



# ANNUAL REPORT 2006

Šoštanj, February 2007



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## 1 LETTER FROM THE CEO

Dear Investor,

The trend of sound business performance posted in the previous years continued in 2006, which was reflected in both higher profits and bigger output.

All this is the product of conscientious efforts of our entire workforce as all of us are becoming increasingly aware that in a power plant such as Termoelektrarna Šoštanj positive results in terms of business operation and power generation cannot be sustained without the ongoing optimisation and rationalisation of processes involved in the output of the required volumes at the requisite level of quality.

For many years we have been striving to maintain and justify our position and role of the largest power generation facility in Slovenia, supplying customers with reliable, safe and environmentally friendly heat and power at competitive prices.

We are successfully implementing the set development strategy since we are mindful of the fact that development is the key to our continuous sound performance, enabling us to keep the competition at bay.

The augmentation of Unit 5 with gas turbines is unfolding on schedule. We have also outlined a detailed plan for ensuring our future – Unit 6 – and I am confident that this project too will be implemented as it should be – successfully!

I am proud of our entire team, which has been performing exceedingly well, and I firmly believe that this will continue into the future.

Dr. Uroš Rotnik  
CEO



## 2 SUPERVISORY BOARD'S REPORT

In accordance with the provisions of Article 13 of the Articles of Incorporation of Proprietary Limited Company Termoelektrarna Šoštanj d.o.o., the Supervisory Board has provided the sole shareholder of the company, Holding Slovenske elektrarne d.o.o., with a written report on the findings in relation to the review of the 2006 Annual Report carried out by the Supervisory Board for the company owner, as follows.

### 1. Monitoring of company business operations in the 2006 financial year

In the 2006 financial year the Supervisory Board comprised the following members:

- Ivan ATELŠEK – Chairman
- Franc ROSEC – Deputy Chairman, Employee Representative
- Franc SEVER.

During that time, the company was represented and managed by CEO Dr. Uroš ROTNIK.

In the year under consideration the Supervisory Board monitored and supervised the management of business operations of the company by way of 10 regular meetings and 5 correspondence sessions.

In the course of its work, the Supervisory Board discussed the following key issues:

#### 1.1. Corporate Business Plan for 2006

The corporate business plan for 2006 was discussed and adopted by the Supervisory Board at its 6th regular meeting on 22 December 2005. At its 13th regular meeting held on 26 October 2006, however, the Supervisory Board approved the revised business plan as a result of the changes to the Slovenian accounting standards, planned additional capitalisation, business performance review and the subsequently expected correction of the sales agreement with HSE d.o.o..

#### 1.2. Investment

In 2006 the attention of the Supervisory Board was particularly focused on the proposed investments, assessing their viability and alignment with the corporate development plan, especially as regards Unit 6 and the augmentation with gas turbines. The investment activity report was a regular item on the agenda of every Supervisory Board meeting. As part of that discussion the Supervisory Board received the report by the review commission on the development of the final investment plan for the 600 MW unit, and approved the decision adopted by the commission appointed to review the Unit 6 investment plan on 20 April 2006, effectively approving the amended investment plan for Unit 6 ("Revision 1"), and backed up the CEO's decision to approve the investment in line with the amended investment plan. The Supervisory Board also gave its consent to the content and form of the decision adopted by the CEO in relation to the tender documents, procedure and publication, as well the proposed timeframes of contract award procedures for the supply of core technological equipment for Unit 6. In relation to the preliminary works for the construction of Unit 6 the Supervisory Board discussed the spatial planning issues and gave its consent for the acquisition of required real estate. As part of the implementation of the project *Augmentation of Units 4 and 5 with Gas Turbines* the Supervisory Board gave its consent for the contract being awarded for the supply of two utilizers, and also gave its approval for a long-term agreement being signed with Geoplin d.o.o. for the supply of natural gas.

#### 1.3. Current Business Operation

In the course of the business year, the Supervisory Board monitored and supervised the business operations of the company on a regular basis. It discussed the reports on business operation for the periods 1-3, 1-6, 1-9, and received the business performance report for the period 1-10 2006. Article 19 of the Articles of Incorporation of proprietary limited company Termoelektrarna Šoštanj d.o.o. provides that the CEO shall seek and obtain approval of the Supervisory Board for any business deals and decisions made in relation to legal transactions and borrowings in excess of SIT 80 million for the same

business item in the current financial year, divestment and mortgaging of property, and legal transactions pertaining to capital investment of the company in other legal entities. In line with the above provision the Supervisory Board scrutinized the contract award procedures and selection of suppliers, focusing in particular on the verification of the relevant facts and data by accessing the data directly from the commercial documents. In the period under consideration, the Supervisory Board adopted 18 decisions, effectively giving its consent for the legal transactions to be carried out. In the same period the Supervisory Board discussed the detailed materials *TEŠ and Human Resources*, and familiarised itself with, and expressed its support to, the new organisation and certification of jobs, which entered into force on 3 April 2006.

## **2. 2006 Annual Report Review**

The Supervisory Board has established that the Annual Report was submitted in due time, and that its composition and contents show a realistic picture of company operations in 2006. The Supervisory Board has been appraised of the fact that the net profit posted for the year in the amount of SIT 395,489 thousand was appropriated to cover the loss resulting from provisions for jubilee awards and terminal leave payments; such provisions are mandatory under the Slovenian accounting standards. The net profit was insufficient to cover the entire loss, which resulted in a net loss of SIT 164,310 thousand.

The members of the Supervisory Board carried out a particularly detailed review of the report by the management on the relationships of the company with the Controlling Entity and other subsidiaries, and concluded that the transactions had not involved any potentially damaging acts or omissions for the company; consequently, the report was approved by the Supervisory Board.

The members of the Supervisory Board also carried out a review of the Annual Report. No objections to the Annual Report were recorded; hence it was approved by the Supervisory Board at its 20th regular meeting held on 29 May 2007.

The Supervisory Board was acquainted in detail with the Auditor's Report. The financial statements for 2006 were audited by KPMG, podjetje za revidiranje in poslovno sodelovanje, d.o.o., Ljubljana. In his report the Auditor was of the opinion that the financial statements and notes to the financial statements provided a true and fair view of the financial situation of the company as at 31 December 2006.

The Supervisory Board concurred with the Auditor's Report.

Following the review, the Supervisory Board had no objections to the Annual Report. The Supervisory Board has approved the Annual Report of Termoelektrarna Šoštanj d.o.o. for 2006 and has recommended to the owner that, in line with the provisions of the Articles of Incorporation of Proprietary Limited Company, discharge be given to the CEO and the Supervisory Board.

Ivan ATELŠEK  
**Chairman of the TEŠ Supervisory Board in 2006**

Djordje ŽEBELJAN, M.Sc.  
**Chairman of the TEŠ Supervisory Board since 29 March 2007**

Šoštanj, May 2007

### 3 CORPORATE GOVERNANCE

The company is run in accordance with all applicable legislative standards, Articles of Incorporation adopted on 14 February 2006 by HSE d.o.o. as the owner i.e. sole shareholder of Termoelektrarna Šoštanj d.o.o., and in line with the principles of good business practice.

As provided by the Articles of Incorporation, the company is managed by the company owner and the corporate bodies i.e. Supervisory Board and CEO.

#### **Company owner:**

In accordance with the Corporations Act, the company owner has sole discretion in relation to the following matters:

- amendments to Articles of Incorporation
- adoption of the fundamentals of corporate policy and company development plan
- adoption of the annual report should the Supervisory Board withhold approval or should the CEO and the Supervisory Board decide to leave the adoption of the annual report to the company owner
- appropriation of net distributable profit
- giving discharge to the CEO and Supervisory Board
- allocation and termination of interest in the business
- restructuring of share capital
- changes in company status and dissolution of the company
- election and dismissal of Supervisory Board members
- appointment of company Auditor
- appointment of the procurator and proxies, and
- other matters as provided by regulations and Articles of Incorporation.

As provided by Article 526 of the Corporations Act, decisions adopted by the company owner are recorded in the appropriate register.

#### **Supervisory Board:**

The Supervisory Board has 3 members: 2 represent the interests of the company owner and are appointed and dismissed by the company owner, while 1 member is appointed in line with the provisions of the Workers Participation in Management Act. Members of the Supervisory Board are appointed for the term of four years and may be reappointed when their term of office has expired. As provided by the Articles of Incorporation, it is the responsibility of the Supervisory Board to –

- monitor the management of company business operations
- review the contents of the annual report and the proposed appropriation of net distributable profit
- draft a written report on the findings in relation to the review of the annual report for the company owner
- approve the annual report or state reasons as to why approval has been withheld
- issue opinions as to the fundamentals of corporate policy and company development plans
- approve company business plans
- make recommendations to the company owner in relation to the adoption of decisions within the company owner's field of competence and issue opinions to the recommendations proposed by the CEO in relation to the adoption of decisions within the company owner's field of competence
- appoint and dismiss the CEO
- approve the CEO's business transactions
- negotiate a contract of employment with the CEO
- adopt the Supervisory Board Rules of Procedure.

The Supervisory Board may also request reports on other matters and can perform other duties as provided by regulations and decisions adopted by the company owner. In conducting its business, the Supervisory Board is subject to the Supervisory Board Rules of Procedure.

**CEO:**

The company is managed and represented by the CEO appointed by the Supervisory Board for a period of 4 years and selected using the applicable selection procedures following the vacancy being publicly advertised. The CEO is eligible for reappointment. As provided by the Articles of Incorporation, the CEO shall seek and obtain approval of the Supervisory Board in relation to the following business deals and decisions:

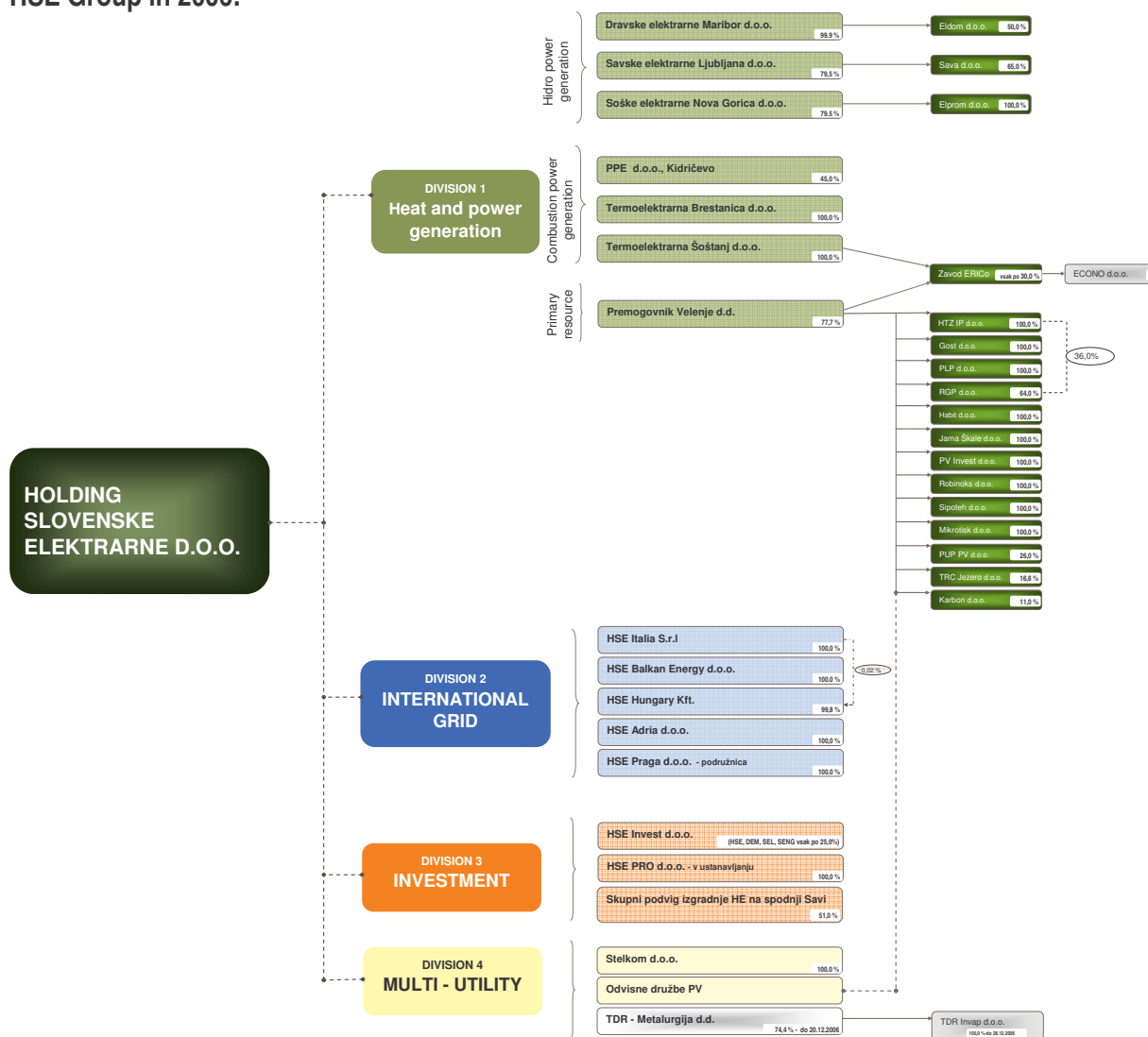
- legal transactions and borrowings in excess of SIT 80 million for the same business item in the current financial year
- divestment and mortgaging of property, and
- capital investment by the company in other legal entities.



## 4 RELATIONSHIPS WITH THE CONTROLLING ENTITY AND OTHER SUBSIDIARY COMPANIES IN THE GROUP

Termoelektrarna Šoštanj d.o.o. is part of the Holding Slovenske elektrarne Group. As at 31 December 2006 Holding Slovenske elektrarne d.o.o. with Head Office in Ljubljana, Koprška 92, was its sole shareholder i.e. Controlling Entity, and prepared the Consolidated Annual Report 2006 for the group of the companies for which it is the Controlling Entity.

### HSE Group in 2006:



As provided by Articles 545. and 546. of the Corporations Act, the company management submitted a report on the relationships with the Controlling Entity and other subsidiary companies in the Group, establishing that – “TE Šoštanj d.o.o., on the basis of the circumstances known at the time of the legal transaction being carried out, considers that it was not disadvantaged in any abovementioned transactions with the Controlling Entity and the parties related to the Controlling Entity, and that in 2006 no legal transaction, act or omission that could be potentially damaging to the company took place as a result of influence exercised by Holding Slovenske elektrarne d.o.o..”

## 5 HIGHLIGHTS OF THE YEAR

### JANUARY

A comprehensive leadership training for executives was held.

### FEBRUARY

HSE d.o.o. adopted the Articles of Incorporation of Proprietary Limited Company Termoelektrarna Šoštanj d.o.o. which effectively replaced the Contract of Members of 20 September 2005. As a result, HSE d.o.o. became the sole owner of TEŠ.

### MARCH

24 internal audits/reviews were carried out. The results were assessed as 'good'.

### APRIL

Adoption of the amended certification of jobs. ISO 9001 : 2000 recertification audit, ISO 14001 : 2004 recertification audit, and OHSAS 18001 : 1999 review. A skills update training for 32 operators of energy installations also took place.

### MAY

The main functions as part of the celebrations surrounding the 50th anniversary of TEŠ were held. This included an 'open door' day, the publishing of the book *50 let luči za Slovenijo (50 Years of Light for Slovenia)*, a donation to the Topolšica hospital for a CT scan, a donation to the Community of Šoštanj for a memorial park, the presentation of jubilee awards to the recipients, and the organisation of 3rd HSE Group Employee Games. The Supervisory Board approved the company annual report for 2005.

### AUGUST

The company vacation house in Crikvenica was sold. HSE d.o.o. as the sole owner gave discharge to the CEO and the Supervisory Board.

### SEPTEMBER

TEŠ management and executives attended the Fourth Strategic Conference of the HSE Group, which involved a presentation of the business plan for 2007 and the development plan of the projects currently underway.

### OCTOBER

Minister of Economic Affairs Andrej Vizjak visited the company and made a presentation of the Resolution on National Projects for the period 2007–2023. The Supervisory Board approved the revised business plan for 2006.

### NOVEMBER

A presentation of the Competency Model was held. Sixty employees working with hazardous chemicals in TEŠ production processes attended the relevant training and passed the exam.

### DECEMBER

The Supervisory Board approved the Business Plan for 2007. The Agreement on the Purchase of Coal, Capacity and Power for 2007 was signed. The government adopted the National Planning Scheme for the construction of the Šentrupert – Šoštanj gas pipeline. The Supervisory Board adopted the decision to augment Unit 5 with the second gas turbine. The 4th regular annual employee satisfaction review was carried out with employee commitment being assessed for the first time.

Throughout the year, however, activities were being carried out in relation to the construction of Unit 6 and the augmentation of Unit 5 with gas turbines.

## 2006 financial results at a glance

	REAL 2006	REVISED BP 2006	REAL 2005	REAL 2004	index 2:3	index 2:4	index 2:5
1	2	3	4	5	6	7	8
Net sales in 000 SIT	44,328,761	43,025,467	44,810,020	22,872,956	103.0	98.9	193.8
Net sales in EUR	184,980,642	179,542,092	187,039,164	95,406,147	103.0	98.9	193.9
Net profit or loss in SIT	395,489	243,456	82,788	73,043	162.4	477.7	541.4
Net profit or loss in EUR	1,650,346	1,015,924	345,561	304,672	162.4	477.6	541.7
Revenues in 000 SIT	44,829,114	43,388,454	45,183,758	23,475,362	103.3	99.2	191.0
Revenues in EUR	187,068,578	181,056,810	188,599,165	97,918,863	103.3	99.2	191.0
EBIT in 000 SIT	1,087,629	1,002,191	963,256	1,125,623	108.5	112.9	96.6
EBIT in EUR	4,538,595	4,182,069	4,020,677	4,695,124	108.5	112.9	96.7
EBITDA=EBIT+DA in 000 SIT	7,165,840	7,105,162	6,898,937	7,249,756	100.9	103.9	98.8
EBITDA=EBIT+DA in EUR	29,902,520	29,649,316	28,796,493	30,239,698	100.9	103.8	98.9
Funds in 000 SIT	72,184,173	72,674,295	72,999,263	75,553,152	99.3	98.9	95.5
Funds in EUR	301,219,216	303,264,459	304,702,411	315,142,265	99.3	98.9	95.6
Capital in 000 SIT	47,346,317	52,754,083	47,510,627	47,427,389	89.7	99.7	99.8
Capital in EUR	197,572,680	220,138,887	198,311,627	197,825,959	89.7	99.6	99.9
Investment in 000 SIT	5,013,331	4,759,558	2,370,249	1,452,310	105.3	211.5	345.2
Investment in EUR	20,920,260	19,861,284	9,893,533	6,057,779	105.3	211.5	345.3
Electricity sales in GWh	3,749	3,572	3,641	3,550	104.9	103.0	105.6
No. of employees at the end of the period	537	535	561	570	100.4	95.7	94.2

As can be seen from the table –

- Actual electricity sales in 2006 are higher than forecast in the revised business plan for 2006 and also higher than in 2005.
- Revenues are above plan for 2006 but lower than in 2005.
- The company operated at a profit.
- Investments are increasing, which indicates the start of an intensive investment cycle.
- The number of employees is decreasing.

## 6 BUSINESS REPORT

### 6.1 Background

**Termoelektrarna Šoštanj d.o.o.** is a proprietary limited company owned by a single shareholder. It is registered at the District Court of Celje, Reg. File No. 10051100. The company headquarters are in Šoštanj, Cesta Lole Ribarja 18. Termoelektrarna Šoštanj is part of the Holding Slovenske elektrarne d.o.o. whose company headquarters are at Kopraska ulica 92, Ljubljana.

#### Ownership structure as at 31 December 2006

Following the acquisition of all interests in Termoelektrarna Šoštanj d.o.o., HSE d.o.o. became the sole shareholder in the business and on 14 February 2006 adopted the Articles of Incorporation of Proprietary Limited Company effectively replacing the Contract of Members of 20 September 2005.

Stockholder	Initial Investment	Business Share
1. Holding Slovenske elektrarne d.o.o.	SIT 19,498,011,197.82 equivalent to EUR 81,363,758.96	100 %

#### Business activity

The company has several registered business activities. Power generation (Production of electricity in TE or NE - E/40.112) and district heating (Steam and hot water supply - E/40.300) are the core business activities of the company.

#### The company has the following management bodies:

- Supervisory Board
- CEO.

#### Supervisory Board:

- Ivan Atelšek, Chairman
- Franc Rosec, Deputy Chairman
- Franc Sever, member.

The members of the Supervisory Board were appointed on 23 August 2005 for a four-year term of office.

#### CEO:

- Dr. Uroš Rotnik, appointed on 22 September 2005; term of office: 4 years.

### 6.2 Mission and strategic objectives

The mission of Termoelektrarna Šoštanj is the generation of power and heat with the purpose of supplying customers with adequate volumes of electrical and thermal energy in order to enable end consumers of this energy to do quality work as well as enhance the overall quality of their lives.

The strategy of Termoelektrarna Šoštanj, which is derived from the implementation of the mission, is future-oriented. Termoelektrarna Šoštanj aims to retain its role and position of the largest combustion power generation facility in Slovenia. The main, long-term objective is to increase the production capacity and ensure a secure, reliable, safe and environmentally friendly generation of power and heat from various primary sources.

The company achieved the annual targets set in the business plan for 2006.

