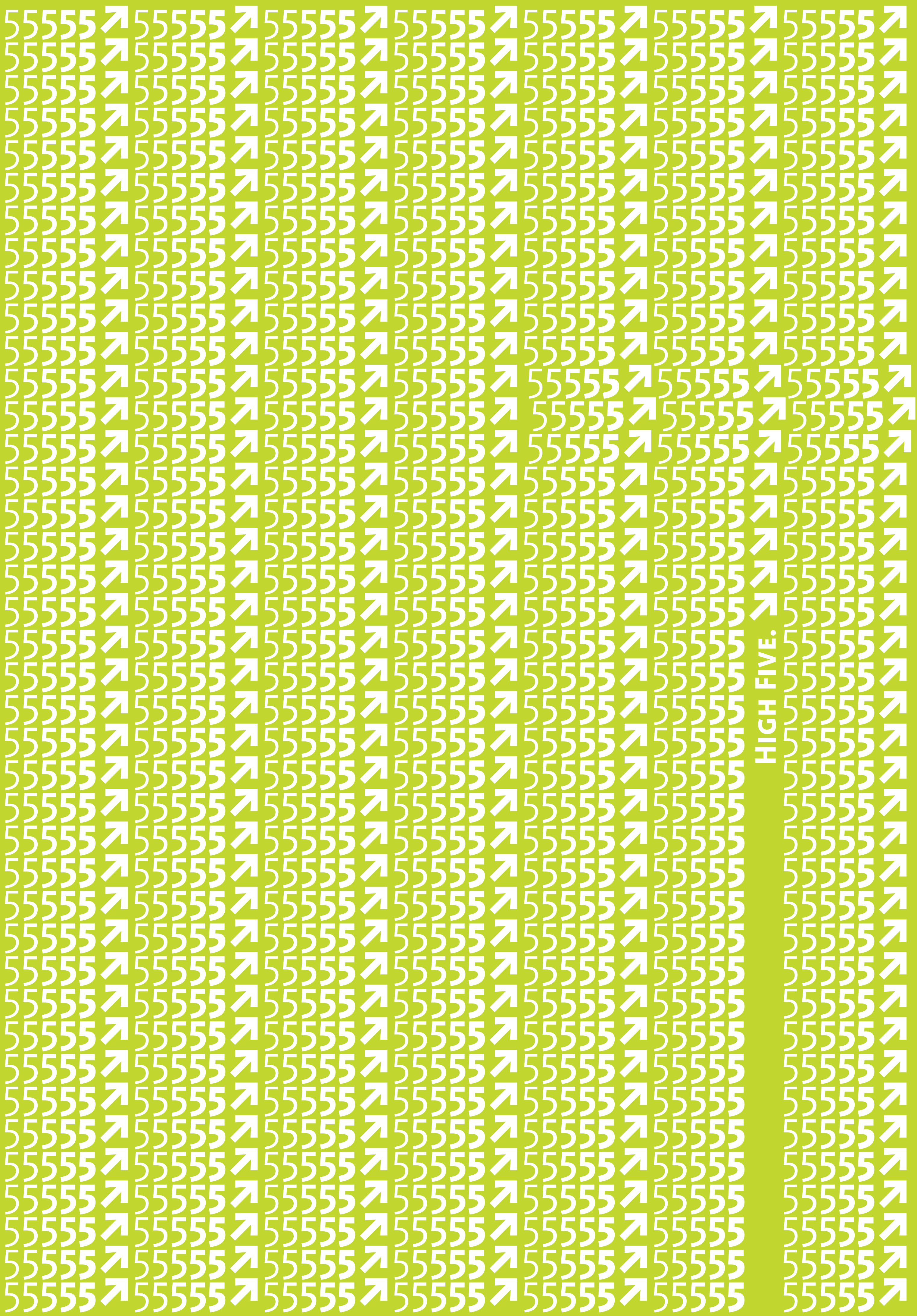
Annual Report

2005


HIGH FIVE.

Annual Report

2005

Good opportunities,
Huge challenges,
Courageous decisions,
Daring moves.

2005.
High Five.

2005

Contents

1

Introduction

2005

We are maintaining the leading role on the Slovenian electricity market and at the same time increasing market shares on foreign markets.

11 TWh
2004

14 TWh
2005

16 TWh
2006 Plan

1.1 Key Figures

Also in the year 2005, HSE continued pursuing the set-out development path of a strong player on the domestic and wider regional energy market. HSE spared no effort to increase trade quantities, expand purchase and sales channels, as well as to increase its presence on foreign markets, while upgrading its market position by further construction of new facilities for electricity production. Due to less favourable conditions on the electricity markets as compared to the year 2004 (unfavourable hydrology, introduction of auctions on borders, etc.), the operating result of the HSE Group is lower than last year but better than expected.

HSE Group

		2005	2004	IND 05/04
Net sales revenues	in SIT thousand	158,476,894	124,855,234	127
Revenues	in SIT thousand	167,080,607	131,198,861	127
EBIT	in SIT thousand	14,989,598	19,509,994	77
EBITDA	in SIT thousand	32,695,181	37,144,269	88
Net profit	in SIT thousand	14,414,704	17,986,422	80
Assets	in SIT thousand	357,853,560	342,271,621	105
Equity	in SIT thousand	250,744,708	240,753,971	104
Cash-flow from operating activities	in SIT thousand	31,588,283	36,105,306	87
Economic value added	in SIT thousand	64,872,154	67,342,225	96
Number of employees as of 31st Dec.		4,899	4,998	98
Electrical energy produced	in GWh	6,771	7,272	93
Electrical energy sold	in GWh	14,364	10,754	134
Number of group companies as of 31st Dec.		24	24	100

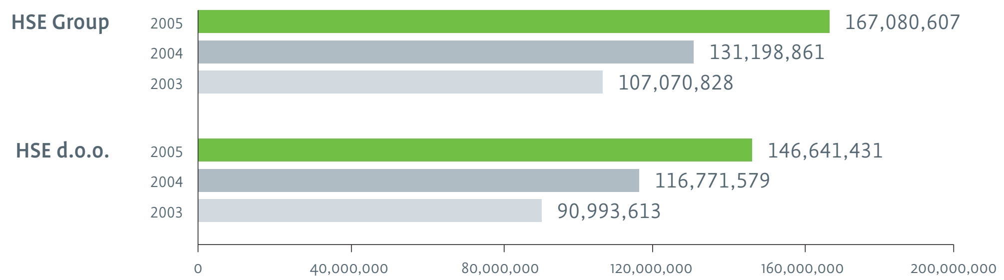
HSE d.o.o.

		2005	2004	IND 05/04
Net sales revenues	in SIT thousand	146,067,922	116,294,167	126
Revenues	in SIT thousand	146,641,431	116,771,579	126
EBIT	in SIT thousand	7,022,273	10,253,296	68
EBITDA	in SIT thousand	7,229,549	10,438,878	69
Net profit	in SIT thousand	7,034,166	9,862,827	71
Assets	in SIT thousand	256,902,085	238,348,554	108
Equity	in SIT thousand	213,457,106	204,620,006	104
Cash-flow from operating activities	in SIT thousand	5,235,936	16,193,072	32
Economic value added	in SIT thousand	8,317,904	11,483,876	72
Number of employees as of 31st Dec.		90	86	105
Electrical energy sold	in GWh	14,645	11,569	127

1.2 Financial Highlights

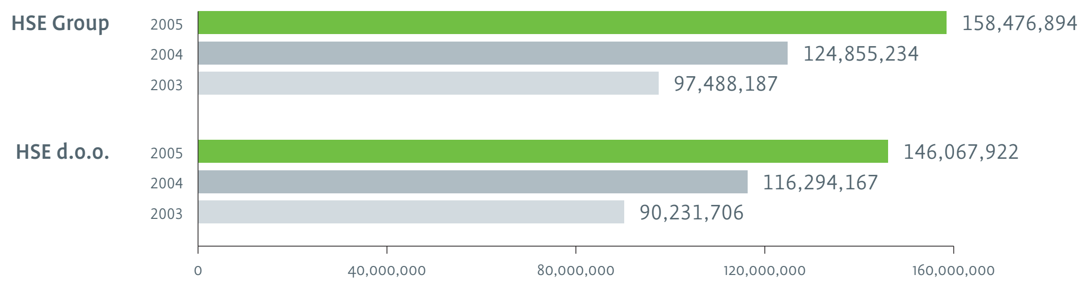
Total revenues

in SIT thousands



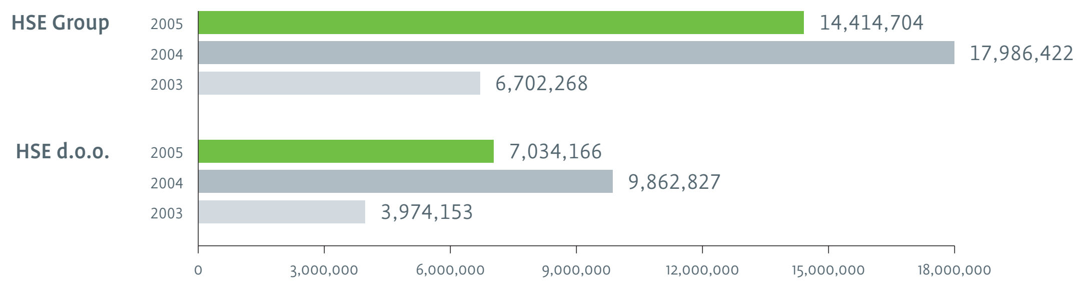
Net sales revenues

in SIT thousands



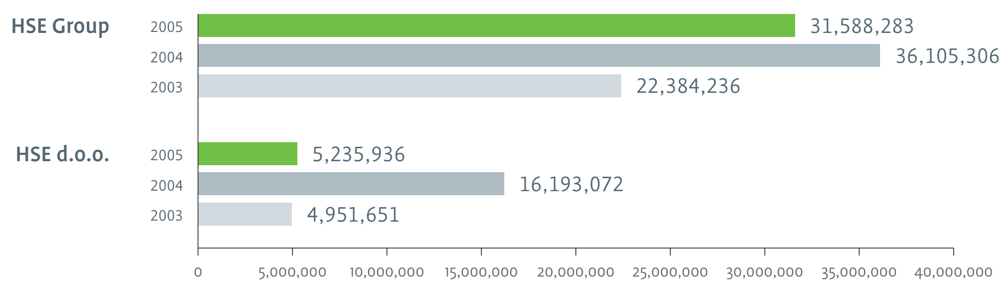
Net profit

in SIT thousands



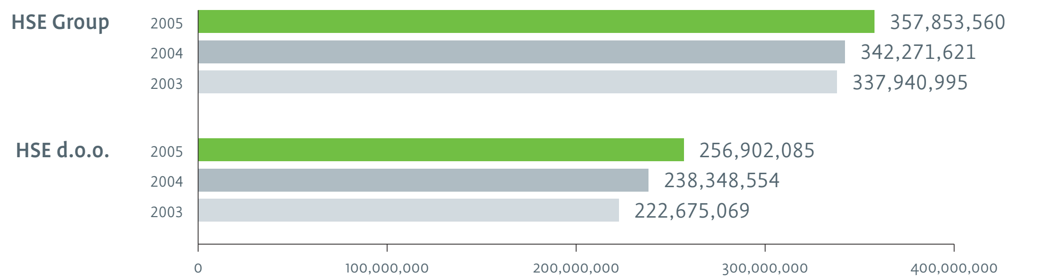
Cash-flow from operating activities

in SIT thousands



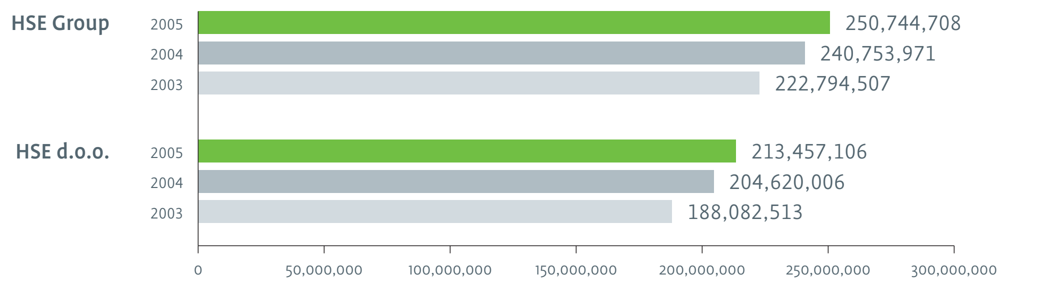
Balance sheet total

in SIT thousands



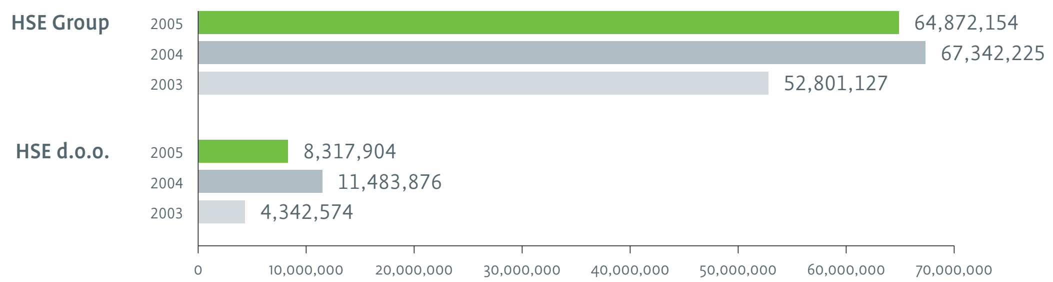
Equity

in SIT thousands



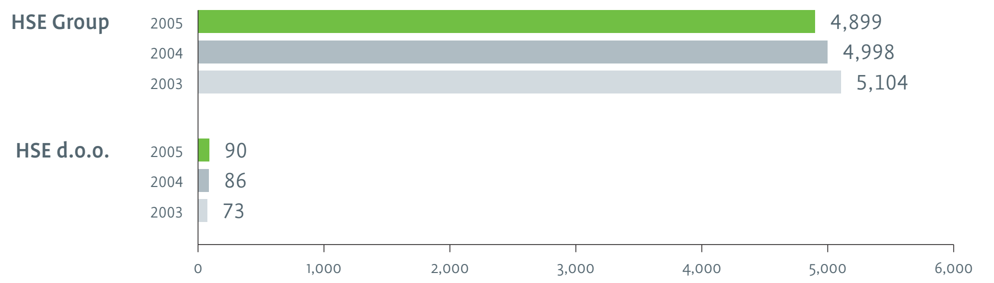
Economic value added

in SIT thousands



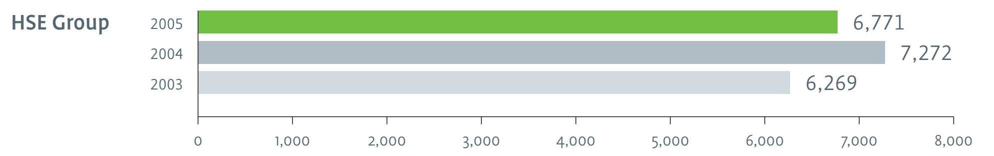
1.3 Other Highlights

Employees



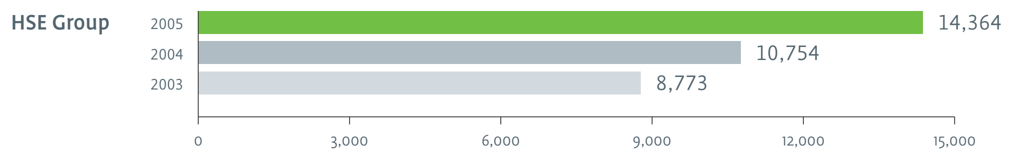
Production of HSE Group companies

in GWh



Electrical energy sold

in GWh



1.4 Letter by the General Manager

Success
+ excellence
= satisfaction

THE LAST FIGURE OF THE YEAR FOR WHICH THIS ANNUAL REPORT HAS BEEN PREPARED SYMBOLISES SUCCESS. IT SYMBOLISES EXCELLENCE. IT SYMBOLISES SATISFACTION. OR HIGE FIVE IN THE SCHOOL CERTIFICATE. OR A WARM HANDCLAP. AND THIS IS EXACTLY WHAT THE YEAR 2005 WAS FOR THE HSE. THE YEAR OF SUCCESS, EXCELLENCE AND, CONSEQUENTLY, OF SATISFACTION.

Year of success

Since the foundation of the HSE and each year anew, its first and primary success is that in any moment there is no disturbance in the provision of electrical energy – in spite of the fact that the demand has been increasing from year to year. And this also applies for the previous year. Although there were cases when the electricity supply was questionable, we always succeeded in overcoming the challenges. Safe, reliable, and, of course, price competitive and environmentally friendly electrical energy is the maxim of our operation and our primary care which we have to implement also in the period to come. Namely, as predicted by international and also domestic institutions, the consumption of electrical energy will also rise in the future – whereby account should be taken of the fact that the age structure of production sources is relatively unfavourable and that, by 2030, EU should in total build new production facilities for more than 600 Gigawatts. A similar picture can also be seen in Slovenia. Therefore, in one of the key tasks of HSE, i.e. to provide the lacking electrical energy sources, we see not only our duty but also our commitment to adopt fast and correct decisions. And also due to such decisions, we estimate that the year 2005 was successful. Due to the decision that by penetrating foreign markets, particularly those in Southeastern Europe, we will constantly grow and develop, as well as upgrade the existing cooperation by establishing new companies, investing into new production sources, and by long-term lease of production capacities. Due to the decision to continue with the construction of new electricity production capacities. Due to the decision to implement further technical maintenance of the existing facilities which at present now provide Slovenia with electricity. The chain of hydropower plants on the Lower Sava River, the construction of the Avče pumped storage plant, the reconstruction of the Medvode hydropower plant, the construction of generating unit no. 6 and modernisation of generating unit no. 5 of the Šoštanj hydropower plant ... new projects, new capacities, new opportunities.

Finally, the year 2005 was also successful because, as is evident from the figures below the line, our performance was good. We generated over 6 tetrawatt hours of electrical energy and sold more than 14 tetrawatt hours. Hence, for the first time in our history our sales significantly exceeded the Slovenian consumption of electricity and by more than one hundred per cent exceeded the quantity of electricity generated in the HSE Group companies. As a consequence, also our operating result exceeded the plans and represents a good starting point for our further decision-making as regards business decisions, moves and investments.

Year of excellence

The excellence is, if we may adapt the well-known saying, in the hands of the implementer and in the eyes of the observer. In HSE, it is measured by how strategic decisions are realized in terms of quality at tactical level. In such case, quality denotes to what extent we succeed in satisfying the needs, interests, requirements and expectations of our target public: owners, buyers, employees and business partners. Excellency is certainly a category difficult to compare. It can only be assessed by those for whom it is intended – recipients of our services, direct “customers” of our approach and appearance, our attitude and our capabilities of satisfying their needs.

For several years, HSE has been operating in conformity with several standards of excellence, and we are striving to put into practice whatever is written on paper. In the year 2005, the external quality audit was carried out which showed that our operation and communication adhere to the prescribed rules and to the manner which – in relation to internal and external public – enables accessibility, up-to-dateness, and transparency. The results of the inspection carried out last summer, likewise showed that HSE is a desired partner in the community with whom it co-exists, and that its business moves are recognised as useful for wider society and are implemented in an appropriate manner. And when we say that excellence is in the eyes of the observer, at the same time considering our buyer as observer of our excellence, we consciously set ourselves an extremely difficult target: to satisfy the customer's ideals, which are far from being simple, and which determine whether or not the standards of excellence have been met.

Year of satisfaction

Satisfaction in the business world is the aggregate of (business) success measured in "hard" figures, and excellence representing the path along which such figures have been achieved. No more and no less. And when we look back at the year 2005, we can look back with satisfaction. We have maintained our leading role both as a producer and as a trader of electrical energy, and we are convinced that we in the HSE group will succeed in additionally strengthening our leading role by means of harmonized reorganisation, which is ahead of us in the future, as well as by means of changes which already denote a constant for us. To this purpose, we have enough knowledge and experience, enough qualified workforce and sufficient willingness, incentives and challenges. And already today I would like to thank all those who will help us overcome these challenges and have helped us overcome these challenges in 2005. Also thanks to you, the year 2005 was High Five!

Jože Zagožen, Ph.D.
General Manager
Holding Slovenske elektrarne

1.5 Supervisory Board Report

The Supervisory Board of the company Holding Slovenske elektrarne d.o.o. (hereinafter: HSE) consisted as until 4th March 2005 of following members: Djordje Žebeljan, M.Sc. (Chairman), Lucijan Rejec (Deputy Chairman), Damijan Lah, Jasna Kalšek, Jože Voršič, Ph.D., Darinka Mravljak, and the *employees were represented* by Ervin Kos, Pavel Župevc and Janez Keržan.

HSE has held an extraordinary session on 4th March 2005 during which Ervin Kos was discharged from his responsibilities. His function as an employee representative in the Supervisory Board was taken over by Branko Sevčnikar.

On 22nd July 2005 the government of the Republic of Slovenia appointed four new members of the Supervisory Board of HSE for the period of four years, namely: Andrej Vizjak, M.Sc., Franci Bogovič, Franc Ervin Janežič, Janez Požar, Andrej Aplenc, and Franci Križanič, Ph.D..

1.5.1 Supervision and control over the operations of HSE

In 2005 the Supervisory Board of HSE as the parent or controlling company of the HSE Group, continued to actively monitor and supervise the management of business operations in accordance with its mandate and authority that is defined by law and the company's Articles of Association.

During the twelve sessions in 2005, of which seven were regular, three were correspondence and two were extraordinary, the Supervisory Board treated numerous matters of strategic importance as well as other issues pertinent to company's operations.

The operational objectives of the company and the HSE Group as a whole for the reporting period were defined in the business plan adopted by the Supervisory Board in mid February 2005, during which abstracts of the business plans for 2005 of all HSE Group companies were also introduced.

The company's management reported to the Supervisory Board about current business achievements and about the financial position not only of the parent company but also the HSE Group companies. The management submitted well-prepared and accurate written reports, which became the items of agenda at subsequent Supervisory Board meetings at which they were addressed in detail. Some information regarding the agenda items was also provided verbally. Altogether sixty-six decisions have been adopted in 2005, the implementation of which was regularly monitored by the Supervisory Board.

In the first quarter of 2005 the Supervisory Board got acquainted with the Pre-investment scheme of hydroelectric power plant Blanca and issued its consent to the elaboration of an investment programme; in May 2005 the Supervisory Board adopted the energy-related part of the respective programme.

At its regular session in May 2005 the Supervisory Board discussed and endorsed the Annual Report of the company and the HSE Group for 2004, together with the respective unqualified auditor's opinions issued by KPMG Slovenija d.o.o..

In March 2005 the Managing Director of HSE, Drago Fabijan, submitted the proposal on his resignation and on the termination of his employment agreement as at 30th June 2005. The Supervisory Board discharged him from all his responsibilities as Managing Director of HSE during an extraordinary session in May 2005 and appointed Jože Zagožen, Ph.D. for a four-year term starting as at 1st July 2005.

Based on a resolution adopted by the government of the Republic of Slovenia, new members of the Supervisory Board were appointed for a four-year term, namely Andrej Vizjak, M.Sc., Franci Bogovič, Franc Ervin Janežič, Janez Požar, Andrej Aplenc, M.Sc., and Franci Križanič, Ph.D..

During the first meeting of the newly composed Supervisory board, Andrej Vizjak, M.Sc. was unanimously appointed Chairman of the Supervisory Board, while also the Rules on Operations of the HSE Supervisory Board was adopted. Furthermore, the Supervisory Board was acquainted with the organisation and operations of the HSE Group companies, the Group's development plans, as well as the Analysis of cash flows and projections with reference to operations of HSE Group companies in the period from 2005 to 2008.

In addition to the above, the Supervisory Board:

- got acquainted with the unaudited financial statements of HSE for 2004, while the Supervisory Board also consented to the management's proposal on the allocation of the accumulated profit for 2004,
- was informed on the proposal of allocation of profits or losses for 2004 of the HSE Group,
- was notified on the additional registration of HSE's activities,
- discussed the course of mandates of managing directors for the business and technical sector of HSE, as well as discussed and adopted the contract on management services and the employment contract for managing directors referring to the business and technical sector of HSE,
- got acquainted with conclusions of the third Strategic conference of the HSE Group,
- was informed on issues related to minority interests in the HSE Group companies,
- discussed and adopted the Business Plan of HSE for 2006 and got informed on abstracts of the business plans for 2002 of all HSE Group companies,
- got acquainted with the Management Reports of HSE and the HSE Group, as well as reports on HSE's trading activities.

1.5.2 Verification of the Annual Report and position on the Auditor's Report

The Managing Director of HSE submitted the Supervisory Board the 2005 Annual Report of the HSE and the HSE Group for approval on 17th May 2005. The said Annual Report for 2005, together with the audit reports and the proposal by the Managing Director to the founder on the allocation of the accumulated profit was discussed at the fifth regular meeting of the Supervisory Board that was held on 9th June 2006.

The audit of financial statements of HSE and the HSE Group, as well as the conformity of the Management Reports of the aforesaid companies for 2005 was conducted by KPMG Slovenija, d.o.o..

Pursuant to the auditor's opinion that was issued on 10th May 2006, the financial statements of HSE and the HSE Group with the notes thereto give a true and fair view of their financial position as of 31 December 2005, the results of their operations, their cash flows and the changes in equity for the year then ended in conformity with Slovenian Accounting Standards. The Management Report is in conformity with the audited financial statements.

Based on the review of the audit reports and explanations provided at the meeting of the Supervisory Board, the latter issued no objections on the audit reports. Taking into account its active monitoring of HSE's operations, unqualified audit opinions, the successful business result of HSE and the HSE Group, the achieved objectives defined in the business plan for 2005, and by virtue of its competences the Supervisory Board of HSE issued no objections to the Annual Report of HSE and the HSE Group for 2005 and authorised it for issue.

1.5.3 Establishment of and proposal on allocation of the accumulated profit

The net profit of HSE for 2005 was recorded at 7,034,166,334.73 SIT. During its fourth regular meeting held on 15th March 2006 the Supervisory Board agreed with the proposal by the managing Director that 3,517,083,167.36 SIT of the net profit is allocated among other revenue reserves already as at the elaboration of the 2005 Annual Report.

The remaining part in the amount of 3,517,083,167.37 SIT represents the accumulated profit for 2005.

In accordance with strategic goals and the investment policy, the HSE's Supervisory Board supports the company's Managing Director in his attempt to use the accumulated profit in the total amount of 3,517,083,167.37 SIT for the formation of other revenue reserves. In addition, the Supervisory Board proposed during the Shareholders' Meeting to release members of the board from responsibilities for management over the previous year.

The Supervisory Board of HSE prepared the report in accordance with provisions of § 282 of the Companies Act. The Supervisory Board Report shall serve the Shareholder's Meeting.

Ljubljana, 9th June 2006

Andrej Vizjak, M.Sc.
Chairman of the Supervisory Board
Holding Slovenske Elektrarne d.o.o.

1.6 Significant events in the HSE Group during 2005

January

- DEM becomes by the choice of the Maribor journalists the best company in the category *Best of the Maribor Large Companies*.
- SEL concludes a contract with the HSE on payment of the right for transfer of the exploitation of the Lower Sava River hydro-potentials to HSE.

February

- Completion of the works on the HPP Ožbalt generator no. 1 in DEM and completion of the majority of audits and overhauls in all eight power plants.
- Completion of the first part of renovation of Medvode HPP.
- PV (Velenje Mine) appoints a REHA team for the acquisition of a concession for the providers of the employment and professional rehabilitation services.
- The Kyoto Protocol has come into force which represents a small yet extremely significant step on the path to solution of the problem of global changes.
- The European Commission established that state aids granted to three Slovenian energy producers, i.e. TEŠ, NEK and TET, as a consequence of stranded investments in the power generation sector are in full compliance with EU regulations governing state aid. In addition, the Commission established that the aid granted to TEŠ is in compliance with the rules governing recompense for services of common interest due to the fact that it refers to the provision of safe supply.

March

- Drago Fabijan, M.Sc., general manager of the HSE, submits to the Supervisory Board of the HSE his resignation.
- The DEM Sports Society, which in 2005 celebrates the 10th anniversary of its operation, organises the first winter sports games of the HSE Group.
- HTZ I.P. is reorganised into three divisions: mining programs, training and education, and external programs.

April

- DEM generates the 110^{th} billion kWh of electrical energy.
- DEM signs a contract for the purchase of the Ceršak small hydropower plant.
- TEŠ implements the modification of the job systematisation.
- During 130 years of its operation, PV has extracted 200 million tons of coal.
- Due to cessation of operations of HSE – IIP company, Krško District Court issues under summary procedure a decree by which this company is stroke off the companies' register.

May

- At its 17th regular session, the Supervisory Board of HSE adopts the Annual Report of the HSE company and Group for 2004.
- Jože Zagožen, Ph.D. is appointed new general manager by the Supervisory Board of HSE.
- Completion of renovation of the hydropower plants on the Upper Drava River – increase in power due to renovation amounts to 67.3 MW, and increase in planned production by almost 10 %.

- SEL begins with the second part of renovation of Medvode HPP. The project will be completed in 2006 and will, in addition to enhancing output capacity, performance and eco-friendly operations, extend the plant's useful life as well as further reduce the need for and duration of general overhauls. The work will also include the installation of SCADA systems that will allow the plant to be operated and controlled remotely.
- TEŠ as one of the first thermal power plants worldwide acquires the occupational health and safety certificate OHSAS 18001.

June

- In SENG the technical assessment of Klavžarica small hydropower plant is successfully carried out.
- PV presents its Development Plan 2005 – 2014.

July

- Jože Zagožen, Ph.D., is inducted into the office of the HSE as General Manager.
- The Government of RS gives a discharge to the HSE Management for the year 2004.
- DEM signs the first contract for the supply of the equipment for the renovation of the Zlatoličje HPP.
- SENG signs a contract with the contractors of the main construction works and equipment suppliers for the Avče pumped storage hydropower plant.
- TEŠ commences with the most comprehensive and the largest overhaul of the 275 MW generating unit.
- PV is awarded the occupational health and safety certificate OHSAS 18001.
- The redirection of the Sava river for Boštanj HPP commences.

August

- The first meeting of the new HSE Supervisory Board.
- In TEŠ and PV, new members of the supervisory boards are elected at ordinary shareholders' meetings.

September

- Successful performance of the first generator rotation in Boštanj HPP.
- DEM signs a contract with the generator supplier for Zlatoličje HPP.
- Solemn commemoration by SEL of the 90 years' operation of the country's first public hydropower plant Završnica, which is protected as a cultural and technical monument of the Republic of Slovenia.
- SENG opens the Klavžarica small hydropower plant.
- Successful completion by TEŠ of the overhaul of generating unit no. 4 and its first synchronisation.
- Successful implementation of the 3rd Strategic Conference of the HSE Group on 29 and 30 September.

October

- At the HRM Conference, PV is awarded the 3rd price for the project *Year of Communication*.

November

- In the course of construction of the HPPs on the Lower Sava River, three milestones are set: synchronisation of generator no. 1 at Boštanj HPP, laying of the foundation stone for Blanca HPP, signature of the protocol on regulation of mutual relations in the construction of the Krško bypass road.
- DEM commences with the majority of works within the scope of the reconstruction of Ceršak small HPP.
- SEL adopts a decision on commencement of the renovation of the Moste HPP, while the repowering of the only Slovenian HPP with potential weekly storage facility shall be postponed to a later period.
- SENG completes the 1st phase of the project of association of the HPP crews on the Soča river and the 1st phase of introduction of the process approach in the management system.
- On 20 and 21 November, the 9th Business and Strategic Conference of the PV Group takes place.

December

- The Supervisory Board of HSE d.o.o. adopts the Business Plan for the year 2006.
- On 28 December 2005 HSE concludes a contract enabling the purchase of shares from minority shareholders in the companies TEB and TEŠ in January 2006.
- New members of the supervisory board are elected at the shareholders' meeting of DEM.
- SEL begins with the remote control of the refurbished generator no. 2, distribution transformer station 110/20/6,3 kV and spillways from the SEL control centre, thus lowering operational costs.
- SENG signs the concession agreements for small hydroelectric power plants and obtains the operating permit for the Klavžarica small HPP.
- PV obtains the USP S10 certificate and becomes the first Learning Company in Slovenia.
- At the end of December, the Government of the Republic of Slovenia issues a Decree on the concession for the use of water for the generation of electricity on the water body of the Mura river from Sladki vrh to Veržej. As concessionaire, DEM has to ensure the utilisation of the entire potential of the Mura river by constructing a chain of hydroelectric power plants.

2 Business Report 2005

In 2005, Slovenia's electricity provision was reliable. Especially due to the balanced structure of HSE's own sources.

2.1 General Information about the Parent Company – HSE d.o.o.

HSE d.o.o.	
Full company name	Holding Slovenske elektrarne d.o.o.
Abbreviated name	HSE d.o.o.
Legal status	limited liability company
Address	Koprska ulica 92, SI-1000 Ljubljana, Slovenia
Phone	00386 1 470 41 00
Fax	00386 1 470 41 01
Entry number	1/35036/00, registered with the Ljubljana District Court
Share capital	1.156,216,668.00 SIT
Size	large company
Ownership structure	100 % Republic of Slovenia
Year of establishment	2001
Transaction account	04302-0000317271
Transaction account of Joint Venture	04302-0001020424
Tin	99666189
Vat identification number	SI99666189
Registration number	1662970
Website	www.hse.si
E-mail	hse@hse.si / info@hse.si
General Manager	Jože Zagožen, Ph.D.
Deputy General Manager	Milan Medved, Ph.D.
Chairman of the Supervisory Board	Andrej Vizjak, M.Sc.

