4 Statement of changes in equity

Statement of changes in equity has been prepared by applying the Format II, where a composite table shows changes of all components of equity.

The statement of changes in equity comprehends:

-	balance of equity as at 31 Dec 2004	47,427,839 thousand SIT
-	transfers to equity	entry of net profit for the financial year in the amount of 82,788 thousand SIT;
-	transfers within equity	distribution of net profit pursuant to provisions of the Companies Act and transfer of unsettled losses from previous periods against general equity revaluation adjustment;
-	balance of equity as at 31 Dec 2005	47,510,627 thousand SIT.

6.4.5 Other disclosures

6.4.5.1 Itemisation in terms of functional groups

Costs in terms of function

in thousand SIT	2005	2004	Index
Production cost of goods sold	41,211,095	19,635,655	210
General and administrative costs	2,335,782	2,146,649	109
Selling costs	5,489	117,495	5
TOTAL COSTS	43,552,366	21,899,799	199
Financial and other expenses	1,548,605	1,502,520	103
TOTAL	45,100,971	23,402,319	193

In accordance with SAS 25.25, Company's costs are classified by individual functional groups i.e. Format I.

6.4.5.2 Taxes

TEŠ is subject to taxation under Added Value Tax Act and the Corporate Income tax Act.

In compliance with the Corporate Income Tax Act, the Company has prepared the statement for settling the corporate income tax for the period from 1 January 2005 to 31 December 2005 and established that the Company is not subject to corporate income tax payment as it utilised tax losses from previous periods.

The Company still records unutilised tax losses from previous periods. As for observing the principle of prudence, the Company's financial statements for 2005 do not disclose deferred tax assets.

6.4.5.3 Data on groups of persons

Data related to the Management, the Supervisory Board and employees under individual contracts of employment

Remuneration

in thousand SIT		2005	2004
Management		17,664	17,127
Employees under individual contracts of employment		114,113	101,957
Members of the Supervisory Board		1,867	2,146

Remuneration of Management Board and other employees with individual contracts of employment include:

- gross remunerations contained in the notice for income tax returns,

- other fees paid,
- premiums paid for additional pension insurance.

Remuneration of Supervisory Board members refers to attendance fees (gross) and travel expenses.

Loans and advances granted

in thousand SIT	Interest rate	Repayment date	2005	2004
Employees with individual contracts of employment	Value of position for estimating the apartment's value	2020	7,334	7,902

6.4.5.4 Balance sheet in terms of business segments

in 000 SIT

	Total	Electricity production	Steam and hot water supply	Factory cantee	Public services
TOTAL ASSETS	72,999,263	71,824,340	724,515	113,754	336,654
Fixed assets	64,134,341	63,373,249	347,200	108,624	305,268
Current assets	8,849,016	8,435,185	377,315	5,130	31,386
Deferred costs (expenses) and accrue	15,906	15,906			
TOTAL LIABILITIES	72,999,263	71,581,455	860,241	140,609	416,958
Equity	47,510,627	46,408,685	596,633	110,607	394,702
Long-term provisions	2,512,262	2,512,262			
Long-term liabilities	12,318,807	12,307,462			11,345
Short-term liabilities	10,425,424	10,120,903	263,608	30,002	10,911
Accrued costs (expenses) and deferre	232,143	232,143			
RECEIVABLES/LIABILITIES - BUSINE	0	242,885	(135,726)	(26,855)	(80,304)

6.4.5.5 Income statement in terms of business segments

in 000 SIT

	Total	Electricity production	Steam and hot water supply	Factory cantee	Public services
TOTAL REVENUES	45,368,353	43,968,342	1,095,683	251,615	52,713
Cost of materials	28,707,781	27,679,665	886,689	140,991	436
Cost of services	4,429,259	4,361,603	38,632	7,075	21,949
Labour cost	3,749,376	3,595,833	69,634	83,120	789
Amortisation and depreciation expense	6,497,324	6,407,574	57,850	15,686	16,214
Other operating expenses	730,269	711,509	17,763	189	808
Financial expenses	986,395	986,056			339
Extraordinary expenses, cost of intragroup services	185,161	183,600	1,297	264	
TOTAL EXPENSES	45,285,565	43,925,840	1,071,865	247,325	40,535
PROFIT LOR LOSS	82,788	42,502	23,818	4,290	12,178

Comment: Revenues and expenses within the income statement (prepared in terms of business segments) comprehend also costs of intragroup services.