## **Generation of power and heat**

The total power generated in 2006 was 4,268.9 GWh of which 520.2 GWh (12.19 percent of total output) were used for auxiliary consumption and 3,748.7 GWh were fed to the grid, which exceeds the relevant figures in the revised business plans for 2006 by 176.7 GWh or 4.2 percent.

The volume of electricity produced by TEŠ in 2006 represents a 53.9 percent share of the total output of the companies in the HSE Group, which in 2006 generated 53 percent of all electricity in Slovenia.

Productivity in 2006 was 6.76 GWh per employee, which is a 5.4 percent increase compared to 2005 (6.41 GWh per employee).

The output of heat in 2006 amounted to 425.3 GWh, which is 4.2 GWh above plan and 24.6 GWh less than in the preceding year.

The actual level of contractual availability of facilities was very high: 99.8 % for Units 1-3, 99.5 % for Unit 4 and 98.6 % for Unit 5.

## **Sales of power and heat**

The measurable sales targets of power and heat were exceeded due to market demand for additional volumes of both electricity and thermal energy. The actual volume of electricity sold was 5 percent above plan, which resulted in an increase of revenue from the sales of power by 3.1 percent. The volume of heat sold and the resulting revenue exceeded the plan by 1 percent.

## **Ensuring the required structure, skills, efficiency and availability of human resources**

The target of ensuring the required structure, skills, efficiency and availability of human resources in terms of measurable indicators was achieved. The trend of decreasing employee numbers was even more pronounced in 2006 with the number of permanent, full time employees being reduced by 22; as at 31 December 2006 the company employed 525 permanent, full time workers. This decline is the result of planned and implemented organisational changes.

In terms of training, 190 internal and 313 external trainings were carried out. Apart from training, 40 or 7.6 % workers were undertaking continued professional development; 10 workers acquired a higher level of professional qualifications in 2006.

Sick leave of permanent, full time employees increased slightly and represented 5.85 percent of the total number of hours (5.81 percent in 2005); sick leave has been in decline since 2002, when it amounted to 6.65 percent.

Once again, an employee satisfaction survey was carried out.

## **Sourcing of primary resources, spare parts, material and services**

The target was achieved by successfully negotiating the most favourable purchasing conditions with suppliers. Purchasing criteria are set by assessing supplier competitiveness, the quality of products from different suppliers, carrying out a business analysis of preferred and potential suppliers, and negotiating the best possible terms and conditions. The value of materials and services purchased was SIT 45,017,729 thousand (incl. VAT).

## **Ensuring liquidity and cost efficiency of operation**

The measures implemented by Termoelektrarna Šoštanj in order to ensure liquidity and cost efficiency of operation enabled the company to meet its current liabilities. The company operated in line with the fundamental principles of long term and short term solvency. Expenses in 2006 were 3 percent above plan; however, as sale revenues were also higher than planned, the company ended the year with a profit. The profit has been appropriated to cover the losses from previous years. Cash flows were 5.6 percent higher than targeted and at the end of the accounting period the company had no cash surplus. Expenses in 2006 were successfully controlled and managed, which is reflected in the difference between planned and actual performance.

### **6.3 Business climate in 2006**

The business environment in Slovenia in 2006 was characterised by intensive preparations for the introduction of the euro. As a result of improved competitiveness of the economy and increased prosperity, however, the government started implementing numerous reforms the effects of which will be felt in the coming years.

GDP growth in Slovenia was marginally higher compared to the previous year. Slovenia ended 2006 with an estimated 5 percent economic growth. Inflation was comparatively stable – a trend from the preceding years that continued in 2006 as well. The prices of staples and necessities fluctuated evenly around their average throughout the year and increased by 2.8 percent in total during 2006, which is 0.5 percent more than in 2005. The key factors of steady growth were the macroeconomic policies of the Bank of Slovenia and the government. The stable tolar significantly contributed to the stabilisation of prices on one hand while on the other the government continued its restrictive policy to keep the regulated prices in check; another significant factor contributing to the steadying of inflation was the unchanged pay policy. In the last month preceding the introduction of the euro there were no general price hikes that could be linked to the impending adoption of the euro. The only exception in December was the hospitality and catering sector where the prices increased by 1.8 percent.

The EUR/SIT middle exchange rate of the Bank of Slovenia on 31 December 2006 was 239.64 SIT with a nominal increase in 2006 by 0.03 percent, while the dollar on 31 December 2006 was worth 181.93 SIT, a fall of 10.12 percent. The exchange rate applicable to Slovenia's adoption of the euro on 1 January 2007 was also set at 239.64 SIT.

The Slovenian economy in 2006 was characterised by the strengthening and restructuring of the energy sector. The proposed strategy of privatising the power generation sector adopted by the government in July 2006 provides for the introduction of a system whereby there would be at least two integral suppliers of energy. With these two 'pillars' in place, a privatisation of Holding Slovenske elektrarne as a whole would follow in 2007 and 2008.

The total volume of electricity generated in Slovenia in 2006 was 0.9 percent below the figure posted in 2005. Hydropower plants generated 3 percent more electricity while the output of combustion power plant was lower by 2 percent. Power consumption in 2006 increased by 2.7 percent; compared to the year before, imports of electricity grew by 23 percent and exports by 15 percent.

On 1 August 2006 the prices for the supply of electricity to domestic consumers rose by 4.79 percent. However, with the Slovenian market poised to become fully open as of 1 July 2007, that was supposed to be a relatively short-term measure as the prices of electricity from then on would be determined by the events and trends on the electricity market and the natural gas market.

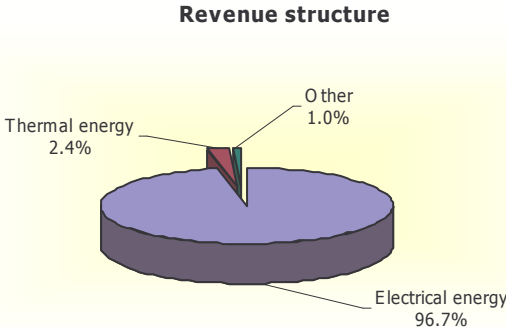
When it comes to the emission coupons trading in the EU countries, 817 million tonnes of CO<sub>2</sub> equivalents were traded in 2006. The transactions took place in the OTC market as well as via exchanges. From the financial perspective, the total value of deals made was EUR 14.6 billion. This is almost three times as much as in 2005 and two hundred times as much as in 2004. The average price of emission coupons in 2006 was 18.28 €/t (spot price). Opening price in 2006 was 22 €/t and rising in the beginning of the year, however this trend was soon reversed and settled into a gradual decline. The closing price at the end of the year was 6.45 €/t (spot price). This 'low' price was mainly due to a warm winter, a surplus of emission coupons and low prices of energy products (oil, gas, etc.).

**6.4 Sales and customers**

Sales revenues of Termoelektrarna Šoštanj in 2006 reached SIT 44,328,761 thousand, which is 3 percent above plan and 1.1 percent less than in 2005. 96.6 percent of the revenue was generated by the sales of electricity under the umbrella of Holding Slovenske elektrarne d.o.o., the leading Slovenian power generation and electricity trading company.

Termoelektrarna Šoštanj is the largest power generation facility in the HSE Group and provides a significant share of electricity marketed by the HSE Group.

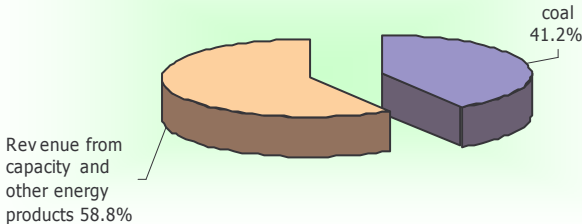
In the revenue structure Holding Slovenske elektrarne d.o.o. was the largest customer with a 96.6 percent share in 2006.



**Sales of electricity**

The majority of sales were generated on the basis of the Long-term Agreement on the Purchase of Coal, Capacity and Power signed between Holding Slovenske elektrarne, Premogovnik Velenje and Termoelektrarna Šoštanj, which will remain in place until 2015. The agreement determines the basic and additional volumes of coal in GJ that the company shall purchase from Premogovnik Velenje while Holding Slovenske elektrarne as the buyer shall purchase all generated power at the prices agreed in annual contracts.

**Share of coal in revenue from electricity**



The Long-term Agreement represents a significant departure from the previous terms and conditions and relationships between the parties. Termoelektrarna Šoštanj sells the power at the price that also includes the cost of coal.

An annex to the Agreement was signed for 2006 providing for the purchase of capacity for the production of 3,640 GWh in the total value of SIT 42,538,099 thousand.

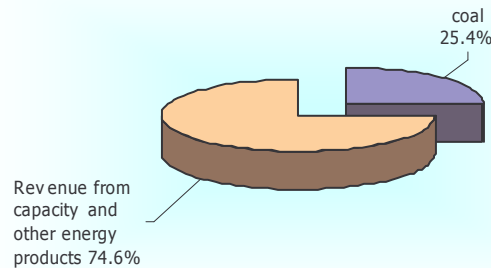
The total volume of electricity sold in 2006 was 3,748.7 GWh, which is 4.9 percent more than planned in the revised business plan and 3 percent more than in 2005. Sales revenue in the amount of SIT 42,859,125 thousand exceeded the figure in the revised business plan for 2006 by 3.1 percent.

## Sales of heat

The sales of heat for the purpose of district heating of the Šaleška dolina valley accounted for 2.4 percent of the total revenue generated by the company. The sales were based on the agreement on the sale and purchase of thermal energy with the Komunalno podjetje Velenje utility company.

425.3 MWh of thermal energy were sold in 2006, which is 1 percent more than anticipated in the revised business plan and 5.5 percent less than in 2005. The revenue from the sales of heat to Komunalno podjetje Velenje amounted to SIT 1,047,509 thousand, which is 0.9 percent above the figure forecast in the revised business plan.

Share of coal in revenue from thermal energy



## Other sales

Our revenues were further augmented by the disposal of animal waste (processed into meal) by way of incineration, sales of industrial water to Komunalno podjetje Velenje, sales of electrofilter ash and gypsum in Slovenia and abroad, sales of cafeteria meals, and sales of waste products and distilled water.

## 6.5 Sourcing and suppliers

Suppliers play an increasingly prominent role in the implementation of the company's development and strategic goals. Premogovnik Velenje is a strategic supplier of Termoelektrarna Šoštanj since the purchase of coal for the generation of power and heat accounts for the largest share of the company's external supplies. It accounts for 69 percent of the entire procurement within the HSE Group.

The basis on which the coal for the generation of power is purchased is provided by the Long-term Agreement on the Purchase of Coal, Capacity and Power signed between Holding Slovenske elektrarne, Premogovnik Velenje and Termoelektrarna Šoštanj. For 2006, annexes to the existing Agreement were signed for the purchase of 42,700 TJ of coal in total; this was in addition to the purchase of basic quantities and additional quantities of coal D, E, F and G. The total value of coal purchased for the generation of power in 2006 amounted to SIT 25,204,467 thousand.

Premogovnik Velenje also supplies the coal for the generation of heat. The purchasing contract provides for the supply of an estimated annual quantity of coal. The total value of coal purchased for the generation of heat in 2006 amounted to SIT 781,869.5 thousand.

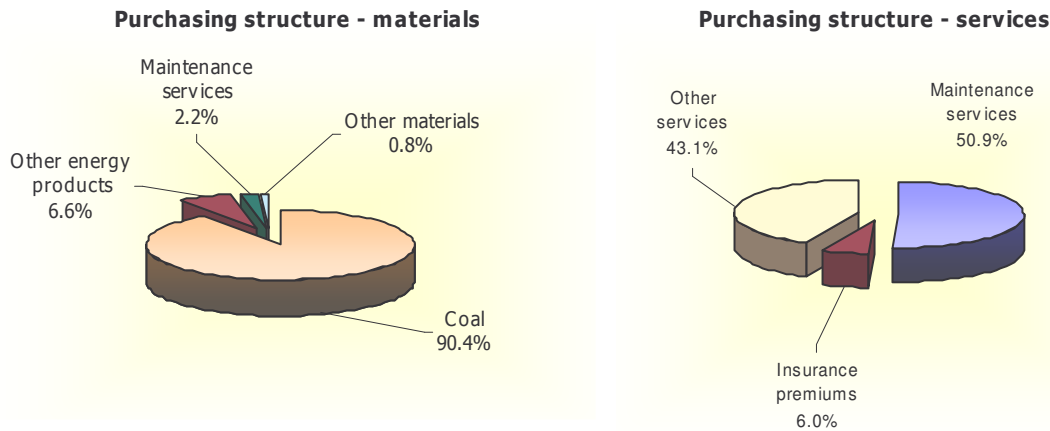
The most important job of the purchasing department is to find the best sources of goods and services supplied by reputable Slovenian and foreign manufacturers. Our biggest suppliers apart from the suppliers of raw materials include the suppliers of investment equipment and major contractors for the implementation of maintenance- and investment works. Due to the requirement for uninterrupted power supply the selection of a reliable supplier is paramount. 2006 was once again fraught with the instability of the black metallurgy market, which resulted in the continuously changing terms of supply and prices due to excessive demand for iron and steel, which had to be considered when signing contracts.

With the purpose of the rationalisation of business operation we have been aiming to reduce the levels of materials held in stock; optimise our purchasing volumes; negotiate the best possible financial terms



and conditions when signing contracts; avail ourselves of discounts offered for advance payments. Spare parts and investment equipment from abroad are purchased directly from the source.

The purchasing structure is as follows:



The biggest suppliers of Termoelektrarna Šoštanj include Slovenske energetske strojarne a.s., Tlmače, Slovakia; Siemens; IAK Kresnice; DBSS Strojgradnja; VAS; IGM Zagorje.

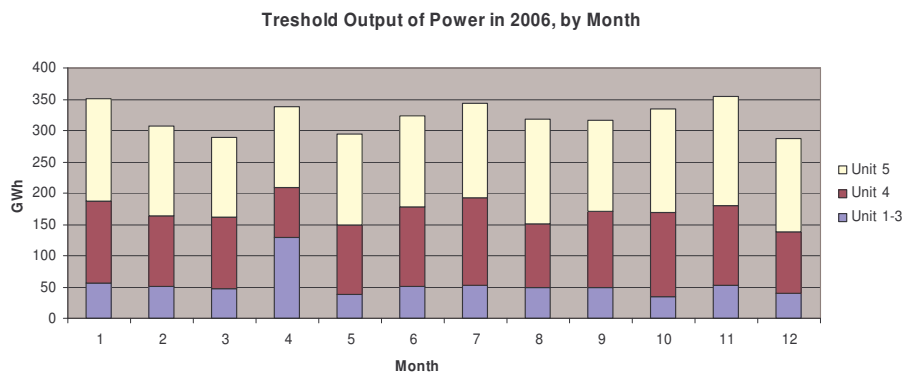
## 6.6 Production

### Installations data

POWER PLANT	COMMISSIONED	NO. OF GENERATORS	RATED POWER (MVA)	THRESHOLD OUTPUT (MW)	Q ANNUAL OUTPUT – last 5 years (GWh)
Unit 1	1956	1	32.000	25.000	603
Unit 2	1956	1	32.000	25.000	
Unit 3	1960	1	94.000	69.000	
Unit 4	1972	1	324.000	248.000	1,322
Unit 5	1977	1	377 / 406	305.000	1,687
<b>Total 1 - 5</b>		<b>5</b>	<b>859 / 898</b>	<b>672.000</b>	<b>3,612</b>

### Generation of power

The total volume of electricity generated in 2006 was 3,749 GWh, which is 177 GWh or 5 percent more than forecast in the revised business plan for 2006, and 3 percent more than in 2005.



The planned output was exceeded on all Units. The reason for the higher than planned output was a very high level of production in the third quarter due to extremely unfavourable hydrological conditions and comparatively high electricity prices in the market during that time.

## Generation of heat

The total energy value of heat generated by Termoelektrarna Šoštanj in 2006 was 425.3 GWh, which is 1 percent above plan and 5.5 percent less than in 2005.

## Consumption of energy products

3,991.9 thousand tonnes of coal were consumed in the process of power- and heat generation in 2006; 3,863.2 thousand tonnes of this figure went towards power generation with the remaining 128.7 thousand tonnes being used for the generation of heat.

The average heat value of the coal consumed in 2006 was 11,132 kJ/kg (10,803 kJ/kg in 2005).

## Emission coupons

Termoelektrarna Šoštanj used 4,662,839 emission coupons for the generation of power and heat in the period January – December 2006, which is 197,568 coupons more than allocated for 2006 (4,465,271). The deficit has been covered by the coupons left over from 2005 (117,733) and the purchase of 79,835 emission coupons from HSE.

## 6.7 Financial management

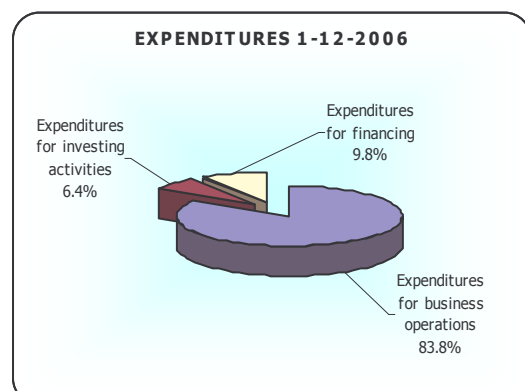
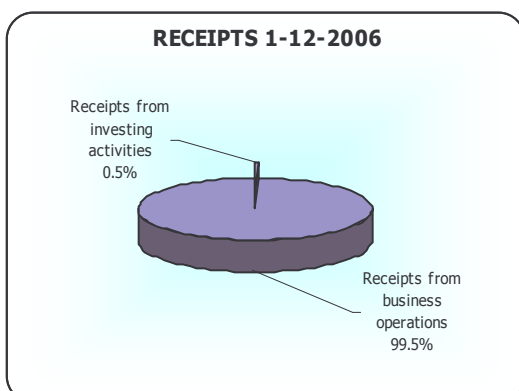
Basic task of financial management is ensuring long-term and short-term solvency, which consequently enables undisturbed business operations of other professional functions.

TE Šoštanj conducts financial policy, which ensures optimal way of business operations in the area of liabilities and claims management, financing and investing, financial risk management and cooperation with financial institutions.

In the year 2006 financial management was focused primarily on supplying means to finance the development and economically justified business operations. We ensured short-term solvency of the company with efficient financial management and systematic planning and monitoring of cash flow. In the year 2006 we did not managed to realize planned capital increase neither did we incur additional debts.

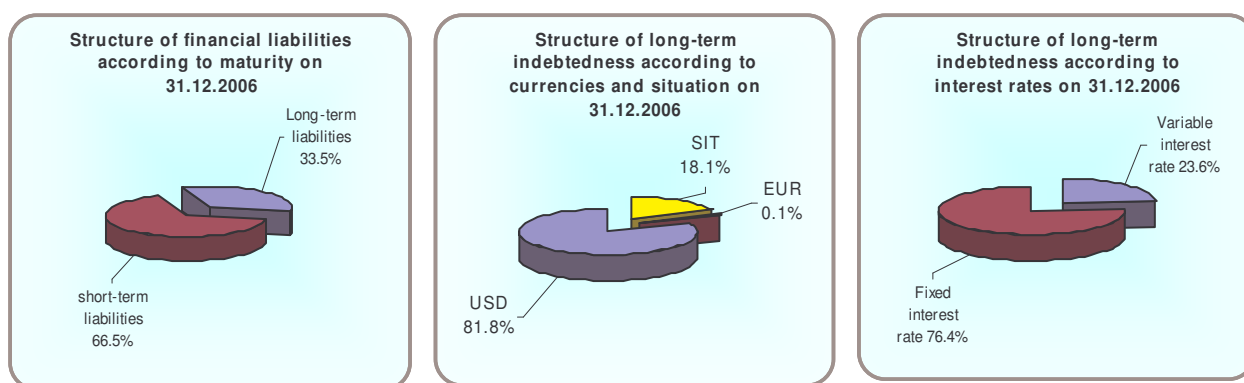
The analysis of cash flow statement for the year 2006 shows that we finance the company's business operations mainly by selling electricity (95.79% of all receipts). The biggest share of expenditures for business operations is represented by payments for coal needed for electricity production (65.05%) and expenditures for maintenance, material and services (15.72%). All expenditures for investing activities are intended for investments and were financed by our own funds.

The expenditures for financing were intended for repaying principal amounts and interests of long-term loans, which were raised to construct production units and purification plants of TE Šoštanj production units, refinancing and restructuring.



TE Šoštanj operates in accordance with business-financial standards and in accordance with regulations of Financial Operations Act. It is evident from horizontal structure analysis of assets and resources that the company lacks long-term resources. Long-term resources do not suffice for covering entire long-term assets (only 93.5%), the difference is financed by short-term assets (6.5%). The company conducts capital intensive business operations.

Financial liabilities decreased in the year 2006 for 4,395,897 thousand SIT due to repayment of principal amounts. Financial liabilities result from financing the construction of production units and purification plants, restructuring and refinancing in the previous years. The structure of loans according to the situation on 31.12.2006 is as follows: 66.9% in foreign banks, 33.0% in domestic banks and 0.1% in other institutions.



Balance sheet total has been decreasing from year to year as a result of losses before the year 2004, intensive repayment of debts and calculated amortisation – which was not financially covered – as well as unsolved stranded investments.

### 6.7.1 Increasing the competitiveness

Attaining competitiveness to the greatest possible extent represents a challenge for TE Šoštanj, which is reflected in reducing costs, implementing new technologies and reducing the number of employees.