Act of Establishment

Through an executive act, the Government of the Republic of Slovenia established Holding Slovenske elektrarne d.o.o. (HSE) at its 38th session on 26th July 2001.

HSE was established with a view to:

- provide for uniform market appearance of the companies integrated in the holding company as regards the sale of electrical energy,
- to improve the competitiveness of the Slovenian power generation companies,
- to implement the construction of hydropower plants on the Lower Sava River.

In the HSE, the Republic of Slovenia agglomerated its shares in the individual companies that were thenceforth controlled by the new holding company.

Ownership structure of HSE

The share capital of HSE is represented by the contribution of the sole shareholder, namely the Republic of Slovenia, which thus holds one share.

HSE is in the entire (100 %) ownership of the Republic of Slovenia.

2.2 HSE Group Profile

Integrated diversity

HSE is the largest energy organisation in Slovenia and the largest producer of and trader in electrical energy on the Slovenian wholesale market. It integrates five companies for electrical energy production, a lignite mine, two companies engaged in the investments into the energy sector, a company in Italy and a representative office in Serbia which facilitates access of HSE to international energy markets. The integration of hydropower plants and the lignite mine under a single trademark – HSE Group, uniform marketing of different sources of electrical energy, joint investments and development projects provide all HSE Group companies with enhanced flexibility, competitive advantage, and decreased risk of possible outages, which is also a primary task of the parent and subsidiary companies within the scope of the HSE Group.

In the four years since its establishment, HSE has become a driving force in the development of the Slovenian electricity sector and through its constant growth and expansion to European markets on a par with the largest and the best competitors in its sector.

Primary activities of the Group

HSE Group is primarily engaged in the management of energy supply as well as in environmental, logistical and risk management processes related to its core business. This broad range of activities may be grouped into the following main categories of operations:

- production of electric and thermal energy,
- mining of lignite,
- sale of and trade in electric and thermal energy,
- optimisation of production of the HSE Group,
- provision of ancillary services necessary to ensure power system operation,
- management and implementation of energy and environmental projects,
- production of calcium carbide, ferrosilicon, calcium silicon and complex alloys.

The core business of the Group pertains to the production of and trade in electrical energy, thus the major portion of this Annual Report refers to this same area.

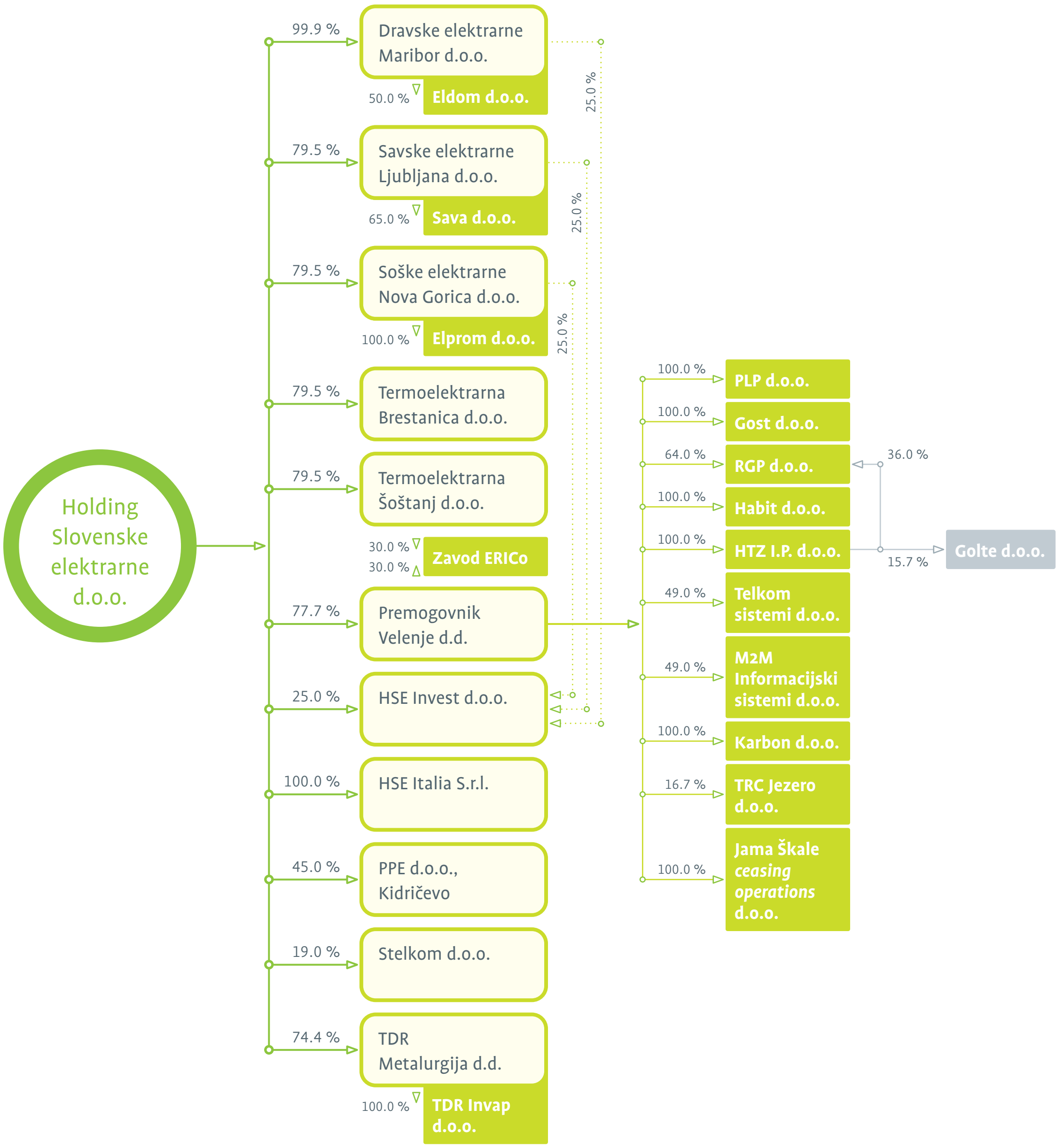
hse Group

In 2005, the HSE Group was comprised of the following companies:

- Holding Slovenske elektrarne d.o.o. as the controlling (parent) company, and
- Dravske elektrarne Maribor d.o.o. with one subsidiary,
- Savske elektrarne Ljubljana d.o.o. with one subsidiary,
- Soške elektrarne Nova Gorica d.o.o. with one subsidiary,
- Termoelektrarna Brestanica d.o.o.,
- Termoelektrarna Šoštanj d.o.o.,
- Premogovnik Velenje d.d. (PV) with seven subsidiaries and two associated companies,
- TDR – Metalurgija d.d. with one subsidiary,
- HSE Invest d.o.o.,
- HSE Italia S.r.l.,
- PPE d.o.o., Kidričevo as an associated company.

The companies TEŠ and PV each hold a 30 % share in ERICo; although included in the scheme of the HSE Group, the financial operations of this Institute are not included in the Group Annual Report. Likewise, the Annual Report does not include any performance-related information on the companies Eldom, Sava and Elprom.

HSE Group


Holding Slovenske elektrarne d.o.o.
99.9 %
Dravske elektrarne Maribor d.o.o.
50.0 %
Eldom d.o.o.
25.0 %
79.5 %
Savske elektrarne Ljubljana d.o.o.
65.0 %
Sava d.o.o.
25.0 %
79.5 %
Soške elektrarne Nova Gorica d.o.o.
100.0 %
Elprom d.o.o.
25.0 %
79.5 %
Termoelektrarna Brestanica d.o.o.
79.5 %
Termoelektrarna Šoštanj d.o.o.
30.0 %
30.0 %
Zavod ERICo
77.7 %
Premogovnik Velenje d.d.
25.0 %
HSE Invest d.o.o.
100.0 %
HSE Italia S.r.l.
45.0 %
PPE d.o.o., Kidričevo
19.0 %
Stelkom d.o.o.
74.4 %
TDR Metalurgija d.d.
100.0 %
TDR Invap d.o.o.
100.0 %
PLP d.o.o.
100.0 %
Gost d.o.o.
64.0 %
RGP d.o.o.
36.0 %
100.0 %
Habit d.o.o.
100.0 %
HTZ I.P. d.o.o.
15.7 %
Golte d.o.o.
49.0 %
Telkom sistemi d.o.o.
49.0 %
M2M Informacijski sistemi d.o.o.
100.0 %
Karbon d.o.o.
16.7 %
TRC Jezero d.o.o.
100.0 %
Jama Škale ceasing operations d.o.o.

Dravske elektrarne Maribor d.o.o.

Managing director	Danilo Šef
Address	Obrežna ulica 170, SI-2000 Maribor, Slovenia
Phone	00386 2 300 50 00
Fax	00386 2 300 56 65
E-mail	dem@dem.si
Website	www.dem.si
Primary activity	electricity production in hydropower plants
Composition of the Supervisory Board as at 31 December 2005	Igor Marinšek – *Chairman* Aleksander Brunčko Bojan Majhenič

DEM is the largest producer of electrical energy from renewable sources in Slovenia with total net capacity of 575 MW. With eight hydropower plants on the Drava river and two small hydropower plants, the company produces as much as 80 % of the Slovenian electrical energy which satisfies the criteria of renewable energy sources and the standards of the internationally recognized RECS certificate. Water energy is provided in an environmentally friendly way and in line with the principles of sustainable development. In accordance with its development plans, the Company also participates as investor in the construction of the HPP chain on the Lower Sava River, presently the largest development project of the Slovenian electricity sector. DEM also comprises the operational control centre for the entire electricity production capacities of the HSE Group.

Eldom d.o.o.

A subsidiary of DEM. The company's objects include management of real estate, organisation of meals in restaurants, and management of holiday facilities of the electricity industry in Slovenia.

Savske elektrarne Ljubljana d.o.o.

Managing director	Drago Polak
Address	Gorenjska cesta 46, SI-1215 Medvode, Slovenia
Phone	00386 1 474 92 74
Fax	00386 1 474 92 72
E-mail	webinfo@savske-el.si
Website	www.savske-el.si
Primary activity	electricity production in hydropower plants
Composition of the Supervisory Board as at 31 December 2005	Ladislav Tomšič, M.Sc. – *Chairman* Jadranko Medak Marko Bogataj

SEL has a long tradition in its primary activity, i.e. electricity production in hydropower plants. Završnica HPP as the oldest hydropower plant within the scope of the company has been in operation since 1914. In addition, SEL operates the following hydropower plants: Moste HPP, Mavčiče HPP, Medvode HPP and Vrhovo HPP. Total net installed capacity of hydroelectric power plants on the Sava River thus amounts to 117 MW. All hydropower plants on the Sava River are of the storage type with at least daily storage facility, which means that they can take part in daily system regulations resulting from unbalanced electricity consumption (by hours of the day). Moste HPP is the only storage power plant in Slovenia with weekly storage capacity, and hence as the only hydropower plant it can take part in weekly system regulations caused by unbalanced electricity consumption.

Sava d.o.o.
A subsidiary of SEL, established to help meet the needs of constructing a chain of new hydropower plants along the Lower Sava River.

Soške elektrarne Nova Gorica d.o.o.

Managing director	Vladimir Gabrijelčič
Address	Erjavčeva 20, SI-5000 Nova Gorica, Slovenia
Phone	00386 5 339 63 10
Fax	00386 5 339 63 15
E-mail	seng@seng.si
Website	www.seng.si
Primary activity	electricity production in hydropower plants
Composition of the Supervisory Board as at 31 December 2005	Milan Medved, Ph.D. – *Chairman* Valentina Lavrenčič Alojz Istinič

On the Soča River, SENG operates six large and nineteen small hydropower plants which with their net capacity of 155 MW in total are part of the producers of electrical energy from renewable sources. The control centre in the town of Nova Gorica ensures optimum quality operation of all hydropower plants. Of particular interest among the Soča hydropower plants are the Zadlaščica HPP with its double role of generating electricity and providing the entire region with potable water, and the Tolminka hydropower plant featuring also as a trout hatchery.

Elprom d.o.o.
A subsidiary of SENG, established with the purpose of trading in electrical energy.

Termoelektrarna Brestanica d.o.o.

Managing director	Bogdan Barbič
Address	Cesta prvih borcev 18, SI-8280 Brestanica, Slovenia
Phone	00386 7 481 60 00
Fax	00386 7 492 22 62
E-mail	teb@teb.si
Website	www.teb.si
Primary activity	electricity production in thermal power plant
Composition of the Supervisory Board as at 31 December 2005	Milan Medved, Ph.D. – *Chairman* Jože Dimnik, M.Sc. Anton Gabrič

The history of the thermal power plant goes back into the year 1939, when due to large lignite deposits in the territory of the Senovo mine a decision was made to build a power plant. Up to now, the company has developed into a large and highly adaptable electricity producer in Slovenia, known for its short response time. Five rapid gas generators, i.e. three with 23 MW each and two with 114 MW each, need only 15 minutes from the submittal of start-up request to full power of 291 MW, thus fulfilling the minute reserve requirement as demanded by the European Operators Association. TEB is thus capable of prompt intervention in the event of any system overload, or grid or plant outages. Due to its net installed capacity of 312 MW and high technological flexibility and adaptability as regards fuel, it is nowadays indispensable for the Slovenian electrical energy system.

Termoelektrarna Šoštanj d.o.o.

Managing director	Uroš Rotnik, Ph.D.
Address	Cesta Lole Ribarja 18, SI-3325 Šoštanj, Slovenia
Phone	00386 3 899 31 00
Fax	00386 3 588 24 85
E-mail	info@te-sostanj.si
Website	www.te-sostanj.si
Primary activity	electricity production in thermal power plants
Composition of the Supervisory Board as at 31 December 2005	Ivan Atelšek – *Chairman* Franc Sever Franc Rosec

With a net capacity of 675 MW, five generating units the operational availability of which is comparable with the best European thermal power plants, and two thermal stations, TEŠ generates on average a third of the country's energy (in an emergency situation it can meet more than one half of the national demand). In addition to electrical energy, it also provides community heating to the major part of the Šaleška Valley. Average annual production varies between 3.9 and 4.2 billion kWh of electrical energy and 0.4 billion of thermal energy, utilizing between 4.2 and 4.4 million tons of lignite from the Velenje mine. TEŠ also provides a number of essential ancillary services to the Slovenian power generation sector. Namely, TEŠ has enough spinning reserve available to immediately cover the outage of the largest generator within the system, as well as enough cold reserve to cover seasonal fluctuations in consumption.

Premogovnik Velenje d.d.

Managing director	Evgen Dervarič, Ph.D.
Address	Partizanska 78, SI-3320 Velenje, Slovenia
Phone	00386 3 899 61 00
Fax	00386 3 586 91 31
E-mail	info@rlv.si
Website	www.rlv.si
Primary activity	mining of lignite
Composition of the Supervisory Board as at 31 December 2005	Milan Medved, Ph.D. – *Chairman* Vida Lorber Pavel Župevc

With its average of four million of extracted lignite annually, which are entirely intended for the needs of TEŠ, and a variety of activities from the field of geo-technology, including its unique extraction technique – the Velenje Longwall Method – which is known worldwide for its productivity, TEŠ ranks among the most modern mines worldwide. Due to its high productivity the price of the lignite from the Velenje mine is competitive, which has a significant impact also on the competitiveness of the TEŠ electricity and thus of the entire HSE Group. A long-term contract on the purchase of lignite, lease of power and purchase of electricity, signed in 2004 by PV, HSE and TEŠ, denotes a significant step towards ensuring the energy-safe and reliable future of Slovenia.

PLP d.o.o.

PLP d.o.o. provides timber products for the needs of the Velenje mine operation. In order to ensure maximum safety, the products supplied have to meet the very highest quality standards.

Gost d.o.o.

Gost d.o.o. which was initially solely engaged in the restaurant business has gradually expanded its operations into the provision of a range of tourist and catering services.

RGP d.o.o.

RGP d.o.o. is involved in the engineering of penstocks as well as similar subterranean civil engineering operations, including reinforcement and special mining construction works. The company is also engaged in the implementation of pertaining engineering-mechanics and statics studies, parallel with planning and implementation of services related to geo-metrology and geo-mechanics.

Habit d.o.o.

Habit d.o.o. is a real estate company which specialises in realty management. In addition to this, it handles organisation and management of specialist construction and installation works for residential and other civil engineering projects.

HTZ I.P. d.o.o.

HTZ I.P d.o.o. is engaged in the production, service and maintenance of machinery and systems installations. It is particularly distinguished by its rich experience and expertise in the maintenance of plants typical to the mining sector. HTZ Velenje I.P. also plays a significant role in the training and employment of the disabled.

Telkom sistemi d.o.o.

Telkom sistemi d.o.o is involved in the provision of telecommunications services, encompassing project engineering, the installation, maintenance and servicing of telecommunication systems, networks and devices, as well as field-related sales and consultancy.

M2M Informacijski sistemi d.o.o.

M2M Informacijski sistemi d.o.o. develops and implements integrated information systems for enterprises. These engender cost-savings and more rapid response times in production facilities and supply chains.

Karbon, čiste tehnologije, d.o.o.

Founded in 2002, Karbon, čiste tehnologije, d.o.o. is active in the development of clean technologies, i.e. the carbonisation of lignite resulting in clean coal briquettes and active charcoal. The company has been also establishing itself as a centre for clean coal technologies.

TRC Jezero d.o.o.

TRC Jezero d.o.o. was founded in order to establish a tourist and recreational facility on the degraded land of Šaleška Valley, an area of erstwhile lignite excavation. This developing lakeside reserve will be distinguished by its sports and leisure facilities, including a water park with thermal water. There shall be nothing to compare with in Slovenia.

ERICo

ERICo – Environmental Research & Industrial Cooperation Institute – is engaged in research and experimental development in the natural and social sciences, as well as pertaining ecological project engineering and technological applications, together with related consultancy, testing and analyses. In addition to all this, the Institute plays a significant role in the field of education and training.

Jama Škale v zapiranju d.o.o.

The company was founded for the needs of closure of the Škale pit.

TDR – Metalurgija d.d.

Managing director	Franjo Vališer
Address	Tovarniška cesta 51, SI-2342 Ruše, Slovenia
Phone	00386 2 661 10 81
Fax	00386 2 662 89 01
E-mail	info@tdr-metalurgija.si
Website	www.tdr-metalurgija.si
Primary activity	production of calcium carbide, ferrosilicon, calcium silicon, and complex alloys
Composition of the Supervisory Board as at 31 December 2005	Dragomir Peklar – *Chairman* Irena Stare Milan Fras

TDR-Metalurgija d.d.

TDR – Metalurgija is one of the earliest electro-chemicals manufacturers in Central Europe. Today it is involved in the production of calcium carbide and ferroalloys. The company has a subsidiary which is engaged in training and employment of the disabled.

TDR Invap d.o.o.

In 2003, TDR – Metalurgija founded TDR Invap d.o.o., a company employing disabled workers. TDR Invap's operations encompass the provision of a variety of services, such as security, cleaning and catering, both on behalf of the parent company and as an independent external contractor.

HSE Invest d.o.o.

Managing director	Vili Vindiš
Address	Obrežna 170a, SI-2000 Maribor, Slovenia
Phone	00386 2 300 58 92
Fax	00386 2 300 58 99
E-mail	info@hse-invest.si
Website	www.hse-invest.si
Primary activity	management of preinvestment phase of development projects, management of construction of new hydropower plants, and reconstruction of the existing ones
Composition of the Supervisory Board as at 31 December 2005	Irena Šlemic – *Chairman* Marjan Šmon Alida Rejec Janez Nučič

HSE Invest, a company headquartered in Maribor, is involved in the engineering and construction of generating facilities, and has a significant role in the construction of five new hydropower plants on the Lower Sava River. In addition, it also participates in the renovation of Vuhred HPP, Ožbalt HPP and Zlatoličje HPP, in the construction of the Avče pumped-storage hydropower plant, and in the development phase of the construction of the Kozjak pumped-storage hydropower plant.

HSE Italia S.r.l.

Chairman of the management board	Igor Orel
Address	Via Roma 20, IT-34170 Gorizia, Italy
Phone	0039 0481 537386
Fax	0039 0481 536667

Headquartered in Gorizia (Italy), HSE Italia connects HSE with (prospective) business partners for possible investments in the Italian territory to which HSE exports most electricity. In addition, it serves as a link between HSE and the markets of Northern and Western Europe.

Plinsko parna elektrarna d.o.o., Kidričevo

Managing director	Branko Kožuh
Address	Tovarniška 10, SI-2325 Kidričevo, Slovenia
Phone	00386 2 799 51 20
Fax	00386 2 799 51 03
E-mail	brane.kozuh@talum.si
Primary activity	other electricity production
Composition of the Supervisory Board as at 31 December 2005	Milan Medved, Ph.D. – *Chairman* Anton Smolak Zlatko Čuš, Ph.D.

Plinsko parna elektrarna d.o.o., Kidričevo (CCGT power plant) was established in 2004 for the needs of construction planning of an 800 MW CCGT power plant in Kidričevo. The company's owners are HSE (45 %), Verbund (40 %) and Talum (15 %). In the phase of preparation, which will last until 2007, a decision will be adopted on the basis of appropriate studies whether to construct the power plant or not. If the decision is adopted that the plant should be constructed, the construction will take place in the years 2007 to 2009.

Stelkom d.o.o.

Stelkom is a provider of telecommunication services and links for the telecommunication infrastructure of companies from the electric power industry. The infrastructure is based on the widely distributed optical network of 2,500 km in total length.

Joint Venture

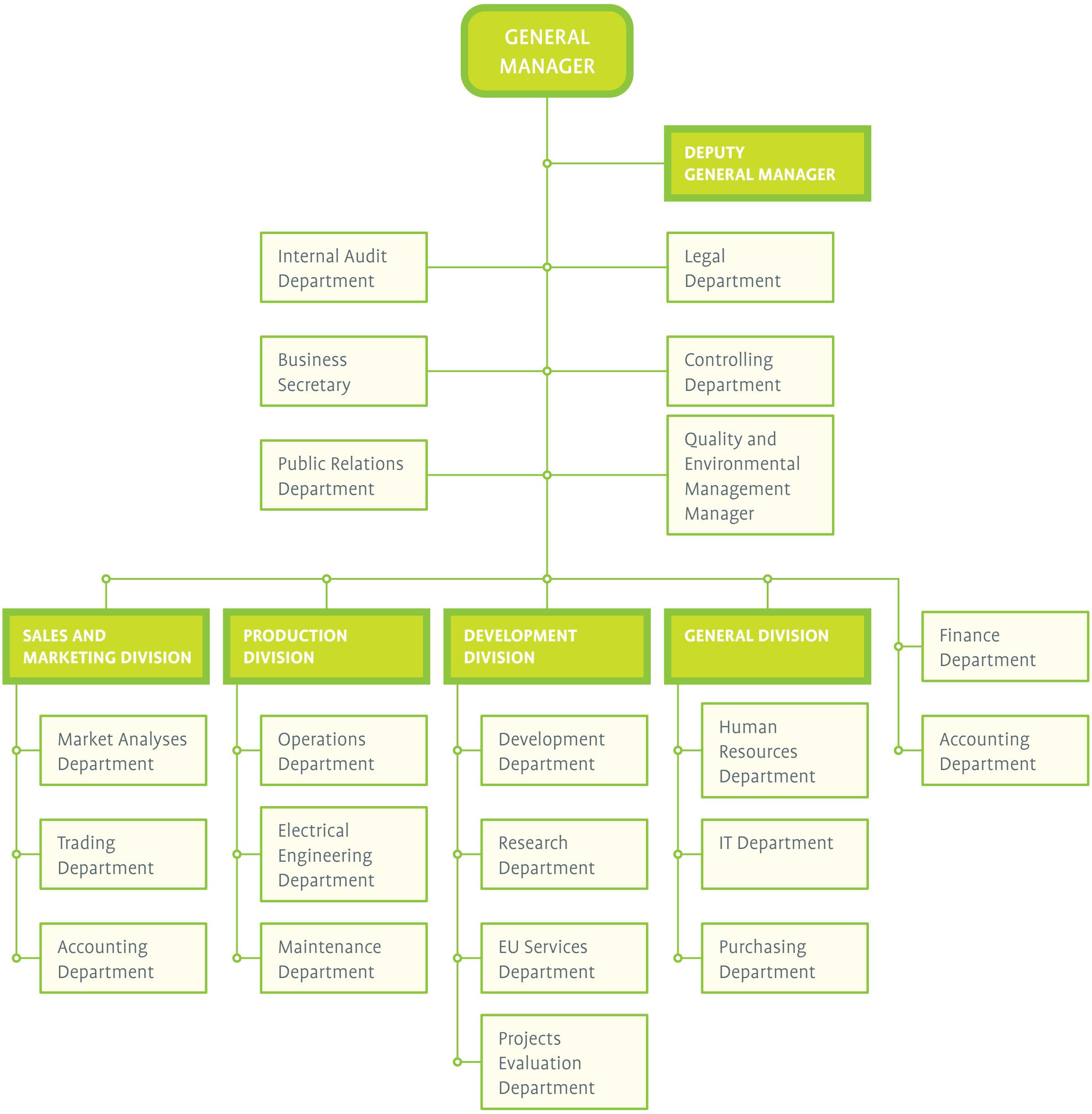
Joint venture project is a commercial endeavour involving the companies HSE, DEM, SEL, SENG, and TEB, which in 2003 signed a contract on the commercial cooperation in the construction of the HPPs on the Lower Sava River.

HSE Belgrade Office

Established in 2003, HSE's Belgrade Office is another platform for further expansion of the Group's operations on foreign markets, particularly in Southeastern Europe. With regard to electricity supply and consumption, as well as with regard to transit and trading, this part of Europe denotes for HSE a very important new market.

2.2.1 Structure of the HSE Group

Organisation of the HSE Parent Company



HSE is the parent company of the HSE Group and operates from five locations.

Ljubljana Headquarters

The HSE headquarters, located in Slovenia's capital, are the seat of the company's Management Board, as well as administration, marketing and finance operations.

Maribor Office

In addition to being the generation management centre, Maribor is also responsible for development.

Velenje Office

The Velenje division is primarily engaged in maintaining power provision for the domestic market, in trading activities within the HSE Group, monitoring and calculation of energy imbalances, and long-term planning.

Nova Gorica Office

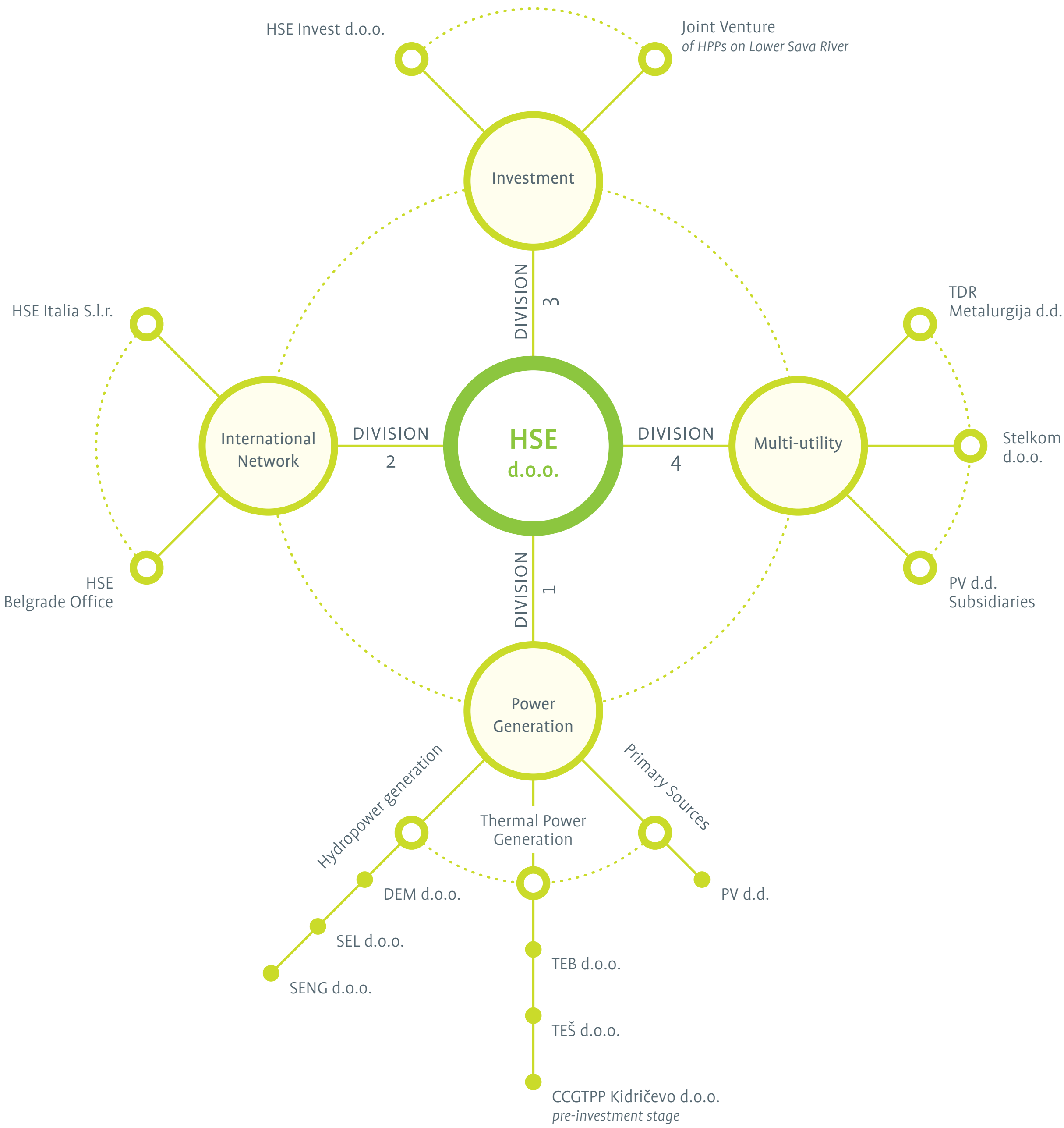
Nova Gorica is responsible for foreign markets

Sevnica Office

Sevnica is primarily responsible for the co-ordination of activities related to the construction of new HPPs along Slovenia's Lower Sava River.

By distributing business functions to different Slovenian towns which are most suitable for their implementation, HSE has achieved rational operation and assets management, as well as good utilisation of human and technical resources of all companies of the HSE Group. Business functions of the HSE which are needed for its joint operations, are located at a place where competitive advantages can be best utilised.

Organisation Chart of the HSE Group



2.2.2 Governance of the HSE Group

As the sole owner, the Republic of Slovenia governs the parent company, both directly and indirectly, through:

- its Supervisory Board and
- its General Manager.

Governing Bodies of the Parent Company
as at 31 December 2005

GENERAL ASSEMBLY

SHAREHOLDERS

Republic of Slovenia
100% ownership share

SUPERVISORY BOARD

REPRESENTATIVES OF

Andrej Vizjak, M.Sc.
Chairman

Franc Bogovič

Franc Ervin Janežič

Janez Požar

Andrej Aplenc, M.Sc.
Deputy Chairman

Franc Križanič, Ph.D.

REPRESENTATIVES OF EMPLOYEES

Branko Sevčnikar

Pavel Župevc

Janez Keržan, M.Sc.
Deputy Chairman

GENERAL MANAGER

Jože Zagožen, Ph.D.

Governance of the Parent Company

In accordance with the competences determined and stipulated in the *Act of Establishment*, the Founder adopts independent decisions on strategic and developmental orientations of the Company, appropriation of accumulated profit, changes in equity, as well as on any other matter which provides direction or impetus as to the Company's operations.

The Supervisory Board consists of nine members, six of whom represent the interests of the Founder (the State), while the remaining three represent the interests of the employees (the Workers' Council). More significant tasks of the Supervisory Board encompass supervision over the management of the Company, submittal of proposals for approval to the Founder from its area of competence, review and adoption of annual reports, as well as appointment of a general manager.

Until the end of July 2005, the Supervisory Board of the HSE was composed of the following members:

- Djordje Žebeljan, M.Sc. – Chairman,
- Lucijan Rejec – Deputy Chairman,
- Damijan Lah,
- Jasna Kalšek,
- Professor Jože Voršič, Ph.D.,
- Darinka Mravljak,
- Branko Sevčnikar,
- Pavel Župevc,
- Janez Keržan.

The Government of the Republic of Slovenia appointed on 22 July 2005 for a term of four years new capital representatives: Andrej Vizjak, M.Sc., Franci Bogovič, Franc Ervin Janežič, Janez Požar, Andrej Aplenc, M.Sc, and Franci Križanič, Ph.D..

Until the middle of December 2005, the Company was managed by a three-member management board. Since the modification of the Act of Establishment, the Company has been managed by a general manager.

Governance of Subsidiary Companies

All subsidiary companies, with the exception of HSE Italia, are managed by a single managing director or a management board. The majority of companies are supervised by a three-member supervisory board.

Employee Participation in Management

During 2005 the management of the *Group companies* pursued regular and close cooperation with the trade unions and workers' councils which have been operating in these companies since their very beginnings.