It is evident from financial statements data that in TE Šoštanj we pay particular attention to costs reduction. Trend of growing costs was brought to a standstill by means of adequately pursued business policy and we anticipate further real costs reduction also in the business plan for the year 2007.

The first priority of TE Šoštanj is safe and reliable electricity supply of Slovenija and despite costs reduction we have in our care to perform all necessary maintenance work and new investments as well as assuring safety and health at work.

By examining various possibilities of financing and by assembling the most favourable financial resources we provide for the minimal costs of financing and investments values in new projects.

## 6.7.2 Indicators

### Level of proprietary financing

	2006	2005	Index
<b>Level of proprietary financing</b>			
1. Liabilities	72,184,173	72,999,263	99
2. Capital	47,346,317	47,510,627	100
<i>Level of proprietary financing = 2 / 1</i>	<i>65.59%</i>	<i>65.08%</i>	

The capital of the company represents 65.6% of all liabilities. The company is financed by its own resources as well as by external/foreign resources. In comparison with the year 2005 the level has increased due to reduction of liabilities (reduction of long-term financial obligations towards banks).

### Level of long-term financing

	2006	2005	Index
<b>Level of long-term financing</b>			
1. Capital	47,346,317	47,510,627	100
2. Long-term obligations	8,135,016	12,318,807	66
3. Reservations and long-term "Passive Time Delimitation"	2,992,649	2,512,262	119
4. Total (1+2+3)	58,473,982	62,341,696	94
5. Liabilities	72,184,173	72,999,263	99
<i>Level of long-term financing = 4 / 5</i>	<i>81.01%</i>	<i>85.40%</i>	

The company finances more than 81% of its assets by long-term resources. The level has been decreasing due to reduction of long-term financial obligations towards banks.

### Level of fixed assets investment

	2006	2005	Index
<b>Level of fixed assets investment</b>			
1. Tangible fixed assets	62,141,934	63,860,024	97
2. Intangible fixed assets	107,660	76,253	141
3. Total of fixed assets according to the carrying amount (1+2)	62,249,594	63,936,277	97
4. Assets	72,184,173	72,999,263	99
<i>Level of fixed assets investments = 3 / 4</i>	<i>86.24%</i>	<i>87.58%</i>	

The share of tangible and intangible fixed assets is 86.2% among assets of the company. The decrease of the level, compared with the year 2005, is the result of the reduction of value of tangible fixed assets; new investments were lower than calculated amortisation.

### Level of long-term investment

	2006	2005	Index
<b>Level of long-term investment</b>			
1. Tangible fixed assets	62,141,934	63,860,024	97
2. Intangible fixed assets	107,660	76,253	141
3. Investment property	0	0	
4. Long-term financial investments	51,196	51,195	100
5. Long-term financial receivables	52,766	66,964	79
6. Total (1+2+3+4+5)	62,245,895	63,978,183	97
7. Assets	72,184,173	72,999,263	99
<i>Level of long-term investment = 5 / 6</i>	<i>86.23%</i>	<i>87.64%</i>	

The indicator of the level of long-term investment describes the share of long-term assets in all assets. The calculated indicator for the year 2006 is smaller than at the end of the year 2005. The decrease of the indicator is the result of the reduction of long-term assets.

### Capital cover of fixed assets ratio

	2006	2005	Index
<b>Capital cover of fixed assets ratio</b>			
1. Capital	47,346,317	47,510,627	100
2. Tangible fixed assets	62,141,934	63,860,024	97
3. Intangible fixed assets	107,660	76,253	141
4. Total of fixed assets according to the carrying amount (2+3)	62,249,594	63,936,277	97
<b>Capital cover of fixed assets ratio = 1 / 4</b>	<b>0.76</b>	<b>0.74</b>	

The capital cover of fixed assets ratio is the ratio between the capital and the fixed assets. The value of the indicator for the year 2006 amounts to 0.76, which means that the major part of the most illiquid assets is financed by the capital. The increase of the indicator is the result of reduction of tangible fixed assets.

### Immediate solvency ratio

	2006	2005	Index
<b>Immediate solvency ratio</b>			
1. Financial means	887	8,707	10
2. Short-term financial investments	0	0	
3. Total of liquid assets (1+2)	887	8,707	10
4. Short-term obligations	13,311,385	10,425,424	128
<b>Immediate solvency ratio = 3 / 4</b>	<b>0.00</b>	<b>0.00</b>	

The immediate solvency ratio equals 0, which means that the company has only minimal liquid assets available on 31.12.2006.

### Quick ratio

	2006	2005	Index
<b>Quick ratio</b>			
1. Financial means	887	8,707	10
2. Short-term financial investments	0	0	
3. Short-term operating receivables	7,154,411	6,419,715	111
4. Total (1+2+3)	7,155,298	6,428,422	111
5. Short-term obligations	13,311,385	10,425,424	128
<b>Quick ratio = 4 / 5</b>	<b>0.54</b>	<b>0.62</b>	

Quick ratio shows whether the company finances short-term financial means with short-term obligations or also on a long-term basis. The value of the indicator for the year 2006 amounts to 0.54 and is smaller than in the year 2005 due to the increase of short-term operating liabilities.

## Current ratio

	2006	2005	Index
<b>Current ratio</b>			
1. Short-term assets	9,645,483	8,928,921	108
2. Short-term "Active Time Delimitation"	18,076	15,906	114
4. Total (1+2)	9,663,560	8,944,827	108
5. Short-term obligations	13,311,385	10,425,424	128
<b>Current ratio = 4 / 5</b>	<b>0.73</b>	<b>0.86</b>	

The current ratio shows the financing of short-term assets with short-term resources. The current ratio in the year 2006 is lower than it was in the year 2005 due to the increase of short-term operating liabilities.

## Operating efficiency ratio

	2006	2005	Index
<b>Operating efficiency ratio</b>			
1. Operating revenues (net. rev. from sales + other operating revenues)	44,712,399	45,046,763	99
2. Cost of goods, material and services	32,099,396	33,137,040	97
3. Labour costs	3,907,800	3,749,376	104
4. Amortization expenses	6,522,302	6,497,324	100
5. Other operating expenses	1,095,272	730,269	150
6. Total of operating expenses (2+3+4+5)	43,624,770	44,114,009	99
<b>Operating efficiency ratio = 1 / 6</b>	<b>1.02</b>	<b>1.02</b>	

In the year 2006 the company achieved 2% more operating revenues than there were operating expenses. The value of the ratio did not change with regard to the year 2005.

## Net profitability of the capital ratio

	2006	2005	Index
<b>Net profitability of capital ratio</b>			
1. Net profit of the accounting period	395,489	82,788	478
2. Average capital	47,155,615	47,196,404	100
<b>Net profitability of the capital ratio = 1 / 2</b>	<b>0.01</b>	<b>0.00</b>	

Net profitability ratio indicates that in the year 2006 the company concluded operating activities with profit and per 100 units of capital created 0.1 unit of profit. The value of the indicator with regard to the year 2005 increased due to larger profit.

## Capital adequacy of the company

	2006	2005	Index
<b>Capital adequacy</b>			
1. Current loss	0	0	
2. Transferred loss	164,310	545,713	
3. Total (1+2)	164,310	545,713	
4. Share capital	19,498,011	19,498,011	100
<b>Capital adequacy = 3 / 4</b>	<b>0.01</b>	<b>0.03</b>	

According to the Article 10 of 'The Financial Operations of Companies Act' the company has inadequate solvency margin, if the loss of the current year together with transferred loss reached half of the share capital. Transferred loss from the past years, which is the result of reservations for jubilee rewards and

severance pay upon retirement and were recognized by the company in the year 2006, increased in the year 2006 due to changed rates for waiving of the taxes and reduced (for) profit in the year 2006. The company does not have inadequate solvency margin since transferred loss represents only 1% of the share capital.

### The debt-to-capital ratio

	2006	2005	Index
<b>The debt-to-capital ratio</b>			
1. Short-term debts	4,093,998	4,309,830	95
2. Long-term debts	8,127,398	12,307,462	66
3. Total (1+2)	12,221,396	16,617,292	74
4. Average capital	47,155,615	47,196,404	100
<i>The debt-to-capital ratio = 3/4</i>	<i>0.26</i>	<i>0.35</i>	

The debt-to-capital ratio shows relation of debts to the company's capital. The larger the value the larger the indebtedness of the company. In the year 2006 the value of the ratio amounts to 0.26 and has decreased with regard to the year 2005 due to repayment of the long-term debts.

### 6.8 Risk management

The company is these days exposed to the ever-greater changes, be it on the market of raw material and end-products, labour market or in the area of business manners – everywhere there are more or less expected changes. Risk exposure is greater now. There are many kinds of risks and are practically related to all areas of business operations, and in each case they sooner or later become evident in operational result.

Timely identification, regular monitoring and management of risks are important conditions for effective and efficient achievement of the business objectives. The task of the responsible people in the company is to ensure the most adequate ratio between anticipated profitability and risk, taking into account the current business environment and circumstances.

TE Šoštanj encounters various kinds of risks at its business operations, but the most prevailing are:

**Business risks** relate to the capacity of creating revenues and controlling costs as well as maintaining the value of business resources in the company.

- Quantitative risk includes risk, which originates from uncertainty of energy product supply and production as well as electricity supply. Production uncertainty is above all linked with the basic question whether or not energy can be produced. The occurrences of production failure are possible due to unplanned shutdowns, technological and ecological limitations of production and also due to insufficient energy product supply.

Quantitative risk should be managed by timely and professional realization of planned maintenance work on the existing facilities, equipment and new investments. In order to control the coal supply risk we concluded the annual contract on coal, power and electricity purchase with Premogovnik Velenje, which is accordingly obliged to sell and hand over the coal according to anticipated monthly consumption of coal for electricity production (basic and additional quantities in TJ).

- Market risk includes risk to which TE Šoštanj is exposed due to uncertainty of price for environment pollution and possibilities of trade market loss. The company intends to reduce market risk with a view to price for environment pollution above all by introducing new technologies, which were accepted in the development plan of HSE group 2004-2013 and which indicate measures for improving environmental protection and people's health. The company estimates that allocated

emission coupons (Environmental Protection Act) will not suffice for annual production until the end of the year 2007. Acquisition of lacking emission coupons is assured by the parent company.

The company insured itself against market risk by signing 'Long-term Contract on Coal, Power and Electricity Purchase' between TE Šoštanj, Holding Slovenske elektrarne and Premogovnik Velenje (in the year 2004). Basic and additional quantities of coal in GJ, which will be purchased from Premogovnik Velenje by TE Šoštanj are defined in the contract. Holding Slovenske elektrarne will, as a buyer, purchase all produced electricity in TE Šoštanj at prices agreed in the annual contracts.

- Risk on decrease of business resources value includes risk on destruction, limitation period or other decrease of business resources. TE Šoštanj has all significant resources adequately insured at the insurance company for all kinds of insurance.

**Financial risks** in the company are related to the capacity of creating financial revenue, controlling financial expenditure, maintaining the value of financial assets, controlling financial liabilities and ensuring long-term solvency.

- Credit risk is defined by the company as a possibility, when claims against buyers and other business partners, which arise from postponed payment, are paid with delay or are not paid at all. The company controls risk by up-to-date monitoring of outstanding claims, controlling the weak payers, penalty interests, insurance of claims, and it actively executes chain compensations with delicate recovery of claims. Credit risk of the company is moderate since we concluded annual contract with the biggest buyer, where elements of claims' insurance are included. In the year 2006 there were no needs to submit executive proposals against non-payers.
- Liquidity risk is defined as a possibility, when at a given moment there may not be enough liquid funds to meet current obligations. The risk is low because the company realizes most of its sales revenues on the domestic market, where payment is predictable and stable. Likewise, the obligations towards the suppliers and financial obligations are known in advance. The company controls the liquidity risk by financial management, mainly by planning future cash flows, by constant contact with the biggest buyer and good business relationship with greater Slovenian banks. In the year 2006 the company invested cash in hand on the financial market under the most favourable conditions and there was no loss of current liquid funds and no need for indebtedness.
- Interest rate risk rises from a possibility of unfavourable developments of interest rates and is moderate. Due to the fact that the company has floating rate in some of the loans raised, they are susceptible to developments of interest rates. In order to solve such problems TE Šoštanj pursues a policy of insurance by using implemented financial instruments and changing the existing loans by raising loans on more favourable terms.
- Inflation risk of the company rises from the risk of growth of material and service purchase price, which could not be, in a short period of time, transfigured into growth of electricity and heat final price. The company monitors the inflation risk by monitoring macro-economic policy and by conducting purchase contracts at constant prices.

**Operational risks** in the company are mainly related to the concept, implementation and supervision of business processes and activities in the company. Risk exposure is low since we implemented quality management system ISO 9001, environmental management system ISO 14001 as well as safety and health at work system OHSAS 18001. These systems define implementation of business activities and processes as well as responsibilities and authorisations. Adequacy of implementation is examined by internal and external audits.



In order to prevent deficiencies at software operations and applications the company pays big attention to development and operations of information infrastructure.

**Regulatory risks** are risks related to changes and vagueness of legislation and regulations, which the company has no influence on. Due to constant changes in the area of legislation we ensure the proper use of regulations with constant functional and professional education, performed by authorised and competent institutions. The company is bound to external revision of annual reports.

## 6.9 The analysis of business operations effectiveness

Basic factors which influenced business operations in TE Šoštanj in the year 2006 are:

- Long-term contract on coal, power and electricity purchase between TE Šoštanj, d.o.o., HSE, d.o.o. and Premogovnik Velenje, d.d., and on the basis of that signing the tripartite contract on coal, power and electricity purchase for the period 2005-2006 and Amendments to this contract.
- Business Plan of the company for the year 2006 and Amending Business Plan for the year 2006, which was adopted by the company's supervisory board in October 2006. Amending Business Plan was made due to changed legislation, which results from admission to EU (Companies Act), changed SRS (Slovenian Accounting Standards), which entered into force on 1.1.2006, and changes in the area of operating conditions (higher production, Amendment to the contract).
- Changed Slovenian Accounting Standards, which entered into force on 1.1.2006.

In September 2004 the Long-term Contract on Coal, Power and Electricity Purchase was signed between TE Šoštanj, Holding Slovenske elektrarne and Premogovnik Velenje. Mutual relationships which will apply from the year 2005 to the year 2015 were agreed by signing the contract. Basic and additional quantities of coal in GJ, which will be purchased from Premogovnik Velenje by TE Šoštanj are defined in the contract; Holding Slovenske elektrarne will, as a buyer, purchase all produced electricity in TE Šoštanj, at prices agreed in the annual contracts. In comparison with the years 2002-2004, when TE Šoštanj only provided services for processing of coal into electricity and when its own price of produced electricity did not include cost for basic energy product – coal, the signature of long-term contract means for TE Šoštanj principal change of sale-purchase and business relationships with Holding Slovenske elektrarne.

In compliance with the provisions of the Slovenian Accounting Standards, TE Šoštanj recognized reservations for jubilee rewards and severance pay upon retirement as well as claims for waiving of the taxes in this connection. Consequently, it recorded transferred net loss from the previous years in the amount of 545,713 thousand SIT. It increased by the end of the year for additional 14,086 thousand SIT due to changed tax rates related to waiving of the taxes and thus totalled 559,799 thousand SIT. Transferred loss, in accordance with ZGD-1 (Companies Act) provisions, decreased for net profit in the year 2006 in the amount of 395,489 thousand SIT. The remaining loss in the amount of 164,310 thousand SIT is not covered.

## 6.9.1 Operating result

	2006	2005	2004	2003
Operating efficiency ratio = business revenue/business expenditure	1.02	1.02	1.05	1.01
Revenue per employee in 000 SIT	80,894	79,549	40,771	38,888
Revenue profitability ratio = profit (loss) / revenue	0.009	0.002	0.003	-0.074

TE Šoštanj concluded its business operation in the year 2006 with profit in the amount of 395,489 thousand SIT or 62% more than planned profit for the year 2006.

## 6.9.2 Revenue and expenditure

### Revenue

Revenue from business operations in the amount of 44,712,398 thousand SIT is for 3.2% above planned for the year 2006 and 0.8% lower than in the year 2005. Deviation from planned revenue is a result of greater revenue from electricity and heat energy sale (larger quantities and higher prices). The structure of business operation revenue was as follows:

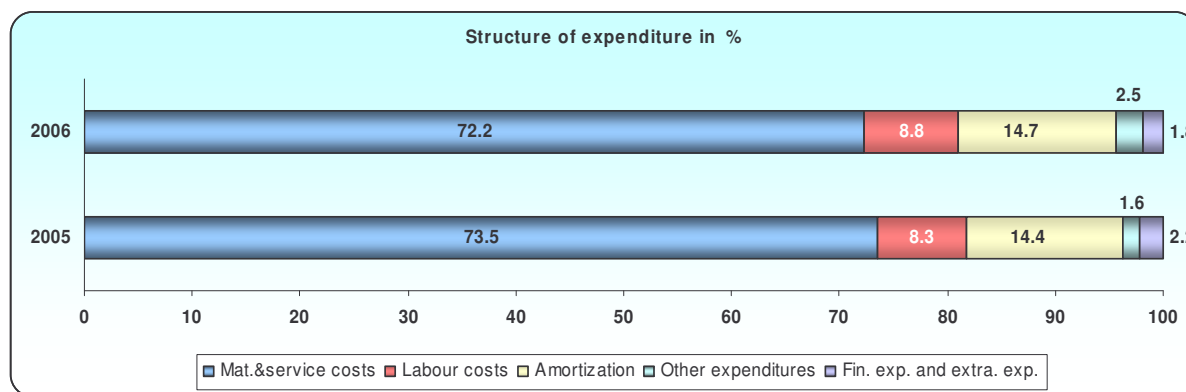
- revenue from electricity 95.9%
- revenue from heat energy sale 2.3%
- other revenues 1.8%

Beside business operation revenue in the year 2006 TE Šoštanj attained also 116.716 thousand SIT of revenue from financing and extraordinary revenue.

### Expenditure

In the year 2006 expenditure in TE Šoštanj amounted to 44,432,864 thousand SIT. It is higher for 3.0% than planned and for 1.5% lower than in the year 2005; which means that it is, at inflation rate of 2.5%, lower for 3.9% in real terms.

In The Business Plan for the year 2006 there was target limit for business expenditure planning (without fuel costs, own use and overhaul), which was 2% nominal cost reduction with regard to the year 2004. These costs in the year 2006 did not reached target amount (8,551,785 thousand SIT); they were lower for 0.6%.

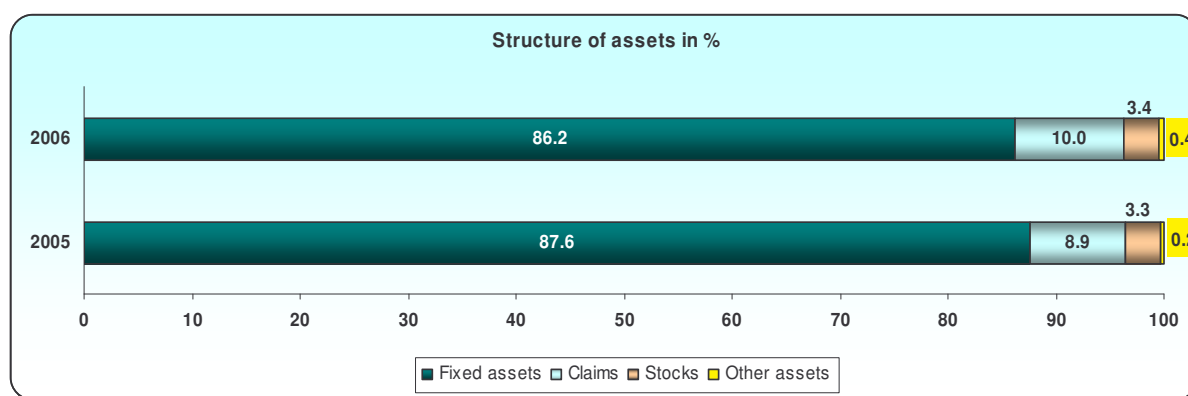


### 6.9.3 Assets and resources

Assets of the company on 31.12.2006 amounted to 72,184,173 thousand SIT and decreased for 1.1% with regard to the year 2005. Measured by the inflation rate, which was 2.8% (December 2006/December 2005), they are 3.8% lower in real terms. Reducing balance sheet total is the result of reducing tangible fixed assets; due to deficit of assets the investments are limited.

In the structure of **assets** the share of long-term assets decreased for 2.3% with regard to the year 2005 (investments in tangible fixed assets were in the year 2006 lower than calculated amortization).

Among short-term assets - their share increased to 13.4% (12.3% last year) – short-term business claims towards the companies in the group (claims towards HSE, d.o.o.) as well as short-term business claims towards others (claims for VAT) increased.



Capital share in **resources** at the end of the year 2006 is 65.6% (in the year 2005 65.1%). In comparison with the situation at the end of the year 2005 the capital decreased nominally for 0,3% and real value of the capital decreased for 3.1% - measured by inflation rate.

In Amending Business Plan 2006 it was planned to increase capital for 5 milliard SIT from the title of capital increase, however capital increase was not realized in the year 2006.

Transferred loss from the previous years results from reservations for jubilee rewards, severance pay upon retirement and claims for waiving of the taxes connected with them, which were all recognized by the company on 1.1.2006; consequently it recorded net loss from the previous years. Transferred loss increased in the year 2006 due to changed tax rates for waiving of the taxes.

If the capital was revalued with price growth of consumer goods (2.8%), the economic outturn in the year 2006 would be the loss in the amount of 919,134 thousand SIT, whereas economic outturn on the basis of revaluation with EUR growth (1.000268809%) would be the loss in the amount of 74,145 thousand SIT.