HSE Group Companies and the Trade Unions

Trade-union activities in the DEM, SEL, SENG, TEB and TEŠ companies are co-ordinated by the Sindikat Delavcev Dejavnosti Energetike Slovenije (SDE – Slovenian Power Sector Union), one of the strongest within the Zveza Svobodnih Sindikatov Slovenije (ZSSS – Association of Free Trade Unions of Slovenia). HSE d.o.o and HSE Invest are in the process of establishing union representation.

In addition to the SDE, two other trade unions operate within the HSE Group: Neodvisnost (representing some 10 % of SENG employees) and Sindikat Pridobivanja Energetskih Surovin Slovenije (SPESS –Union of Coalminers) which is active in the PV Group.

The SDE''s Electrical Energy Sector Conference also encompasses the coordination of union activities within the HSE Group as well as the appointment of trade union representatives in the subsidiaries in which it operates. Union representatives communicate directly with HSE management as well as with the managers of the subsidiaries in which individual branches operate. This spirit of co-operation ensures timely reaction and rapid solution to any problems as and when they arise, as well as open discussion of suggestions and proposals. Such cooperation also extends to the Joint Workers' Council of the HSE Group.

Workers' Councils in HSE Group Companies

Through the workers' councils, HSE Group employees enjoy their statutory right to participate in management. Each such workers' council elects representatives drawn from the workforce to the supervisory board of the company in which they operate.

Joint Workers' Council of the HSE Group

In compliance with the Workers' Participation in Management Act, the HSE Group also features a Joint Workers' Council, a body which further reinforces the statutory rights of employees. By way of this, various interests are taken into consideration, and broad consensus is achieved both in terms of the Group's development plans as well as with respect to implementation of various aspects of the social contract.

2.3 HSE Group Mission, Vision and Values

Mission

The mission of the HSE Group, one of the leading Slovenian companies in the power sector, is growth and development by maintaining its position of market leader on the domestic market, increase of its shares on foreign markets, and scientific and economic development of the Slovenian power sector and its establishment in the international context.

Vision

The vision of the HSE Group is to ensure optimum utilisation of Slovenian energy sources and personnel, and to establish a competitive group company in the global energy market that would be in a position to successfully compete on the domestic as well as on foreign electricity markets, while also expanding its business operations so as to reduce business risks arising from market fluctuations in relation to individual products.

Values

The values of the HSE Group are reflected in the Group's attitude towards consumers, the society, employees, business partners and company owners. The focus is on:

- customer satisfaction,
- building responsible, long-term relationships with business partners,
- the protection of the environment and utilisation of renewable sources of energy,
- striving towards engineering excellence,
- continuous professional development and establishing a motivating work environment for HSE employees,
- providing safe and stable jobs and creative work environment,
- efficient operation and creation of profits for company owners,
- on-going improvement of the management system.

HSE Group Development Plan

Due to on-going increase in consumption of electricity at home and worldwide, HSE group has been since its establishment searching for new, additional projects and investments in order to ensure provision of safe, reliable competitive and environmentally friendly supply of electricity to domestic consumers also on a long-term basis.

Becoming a market leader in Southeastern Europe

The strategic orientation of the HSE Group is defined in the Development Plan of the HSE Group. After the successfully implemented 3rd Strategic Conference in September 2005, the Group has commenced to update the Development Plan which will be presented to the company owner for adoption in the first half of the year 2006. In addition to ensuring provision of safe, reliable, competitive and environmentally friendly electricity, the core target is also the development and growth of the HSE Group, towards becoming a market leader in Southeastern Europe.

Anticipated Investments of the HSE Group until 2015 in Slovenia, as adopted on the 3rd Strategic Conference of the HSE Group

	Project	Output (MW)	Average Annual Production (GWh)	Investment Cost*** (in € million)	Building Permit	Start of Operation
PRIORITY I.						
1	HPP Boštanj	33	115	68.7	Nov. 2002	May 2006
2	TEŠ U5 GT	84	614	40.6	Apr. 2006	May 2008
3	PSHPP Avče	178	426	86.9	Sep. 2004	Nov. 2008
4	HPP Blanca	42.5	160	85.6	Nov. 2005	May 2009
5	Refurbishment of HPP Moste*	12.5	59.6	9.9		Jun. 2008
6	HPP Zlatoličje	24	45	57.2	Dec. 2005	May 2008
7	TEŠ U6	500	2,950	509	Jun. 2008	Feb. 2011
8	HPP Krško	41.5	145	87	Jul. 2007	May 2012
9	PSHPP Kozjak	400	776	153.3		Aug. 2011
10	HPP Brežice	41.5	161	80		May 2015
11	Renewable Sources of Energy**	10	30	15		2007-2015
12	Co-Generation of Heat and Electricity	100	600	53		2008-2015
	Total Priority I.	1,467	6,081.6	1,246.2		
PRIORITY II.	Priority II. projects require additional study and research.					
1	CCGTPP Brestanica	163	1,037	68		Oct. 2008
2	Upgrade of HPP Moste*	47	98	75	Jun. 2006	Jun. 2009
3	CCGTPP Kidričevo	360	2,700	181	Aug. 2007	Aug. 2010
4	HPP Formin	10	32	50		Oct. 2015
5	HPP Učja	24	35	40		2014
6	HPP Chain on the Middle Sava River	304	1,020	685		2012-2026
7	HPP Chain on the Mura River	111	486	284		2012-2027
8	HPP Chain on the Idrijca River	117	200	152		2015-2023
9	HPP Kobarid, HPP Kamno	81.2	268	96		2015-2025
	Total Priority II.	1,217.2	5,876	1,631		
	TOTAL PRIORITY I. AND II.	**2,671.7**	**11,898**	**2,867.3**		

* In case of the decision for the augmentation of HPP Moste being adopted, refurbishment will not be undertaken (therefore the renovation of the Moste HPP is not considered in the total of both priorities).

** Renewable sources: Small HPPs, solar power plants, geo-thermal power.

*** The estimated value comprises only the energy portion of the plant at fixed prices without financing cost.

The projects involving the renovation of existing and construction of new power facilities are – with regard to commercial, environmental, spatial and operational criteria – divided into two orders of priority. The comparative economic calculations justify the implementation of all the projects itemised under the first order of priority (High Priority), whereas those listed under the second order (Secondary Priority) need to be additionally developed and researched.

2.4 Management System Policy

The Management System Policy encompasses quality, environmental management and operational health and safety. The Management System Manual is in conformity with the following standards: ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999.

The total quality management system is based on the following principles:

- responsibility for the implementation of specific jobs arising from certain direct and unequivocal mandates;
- accountability for achieving the objectives in relation to quality, environmental management and safety, represents an integral part of the core requirements for the implementation of individual jobs;
- each individual, irrespective of his/her position, be it at the strategic, tactical or operational level, is accountable for the implementation of objectives in relation to quality, environmental management and safety, subject to and in accordance with his/her responsibilities and authority.

2.4.1 Achieving the Objectives in relation to Quality

Our ongoing objectives regarding quality are as follows:

- meet customer needs and wants,
- achieve set strategic and tactical business objectives,
- establish the optimum organisation and transparency of business operations,
- operate in accordance with applicable regulations, and
- exercise continuous vigilance over the economic aspects of the business so as to ensure sound company performance.

In the year 2005, the set objectives were achieved. Internal audits were undertaken and system procedures required due to introduction of the OHSAS 18001 and ISO 14001:2000 standards were modified and upgraded. An assessment was made of the operation of the management system, and orientations for the future were adopted. The management system documents were introduced in the ODOS data storage and distribution computer system. Likewise ongoing was the training of employees in the field of quality and organisation of work.

2.4.2 Achieving the Objectives in relation to Environmental Management

HSE is well aware that high level of environmental awareness ensures pleasant working environment and good relations with our neighbours. Intensive efforts towards sustainable development in terms of environmental management are being made on the local as well as the government levels. We aim for continuous improvement of working and living conditions of HSE employees and population residing in the vicinity of HSE companies. To this end, our environmental policy has been developed so as to conform to the ISO 14001:2004 requirements. Special attention has been devoted to indirect environmental aspects arising in the HSE Group companies. The key objective of the HSE environmental policy is to establish a permanent balance, which can be achieved by implementing preventive measures, by preventing any environmental contamination, by sharing responsibility, as well as by making environmental management a part of individual business processes.

2.4.3 Achieving the Objectives in relation to Occupational Health and Safety

Concern for the improvement of Occupational Health and Safety conditions in the working environment, by taking into account the specifics of the HSE processes and subsidiaries of the HSE Group, is an integral part of the HSE Group and reflects our care for our employees and the company's attitude towards the social environment where we live and operate. Compliance with the relevant applicable legislation represents merely the minimum level to be achieved and improved upon, as evidenced by our introducing and following the requirements of the OHSAS 18001 standard.

At the end of the first half of the year, the first part and the second part of the external audit under the OHSAS 18001 standard were carried out in the parent company. The auditors established that the domain of occupational health and safety was regulated as required by the standard and that there were no obstacles for the issue of the OHSAS 18001 certificate. The certificate was solemnly awarded in July.

A safety council of the HSE Group has been constituted which will coordinate the domain of occupational health and safety in all HSE Group companies. The first joint action was the introduction of OHSAS under the uniform model prepared for the HSE Group. OHSAS 18001 has already been acquired by TEŠ and PV.

Health Preservation

HSE Group firmly believes that the ultimate objective of occupational health and safety is not merely the prevention of occupational accidents but particularly to preserve the health of its employees.

In order to improve the ergonomics of workplaces, these were furnished with ergonomic appliances. The majority of employees take fairly good care of their health and physical condition, a feature which is also evident from their participation in the various sports clubs and associations operating within the HSE Group.

In addition to the preventive health checks upon their employment, all personnel attend scheduled medical examinations on a regular basis. Furthermore, all employees are also provided with the mandatory personal safety equipment.

2.4.4 Acquired certificates in the HSE Group

Free competition – on the domestic electricity market, and in particular on foreign markets – necessitates certified quality in terms of system and environmental management, as well as a responsible approach to production of electricity and other energy products. Appropriately certified products result in an improved sales performance, and in order to penetrate an increasing number of markets the provision of such warranties is mandatory.

ACQUIRED CERTIFICATES IN THE HSE GROUP

Company	ISO 9001	ISO 14001	OHSAS 18001	EE-TÜV 08/02[1]	RECS[2]	HACCP[3]	USP S10[4]
HSE	√	√	√	√	√		
DEM	√	√		√	√		
SEL	√	√		√	√		
SENG	√	√		√	√		
TEB	√	√					
TEŠ	√	√	√			√	
PV	√	√	√				√
TDR – Metalurgija	√						

1 EE – 08/02 – certificate for electricity production from renewable sources awarded by TÜV.
2 RECS – Renewable Energy Certifikate System, TÜV and Energy Agency of RS.
3 HACCP – Hazard analysis and critical control points; Standard for measurement laboratories.
4 USP S10 – *Learning Organisation* Standard from the USP Institute.

2.5 Market Position

2.5.1 General Economic Outlook in Slovenia*

Economic Growth

In the year 2005, the economic growth amounted to 3.9 % and was mainly attributable to foreign demand, since domestic production recorded only a modest growth which was particularly the result of lower increase in gross investments.

Trade in Goods

In spite of moderate economic growth in the majority of important trade partners last year, the relatively high growth in exports of products continued, particularly the growth in exports of road vehicles. While the downward trend in the growth of imports was mainly due to the moderate growth of domestic investments in equipment and machines. The exports of goods and services in 2005 were higher by 12.6 % and the total imports by 0.3 % as compared to 2004.

Exchange Rate Developments

After Slovenia's entry into the European Exchange Rate mechanism II at the end of June 2004, the EURO rate recorded practically no variations from the central exchange rate. On average, the EURO rate amounted in 2005 to SIT 239.64 SIT, and against 2004 was higher by 0.3 %.

The value of the US dollar, which was subject to variations in the course of the year 2005, achieved SIT 192.71 SIT on average, i.e. an increase of 0.2 % against 2004.

After considerable weakening of the dollar against the euro at the end of 2004, the dollar strengthened a little in the course of the year 2005, so that in 2005 the average value of the dollar against the euro stood at 1.24.

Price Developments

Characteristic for the year 2005 was the on-going trend of gradual decrease in inflation. In December 2005, the average annual growth in consumer prices amounted to 2.3 % and average inflation in 2005 was steady at 2.5 %.

At the end of 2005, in addition to both fiscal criteria, Slovenia also fulfilled both criteria from the field of monetary policy, i.e. those of interest rates and inflation.

SLOVENIA AND CONVERGENCE CRITERIA

December 2005 *in %*	Criteria	Slovenia
Inflation (12 month' average)	2.5 %	2.5 %
Long-term interest rate	5.37 %	3.81 %
Fiscal deficit (% GDP)	< 3 %	2.1 %
Public debt (% GDP)	< 60 %	29.8 %

Source: Bank of Slovenia, January 2006

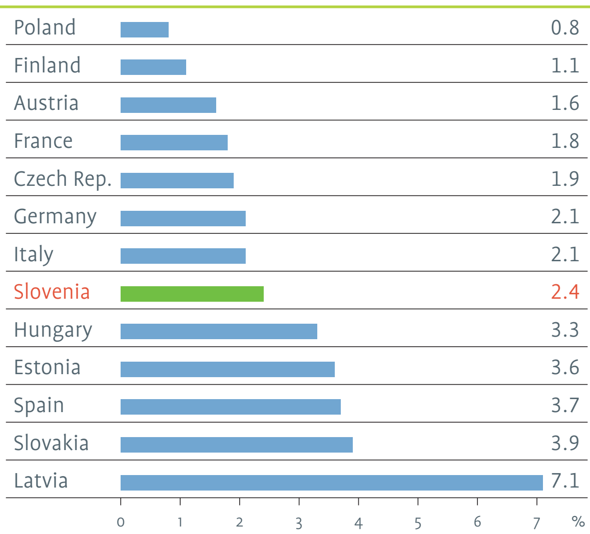
* Source: SKEP GZS and UMAR.

Sustainable decrease in inflation over the last three years is the result of harmonized operation of the economic policies of the Bank of Slovenia and the Government of the Republic of Slovenia. By stabilisation of the tolar exchange rate when entering the ERM II at the end of June 2004, one of the major inflationary factors was eliminated. In the year 2005, the Government continued with the implementation of the restrictive plan of balancing the controlled prices and mitigating the negative impact of oil price fluctuations. The decline in inflation and in prices of individual group categories was also attributable to increased competition after the EU entry and abolishment of the remaining customs restrictions for the imports from the EU countries, as well as to the opening of the EU market for products from third countries.

The annual rate of inflation in the EU 25 countries, measured by the harmonized indices of consumer prices, stood in December 2005 on average at 2.1 %. It was the highest in Latvia (7.1 %) and the lowest in Poland (0.8 %).

INFLATION* IN SELECTED EU COUNTRIES

December 2005 — Growth rates during the year %



Source: Eurostat, January 2006

* Inflation measured with internationally comparable harmonized indices of consumer prices (HICP). It can differ from the locally calculated inflation.

Trends in Production and Services

In the year 2005, the production of industrial enterprises in Slovenia exceeded that in the year 2004 on average by 3.1 %. During this period, the production of enterprises in processing industry exceeded the figures achieved in 2004 by 3.5 %, in mining industry by 2.6 %, whereas the production of electricity, gas and water supply enterprises dropped by 1.5 %.

Labour market

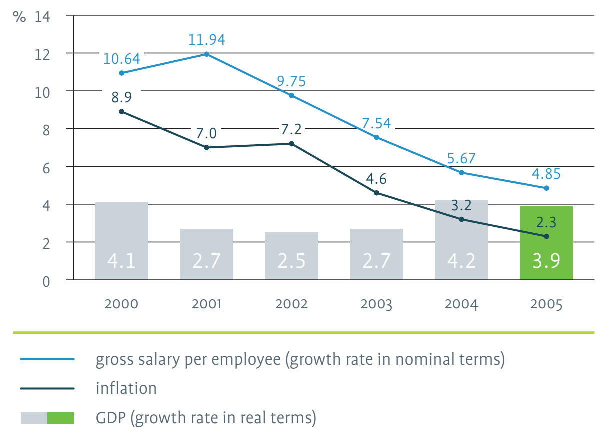
In 2005, the employment rate increased against the previous year and achieved a 0.7 % growth. Employment growth was recorded in almost all industries.

Decline in unemployment, which was a characteristic feature of previous years, stalled last year. Hence in December 2005, the number of registered unemployed persons amounted to 92,575 and rose by 2 % against the figures in December 2004.

Gross salary per employee rose in 2005 by 2.2 % in real terms and thus stayed by 0.9 percentage points behind a 3.1 % work productivity growth, which is in line with the salary policy framework as agreed in the social agreement for the period 2003-2005. The lag of salary growth behind the productivity growth prevented possible pressures on the price increase arising from increased household demands or increased production costs.

GDP, GROSS SALARIES AND INFLATION IN SLOVENIA

Growth rates
%



Source: Statistical Office of the Republic of Slovenia

2.5.2 Electricity Market

After the years of considerable dynamic development of the Slovenian electricity market, the year 2005 was relatively calm, particularly as regards regulatory frameworks.

The Slovenian electricity market is open in line with the European policy. As a result, all non-household customers are now entitled to freely choose their energy supplier, and the price of electricity is thus determined by supply and demand on the market. Legislation classifies households as tariff customers until 2007, and thus for the private non-commercial consumer the price of energy is still regulated by the state, and determined on the basis of coverage of production and supply costs, rather than by market forces.

The development of the Slovenia's electricity market and its competitiveness in 2005 is also favourably assessed in the European Commission Report published in January 2005. Based on a number of indicators, the Commission concluded that there are no deviations from the average level of competitiveness in EU countries; indeed, with regard to most indicators there are even less constraints as to competition than there are in other European markets. According to the Commission, the only actual deficiency in the case of Slovenia derives from its rather narrow ownership structure, which is itself the result of the country's small size. Although the size-related structural deficiencies can never be entirely overcome, they are somewhat mitigated by exceptionally good interconnections with its neighbouring electricity markets. Under such circumstances, Slovenia's wholesale power sector can potentially benefit from higher than average levels of competition.

The regulatory framework of the Slovenian electricity market after its EU entry is mainly devised on the basis of the EU policies. From the aspect of the company, a new influential and the most significant parameter both on the European markets and on the Slovenian market is undoubtedly the beginning of operation of the trading scheme with CO_2 emission coupons at the EU level. The purpose of the scheme is to approximate the obligations under the Kyoto Protocol, i.e. to curtail emissions of greenhouse gases. The cost of emissions on the European wholesale markets has in many ways changed the manner of offering the production from the facilities using fossil fuels as primary source, and caused a considerable increase in electricity prices. The inclusion of the emission cost in cost price of electricity production has also linked the electricity market to very volatile global oil and natural gas markets.

2.5.3 Electricity markets in 2005

The electricity markets were indirectly marked by the European trading scheme with CO_2 emission coupons which came into effect on 1 January 2005, as well as by a sharp oil price increase.

2.5.3.1 Slovenia

Last year was characterised by a strong increase in activities and trading quantities on the Slovenian wholesale market. After resynchronisation of the 2nd UCTE zone, the Slovenian market depends strongly on the events occurring on the markets of Southeastern Europe and on the possibilities of crossborder electricity trading. Thus, at the beginning of 2005, the electricity trading on the markets of Southeastern Europe and consequently also on the Slovenian market – with practically unlimited crossborder transmission capacities – increased dramatically.

At the beginning of April, the Slovenian electricity network was strongly overloaded due to the flows circulating through the Slovenian network to the Italian one. ELES responded by considerably reducing crossborder capacities and by introducing auctions. Thereby, the company's opportunities for crossborder trading decreased considerably while the costs rose. The introduction of auctions increased the uncertainty in crossborder trading, which was also reflected in lower trading quantities of the company in the first months of the year. The modified regime of allotment of crossborder transmission capacities hampered (and often made impossible) the optimisation of day-ahead production and trading according to concluded operation schedules (e.g. in case of a sudden hydro surplus, unit outages, etc.).

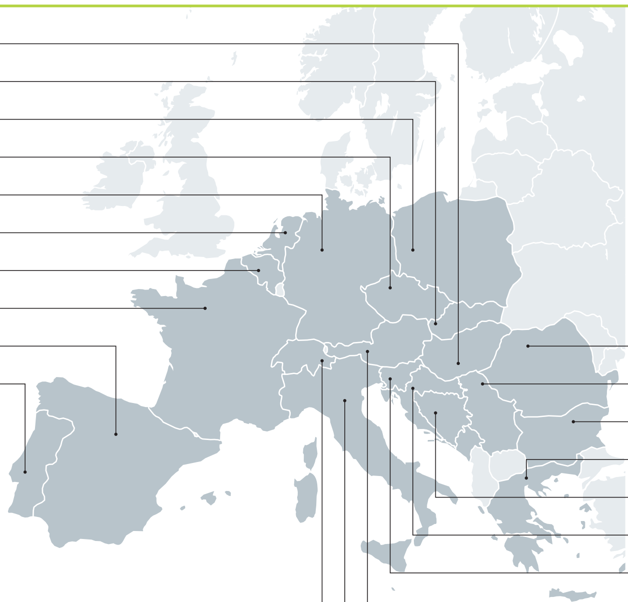
High prices in Continental Europe also enabled placing on the market additional quantities of electricity produced in TEŠ at prices which were considerably higher than expected at the end of the previous year.

Last year was also characterised by a below average production of electricity in hydropower plants, which was lower by 16 % as compared with the previous year.

In 2005, Slovenian consumption again witnessed an accelerated increase and rose (inclusive of network losses) by more than 3 % as compared with the previous year.

BALANCE OF EUROPEAN ELECTRICITY MARKETS IN 2005

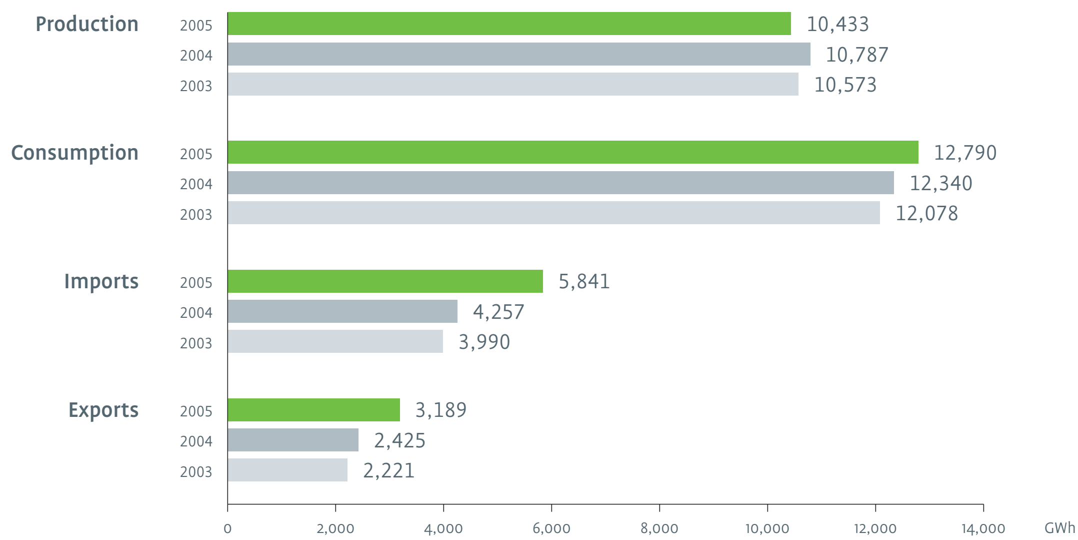
in TWh



Hungary	-6.2
Slovakia	2.9
Poland	13.3
Czech Republic	13.5
Germany	17.7
Netherlands	-18.3
Belgium	-4.5
France	66.8
Spain	7.9
Portugal	-6.3
Romania	2.9
Serbia and Montenegro	-0.3
Bulgaria	8.2
Greece	-2.9
Bosnia and Herzegovina	1.4
Croatia	-5
Slovenia	-2.4
Austria	0.6
Italy	-39.3
Swiss	-3.7

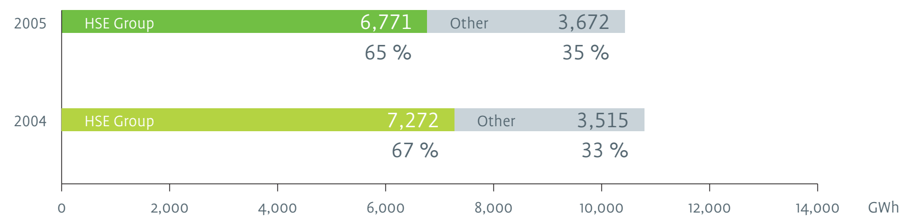
Source: UCTE

SLOVENIAN ELECTRICITY MARKET IN GWh

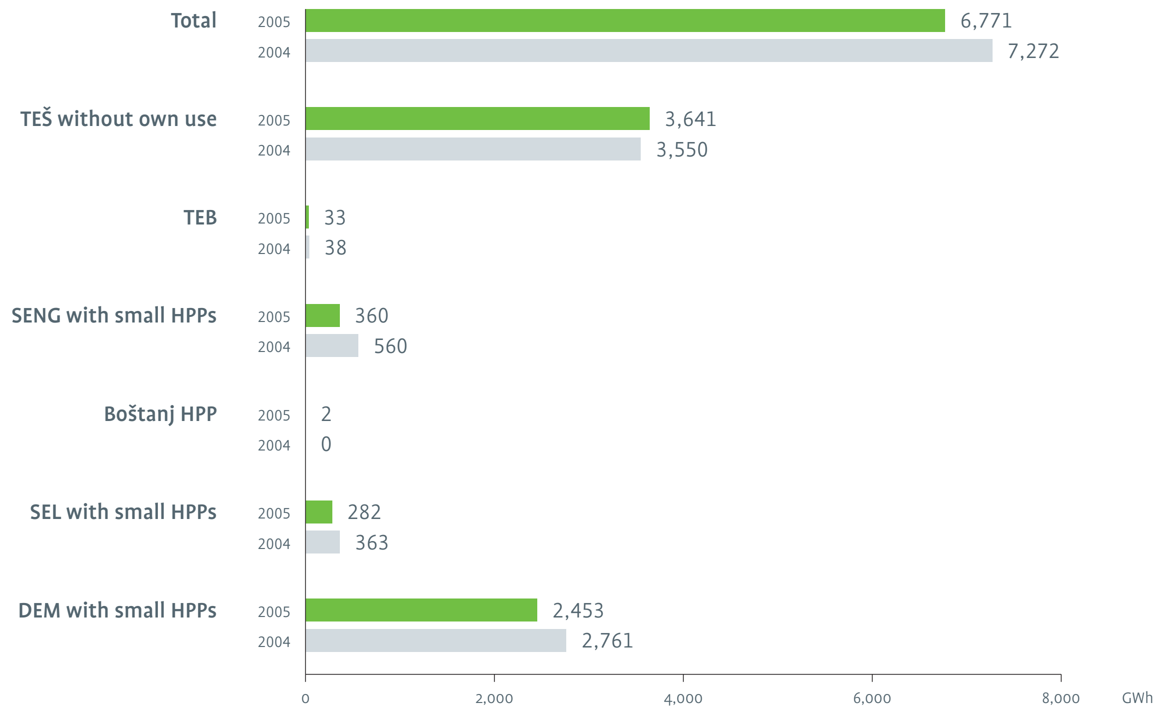


* Included is only the Slovenian part of NEK (Krško Nuclear Plant), while losses in the transmission network are not considered.

HSE'S SHARE IN THE TOTAL PRODUCTION OF ELECTRICITY IN SLOVENIA IN GWh



PRODUCTION OF ELECTRICITY IN THE HSE GROUP IN GWh



2.5.3.2 Continental Europe

The dry second quarter in the major part of Europe resulted in production increase in thermal power plants, and consequently in increased demand for CO_2 emission coupons, the prices of which rose substantially. Due to additional purchases of CO_2 coupons, producers – when selling electricity from thermal power plants – included their prices in variable production costs. Hence, day-ahead market prices over Continental Europe rose significantly and were much higher than those in the previous year. Likewise, there was an increase in the prices of long-term supplies, which was due to the growing prices of CO_2 emission coupons and oil and oil derivatives which, through gas and thus indirect impact on prices of emission coupons, enhanced the growth of prices in electricity production from gas power plants.

During most of the year, Brent crude oil price for next month exceeded the value of $ 50 per barrel and in the second half of the year surpassed as much as €/ 65 per barrel. The gas prices follow with a 6 to 9 month lag behind the oil price increase. Meanwhile, the coal prices remained relatively stable in the first three quarters of 2005 but dropped in the last quarter. As a consequence of increased competitiveness of coal-fired power plants their production rose, which was followed by higher CO_2 emissions and consequently by the rise in demand for CO_2 emission coupons and in their price.

After a stable moderate electricity price increase practically from the beginning of the year, the day-ahead market prices rose sharply in the second half of November due to low temperatures and low precipitation in Continental Europe. As a consequence of higher day-ahead market prices, the futures hit record price levels. Record prices were also recorded for crossborder import transmission capacities on the borders of Continental Europe.

In the period under survey, HSE continued optimising the market activities and the production at the hourly level with respect to electricity market prices. During night hours, it lowered production and purchased relatively cheap energy, while at the time of peakloads production was maximised with the purpose of selling as much energy as possible. In 2005, HSE started purchasing night energy also on the Italian market.

In spite of the exceptional rise in electricity prices in 2005, the market situation is such that further price increases can be expected in the years to come. Namely, the price increase has not reduced the consumption levels, while surplus production capacities are shrinking in a majority of European countries.

2.5.3.3 Southeastern Europe

For most of the year, the electricity prices on the Southern markets were substantially lower than those in Continental Europe.

In 2004, the electricity supplies on the Southern border were more expensive than supplies on the Northern border. With the price increase of supplies on the markets of Continental Europe as a consequence of introduction of the trading scheme with CO_2 emissions, the prices grew well above those prevailing on the Southern border. The new circumstances were successfully exploited particularly in the first quarter, since during that period there were practically no restrictions in crossborder transmission capacities when trading in the south-north direction. However, even after restriction of import capacities and introduction of auctions for crossborder trading on the Slovenian borders, which have significantly increased the price of electricity imports from Southeastern Europe to Slovenia, these markets remain for HSE the principal foreign purchasing markets.

Nevertheless, any increase in the volume of trade is still hindered by a variety of costs and restraints pertaining to the transit of electricity, which are – contrary to European legislation – imposed on the electricity traders by transmission systems operators. However, prospects as regards Southeastern European markets have never looked better, in spite of the fact that, like in Slovenia, the auctions for crossborder transmission capacities have also been introduced by some other system operators.

The high rate of economic growth in Southeastern Europe has increased the demand for electrical energy. More consumption reduces the amount of surplus production capacity, which in turn enhances growth in prices.

2.6 Sales

2.6.1 Electrical Energy

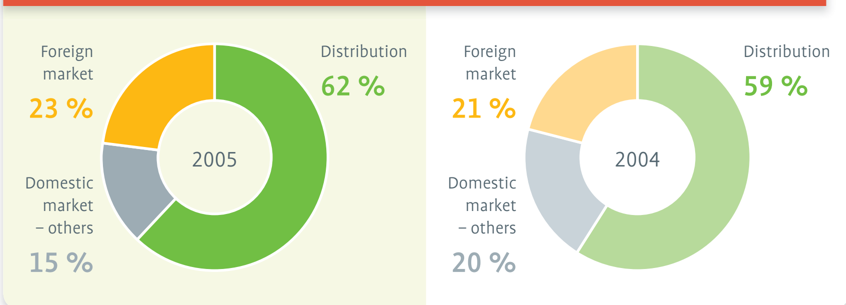
Coordinated Activities

In order to maximise the performance of its power generation enterprises, HSE has a single production control centre that administers the output of the entire Group. The sale of generated electricity as well as the trading in power from other sources is also coordinated and accomplished at the Group level.

Sales Volume

In 2005, the total sales volume of the HSE Group on both domestic and foreign markets amounted to 14,364 GWh of electrical energy. The domestic market accounted for 77 % of this total, of which 62 % went to the five regional distribution companies, and 15 % direct to the customer; the remaining 23 % encompassed exports, mostly to Italy. HSE successfully participated in auctions concerning crossborder transmission capacities for electricity exports to Italy; by way of this the company further penetrated the Italian market which is – due to its relatively high prices – the most lucrative one for the HSE Group.

ELECTRICITY SALES STRUCTURE



Futures and Day-ahead Markets

HSE Group generated the bulk of its revenues through futures trading. Trade on day-ahead and spot markets was undertaken in order to balance contractual obligations with the production capacities of HSE Group companies, as well as to optimise the Group's product portfolio and the exploitation of market opportunities. Surpluses generated from increased through-flow on river hydro-plants were sold on day-ahead markets, as were additional quantities of power when the market price was exceeding the variable production costs.

Ancillary Services

In addition to the provision of electrical and thermal energy, HSE also provided the following ancillary services under contract during 2005:

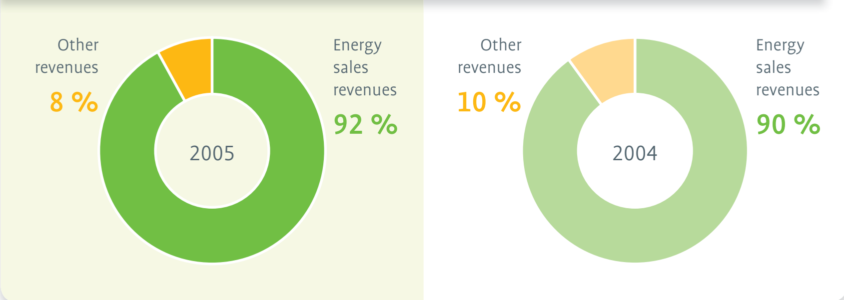
- secondary frequency control in the range of ± 67 MW (from 3 January to 8 April, from 6 June to 5 August, and from 24 August to 30 November, ± 77 MW from 1 January to 2 January, from 9 April to 5 June and from 1 December to 31 December, ± 70 MW from 6 August to 23 August,
- tertiary frequency control through the activation of non-spinning and spinning reserves amounting to 163 MW in the period from 1 January to 31 December 2005,
- black start capability,
- reactive power support,
- secondary control services.

2.6.2 Other Activities

Sales Revenue Structure

In 2005, the HSE Group generated more then SIT 158 billion in net sales, of which 28 % emanated from its export markets. Electricity accounted for 92 % of the total, while other products and services together accounted for the remaining 8 % of Group net sales revenues.

SALES REVENUE STRUCTURE



Other Products and Services

The production of calcium carbide, ferrosilicon, and complex alloys account for the major portion of non-power sales revenues. These were for the most part generated on foreign markets, particularly Germany, Luxemburg and Italy, while the domestic market accounted for only a minor portion.

Other activities also encompass the production and sale of heat as well as other services and products rendered or manufactured by the Group companies as part of their commercial operations.

Thermal Energy

In 2005 the HSE Group sold 450 GWh equivalent of thermal energy.

2.7 Purchase and Supply

2.7.1 Electrical Energy

Synergy

In aiming to achieve maximal performance, the HSE Group strives to take advantage of the synergies provided by its extensive array of operations and production capacities. The operating and cost-related profiles of individual generating units within the Group differ substantially, thus appropriate scheduling facilitates cost-effective power production. And because the price of electricity fluctuates on the market, it is all the more important that production facilities sustain tight tolerances while maintaining the economic dispatch of generated power.

HSE GROUP POWER GENERATION UNITS

DEM		Dravograd	Vuzenica	Vuhred	Ožbalt	Fala	MB otok	Zlatoličje	Formin	Small HPPs	Total
No. of turbines		3	3	3	3	1+2	3	2+1	2	1	
Net capacity	MW	25	56	72	73	58	60	114	116	0.7	575
Rated generation capacity	MVA	36	78	90	90	74	78	148	148	1.2	743
Gross head Hbr.	m	8.9	13.7	17.4	17.4	14.6	14.2	33	29	-	148
Rated flow Qi	m³/s	405	550	550	550	505	550	463	500	-	

SEL		Moste I.	Moste II.	Mavčiče	Medvode	Vrhovo	Small HPPs	Total
No. of turbines		3	1	2	2	3	1	
Net capacity	MW	13	8	38	21	37	0.05	117
Rated generation capacity	MVA	22.5	11	50	26	42.9	0.09	152
Gross head Hbr.	m	70.45	177.2	17.5	21.2	8.12	-	294
Rated flow Qi	m³/s	28.5	6	260	142	500	-	

SENG		Doblar I.	Doblar II.	Plave I.	Plave II.	Solkan	Zadlaščica	Small HPPs	Total
No. of turbines		3	1	2	1	3	2		
Net capacity	MW	30	40	15	19	32	8	11	155
Rated generation capacity	MVA	48	50	22	23	39	10	15.1	207
Gross head Hbr.	m	47.2	48.5	27.5	27.5	23	-	-	174
Rated flow Qi	m³/s	90	105	75	105	180	2.2	-	

TEB		Steam 1	Steam 2	PB I.	PB II.	PB III.	PB IV.	PB V.	Total
Net capacity	MW	10	11	21	21	21	114	114	312
Rated generation capacity	MVA	16	15	32	32	32	155	155	437

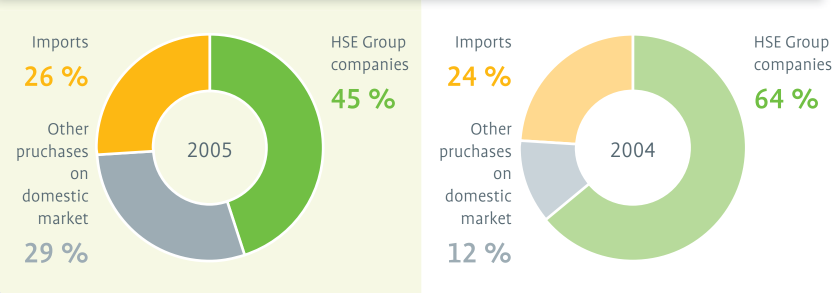
TEŠ		Generator 1	Generator 2	Generator 3	Generator 4	Generator 5*	Total
Net capacity	MW	27	27	68	248	305	675
Rated generation capacity	MVA	37.5	37.5	94	324	377	870

* Generator 5 has a capacity of 377 MVA at 3 bar of hydrogen pressure.

Structure of Sources

44.7 % of the electrical power supplied to customers in 2005 was generated by HSE Group companies; of the remaining portion, 26.1 % was imported, 19.5 % was purchased from ELES GEN, while 9.6 % was purchased on the domestic market.

STRUCTURE OF PURCHASES OF ELECTRICAL ENERGY



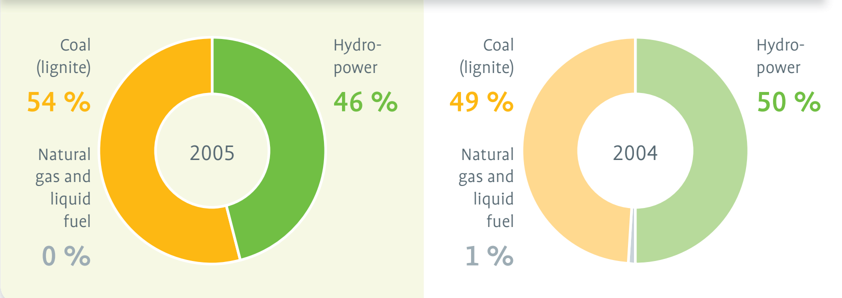
PURCHASE OF ELECTRICAL ENERGY

Source	2005 GWh	2005 Share	2004 GWh	2004 Share
HSE Group companies	6,423	44.7 %	6,868	63.9 %
Other purchases on domestic market	4,187	29.1 %	1,248	11.6 %
Purchases on foreign markets	3,754	26.1 %	2,638	24.5 %
Total	14,364	100.0 %	10,754	100.0 %

Source of Energy Production

Hydropower accounted for the good 45.7 % of the total power directly produced in 2005, followed by lignite with 53.8 %, and natural gas and liquid fuels accounting for the remaining 0.5 %.

POWER GENERATION BY ENERGY SOURCES



Optimising Output in Accordance with Market Demand

The achieved average purchase price of electrical energy is for the year 2005 higher as compared to 2004. Such price is particularly the consequence of:

- lower through-flow on run-of-river hydroplants, as a result of which the output of cheaper hydro-generation was by 16 % below the figures in 2004,
- unfavourable situation on the electricity market, particularly in the second half of the year,
- production by TEŠ was 17.4 % ahead of expectations,
- restriction of transmission capacities and introduction of auctions on borders.

By way of the balance groups and electricity production management system, appropriate market products of peak loads, base loads, night loads and hourly loads were created from the purchased production of electrical energy and included in the product portfolio of the HSE Group.

Coal (Lignite)

In order to meet its electrical energy production needs, TEŠ purchased 41,826 TJ of lignite from the Velenje mine (PV). The stocks of lignite on the last day of 2005 amounted to 3,844 TJ.

2.8 Investments

By way of investment plans and projects, HSE is committed to ensuring a reliable electricity supply in Slovenia and is fully aware of the following basic facts:

- customers of the HSE Group are dependant on quality power provision,
- domestic generation of electricity is of crucial importance,
- high efficiency is only achieved by good exploitation of primary sources,
- high degree of supply reliability is only achieved by appropriate diversification of sources,
- development of new sources as well as knowledge are of utmost concern.

HSE Group investments are aimed at the modernisation of its existing thermal and hydro production capacities, as well as at the construction of new energy facilities which shall upgrade and further solidify the structure of its power generating capacities.

The commitment of the HSE Group to business rationalisation is not only proven by its cost reduction but also by its optimum policy of new investments with respect to the set strategic orientation.

In 2005, the construction of new production facilities and the maintenance of the existing facilities were implemented according to the plans.

2.8.1 High Priority Investments

2.8.1.1 Hydropower Plants on the Lower Sava River

Joint Venture Agreement

In 2003, in order to implement such a massive project as the construction of the new hydropower plants along Slovenia's Lower Sava River, the HSE subsidiaries together signed a Joint Venture Agreement with the holding company. The Venture, which shall ultimately combine assets to the total value of SIT 71 billion, is capitalised by HSE Group companies in the following proportions:

- HSE 51.00 %
- DEM 30.80 %
- SEL 12.60 %
- SENG 2.80 %
- TEB 2.80 %

Accounting of the Joint Venture

On the basis of the Joint Venture Agreement, the parent company established long-term provisions in its financial statements 2005 for the investments of DEM, SEL, SENG and TEB.

Boštanj Hydropower Plant

In 2005, the executive design for the entire facility was completed, the construction works on the powerhouse and spillways were accomplished and the Sava River was re-routed to the spillways. Likewise completed were the installation and testing of electrical equipment and testing of the first generator.

HE Boštanj as the first in the HPP chain on the Lower Sava River will be put into operation at the end of the first half of 2006, as scheduled and within the scope of the anticipated investment value.

Blanca Hydropower Plant

A slight deviation from the time schedule occurred particularly in the process of adoption of the State Location Plan (DLN), which partly caused a delay in the acquisition of the construction permit for the dam construction. The introduced additional measures helped overcome the delay by the end of the year, so that the preliminary works on the dam construction commenced on time, whereby the target set for 2005 was achieved.

Krško Hydropower Plant

The works pertaining to the elaboration of studies and design documentation needed for the elaboration of the proposal for the State Location Plan for Krško HPP continued.

Brežice HPP

The activities for the construction of Brežice HPP are in the initial phase and started earlier than anticipated in the time schedule of the HPP chain on the Lower Sava River. A list of studies and research needed for the siting of HPP Brežice was prepared, and an indicative financial plan was made for the use of funds to that purpose. The first invitation to tender pertaining to siting of HPP Brežice is underway.

Contacts were made with the local community in connection with the works on the detailed plan for Brežice HPP. In respect of Krško HPP and Brežice HPP, intensive works and cooperation with the Nuclear Power Plant were initiated.

Mokrice HPP

Contacts with the representatives from Croatia were taken up and a rough analysis was made of possible site location options for the construction of the facility.

2.8.2 Avče Pumped Storage Plant

A Pumped Storage Plant

A pumped storage plant is a power generating facility that pumps water to a storage reservoir during off-peak periods (at night, during weekends etc), and uses the stored water to generate electricity during spikes in demand (such as for the duration of work-day peak demand).

Construction

2003 saw the preparation of the design and spatial documentation that served as a basis for adoption of the decision on the Avče plant investment.

In 2005, the invitation to tender for the works on individual segments of the project was published, i.e. for the major construction works, turbine and generator, conduit, hydro mechanical equipment, and lifts.
The site preparation works, comprising the construction of access roads, building platforms, and accompanying infrastructure on the upper and lower building site, were implemented by June 2005.

The major construction works commenced in August 2005 and continued throughout the year. They included the construction of the upper dam and intake, water intake tunnel, outlining of the conduit route, commencement of excavation works for the powerhouse, furnishing of the construction platform, etc.

Investor The project's investor is SENG.

2.8.3 Renovation of HPP Medvode

In 2005, the renovation project of Medvode HPP was implemented in accordance with the adopted time schedule.

The first renovated generator no. 2 was synchronised to the grid for the first time in January 2005, and on 1 February it was already in regular operation. Generator no. 1 was taken off line at the end of May 2005, when the equipment disassembly commenced. After the disassembly of the existing equipment, the construction site was handed over to the contractor who, in June 2005, pulled down concrete by using a robot under high water pressure. By September, a major part of the turbine equipment was taken over and commenced being incorporated. At the end of November, the turbine shaft was free and the generator assembly commenced. The investment will be completed in 2006.

The renovation of the generators in Medvode has already shown favourable effects, since the monitoring of operation of the new generator no. 1 has shown a 10 % lower water consumption for electricity production, which indicates that the output capacity has increased.

Investor The project's investor is SEL.

2.8.4 Renovation of HPP Zlatoličje

Zlatoličje HPP is the first and the largest channel hydropower plant on the Drava River. DEM's full renovation of this facility, without which output would decline substantially or even cease altogether over the next few years, will extend its useful life.

The renovation of Zlatoličje HPP is urgent due to obsolete electric and mechanical equipment and will also encompass necessary building works. In addition to extension of the useful life, the renovation will also result in the enhanced generation capacity , which will be increased by approximately 20 %.

The preparations for renovation have been underway for some time. The technically most demanding part of renovation, which will take place from 2007 to 2009, will include the turbine and generator equipment. Since long-term manufacturing procedures are involved, the selection of contractors already commenced in 2005. Contracts for the supply of turbine and generator equipment have also been signed.

Underway are also activities for elaboration of the conceptual design for the Zlatoličje HPP, for elaboration of the design and technical documentation for the renovation of the Zlatoličje HPP, Melje Dam and Melje small hydroelectric power plant, for elaboration of the report on environmental impacts, as well as the implementation of engineering services for the renovation project of Zlatoličje HPP and Melje Dam.

Investor The project's investor is DEM.

2.8.5 Upgrade of Generator 5 in TEŠ

The HPP technology is already obsolete, therefore its output capacity should be increased, thus decreasing the coal consumption, which will also result in lower greenhouse gas emissions.

The selected project involves the installation of two new gas turbines and the introduction of combined cycle generation, which utilises the heat available in the exhaust stream to provide energy for cogeneration in the steam plan.

Power generation from the coal-powered station shall continue in accordance with projections based on the long-term contract for the supply of lignite from PV's mining operations. This new investment will thus increase power generation capacities and efficiency, while at the same time reducing CO_2 emissions in accordance with the mandatory requirements of the *Kyoto Protocol*.

In July 2004 the programme pertaining to the elaboration of the detailed plan was approved by the Government of the Republic of Slovenia. The attainment of the State Location Plan for the R2TD gas pipeline is underway. A comparative study of options and the study on assessed environmental impacts were elaborated and the reviews made. The assessment of environmental impacts is waiting to be dealt with by the Government of the Republic of Slovenia. After the Government of RS has decided on the most appropriate option regarding the gas pipeline alignment, the procedure will continue by submittal of the proposed State Location Plan, which has to be reviewed prior to being displayed in public.

Investor The project's investor is TEŠ.

2.8.6 Kozjak pumped-storage plant

Kozjak pumped storage plant will enhance the competitiveness of DEM and HSE both in terms of production and in economic aspect. It will enable pumping of water during off-peak periods and production of electricity during peak periods. The pumped-storage plant will provide additional reliability of electricity supply and, consequently, will have favourable economic effects for HSE and DEM.

Already two years ago DEM presented for the first time, on an informative basis, the revived idea of the construction of the plant to local communities. At this moment, DEM is confronted with the procedures pertaining to siting of the plant, as prescribed and managed by the State. Although there is still a long way ahead – such procedures usually take several years, and five to six years inclusive of construction, i.e. somewhat by the year 2012 – DEM is already gearing up for the construction.

Investor

The project's investor is DEM.

2.8.7 Significant Investments by HSE d.o.o.

Kidričevo CCGT Power Plant

Preparations are underway for the construction of 800 MW CCGT power plant at Kidričevo in northeastern Slovenia, which was one of the projects that was introduced at the HSE's First Strategic Conference. This gas-turbine plant would also utilise heat recovery steam generators, while turbines would provide a high capacity generating unit that could meet the requirements of the base-load and partial peak-load. The investors in this project are HSE (with a 45 % stake), Verbund, Austria's largest power company (with 40 %) and the Kidričevo-based aluminium producer Talum (15 %). In 2005 the following documentation was elaborated: documentation needed for elaboration of the State Location Plan (DLN), the study on environmental impacts and of the impact of Kidričevo CCGT plant on the Slovenian EE system, the study on implementation of cooling systems, etc. Due to unforeseeable situation on the market of primary sources and unclear solution as regards possible gas supplies, the intensity of work on the project has slowed down to some extent. The project will be executed by the newly established company PPE Kidričevo d.o.o.

HSE Central Analyses of Faults and Events

This project encompasses the creation of power system protection and management for HSE Group power plants and other operations. In addition to fault-detection and the handling of events and emergencies, the management system shall automatically detect any operation of protective relays and associated circuit breakers as well as other parameter-selected events through the real-time analysis of control-system data. Such protection and management will pre-empt problems as well as enable a more rapid assessment of faults. By way of this, normal operations can be maintained, and in the event of any fault, normal system operations can be swiftly re-established. The system has been in trial operation under contract.

HSE Group Maintenance System

The objective behind this project is to establish a system for maintenance supervision, as well as unify, optimise and fully exploit commercial, technical and human reserves within the HSE Group. The direct result of this shall be the broader and more enhanced exploitation of potentials within the Group, particularly as regards maintenance and engineering works. Such shall consequently result in a decrease in running costs and consequently in total production costs.

Within the scope of the project, discussions took place for unification of the maintenance information system and a conceptual technical solution was prepared. The elaborated and reviewed study *Analysis of the Maintenance Systems for Hydropower Facilities in the HSE Group* showed that the decision was correct and that maintenance concepts need to be changed.

Underground Natural Gas Storage Facility

The investment in the underground natural gas storage facility proved necessary and justified. The investment would result in improvement and flexibility of TEB operation and of the production system of the HSE Group, and would significantly contribute to decrease in operating costs and to expansion of activities to the gas marketing segment. As scheduled, the works and research should be completed in the first half of 2006, thus making it possible to adopt the final decision.

2.8.8 Other Significant Investments by HSE Subsidiaries

DEM

In 2005, DEM completed the second renovation phase of the Upper Drava HPP chain, thus enhancing the total net capacity of these run-of-river plants by a quarter and the planned production by 9.4 %. Total increase in production capacities of the six Upper Drava plants by 67.3 MW is equal as if an additional power plant were built.

SEL

In 2005, modernisation of control equipment for Vrhovo HPP and refurbishment of the Moste HPP accounted for a portion of investment funds in SEL.

SENG

In SENG, the construction of the Klavžarica small hydroelectric power plant accounted for another significant investment.

TEB

TEB accomplished the modernisation and upgrading of the information system, as well as implemented minor automations and reconstructions of the existing facilities.

TEŠ

TEŠ accomplished a comprehensive and demanding overhaul of the 275 MW generating unit no. 4 which has been in operation since 1972. Likewise initiated were preliminary works on the project of a new steam generating unit no. 6.

PV

The major portion of investments was utilized to purchase excavation equipment, followed by works on the mine's underground constructions and investments into IT equipment.

TDR – Metalurgija

TDR – Metalurgija accomplished a significant investment into the modernisation of the complex alloys production.

2.9 Information Technology

The world of IT development is evermore oriented in two somewhat disparate directions: on one hand, there is lowering of IT-related investment costs which is a result of an ongoing reduction in the prices of suitable hardware and software systems, while on the other hand there is a constant growth in information needs, which is leading to the use of IT applications in an increasing number of areas of operation.

HSE investments have been primarily aimed at ensuring a progressively more rapid exchange of information between subsidiaries and with business partners, as well as safe and reliable data management which enhances the flow, access and processing of information of every imaginable type, much of which is, of course, production and management systems related.

IT Support to the HSE Group Maintenance System

On the basis of a conceptual design for uniform IT support to the HSE Group Maintenance System, a tender has now been selected for the implementation of an IT-based solution capable of fully supporting all the operations of HSE Group enterprises.

Database Links

A transition was made to Giga Ethernet primary links between Ljubljana, Velenje and Šoštanj locations. The locations were interconnected by way of Gigabit links, whereby the Velenje location used its own leased lines for interconnection, while for Ljubljana and Šoštanj locations, the Eles gigabit backbone was used. Likewise modernised was the access at the Maribor and Nova Gorica locations, namely, by way of an additional 100 megabit link which operates parallel with the existing link in the *load-balancing* mode.

Control Information System

A new module *Ecology* was made for the data from the TEŠ and TEB imission and emission stations.

E – Business / Document System

A tender was selected for implementation of the EDMS document system. The contractor studied the ISO documentation and got acquainted with all the procedures and processes. The project was presented to all key users who were on that occasion informed of the method and manner of work. The project will be completed in 2006.

Future targets

Modern IT development is oriented towards joining of functions and making information systems uniform in terms of centralisation and standardisation. Such trends will also be pursued by the HSE group in the following fields:

- consolidation of existing systems,
- interconnection with subsidiaries (the basic target is a high degree of uniformity and interconnection of information systems between HSE and HSE Group companies),
- electronic business (all business systems should be supported and upgraded with electronic data exchange, electronic filing, electronic archives, and business portal),
- security policies (processing and issue of security policy regulations according to the BS 7799 standard).

2.10 Financial Operations

Primary activities

During 2005, financial operations of the HSE Group were primarily aimed at:

- ensuring the solvency and optimising liquidity at the Group level,
- investment activities,
- risk management.

The basic function of financial management is ensuring ongoing solvency of the HSE Group, which consequently enables undisturbed operation of other business activities.

Consistent collection of trade receivables, detailed cash-flow planning and the optimisation of liquidity form the core of the Group's day-to-day business operations.

Achieved Objectives

Analyses of HSE Group financial operations in 2005 reveal that all objectives set were accomplished. None of the subsidiary enterprises had solvency problems, investment funds were secured, and in compliance with the principles of investment diversification and safety, capital and liquid assets were used to generate an optimal yield.

Long-term Sources of Investment Funding

HSE Group carefully studies different financing options and by selecting the most favourable ones additionally ensures that the value of necessary investments into projects, i.e. the financing costs, are as low as possible.

Investments into renovations and into brand-new energy infrastructure are of specific nature, therefore bank and financial groups worldwide have long-term lending facilities available. Some providers of such funds are strictly specialised in the financing of infrastructure and enable long-term repayment periods, lower financing costs, and can also actively participate in the implementation of investments due to their expert knowledge.

Most interesting for the HSE Group is presently the European Investment Bank (EIB) The primary mission of EIB is to contribute to the balanced and sustainable development of the EU member states. To this purpose, EIB grants, on a non-profit basis, particularly loans and guarantees for projects which would contribute to the economic and social cohesion of its members, which is a very important component for the HSE Group.

Although in principle EIB finances up to 50 % of the project value, in exceptional cases and with regard to the project it can also increase such co-financing up to 75 %. EIB is particularly qualified for funding of projects from the field of infrastructure, telecommunications and energy.

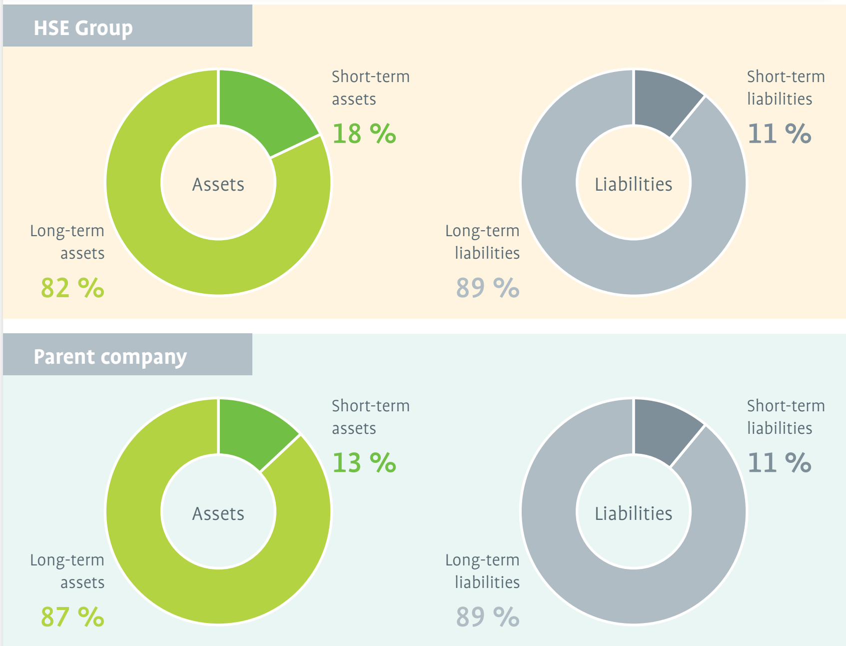
Coordination of Procedures for Obtaining the EIB Loan

In January and February, the elements from the indicative offer for a loan facility for the projects of the Avče pumped-storage plant, Blanca HPP and Krško HPP were harmonised with EIB. The emphasis was laid on defining the final upper limit of the total loan amount for individual projects, as well as on the harmonisation of conditions and commitments to be laid down in the loan agreement.

In the second half of March, the negotiations over all elements of the loan agreement were concluded. The loan amounts were defined and all elements of conditions and commitments from the skeleton agreement were harmonised in terms of substance.

In June, EIB also obtained the approval from the Ministry of Finance, which was the last requirement by the Bank to present an indicative offer to its management bodies.
In the second half of July, the loan facility in the amount of EUR 130 million was approved by the Bank's Board of Directors. The negotiations concerning the signature of the loan agreement for the first tranche of EUR 43 million for the Avče pumped-storage plant and concerning the issue of a bank guarantee were completed in December.

BALANCE SHEET STRUCTURE OF HSE GROUP AND THE PARENT COMPANY as at 31 December 2005



2.11 Risk Management

HSE Group is fully aware that risk management encompasses two inter-related and inter-dependable components:

- risk identification,
- appropriate management of all significant categories and types of risk.

The Group is exposed to risk in all areas of its operations, particularly in production of electrical energy and its marketing, and consequently also in the financial activities.

Also in 2005 the Group continued to apply conservative risk-management practises.

Market Risk

Market risk refers to those risks that are directly related to fluctuations in the price of electricity on both domestic and foreign markets, as well as those which emanate from the necessity to maintain an open position in electricity trading. Also in 2005, spot trading was hedged by futures contracts for specific deliveries, and these accounted for the major portion of trade in electrical energy. The impact of price fluctuations and the potential threat of extremes on the spot market were mitigated through futures trading.

Volumetric Risk

In production planning and purchase of electrical energy from companies, HSE Group applies conservative technical criteria to provide for sufficiency of production units and appurtenant infrastructure. These criteria include in particular the reliability of operation of individual plants, as well as the production system which at any moment has to be capable of meeting the contractual obligations.

Electricity production entails the potential risk that generation could be interrupted, thus leading to an immediate situation in which scheduled deliveries could not be accomplished. Volumetric risks encompass:

- the risk of non-delivery of power from through-flow HPPs, due to outages or low river levels,
- the risk of non-delivery of power from thermal plants, due to outages or technical and environmental constraints on production,
- the risk of non-delivery of lignite from PV due to production hold-ups or shut-downs caused by break-downs, accidents, as well as by a number of other human, technological and geological factors that could ultimately disturb power production,
- the risk of non-delivery of gas from TEB due to constraints on deliveries in case of unannounced gas quantities, particularly in winter period when there is not enough gas available, which, however, can be replaced by extra light fuel oil, which would considerably increase the production price,
- In case of increased production of thermal plants, account should also be taken of economic constraints, i.e. change in the mode of payment of the tax on CO_2 emissions and introduction of trading in CO_2 emission coupons deriving from implementation of the Kyoto Protocol and EU Directive on trading in greenhouse gases.

In 2005, due to low precipitation in the region, the Group's HPP generation was below projections by 375 GWh, TEŠ's output was by 541 GWh above anticipated, whereas TEB realised only 33 % of the projected volume, namely 67 GWh less than had been planned. Deviations in actual HPP through-flows from the projections made on the basis of daily forecasts were balanced through the adjustment of generation output by thermal plants, as well as through increased sales or purchases on the power exchange.

Electricity production for all Group enterprises is managed by the HSE control centre in the city of Maribor. The basic objectives of production control encompass:

- ensuring the minimum possible deviation from the production and balance group schedules,
- the provision of optimal power flow,
- prompt activation of reserve capacities in the event of emergencies.

The quality of balance group management is revealed through the minimisation of costs deriving from deviations. In 2005, total deviations from schedules amounted to 3.8 GWh, which corroborates the notion of successful balance group management.

Financial Risk

All HSE Group enterprises pay particular attention to the financial risks which they are exposed to as a result of their operations, and take appropriate measures to minimise and manage such risk.

The Group is not exposed to significant risk as regards its trading in foreign currencies. The major net currency exposure is in EUR. However, as a consequence of Slovenia's entry into ERM-2 mechanism and the currency policy of the Bank of Slovenia on the way to euro adoption, the EUR currency risk is negligible. Besides, the exposure to euro currency risk is additionally diminished by the fact that euro-related liabilities are met with revenues generated in euro currency. Other foreign currency operations are negligible; hence the risk of such currencies is extremely low.

Liquidity risk is a risk that an enterprise will encounter difficulty in raising funds to meet its commitments in due time. Short-term liquidity is ensured by the matching and planning of cash-flows. HSE Group has a system aimed at monitoring and optimising short-term cash surpluses and deficits inside its companies. This new measure, in conjunction with investments and liabilities diversification, co-ordination of the term-structure of receivables and liabilities, together with the consistent collection of receivables, provide the Group with adequate cash-flow management that is a guarantor of the solvency of the HSE Group and of low liquidity risk. In addition, HSE's access to financial sources and markets, its high credit rating as a consequence of successful operations, and its possibility of ongoing generation of cash-flows from operations guarantee that even long-term liquidity risk is assessed as minimum.

Credit risks include a risk that a business partner will fail to meet its contractual obligations which may result in lower economic benefits of the enterprise. Credit risks of the HSE Group are particularly managed by regular and careful checking of credit rating of individual business partners. Domestic trade receivables are mainly secured by blank bills, whereas more risky foreign trade receivables are secured by bank guarantees. The credit risk is also controlled by way of systematic and active collection of receivables.

Due to a large portion of own equity, in combination with a low debit rate equal to 5 % of the HSE d.o.o balance sheet total and 13 % of the HSE Group balance sheet total, interest rate risk is not an issue. Low interest rate risk is also evident from the fact that short-term loans were raised in EUR at a variable interest rate in the period of favourable interest rate levels.

Regulatory Risk

Regulatory risks, deriving from amendments of market or legislative regulations, both on the Slovenian electricity market and abroad, have a direct impact on HSE's business operations and consequent performance. Such risks are the most difficult to manage because they are not easily quantified and their effects are not easy to control. Thus HSE Group constantly monitors activities and developments on both domestic and foreign markets, as well as the pertaining regulations, and responds to any changes through adjusting its trading strategy.

Futures – a flexible hedging instrument

Futures as liquidity instruments for electricity supply have been gaining on importance on the electricity market. In the area where HSE Group is already engaged in trading activities, futures on the European EEX exchange are considered as most liquid. The price signals from the futures market provide also a reference point for conclusion of contracts on physical supply.

A futures contract on electricity supply is a financial instrument. This means that when trading in futures contracts, no electricity flows are involved. Consequently, there are no formalities as regards the schedules, membership in balance groups, crossborder transmission capacities etc. That is the reason why in the field of trading in futures contracts there is an active participation of banks and other financial institutions, in addition to participants in the "physical" electricity market, and why the turnover on that market by several times exceeds the turnover from physical supplies. Another advantage of trading in futures contracts lies in the fact that at the time of purchase, i.e. when opening the long position, there is no need to pay the full quantity.

Futures represent a flexible hedging instrument. They offer no security against non-deliveries of electrical energy; however, they serve as a security for cash-flow arising from purchases or sale of physical supplies of electricity.

Risk Management Policies and Procedures

In the year 2005, HSE further pursued a market and credit risk identification and management project through the implementation of a software programme that encompasses the Group's trading activities as well as monitors price changes both on the Slovenian and foreign electricity markets. Another important tool, which is currently under development, is the Risk Management Policies and Procedures Project. It is aimed at risk identification, the demarcation and delegation of pertaining responsibilities as well as the definition of individual procedures and strategies regarding risk identification and its respective management.

2.12 Public Relations

In 2005 HSE again paid much attention to the timely delivery of updated information to its key audiences; namely, its customers, business partners and employees, the media, other operators in its sector, as well as the state authorities, local authorities and the Slovenian general public.