Long-term obligations decreased for 34% (repayment of principal values) with regard to the year 2005, whereas short-term obligations increased due to increased short-term obligations towards the companies in the group (Premogovnik Velenje – annex) and towards suppliers (suppliers for gas turbines).

#### 6.9.4 Operational results according to sectors

Sector	Revenue in 000 SIT	Expenditure and waived taxes in 000 SIT	Economic outturn in 000 SIT	Revenue profitability ratio = profit/revenue
Electricity production	43,555,356	43,310,787	+244,569	0.006
Steam and hot water supply	1,059,634	1,039,099	+20,535	0.019
Canteen	233,118	231,523	+1,595	0.007
Social standard	169,129	40,339	+128,790	0.761

All sectors concluded their business operations in the year 2006 with profit. High profit at social standard results from holiday capacities sale. Our own services and material (internal realization) in connection with catering, drinks for hard working conditions and other are also taken into consideration in revenue and expenditure for sectors.

#### 6.10 The development of the company

Thermal Power Plant Šoštanj is in the period of a new investment cycle, which motive power resulted from the need for technological renewal. Technological renewal will cause the closure of those units which have come to the end of their service life and will make possible for the units (B5) which will be operating after the year 2020 to comply with the best available technologies (BAT). The new facilities must comply with BAT principle. Comparability of the power plant with BAT will enable competitive position of electricity production and ensure achieving high environmental standards.

Higher and higher net electricity recoveries have become the aim of the technological renewal at new units as well as the guidance for implementing measures in existing units.

In The Development Plan of Thermal Power Plant Šoštanj the company plans to increase production to 5,000 GWh from the year 2013 onwards with installation of gas turbines in unit 5 and constructing a new 600 MW coal-fired unit. Gas turbines will increase the efficiency and yield recovery of unit 5 whereas yield recovery of unit 6 will be for one third higher than yield recovery of bigger two units; at the same time the CO<sub>2</sub> emissions, despite increased power of thermal power plant, will be relatively reduced. In The Development Plan of HSE group 2006-2015, which was adopted by the Government of the Republic of Slovenia in December 2006, both investments are taken into consideration in relation to investments into new production capacity for electricity production.

Long-term business objective from development plan is also expanding the sales mix. Beside supplementary activities, by means of which the company already generates the income, Thermal Power Plant Šoštanj also plans new activities: maintenance center of Slovenian thermal power plants, electricity production with bio-gas, marketing of non-demolition controls, marketing of slag, marketing of knowledge and experience in thermal power plants, cooperation with HSE in implementing investments abroad.

## 6.11 Investments

A part of the facilities in TE Šoštanj is coming to the end of its service life. Some have been in operation since 1956 on, when units 1 and 2 were built, whereas the newest have been in operation since 1977, when unit 5 was built. Taking into account the condition of particular facilities and the strategic aims of the company it is decided to upgrade the facilities to such extent that they will operate safely and reliably until the end of their service life. The project on upgrading is carried out on the basis of the analysis of monitoring facilities operations, operating events, estimation of remaining service life and safe operation.

Plan of investments for the year 2006 was based on the following starting points:

1. Terminal service life of units 1 and 2 will come to the end at the end of the year 2007 due to their increased active operations in past and future years; service life of unit 3 will come to the end in the year 2012.
2. Terminal service life of unit 4 will come to the end in the year 2017.
3. Terminal service life of unit 5 will come to the end in the year 2025.
4. In the year 2004 we started with preliminary work on the projects for gas combined system of unit 5. Work will be completed with synchronisation of first aggregate in the middle of the year 2008 and second aggregate in the second half of the year 2008.
5. In the year 2005 we started with preliminary work on the projects for new steam unit 6. Work will be completed with synchronisation of aggregate in the first months of the year 2012.
6. By investing in operating units we ensure planned electricity production at least at 3,400 GWh and achieve equivalent safety and operational availability as in the previous years.
7. Significant investments in unit 5 are related to planned overhaul of this unit in the year 2007.

In the course of the year 2006 work on projects, which began in the previous years, was completed, namely:

- Revitalization of a blower RDP 4
- Revitalization of unit 4 management
- Replacement of ash pipeline and excavator pumps in TE Šoštanj

and work on new projects began:

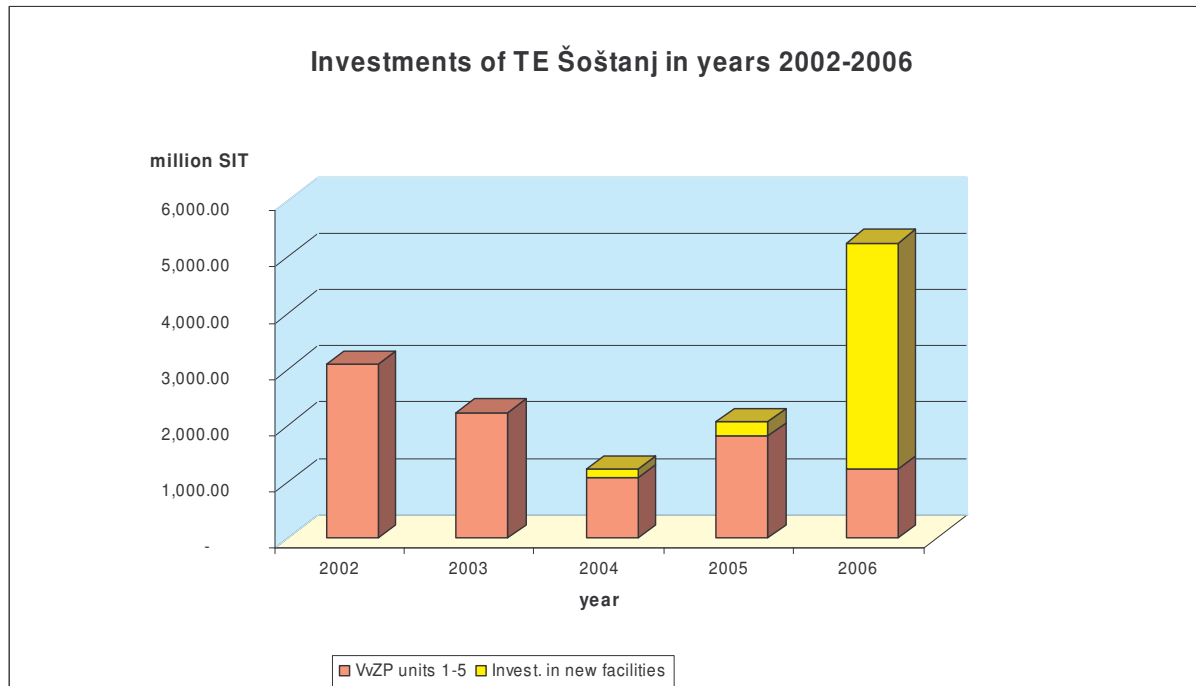
- Anti-noise protection of cooling tower in unit 4
- Renewal of unit 5 management system
- Renewal and optimising of unit 5 boiler
- Replacement of unit 5 ignition device
- Anti-noise protection of electric traction of unit 5 blowers.

A part of the projects has multiannual nature of investing, therefore its implementation will continue in the year 2007:

- Noise amelioration in TE Šoštanj
- Renewal of industrial water distribution system
- Gas combined system of unit 5
- Constructing a new unit 6.

By investing in operating units service life is prolonged; technological and technical risks at ensuring planned electricity production and additional engagement, as well as at achieving contractual availability of operations, are eliminated. With investments in the area of common facilities we ensured undisturbed operations of the facilities, which are the condition for the individual unit operations.

To achieve above objectives it is necessary to continually invest in the facilities which are advanced in years. Investments in the past five years are shown in the diagram, where the growth of investments in the new facilities in TE Šoštanj is evident.



By installing gas turbines in unit 5 the capacities, i.e. in our case installed unit power, grow for 84 MW and yield recovery of the unit is higher.

We have combined process with installing gas turbines and using their waste heat for heating steam installations. The investment's aim is to increase electricity production by using all planned quantities of coal, in accordance with the long-term contract for coal supply, to reduce CO<sub>2</sub> emission factor to kWh, to lower electricity price and to fulfil obligations of the Kyoto Protocol.

By considering requirements for increasing electricity production, which result from higher and higher electricity consumption by end-users, a new production capacity - unit 6 of anticipated power 600 MW – will be added to the existing units in TE Šoštanj and at the same time older units, which are coming to the end of their service life and are technologically out-of-date, will be replaced.

By setting up a new coal-fired unit 6 the pressures on the environment with greenhouse CO<sub>2</sub> gas emissions remain, but are - comparable to the existing technology – specifically lower (lower quantity of CO<sub>2</sub>/kWh) on account of significantly better yield recovery of new technologies.

**REVISED BUSINESS PLAN FOR 2006**

000 SIT

No	INVESTMENT	Financial funds in 2006						Total
		Depreciation	Other own f.	Loan		Co-investment	Appropriations	
				foreign	domestic			
1.	Anti-noise barrier HS B4	32,956						32,956
2.	Refurbishment of FGD4	142,510						142,510
3.	Upgrading of DCS of U5	146,100						146,100
4.	Refurbishment of mill motors	48,000						48,000
5.	Regulated turbine consumption A4-HS2	28,000						28,000
6.	Anti-noise barrier – fan draught U5	10,000						10,000
7.	Replacement of ignition device U5	27,000						27,000
8.	Refurbishment and upgrading of Unit 5 boiler	73,464						73,464
9.	Waste water collection pit TEŠ	2,490						2,490
10.	Replacement of ash and excavator pumps TEŠ	89,440						89,440
11.	Refurbishment of industrial water distribution system	173,165						173,165
12.	Gas combined system	287,698	2,969,018					3,256,716
13.	Unit 6	420,245						420,245
14.	Investments in INFO software	28,700						28,700
15.	Investments in INFO hardware	67,558						67,558
16.	Investment and study documents	16,357						16,357
17.	Minor investments	177,300						177,300
18.	Recovery of DCS of Unit 4 – control board	19,557						19,557
<b>TOTAL</b>		<b>1,790,540</b>	<b>2,969,018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,759,558</b>

**REVISED BUSINESS PLAN FOR 2006 – PERIOD I – XII 2006**

000 SIT

No	INVESTMENT	Financial funds in 2006						Total
		Depreciation	Other own f.	Loan		Co-investment	Appropriations	
				foreign	domestic			
1.	Anti-noise barrier HS B4	32,968						32,968
2.	Refurbishment of FGD4	120,458						120,458
3.	Upgrading of DCS of U5	179,289						179,289
4.	Refurbishment of mill motors							
5.	Regulated turbine consumption A4-HS2	28,311						28,311
6.	Anti-noise barrier – fan draught U5							
7.	Replacement of ignition device U5	71						71
8.	Refurbishment and upgrading of Unit 5 boiler	132,025						132,025
9.	Waste water collection pit TEŠ	1,245						1,245
10.	Replacement of ash and excavator pumps TEŠ	118,227						118,227
11.	Refurbishment of industrial water distribution system	151,473						151,473
12.	Gas combined system	3,578,998						3,578,998
13.	Unit 6	419,157						419,157
14.	Investments in INFO software	22,747						22,747
15.	Investments in INFO hardware	38,707						38,707
16.	Investment and study documents	19,804						19,804
17.	Minor investments	150,294						150,294
18.	Recovery of DCS of Unit 4 – control board	19,557						19,557
<b>TOTAL</b>		<b>5,013,331</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,013,331</b>

## 6.12 Maintenance

The strategy of facilities maintenance shall enable achieving short-term and long-term company objectives.

Among short-term objectives are:

- safe and healthy work for workers,
- rational usage of used materials,
- rational spending of working hours,
- shortening time limits for repairing individual facilities,
- preventing the occurrence and recurrence of faults of the same kind,
- the best possible operational readiness of power plant as a whole,
- ecologically friendly electricity and heat production.

Long-term objectives are:

- lowering our own electricity and heat energy price,
- competitiveness on the electricity production market,
- maintaining the status of electricity and heat producer, based on lignite technology,
- ensuring operations of the particular units until their terminal service life (unit 1 – November 2007, unit 2 – 2008, unit 3 – 2012, unit 4 – 2011 (2017), unit 5 – 2025).

The strategy is based on our own and foreign experience and is adapted to modern trends of industry. The maintenance system is supported by information package MAKSIMO. For several years we have been maintaining »according to facilities condition« and »preventive maintenance (overhauls)«. Due to optimal utilization of means, which are intended for maintenance activities, the maintenance strategy has been slowly changing in favour of maintaining »according to facilities condition«. That is evident in frequency of overhauls in particular units, which has been changed from rigid two-year periods to three or six-year periods, and in overhauls at particular sections of units, which happen beside planned overhauls of units. The condition for the efficient maintenance performance with this strategy as well as for achieving above mentioned objectives is by all means a good knowledge of facilities and experience of technical and maintenance personnel.

TTP Šoštanj facilities are, regarding their age and operating hours, needful for relatively intense maintenance. Maintenance interventions are done on the basis of monitoring facilities operations, operating events, estimation of remaining service life, by means of demolition and non-demolition methods of material control, requirements for safe and reliable operations as well as accepted guidelines or strategy for facilities operations and maintenance.

The entire system of maintenance is divided into:

Regular preventive maintenance includes inspections, controls, analyses and interventions, which all ensure reliable operations of all facilities. Repairs and replacements of particular sections of facilities belong here. Interventions in facilities, which cannot be discarded, are performed at the time of the shutdown of units, which is mainly at weekends.

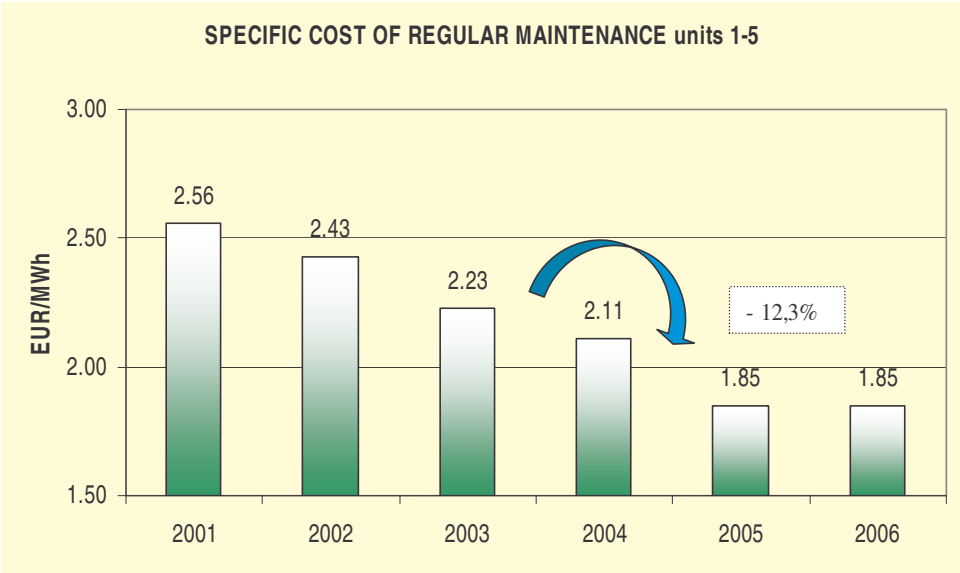
Overhauls of production units and particular sections. Overhaul in this sense means a series of maintaining activities, such as inspections, measurements, installing and dismantling, repairs and replacements of machines and facilities' spare parts, which demand discarding machines and facilities or the entire production unit from operations.

We planned 2,620 million SIT for the maintenance of all facilities, of which 1,620 million SIT for regular maintenance and 1,000 million SIT for overhauls. After nine months the amending plan was accepted

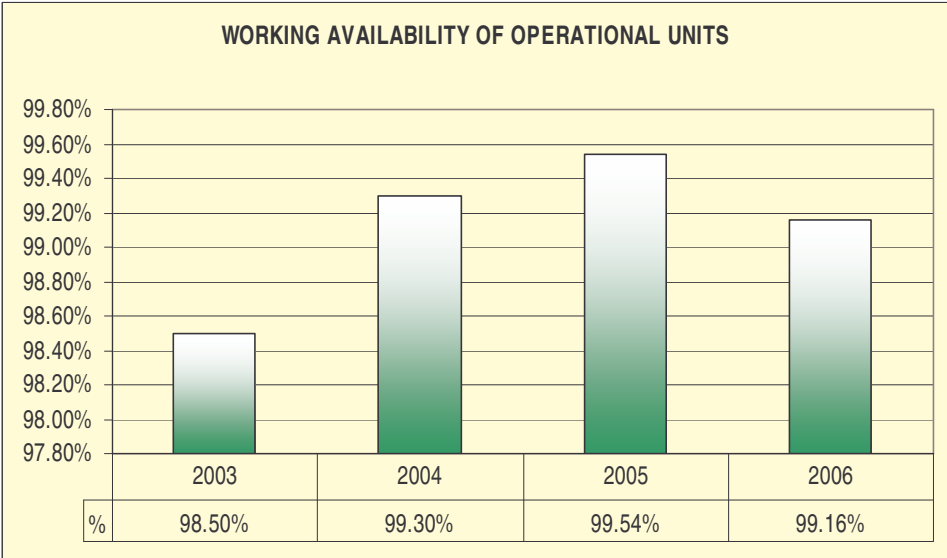


and anticipated costs for the overhaul reduced to 760 million SIT. We spent 1,661 million SIT for regular maintenance, which corresponds to 102.5 % of planned costs. The reason for overrun is mainly in the fact that maintenance costs for administrative building and canteen were not planned, although many maintenance interventions were needed there. For the realization of overhauls we spent 657 million SIT, which corresponds to 86.5 % of amending plan funds. Due to this fact we did not achieve the objective on two percent annual reduction of regular maintenance costs, but on the whole and by considering overhauls, the costs are under control. We estimate that the value is nearing the minimum. According to our estimations no further reductions are possible. We can compare regular maintenance costs annually, but we cannot compare overhaul costs because the main cost is overhaul of the operational unit and there are great differences regarding size, age and technology. In the graph, where we can see contractual availability for the last three years, the slight downgrade of working availability is evident. The reason for that lies in somewhat bigger number of breakdowns in unit 5 because the unit is in operation for the fourth year since the last overhaul. Despite everything we estimate that the availability is still at a very high level.

**Picture 1: Specific costs of regular maintenance**



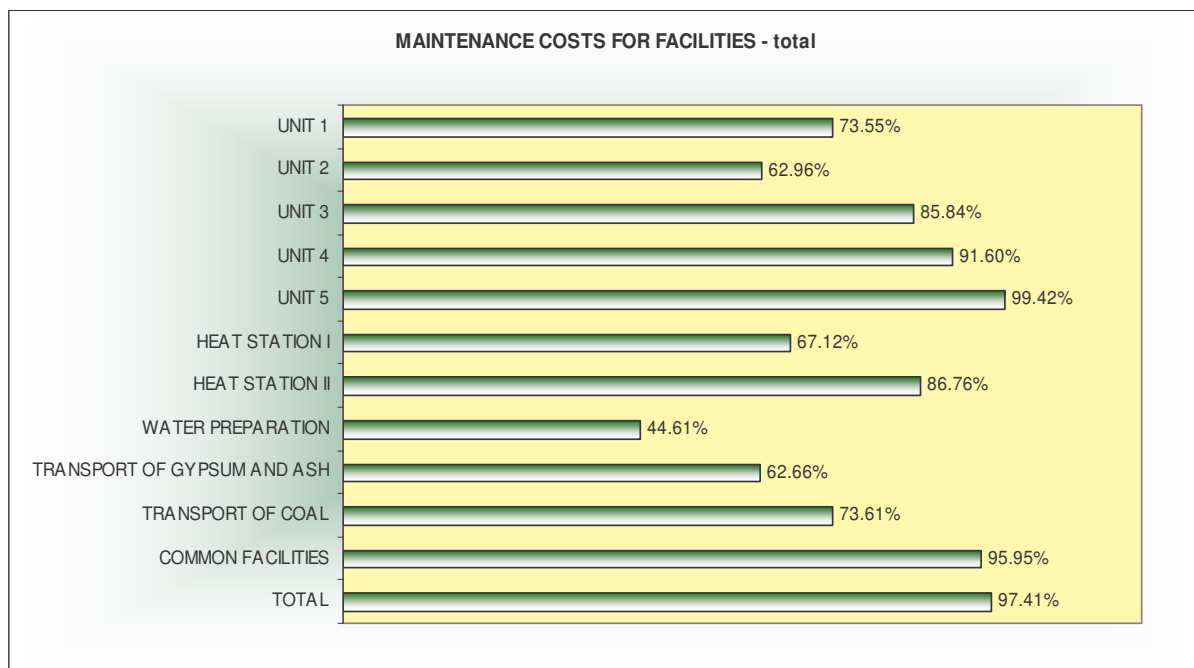
**Picture 2: Working availability of operational units**



In conclusion we can sum up the following:

- The facilities were maintained with quality, which is among other things evident also in the very high contractual availability of propulsive units.
- Taking into account that we spent **2,318 million SIT** for the maintenance, which corresponds to more than **97%** of amending plan funds, we can conclude that we performed all interventions in facilities rationally and in accordance with the main long-term objective, which is reducing our own price of electricity. However, we are approaching the point when year-to-year reducing of maintenance costs will not be possible any more or long-term negative consequences will appear for this reason.