In 2005 the activities and contents of public relations were focused at:

- MEDIA RELATIONS,

whereby the communication (either proactive, i.e. in form of press releases and press conferences, or reactive, i.e. in form of answers to questions raised by reporters) were focused at the topical events inside the HSE company and HSE Group, particularly concerning the construction of new electricity production facilities, Azure Energy and environmental protection, operating results and how they were achieved, the Third Strategic Conference of the HSE Group and its decisions, as well as staff and structural changes in the HSE company and HSE Group;

- PROMOTION OF THE AZURE ENERGY (MODRA ENERGIJA) TRADEMARK,

which took place in the spring months of 2005. The promotional campaign addressed both potential buyers of Azure Energy and professionals (website, brochures, awarding of diplomas), as well as the younger generation – children and teenagers (Modri Jan mascot with its versions in form of a website for children, didactic tools, etc.);

Modra energija
Obnovljivi viri sedanjosti in prihodnosti

- HPP CONSTRUCTION ON THE LOWER SAVA RIVER,

whereby the public was by means of versatile communication tools (events, press releases, planned publicity in local media) informed of the progress of the construction, particularly of the Boštanj HPP, and gradually also of the next two hydroplants in the chain, i.e. Blanca HPP and Krško HPP;

- CONSTRUCTION OF NEW ELECTRICITY PRODUCTION FACILITIES,

which were at the Third Strategic Conference of the HSE Group listed under High Priority Projects, and the importance and its role in the Slovenian electricity system were presented to the Slovenian public through versatile communication channels.

In addition to the above, routine communication activities took place throughout the year 2005. The in-house magazine Energija (Energy), first published three years ago, dealt with numerous topical issues from the domain of electrical power industry, and held interviews with interesting guests who transmitted their knowledge and experience to more than five thousand readers. Throughout the year, care was also taken to update the website, which has become an important communication tool for information concerning key events in the HSE company and HSE group.

2.13 Research and Development

Research and Studies

As in previous years, the identification of optimal investment opportunities remained a priority of HSE's research & development endeavours. In addition to clear vision, overall growth as the result of well-grounded investment is a prerequisite in accomplishing long-term objectives.

Production of Photovoltaic Cells and Modules by TDR – Metalurgija

The feasibility study for the project Production of Photovoltaic Cells and Modules by TDR – Metalurgija was completed. The study was prepared by the representatives from the Faculty of Electrical and Computer Engineering from Maribor, Faculty of Electrical Engineering from Ljubljana, TDR – Metalurgija, and HSE. The elaboration of the investment program is underway and talks with potential providers of technology have already been accomplished.

Maintenance in the HSE Group – Hydropower Plants

The study Maintenance in the HSE Group – Hydropower Plants was completed and reviewed.

High-pressure Gas Storage Facility in TEB

As regards the project of the high-pressure natural gas storage facility in TEB, preliminary feasibility calculations were made which considered some new input data. A contract was signed with the Swedish provider for elaboration of a study on the suitability of rocks.

Benchmarking

In the middle of March and April, the representatives from German and Swedish companies presented in a lecture their benchmarking system in hydropower plants.

Construction of the First 35kW Solar Power Plant on the DEM location

A feasibility study was made for construction of the first 35 kW solar power plant on the DEM location. The economic analysis revealed that sufficiently high internal rate of return would be achieved with the construction of three to five power plants.

Project School

In 2005 the Project School of the HSE Group was organised where initial elaborations of individual projects were made and presented.

2.14 Future Plans

If HSE Group passed the year 2005 with excellence, the targets set for the future period should be so much more ambitious. HSE Group will further strive for sound operations parallel with safe and reliable provision of electrical energy, and for satisfying the needs, desires and expectations of all its key public: owners, employees, business partners and wider social communities with which it lives together.

Taking a Leading Role in Southeastern Europe

The HSE vision is to attain optimum utilisation of the Slovenian energy sources, as well as of human resources, parallel with establishing partnerships abroad – particularly in Southeastern Europe, to attain long-term competitiveness of the Group on the global energy market, to expand its activities and thus generate additional synergy effects both for the Group and for Slovenia as a whole.

Expansion of Activities

HSE Group will continue expanding its activities by becoming involved in gas trading, for the needs of both, the existing and planned gas power plants, as well as for the needs of other planned gas facilities and large industrial gas consumers. In this way, HSE will also in the field of gas utilise the synergic effects deriving from association of numerous consumers with flexible consumption from gas power plants, and from construction of a gas storage facility, if such an investment proves feasible.

Organisation of the Slovenian Electric Power Industry

HSE Group will be faced with significant changes, challenges and opportunities also as regards the domain of organisation of the Slovenian electrical power industry. In the year 2006, another legal entity will be established which will be competitive to HSE. HSE Group desires to efficiently contribute to the implementation of the EU policies which impose on Slovenia the competition and liberation of the electricity market. However, at the same time provision should be made for profitability and competitiveness of both electricity providers, and it should be ensured that the present exploitation of synergic effects and implementation of the development function in the entire electrical energy system are not jeopardized due to fragmentation of electricity facilities.

Higher Concern for Rationalisation of Business

A demand to set up competition denotes also that HSE should prove its business effectiveness under the conditions of sharp economic competition. Hence HSE Group should devote even more concern to rationalisation of business, to reduction of all those costs which do not jeopardize production safety and its reliability, as well as to management of all types of risks and implementation of development projects. And if both the HSE Group and the entire Slovenian electrical power industry wish to remain competitive on a long-term basis, it is necessary – parallel with cost reduction – to eliminate all those activities from the electric power sector which do not belong therein.

Transformation into a Group Company

In order to attain the clearly set ambitions, HSE has to be consolidated in terms of capital as soon as possible and transformed into a group company which, on the basis of joint development and business policy and supported by clear owners' orientations, will be able to exploit all the Slovenian potentials when penetrating abroad. Parallel to that objective, the privatisation, based on expert analyses, should be accelerated, in line with request that the state as owner should retreat from enterprises.

Alternative Sources and Rational Energy Consumption

Being aware of the importance of sustainable development, HSE Group will also invest into alternative energy sources, at the same time promoting efficient use of electricity, since in the past too little attention was devoted to this segment.

2.15 Significant Events in Early 2006

HSE became 100 % owner of the companies TEB and TEŠ

By paying the second instalment of purchase money in January, HSE purchased in full the shares of minority owners in the companies TEB and TEŠ and thus became the complete (100 %) owner of both companies. The purchase denotes an important step towards capital consolidations of the HSE Group and uniform appearance of the companies incorporated in the HSE Group.

HSE telecommunications network

January 2006 was marked by the completion of the project of an independent integrated telecommunications network that can fulfil the requirements of management and control operations pertaining to HSE's power facilities, as well as the supervision of balance group systems and interconnection with the grid operator, and will also serve for business connections among companies of the HSE Group.

SENG signed a loan agreement for the Avče pumped storage plant

On 15 February 2006, SENG signed a loan agreement with the European Investment Bank (EIB) for the completion of the first pumped storage hydropower plant in Slovenia, Avče PSHPP. The construction of the Avče PSHPP is listed among high priority investments of the HSE Group. The loan agreement signed is one of the conditions required for the first Slovenian pumped storage hydropower plant to be completed and connected to the power grid as planned by the investor, at the beginning of 2009.

Representatives of major Slovenian companies revealed their business investment plans

At the initiative of HSE and in cooperation with the Embassy of the Republic of Slovenia in Belgrade, in February 2006 a presentation was held in Belgrade by selected key Slovenian investors in Serbia and Montenegro and in the wider region of SE Europe. Top representatives of leading Slovenian enterprises in the sectors of power generation, transport, building, trade and tourism unveiled their investment related plans and interests.

HSE Balkan Energy d.o.o.

HSE has been also expanding its activities on the markets of Southeastern Europe with Belgrade as regional centre, so it established in January in Belgrade a company which will be engaged in setting up versatile business partnerships and in identifying and exploiting appearance opportunities in this country.

New organisational structure of the company and new job systematisation

Amendments to the Act of Establishment of HSE, which were adopted in December 2005, resulted in changes in the management of the company which will no longer be run by a three-member management board but by a general manager. Since the company is no more divided into the technical and business sector, the company had to undergo internal reorganisation, the consequence of that being the new organisational structure of the company and new job systematisation which has been set up under the uniform criteria and with incorporated horizontal and vertical promotion option.

New business unit of HSE Invest

In February 2006, the company HSE Invest established a new business unit in Velenje for provision of engineering services in the thermal sector.

PPE d.o.o. Kidričevo

Following the resolution by the Shareholders' Meeting of the company Plinsko parna elektrarna d.o.o. Kidričevo, SIT 129,383 thousand were paid by the shareholder HSE d.o.o in February 2006 as subsequent payment in PPE d.o.o.

RiT Ugljevik

In February 2006, HSE was authorized by the Government of the Republic of Slovenia and by JP EGS – RI d.d., former duly authorized representative for investments of the Republic of Slovenia in RiT Ugljevik, to manage and collect these receivables.

Revised Slovenian Accounting Standards, Companies' Act (ZGD-1) and new tax reforms

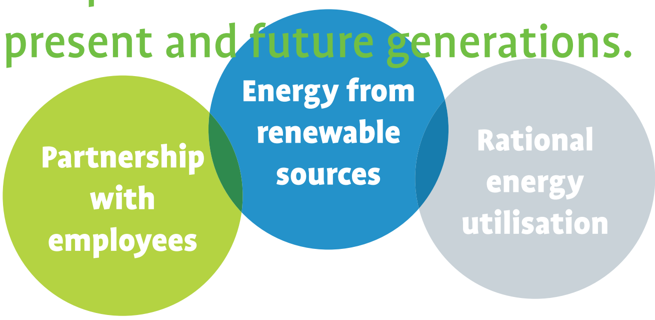
Competitiveness, operating and financial results, as well as other business conditions of the companies in the HSE Group will be in 2006 influenced by the revised Slovenian Accounting Standards, Companies' Act and by the new tax reforms with amendments to tax legislation which came into effect on 1 January 2006.

3

Report on Social Responsibility

2005

HSE is fully aware of the fact that the development of today may not jeopardise the development and environmental needs of the present and future generations.



3.1 Responsibility towards Employees

Power is in the People

If "Power of Energy" is the slogan of the HSE Group, then "Power is in the People" is the slogan of human resources management. All companies which succeed on the market, not only to survive but also to grow and with their "power resources" to generate added value, are well aware of the importance of such "power". And this is also the primary maxim of our Group.

The present way of life in which changes are the only constant, requires from the company managements within the HSE Group careful monitoring of the present, and particularly an active role in the creation of the future. Constant changes occur in all spheres of life; subject to changes are technology, products, competition, owners, markets, customers, economy, business environment, as well as the company targets, employees, and – last but not least – the relationship among all the participants in the company. A partnership is created which is the source of power and initiator of changes bringing new opportunities and offering possibilities for progress.

If not long ago, suppliers, customers and owners were considered as the most important partners, nowadays employees and members of the HSE Group are considered as such, since they are suppliers of knowledge, holders of values and significant "architects" of the organisational structure, and thereby the source of competitive advantages, as well as our inward and outward heralds.

Targets in 2005

The targets of human resources development in 2005 were – as always before – directed towards implementation of strategic targets of the HSE Group, with which the basic activities of the employees' development are harmonised, ranging from making new employees acquainted with their new job, systematic and permanent personal development and progress at work, to assuring transfer of knowledge at all levels , and last but not least, creating such conditions which ensure satisfaction of the needs of the HSE Group and of each individual employee.

Of particular importance are the following features of the human resources policy: satisfaction of employees, their trust and commitment, as well as loyalty to the Group. Namely, our desire is to have such individuals who are willing to stand for visible and measurable operating results, and for such personnel who are committed to implementing the business visions and strategies. We are striving to define clearly the expectations and targets, to sincerely take care of our employees, and to identify and promote achievements. We are well aware that strategies by themselves do not lead to success. Success is attained by people and their underlying values.

Since HSE Group pursued these principles also in 2005, great emphasis was laid on:

- investments in and development of the employees' skills and capabilities (care for employees' training, competence, commitment, satisfaction, and motivation), thus providing employees with long-term professional competence and competitiveness,
- maintaining a good organisational climate and satisfaction of employees,
- taking care of health–related promotion and prevention programmes which encompass both the working as well as the broader social milieu.

Also in 2005, HSE Group continued to promote regular and close collaboration with the trade unions and workers' councils, thus achieving the balancing of various interests and broad consensus both in terms of the Group's developmental plans as well as the implementation of various aspects of social contract.

3.1.1 The Parent Company – HSE d.o.o.

Over the year 2005, three employees terminated their employment by mutual agreement and seven employees were newly hired, of whom six for an indefinite period due to increased scope of work, and one employee for a fixed period due to temporary absence of an employee. Hence as of December 2005, HSO d.o.o. had four more employees than at the end of the previous year, which means that as of 31 December 2005, the company employed 90 people.

3.1.2 HSE Group

At the end of 2005, HSE Group employed 4,899 people, which is by 2 % less than as of 31 December 2004.

Number of Employees in the HSE Group

Company	31st Dec. 2005	%	31st Dec. 2004	%	IND 05/04
HSE	90	1.8	86	1.7	105
DEM	294	6.0	301	6.0	98
SEL	126	2.6	130	2.6	97
SENG	126	2.6	126	2.5	100
TEB	123	2.5	125	2.5	98
TEŠ	561	11.5	570	11.4	98
PV Group	3,162	64.5	3,227	64.6	98
HSE Invest	31	0.6	28	0.6	111
HSE Italia	0	0.0	0	0.0	0
TDR Group	386	7.9	405	8.1	95
Total	4,899	100	4,998	100	98

Education Structure

The employees' education structure in HSE Group has been improving from year to year. As compared with the previous year, there was a year-on increase in the proportion of personnel with tertiary education.

Number of employees as of 31 December 2005 and average number of employees in 2005 by education levels

Educational level	Employees as at 31st Dec. 2005		Av. no. of employees in 2005	
	Parent company	HSE Group	Parent company	HSE Group
I.	0	384	0	407
II.	0	368	0	382
III.	0	23	0	21
IV.	2	2,118	2	2,169
V.	13	1,252	11	1,261
VI.	12	321	11	297
VII.	51	388	51	384
M.Sc., Ph.D.	12	45	11	42
Total	90	4,899	86	4,963

3.1.3 Concern for Employees' Education and Training

Importance of Education

HSE Group lays great emphasis on education and training of employees, since it is well aware that development of technology results in enhanced complexity of work.

Education and Training in the Parent Company

In 2005 the parent company organised versatile education and training programmes – most of them referring to professional training, followed by training programmes from the field of occupational health and safety, foreign language courses, training in the field of quality and environmental management systems, as well as IT training programmes.

These education and training programmes embraced 66 % of employees – an average of 26 hours per employee.

The employees in the parent company likewise participated in domestic and international conferences, symposiums and technical consultations, particularly in the field of energy and marketing, where they took an active part also as lecturers.

Topical Workshops for the HSE Group

Since 2004, topical workshops at different levels have been organised for the entire HSE Group. Such workshops continued also in 2005 and became an efficient tool within the scope of the HSE education system. To that effect, the Project School HSE 2005 was organised encompassing the topics of HSE projects and aimed at acquisition of knowledge, uniform ways of thinking and methods of work, and last but not least, at professional fraternity of the employees.

On-the-job Studies and Scholarships in the Parent Company

In addition to enhancement of knowledge and training, the education also encompasses on-the-job studies and scholarships.

In 2005 two employees participated in on-the-job studies, namely, for graduate studies of economics and for post-graduate studies in the field of commercial law.

Students contribute to development activities new ideas and views as how to solve work problems. HSE supports students of technical, social and natural sciences, financially as well as with regard to actual training and work experience, with gradual introduction into the organisation where they may eventually take up employment, whereby such students should have already attained a minimum average exam grade of 7.5 (75 %).

In 2005 the parent company granted one scholarship for the field of technical sciences.

3.2 Responsibility towards the Local and Global Community

In 2005, HSE Group invested considerable efforts in environmental protection and expansion of environmental awareness, not only among producers, but also among the wider Slovenian public.

Modra energija (Azure Energy), symbolising electricity production and representing an environmentally friendly water source, has become one of the HSE registered trademarks. By the end of 2005, 846 companies and individuals from all over Slovenia decided for its purchase, while in the fund Modri sklad (Azure Fund), designed for promotion and development of renewable energy sources in Slovenia, and for research in the field of promotion of electricity generation from renewable sources, a good SIT 14 million has been collected so far, which was greatly attributable to the informative-promotional campaign launched at the beginning of 2005 and aimed primarily at stimulating interest in renewable energy sources, not only among potential buyers of Modra energija, but also among the youngest population. Through the mascot Modri Jan, who was at the forefront of the entire promotional campaign, we presented versatile options of electricity utilisation also to children and directed them towards eco-friendly approaches.

In addition, we have earmarked a portion of funds for sponsorships and donations in the fields of health care, sports, culture and education. We are well aware that there are individuals or groups who – either due to their special talents and achievements, or due to their special needs and desires – need help to be able to attain their specific targets. We are glad to support them and are ever again proud of the fact that we have contributed to their success.

Modri Jan

3.3 Responsibility towards the Natural Environment

Environmentally friendly

Slovenia has awaited the EU entry with relatively well preserved nature and also with awareness that the environment is one of the vital conditions for future development.

Already at the beginning of its development, HSE Group created its environmental policy, the essence of which can be summarized as follows:

- electricity generation with minimum environmental impacts,
- observance of all legal standards and recommendations,
- introduction of the best technology available so as to reduce the environmental impacts to the minimum,
- promotion of the development of renewable sources of electricity,
- attainment of partnership relations with local communities so as to jointly resolve environmental problems and plan sustainable development of electricity generation,
- attainment of sustainable operation and development of energy capacities.

All electricity producing companies integrated in the HSE Group and its parent company have been awarded the international ISO 9001 quality certificate and the international ISO 14001 environmental certificate. Through strictly meeting all their responsibilities, they endorse safe and environmentally friendly power generation in all their facilities. At the same time the modernisation of both thermal facilities has substantially diminished the negative impacts that they have on the environment. Further to this, the Velenje lignite mine was one of the first in the world to engage in environmental management in line with the requirements of the ISO 14001 certificate.

Kyoto Protocol

In February 2005, the Kyoto protocol came into effect, which imposes great demands on the HSE Group. Namely, future development of the electricity production has to be oriented towards reduction of the specific greenhouse gas emissions per unit of generated energy. Hence, production facilities from renewable sources (water energy, wind energy, biomass) have to be constructed, while the production exploiting fossil fuels should introduce technologies with lower greenhouse gas emissions.

In 2006, the procedures have to be completed for obtaining the integral environmental permit (IPPC Directive), both for those production facilities that are already in operation, as well as for the newly built and planned ones. The activities and measures necessary for acquisition of such permit will be, in technical and financial terms, very demanding for the HSE Group.

HSE Group is well aware of the fact that the development of today may not jeopardise the development and environmental needs of the present and future generations. This is evident from the Development Plan of the HSE Group 2004/2013, as well as from the proposed Development Plan of the HSE Group 2006/2015.

Renewable Energy Sources

Renewable energy sources (RES) represent in Slovenia a relatively new domain which, following the positive example of the EU countries, features fast development. The Slovenian Energy Act provides that RES sources denote sources of energy which are preserved in nature and are entirely or largely renewed, in particular energy from waterways, wind, non-accumulated solar energy, biomass and geothermal energy. Underlying the Act are the EU Directives, since as a EU Member State and in compliance with the EU Directive 2001/77/EC, Slovenia is obliged to increase its percentage consumption of electricity generated from renewable sources (RES-E) from 29.9 % in 1999 to 33.6 % in 2010.

In terms of quantity, power generated by hydroelectric plants is by far the most important source of RES-E in Slovenia, and the HSE Group is the largest domestic producer of hydropower. Thus the field of RES-E is of particular significance – not only for HSE operations – but also in establishing the corporate identity and reputation of the HSE Group. As a result, based on newly prepared implementing regulations in this field, late 2004 witnessed the inauguration of Slovenia's RES-E market, as well as the launching of HSE's Modra Energija (Azure Energy) campaign – a marketing scheme promoting the consumption of clean and renewable hydropower.

RECS system

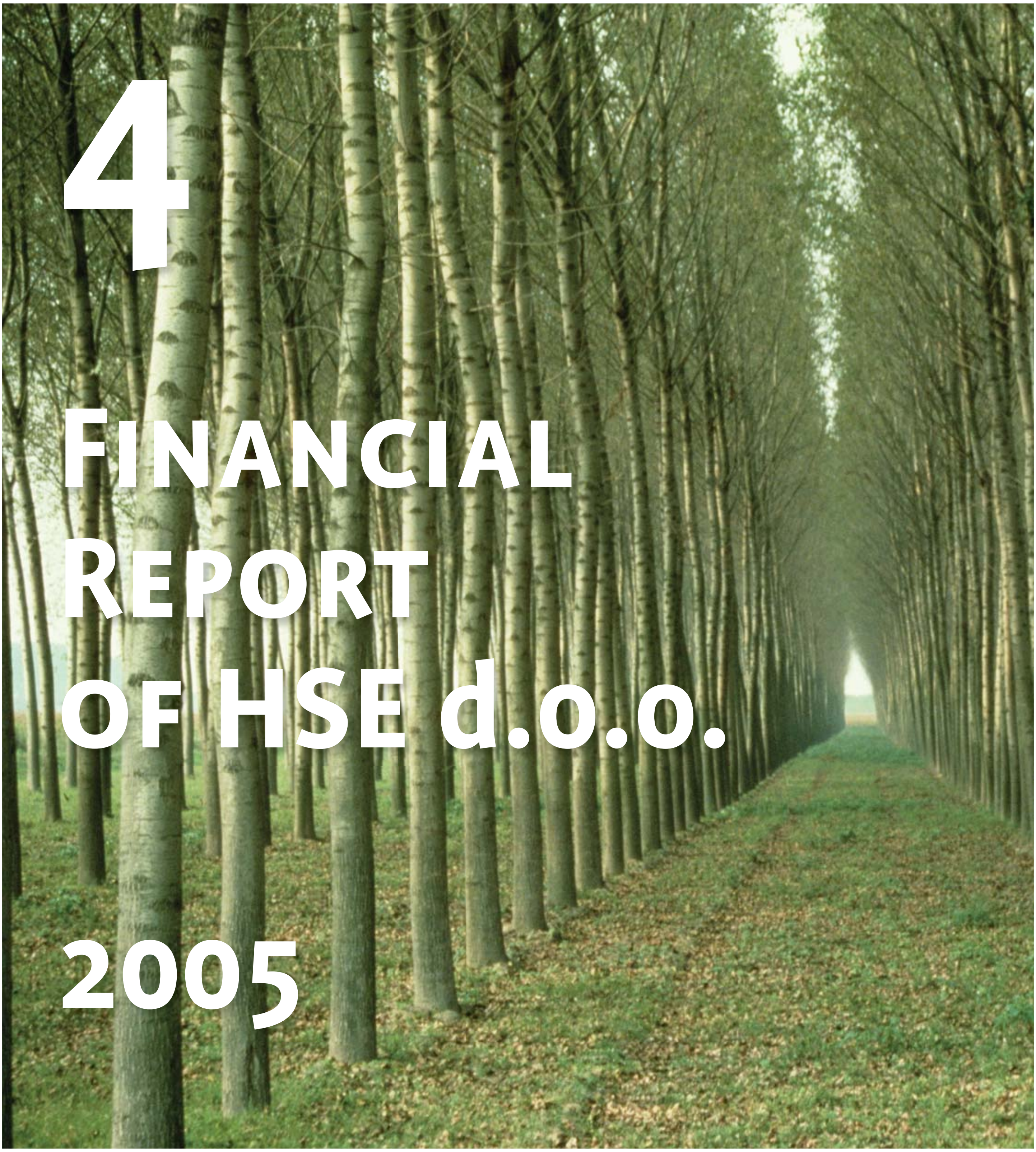
HSE is also a member of the international organisation RECS (Renewable Energy Certificate System) that encourages and promotes international trade in renewable energy certificates. All of the HSE Group's hydropower plants have been duly certified and the first certificates have been issued and sold abroad. And in 2005, the first RECS certificates were also sold in Slovenia within the scope of the Azure Energy project.

Guarantees of Origin

In addition to RECS, the international organisations RECS International (traders and system users) and AIB (Association of Issuing Bodies) also developed an international trading system for Guarantees of Origin (GoO) within the scope of the EECS. The trading in GoOs under the EECS has been in effect for two years and so far there are seven countries which have adopted the system and participate therein.

At the end of 2005, Slovenia will adopt the Regulation on the Issuance of Guarantees of Origin, thus enabling trading in GoOs at home and abroad in the year 2006. The adoption of the Regulation will also enable our inclusion in the EECS as regards GoO trading. And when all EU countries adopt the GoO Directive on a national level, it is to be expected that GoOs will gradually replace RECS certificates on the international market. At present, both the GoO and RECS certificates are used in the RES-E trading.

In May 2005, Slovenia adopted the Act laying down the mode of determining shares of individual production sources, and the manner of their presentation. The contents of this Act were prepared by the Energy Agency of the Republic of Slovenia, which also took into account international findings. This Act provides that GoOs or market certificates may be used for determining shares of RES-E. The quantities of RES-E underlying the issue of market certificates or GoOs may only be considered as RES-E if evidence is submitted that they were encashed for the calendar year for which the composition of production sources is presented.



4

Financial Report of HSE d.o.o.

2005

Our business operations significantly contribute to Slovenia's gross domestic product and have a positive impact on the entire national economy.

146 billion SIT
REVENUES

7 billion SIT
NET PROFIT

213 billion SIT
EQUITY

4.1 General notes

Basis for the preparation of financial statements

Financial statements and the notes thereto have been prepared in accordance with provisions of the Companies Act and the Slovenian Accounting Standards (SAS).

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

Fundamental accounting principles

During the preparation of financial statements following fundamental accounting assumptions have been take into account:

- accrual basis,
- going concern,
- true and fair presentation under the circumstances of the changing value of the Euro and changing prices.

General rules of valuation

as well as general rules of valuation:

- going concern,
- consistency,
- prudence,
- consideration of revenues and expenses irrespective of their payment,
- individual valuation of assets and liabilities.

Exchange rate and method of translation into domestic currency

Items in financial statements that are denominated in foreign currencies are translated into local currency in the balance sheet and the income statement on the day of accrual, using the middle exchange rate of the Bank of Slovenia, except in individual cases where the contracting parties agree upon a different exchange rate.

The balance of assets and liabilities expressed in a foreign currency have been translated into Slovene tolars at the middle exchange rate of the Bank of Slovenia as at 31 December 2005; in case of another agreed-upon exchange rate the individual transaction is subject to the balance of this rate as at the end of 2005. The effect of translation increases financial revenues or financial expenses.

Balances of assets and liabilities expressed in a foreign currency have been translated as at 31 December 2005 by using following exchange rates:

- middle exchange rate as at 31 December 2004:
  1 Euro = 239,7430 SIT (basis for previous year's items),
- middle exchange rate as at 31 December 2005:
  1 Euro = 239,5756 SIT,
- monthly exchange rate for December 2005:
  1 CSD = 2,7650 SIT,
- exchange rate of Banka Koper for sale and purchase of foreign currencies on bank accounts as at 31 December 2005: 1 Euro = 239,9000 SIT.

Accounting policies

In the recording and valuation of items in the financial statements, SAS stipulations have been followed directly, except in the valuation of items for which SAS allows various options . In such cases, the Company applies valuation methods that comply with its own Accounting Rules or resolutions adopted by the Management Board.

INTANGIBLE FIXED ASSETS

Intangible fixed assets enable the performance of the Company's activity, whereas physically they do not exist.

Upon initial recognition intangible fixed assets are valued at their historical cost, which is inclusive of import and other non-refundable duties and costs, and exclusive of debit interest and translation differences upon the date of delivery. The amount is subsequently lowered by the amount of amortisation, recorded under accumulated amortisation. Intangible fixed assets are amortised by the use of the straight-line method of amortisation (single-asset amortisation). Intangible fixed assets are recorded in the balance sheet at the carrying amount i.e. as the difference between the purchase cost and accumulated amortisation.

Upon initial recognition long-term deferred costs are recorded at historical cost and later decreased and charged against related expenses.

Tangible fixed assets

Tangible fixed assets are part of fixed assets owned by the Company and used for carrying out the activity.

Tangible fixed assets are initially recognised at cost. It comprises its purchase price, including import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing the asset to working condition for its intended use, especially the costs of delivery and installation costs. The cost does not include debit interest nor currency translation differences upon the date of delivery.

In the bookkeeping records the cost as well as the accumulated depreciation is recorded separately for tangible fixed assets, whereas in the balance sheet they are recorded at carrying amount i.e. as a difference between the cost and accumulated depreciation.

Subsequent expenditure on an item of tangible fixed assets increases its cost when it increases its future economic benefits in excess of the originally assessed future economic benefits.

The subsequent expenditure enabling extension of the useful life of the asset initially reduces the accumulated depreciation.

Recognition of an item of tangible fixed assets in the bookkeeping records and the balance sheet is reversed when an asset has been disposed. Gains on disposal of an asset are recorded under operating revenues from revaluation; the carrying amount of the asset is recorded under operating expenses from revaluation.

The depreciation of an item of tangible fixed assets begins on the first day of the month following the beginning of the activity for which it is intended.

The amortisation of an item of intangible fixed assets begins when the asset is available for use.

The Company applies rates of amortisation/depreciation, defined on the basis of the expected useful life of individual assets.

Long-term investments

Long-term investments are considered as Company's fixed assets. The proceeds from investments are to increase the Company's revenues.

Upon initial recognition, long-term investments in the equity of other companies are recorded at their historical cost which is equal either to the amount of cash or cash equivalents paid, or to the fair value of other assets used for the acquisition on the day of exchange, increased by any costs directly attributable to the investment.

In the financial statements of the parent company, long-term investments in the equity of subsidiaries, which are included in the consolidated financial statements, are valued by using the equity method. This means that they are annually increased by that portion of the subsidiary's net profit which is attributable to the parent company. Such profits increase the equity revaluation adjustments related to long-term investments. Shares in profits and dividends, which are received later, reduce the original increase in the value of the equity investment. At the same time, the specific equity revaluation adjustment is reduced and the parent company records the financial revenue.

In case the subsidiary records net loss, the value of the long-term investment is lowered or adjusted and financial expense from revaluation increased. If the same company recorded profit in previous periods that increased the net value of the long-term investment of the owner as well as the specific equity revaluation adjustment of the long-term investment, then this amount is lowered by the amount of established share of loss.

The equity method applies to the valuation of long-term investments in subsidiaries as well as associated companies.

Long-term investments in the equity of other companies are valued by using the cost method. This means that the value of the investment does not simultaneously change upon the establishment of a net profit by the company in which the investor has an interest. The cost method is based on cash flows and as a result the investment's value usually does not reconcile with the investor's actual holding in the equity of the company.

Revaluation of long-term investments is a process of recognising an adjustment to their carrying amount. It usually appears as the revaluation of long-term investment resulting from their impairment, the elimination of their impairment, the strengthening or the elimination of strengthening.

On sale of an individual long-term investment, the difference between its net sales value and its last carrying amount should be adjusted by the proportionate amount of the equity revaluation adjustment. The difference should be transferred to financial revenues or financial expenses, respectfully.

Inventories

Inventories are assets in tangible form and part of Company's current assets.

An item of inventories of materials is initially recognised at cost that comprises its purchase price, any import duties and non-refundable purchase taxes, and directly attributable costs of acquisition. The purchase price is reduced by discounts.

If latest purchase prices or the cost of the latest produced items in the accounting period differ from the prices and/or the costs of items of inventory of the same class, the first-in first-out (fifo) method is applied to recognise declining quantities of inventories.

Operating receivables

Receivables are the rights, emanating from property and other legal relationships, to claim the settlement of a debt, the payment for deliveries or rendered services from a specific person or entity.

An item of receivables should be recognised as an asset if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and if the cost of the asset can be measured reliably. Initially receivables of all categories are carried at amounts recorded in the relevant bookkeeping documents under the assumption that the amounts owed will also be collected.

Advances paid for intangible fixed assets, tangible fixed assets and inventories are not recorded in the balance sheet among receivables but among assets which they refer to.

In terms of their maturity, receivables may be classified into long-term and short-term receivables.

To reflect their impairment receivables should be revalued if their carrying amount exceeds their fair value. In such cases allowances for receivables are formed and recorded among operating expenses from revaluation.

Receivables not settled by their due date are disclosed as doubtful receivables and also subject to the formation of allowances that are charged against operating expenses from revaluation.

Short-term investments

The Company should own short-term investments for less than a year and record them among assets for trading purposes that result in financial revenues.

Upon initial recognition, short-term investments are valued at their historical cost corresponding to the amount invested.

Interest on short-term investments is recorded among operating receivables as at the balance sheet date.

Short-term investments are not revalued due to their strengthening; however, they are revalued due to their impairment if the carrying amount exceeds the fair value.

Derivative financial instruments

Derivative financial instruments include futures. The latter refers to a binding agreement on the purchase or sale of a standard quantity, an exactly defined instrument of standard quality for a future date at a price, determined currently.

Futures are concluded for the purpose of trading and hedging and fully refer to the electric energy.

The futures are recorded at the 'net' principle which means that the value of futures is recorded off the balance sheet.

Cash

Cash includes cash in hand, cash deposit and cash in transit. Deposit money is cash deposited in accounts with a bank or another financial institution that can be used for payment purposes. It is classified into cash readily available for disbursement and cash held in demand deposits.

The carrying amount of an item of cash is the same as its initial nominal value until the need for its revaluation arises.

Deferred costs (expenses) and accrued revenues

Deferred costs, deferred expenses and accrued revenues include items of deferred costs or deferred expenses as well as items of accrued revenues.

Deferred costs or deferred expenses are amounts that, at the moment of their accrual do not influence the profit or loss.

Accrued revenues are amounts that have been considered in the income statement but not yet charged to third parties.

Capital

Total capital is defined by the amounts invested by owners and the amounts generated during operation that belong to the owners.

Share capital is held in local currency. Share capital and capital reserves represent owner's cash contributions and contributions in kind.

Other revenues reserves are formed on the basis of resolutions adopted by the Supervisory Board and the Shareholders' Meeting.

Net profit represents the undistributed part of the net operating result for the financial year.

Equity revaluation adjustments are a result of relevant adjustments of assets and liabilities.

Long-term provisions

Long-term provisions are made for obligations expected to arise from obligating past events in a period exceeding one year and whose amounts can reliably be estimated. They are formed when the obligation can reliably be measured.

Long-term provisions on the account of long-term deferred revenues represent amounts that are not yet included among revenues of the current period although they have already been charged as they shall cover the expected future costs.

Long-term liabilities

Long-term liabilities (debts) are recognised obligations of an enterprise associated with the financing of its assets the settlement of which is expected, usually by payment of cash, in a period of more than one year.

Part of matured long-term liabilities and long-term liabilities due to be settled within twelve months of the balance sheet date should be classified in the balance sheet as current liabilities.

Long-term liabilities are classified as financial and operating.

Long-term financial liabilities are long-term loans received on the basis of loan contracts, repayable in a period longer than one year. An item of long-term liabilities is initially recognised at the amount arising from the relevant document, which evidences the receipt of cash. They are subsequently decreased by principal repayments.

Accounted but not yet due interest on long-term financial liabilities are recorded among other short-term liabilities.

Long-term operating liabilities result from transactions between the Company and business partners based on contracts concluded.

Short-term liabilities

Short-term liabilities (debts) are recognised obligations of an enterprise associated with the financing of its assets the settlement of which is expected, usually by payment of cash, in a period of no more than one year.

The carrying amounts of short-term liabilities (debts) are equal to their historical value adjusted for their increases or decreases agreed by the creditors; this applies until the need for revaluation of short-term liabilities arises.

The item of short-term liabilities includes also a portion of long-term liabilities that matures in a period less than a year upon the balance sheet date.

Short-term liabilities (debts) are classified as financial and operating.

Upon initial recognition short-term financial liabilities are valued at the amount of cash payments received and are subsequently decreased by principal repayments.

Short-term operating liabilities are recognised in accounting records and the balance sheet as an obligation when the obligation arises under a contract or another legal document, taking into account the contractual date or the date of cash receipts and/or the date of receipts and associated statements of accounts.

Accrued costs (expenses) and deferred revenues

Accrued expenses (costs) and deferred revenues comprise short-term accrued costs and expenses and deferred revenues.
As the activity is evenly charged, the costs and expenses that have not occurred but are expected are recorded among accrued costs.

Off balance sheet items

Off balance sheet items include business events that have no direct impact on items in the financial statements but are significant in view of informing the users of the annual report.

Revenues

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

Revenues are classified as operating, financial and extraordinary.

Revenues from the sale of products, merchandise and materials are valued on the basis of sales prices as recorded in invoices and other documents, reduced by any discount approved upon sale or later for such reasons as prompt or early payment.

Revenues from the rendering of services should be recognised at selling prices when the services have been completed or, when the percentage of completion method is applied by reference to the stage of completion.

Capitalized own products and own services are the products made by the enterprise itself or the services provided by the enterprise itself that are included in either tangible fixed assets or intangible fixed assets.

Operating revenues from revaluation are recognised upon the disposal of tangible and intangible fixed assets if their sales value exceeds their carrying amount.

Financial revenues are the revenues generated from investment activities. They arise in association with long-term and short-term investments, as well as in association with short-term receivables and liabilities.

Financial revenues should be recognised when statements of account are prepared, regardless of cash receipts associated with them, unless there exists significant uncertainty as to their amount, maturity date and collectability.

Interest is accounted in proportion to the previous year, unsettled amount of the principal and the agreed-upon interest rate.

Extraordinary revenues comprise extraordinary items recorded in actual amounts.

Expenses

Expenses should be recognised if decreases in economic benefits during the accounting period are associated with decreases of assets or increases of liabilities (debts) and the decreases can be measured reliably.

Operating expenses are recognised when merchandise is sold. Operating expenses include costs of merchandise sold, costs of material, costs of services, labour cost, costs of depreciation, operating costs from revaluation and other operating expenses.

Operating expenses from revaluation arise in connection with the impairment of tangible fixed assets, intangible fixed assets, and current assets. They are recorded in case of sale of tangible and intangible fixed assets, when the carrying amount exceeds the sales value.

Financial expenses include financing expenses and investment expenses. Financial expenses should be recognised when statements of account are prepared.

Interest is accounted in proportion to the previous year, unsettled amount of the principal and the agreed-upon interest rate.

Reporting by business segment and geographical segment

The geographical segment refers to the domestic and foreign market. No major deviations have occurred on the foreign market in relation to gains and risks, thus a detailed division of foreign markets is not required.

As terms of operation and risks for individual groups of products are similar, the Company does not itemise operations by segment.

Taxation

The Company is subject to the Value Added Tax Act and the Corporate Income Tax Act.

Deferred taxes

Deferred taxes are earmarked for covering temporary differences between carrying amount and tax values of assets and liabilities. If the deferred tax refers to a smaller payment of tax in future periods, it is recorded as deferred tax asset; in case of major payment it is recorded as deferred tax liability.

In accordance with the SAS for 2005 deferred tax assets and deferred tax liabilities are accounted for under certain conditions and only for temporary differences, whose effects are recognised in the income statement.

4.2 Statement by the Managing Director

Ljubljana, 30th March 2006

The Managing Director of Holding Slovenske elektrarne d.o.o. hereby conforms the financial statements of HSE for the financial year ended 2005, the notes thereto as well as the accounting policies applied.

The Managing Director confirms that the accounting policies have consistently been applied during the preparation of the financial statements, that accounting estimates were prepared on the principal of prudence and best business practice and that the Annual Report gives a true and fair view of the financial position of the Company and the results of its operations for the year ended 2005.

The Managing Director confirms that the financial statements have been prepared in accordance with provisions of the Companies Act, the Slovenian Accounting Standards and other regulations managing the accounting area. The financial statements were prepared on a going concern basis.

Jože Zagožen, Ph.D.
Managing Director

hse
Holding Slovenske elektrarne d.o.o.

4.3 Auditor's Report

To the Shareholders of Holding Slovenske Elektrarne d.o.o. Ljubljana

Ljubljana, 10th May 2006

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

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

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

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

KPMG SLOVENIJA
podjetje za revidiranje, d.o.o.

Marjan Mahnič, BSc.Ec.
Certified Auditor
Managing Director

KPMG Slovenija, d.o.o.

4.4 Balance Sheet

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in SIT thousands	31st Dec. 2005	31st Dec. 2004
ASSETS	256,902,085	238,348,554
A. FIXED ASSETS	222,886,112	208,179,025
I. Intangible fixed assets	4,202,785	2,862,433
1. Deferred operating cost	3,957,873	2,642,595
3. Concessions, patents, licenses, trademarks, and similar rights and assets	244,674	219,838
5. Advances for intangible fixed assets	238	0
II. Tangible fixed assets	14,020,599	6,889,929
1. Land and buildings	440,930	450,885
b) Buildings	440,930	450,885
3. Other plant and equipment	312,728	392,236
4. Tangible fixed assets being acquired	13,266,941	6,046,808
a) Advances for tangible fixed assets	30,292	639,169
b) Tangible fixed assets in course of construction	13,236,649	5,407,639
III. Long-term investments	204,662,728	198,426,663
1. Interests in Group companies	204,634,786	198,398,718
3. Interests in associates	942	945
5. Other long-term shares	27,000	27,000
B. CURRENT ASSETS	33,958,316	30,143,825
I. Inventories	729	243
1. Material	379	192
4. Advances for inventories	350	51
II. Operating receivables	25,466,140	15,586,863
a) Long-term operating receivables	30,000	30,000
4. Long-term operating receivables due from other entities	30,000	30,000
b) Short-term operating receivables	25,436,140	15,556,863
1. Short-term trade receivables	15,339,853	11,769,040
2. Short-term operating receivables due from Group companies, excluding associates	275,508	879,967
3. Short-term receivables due from associates	12,229	0
4. Short-term receivables due from other entities	9,808,550	2,907,856
III. Short-term investments	7,487,134	13,796,393
1. Short-term interests in Group companies, excluding associates	12,812	207,333
4. Short-term investments in other entities	7,474,322	13,589,060
IV. Cash in bank, cheques and cash in hand	1,004,313	760,326
C. DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES	57,657	25,704
OFF BALANCE SHEET ITEMS	20,798,417	8,735,420

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in SIT thousands	31st Dec. 2005	31st Dec. 2004
LIABILITIES	256,902,085	238,348,554
A. EQUITY	**213,457,106**	**204,620,006**
I. Called-up capital	1,156,217	1,156,217
1. Share capital	1,156,217	1,156,217
II. Capital reserves	166,070,474	166,070,474
III. Revenue reserves	24,707,653	21,190,570
4. Other revenue reserves	24,707,653	21,190,570
V. Net profit for the period	3,517,083	4,931,414
VI. Equity revaluation adjustment	18,005,679	11,271,331
1. General equity revaluation adjustment	27	27
2. Specific equity revaluation adjustment	18,005,652	11,271,304
B. PROVISIONS	**4,290,932**	**4,290,932**
3. Other provisions	4,290,932	4,290,932
C. FINANCIAL AND OPERATING LIABILITIES	**38,796,741**	**29,068,212**
a) Long-term financial and operating liabilities	10,569,618	7,769,920
2. Long-term financial liabilities to banks	7,394,595	7,600,000
4. Long-term trade payables	0	169,920
6. Long-term financial and operating liabilities to Group companies, excluding associates	3,175,023	0
b) Short-term financial and operating liabilities	28,227,123	21,298,292
2. Short-term financial liabilities to banks	5,212,002	0
4. Short-term trade payables	11,085,868	5,215,402
6. Short-term financial and operating liabilities to Group companies, excluding associates	11,262,982	15,436,104
7. Short-term financial and operating liabilities to associates	0	900
8. Short-term financial and operating liabilities to other entities	666,271	645,886
Č. ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	**357,306**	**369,404**
OFF BALANCE SHEET ITEMS	20,798,417	8,735,420

4.5 Income Statement

	in SIT thousands	2005	2004
1.	Net sales	146,067,922	116,294,167
a)	Domestic market	108,994,689	90,627,446
	· from transactions with Group companies	2,027,313	5,803,018
	· from transactions with other related companies	10,191	0
	· from transactions with other entities	106,957,185	84,824,428
b)	Foreign market	37,073,233	25,666,721
3.	Capitalised own products and/or services	36,409	32,864
4.	Other operating revenues (inclusive of operating revenues from revaluation)	3,596	5,640
5.	Costs of goods, materials and services	137,406,708	104,414,153
a)	Cost of goods and materials sold and cost of materials used	136,658,884	103,618,088
b)	Cost of services	747,824	796,065
6.	Labour cost	1,083,304	1,029,533
a)	Cost of wages and salaries	738,745	700,229
b)	Social security cost	154,934	144,901
	· of which pension insurance cost	97,802	90,726
c)	Other labour cost	189,625	184,403
7.	Amortisation and depreciation expense	212,327	201,047
a)	Amortisation and depreciation expense, and operating expenses from revaluation of tangible and intangible fixed assets	210,045	185,582
b)	Operating expenses from revaluation of current assets	2,282	15,465
8.	Other operating expenses	383,315	434,642
	OPERATING PROFIT	**7,022,273**	**10,253,296**
9.	Financial revenue from shares	23,588	58,532
a)	Financial revenue from interests in Group companies excluding associates	2,451	30
c)	Other financial revenue from shares (including financial revenue from revaluation)	21,137	58,502
10.	Financial revenue from long-term receivables	981	1,315
c)	Other fin. revenue from long-term receivables (including fin. revenue from revaluation)	981	1,315
11.	Financial revenue from short-term receivables	417,037	374,434
a)	Interest revenue and financial revenue from short-term receivables due from Group companies, excluding associates	3,223	14,881
c)	Other interest revenue and financial revenue from short-term receivables (including financial revenues from revaluation)	413,814	359,553
12.	Financial expenses for long-term and short-term investment write-offs	8	8,968
a)	Fin. expenses for revaluation of investments in Group companies, excluding associates	5	0
b)	Financial expenses from revaluation of investments in associates	3	0
c)	Other financial expenses from revaluation	0	8,968
13.	Interest expenses and financial expenses for other liabilities	521,603	820,409
b)	Interest expenses and financial expenses for other liabilities to Group companies, excluding associates	0	135
c)	Other interest expenses and financial expenses for other liabilities	521,603	820,274
	PROFIT FROM ORDINARY ACTIVITIES	**6,942,268**	**9,858,200**
15.	NET PROFIT FROM ORDINARY ACTIVITIES	6,942,268	9,858,200
16.	Extraordinary revenues	91,898	4,627
18.	PROFIT FROM EXTRAORDINARY ACTIVITIES	91,898	4,627
	TOTAL PROFIT	**7,034,166**	**9,862,827**
21.	NET PROFIT FOR THE PERIOD	7,034,166	9,862,827

4.6 Cash Flow Statement

in SIT thousands		2005	2004
A.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
+	a) Inflows	142,104,072	115,968,770
	Operating revenues	146,071,518	116,299,807
	Extraordinary revenues associated with operations	91,898	4,627
	Opening less closing operating receivables	(4,027,391)	(328,733)
	Opening less closing deferred costs (expenses) and accrued revenues	(31,953)	(6,931)
-	b) Outflows	136,868,136	99,775,698
	Operating expenses excluding depreciation (amortisation) and long-term provisions	138,382,600	105,893,793
	Closing less opening inventories	486	(1,362,394)
	Opening less closing operating liabilities	(1,527,048)	(4,750,381)
	Opening less closing accrued costs (expenses) and deferred revenues	12,098	(5,320)
=	c) Net inflows or net cash outflows from operating activities	5,235,936	16,193,072
B.	**CASH FLOWS FROM INVESTING ACTIVITIES**		
+	a) Inflows	6,634,389	434,251
	Financial revenues associated with investing activities (excluding revaluation)	325,130	434,251
	Offset decrease in short-term investments (excluding revaluation)	6,309,259	0
-	b) Outflows	14,551,365	11,786,349
	Financial expenses associated with investing activities (excluding revaluation)	79,948	8,968
	Offset increase in intangible fixed assets (excluding revaluation)	1,382,906	1,233,844
	Offset increase in tangible fixed assets (excluding revaluation adjustment and increases of non-cash equity)	7,239,122	3,137,110
	Offset increase in long-term investments (excluding revaluation adjustment)	5,849,389	22,245
	Offset increase in short-term investments (excluding revaluation adjustment)	0	7,384,182
=	c) Net inflows or net outflows from investing activities	(7,916,976)	(11,352,098)
=	Net inflows or net outflows from operating and investing activities	(2,681,040)	4,840,974
C.	**CASH FLOWS FROM FINANCING ACTIVITIES**		
+	a) Inflows	8,298,096	4,290,932
	Financial revenues associated with financing activities (excluding revaluation)	116,476	0
	Offset increase in long-term provisions (excluding revaluation)	0	4,290,932
	Offset increase in long-term financial liabilities (excluding revaluation)	3,175,023	0
	Offset increase in short-term financial liabilities (excluding revaluation)	5,006,597	0
-	b) Outflows	5,373,069	8,465,886
	Financial expenses associated with financing activities (excluding revaluation)	441,655	865,886
	Offset decrease in long-term financial liabilities (excluding revaluation)	0	7,600,000
	Decrease in liabilities to owners associated with profit sharing	4,931,414	0
=	c) Net inflows or net outflows from financing activities	2,925,027	(4,174,954)
=	Total inflows or outflows for the period	243,987	666,020
Č.	**CLOSING BALANCE OF CASH AND CASH EQUIVALENTS**	**1,004,313**	**760,326**
+	x) Net flow for the period	243,987	666,020
+	y) Opening balance of cash and cash equivalents	760,326	94,306

4.7 Statement of Changes in Equity

in SIT thousands	Called-up capital	Capital reserves	Revenue reserves	Net profit from previous periods	Net profit for the period	Prevrednotovalni popravki kapitala		Total
	Share capital		Other revenues reserves			General equity revaluation adjustment	Specific equity revaluation adjustment	
A. Opening balance	1,156,217	166,070,474	21,190,570	4,931,414	0	27	11,271,304	204,620,006
B. Transfers to equity	0	0	0	0	7,034,166	0	6,954,518	13,988,684
d) Net profit for the period	-	-	-	-	7,034,166	-	-	7,034,166
f) Specific equity revaluation adjustments	-	-	-	-	-	-	6,954,518	6,954,518
C. Transfers within equity	0	0	3,517,083	0	(3,517,083)	0	0	0
a) Allocation of net profit*	-	-	3,517,083	-	(3,517,083)	-	-	0
Č. Transfers from equity	0	0	0	4,931,414	0	0	220,170	5,151,584
a) Dividend payout	-	-	-	4,931,414	-	-	-	4,931,414
č) Transfer of specific equity revaluation adjustment**	-	-	-	-	-	-	220,170	220,170
D. Closing balance	1,156,217	166,070,474	24,707,653	0	3,517,083	27	18,005,652	213,457,106
ACCUMULATED PROFIT	0	0	0	0	3,517,083	-	0	3,517,083

* under a resolution adopted by the Management and the Supervisory Board

** into operating or financial revenues

4.8 Notes to the Financial Statements

4.8.1 Balance sheet

General notes

Information as to the basis for the preparation of the balance sheet, together with the specific accounting policies selected and applied in significant operations and transactions of the Company are introduced in the disclosure of individual assets and liabilities.

The Company does not have in its possession any information further to that which is required by the balance sheet form that may be relevant in its fair presentation.

Assets and liabilities are recorded at fair value.

Intangible fixed assets
4,202,785 thousand SIT

The item of deferred operating cost includes organisation costs relating to the construction of hydroelectric power plants on the lower Sava river. This part of intangible fixed assets is in the process of acquisition.

Concessions, patents, licences, trademarks and similar rights include predominantly software licences. The major part of this item is already being applied and amortisation is subject to the expected useful lives using the rates 16.67 %, 20 % or 33.33 %.

PURCHASE COST AND AMORTISATION OF INTANGIBLE FIXED ASSETS

Balance as at 31st Dec. 2005 *in SIT thousands*	Deferred operating costs	Concessions, patents, licenses, trademarks and similar rights and assets	Advances for IFA	Total
Purchase cost	3,957,873	386,321	238	4,344,432
Accumulated amortisation	0	141,647	0	141,647
Carrying amount	3,957,873	244,674	238	4,202,785

MOVEMENT OF INTANGIBLE FIXED ASSETS

Intangible fixed assets *in SIT thousands*	Deferred operating costs	Concessions, patents, licenses, trademarks and similar rights and assets	Advances for IFA	Total
Carrying amount (1st Jan. 2005)	2,642,595	219,838	0	2,862,433
Additions	1,316,100	87,547	238	1,403,885
Decreases	-822	0	0	-822
Amortisation	0	-62,711	0	-62,711
Carrying amount (31st Dec. 2005)	3,957,873	244,674	238	4,202,785

Tangible fixed assets
14,020,599 thousand SIT

The item of buildings comprises part of business premises in Ljubljana and business premises in Sevnica.

Under plant and equipment the Company records equipment for collecting data about energy the production on the Group level, computer equipment, furniture, passenger cars and low-value assets that do not exceed the value of 500 EUR (in Tolar equivalent) and are applied for over a 1-year period.

Advances for tangible fixed assets are recorded in net values and refer to the supply of equipment for Boštanj hydroelectric power plant. The said advances shall in 2006 be settled with invoices received for the supplied equipment. The major part of advances recorded in 2004 was utilised in the current financial year.

Tangible fixed assets in course of construction include investments in construction projects and equipment for hydroelectric power plants on the lower Sava river, in the telecommunications network, in the centre of managing the balance sheet group, centre for managing malfunctions and events, and in the electronic documentation system.

Compared to previous year's figures the value of tangible fixed assets increased by more than 100 % due to major investments in the construction of hydroelectric power plants on the lower Sava river as well as other investments.

In 2005 the Company sold part of equipment, written off part of computer equipment due to wear and tear and in this relation recorded total operating expenses from revaluation amounting to 2,769 thousand SIT and operating revenues from revaluation amounting to 29 thousand SIT.

Strengthening or impairment of tangible fixed assets was not carried out in the reporting period.

DEPRECIATION OF TANGIBLE FIXED ASSETS

Groups of tangible fixed assets	Depreciation rates	Useful life
Buildings	2 – 3 %	33 – 50 years
Furniture	10 – 25 %	4 – 10 years
Computer equipment	33.33 %	3 years
Low-value assets	25 – 33.33 %	3 – 4 years
Cars	12.5 – 20 %	5 – 8 years
Other equipment	20 – 25 %	4 – 5 years

PURCHASE COST AND DEPRECIATION OF TANGIBLE FIXED ASSETS

Balance as at 31st Dec. 2005 *in SIT thousands*	Buildings	Other plant and equipment	Advances for TFA	TFA in course of construction	Total
Purchase cost	461,385	653,679	30,292	13,236,649	14,382,005
Accumulated depreciation	20,455	340,951	0	0	361,406
Carrying amount	440,930	312,728	30,292	13,236,649	14,020,599

MOVEMENT OF TANGIBLE FIXED ASSETS

Tangible fixed assets *in SIT thousands*	Buildings	Other plant and equipment	Advances for TFA	TFA in course of construction	Total
Carrying amount (1st Jan. 2005)	450,885	392,236	639,169	5,407,639	6,889,929
Additions	0	64,072	0	7,893,082	7,957,154
Decreases, disposals	0	-8,970	-608,877	-64,072	-681,919
Depreciation	-9,955	-134,610	0	0	-144,565
Carrying amount (31st Dec. 2005)	440,930	312,728	30,292	13,236,649	14,020,599

Long-term investments
204,662,728 thousand SIT

Investments in shares and interests in Group companies refer to the value of long-term investments in companies, where the Company has a majority interest (whether direct or indirect through other companies) and prepares consolidated financial statements for these Group companies.

In 2005 the Company winded up the affairs of HSE-IIP as its activity was fully taken over by the company Javno podjetje Infra that was established by the Republic of Slovenia.

The item of interests in associates records a 45 % capital contribution into the company Plinsko parna elektrarna.

The item of other long-term shares records a capital contribution of 19 % into the company Stelkom which prior to 2005 was known as Elektro.TK, into the Technological Centre for Research and Experimental Development (Tehnološki center za raziskave in eksperimentalni razvoj).

The value of long-term investments changed compared to 2004 which is mostly due to the revaluations.

Investments in subsidiaries that recorded profit in 2005 were strengthened by the Company in the amount of 6,241,073 thousand SIT.

Company's long-term investments in the company PPE that recorded loss in 2005 were impaired.

During the liquidation of HSE-IIP assets in the amount of 4,971 thousand SIT were received, representing the carrying amount of the investment amounting to 2,520 thousand SIT and financial revenues amounting to 2,451 thousand SIT.

The investment in the subsidiary HSE Italia is recorded in a foreign currency, thus a translation by applying the middle exchange rate of the Bank of Slovenia was carried out as of the balance sheet date.

We estimate that upon the revaluation of long-term investments their carrying amount equals the fair value, hence these investments are not considered as risky.

PURCHASE COST AND ADJUSTMENT TO LONG-TERM INVESTMENTS

Balance as at 31st Dec. 2005 *in SIT thousands*	Investments in shares and interests in group companies, excluding associates	Investments in shares and interests of associates	Other investments in shares and interests	Total
Purchase cost	236,106,815	945	27,000	236,134,760
Value adjustment	31,472,029	3	0	31,472,032
Carrying amount	204,634,786	942	27,000	204,662,728

MOVEMENT OF LONG-TERM INVESTMENTS

Long-term investments *in SIT thousands*	Investments in shares and interests in group companies, excluding associates	Investments in shares and interests of associates	Other investments in shares and interests	Total
Carrying amount (1st Jan. 2005)	198,398,718	945	27,000	198,426,663
Disposals	-4,992	0	0	-4,992
Increase, strengthening	6,241,093	0	0	6,241,093
Elimination of strengthening	-30	0	0	-30
Impairment	0	-3	0	-3
Exchange differences- investments made abroad	-3	0	0	-3
Carrying amount (31st Dec. 2005)	204,634,786	942	27,000	204,662,728

EFFECT OF REVALUATION OF LONG-TERM INVESTMENTS ON THE COMPANY'S OPERATING RESULT

2005 *in SIT thousands*	Investments in shares of group companies, excluding associates	Investments in shares and shares of associates	Total
Financial expenses from revaluation	2	3	5

MOVEMENT OF LONG-TERM INVESTMENTS IN GROUP COMPANIES

Movement of long-term investments in Group companies *in SIT thousands*	2005	2004
Dravske elektrarne Maribor d.o.o.	5,103,102	4,667,420
Savske elektrarne Ljubljana d.o.o.	54,689	398,626
Soške elektrarne Nova Gorica d.o.o.	288,303	970,047
Termoelektrarna Brestanica d.o.o.	681,126	495,680
Termoelektrarna Šoštanj d.o.o.	65,816	58,069
Premogovnik Velenje d.d.	0	26,410
HSE Invest d.o.o.	248	-6,991
HSE – IIP d.o.o.	-5,002	-1,298
TDR – Metalurgija d.d.	47,475	60,024
HSE Italia S.r.l.	311	924
Total	6,236,068	6,668,911

LONG-TERM INVESTMENTS IN GROUP COMPANIES

Group companies *in SIT thousands*	2005	2004
Dravske elektrarne Maribor d.o.o.	105,944,982	100,841,880
Savske elektrarne Ljubljana d.o.o.	28,317,420	28,262,731
Soške elektrarne Nova Gorica d.o.o.	27,774,277	27,485,974
Termoelektrarna Brestanica d.o.o.	4,057,269	3,376,143
Termoelektrarna Šoštanj d.o.o.	15,764,312	15,698,496
Premogovnik Velenje d.d.	21,506,657	21,506,657
HSE Invest d.o.o.	5,260	5,012
HSE – IIP d.o.o.	0	5,002
TDR – Metalurgija d.d.	1,260,716	1,213,241
HSE Italia S.r.l.	3,893	3,582
Total	204,634,786	198,398,718

Long-term investments in Group companies

Dravske elektrarne Maribor d.o.o.
Obrežna ulica 170, SI-2000 Maribor, Slovenia
- SHARE OF HSE: 99.9 %
- TOTAL EQUITY: 106,095,968 thousand SIT
- NET PROFIT FOR 2005: 5,110,239 thousand SIT

Savske elektrarne Ljubljana d.o.o.
Gorenjska cesta 46, SI-1215 Medvode, Slovenia
- SHARE OF HSE: 79.5 %
- TOTAL EQUITY: 35,622,220 thousand SIT
- NET PROFIT FOR 2005: 68,791 thousand SIT

Soške elektrarne Nova Gorica d.o.o.
Erjavčeva 20, SI-5000 Nova Gorica, Slovenia
- SHARE OF HSE: 79.5 %
- TOTAL EQUITY: 34,939,022 thousand SIT
- NET PROFIT FOR 2005: 362,645 thousand SIT

Termoelektrarna Brestanica d.o.o.
Cesta prvih borcev 18, SI-8280 Brestanica, Slovenia
- SHARE OF HSE: 79.5 %
- TOTAL EQUITY: 10,009,958 thousand SIT
- NET PROFIT FOR 2005: 856,763 thousand SIT

Termoelektrarna Šoštanj d.o.o.
Cesta Lole Ribarja 18, SI-3325 Šoštanj, Slovenia
- SHARE OF HSE: 79.5 %
- TOTAL EQUITY: 47,510,627 thousand SIT
- NET PROFIT FOR 2005: 82,788 thousand SIT

Premogovnik Velenje d.d.
Partizanska cesta 78, SI-3320 Velenje, Slovenia
- SHARE OF HSE: 77.7 %
- TOTAL EQUITY: 32,301,975 thousand SIT
- NET PROFIT FOR 2005: -261,278 thousand SIT

TDR – Metalurgija d.d.
Tovarniška cesta 51, SI-2342 Ruše, Slovenia
- SHARE OF HSE: 74.4 %
- TOTAL EQUITY: 3,689,086 thousand SIT
- NET PROFIT FOR 2005: 63,775 thousand SIT

HSE Invest d.o.o.
Obrežna ulica 170a, v2000 Maribor, Slovenia
- SHARE OF HSE: 25.0 % (direct), 89.7 % (indirect)
- TOTAL EQUITY: 21,040 thousand SIT
- NET PROFIT FOR 2005: 991 thousand SIT

HSE Italia S.r.l.
Via Roma 20, IT-34170 Gorizia, Italy
- SHARE OF HSE: 100.0 %
- TOTAL EQUITY: 16,249.97 EUR (3,893 thousand SIT)
- NET PROFIT FOR 2005: 1,306.94 EUR (313 thousand SIT)

Long-term investments in associates

Plinsko parna elektrarna d.o.o.
Tovarniška 10, SI-2325 Kidričevo, Slovenia
- SHARE OF HSE: 45.0 %
- TOTAL EQUITY: 160.027 thousand SIT
- NET PROFIT FOR 2005: -8 thousand SIT

Inventories
729 thousand SIT

Inventories include low-value assets the individual value of which does not exceed 100 EUR (Tolar equivalent) and with a useful life of over 1 year. Low-value assets that are extended for use are immediately transferred among costs.

The net realisable value of inventories is not established as they are used up perpetually.

Operating receivables
25,466,140 thousand SIT

Long-term receivables due from other entities refer to the deposit given as collateral for trading with electricity on Slovenia's stock market.

The major part of short-term trade receivables comprises receivables from the sale of electricity in Slovenia and abroad.

Most of short-term advances given relate to the first instalment of the purchase price of the minority interests in thermal power plants Brestanica and Šoštanj.

Short-term operating receivables on the account of others represent receivables due by the granting authority for assets deposited in the process of acquiring land for hydroelectric power plant Blanca.

Short-term receivables in association with financial revenues refer mostly to interest receivables from deposits and default interest in relation with trade receivables.

The item of short-term receivables due from the state includes receivables from the input VAT.

Short-term receivables due from other entities represent receivables for deposits granted as collateral for trading with energy in domestic and foreign stock markets.

Compared to the previous year the receivables record an increase of 60 % which is mostly a result of a wider scope of trading with electricity, as well as the payment of the first instalment of the purchase price for minority interests in two subsidiaries.

Trade receivables are for most part settled on time or slightly overdue. In the event of overdue payment, customers in Slovenia and abroad are charged default interest as agreed per contract. At the year-end 96 % of outstanding receivables were not yet due, and most of these overdue receivables were settled by the date of the Annual Report compilation.

Receivables which are not settled within 180 days of their due date are considered doubtful. As of the balance sheet date the Company recorded doubtful receivables in the amount of 2,242 thousand SIT.

Trade receivables referring to sale of electricity on the domestic market are secured by blank bills of exchange, whereas receivables relating to the foreign market are secured by bank guarantees.

Other receivables are not subject to being secured due to their specific nature.

Receivables denominated in foreign currencies were translated into the local currency as of the balance sheet date.

The Company estimates that upon the revaluation of short-term receivables, their carrying amount equals he fair value.

SHORT-TERM OPERATING RECEIVABLES

in SIT thousands	2005	2004
Short-term receivables due from domestic customers	12,618,884	10,158,977
Short-term receivables due from foreign customers	3,008,670	2,489,039
Short-term advances for services not rendered – domestic market	732	1,968
Short-term advances for services not rendered – foreign market	9,591	825
Short-term advances for purchase of shares in companies	5,851,886	0
Short-term operating receivables on the account of others	8,925	39,034
Short-term receivables associated with financial revenues	35,093	23,801
Short-term receivables due from the state	2,665,903	2,452,121
Short-term receivables due from other entities	1,236,456	391,098
Total	25,436,140	15,556,863

SHORT-TERM OPERATING RECEIVABLES DUE FROM GROUP COMPANIES

Group companies *in SIT thousands*	2005	2004
Dravske elektrarne Maribor d.o.o.	898	0
Savske elektrarne Ljubljana d.o.o.	898	0
Soške elektrarne Nova Gorica d.o.o.	898	0
Termoelektrarna Brestanica d.o.o.	898	0
Termoelektrarna Šoštanj d.o.o.	898	605,028
Premogovnik Velenje d.d.	50,875	57,077
TDR – Metalurgija d.d.	219,209	217,735
HSE Invest d.o.o.	925	112
HSE Italia S.r.l.	9	15
Total	275,508	879,967

RECEIVABLES BY MATURITY DATES

Maturity *in SIT thousands*	2005 *	2004
Receivables not yet due	24,487,438	14,995,157
Receivables overdue for less than 3 months	953,855	591,690
Receivables overdue from 3 to 6 months	24,847	0
Receivables overdue for more than 6 months	2,242	16

* Most of due receivables was settled by completion of the annual report.

Short-term investments
7,487,134 thousand SIT

The Company records following short-term investments:

- loans to Group companies,
- short-term Tolar and foreign currency deposits with major Slovenia's banks,
- investments in shares of Slovenia's banks,
- emission coupons for trading.

The Company estimates that upon revaluation the carrying amount of short-term investments equals the fair value. The investments are not considered to be subject to risk.