**Picture 3: Attainment of maintenance total cost**



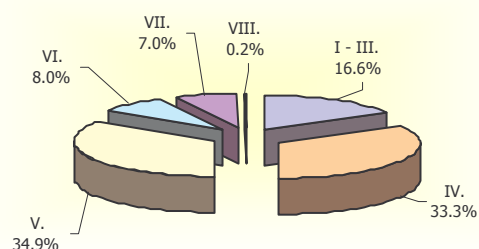
### 6.13 Employees

The number of employees on 31.12.2006 was 537, which is 24 employees less than at the end of the year 2005. Trend of reducing staff in the year 2006 is more explicit and results from implemented and planned organizational changes.

At the end of December 2006 there were, beside 525 employees for an indefinite period, also 5 employees for definite period and 7 apprentices.

On 31.12.2006 the average age structure of employees for an indefinite period was 44 years and 8 months, whereas average period of service was 24 years and 6 months. On 31.12.2006 there were 464 male employees and 61 female employees for an indefinite period.

**Qualification structure of employees for an indefinite period 31.12.2006**



## **Education**

In the school year 2006/2007 there are 40 or 7.6 % employees being educated. In the year 2006 10 employees finished their educational process and gained higher level of professional education. The average age of employees, who are being educated part-time, is 37 years.

Beside part-time education there were 190 internal and 313 external function specific trainings.

## **Issues related to disabled persons**

In the year 2006 the number of employed disabled persons decreased for five in comparison with the previous year. There were 53 disabled workers (9.8%), among these 19 disabled persons were employed half-time and 34 disabled persons full-time; in the same year one disabled person died and employment relationship was terminated for five disabled persons due to retirement or resignation for business reasons.

## **Sickness benefits**

Sick leave in the year 2006 totalled to 65,688 hours (in the year 2005 66,656 hours) or 8,211 working days. The share of sick leave for employees for an indefinite period was 5.85 % and slightly increased with regard to the previous year (5.81 %) due to the fact that number of employees decreased. In that period we carried out the analysis of sick leave for the period from 2001 to 2006, inclusive. The analysis showed that there is no correlation between overtime work and sick leave and that the rate of sick leave is largely affected by prolonged absence of employees, disabled persons in the period before invalidity retirement.

## **Scholarships**

Care for broader social environment is a part of mission of TE Šoštanj, which is particularly important due to its environmental impacts. This is realized also through scholarship policy and amount of funds planned for that purpose. With planned amount of funds we also guarantee the possibilities for obtaining the highest quality staff. By granting scholarships to the children of the employees we maintain and develop high level of affiliation, which is because of its specific activity – as electricity production is – more than important. At the end of the year 2006 TE Šoštanj has 102 scholarship-holders.

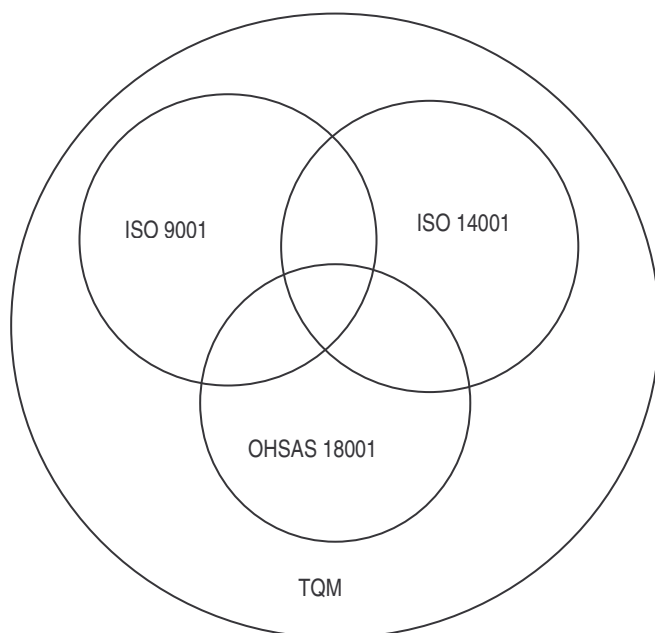
## **6.14 Quality management system**

TE Šoštanj has established integrated management system which comprises of: quality management system as required by SIST ISO 9001:2000, environmental management system as required by SIST EN ISO 14001:2004, health and safety at work management system as required by OHSAS 18001:1999.

By introducing the integrated management system all activities are linked into the efficient system which leads to realization of vision and mission as well as long-term company's objectives. It assures safe and comfortable working conditions for the employees, which are the pre-condition for creative work.

By integration of individual management systems into comprehensive integrated management system we are introducing new TQM philosophy in TE Šoštanj.

**TQM** Total Quality Management:



**T:**

- all individuals and all functions included,
- partnerships,
- orientation towards consumer and
- public nature of work on the basis of dialogue and common share.

**Q:**

- quality of work,
- quality of company,
- quality of process and
- quality of product.

**M:**

- quality is management's task
- quality management.

### **Effectiveness and efficiency of established management system**

Assessment of effectiveness and efficiency of established management system is carried out by integrated internal audits and external audits of certification body. At the external audit in the year 2006 no deficiencies, resulting from inefficient and inappropriate activities of established management system, were found.

The efficiency of TE Šoštanj management system according to SIST ISO 9001:2000, ISO 14001:2004 in OHSAS 18001:1999 was substantiated with positive notice by TÜV Management Service:

- The documentation of all three systems is integrated and electronically conducted. The procedures, which are implemented in all three standards, are unified (internal audits, corrective / preventive measures, management review, document and records control) and are being implemented jointly.
- The company has very clearly and efficiently documented processes, documentation in good order, implemented systems of process measurement, clear and efficient management of the production and training process.
- The company has efficiently and exhaustively elaborated SRO (environmental management system), which is implemented in individual sectors, where the following is thoroughly controlled:
  - legal and other requirements,
  - identifying and estimating environmental issues,
  - separated waste collection,
  - dangerous substances,
  - emergency situations.
- The company has elaborated Communication Plan, which ensures overall review of internal and external communication; communication instruments for measuring effectiveness are given.
- The company has introduced a system for statistical monitoring of operations. The system is supported by computer processing system and programme MAXIMA, in which greater number of important technological and safety parameters are gathered, monitored and statistically processed. In a multiannual period they created rich data base, which enables – by considering current data – examining the correlations and taking prompt actions – preventing a potential critical state in production processes.

## The development of management system

At the end of the year 2006 we started with the project on implementing standard ISO/IEC 27001:2005 - Protection of the information management system. The activities were as follows:

- we participated in education on standard ISO/IEC 27001:2005,
- we defined the model of standard ISO/IEC 27001:2005 implementation and
- we prepared time schedule for the project implementation.

The aim of the project is to accomplish certification according to the standard ISO/IEC 27001:2005 in the year 2008.

Top management encourages and supports further development of management system and gradually conveys it to external subcontractors and business partners.

### 6.15 Environmental Protection Practice

In 2006 the environmental protection practice in Šoštanj TE has been characterised by introduction of the concept of three large combustions plants and operational improvement of the existing forms of action. Pursuant to the letter of the European Commission to Slovenia, regarding the one-stack-one-combustion-plant approach (LCP) and in compliance with the Decree on emission limit values discharged into the atmosphere from large combustion plants, Official Gazette of the Republic of Slovenia No. 73/2005, which reflects the Directive 2001/80/EC, where the limit values of SO<sub>2</sub> depend on the calorific power of the combustion plants, we have decided that Unit 2 be large combustion plant 1, while Units 1, 3 and 4 be united in one LCP 2, and Unit 5 shall be LCP 3.

Within this framework, we have adapted Instruction for the case of emission of SO<sub>2</sub>, mainly due to the improved continued dosing of the limestone to the Unit 2 boiler or to LCP, furthermore, in the second half of the year we have introduced the priority action for the case of North wind, which otherwise have adverse pollution effect at Veliki vrh.

With the measures implemented up to now, we have been able to maintain the annual and monthly average of pollutants (NO<sub>x</sub>, CO and dust) bellow the limit emission values in all large combustion plants. We have been successful in keeping the average concentration of SO<sub>2</sub> on annual and monthly level bellow the limit values on LCP 2 and LCP 3, while on Unit 2 (LCP1) the limit values were exceeded, however to a much less degree than last year's values. In spite of this, we were able by employing some internal measures, to reduce the number of exceeded limits on most exposed locations around the plant. As compared to 2005 the number of exceeded limits in Šoštanj has been reduced by some 45 % and at Veliki vrh by some 50 %. If we compare these data with the data for the reference year 2002, the year we started with implementation of measures, the number of exceeded limits in Šoštanj in year 2006 has been reduced by 95 % and at Veliki vrh by 90 %. These results exceed the set up goal which was 80 % at all locations.

As indicated before, the daily limit values on Unit 2 (LCP) cannot be reached, so Unit 2 will need to be permanently shutdown by 31.10.2007, and because of this, it should be taken into account, that it is possible the full power of the Unit 1 will be occasionally reduced. Since the project of construction of the gas turbines is underway, so the reduced capacity of the Units 1 and 2 shouldn't result in substantial reduction of the electric energy supply. The gas turbines will have positive effect on efficient use of the material utilisation of fuel in other units, which further results in reduced emission of greenhouse gases and results in reduced demand for CO<sub>2</sub> quota and therefore lower costs. We have decided for new technologies and our long-term plans include replacement of the LCP2 with new, sustainable and highly efficient plant. However, until the defined date, we still have to increase the capacity of the

desulphurisation plant and improve the efficiency of the primary measures which will lead to adjustment of the emission concentrations on daily level for all Units that will remain in operation.

Efficient material utilisation has always been in focus in managing the combustion waste. Already last year we have acquired the opinion of the *Zavod za gradbeništvo* (Slovenian Building and Civil Engineering Institute) on the use of stabilising agent produced from production waste, for filling the subsidence zones. In compliance with the requirement set up by the Ministry, this opinion had to be updated with a certificate on compliance for construction material. Since there are no standards for construction products, we have started in July a procedure of acquiring the national technical approval which corresponds to technical standard. By the end of the year the process of acquiring the certificate was progressing well. The feedback information on the procedure of acquiring the certificate was positive.

Within the process of integrated remediation of the quality of water in the Velenje lake, we have already been using the dry transport of the sludge and last year we have launched the project of reducing the flow rate of the ash sludge, which will allow final and complete remediation of the water bodies from Šoštanj Power Plant on the subsidence zone. Remediation of accumulated water will additionally improve chemical composition of the lake water and later on of the restored area.

In respect of separated collection of the wastes from maintenance operations, we have introduced supervision of the producing and disposing stage for mixed construction and municipal waste and packaging. Disposal of packaging to municipal landfills has been increased in the first half of the year, but after additional measures, the disposal amount has reduced. The quantity of mixed construction waste has been decreased while the quantity of mixed municipality waste has been increased. This is the reason why we are preparing new measures, but the results will be notable in the following years.

Also in 2006 we continued with the implementation of European regulations to Slovenian regulations, with active participation of TEŠ experts. In preparing the Directive on national upper emission limit values we had critical remark on the operational programme for reducing the emission, which in the first reading has focused only to the contribution of the Šoštanj Thermal Power Plant. Based on our remarks, the government adopted modified version of the programme.

Within the international twinning project we have made parallel submission of the IPPC application in compliance with the German standards and pursuant to these standards we also have acquired a sample permit. For the purpose of acquiring the IPPC permit pursuant to national legislation we have completed and submitted the application in October.

In order to assess the quality of the ambient air, we have started with the elaboration of study of the model of pollution dispersion based on the flow of the thin layers of air mass and impact on the environment. The interim results show the possible positive effects of the planned new environmental goals in TEŠ.

In compliance with the Directive on Monitoring and Reporting on Greenhouse Gases, we have in 2006 implemented monitoring of the CO<sub>2</sub> emission. As evident from the balance sheet, we will use the entire CO<sub>2</sub> quota transferred from 2005.

On the area of noise protection, we have carried out the first stage of the noise rehabilitation for cooling tower 4. By constructing the noise barrier, we have constrained the major part of the spraying zone and partly reduced the ambient noise level. In December we have elaborated a prospective study on restoration of all noise sources, which, however is not feasible in some points, so the complete restoration could not have been carried out. In spite of that, the study contains essential directives for restoration that will be carried out this year.

We are fully aware of the fact, that environment protection is a process that can never end, so we already make investments into environmentally friendly technologies.

## **6.16 Protection of Working Environment**

### **Protection of Working Environment**

These activities are based on the principles of the Safety and Health at Work Act. Every employer is bound to implement measures required for assuring safety and health of workers, including prevention of accidents at work, informing and training of workers with adequately set up organization and required means.

In the past year, the Department for Occupational Safety has carried out measures to provide higher safety level and better health protection at all organisational levels, in compliance with the acquired certificate OHSAS 18001.

### **Education and Training**

For newly employed workers we have carried out training course, where the workers were acquainted with the basic safety at work and fire fighting measures, rights arising from the work contracts and duties that should be fulfilled during their work. The same training course was prepared for trainees and apprentices. For those workers that were transferred to different jobs within the company, training course for safety and fire fighting measures related to their new jobs was carried out.

### **Healthcare**

At the occupational medicine clinic preliminary and preventive medical check ups have been made in a limited extent. Periodical check-ups had not been carried out because they are scheduled for 2007.

### **Industrial Accidents**

We have successfully fulfilled the set up goal pursued ever since the beginning of the year, i.e. to maintain the number of industrial accidents at the level of the previous year; we have recorded 22 industrial accidents, all of them of minor extent.

### **Impact of Production Unit Operation to the Environment**

We have carried out noise measurements inside and outside the power plant with various operating regimes. The measurement results will serve as the basis for implementation of the noise level reduction in future. We have additionally made measurements of the ionising and nonionising radiation.

### **Declaration on Safety and Environmental Risk Assessment**

We have made a revision of the declaration on safety and environmental risk assessment which had to be made because of the newly organised jobs. The revision is made on a permanent basis, so that the risk assessment is adapted to every change made to the job or workplace.

### **Fire Safety**

We have recorded five minor fire accidents, which were all extinguished by the workers and caused no major damage.

## 6.17 Responsibility for Environment

We are well aware of the fact that the Power Plant is of an important factor for the close environment. We know that the production on electric energy largely effects the environment. We therefore took an active part in the development of the town; we actively participate in various projects and provide financial support. We cooperate with educational institutions, supported the project »Young Researchers«, donate to cultural associations; furthermore we sponsor various choirs (TEŠ octet, MPZS Šoštanj choir, PO »Zarja« Šoštanj). We also sponsor the basketball team KK »ELEKTRA« Šoštanj, OK Šoštanj-Topolšica and many other clubs and associations. We participate in various humanitarian actions for support of institutions and individuals. In 2006 we celebrated our 50 th anniversary and donated funds to Topolšica Hospital for the purchase of CT instrument and to Šoštanj Community for setting up the Memorial Park.

## 6.18 Informatics

### For 2006 our main goals on the area of business informatics:

- Introduction of electronic documentary system to support business process,
- Regular upgrading and updating of system hardware and installation of all safety corrections in order to assure reliable and safe operation of all systems,
- Implementation of control and operation systems for active and passive network and for all platforms,
- Implementation of new version of ISV Maximo 5.2 (unified with HSE).

### Electronic Documentary System

At the beginning of this year we have continued with own development. We set up electronic archives and e-dispatch centre and we intended to introduce electronic invoice verification and e-signature in all sectors.

During this time, HSE has implemented documentary system ODOS, which turned out to be very efficient, so we cancelled the development of our own application. At the strategic conference of HSE, a decision was made to design uniform information platform and implementation of the ODOS as central documentary system.

So by the end of the year we have signed the contract with the contractor and prepared functional specification for implementation of the documentary system ODOS in 2007.

### Maintenance Information System - Maximo

In the first half of this year a special working group at the HSE level prepared a proposal for common platform for introducing the computer supported IS maintenance at HSE, for the following areas:

- Inventory and supervision of the instruments and machines on various locations,
- Management and supervision of maintenance procedures with operating documents,
- Register of personnel for maintenance sector,
- Managing, integration and analysis of information.

We have made an agreement to use uniform approach. If, however, individual items occurs in separate companies, which does not occur in other HSE companies, these shall be allowed; however, the agreed upon directives should be taken into account in finding the solutions.

Pursuant to this manual, the transfer to the new version 5.2. has been made and by 1.1.2007 the new production of the new version of software tool Maximo was started.

### Safety Inspection

The company S&T carried out the inspection of safety settings of the system te-sostanj.si. We have detected quite some safety gaps, but none of them was critical. Until now, we haven't detected any unauthorised access from outside. Corrections were made as instructed by the service provider.



Verification of the safety of information system is a process, carried out by means of special and custom made tests in order to detect safety problems in the information system. By using proven methods, the service provider tried to identify all potential weak points in the system. All detected weak points have additionally been tested with special tools and also with manual procedures. Two types of testing the information systems have been used:

On-line testing– without internal information (Black-box – test)

Testing was carried out from the location of the service provider, via Internet, within the time schedule coordinated with the Client. The service provider who had carried out the safety test acted as »external invader« and by means of various tools and techniques tried to obtain as many information on the Client as possible and tried to identify the weak points that would allow the actual intruder access to the information infrastructure of the Client.

Internal testing – from the local network, with all information on information infrastructure and basic parameters for access to information system.

The service provider has accessed as regular user in the Client's network (no access to the domain user – only IP connection).

Pursuant to this testing, we have carried out all required operations to eliminate the weak points, as proposed by S&T.

### **Consolidation of the Database Oracle**

During setting up the of the information support for business processes, we have purchased for each application also hardware and database. However this resulted in reduced transparency and increased the scope of work of the system administrators.

By consolidating the database we have assured better and cost-effective solution for stability, reliability and safety of data. The costs are reduced not only on account of the hardware, but also because of the centralised operation, purchase of the licences for Oracle database collection, system operator costs. High availability of the Oracle database in our system (Maximo, ERP Kopa, Špica, EIS) is achieved by far less servers, which are now grouped and are therefore invulnerable if compared to a single server defect.

### **We have implemented efficient control and operation systems for active and passive network for all platforms.**

Every year, the quantity of hardware and software is increased, and also other operation on the area of system by some 20%. The expansion of the IT infrastructure means also more work for us. We use efficient systems for determining availability and preventive supervision:

- Microsoft Operations Manager
- Microsoft Systems Management Server
- Cisco Works
- Trendnet Terra
- Hewlett Packard System Insight Manager
- Trendnet Zenas

Mostly our environment is Microsoft oriented and we use their on-line solutions for control of operations and events, we use on-line identification of problems with server software and we mainly focus on origins of the problems. Microsoft has a vast basis of knowledge offering quick solutions of potential problems. It is also possible to automatically install the software, to keep records on hardware and software; we also have remote access to servers and workstations.

With tools for monitoring and control of the network equipment we monitor the operation of each point and instrument in the network. We also monitor the operation of the rest of the IT infrastructure (solid and wireless network connection, servers, services, application, Oracle database, MS Sql).

For user's support we use system for monitoring the user's error report and their elimination (servicing). The reported errors area analysed and service procedure defined with the goal to eliminate the error in

shortest possible time. The system has been synchronised also with our subcontractors and allows us to monitor their activities as well.

In order to increase the operational efficiency of the system support, we made improvements to the various systems (simplified and automated tasks) which are related to operation control of the fast growing IT infrastructure.

#### **Upgrading the Exchange System (mail and messaging system)**

Every year the amount and number of e-mails is higher. In order to provide high availability of the mailing and messaging system, we have upgraded the 5 years old computer system with new server. The group now includes two active servers, one as stand-by to assume the operation in case of heavy error of the other servers.

The new server has enough capacity for the installation of the new version of the messaging system Exchange 2007.

### **6.19 Important Events at the End of the Year**

#### **Warranty Statement**

In January Holding Slovenske elektrarne issued a warranty statement for obligations of the Šoštanj Power Plant regarding the Long-term Agreement for Purchase of Natural Gas made with Geoplin.

#### **Introducing the Model of Competences**

In January we started introducing the model of competences in the personnel sector.

#### **Investments**

We are currently preparing tender for supply of Power Island for Unit 6.

#### **Supervisory Board**

Since 29. March 2007 are appointed a new members. The new members of the Supervisory Board are:

- Džorje Žebeljan, M. Sc, Chairman
- Franc Rosec, Deputy Chairman
- Franc Sever, member

## **7 ACCOUNTING REPORT**

### **7.1 Introductory clarifications**

Financial statements in this accounting report are drawn up in accordance with accounting and reporting requirements of Slovene accounting standards 2006, based on Companies Act and Accounting Regulation (2006). The company has no subsidiaries and does not draw up consolidated financial statements.

The company took into consideration general rules of assessment for the preparation of financial statements:

- continuation of the company's operations is foreseen,
- constant use of assessments methods,
- precautionary principle,
- appreciation of revenues and expenditures notwithstanding their payment,
- individual assessment of assets and liabilities.

and fundamental accounting assumptions:

- appreciation of business events creation,
- going concern basis of the operation.

Quality characteristics of financial statements and therefore of the whole accounting are mainly clarity, adequacy, reliability and comparability.

Termoelektrarna Šoštanj is a big company and therefore at the end of the year it is obligated to deliver its annual report, which has to be examined by an auditor in accordance with the provisions of Article 57 of Companies Act, in terms and under conditions, defined by law regulating the auditing.