Cash
1,004,313 thousand SIT

The item of cash refers to Company's cash balances on Tolar and foreign currency accounts with domestic and foreign banks.

Deferred costs (expenses) and accrued revenues
57,657 thousand SIT

DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES

Deferred costs (expenses) and accrued revenues *in SIT thousands*	2005	2004
Short-term deferred costs and expenses	35,152	23,528
Short-term accrued revenues	22,505	2,176
Total	57,657	25,704

Off balance sheet items
20,798,417 thousand SIT

Off balance sheet items include financial instruments for securing receivables, liabilities and the performance of contractual works.

Off balance sheet items encompass also futures contracts.

Equity
213,457,106 thousand SIT

The value of share capital and capital reserves remained unchanged in the reporting period.

Other revenues reserves increased by 3,517,083 thousand SIT in 2005 which represents half of the net profit for the period.

Half of the net profit for the financial year is recorded under the item of net profit for the period.

General equity revaluation adjustment remained unchanged as the euro-tolar exchange rate did not fluctuate by more than 5.5 % in 2004.

The Specific equity revaluation adjustment in association with long-term investments records an increase in 2005 due to strengthening of long-term investments in subsidiaries.

The item of specific equity revaluation adjustment in association with other financial instruments includes also income from open futures contracts for the purpose of insurance. It refers to closing deals on the purchase of electricity on foreign stock markets in the future, on the basis of which the Company secured deals already concluded for the sale of electricity in the same period.

As for the decline in the euro-tolar exchange rate in 2005 (by 0.07 %) the item of equity was not revalued.

The cost of living index was recorded at 2.3 % in the reporting period. By taking the cost of living index into account, the total capital of the Company would increase by 4,592,837 thousand SIT. Hence this amount of capital is exclusive of the net profit for the period, distributed profit from previous periods and the increase in specific equity revaluation adjustments. By taking into account the said calculation, the Company would record a net profit in the amount of 2,441,329 thousand SIT.

TOTAL EQUITY OF THE COMPANY

Total equity of the company *in SIT thousands*	2005	2004
Share capital	1,156,217	1,156,217
Capital reserves	166,070,474	166,070,474
Other revenue reserves	24,707,653	21,190,570
Net profit for the period	3,517,083	4,931,414
General equity revaluation adjustment	27	27
General equity revaluation adjustment	18,005,652	11,271,304
Total	213,457,106	204,620,006

OPERATING PROFIT OF THE COMPANY UPON RESTATEMENT OF THE EQUITY

in SIT thousands	2005
Net profit	7,034,166
Net profit using the tolar-euro exchange rate (0.07 % fall)	-
Net profit using Slovenia's cost of living index (2.3 % growth)	2,441,329

MOVEMENT OF SPECIFIC EQUITY REVALUATION ADJUSTMENT

Specific equity revaluation adjustment *in SIT thousands*	Long-term investments	Other financial instruments	Total
Balance (1st Jan. 2005)	11,265,519	5,785	11,271,304
Increase	6,241,073	713,445	6,954,518
Decrease	-2,503	-217,667	-220,170
Balance (31st Dec. 2005)	17,504,089	501,563	18,005,652

Long-term provisions
4,290,932 thousand SIT

In 2005 the Company neither formed new provisions nor utilised provisions already formed.

The item of long-term provisions includes payments made by venturers at the end of 2004 in connection with the construction of the power plants on the lower Sava river.

Long-term liabilities
10,569,618 thousand SIT

The Company's long-term liabilities include the long-term loan raised at the syndicate of Slovenian banks in 2003 for the period of 12 years.

The first regular principal is due in October 2006 in the amount of 205,405 thousand SIT and is recorded among short-term liabilities to banks. Interest is accounted for on a monthly basis and its undue portion is recorded among short-term operating liabilities.

The loan is in full due by October 2015. Based on an annex concluded at the end of 2005 the interest rate changes with respect to the average yield of eleven-year bonds of the Republic of Slovenia; upon the introduction of euro the interest rate shall be adjusted to the amount of the then EURIBOR plus a minimum margin. The loan is secured by ten blank bills of exchange.

Long-term operating liabilities refer to payments made by venturers in connection with the joint venture in 2005. Due to their specific nature the payments are not secured.

The Company estimates that the carrying amount of long-term liabilities equals their fair value.

LONG-TERM OPERATING LIABILITIES

in SIT thousands	Share in Joint Venture	2005	2004
Dravske elektrarne Maribor d.o.o.	30.8 %	1,995,729	0
Savske elektrarne Ljubljana d.o.o.	12.6 %	816,434	0
Soške elektrarne Nova Gorica d.o.o.	2.8 %	181,430	0
Termoelektrarna Brestanica d.o.o.	2.8 %	181,430	0
Total		3,175,023	0

Short-term liabilities
28,227,123 thousand SIT

Short-term liabilities to banks refer to a short-term loan that was extended to the Company by a Slovenian bank and a portion of the principal of a long-term loan that is due in 2006.

The short-term loan is denominated in euro, whereas the interest rate is subject to EURIBOR plus a minimum margin. The interest is settled on monthly basis and its undue part is recorded among short-term operating liabilities. The loan is secured by three blank bills of exchange.

Trade payables mostly refer to payables to suppliers of electric energy, electricity-related costs and short-term payables to suppliers in connection with the construction of the power plants on the lower Sava river.

The item of payables to employees includes salaries and wages for December and other receipts under the employment relationship.

Payables to the state and other institutions comprise value added tax payables, rentals of payables for the limited use of premises, contributions and continued pay relating to December wages and paid by the employer.

Interest payables represent interest on long-term and short-term loans accounted for in December.

Compared to the previous year short-term loans show an increase that is attributable to Company's raising a short-term loan; as for the operating liabilities, an increase of 100 % is recorded among short-term payables to foreign suppliers. There were no significant changes in other items.

The Company settled all liabilities in due time.

SHORT-TERM OPERATING LIABILITIES

Short-term operating liabilities *in SIT thousands*	2005	2004
Short-term trade payables – domestic market	18,166,364	18,150,113
Short-term trade payables – foreign market	4,180,903	2,493,649
Other short-term payables on the account of others	1,583	8,644
Short-term payables to employees	68,049	69,976
Short-term payables to the state	560,392	537,723
Short-term interest payable	35,806	36,499
Other short-term operating liabilities	2,024	1,688
Total	23,015,121	21,298,292

SHORT-TERM OPERATING LIABILITIES TO GROUP COMPANIES

Group companies *in SIT thousands*	Country	2005	2004
Dravske elektrarne Maribor d.o.o.	Slovenia	3,807,973	4,104,815
Savske elektrarne Ljubljana d.o.o.	Slovenia	336,893	1,087,292
Soške elektrarne Nova Gorica d.o.o.	Slovenia	466,379	1,231,351
Termoelektrarna Brestanica d.o.o.	Slovenia	937,175	590,756
Termoelektrarna Šoštanj d.o.o.	Slovenia	5,680,802	5,932,751
Premogovnik Velenje d.d.	Slovenia	2,377	2,442,752
Other Group companies		31,383	46,387
Total		11,262,982	15,436,104

Accrued costs (expenses) and deferred revenues
357,306 thousand SIT

ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES		
in SIT thousands	2005	2004
Short-term accrued costs	357,061	369,404
Short-term deferred revenues	245	0
Total	357,306	369,404

4.8.2 Income statement

General notes

Information as to the basis for the preparation of the income statement, together with the specific accounting policies selected and applied in significant operations and transactions of the Company are introduced in the disclosure of individual revenues and expenses.

The income statement has been prepared by applying the Format I, defined in SAS 25.5.

The amount of expenses was influenced by methods or accounting policies applied and presented in disclosures of balance sheet items (depreciation, valuation of inventories); they have not changed compared to the previous financial year.

Revenues
146,641,431 thousand SIT

Revenues from sale of electricity in Slovenia and abroad have a share of 99.98 % among net sales. They have increased by one fourth compared to the previous year which is mostly due to the bigger scope of trading with electricity.

Revenues from services rendered mostly represent rentals.

The items of capitalised own services includes services that were performed in the Company for the purpose of constructing the powers plants on the lower Sava river.

Equity revaluation adjustments arose during the sale of tangible fixed assets and the elimination of accrued costs and expenses.

Three quarters of total financial revenues are interest revenues and compared to the last year no significant changes have occurred. Income from futures contracts for the purpose of trading is disclosed among financial revenues from short-term receivables; in the income statement for 2004 this income was recorded among other financial revenue from shares.

Contractual penalties and compensations paid to insurance companies are recorded among extraordinary revenues.

Geographical segments

GEOGRAPHICAL SEGMENTS

in SIT thousands	2005	2004
Domestic market	108,994,689	90,627,446
Foreign market	37,073,233	25,666,721
Total	146,067,922	116,294,167

REVENUES OF THE COMPANY

Revenues *in SIT thousands*	2005	2004
Operating revenues	146,107,927	116,332,671
Financial revenues	441,606	434,281
Extraordinary revenues	91,898	4,627
Total	146,641,431	116,771,579

OPERATING REVENUES

Operating revenues *in SIT thousands*	2005	2004
Revenues from sale of electric energy	146,039,685	115,277,874
Revenues from sale of heat	0	996,333
Revenues from sale of services	28,237	19,960
Capitalised own services	36,409	32,864
Operating revenues from revaluation	3,596	5,640
Total	146,107,927	116,332,671

Expenses
139,607,265 thousand SIT

The item of purchase cost of goods sold (98.2 % of total operating expenses) encompasses expenses for the purchase of electricity and related costs. The purchase cost of goods sold increased by 32 % compared to 2004 and is a result of a bigger trading with electricity.

Costs of goods, materials and services, labour cost, administration and depreciation expenses, as well as other operating expenses have not event a 2 % share among total operating expenses and compared to previous year's figures they increased by 1 %.

The Company did not receive any claims for compensations or damages from its employees that based on legal provisions, the collective agreement or the Company's Articles of Association.

Most of the interest expenses from loans and other liabilities i.e. 80 % refer to the interest that decreased by almost a half in the last quarter of 2004 (compared to 2004) mainly due to the partial repayment of the long-term loan. Losses from futures contracts for trading purposes were in the income statement for 2004 disclosed among other financial expenses for long-term and short-term investment write-offs.

EXPENSES OF THE COMPANY

in SIT thousands	2005	2004
Operating expenses	139,085,654	106,079,375
Financial expenses	521,611	829,377
Total	139,607,265	106,908,752

OPERATING EXPENSES

in SIT thousands	2005	2004
Purchase cost of goods sold	134,507,131	102,395,976
Direct costs of goods sold	2,109,811	1,181,424
Cost of material	41,942	40,688
Cost of services	747,824	796,065
Labour cost	1,083,304	1,029,533
Cost of amortisation / depreciation	207,276	185,582
Operating expenses from revaluation	5,051	15,465
Other operating expenses	383,315	434,642
Total	139,085,654	106,079,375

Costs in terms of function

The income statement shows the Company's costs in terms of type (purchase cost of goods and material sold, cost of services, cost of wages and salaries, amortisation and depreciation expenses) while below we find a division of costs in terms of their function.

COSTS IN TERMS OF THEIR FUNCTION

Costs *in SIT thousands*	2005	2004
Purchase cost of goods sold	136,885,285	103,807,289
Selling expenses	366,075	357,207
General administrative costs	1,797,885	1,882,015

Profit
7,034,166 thousand SIT

The Company concluded the financial year 2005 with a profit of 7,034,166 thousand SIT.

Corporate Income Tax Act

In accordance with provisions of the Corporate Income Tax Act, the Company's profit is taxed at 25 %.

No income tax payables were established due to enforcing the tax benefits and utilising the tax loss from 2001.

Deferred taxes

The Company did not account for deferred tax assets and liabilities in the reporting period.

2,907,786 thousand SIT of unutilised tax loss from 2001 is disclosed as of the balance sheet date for which no deferred tax assets were formed. This is mostly due to rapid changes on the Slovenian and European market of electricity that have a great impact on the Company's operations making it difficult to reliably forecast the future taxable profits.

OPERATING RESULT OF THE COMPANY

in SIT thousands	2005	2004
Gross operating yield	146,107,927	116,332,671
Operating income	7,022,273	10,253,296
Operating result from ordinary activities	6,942,268	9,858,200
Operating result from extraordinary activities	91,898	4,627
Total operating result	7,034,166	9,862,827
Net profit for the period	7,034,166	9,862,827

4.8.3 Cash flow statement

General notes

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

The item of cash includes funds on transaction accounts and call deposits.

The Company recorded no cash equivalents in the reporting period.

The Company prepares its cash flow statement using the indirect method that reconciles net income with cash from operations.

Data in the cash flow statement is obtained from the balance sheets for the current and previous year and the income statement for the current period. In order for the inflows to be as close as possible to receipts, and outflows as close as possible to expenses, additional eliminations were made in the cash flow statement.

CASH FLOWS

in SIT thousands	2005	2004
Cash flows from operating activities	5,235,936	16,193,072
Cash flows from investing activities	-7,916,976	-11,352,098
Cash flows from financing activities	2,925,027	-4,174,954
Cash flow for the period	243,987	666,020

4.8.4 Statement of changes in equity

General notes

The statement of changes in equity encompasses all changes of equity components during the financial year.

The statement of changes in equity is prepared so that all components of equity are presented in form of a spreadsheet.

Transfer to equity

In 2005 the Company's equity increased by 13,988,684 thousand SIT on the basis of following:

- net profit for the period in the amount 7,034,166 thousand SIT,
- specific equity revaluation adjustment referring to long-term investments in the amount of 6,241,073 thousand SIT,
- specific equity revaluation adjustment referring to other financial instruments – futures contracts in the amount of 713,445 thousand SIT.

Transfer within equity

Pursuant to a resolution by the Supervisory Board that was adopted upon a proposal by the Company's Managing Director, half of the net profit for 2005 in the amount of 3,517,083 thousand SIT was allocated to other revenue reserves.

Transfer from equity

The Company's equity decreased in the reporting period by the amount of 5,151,584 thousand SIT which is attributable to:

- distribution of the total accumulated profit of 2004 in the amount of 4,931,414 thousand SIT to the founder,
- specific equity revaluation adjustment referring to the reversal of profits from previous years generated by HSE-IIP in the amount of 2,502 thousand SIT,
- exchange differences on profits of previous periods generated by HSE Italia in the amount of 1 thousand SIT,
- specific equity revaluation adjustment referring to other financial instruments – futures contracts in the amount of 217,667 thousand SIT.

Accumulated profit

Accumulated profit of 2005 is recorded at 3,517,083 thousand SIT and represents half of net profit for the period. The founder decides upon the distribution of the accumulated profit.

ACCUMULATED PROFIT

in SIT thousands	2005	2004
Net profit for the period	7,034,166	9,862,827
Net profit or loss from previous periods	0	0
Reversal of revenue reserves	0	0
Allocation to revenue reserves pursuant to a resolution adopted by the Management Board (legal reserves, reserves for own shares and statutory reserves)	0	0
Allocation to revenues reserves pursuant to a resolution adopted by the Management and Supervisory Board (other revenue reserves)	-3,517,083	-4,931,413
Accumulated profit for the period	3,517,083	4,931,414

4.8.5 Other disclosures

Remuneration of management and other employees with individual contracts of employment

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

- gross remunerations contained in the notice for income tax returns,
- premiums paid for additional pension insurance, and
- other fees paid.

In 2005 no short-term operating receivables due from Management and other employees with individual contracts of employment are recorded.

Remuneration of Supervisory Board members

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

In 2005 no advances, loans or guarantees were extended to these groups of persons.

RECEIPTS OF INDIVIDUAL GROUPS OF PERSONS

Groups of persons *in SIT thousands*	2005	2004
Management Board members	98,035	95,808
Employees on individual contracts	269,973	271,578
Supervisory Board members	6,982	3,820

4.9 Financial ratios of the controlling company

Financial ratios of the Company for 2005 and 2004 are presented below.

Equity financing rate	2005	2004
in SIT thousands		
1. Liabilities	256,902,085	238,348,554
2. Equity	213,457,106	204,620,006
Equity financing rate = 2 / 1	83.09 %	85.85 %

Company's equity has an 83 % share among total liabilities. The Company finances its operations through own funds hence the creditor's investments are secured and the owner's yields are stable. Compared to the previous year, the equity financing rate decreased during the year due to the increase in financial and operating liabilities (payments made by venturers in connection with the joint venture in 2005 and the take-up of a short-term loan).

Long-term financing rate	2005	2004
in SIT thousands		
1. Equity	213,457,106	204,620,006
2. Long-term financial and operating liabilities	10,569,618	7,769,920
3. Long-term provisions	4,290,932	4,290,932
4. Total (1+2+3)	228,317,656	216,680,858
5. Liabilities	256,902,085	238,348,554
Long-term financing rate = 4 / 5	88.87 %	90.91 %

Out of Company's total liabilities 89 % are long-term and 11 % short-term. Compared to 2004 the long-term financing rate has dropped by 2 percentage points which is reasonable considering the increase in short-term financial and operating liabilities.

Operating fixed assets rate	2005	2004
in SIT thousands		
1. Tangible fixed assets	14,020,599	6,889,929
2. Intangible fixed assets	4,202,785	2,862,433
3. Total fixed assets at carrying amount (1+2)	18,223,384	9,752,362
4. Assets	256,902,085	238,348,554
Operating fixed assets rate = 3 / 4	7.09 %	4.09 %

Within the assets structure the share of tangible and intangible fixed assets is recorded at 7.1 %, which is understandable as most of the assets are long-term investments. Due to new investments made in 2005 in tangible and intangible fixed assets, the operating fixed assets rate increased by 3 percentage points compared to the previous period.

Long-term investment rate	2005	2004
in SIT thousands		
1. Tangible fixed assets	14,020,599	6,889,929
2. Intangible fixed assets	4,202,785	2,862,433
3. Long-term investments	204,662,728	198,426,663
4. Long-term operating receivables	30,000	30,000
5. Total (1+2+3+4)	222,916,112	208,209,025
6. Assets	256,902,085	238,348,554
Long-term investment rate = 5 / 6	86.77 %	87.35 %

The long-term investment rate refers to the share of long-term assets among total assets. In 2005 the ratio was established at 86.8 % which is 0.6 percent less than in 2004. The decrease is attributable to higher short-term operating receivables recorded in the reporting year.

Equity to operating fixed assets rate	2005	2004
in SIT thousands		
1. Equity	213,457,106	204,620,006
2. Tangible fixed assets	14,020,599	6,889,929
3. Intangible fixed assets	4,202,785	2,862,433
4. Total fixed assets at carrying amount (2+3)	18,223,384	9,752,362
Equity to operating fixed assets rate = 1 / 4	11.71	20.98

The equity-to-operating-fixed-assets ratio represents the balance between equity and operating fixed assets (intangible assets and tangible fixed assets). The ratio for 2005 was determined at 11.7 meaning that most of the Company's fixed assets and part of the operating current assets is financed by means of the owner's equity. Compared to 2004 the ratio decreased by 44.7 % as due to investments the fixed assets increased far more than the equity.

Immediate solvency rate	2005	2004
in SIT thousands		
1. Cash in bank, cheques and cash in hand	1,004,313	760,326
2. Short-term investments	7,487,134	13,796,393
3. Total liquid assets (1+2)	8,491,447	14,556,719
4. Short-term financial and operating liabilities	28,227,123	21,298,292
Immediate solvency rate = 3 / 4	0.30	0.68

The immediate solvency ratio is the relation between operating current assets and short-term liabilities. Although the ratio decreased by 0.3 the Company has no solvency problems. Investments made in 2005 caused a considerable fall of short-term investments compared to the previous year.

Quick ratio	2005	2004
in SIT thousands		
1. Cash in bank, cheques and cash in hand	1,004,313	760,326
2. Short-term investments	7,487,134	13,796,393
3. Short-term receivables	25,436,140	15,556,863
4. Total (1+2+3)	33,927,587	30,113,582
5. Short-term financial and operating liabilities	28,227,123	21,298,292
Quick ratio = 4 / 5	1.20	1.41

The quick ratio shows whether the Company finances short-term assets through short-term liabilities or also long-term. The ratio's value is higher by more than 1 % in 2005 as well as 2004, indicating that part of short-term assets are financed by means of long-term liabilities. The ratio shows a decrease of 15 % over the previous year's figures which is mostly due to higher short-term financial and operating liabilities (raising a short-term loan).

Current ratio	2005	2004
in SIT thousands		
1. Current assets	33,958,316	30,143,825
2. Long-term operating receivables	30,000	30,000
3. Deferred costs (expenses) and accrued revenues	57,657	25,704
4. Total short-term assets (1-2+3)	33,985,973	30,139,529
5. Short-term financial and operating liabilities	28,227,123	21,298,292
Current ratio = 4 / 5	1.20	1.42

The current ratio reflects the financing of short-term assets by means of short-term liabilities. The Company records good solvency although the current ratio decreased by 1.2 percentage points.

Operating efficiency rate	2005	2004
in SIT thousands		
1. Operating revenues (net sales + other operating revenues)	146,107,927	116,332,671
2. Cost of goods, material and services	137,406,708	104,414,153
3. Labour cost	1,083,304	1,029,533
4. Amortisation and depreciation expense	212,327	201,047
5. Other operating expenses	383,315	434,642
6. Total operating expenses (2+3+4+5)	139,085,654	106,079,375
Operating efficiency rate = 1 / 6	1.05	1.10

Operating revenues exceed operating expenses by 5 % in the reporting year. Compared to 2004 the operating efficiency ratio decreased and this is mostly due to unfavourable business conditions.

Net return on equity ratio (ROE)	**2005**	**2004**
in SIT thousands		
1. Net profit for the period	7,034,166	9,862,827
2. Average capital	209,038,556	196,351,260
Net return on equity ratio = 1 / 2	0.03	0.05

The net-return-on-equity ratio (ROE) indicates that the Company generated 3 SIT of net profit on 100 SIT of funded capital. Taking into account trading conditions in 2005 (unfavourable hydrology, introduction of explicit auctions etc.) as well as Company's capital intensiveness the ratio's value is deemed as quite favourable. Compared to 2004 the ratio decreased by 33 % due to low profit generated.

We create and maintain such market, system, business and professional situations that meet the interests of all key actors – owners, business partners, local communities and employees.

167 billion SIT REVENUES

14 billion SIT NET PROFIT

251 billion SIT EQUITY

5.1 General notes

Basis for preparation of consolidated financial statements
The consolidated financial statements contained herein have been prepared in accordance with provisions of the Companies Act and the Slovenian Accounting Standards (SAS).

Consolidated financial statements have been prepared using the Slovene Tolar (SIT) as the unit of currency, rounded to the nearest thousand.

A group of companies is an economic, yet not a legal entity, and as such not an independent holder of rights and liability. The consolidated financial statements are the financial statements of a group presented as those of a single company. The consolidated financial statements are prepared on the basis of the primary financial statements of the consolidated company, including the relevant consolidation adjustments.

During the preparation of consolidated financial statements following qualitative characteristics have been taken into account:
- understandability,
- relevance,
- reliability and
- comparability.

Companies included in the consolidated financial statements
Prior to the consolidation of the HSE Group, the process of consolidation was applied for PV and TDR – Metalurgija. In accordance with consecutive methodology, consolidated financial statements are initially prepared by subsidiaries, and such statements are thereupon included in consolidated financial statements of the HSE Group.

Companies included in the consolidated financial statements
Holding Slovenske elektrarne d.o.o.
Dravske elektrarne Maribor d.o.o.
Savske elektrarne Ljubljana d.o.o.
Soške elektrarne Nova Gorica d.o.o.
Termoelektrarna Brestanica d.o.o.
Termoelektrarna Šoštanj d.o.o.
Premogovnik Velenje Group
TDR – Metalurgija Group
HSE Invest d.o.o.
HSE Italia S.r.l.

Hereinafter the term "Group" refers to companies of the HSE Group that are listed above and included in the consolidated financial statements. The financial year is considered the calendar year.

Consolidated financial statements have been prepared for the financial year 2005.

Companies excluded from consolidated financial statements
The companies Sava and Elprom, in which Savske Elektrarne Ljubljana (SEL) and Soške Elektrarne Nova Gorica (SENG) hold a majority interest, are dormant and were consequently not included in the consolidation on the level neither of controlling companies nor on the level of the Group. These two companies are not deemed to have a significant impact on the true and fair presentation of the Group's operations.

Dravske Elektrarne Maribor (DEM) have a 50 % share in the company Eldom and irrespectively did not carry out the consolidation due to material non-significance. DEM has no controlling influence over the operations of Eldom.

Complete consolidation
The financial statements of individual Group companies have been incorporated into the consolidated financial statements on the basis of complete consolidation, which means that amounts are aggregated item by item, with related items of assets, liabilities, capital, revenues and expenses each represented as a cumulative sum. The following have also been eliminated in order that the Group is presented as if it were a single enterprise:
- parent company's investments in the capital of subsidiaries; parent company participation in the capital of subsidiaries; debts of subsidiaries,
- intangible fixed assets of subsidiaries; controlling company's long-term provisions and long-term liabilities,
- intragroup receivables and liabilities,
- intragroup revenues and expenses.

The consolidated income statement encompasses the net profit from minority interests, while both the consolidated balance sheet as well as the consolidated statement of changes in equity, equally present minority interests in the capital of the HSE Group.

Audit

All companies included in the consolidated financial statements have been audited by KPMG Slovenija d.o.o. and all were issued an unqualified opinion i.e. Auditor's Report.

Disclosures

Provisions of the Companies Act, the Slovenian Accounting Standards and Rules on Consolidation have been applied while disclosing the items from the consolidated financial statements.

Exchange rate and method of translation into domestic currency

Items in financial statements of individual Group companies that are denominated in foreign currencies are translated into local currency in the balance sheet and the income statement on the day of accrual, using the middle exchange rate of the Bank of Slovenia, except in individual cases where the contracting parties agree upon a different exchange rate.

The balance of assets and liabilities in the balance sheets of individual Group companies expressed in a foreign currency have been translated into Slovene tolars at the middle exchange rate of the Bank of Slovenia as at 31 December 2005; in case of another agreed-upon exchange rate the individual transaction is subject to the balance of this rate as at the end of 2005. The effect of translation increases financial revenues or financial expenses.

As for translating the financial statements of subsidiaries headquartered abroad for inclusion in the consolidated financial statements, following shall be applied:

- assets and liabilities are translated by applying the middle exchange rate of the Bank of Slovenia as of the balance sheet date,
- revenues and expenses are translated at the average middle exchange rate of the Bank of Slovenia for 2005,
- exchange differences are classified as a separate equity component.

Accounting policies

In the preparation of the consolidated financial statements, all the accounting policies and concepts as to the valuation of the most significant items of subsidiaries have been harmonised with those of the parent company.

Intangible fixed assets

Intangible fixed assets enable the performance of the Company's activity, whereas physically they do not exist.

Intangible fixed assets are initially valued at their historical cost and subsequently lowered by the amount of amortisation, which is recorded among accumulated amortisation. Amortisation begins on the date, when the intangible fixed assets is prepared for its intended use.

Upon initial recognition long-term deferred costs are recorded at historical cost and later decreased and charged against related expenses.

Intangible fixed assets are recorded in the balance sheet at the carrying amount i.e. as the difference between the purchase cost and accumulated amortisation.

Intangible fixed assets may be revalued, whereas only impairment is carried out.

Tangible fixed assets

Tangible fixed assets are part of fixed assets owned by the Company or on the basis of a finance lease and used for carrying out the activity.

Tangible fixed assets are initially recognised at cost. It comprises its purchase price, including import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing the asset to working condition for its intended use, especially the costs of delivery and installation costs. In one of the Group companies the purchase cost is increased by the amount of loan interest referring to the acquisition of a tangible fixed asset up till the date, when the asset was introduced for carrying out the activity.

The purchase cost is subsequently decreased by the amount of the accumulated depreciation. Tangible fixed assets are recorded in the consolidated balance sheet at their carrying amount, as a difference between the purchase cost and accumulated depreciation.

Grants and state aid provided in the acquisition of tangible fixed assets are not deducted from assessments and calculations of historical cost, but are instead included in the long-term provisions and utilised in accordance with the computed depreciation.

The difference between the net selling price and the carrying amount of assets disposed is recorded under operating revenues from revaluation, if the former amount exceeds the latter, or under operating expenses, when the latter amount exceeds the former.

Subsequent expenses related to tangible fixed assets represent improvements that ought to be added to their historical cost, provided they increase future benefits from existing assets beyond those previously assessed. In this context, expenditures related to an extension of an asset's estimated useful life represent a reduction of depreciation accumulated till then.

Expenditure on repairs or maintenance of property, plant and equipment is made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset. As such, it is usually recognised as an expense when incurred.

Long-term investments

Long-term investments are part of fixed assets that are made to earn returns and thus increase financial revenues. Group companies own them for more than a year.

The basis for disclosing interests in equity of other subsidiaries, in equity securities or debt securities of other companies is the purchase cost that equals the amount paid and increased by cost that is attributable to this acquisition.

Long-term investments in the equity of subsidiaries are valued by using the equity method. This means that profits or losses of these companies directly have an impact on the amount of long-term investments in the controlling company.

Long-term investments in equity of other companies (up till 20 %) are valued at the cost method, meaning that the value of investment in the investor does not change simultaneously with the establishment of business results in companies; instead financial revenues are increased by the actual payout of the profit share.

Long-term financial receivables due in less than a year after the balance sheet date are recorded among short-term financial receivables.

Inventories

Inventories are part of current operating assets that shall be used while making products, rendering services or during their sale. Inventories comprise quantities held in store, in the process of completion and modification.

Receivables

Receivables are the rights to claim the settlement of a debt, the payment for deliveries or rendered services from a specific person or entity and are part of the Group's current assets. Receivables are classified into long-term (due in more than 1 year) and short-term (due in less than 1 year) and short-term receivables.

An item of receivables should be recognised as an asset if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and if the cost of the asset can be measured reliably. Initially receivables of all categories are carried at amounts recorded in the relevant bookkeeping documents under the assumption that the amounts owed will also be collected.

In the consolidated balance sheet, advances paid are recorded among assets, for which they were provided.

Allowances for receivables are formed if receivables are not repaid within a reasonable time; these allowances are recorded in the income statement and increase the operating expenses from revaluation. Receivables are eliminated when all legal remedies relating to their repayment are used.

Long-term receivables due in less than a year after the balance sheet date are recorded among short-term receivables.

Short-term investments

Short-term investments are that part of the Group's operating assets that in less than 1 year generate profits, which increase financial revenues.

Short-term investments in equity securities are initially recognised and measured at purchasing costs, which are the value of the cash payment made.

Deposits in banks are initially recorded at amounts paid.

Short-term investments in short-term loans are initially measured at the amount paid that represents the principal of the loan.

Short-term investments include also long-term investments that are due within the year after the balance sheet date.

Short-term investments in equity securities that are not listed on the stock market are not subject to revaluation.

Cash

The carrying amount of an item of cash is the same as its initial nominal value until the need for its revaluation arises.

Deferred costs (expenses) and accrued revenues

Deferred costs, deferred expenses and accrued revenues include items of deferred costs or deferred expenses as well as items of accrued revenues.

Deferred costs or deferred expenses are amounts that, at the moment of their accrual do not influence the activities.

Accrued revenues are amounts that have been considered among revenues in the income statement but not yet charged to third parties.

Equity

Total capital is defined by the amounts invested by owners and the amounts generated during operation that belong to the owners.

Long-term provisions

Long-term provisions are made for obligations expected to arise from obligating past events in a period exceeding one year. They are formed when the obligation can reliably be measured.

Long-term provisions are formed on the basis of accrued costs and expenses and from long-term deferred revenues.

Long-term accrued expenses refer to costs already included in the income statement, irrespective of the fact that they shall occur at a later stage. They are subsequently directly decreased by costs or expenses in connection with which they have been formed.

Long-term accrued revenues are amounts that have been charged but are not yet included among revenues for the period; they are expected to cover costs subsequently. They are transferred to operating revenues simultaneously with the occurrence of costs or expenses for which they have been formed.

Upon the end of the period for which provisions have been formed, the possible unutilised part is transferred among operating revenues.

Long-term liabilities

Long-term liabilities are obligations of the Group companies that must be settled in a period of more than 1 year.

Long-term liabilities are divided into financial and operating liabilities. Long-term financial liabilities refer to liabilities due by lenders and trade payables to liabilities due by suppliers.

Upon initial recognition long-term liabilities are recorded at amounts paid and at a later stage decreased on the basis of repayments made.

Part of long-term liabilities that is due in less than 1 year after the balance sheet date, is recorded among short-term liabilities.

Short-term liabilities

Short-term liabilities are obligations of the Group companies that must be settled within a year.

Short-term liabilities are divided into financial and operating liabilities. Short-term financial liabilities refer to liabilities due by lenders and short-term operating liabilities to trade payables.

Upon initial recognition short-term liabilities are recorded at amounts paid and at a later stage decreased on the basis of repayments made.

Short-term operating liabilities are initially valued on the basis of relevant documents that evidence the receipt of goods or service.

Part of long-term liabilities that is due in less than 1 year after the balance sheet date, is recorded among short-term liabilities.

Accrued costs (expenses) and deferred revenues

Accrued costs (expenses) and deferred revenues of the Group comprise short-term accrued costs and expenses and deferred revenues.

Short-term accrued costs include costs that are recorded but have not yet occurred (not yet charged) although they refer to the period for which the financial statements have been prepared.