For the preparation of opening balance sheet upon SRS (2006), financial statements that were in previous year prepared in accordance with SRS (2001), were adjusted in such a manner that SRSs (2006) were taken into consideration. A major part of changes has caused different classification of individual items only and some changes has also an effect on capital items. Capital changes are the result of forming long-term provisions for liabilities and charges for jubilee rewards and severance pays at retirement and related receivables for deferred taxes. The recognised effect in capital is net loss brought forward from previous years in the amount of 545.713 thousand SIT.

Financial statements are drawn up in Slovene tolar and rounded to thousand units.

The issue of financial statements was approved by the manager of the company on 16 February 2007.

#### **7.1.1 Exchange rate and the method of conversion to national currency**

Accountancy items expressed in foreign currency are in balance sheet and in income and expense statement converted according to the middle exchange rate of the Bank of Slovenia on the day of business event occurrence.

State of assets and liabilities, expressed in foreign currency on the balance sheet date are converted in Slovene tolar according to the middle exchange rate of the Bank of Slovenia on balance sheet date.

## 7.1.2 Regional and segmental sections

Accounting information about the business operation are shown by regional and segmental sections.

Segmental section is geographical section in which states of determined area are included. Considering that TE Šoštanj operates on regional section of Republic of Slovenia only, the data are not indicated separately.

Segmental section is organisational unit, which is autonomous and responsible for profit or loss realization. It is market-oriented part of the company, which with its business operation creates profit or loss. Information for reporting by segmental sections are based on the data, which are collected for external reporting and additionally also on the data, which are collected by the company for needs of internal reporting.

TE Šoštanj has the following regional sections respectively profit centres:

<u>Segmental section</u>	<u>significant products and services of segmental section</u>
<u>Production of electric energy</u>	<u>electric energy</u>
<u>Steam and hot water supply</u>	<u>heat energy, system water</u>
<u>Canteen</u>	<u>luncheon, canteen services</u>
<u>Social standard</u>	<u>flats and holiday capacities rental</u>

Guides for classification of revenues and expenditures:

- revenues are generally direct,
- expenditures are all direct. Indirect expenditures (overhead costs of production and management) are classified to segmental sections with simple division calculation.

## 7.2 Independent Auditor's Report

### To the Shareholders of Termoelektrarna Šoštanj d.o.o.

— We have audited the accompanying financial statements of the company Termoelektrarna Šoštanj d.o.o. which comprise the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

— We also read the Management Report.

#### ***Management's responsibility for the financial statements***

— Management is responsible for the preparation and fair presentation of these financial statements prepared in accordance with the Slovenian Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### ***Auditor's responsibility***

— 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. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

— An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

— We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

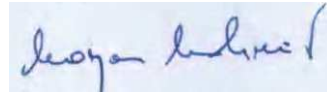
## **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company Termoelektrarna Šoštanj d.o.o. as at 31 December 2006, the result of its operations and its cash flows for the year then ended in accordance with the Slovenian Accounting Standards.

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

**KPMG SLOVENIJA,**


**podjetje za revidiranje, d.o.o.**



Marjan Mahnič, B.Sc.Ec.

*Certified Auditor*

Partner



Ljubljana, 30th March 2007

## 7.3 Financial statements

### BALANCE SHEET on 31 December 2006

in 000 SIT

ITEM	clarification	Year 2006	Year 2005	
			1 January 2006 upon SRS (2006)	31 December 2005 upon SRS (2001)
<b>ASSETS</b>		<b>72,184,173</b>	<b>73,181,167</b>	<b>72,999,263</b>
<b>A. LONG-TERM ASSETS</b>		<b>62,520,613</b>	<b>64,236,340</b>	<b>64,054,436</b>
<b>I. Intangible assets and long-term accruals for financial assets and liabilities</b>	<b>1</b>	<b>107,660</b>	<b>76,253</b>	<b>76,253</b>
1. Long-term property rights		104,143	74,459	74,459
2. Other long-term active accruals for financial assets and liabilities		3,517	1,794	1,794
<b>II. Tangible fixed assets</b>	<b>2</b>	<b>62,141,934</b>	<b>63,860,024</b>	<b>63,860,024</b>
1. Land and buildings		10,297,945	11,122,168	11,122,168
a) Land		637,021	532,062	532,062
b) Buildings		9,660,924	10,590,106	10,590,106
2. Manufacturing plant and equipment		45,005,070	50,271,714	50,271,714
3. Other facilities and equipment		624,991	735,275	735,275
4. Tangible fixed assets that are acquired		6,213,928	1,730,867	1,730,867
a) Tangible fixed assets in construction and manufacture		5,073,348	426,927	426,927
b) Advances for acquisition of tangible fixed assets		1,140,580	1,303,940	1,303,940
<b>III. Investment property</b>				
<b>IV. Long-term financial investments</b>	<b>3</b>	<b>51,196</b>	<b>51,196</b>	<b>51,196</b>
1. Long-term financial investments, except loans		51,196	51,196	51,196
a) Other stocks and shares		51,196	51,196	51,196
<b>V. Long-term operating receivables</b>	<b>4</b>	<b>52,766</b>	<b>66,963</b>	<b>66,963</b>
1. Long-term operating receivables to the companies in the group			310	310
2. Long-term operating receivables to others		52,766	66,653	66,653
<b>VI. Deferred receivables for tax</b>	<b>5</b>	<b>167,057</b>	<b>181,904</b>	
<b>B. SHORT-TERM ASSETS</b>		<b>9,645,484</b>	<b>8,928,921</b>	<b>8,928,921</b>
<b>I. Assets (groups for disposal) for sale</b>	<b>6</b>	<b>48,341</b>	<b>105,221</b>	<b>105,221</b>
<b>II. Stocks</b>	<b>7</b>	<b>2,441,845</b>	<b>2,395,278</b>	<b>2,395,278</b>
1. Material		2,356,222	2,395,270	2,395,270
2. Advances for stocks		85,623	8	8
<b>III. Short-term financial investments</b>				
<b>IV. Short-term operating receivables</b>	<b>8</b>	<b>7,154,411</b>	<b>6,419,715</b>	<b>6,419,715</b>
1. Short-term operating receivables to companies in the group		6,129,626	5,689,787	5,689,787
2. Short-term operating receivables to buyers		306,642	373,220	373,220
3. Short-term operating receivables to others		718,143	356,708	356,708
<b>V. Cash</b>	<b>9</b>	<b>887</b>	<b>8,707</b>	<b>8,707</b>
<b>C. ACTIVE ACCRUALS FOR FINANCIAL ASSETS AND LIABILITIES</b>	<b>10</b>	<b>18,076</b>	<b>15,906</b>	<b>15,906</b>
<b>OFF-BALANCE-SHEET RECORD</b>	<b>11</b>	<b>66,125,475</b>	<b>67,087,908</b>	<b>67,087,908</b>

ITEM	clarification	Year 2006	Year 2005	
			1 January 2006 upon SRS (2006)	31 December 2005 upon SRS (2001)
<b>LIABILITIES</b>		<b>72,184,173</b>	<b>73,181,167</b>	<b>72,999,263</b>
<b>A. CAPITAL</b>	<b>12</b>	<b>47,346,317</b>	<b>46,964,914</b>	<b>47,510,627</b>
<b>I. Called-up capital</b>		<b>19,498,011</b>	<b>19,498,011</b>	<b>19,498,011</b>
1. Share capital		19,498,011	19,498,011	19,498,011
<b>II. Capital reserves</b>		<b>28,009,845</b>	<b>28,009,845</b>	<b>28,009,845</b>
<b>III. Profit reserves</b>				
<b>IV. Revaluation surplus</b>		<b>2,771</b>	<b>2,771</b>	<b>2,771</b>
<b>V. Net profit or loss brought forward</b>		<b>(164,310)</b>	<b>(545,713)</b>	
<b>VI. Net profit or loss of business year</b>				
<b>B. PROVISIONS AND LONG-TERM ACCRUALS AND INCOME COLLECTED IN ADVANCE</b>		<b>2,992,649</b>	<b>3,239,879</b>	<b>2,512,262</b>
1. Provisions for pensions and similar liabilities	<b>13</b>	726,334	727,617	
2. Long-term accruals and income collected in advance	<b>14</b>	2,266,315	2,512,262	2,512,262
<b>C. LONG-TERM LIABILITIES</b>		<b>8,135,016</b>	<b>12,318,807</b>	<b>12,318,807</b>
<b>I. Long-term financial liabilities</b>	<b>15</b>	<b>8,127,397</b>	<b>12,307,462</b>	<b>12,307,462</b>
1. Long-term financial liabilities to other companies in the group				
2. Long-term financial liabilities to banks		8,127,397	12,299,886	12,299,886
3. Long-term financial liabilities on the basis of bonds				
4. Other long-term financial liabilities			7,576	7,576
<b>II. Long-term business liabilities</b>	<b>16</b>	<b>7,619</b>	<b>11,345</b>	<b>11,345</b>
1. Other long-term business liabilities		7,619	11,345	11,345
<b>III. Deferred liabilities for taxes</b>				
<b>Č. SHORT-TERM LIABILITIES</b>		<b>13,311,386</b>	<b>10,425,424</b>	<b>10,425,424</b>
<b>I. Liabilities, included in the group for disposal</b>				
<b>II. Short-term financial liabilities</b>	<b>17</b>	<b>4,093,998</b>	<b>4,309,830</b>	<b>4,309,830</b>
1. Short-term financial liabilities to companies in the group				
2. Short-term financial liabilities to banks		4,086,339	4,299,490	4,299,490
3. Short-term financial liabilities on the basis of bonds				
4. Other short-term financial liabilities		7,659	10,340	10,340
<b>III. Short-term business liabilities</b>	<b>18</b>	<b>9,217,388</b>	<b>6,115,594</b>	<b>6,115,594</b>
1. Short-term business liabilities to companies in the group		4,046,730	2,913,356	2,913,356
2. Short-term business liabilities to suppliers		4,814,083	2,606,668	2,606,668
3. Short-term bill of exchange liabilities				
4. Short-term business liabilities on the basis of advances			33	33
5. Other short-term business liabilities		356,575	595,537	595,537
<b>D. ACCRUALS AND INCOME COLLECTED IN ADVANCE</b>	<b>19</b>	<b>398,805</b>	<b>232,143</b>	<b>232,143</b>
<b>OFF-BALANCE-SHEET REGISTER</b>		<b>66,125,475</b>	<b>67,087,908</b>	<b>67,087,908</b>



**PROFIT AND LOSS STATEMENT**  
January - December 2006

in 000 SIT

ITEM		Clarification	Year 2006	Year 2005
<b>1.</b>	<b>Net revenues from sale</b>	<b>1</b>	<b>44,328,761</b>	<b>44,810,020</b>
a)	On domestic market		44,320,673	44,798,427
	- from relationship with companies in the group		42,932,540	43,315,010
	- from relationship to other affiliated companies			
	- from relationship to others		1,388,133	1,483,417
b)	On foreign market		8,088	11,593
<b>2.</b>	<b>Value change of product stock and unfinished production</b>			
<b>3.</b>	<b>Capitalized own products and services</b>			<b>30,502</b>
<b>4.</b>	<b>Other business revenues (with revaluation business revenues)</b>	<b>2</b>	<b>383,637</b>	<b>237,193</b>
<b>5.</b>	<b>Costs of good, material and services</b>	<b>3</b>	<b>32,099,396</b>	<b>33,137,040</b>
a)	Purchase price of sold goods, materials and costs of used materials		28,736,251	28,707,781
b)	Cost of services		3,363,145	4,429,259
<b>6.</b>	<b>Personnel costs</b>	<b>4</b>	<b>3,907,800</b>	<b>3,749,376</b>
a)	Salaries costs		2,618,546	2,541,386
b)	Social insurance costs		600,764	579,926
	- from pension insurance costs		386,737	372,970
c)	Other personnel costs		688,490	628,064
<b>7.</b>	<b>Depreciation expense</b>	<b>5</b>	<b>6,522,301</b>	<b>6,497,324</b>
a)	Amortisation		6,078,211	5,935,681
b)	Revaluation business expenditures at intangible assets and tangible fixed assets		441,718	556,903
c)	Revaluation business expenditure at current assets		2,372	4,740
<b>8.</b>	<b>Other business expenditure</b>	<b>6</b>	<b>1,095,272</b>	<b>730,269</b>
	- provisions for severance pays and jubilee rewards		22,018	
	- other costs		1,073,254	730,269
<b>PROFIT OR LOSS FROM BUSINESS OPERATIONS</b>			<b>1,087,629</b>	<b>963,706</b>
<b>9.</b>	<b>Financial revenues</b>	<b>7</b>	<b>116,161</b>	<b>95,080</b>
a)	Financial revenues from shares in other companies		76,124	
b)	Financial revenues from loans, given to other		30,855	75,165
c)	Financial revenues from operating receivables to others		9,182	19,915
<b>10.</b>	<b>Financial expenditure</b>	<b>8</b>	<b>802,155</b>	<b>986,395</b>
a)	Financial expenditure from loans, obtained from banks		796,557	983,676
b)	Financial expenditure other financial liabilities		4,892	276
c)	Financial expenditure from business liabilities		706	2,443
<b>PROFIT OR LOSS FROM ORDINARY ACTIVITIES</b>			<b>401,635</b>	<b>72,391</b>
<b>11.</b>	<b>Other revenues</b>		<b>555</b>	<b>10,964</b>
<b>12.</b>	<b>Other expenditure</b>		<b>5,940</b>	<b>567</b>
<b>TOTAL PROFIT OR LOSS</b>			<b>396,250</b>	<b>82,788</b>
<b>13.</b>	<b>Income tax</b>			
<b>14.</b>	<b>Deferred taxes</b>	<b>9</b>	<b>-761</b>	
<b>NET PROFIT OR LOSS FOR BUSINESS PERIOD</b>			<b>395,489</b>	<b>82,788</b>

**CASH FLOW STATEMENT**  
for the period from 1 January to 31 December 2006

in 000 SIT

Order num.	ITEM	year 2006	year 2005
<b>A</b>	<b>INITIAL STATE OF CASH</b>	<b>8,707</b>	<b>672</b>
1.	Current account	8,707	639
2.	Foreign currency account		33
<b>B</b>	<b>CASH FLOW AT BUSINESS OPERATIONS</b>		
<b>a)</b>	<b>Receipts at business operations</b>	<b>52,946,032</b>	<b>53,977,926</b>
1.	Receipts under the head of business operations with electric power	50,991,782	52,090,893
a)	<i>Domestic market</i>	<i>50,991,782</i>	<i>52,090,893</i>
b)	<i>Foreign market</i>		
2.	Receipts under the head of business operations with heat	1,327,471	1,021,864
3.	Receipts under the head of VAT		196,636
4.	Other receipts at business operations	626,779	668,533
<b>b)</b>	<b>Expenditure at business operations</b>	<b>44,620,939</b>	<b>44,477,156</b>
1.	Expenditure under the head of business operations with electric power	29,028,049	27,520,703
a)	<i>Domestic market</i>	<i>29,028,049</i>	<i>27,520,703</i>
b)	<i>Foreign market</i>		
2.	Expenditure under the head of business operations with heat	1,025,164	733,994
3.	Expenditure under the head of VAT	2,320,214	2,576,625
4.	Expenditure for other charges	697,170	637,276
5.	Expenditure for maintenance, material and services	7,016,507	8,667,734
6.	Expenditure for salaries and profit share of employees	3,984,266	3,839,811
7.	Other expenditure at business operations	549,569	501,013
<b>c)</b>	<b>Net cash of receipts at business operations or net cash of expenditure at business operations</b>	<b>8,325,093</b>	<b>9,500,770</b>
<b>C</b>	<b>CASH FLOW AT INVESTING ACTIVITIES</b>		
<b>a)</b>	<b>Receipts at investments activities</b>	<b>287,557</b>	<b>75,165</b>
1.	Receipts from obtained interests and profit shares of other that relate to investment activities	30,858	75,165
2.	Receipts from disposal of intangible assets		
3.	Receipts from disposal of tangible fixed assets	180,575	
4.	Receipts from disposal of investment property		
5.	Receipts from disposal of long-term financial investments - assignments of credit	76,124	
6.	Receipts from disposal of short-term financial investments		
a)	<i>Received deposits</i>		
b)	<i>Repayment of given short-term loans</i>		
c)	<i>Other short-term financial investments</i>		
<b>b)</b>	<b>Expenditure at investing activities</b>	<b>3,429,766</b>	<b>3,710,769</b>
1.	Expenditure for acquisition of intangible assets		
2.	Expenditure for acquisition of tangible assets	3,425,176	3,710,769
3.	Expenditure for acquisition of investment property		
4.	Expenditure for acquisition of long-term financial investment - assignments of credit	4,590	
5.	Expenditure for acquisition of short-term financial investment		
a)	<i>Given deposits</i>		
b)	<i>Given short-term loans</i>		
c)	<i>Other short-term financial investments</i>		
<b>c)</b>	<b>Net cash of receipts at investing activities or net cash of expenditure at investment activities</b>	<b>-3,142,209</b>	<b>-3,635,604</b>
<b>Č</b>	<b>CASH FLOWS AT FINANCING</b>		
<b>a)</b>	<b>Receipts at financing</b>		
1.	Receipts from paid up capital		
2.	Receipts from the increase of long-term financial liabilities		
3.	Receipts from the increase of short-term financial liabilities		
<b>b)</b>	<b>Expenditure at financing</b>	<b>5,190,704</b>	<b>5,857,131</b>
1.	Expenditures for given interests that relate to financing	792,031	984,280
2.	Expenditure for repayment of capital		
3.	Expenditure for repayments of long-term financial liabilities	4,398,673	4,872,851
4.	Expenditure for repayments of short-term financial liabilities		
5.	Expenditure for repayments of dividends and other profit shares		
<b>c)</b>	<b>Net cash of receipts at financing or net cash of expenditures at financing</b>	<b>-5,190,704</b>	<b>-5,857,131</b>
<b>D</b>	<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENT IN THE PERIOD</b>	<b>-7,820</b>	<b>8,035</b>
<b>E</b>	<b>CASH AND CASH EQUIVALENTS</b>	<b>887</b>	<b>8,707</b>
1.	Cash (current account, deposits to 3 months, cash register)	418	6,512
2.	Cash (foreign currency account)	276	2,195
3.	Cash - delivered euro currency	193	

## CAPITAL FLOW STATEMENT for the year 2006

in 000 SIT

ITEMS	Fixed capital	Capital reserves	Profit reserves				Revaluation surplus	Net profit or loss from previous periods		Net profit or loss for the period		Total
			Statutory reserves	Reserves for own shares	Reserves under articles of association	Other profit reserves		Net profit from previous periods	Net loss from previous periods	Net profit for the period	Net loss for the period	
<b>State 31 December 2005</b>	<b>19,498,011</b>	<b>28,009,845</b>					<b>2,771</b>					<b>47,510,627</b>
<b>Transition review to SRS 2006 (changes from 31 December 2005 on 1 January 2006)</b>									<b>(545,713)</b>			<b>(545,713)</b>
<b>State 1 January 2006</b>	<b>19,498,011</b>	<b>28,009,845</b>					<b>2,771</b>		<b>(545,713)</b>			<b>46,964,914</b>
<b>A. State at the beginning of the year</b>	<b>19,498,011</b>	<b>28,009,845</b>					<b>2,771</b>		<b>(545,713)</b>			<b>46,964,914</b>
<b>B. Capital movements</b>												
a) Input of called-up share capital												
b) Subscription of uncalled share capital												
c) Call-up subscribed share capital												
č) Input of additional paying-up of capital												
d) Input of net profit of loss for the period										<b>395,489</b>		<b>395,489</b>
e) Input of capital revaluation amount												
f) Other capital constituents increases												
g) Input of net profit of loss from previous periods correction									<b>(14,086)</b>			<b>(14,086)</b>
<b>C. Capital movements</b>												
a) Allocation of net profit as capital constituent on the basis of conclusion									<b>395,489</b>	<b>(395,489)</b>		
<b>Č. Capital movements</b>												
<b>D. End state in the period</b>	<b>19,498,011</b>	<b>28,009,845</b>					<b>2,771</b>		<b>(164,310)</b>			<b>47,346,317</b>
<b>DISTRIBUTABLE PROFIT</b>												

## CAPITAL FLOW STATEMENT for the year 2005

in 000 SIT

ITEMS		Called-up capital		Capital reserves	Profit reserves				Net profit or loss from previous periods		Net profit or loss for the period		Equity revaluation adjustments		Total
		Share capital	Uncalled capital		Statutory reserves	Reserves for own shares	Reserves under articles of association	Other profit reserves	Net profit from previous periods	Net loss from previous period	Net profit for the period	Net loss for the period	General equity revaluation adjustments	Special equity revaluation adjustments	
<b>A.</b>	<b>State at the beginning of the year</b>	<b>19,498,011</b>							<b>(2,385,846)</b>			<b>30,312,903</b>	<b>2,771</b>	<b>47,427,839</b>	
<b>B.</b>	<b>Capital movements</b>														
a)	Input of called-up share capital														
b)	Subscription of uncalled share capital														
c)	Subscription of subscribed share capital														
č)	Input of additional capital payments														
d)	Input of net profit or loss for the period									<b>82,788</b>				<b>82,788</b>	
<b>C.</b>	<b>Capital movements</b>													<b>0</b>	
a)	Allocation of net profit or loss for 2005, as capital constituent upon the management conclusion									<b>82,788</b>	<b>(82,788)</b>			<b>0</b>	
b)	Transfer of net profit or loss from previous periods to general equity revaluation adjustment of capital upon the management conclusion									<b>2,303,058</b>		<b>(2,303,058)</b>		<b>0</b>	
<b>Č.</b>	<b>Capital movements</b>													<b>0</b>	
<b>D.</b>	<b>Final state in the period</b>	<b>19,498,011</b>								<b>0</b>	<b>0</b>	<b>28,009,845</b>	<b>2,771</b>	<b>47,510,627</b>	
	<b>DISTRIBUTABLE PROFIT</b>														

## **7.4 Accounting policies**

### **7.4.1 Intangible assets and long-term accruals and prepaid expenditure**

Intangible assets of the company cover investments in acquired long-term property rights. They include licences for software, which are intended for carrying out individual functions for the period longer than one year and emission coupons CO<sub>2</sub>.

Useful life is final for long-term property rights and indefinite for emission coupons. Purchase price model is used for measuring upon recognition.

They are evaluated at initial recognition upon purchase price. Purchase price includes also import and non-returnable purchase charges as well as interests from loans up to the creation of intangible asset. Free of charge granted emission coupons are evaluated at the value of 1 tolar for 1 coupon with regard to clarification 1 to SRS 2-emission coupons from Council of Experts of Slovenian audit institute.

The company accounts depreciation individually upon uniform time method considering useful life time of individual intangible long-term asset. Useful life time of intangible long-term assets moves within 2 to 5 years.

Revaluation of intangible long-term assets is a change of their accounting value. It appears as revaluation, because of impairment. The company verifies depreciation period and method at the end of the business year.

Long-term accruals and prepaid expenditure include also the contributions of the company, as the owner of accommodations, in reserve fund, which will be used for future expenses for maintenance in accordance with Housing Act.

Technique of direct value reduction through purchase price accounts without the use of correction accounts is used.

### **7.4.2 Tangible fixed assets**

Tangible fixed assets constitute lands, buildings, plant and other equipment and fixed assets that are in the course of acquirement.

Purchase price model is used for the measurement after recognition of all tangible fixed assets groups.

Tangible fixed asset is evaluated at initial recognition upon the purchase price. It consists of purchase price, import and non-returnable purchase charges and expenses that are the result of its direct restoration for intended use, especially transport and installation costs. Purchase price consists also of interests from loans for acquisition of tangible fixed asset until its restoration for use. Obtained discounts reduce it.

#### **Subsequently incurred expenses in connection with tangible fixed asset**

Expenses that subsequently incur in connection with tangible fixed assets increase their purchase price, if they increase their future benefits in comparison with initially valued; in this situation expenses that enable increase of useful life of tangible fixed assets, at first reduce until then calculated depreciation correction of their value.

Repair or maintenance of tangible fixed assets are intended for restoration or preservation of future economic advantages that are expected on the basis of initially valued level of asset efficiency. They are recognized as expenditures, when they appear.

Envisaged amounts of expenses of larger regular checks and repairs (overhaul) of tangible fixed assets are considered as parts of tangible fixed assets.

**Depreciation**

Carrying amount of tangible fixed asset value is reduced by depreciation. Tangible fixed asset starts to depreciate the first day of the next month, after it is available for use. Spares of high values are considered as tangible fixed assets and are depreciated irrespective of the beginning of their use.

The company uses the method of uniform time depreciation. Tangible fixed assets are depreciated individually. Land does not depreciate.

Depreciation levels of tangible fixed assets were in 2002 on the basis of executed evaluation of fixed assets in the year 2001, adjusted to expected life time of individual production units. In such manner depreciation levels of individual buildings and equipment differ in relation to expected useful life time for individual fixed assets.

Used depreciation levels that materially affect the amount of charged depreciation by production units are:

Title	Depr. levels of real estates	Depr. level of production equipment
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%
UNIT 5	1.59 – 4.97%	0.7 - 10%

Plant equipment, which was purchased in 2006 is depreciated upon the level from 12.5 to 33.33 %, the equipment upon the level from 10 to 33.33 % and vehicles upon the level 10 % in terms of expected useful life time.

**Tangible fixed assets revaluation**

Tangible fixed assets revaluation is a change of their accounting value. It appears like tangible fixed assets revaluation due to the impairment.

Tangible fixed assets have to be revaluated because of impairment, if their accounting value exceeds substitutable value. Net sales value or value at use is considered as substitutable value, namely the highest of both. The company checks accounting value of tangible fixed assets on the accounting day to asses whether signs of asset impairment exist and if they exist the substitutable value of the asset has to be evaluated. Evaluation can also be made by authorized value appraisers, if business operations circumstances substantially change.

### **7.4.3 Financial assets**

Financial assets are assets of the company intended to increase, with return on investments, its long-term or short-term financial revenues.

Financial assets of the company are identified as available for sale and are recognized in respect of settlement date.

### **7.4.4 Business operations claims**

Business operations claims include mainly claims in connection with sold products, performed services and also other sold assets. Long-term business operations claims become due within the period, longer than one year, short-term however within the period of one year.

Claims of all classes are at the beginning demonstrated with amounts that derive from adequate documents (invoice, debits, contracts), on the assumption that they will be paid. The initial claims can be later increased or reduced with regard to received payment or other settlement for each amount, justified with the contract. Claims denominated in foreign currency are in balance sheet calculated according to middle exchange rate of the Bank of Slovenia for considered currency on the last day of accounting period.

Given advances are in balance sheet demonstrated in connection with all matters to which they relate.

Claims for which it is presumed to be paid in regular time period respectively in whole amount are demonstrated as doubtful and as disputed claims, if there is a judicial proceeding because of them. Correction of their value is chargeable to revaluated business events. With »regular time period« a time limit is meant that exceeds the agreed in accordance with the contract respectively other adequate document for 180 days at most, subject to individual assessment of individual claim.

### **7.4.5 Deferred claims for tax**

Claims deferred for taxes are not recognized in books of account, if claim amounts are individually or jointly irrelevant or immaterial for the company. Claims for deferred taxes are as a general rule recognized for material (substantial) amounts, to the extent for which possibility exists that a future taxable profit will be available, chargeability of which can be in future used for deferred claim.

### **7.4.6 Stocks**

Stocks of material include quantity in storage, processing and conversion and also on the way from the supplier, if the company already took over the delivery. As material shall be deemed also small tools (and packaging), with useful life time up to one year and also those with useful life time more than one year, if their individual purchase price does not exceed tolar value of 500 euro.

Stocks of material are originally evaluated upon the purchase price, which includes purchase price, import and other non-returnable purchase charges and direct expenses of purchase. VAT that is not returned is also included among non-returnable purchase charges. Purchase price is reduced for obtained discounts. Company keeps the following groups of stocks: material, small tools and unfinished products respectively semi-products. A part of stocks are also advances for stocks.

Company uses a method of weighted average price for assessing stocks of material and small tools and for demonstration of expenses respectively expenditures. It does not calculate stocks at the end of the year, as it would use a fifo method during the year.

Company uses fifo method only for assessing of coal consumption, because coal, which was first bought is first used. Company does not demonstrate coal stocks.

#### **7.4.7 Cash**

Cash includes cash, deposit money and money on the way. Cash is cash in cash register in form of bank notes, coins and received cheques. Deposit money is money on accounts at bank or other financial institutions, which can be used for payment. It includes immediately available cash and cash bound by recall. Cash on the way is money transferred from cash register on adequate account at bank or other financial institution and is on the same day registered as cash in bank.

#### **7.4.8 Capital**

Capital reflects company's equity finance and is in the light of the company its obligation to the owner. It is specified not only with amounts, which the owner invested in the company, but also with amounts that appeared at business operations of the company.

#### **7.4.9 Long-term provisions and long-term accruals and income collected in advance**

Provisions are formed when the company has a current obligation as a result of past event and when is likely that a flow of factors will be needed for payment of obligations, which enable economic advantages. Provisions are formed only if obligation amount can be reliably assessed.

Company is in accordance with legal provisions, collective contract and entrepreneurial collective contract bound to payment of jubilee rewards of employees and severance pays at their retirement, for which long-term provisions are formed. Forming of provisions is based on calculation prepared by authorized actuary. Other pension obligations do not exist.

Long-term accruals and income collected in advance are formed on the basis of free of charge acquired assets for investments in tangible and intangible fixed assets. Provisions formed for investments in tangible fixed assets are used to the benefit of business revenues in accordance with charged depreciation. Provisions formed in connection with emission coupons are used to the benefit of business revenues for the share of free of charge acquired coupons of business year.

#### **7.4.10 Debts**

Debts are financial and business, short-term and long-term.

All debts are evaluated at the initial recognition with amounts from adequate documents about their creation, which prove the receipt of cash or payment of some business debt.

Short-term and long-term liabilities of all kinds are in the beginning demonstrated with amounts that derive from adequate documents, on the assumption that creditors request their payment. Liabilities are later increased with attributed output (interests, other reimbursements), for which an agreement with creditor exists. Liabilities are reduced for paid amounts and eventual other settlements in agreement



with the creditor. Long-term liabilities are reduced also for that part, which should be paid in less than a year, which is demonstrated among short-term liabilities.

Debts are not revaluated because of purchasing power of national currency, except if they are denominated in foreign currency and their exchange rate changes at their first recognition or if they are denominated in national currency and revaluation is agreed between contracting parties with the intention of their real value preservation. In balance sheet the debts are denominated in foreign currency calculated upon middle exchange rate of the Bank of Slovenia for related currency upon the state on the last day of accounting period.

#### **7.4.11 Short-term accruals**

Short-term accruals and prepaid expenditures on the day of balance sheet include short-term deferred expenses. Short-term deferred expenses are justified and derive from adequate documents about their creation. If real items are later changed hitherto expenses are corrected for the discrepancy respectively regular expenditures.

Short-term accruals and income collected in advance on the day of balance sheet include in advance calculated expenses respectively expenditures and derive from adequate documents about their creation or are defined or evaluated on the basis of actual level of these expenses. If real items are later changed hitherto expenses are corrected for the discrepancy or regular expenditures.

#### **7.4.12 Revenues recognition**

Revenues are recognized, if economic advantage increase in accounting period is connected with the increase of asset or reduction of debt and increase can be measured reliably. Revenues are recognized when it can be reasonably expected that they will lead to receipts, if they are not already realized at inception.

#### **7.4.13 Expenditures recognition**

Expenditures are recognized, if economic advantage reduces in accounting period connected with reduction of asset or with increase of debt and this reduction can be measured reliably.

#### **7.4.14 Cash flow statement**

Cash flow statement is made on the basis of direct method.

#### **7.4.15 Statement of changes in capital**

Statement of changes in capital is made as version II in form of constituted spread-sheet of changes of all capital constituents.

## 7.5 Clarifications to financial statements

### 7.5.1 Clarifications to balance sheet

#### Clarification 1

#### Intangible assets and long-term active accruals

107,660 thousand SIT

in 000 SIT	2006	2005	Index
Intangible assets	104,143	74,459	140
Other long-term active accruals	3,517	1,794	196
<b>TOTAL</b>	<b>107,660</b>	<b>76,253</b>	<b>141</b>

#### Intangible long-term assets

in 000 SIT	2006	2005	Index
Licences and other software	95,370	61,063	156
Emission coupons	8,773	13,396	65
<b>TOTAL</b>	<b>104,143</b>	<b>74,459</b>	<b>140</b>

Substantial part of long-term property rights increase relates to establishing electronic document management ODOS Enterprise in the amount of 25,307 thousand SIT and new licence software and services connected with upgrading of information system Maximo in the amount of 15,169 thousand SIT.

On the basis of Environment Protection Act and Ordinance on national plan of emission coupons distribution for the period 2005 to 2007 the state has conferred the company 13,395,813 emission coupons. The state of coupons has reduced until the end of the year for delivered coupons from produced emissions in the year 2005.

#### Movements of intangible long-term assets

<b>PURCHASE PRICE</b>	State 1.1.	Increases	Disposals	Transfers	<b>State 31.12.</b>
Licences and other software	79,139	52,535			131,674
Emission coupons	13,396		(4,623)		8,773
<b>Total</b>	<b>92,535</b>	<b>52,535</b>	<b>(4,623)</b>		<b>140,447</b>

<b>VALUATION ADJUSTMENT</b>	State 1.1.	Depreciation	<b>State 31.12.</b>	<b>CARRYING AMOUNT 31.12.</b>	<b>CARRYING AMOUNT 1.1.</b>
Licences and other software	18,076	18,228	36,304	95,370	61,063
Emission coupons				8,773	13,396
<b>Total</b>	<b>18,076</b>	<b>18,228</b>	<b>36,304</b>	<b>104,143</b>	<b>74,459</b>

## Clarification 2

### Tangible fixed assets

62,141,934 thousand SIT

in 000 SIT	2006	2005	Index
Land	637,021	532,062	120
Buildings	9,660,924	10,590,106	91
Manufacturing plant and equipment	45,005,070	50,271,714	90
Other installations and equipment	624,991	735,275	85
Tangible fixed assets in construction and production	5,073,348	426,927	1,188
Advances for acquisition of tangible fixed assets	1,140,580	1,303,940	87
Total	62,141,934	63,860,024	97

The last evaluation of tangible assets by authorized appraisers of real estate and movables value was made upon the state as per 31 December 2001.

Conditions for impairment of assets were not established in the year 2006.

### Movement of tangible fixed assets

<b>PURCHASE PRICE</b>	State 1.1.	Acquisitions	Disposals	Transfers	<b>State 31.12.</b>
Land	532,062			104,959	637,021
Buildings	50,705,938		(46,877)		50,659,061
Manufacturing plant and equipment	230,051,191	23,517	(3,836,128)	18,635	226,257,215
Other installations and equipment	2,103,439	91,445	(32,530)	(16,535)	2,145,819
Tangible fixed assets in construction or production	426,927	4,845,832		(199,411)	5,073,348
<b>TOTAL</b>	<b>283,819,557</b>	<b>4,960,794</b>	<b>(3,915,535)</b>	<b>(92,352)</b>	<b>284,772,464</b>

<b>VALUE ADJUSTMENT</b>	State 1.1.	Depreciation	Disposal	Transfers	<b>State 31.12.</b>	<b>CARRYING AMOUNT 31.12.</b>	<b>CARRYING AMOUNT 1.1.</b>
Land					-	637,021	532,062
Buildings	40,115,832	1,014,172	(39,516)	(92,351)	40,998,137	9,660,924	10,590,106
Manufacturing plant and equipment	179,779,477	4,871,345	(3,398,710)	33	181,252,145	45,005,070	50,271,714
Other installations and equipment	1,368,164	174,466	(21,769)	(33)	1,520,828	624,991	735,275
Tangible fixed assets in construction or production						5,073,348	426,927
<b>TOTAL</b>	<b>221,263,473</b>	<b>6,059,983</b>	<b>(3,459,995)</b>	<b>(92,351)</b>	<b>223,771,110</b>	<b>61,001,354</b>	<b>62,556,084</b>

**Land** **637,021 thousand SIT**

Increase of land value relates to the activation of the land for the purposes of the construction of Unit 6.

**Buildings** **9,660,924 thousand SIT**

Additional activation of renovation of industrial water supply system in the amount of 92,351 thousand SIT, due to increase of water supply system life time debited to value adjustments of buildings. Purchase price of building values in the amount of 46,877 thousand SIT has reduced because of disposal of flats.

**Manufacturing plant, machinery and other equipment** **45,630,061 thousand SIT**

Reduction of value of manufacturing plant, machinery and other equipment is a result of value adjustments of these assets, which were in 2006 higher than investments in these assets. In 2006 the company has excluded from registers its manufacturing equipment, which was unserviceable and decrepit and from which economic advantages couldn't be expected. A special commission determined the substitutable value of these assets (value in use).

**Advances for tangible fixed assets** **1,140,580 thousand SIT**

Advances for fixed assets are advances to suppliers for investments in project of Unit 5 modernization in the amount of 883,122 thousand SIT and other projects.

**Tangible fixed assets in construction** **5,073,348 thousand SIT**

Substantial part of fixed assets increase in construction relates to investments in equipment and performance of services for the construction of two gen-sets in the amount of 3,578,999 thousand SIT, on preparations of new Unit 6 construction in the amount of 419,157 thousand SIT and investments in production reliability in the amount of 783,624 thousand SIT.

In the year 2006 were activated 199,412 thousand SIT of projects from current year. Total value of unfinished projects is 5,073,348 thousand SIT.

#### **Movements of investments in tangible fixed assets in construction**

in 000 SIT	State 31.12.	Increases	Reductions	State 1.1.
Gas combined Unit 5 system and PKS 5/gas	3,829,599	3,578,999		250,600
Investment in production reliability	726,831	783,624	(92,351)	35,558
Investment documentation	138,238	19,804		118,434
Investments in Unit 6	336,532	419,157	(104,960)	22,335
Tangible fixed assets in acquisition	42,148	44,249	(2,101)	
<b>TOTAL</b>	<b>5,073,348</b>	<b>4,845,833</b>	<b>(199,412)</b>	<b>426,927</b>

The company has financed investments in tangible fixed assets from own sources.

### Clarification 3

#### Long-term financial investments

51,196 thousand SIT

in 000 SIT	2006	2005	Index
Other shares	51,196	51,196	100

Fair value of long-term financial investments is equal to accounting value, demonstrated in balance sheet.

Company is co-founder of institute for ecological research »Erico« Velenje. Institute was established in 1992. Institute activity is especially scientific research activity. Surplus of revenues over expenditures is used for implementation and development of its activity. Company share in institute is 30 % and amounts to 14,259 thousand SIT on the day of balance sheet. Institute is not corporate entity respectively legal entity in accordance with provisions of Companies Act.

Long-term invested assets in the amount of 36,937 thousand SIT are assets invested in rest houses (Krvavec, Rab, Portorož). Assets were invested respectively compiled at EGS Maribor (successor in title of ELDOM d.o.o. Maribor).

### Clarification 4

#### Long-term operating receivables

52,766 thousand SIT

in 000 SIT	2006	2005	Index
Given long-term advances	23,126	23,522	98
Long-term claims to buyers of flats	29,640	43,441	68
TOTAL	52,766	66,963	79

Long-term operating receivables are uncollateralized and undue.

#### Breakdown of long-term operating receivables upon maturity

in 000 SIT	claim amount	to 3 years	from 3 to 5 years	above 5 years
Given long-term advances	23,126	1,207		21,919
Long-term claims to buyers of flats	29,640	11,714	9,618	8,308

### Clarification 5

#### Deferred claims for tax

167,057 thousand SIT

in 000 SIT	State 31.12.	forming	reductions	State 1.1.
claims for deferred tax	167,057	(9,022)	(5,825)	181,904

Deferred claims for tax are recognized exclusively in connection with forming of long-term provisions for jubilee rewards and severance pays at retirement, while under the head of tax loss brought forward the company does not form claims for deferred taxes, because it can not with certainty predict future taxable profits, because it has no conclusive proof for that.

### Clarification 6

#### Assets (groups for disposal) for sale

48,341 thousand SIT

in 000 SIT	2006	2005	Index
Assets for sale	48,341	105,221	46

On 1 January 2006 the company has reclassified holiday complex »Crikvenica« among assets of group for disposal, because it can be justifiably predicted that it will be paid with sale. Sale of a good half of the complex was realized during the year.

### Clarification 7

#### Stocks

2,441,845 thousand SIT

in 000 SIT	2006	2005	Index
Material	2,321,457	2,357,034	98
Small tools and packaging	34,765	38,236	91
Given advances for stocks	85,623	8	
Total	2,441,845	2,395,278	102

Substantial part of stocks represent stocks of spare parts in the amount of 1,675,297 thousand SIT and stocks of material for maintenance in the amount of 541,875 thousand SIT, which are necessary, because of fast remedy of manufacturing plant breakdowns and in such manner ensuring reliable operation.

At stock of material survey maximums were established in the amount of 954 thousand SIT and deficiencies in the amount of 295 thousand SIT.

Accounting value of stocks does not exceed net selling value.

### Clarification 8

#### Short-term operating receivables

7,154,411 thousand SIT

in 000 SIT	2006	2005	Index
Short-term operating receivables to companies in HSE Group	6,120,079	5,680,802	108
Short-term operating receivables to companies in the group - others	9,547	8,985	106
Short-term operating receivables to buyers	315,830	383,173	82
Short-term operating receivables to others	718,561	356,836	201
Adjustment of operating receivables	(9,606)	(10,081)	95
Total	7,154,411	6,419,715	111

Operating receivables fair value is on accounting date equal to their accounting value.

Substantial parts of claims to companies in the group are claims to Holding Slovenske elektrarne d.o.o. arising from sales of electricity and are secured with blank bill.

Collateral of other claims is not necessary because of their specificity.

## Breakdown of short-term operating receivables after maturity

in 000 SIT	claim amount	undue	due to 3 months	due from 3 to 6 months	due from 6 to 9 months	due above 9 months
Claims to companies in HSE Group	6,120,079	6,120,079				
Claims to companies of the group - others	9,547	2,238	1,327	606	616	4,760
Claims to buyers	315,830	306,398	6,820			2,612
Claims to others	718,561	718,143				418

Claims to other companies in the group, which are due and unpaid relate to rents for flats.

### Clarification 9

#### Cash

887 thousand SIT

in 000 SIT	2006	2005
Tolar means in cash register		152
Supplied euro cash	193	
Cash on bank account	418	6,360
Foreign currency accounts	276	2,195
Total	887	8,707

### Clarification 10

#### Active accruals

18,076 thousand SIT

in 000 SIT	2006	2005	Index
Short-term deferred expenses and expenditures	18,076	15,906	114

Short-term, deferred expenses mean charged but not yet performed services in the year 2006.

### Clarification 11

#### Off-balance-sheet register

66,125,475 thousand SIT

in 000 SIT	2006	2005	Index
Off-balance-sheet register	66,125,475	67,087,908	99

Company registers in off-balance-sheet register all guarantees, surety and assignments of credit, compensations and other liabilities, liabilities to founder and claims for unused tax loss from previous years and responsibilities of employees for small tools, tools, protection devices and other.

**Clarification 12**  
**Capital**

**47,346,317 thousand SIT**

Company's share capital is in accounting demonstrated amount defined in Articles of Association and adequately registered at the court of law.

The whole capital constitutes share capital, capital reserves and revaluation surplus.

Share capital amounts 19,498,011 thousand SIT (19,498,011,197.82 SIT).

Company recognized provisions for jubilee rewards and severance pays at retirement and claims for deferred taxes in connection with them on 1 January 2006. Subsequently it registered retained net loss from previous periods in the amount of 545,713 thousand SIT. Until the end of the year it increased for additional 14,086 thousand SIT, because of observance of changed tax rates in connection with deferred taxes and therefore amounted 559,799 thousand SIT.

The amount of retained net loss from previous periods has in accordance with provisions of Companies Act-1 reduced for established net profit of business year in the amount of 395.489 thousand SIT. The remaining unmarginated net loss in the amount 164,310 thousand SIT remains unmarginated.

Capital reserves amount 28,009,845 thousand and are a result of nullification of general capital revaluation adjustment.

Special capital revaluation adjustments in connection with land amount 2,771 thousand SIT.

Change presentation in capital is shown in capital-flow statement.

**Clarification 13**

**Provisions for pensions and similar liabilities**

**726,334 thousand SIT**

in 000 SIT	State 31.12.	forming	reductions	State 1.1.
provisions for jubilee rewards	227,211	4,179	(11,756)	234,788
provisions for severance pays	499,123	17,839	(11,545)	492,829
Total	726,334	22,018	(23,301)	727,617

Company has in accordance with SRS (2006) provisions recognized provisions for jubilee rewards and severance pays at retirement in amount, which was established in actuary's clearing. At the end of the year they are corrected to values, which are necessary for settlement of future liabilities with regard to forecasts.



#### Clarification 14

##### Long-term accruals and income collected in advance

2,266,315 thousand SIT

in 000 SIT	Source of finance	State 31.12.	increases	reductions	State 1.1.
Unit 4 FGD	budget of RS	837,877		(93,098)	930,975
	ECO fund	872,076		(96,898)	968,974
Unit 5 FGD	budget of RS	489,337		(32,622)	521,959
Unit 4 DCS	income delimitation 1994	48,323		(33,258)	81,581
Emission coupons		4,190		(4,583)	8,773
Assigned contributions - disabled persons		14,512	14,512		
Total		2,266,315	14,512	(260,459)	2,512,262

Long-term accruals and income collected in advance in the amount of 2,247,613 thousand SIT derive from obtained public assistances for acquisition of fixed assets. They are used in proportional amount of charged depreciation. Because of long-term fixed asset an adequate share of formed long-term accruals and income collected in advance in connection with control system of Unit 4 was annulled (26,307 thousand SIT).

Among accruals and income collected in advance the company registers emission coupons, which it received free of charge from the state. Residue of 4,190,176 of emission coupons is a proportional part of coupons for 2007.

Delimitations under the head of exemption from payments of contributions are formed in accordance with Vocational Rehabilitation and Employment of Disabled Persons Act. They are used for coverage of expenses, which are defined in the stated Act.

#### Clarification 15

##### Long-term financial liabilities

8,127,397 thousand SIT

in 000 SIT	2006	2005	Index
Long-term loans at national banks	1,942,510	4,121,005	47
Long-term loans at other domestic entities		7,576	-
Long-term loans at foreign banks	6,184,887	8,178,881	76
TOTAL	8,127,397	12,307,462	66

Substantial part of long-term loans is denominated in EUR, namely 84.3 %, in national currency 15.6 % and 0.1 % in USD. Loans have nominal remuneration according to the interest rate in the range from 2.41 % to 6.6 % in the year 2006.

Long-term financial liabilities in foreign currency are in balance sheet as per 31 December 2006 calculated according to the middle exchange rate of Bank of Slovenia on accounting day.

## Maturity of long-term financial liabilities

in 000 SIT	2006
Maturity to 31.12.2009	4,869,533
Maturity to 31.12.2011	1,861,658
Maturity after 1.1.2012	1,396,206

## Movements of long-term financial liabilities

in 000 SIT	State 1.1.	Principal repayments	Revaluation	State 31.12.	Short-term part	Long-term part
Long-term loans at foreign banks	10,174,538	1,995,858	2,400	8,181,080	1,996,193	6,184,887
Long-term loans at national banks	6,424,838	2,391,177	(1,005)	4,032,656	2,090,146	1,942,510
Long-term loans at others	17,916	10,400	143	7,659	7,659	-
TOTAL	16,617,292	4,397,435	1,538	12,221,395	4,093,998	8,127,397

Principal repayments and interests in the year 2006 will be performed at maturity according to the existing depreciation plans.

A part of long-term financial liabilities in the amount of 4,093,998 thousand SIT, which becomes due in the year 2007, is placed among short-term financial liabilities.

## Financial liabilities collateral

in 000 SIT	2006	2005
State guarantees	9,435,829	12,111,628
Assignments, pledge of claims	2,777,907	4,487,747
Bills of exchange	7,659	17,915
TOTAL	12,221,395	16,617,290

On accounting day TE Šoštanj has 77.2 % financial liabilities secured with state guarantee, 22.7 % with assignments respectively pledge of claims and 0.1 % with bill of exchange.

## Clarification16

### Long-term business liabilities

7,619 thousand SIT

in 000 SIT	2006	2005	Index
Long-term business liabilities	7,619	11,345	67

Long-term business liabilities in the amount of 7,619 thousand SIT derive from liabilities to Housing and Compensation Fund of Republic of Slovenia for sold flats on the basis of Housing Act provisions (OJ RS 18/91). Liabilities are revaluated because of real value preservation in accordance with item growth for establishing the value of the flat.

**Clarification 17****Short-term financial liabilities****4,093,998 thousand SIT**

in 000 SIT	2006	2005	Index
Short-term part of long-term loans at national banks	2,090,146	2,303,833	91
Short-term part of long-term loans at foreign banks	1,996,193	1,995,657	100
Short-term part of long-term loans at other domestic entities	7,659	10,340	74
<b>TOTAL</b>	<b>4,093,998</b>	<b>4,309,830</b>	<b>95</b>

Short-term financial liabilities on the accounting day are principals of long-term debts, which upon loan contracts become due in the year 2007.

**Clarification 18****Short-term business liabilities****9,217,388 thousand SIT**

in 000 SIT	2006	2005	Index
Short-term liabilities to companies of the group	4,046,730	2,913,356	139
Short-term liabilities to suppliers	4,814,083	2,606,668	185
Short-term liabilities to employees	232,440	220,572	105
Short-term liabilities to state and other institutions	50,917	235,920	22
Other liabilities	73,218	139,078	53
<b>TOTAL</b>	<b>9,217,388</b>	<b>6,115,594</b>	<b>151</b>

The biggest share of liabilities to companies in the group is liabilities to Premogovnik Velenje d.d. for supplied coal quantities and at the end of the year amount 4,034,602 thousand SIT. Liabilities are on accounting day non past due.

Company pays all liabilities in agreed time limits, therefore does not show due unpaid liabilities.

**Clarification 19****Accruals and income collected in advance****398,805 thousand SIT**

in 000 SIT	2006	2005	Index
Advanced internalized expenses resp. expenditures	398,805	232,143	172

## 7.5.2 Clarifications to economic outturn account

### Expenses by functional groups

in 000 SIT	2006	2005	Index
Production costs for sold quantities	40,856,036	41,211,095	99
General activities costs	2,317,978	2,335,782	99
Sale costs	6,665	5,489	121
<b>TOTAL COSTS</b>	<b>43,180,679</b>	<b>43,552,366</b>	<b>99</b>
Financial and other expenditures	1,252,185	1,548,605	81
<b>TOTAL</b>	<b>44,432,864</b>	<b>45,100,971</b>	<b>99</b>

Costs are in accordance with SRS 25.25. provisions divided and itemised by functional groups, because company has drawn up economic outturn account upon version I.

### Clarification 1

#### Net revenues from sale

**44,328,761 thousand SIT**

in 000 SIT	2006	2005	Index
Sale of electrical and heat energy	43,906,634	44,342,840	99
Sale on foreign market	8,088	11,593	70
Sale of services - other	254,492	296,965	86
Sale of material	159,547	158,622	101
<b>TOTAL</b>	<b>44,328,761</b>	<b>44,810,020</b>	<b>99</b>

Net revenues from sale in the amount of 44,328,761 thousand SIT are demonstrated upon invoice value. Company has made substantial part of revenues with production of electric power and heat.

### Clarification 2

#### Other business revenues

**383,637 thousand SIT**

in 000 SIT	2006	2005	Index
Capitalised own products and services		30,502	
Subsidies, grants - for fixed assets	255,876	229,569	111
Emission coupons	4,583	5,073	90
Rewards for exceeding quota of disabled persons	3,188		
Revaluated business revenues	119,990	2,551	4.704
<b>TOTAL</b>	<b>383,637</b>	<b>267,695</b>	<b>143</b>

Other business revenues in the amount of 255,876 are withdrawals of long-term accruals and income collected in advance in accordance with the amount of charged depreciation of tangible fixed assets and nullification of formed accruals because of decrepit fixed asset write-off.

Revaluation business revenues in the amount of 119,990 thousand SIT represent profit at sale of tangible fixed assets.

### Clarification 3

#### Costs of material and services goods

**32,099,396 thousand SIT**

in 000 SIT	2006	2005	Index
Material costs	27,883,480	27,250,016	102
Energy costs	5,535	7,099	78
Other material costs	847,236	1,450,666	58
Costs of services for maintenance of tangible fixed assets	1,711,573	2,761,982	62
Costs of other services	1,651,572	1,667,277	99
<b>TOTAL</b>	<b>32,099,396</b>	<b>33,137,040</b>	<b>97</b>

Substantial part of material costs in the year 2006 represent coal consumption in the amount of 25,986,336 thousand SIT, as energy product for production of electric power and heat and dependent coal costs in amount 442,924 thousand SIT.

Service costs in connection with maintenance of tangible fixed assets include costs of regular maintenance in the amount of 1,257,324 thousand SIT and costs of repair in the amount of 454,249 thousand SIT.

Among costs of other services are costs, used for:

- annual report auditing in the amount of 5,296 thousand SIT,
- other non-auditing services in the amount of 750 thousand SIT,
- and tax consultancy services 115 thousand SIT.

### Clarification 4

#### Personnel costs

**3,907,800 thousand SIT**

in 000 SIT	2006	2005	Index
Salaries for employees	2,057,324	2,073,839	99
Wage compensation of employees	561,223	467,547	120
Additional pension insurance costs	125,475	120,341	104
Other incomes of employees, credit standings, reimbursements	535,234	454,111	118
Employer's contributions from all employees' incomes	475,288	459,585	103
Tax on unpaid salaries	153,256	173,953	88
<b>TOTAL</b>	<b>3.907.800</b>	<b>3.749.376</b>	<b>104</b>

Costs of salaries in the amount of 2,057,324 thousand SIT are based on collective contracts and employment contracts. Salary is constituted by basic salary and allowances to salary (less convenient working time, environmental effect etc.).

Employees' wage compensations in the amount of 561,223 thousand SIT are compensations because of sick leave, annual leave, education and other. Compensations belong to employees either on the basis of Employment Relationships Act or employment contract.

Costs of additional pension insurance of employees in the amount of 125,475 thousand SIT represent financial contribution of pension scheme by employer upon Agreement on the establishing additional pension insurance pension scheme, concluded by Termoelektrarna Šoštanj d.o.o. and Termoelektrarna Šoštanj trade union. Operator of pension scheme with mark PN1 is Kapitalska družba pokojninskega in invalidskega zavarovanja d.d., Ljubljana.

Other employees' incomes, credit standings, reimbursements in the amount of 535,234 thousand SIT are incomes under the head of pay for annual leave, jubilee rewards, severance pays, Christmas bonus and other.

#### **Clarification 5**

##### **Amortisation expense**

**6,522,301 thousand SIT**

in 000 SIT	2006	2005	Index
Depreciation	6,078,211	5,935,681	102
- intangible long-term assets	18,228	14,797	123
- buildings	1,014,172	1,016,024	100
- equipment and spares	5,045,811	4,904,860	103
Revaluation business expenditures	444,090	561,643	79
- tangible assets	441,718	556,903	79
- claims	2,372	4,740	50
<b>TOTAL</b>	<b>6,522,301</b>	<b>6,497,324</b>	<b>100</b>

Charged depreciation in business year 2006 amounts 6,078,211 thousand SIT and is calculated upon depreciation rates, defined upon evaluation respectively impairment of fixed assets in the year 2001, respectively upon rates, which determines internal subscriber for new provisions.

Revaluation business expenditures in the value of 444,090 thousand SIT represent:

- write-off of unserviceable goods in the amount of assets value that were not written-off for 437,675 thousand SIT. Assets were written-off, because they were decrepit, technologically inefficient and economically pass the time limit. They were dismantled and removed from use. Revaluation business expenditures in the amount of 4,043 thousand SIT mean a negative difference between net selling price and accounting value of sold tangible fixed assets;
- impairment of claims because of doubt in their payment respectively because of accounting value surplus over expected cash value of claims for 2,372 thousand SIT.

### Clarification 6

#### Other business expenditures

1,095,272 thousand SIT

in 000 SIT	2006	2005	Index
Charges that not depend on cost of work or other types of costs	604,830	476,642	127
Expenditures for environmental protection	445,133	223,496	199
Provisions for severance pays and jubilee rewards	22,018		
Other costs	23,291	30,131	77
<b>TOTAL</b>	<b>1,095,272</b>	<b>730,269</b>	<b>150</b>

Substantial part of increase of charges relates to increased liability for building land.

Among expenditures for environmental protection are costs of calculated emission coupons deficiency at the end of the year 2006.

### Clarification 7

#### Financial revenues

116,161 thousand SIT

in 000 SIT	2006	2005	Indeks
Revenues from shares	76,124		
Revenues from given loans	30,855	75,165	41
Revenues from operating receivables	9,182	19,915	46
<b>TOTAL</b>	<b>116,161</b>	<b>95,080</b>	<b>122</b>

Revenues from shares in the amount of 76,124 thousand SIT are revenues for premiums from assigned rights to acquisition of Zavarovalnica Triglav shares for consideration.

Revenues from given loans are interests from time deposits at business banks.

### Clarification 8

#### Financial expenditures

802,155 thousand SIT

in 000 SIT	2006	2005	Indeks
Expenditures from financial liabilities	801,449	983,952	81
Expenditures from business liabilities	706	2,443	29
<b>TOTAL</b>	<b>802,155</b>	<b>986,395</b>	<b>81</b>

Substantial part of expenditures from financial liabilities are expenditures in the amount of 796,590 thousand SIT for interests of long-term loans, which are calculated in accordance with contract between lender and borrower.

## Clarification 9

### Taxes

- 761 thousand SIT

in 000 SIT	2006	2005
Deferred taxes	(761)	

Company has in accordance with Corporate Profit tax Act prepared charge to tax from legal entities incomes for the period from 01 January 2006 to 31 December 2006 and established that there is no basis for the payment of profit tax, because of benefit from tax relieves.

Basis for formation of claims for deferred tax represents the amount of long-term provisions formation for jubilee rewards and severance pays at retirement of employees.

### 7.5.3 Cash flow statement

Cash flow statement for the year 2006 is made in accordance with SRS 26, upon version I and comprises all cash revenues and expenditures in the period from 1 January to 31 December 2006.

Cash upon balance sheets is the following:

in 000 SIT	2006	2005
Cas flow at business operations	8,325,093	9,500,770
Cash flow at investing activities	(3,142,209)	(3,635,604)
Cash flow at financing	(5,190,704)	(5,857,131)

It can be seen from the statement that the company has with its business activities realised 8,325,093 thousand SIT cash surplus, entirely used for expenditures to investing activities and for expenditures at financing. Main body of all incomes relates to business activity (99.46 %), only 0.54 % of all incomes is acquired by investing activities. They represent obtained interests from short-term deposits, incomes from disposal of fixed assets and incomes under the head of assigned rights to acquisition of Zavarovalnica Triglav shares. In the year 2007 company has not additionally borrowed money.



#### 7.5.4 Capital-flow statement

Capital-flow statement is constituted upon the version II, in the form of constituted spread-sheet of changes of all capital constituents.

Constituted spread-sheet of capital-flow indicates:

- capital state 31 December 2005 47,510,627 thousand SIT (upon SRS 2001)
- transition to SRS 2006                      determination of net loss brought forward from previous periods in the amount of 545,713 thousand SIT, because of recognition of long-term provisions for jubilee rewards and severance pays at retirement
- capital state 1 January 2006 46,964,914 thousand SIT (upon SRS 2006)
- capital movement                              Net profit input from economic outturn account for financial year in the amount of 395,489 thousand SIT  
  
Input of the correction of net loss brought forward from previous periods in the amount (14,086) thousand SIT, because of tax rate change for corporate profit tax, which influences also the amount of deferred taxes
- capital movements                              use of net profit of financial year in the amount of 395,489 thousand SIT in accordance with Companies Act provisions
- capital state 31 December 2006 47,346,317 thousand SIT.

#### Review of distributable profit/accumulated loss

in 000 SIT	2006
Financial year net profit or loss	395,489
- net loss from previous periods	545,713
- increase of net loss from previous years	14,086
= distributable profit/ <b>accumulated loss</b>	<b>(164,310)</b>

## 7.6 Other disclosures

### 7.6.1 Data on special employees' groups

**Data in connection with management, supervisory board and employees on the basis of contract for which substantive agreement is not valid**

#### Incomes

in 000 SIT	2006	2005
Company's management	23,199	17,664
Employees on the basis of contract, for which substantive agreement is not valid	123,912	114,113
Members of Supervisory board	1,856	1,867

Management incomes and other employees on the basis of contract, for which substantive agreement is not valid, include:

- gross incomes, which are included in the notice for tax return,
- other incomes,
- premiums for voluntary additional pension insurance.

Supervisory board members incomes represent gross directors' fees of members with travel expenses.

#### Operating receivables

in 000 SIT	Interest rate	Repayment period	2006	2005
	Unit value for determination			
Other employees upon individual contracts	of flat value	2020	6,775	7,334

## 7.6.2 Balance sheets upon sector sections

	Total	PO electric power production Electricity production	PO supply with hot water and steam	PO canteen	PO social standard
ASSETS	72,184,173	71,239,545	603,354	100,888	240,386
<b>Long-term assets</b>	<b>62,520,613</b>	<b>61,953,993</b>	<b>297,714</b>	<b>97,853</b>	<b>171,053</b>
<b>Short-term assets</b>	<b>9,645,484</b>	<b>9,267,476</b>	<b>305,640</b>	<b>3,035</b>	<b>69,333</b>
<b>Active accruals for financial assets and liabilities</b>	<b>18,076</b>	<b>18,076</b>			
LIABILITIES	72,184,173	70,727,197	780,820	135,398	540,758
<b>Capital</b>	<b>47,346,317</b>	<b>46,108,374</b>	<b>613,755</b>	<b>100,696</b>	<b>523,492</b>
<b>Provisions and long-term accruals and income collected in advance</b>	<b>2,992,649</b>	<b>2,992,649</b>			
<b>Long-term liabilities</b>	<b>8,135,016</b>	<b>8,127,397</b>			<b>7,619</b>
<b>Short-term liabilities</b>	<b>13,311,386</b>	<b>13,099,972</b>	<b>167,065</b>	<b>34,702</b>	<b>9,647</b>
<b>Accruals and income collected in advance</b>	<b>398,805</b>	<b>398,805</b>			
<b>Receivables/liabilities-business segment</b>		512,348	(177,466)	(34,510)	(300,372)

## 7.6.3 Economic outturn account upon sector sections

Total TEŠ	TOTAL	PO electric power production	PO supply with hot water and steam	PO canteen	PO social standard
<b>TOTAL REVENUES</b>	<b>45,017,237</b>	<b>43,555,356</b>	<b>1,059,634</b>	<b>233,118</b>	<b>169,129</b>
Materials costs	28,736,251	27,755,151	853,314	127,434	352
Services costs	3,363,145	3,290,442	44,021	5,159	23,523
Personnel costs	3,907,800	3,761,638	63,375	81,975	812
Amortisation expense	6,522,301	6,434,856	57,320	16,207	13,918
Other business expenditures	1,095,272	1,073,227	19,989	487	1,569
Financial expenditures	802,155	801,990	0	0	165
Other expenditures, costs of internal services and work	194,063	192,722	1,080	261	0
<b>TOTAL EXPENDITURES</b>	<b>44,620,987</b>	<b>43,310,026</b>	<b>1,039,099</b>	<b>231,523</b>	<b>40,339</b>
<b>WHOLE ECONOMIC OUTTURN</b>	<b>396,250</b>	<b>245,330</b>	<b>20,535</b>	<b>1,595</b>	<b>128,790</b>
<b>Deferred taxes</b>	<b>(761)</b>	<b>(761)</b>			
<b>NET PROFIT OR LOSS OF BUSINESS PERIOD</b>	<b>395,489</b>	<b>244,569</b>	<b>20,535</b>	<b>1,595</b>	<b>128,790</b>

Note: Economic outturn account upon segmental sections considers internal realisation in revenues and expenditures.

PO = segmental section