Short-term deferred revenues represent services already charged but not yet rendered.

Revenues

Revenues are increases in economic benefits during the accounting period in form of increases of assets. They are recognised when it is probable that cash receipts will flow from them.

Operating revenues are sales revenues and other operating revenues associated with products and services.

Sales revenues or net sales include revenues generated from the sale of products or merchandise, material and services rendered during the accounting period. Revenue from the sale of products, merchandise and material should be recognised at selling prices stated in invoices or other documents, less discounts and rebates.

Changes in the value of inventories are the difference between the opening and closing balance of inventories.

Capitalised own products and own services are the products made by or the services provided by the group itself that are included in either tangible fixed assets or intangible fixed assets.
Operating revenues from revaluation are recognised upon the disposal of tangible and intangible fixed assets, provided that their sales value exceeds their carrying amount.

Financial revenues represent revenues from investments and appear in connection with short-term and long-term investments, as well as in connection with long-term and short-term receivables. They include interest accounted, shares in profits of others and financial revenues from revaluation.

Financial revenues encompass also exchange gains from receivables, investments and liabilities.

Operating revenues from revaluation include profits on disposal of investments, taking into account the possible previous equity revaluation adjustment referring to the strengthening of these assets.

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

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of decrease of assets or increase of liabilities. Expenses should be recognised if decreases in economic benefits during the accounting period are associated with decreases of assets or increases of liabilities (debts) and the decreases can be measured reliably.

Operating expenses are on principle equal to the calculated cost of an accounting period, increased by the cost held in the beginning inventory of products and of work in progress, less the cost held in the ending inventory of products and of work in progress.
Operating expenses include also the purchase cost of goods sold.
Operating expenses are recognised once costs are no longer held in inventories of products and work in progress or once goods have been sold.

Operating expenses comprise the purchase cost of goods sold, material costs, cost of services, labour cost and depreciation.

Operating expenses from revaluation arise in connection with the impairment of tangible fixed assets, intangible fixed assets, and current assets. They are recorded in case of sale of tangible and intangible fixed assets, when the carrying amount exceeds the sales value.

Financial expenses include financing expenses and investment expenses. The former comprise interest paid, and the latter have predominantly the nature of financial expenses from revaluation.

Financial expenses include also exchange losses from receivables, investments and liabilities. Financial expenses from revaluation include losses on disposal of investments, as well as losses on impairment of investments and strengthening of liabilities.

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

5.2 Auditor's Report

To the Shareholders of Holding Slovenske Elektrarne d.o.o. Ljubljana

Ljubljana, 10th May 2006

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

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

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

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

KPMG SLOVENIJA
podjetje za revidiranje, d.o.o.

Marjan Mahnič, BSc.Ec.
Certified Auditor
Managing Director

KPMG Slovenija, d.o.o.

5.3 Consolidated balance sheet

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	in SIT thousands	31st Dec. 2005	31st Dec. 2004
	ASSETS	357,853,560	342,271,621
A.	FIXED ASSETS	293,639,817	285,656,396
I.	Intangible fixed assets	6,377,467	5,076,640
1.	Deferred operating cost	4,610,414	3,377,713
2.	Deferred R&D cost	1,075,688	1,191,194
3.	Concessions, patents, licenses, trademarks, and similar rights and assets	691,365	507,733
II.	Tangible fixed assets	285,885,057	279,230,452
1.	Land and buildings	140,462,534	143,244,820
	a) Land	11,594,083	11,464,518
	b) Buildings	128,868,451	131,780,302
2.	Manufacturing plant and equipment	118,638,975	120,523,185
3.	Other plant and equipment	1,882,039	1,865,617
4.	Tangible fixed assets being acquired	24,901,509	13,596,830
	a) Advances for tangible fixed assets	3,066,906	1,171,955
	b) Tangible fixed assets in course of construction	21,834,603	12,424,875
III.	Long-term investments	1,377,293	1,349,304
1.	Interests in Group companies	6,038	6,038
3.	Interests in associates	11,671	20,066
5.	Other long-term shares	1,109,040	1,100,578
6.	Other long-term receivables from investments	250,544	222,622
B.	CURRENT ASSETS	63,851,737	56,498,814
I.	Inventories	8,367,978	6,881,909
1.	Material	5,054,112	4,423,731
2.	Work in process	427,477	268,250
3.	Products and merchandise	2,858,000	2,124,961
4.	Advances for inventories	28,389	64,967
II.	Operating receivables	30,303,777	18,930,601
a)	Long-term operating receivables	1,062,297	1,044,204
	1. Long-term trade receivables	827,871	774,921
	4. Long-term receivables due from other entities	234,426	269,283
b)	Short-term operating receivables	29,241,480	17,886,397
	1. Short-term trade receivables	17,854,451	14,137,821
	3. Short-term receivables due from associates	52,476	5,296
	4. Short-term receivables due from other entities	11,334,553	3,743,280
III.	Short-term investments	23,619,674	29,297,874
2.	Short-term interests in associates	88,050	92,583
4.	Short-term investments in other entities	23,531,624	29,205,291
IV.	Cash in bank, cheques and cash in hand	1,560,308	1,388,430
C.	DEFERRED COSTS (EXPENSES) AND ACCRUED REVENUES	362,006	116,411
	OFF BALANCE SHEET ITEMS	39,633,622	17,360,937

Consolidated balance sheet > page 2/2

in SIT thousands		31st Dec. 2005	31st Dec. 2004
	LIABILITIES	357,853,560	342,271,621
A.	EQUITY	250,744,708	240,753,971
I.	Called-up capital	1,156,217	1,156,217
1.	Share capital	1,156,217	1,156,217
II.	Capital reserves	166,070,474	166,070,474
III.	Revenue reserves	24,707,653	21,190,570
4.	Other revenue reserves	24,707,653	21,190,570
IV.	Net profit from previous periods	13,007,878	5,429,408
V.	Net profit for the period	10,643,991	12,512,386
VI.	Equity revaluation adjustment	501,590	5,812
1.	General equity revaluation adjustment	27	27
2.	Specific equity revaluation adjustment	501,563	5,785
VII.	Consolidation equity adjustment	11	288
VIII.	Equity of minority interest	34,656,894	34,388,816
B.	PROVISIONS	34,577,721	36,066,749
3.	Other provisions	34,577,721	36,066,749
C.	FINANCIAL AND OPERATING LIABILITIES	71,800,474	64,720,767
a)	Long-term financial and operating liabilities	31,522,943	39,045,152
	2. Long-term financial liabilities to banks	31,467,466	38,774,920
	4. Long-term trade payables	11,441	169,920
	8. Long-term financial and operating liabilities to other entities	44,036	100,312
b)	Short-term financial and operating liabilities	40,277,531	25,675,615
	2. Short-term financial liabilities to banks	15,709,373	8,064,538
	3. Short-term operating liabilities from advances	24,736	14,528
	4. Short-term trade payables	19,691,060	11,944,009
	7. Short-term financial and operating liabilities to associates	73,848	109,195
	8. Short-term financial and operating liabilities to other entities	4,778,514	5,543,345
Č.	ACCRUED COSTS (EXPENSES) AND DEFERRED REVENUES	730,657	730,134
	OFF BALANCE SHEET ITEMS	39,633,622	17,360,937

5.4 Consolidated income statement

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	in SIT thousands	2005	2004
1.	Net sales	158,476,894	124,855,234
a)	Domestic market	114,006,930	91,870,594
	· from transaction with Group companies	61,335	65,059
	· from transactions with other entities	113,945,595	91,805,535
b)	Foreign market	44,469,964	32,984,640
2.	Change in the value of inventories of products and work in progress	1,558,026	-128,740
3.	Capitalised own products and/or services	1,836,185	1,406,702
4.	Other operating revenues (inclusive of operating revenues from revaluation)	3,291,510	2,861,490
5.	Costs of goods, materials and services	94,589,095	55,700,137
a)	Cost of goods and materials sold and cost of materials used	82,495,131	43,442,850
b)	Cost of services	12,093,964	12,257,287
6.	Labour cost	30,752,661	29,685,116
a)	Cost of wages and salaries	21,132,681	20,362,834
b)	Social security cost	5,968,422	5,677,280
	· of which Pension insurance cost	3,775,056	3,614,429
c)	Other labour cost	3,651,558	3,645,002
7.	Amortisation and depreciation expense	19,129,895	18,147,115
a)	Amortisation and depreciation expense, and operating expenses from revaluation of tangible and intangible fixed assets	18,442,901	18,077,718
b)	Operating expenses from revaluation of current assets	686,994	69,397
8.	Other operating expenses	5,701,366	5,952,324
	OPERATING PROFIT	**14,989,598**	**19,509,994**
9.	Financial revenue from shares	126,869	156,138
a)	Financial revenue from interests in Group companies excluding associates	2,451	30
c)	Other financial revenue from shares (including financial revenue from revaluation)	124,418	156,108
10.	Financial revenue from long-term receivables	166,477	224,667
c)	Other financial revenue from long-term receivables (including financial revenue from revaluation)	166,477	224,667
11.	Financial revenue from short-term receivables	1,185,702	1,179,695
b)	Interest revenue and financial revenue from short-term receivables due from Group companies, excluding associates	5,635	6,364
c)	Other interest revenue and financial revenue from short-term receivables (including financial revenues from revaluation)	1,180,067	1,173,331
12.	Financial expenses for long-term and short-term investment write-offs	4,293	9,108
b)	Financial expenses from revaluation of investments in associates	3	0
c)	Other financial expenses from revaluation	4,290	9,108
13.	Interest expenses and financial expenses for other liabilities	1,997,776	3,039,560
b)	Interest expenses and financial expenses for other liabilities to associates	0	195
c)	Other interest expenses and financial expenses for other liabilities	1,997,776	3,039,365

Consolidated income statement > page 2/2

	in SIT thousands	2005	2004
	PROFIT FROM ORDINARY ACTIVITIES	**14,466,577**	**18,021,826**
15.	NET PROFIT FROM ORDINARY ACTIVITIES	14,466,577	18,021,826
16.	Extraordinary revenues	438,944	643,675
17.	Extraordinary expenses	286,633	316,536
a)	Extraordinary expenses less expenses for equity revaluation adjustment	286,633	316,536
18.	PROFIT FROM EXTRAORDINARY ACTIVITIES	152,311	327,139
	TOTAL PROFIT	**14,618,888**	**18,348,965**
19.	Income tax	204,184	362,543
21.	NET PROFIT FOR THE PERIOD	14,414,704	17,986,422
	Net profit for the period – majority interest	14,161,074	17,443,799
	Net profit for the period – minority interest	253,630	542,623

5.5 Consolidated cash flow statement

in SIT thousands	2005	2004
A. CASH FLOWS FROM OPERATING ACTIVITIES		
+ a) Inflows	157,213,556	127,365,715
Operating revenues	162,541,497	128,263,420
Extraordinary revenues associated with operations	438,944	643,675
Opening less closing operating receivables	(5,521,290)	(1,556,025)
Opening less closing deferred costs (expenses) and accrued revenues	(245,595)	14,645
- b) Outflows	125,625,273	91,260,409
Operating expenses excluding depreciation (amortisation) and long-term provisions	130,413,630	91,535,714
Extraordinary expenses associated with operating activities	286,633	316,536
Income tax and any other tax included in operating expenses	204,184	362,543
Closing less opening inventories	1,486,069	(281,628)
Opening less closing operating liabilities	(6,764,720)	(490,597)
Opening less closing accrued costs (expenses) and deferred revenues	(523)	(182,159)
= c) Net inflows or net cash outflows from operating activities	31,588,283	36,105,306
B. CASH FLOWS FROM INVESTING ACTIVITIES		
+ a) Inflows	7,038,321	5,999,806
Financial revenues associated with investing activities (excluding revaluation)	1,360,121	1,560,470
Offset decrease in long-term investments (excluding revaluation)	0	4,439,336
Offset decrease in short-term investments (excluding revaluation)	5,678,200	0
- b) Outflows	31,608,104	28,102,956
Financial expenses associated with investing activities (excluding revaluation)	84,241	9,108
Offset increase in intangible fixed assets (excluding revaluation)	1,538,106	1,397,775
Offset increase in tangible fixed assets (excluding revaluation adjustment and increases of non-cash equity)	24,108,333	14,465,673
Offset increase in long-term investments (excluding revaluation adjustment)	5,877,424	0
Offset increase in short-term investments (excluding revaluation adjustment)	0	12,230,400
= c) Net inflows or net outflows from investing activities	(24,569,783)	(22,103,150)
= Net inflows or net outflows from operating and investing activities	7,018,500	14,002,156
C. CASH FLOWS FROM FINANCING ACTIVITIES		
+ a) Inflows	7,543,629	237,930
Financial revenues associated with financing activities (excluding revaluation)	116,476	0
Offset increase in short-term financial liabilities (excluding revaluation)	7,427,153	237,930
- b) Outflows	14,390,251	16,746,036
Financial expenses associated with financing activities (excluding revaluation)	1,917,828	3,039,560
Decrease in equity (excluding net profit)	2,630	26,958
Offset decrease in long-term provisions (excluding revaluation)	425,936	372,809
Offset decrease in long-term financial liabilities (excluding revaluation)	7,112,443	13,306,709
Decrease in liabilities to owners associated with profit sharing	4,931,414	0
= c) Net inflows or net outflows from financing activities	(6,846,622)	(16,508,106)
= Total inflows or outflows for the period	171,878	(2,505,950)
Č. CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	1,560,308	1,388,430
+ x) Net flow for the period	171,878	(2,505,950)
+ y) Opening balance of cash and cash equivalents	1,388,430	3,894,380

5.6 Consolidated statement of changes in equity

in SIT thousands		Called-up capital	Capital reserves	Revenue reserves	Net profit from previous periods	Net profit for the period	Equity revaluation adjustments		Con-solidation equity adjust-ment	Equity of minority interest	Total
		Share capital		Other revenues reserves			General equity revaluation adjustment	Specific equity revaluation adjustment			
A.	Opening balance	1,156,217	166,070,474	21,190,570	17,941,794	0	27	5,785	288	34,388,816	240,753,971
B.	Transfers to equity	0	0	0	0	14,161,074	-	713,445	-	268,206	15,142,725
d)	Net profit for the period	-	-	-	-	14,161,074	-	-	-	253,630	14,414,704
f)	Specific equity revaluation adjustments	-	-	-	-	-	-	713,445	-	14,576	728,021
C.	Transfers within equity	0	0	3,517,083	0	(3,517,083)	0	0	0	0	0
a)	Allocation of net profit*	-	-	3,517,083	-	(3,517,083)	-	-	-	-	0
Č.	Transfers from equity	0	0	0	4,933,916	0	0	217,667	277	128	5,151,988
a)	Dividend payout	-	-	-	4,931,414	-	-	-	-	-	4,931,414
b)	Repayment of capital	-	-	-	-	-	-	-	-	38	38
č)	Transfer of specific equity revaluation adjustment**	-	-	-	2,502	-	-	217,667	-	-	220,169
d)	Other reversal of capital components	-	-	-	-	-	-	-	277	90	367
D.	Closing balance	1,156,217	166,070,474	24,707,653	13,007,878	10,643,991	27	501,563	11	34,656,894	250,744,708

* under a resolution adopted by the Management and the Supervisory Board

** into operating or financial revenues

5.7 Notes to consolidated financial statements

5.7.1 Consolidated balance sheet

General notes

Information as to the basis for the preparation of the consolidated balance sheet, together with the specific accounting policies selected and applied in significant operations and transactions of the Group are introduced in the disclosure of individual assets and liabilities.

The Group does not have in its possession any information further to that which is required by the consolidated balance sheet form that may be relevant in its fair presentation.

Assets and liabilities are recorded at fair value.

Intangible fixed assets
6,377,467 thousand SIT

The straight-line method of amortisation is applied to intangible fixed assets that are subject to amortisation. An intangible fixed asset is amortised individually over its estimated useful life. Rates of amortisation range between 5 and 50 % p.a..

Revaluation of intangible fixed assets represents the change i.e. impairment of their carrying amount. No revaluation of intangible assets was carried out by the Group in the reporting period.

In the process of consolidation 7,466,193 thousand SIT of intangible fixed assets was eliminated.

PURCHASE COST AND AMORTISATION OF INTANGIBLE FIXED ASSETS

Balance as at 31st Dec. 2005 *in SIT thousands*	Deferred operating costs	Deferred R&D costs	Concessions, patents, licenses, trademarks and similar rights and assets	Total
Purchase cost	4,820,192	4,073,805	1,120,519	10,014,516
Accumulated amortisation	209,778	2,998,117	429,154	3,637,049
Carrying amount	4,610,414	1,075,688	691,365	6,377,467

MOVEMENT OF INTANGIBLE FIXED ASSETS

Intangible fixed assets *in SIT thousands*	Deferred operating costs	Deferred R&D costs	Concessions, patents, licenses, trademarks and similar rights and assets	Total
Carrying amount (1st Jan. 2005)	3,377,713	1,191,194	507,733	5,076,640
Additions	1,318,351	157,807	469,341	1,945,499
Transfer, disposal	-83,366	-197,472	-126,555	-407,393
Amortisation	-2,284	-75,841	-159,154	-237,279
Carrying amount (31st Dec. 2005)	4,610,414	1,075,688	691,365	6,377,467

Tangible fixed assets
285,885,057 thousand SIT

Tangible fixed assets are depreciated by using the straight-line method of depreciation; an item of tangible fixed asset is depreciated over its estimated useful life. Depreciation is accounted for individually from the first day of the following month, when the assets was started to be used. The depreciation computed for the current year is disclosed as operating revenues for this year. Land and paintings are not subject to depreciation.

Real properties of one of the subsidiaries were impaired in 2005. A licensed valuer conducted the valuation. The impairment is recorded in the amount of 23,634 thousand SIT among operating expenses from revaluation. The carrying amount of the revalued real property amounts to 82,000 thousand SIT.

339,005 thousand SIT of investments in tangible fixed assets were financed through loans in 2005.

In order to secure part of short-term and long-term financial liabilities, rights of lien were entered on land and facilities in the amount of 1,952,000 thousand SIT. Part of equipment that was purchased on the basis of a loan is under mortgage and as of the balance sheet date is recorded in the amount of 532,469 thousand SIT. The rights of lien cease with the date of liabilties' repayment; the last repayment is due on 31 December 2013.

Tangible fixed assets in the amount of 34,504 thousand SIT were acquired through a finance lease.

PURCHASE COST AND DEPRECIATION OF TANGIBLE FIXED ASSETS

Balance as at 31st Dec. 2005 *in SIT thousands*	Land	Buildings	Manufacturing plant and equipment	Other plant and equipment	Advances for TFA	TFA in course of construction	Total
Purchase cost	11,594,083	291,155,372	434,658,773	9,977,444	3,066,906	21,834,603	772,287,181
Accumulated depreciation	0	162,286,921	316,019,798	8,095,405	0	0	486,402,124
Carrying amount	11,594,083	128,868,451	118,638,975	1,882,039	3,066,906	21,834,603	285,885,057

MOVEMENT OF TANGIBLE FIXED ASSETS

Tangible fixed assets *in SIT thousands*	Land	Buildings	Manufacturing plant and equipment	Other plant and equipment	Advances for TFA	TFA in course of construction	Total
Carrying amount (1st Jan. 2005)	11,464,518	131,780,302	120,523,185	1,865,617	1,171,955	12,424,875	279,230,452
Additions	205,388	2,037,096	8,587,489	597,479	3,692,108	22,404,050	37,523,610
Transfer, disposal	-75,823	2,490	1,559,534	-71,789	-1,797,266	-12,994,322	-13,377,176
Revaluation	0	-23,634	0	0	109	0	-23,525
Depreciation	0	-4,927,803	-12,031,233	-509,268	0	0	-17,468,304
Carrying amount (31st Dec. 2005)	11,594,083	128,868,451	118,638,975	1,882,039	3,066,906	21,834,603	285,885,057

Long-term investments
1,377,293 thousand SIT

In 2005, no major revaluations of long-term investments were carried out.

In the process of consolidation 204,650,566 thousand SIT of long-term investments in Group companies were eliminated.

PURCHASE COST AND ADJUSTMENT TO LONG-TERM INVESTMENTS

Balance as at 31st Dec. 2005 *in SIT thousands*	Interests in Group companies	Interests in associates	Other long-term shares	Other long-term receivables from investments	Total
Purchase cost	6,232	16,114	1,111,816	261,377	1,395,539
Value adjustment	194	4,443	2,776	10,833	18,246
Carrying amount	6,038	11,671	1,109,040	250,544	1,377,293

MOVEMENT OF LONG-TERM INVESTMENTS

Long-term investments *in SIT thousands*	Interests in Group companies	Interests in associates	Other long-term shares	Other long-term receivables from investments	Total
Carrying amount (1st Jan. 2005)	6,038	20,066	1,100,578	222,622	1,349,304
Additions	0	804	10,367	121,627	132,798
Transfers, disposals	0	-9,196	-1,905	-90,080	-101,181
Revaluation	0	-3	0	-3,625	-3,628
Carrying amount (31st Dec. 2005)	6,038	11,671	1,109,040	250,544	1,377,293

Inventories
8,367,978 thousand SIT

Most of inventories refer to coal, material for maintenance works, low-value spare parts and heating oil.

Operating receivables
30,303,777 thousand SIT

Long-term trade receivables are not secured, whereas the share of those secured among total long-term receivables is 16 %.

90 % of short-term trade receivables are secured, whereas the remaining part remains unsecured.

14,526,645 thousand SIT of short-term receivables of Group companies were eliminated in the process of consolidation.

LONG-TERM OPERATING RECEIVABLES BY MATURITY DATES

Long-term operating receivables *in SIT thousands*	Breakdown by maturity: Within 3 years	From 3 to 5 years	Over 5 years	Total
Trade receivables	183,971	183,971	459,929	827,871
Receivables due by other entities	142,113	9,161	83,152	234,426
Total	326,084	193,132	543,081	1,062,297

SHORT-TERM RECEIVABLES BY MATURITY DATES

Short-term operating receivables *in SIT thousands*	Breakdown by maturity: Not yet due	Overdue for less than 3 months	Overdue from 3 to 6 months	Overdue from 6 to 9 months	Overdue from 9 to 12 months	Overdue for more than 1 year	Total
Trade receivables	16,782,341	1,052,142	19,180	9,246	1,187	240,109	18,104,205
Receivables due from associates	40,247	0	12,229	0	0	0	52,476
Receivables due from other entities	11,239,636	14,673	0	0	0	240,582	11,494,891
Total	28,062,224	1,066,815	31,409	9,246	1,187	480,691	29,651,572

MOVEMENT OF VALUE ADJUSTMENT IN SHORT-TERM OPERATING RECEIVABLES

Operating receivables *in SIT thousands*	1st Jan. 2005	Utilisation	Release	Formation	Exchange differences	31st Dec. 2005
Short-term trade receivables	233,218	1,494	4,293	22,339	-16	249,754
Short-term operating receivables due from other entities	147,550	0	0	0	12,788	160,338
Total	380,768	1,494	4,293	22,339	12,772	410,092

Short-term investments
23,619,674 thousand SIT

The Group's short-term investments predominantly encompass deposits in Slovenia's major banks, meaning that there is a minimum exposure to risks.

Group companies formed no specific equity revaluation adjustment for short-term investments.

Intragroup short-term investments in the amount of 687,746 thousand SIT were eliminated in the process of consolidation.

SHORT-TERM INVESTMENTS

Short-term investments *in SIT thousands*	2005	2004
Deposits with banks	22,730,020	28,531,240
Investment in equity securities	588,989	588,989
Short-term loans to associates	88,050	92,583
Short-term-term loans to others	39,770	47,658
Short-term investments to other entities	172,845	37,404
Total	23,619,674	29,297,874

Cash
1,560,308 thousand SIT

The item of cash includes cash in hand, bank balances and money at call.

Deferred costs (expenses) and deferred revenues
362,006 thousand SIT

Most of deferred costs and accrued revenues refer to short-term deferred expenses (concessions, insurance premiums and maintenance costs and similar paid in advance).

Off balance sheet items
39,633,622 thousand SIT

Off balance sheet items encompass granted and received instruments for insurance of payments (bank guarantees, insurance policies), granted guarantees, mortgages and the value of futures contracts.

Equity
250,744,708 thousand SIT

Share capital is held in domestic currency.

The Group's **share capital** represents the share capital of the controlling company; it remained unchanged in 2005 as well as **capital reserves** and **the general equity revaluation adjustment**.

Following a proposal by the Managing Director and in accordance with the resolution of the Supervisory Board, **other revenues reserves** increased by half of the controlling company's net profit i.e. 3,517,083 thousand SIT.

Net profit from previous periods amounting to 13,007,878 thousand SIT represents the controlling company's share in subsidiaries' profits from previous periods.

Net profit for the financial year is recorded in the amount of 10,643,991 thousand SIT and comprises the controlling company's accumulated profit (3,517,083 thousand SIT), 6,063,816 thousand SIT of subsidiaries' profits and losses for 2005 that belong to the controlling company, and 1,063,092 thousand SIT of utilised negative goodwill that was established during the process of consolidation of long-term and short-term investments in equity.

EQUITY OF THE GROUP

Total equity *in SIT thousands*	2005	2004
Share capital	1,156,217	1,156,217
Capital reserves	166,070,474	166,070,474
Revenues reserves (other revenues reserves)	24,707,653	21,190,570
Net profit from previous periods	13,007,878	5,429,408
Net profit for the period	10,643,991	12,512,386
General equity revaluation adjustment	27	27
Specific equity revaluation adjustment	501,563	5,785
Consolidation equity adjustment	11	288
Equity of minority interest	34,656,894	34,388,816
Total	250,744,708	240,753,971

NET PROFIT OF THE GROUP UPON RESTATEMENT OF EQUITY

Net profit of the group upon restatement of equity *in SIT thousands*	2005
Net profit	14,161,074
Net profit using the tolar-euro exchange rate (0.07 % fall)	-
Net profit using Slovenia's cost of living index (2.3 % growth)	9,528,162

Specific equity revaluation adjustment amounting to 501,563 thousand SIT refers to the controlling company, where positive figures are recorded as for open futures contracts concluded for the purpose of securing physical supplies of electricity in the coming years.

Consolidated adjustment of equity in the amount of 11 thousand SIT represents exchange differences upon translation of subsidiaries' profits recorded in foreign currencies.

In 2005, the **minority interest** increased by 268,078 thousand SIT and amounts to 34,656,894 thousand SIT.

Equity of subsidiaries was eliminated during the process of consolidation in the amount of 233,461,641 thousand SIT.

Long-term provisions
34,577,721 thousand SIT

Most of the Group's long-term provisions were formed in previous periods, except provisions formed for deferred contributions as required by the legislation on disability organisations. In 2005 the Group formed provisions for CO_2 emission coupons that were already utilised in the amount of used coupons. Long-term provisions were utilised for covering depreciation of tangible fixed assets acquired using a government grant and for covering losses and depreciation costs in compliance with the legislation on disability organisations.

Provisions, whose planned utilisation was not met were eliminated in the amount of 620,000 thousand SIT.

Negative goodwill occurs during the process of consolidation namely, when the controlling company's investment in subsidiary's equity share is lower from the value of recognised assets and liabilities and when the subsidiary continues to operate as an independent corporate body.

The negative goodwill is to be transferred among operating revenues in a period of five years; the said period may be prolonged but should not exceed 20 years. Based on the aforesaid the negative goodwill was utilised in the amount of 860,006 thousand SIT in 2005.

203,086 thousand SIT of negative goodwill was also utilised for the controlling company's share in the loss of the subsidiary.

Negative goodwill established during consolidation of controlling company's long-term investments and capitals of other subsidiaries, has not been utilised as these companies exceptionally recorded profit in 2005, whereas they are expected to incur loss in future years and the negative goodwill shall then be used for covering these losses.

Negative goodwill increased by the formation of specific equity revaluation adjustment for tangible fixed assets in one of the subsidiaries.

Negative goodwill was also utilised as a consequence of decreasing the share capital by merging shares in the subsidiary TDR – Metalurgija.

4,290,932 thousand SIT of long-term provisions have been eliminated during the consolidation procedure.

MOVEMENT OF NEGATIVE GOODWILL

Negative goodwill *in SIT thousands*	2005	2004
Balance as at 1st Jan. 2005	29,173,884	30,033,890
Increase	50,960	0
Decrease	1,063,203	860,006
Balance as at 31st Dec. 2005	28,161,641	29,173,884

MOVEMENT OF LONG-TERM PROVISIONS

in SIT thousands	Balance 1st Jan. 2005	Increase (formation)	Utilisation	Balance 31st Dec. 2005	Planned formation	Planned utilisation
Long-term accrued costs	643,380	23,948	624,248	43,080	0	0
Long-term provisions for major repairs	620,000	0	620,000	0	0	0
Other long-term provisions*	23,380	23,948	4,248	43,080	0	0
Long-term deferred revenues	35,423,369	1,437,550	2,326,278	34,534,641	1,245,681	724,034
Long-term provisions from grants for TFA	3,055,925	0	278,881	2,777,044	0	229,569
Other long-term provisions	3,193,560	1,386,590	984,194	3,595,956	1,245,681	494,465
Negative goodwill from consolidation	29,173,884	50,960	1,063,203	28,161,641	0	0
Total	36,066,749	1,461,498	2,950,526	34,577,721	1,245,681	724,034

* Long-term provisions referring to deferred contributions in accordance with the legislation for organisations of disabled persons in the amount of 3,147,073 thousand SIT. as at 31 December 2004 they were disclosed among accrued costs that are now disclosed among other deferred revenues.

Long-term liabilities
31,522,943 thousand SIT

Most of the Group's long-term liabilities consist of long-term bank loans secured by bills, acceptance orders, guarantees, mortgages on real estate and other property or warranties issued by the Republic of Slovenia.

Loans were taken from Slovenian and foreign banks, and interest rates range depending on the type of loan, maturity period and occasion of borrowing. These also include loans that shall fall due for payment in more than five years and not later than by 2015. Long-term liabilities are introduced in greater detail in annual reports of individual subsidiaries of the HSE Group.

All long-term liabilities are settled in accordance with contractual obligations.

In the process of consolidation, intragroup operating liabilities were eliminated in the amount of 3,175,023 thousand SIT.

LONG-TERM LIABILITIES

Long-term liabilities in SIT thousands	2005	2004
Long-term financial liabilities to banks	31,467,466	38,774,920
Long-term financial liabilities to other entities	7,576	17,970
Long-term trade payables	11,441	169,920
Long-term operating liabilities to other entities	36,460	82,342
Total	31,522,943	39,045,152

LONG-TERM LIABILITIES AND THEIR MATURITY DATES

Long-term liabilities *in SIT thousands*	Maturity date From 1 to 3 years	 From 3 to 5 years	 Over 5 years	Total
Long-term financial liabilities to banks	17,718,750	6,303,548	7,445,168	31,467,466
Long-term financial liabilities to other entities	7,576	0	0	7,576
Long-term trade payables	11,441	0	0	11,441
Long-term operating liabilities to other entities	18,512	15,410	2,538	36,460
Total	17,756,279	6,318,958	7,447,706	31,522,943

Short-term liabilities
40,277,531 thousand SIT

All short-term liabilities are unmatured and a breakdown of short-term operating liabilities is presented below.

Short-term financial liabilities are secured by bills, acceptance orders, guarantees, mortgages on real estate and other property or warranties issued by the Republic of Slovenia. Short-term financial liabilities are introduced in greater detail in the annual reports of the individual subsidiaries.

Carrying amounts of short-term liabilities of significant value equal their fair value.

14,565,195 thousand SIT of intragroup operating and financial liabilities have been eliminated during the process of consolidation.

SHORT-TERM LIABILITIES

Short-term liabilities *in SIT thousands*	2005	2004
Short-term financial liabilities to banks	15,709,373	8,064,538
Short-term financial liabilities to associates	0	55,790
Short-term financial liabilities to other entities	58,880	15,090
Short-term trade payables	19,691,060	11,944,009
Short-term operating liabilities to associates	73,848	53,405
Short-term operating liabilities from advances	24,736	14,528
Short-term operating liabilities to other entities	4,719,634	5,528,255
Total	40,277,531	25,675,615

SHORT-TERM FINANCIAL LIABILITIES AND THEIR MATURITY DATES

Short-term operating liabilities *in SIT thousands*	Breakdown by maturity						Total
	Not yet due	Overdue for less than 3 months	Overdue from 3 to 6 months	Overdue from 6 to 9 months	Overdue from 9 to 12 months	Overdue for more than 1 year	
Short-term liabilities to associates	73,848	0	0	0	0	0	73,848
Short-term liabilities from advances	24,736	0	0	0	0	0	24,736
Short-term trade payables	19,630,069	26,513	32,488	609	139	1,242	19,691,060
Other short-term liabilities	4,719,634	0	0	0	0	0	4,719,634
Total	24,448,287	26,513	32,488	609	139	1,242	24,509,278

Accrued costs (expenses) and deferred revenues
730,657 thousand SIT

Most of accrued costs and deferred revenues refer to accrued expenses (dependent costs of electricity and input VAT from advances granted).

5.7.2 Consolidated income statement

General notes

Information as to the basis for the preparation of the consolidated income statement, together with the specific accounting policies selected and applied in significant operations and transactions of the Group are introduced in disclosure of individual revenues and expenses.

The consolidated income statement has been prepared by applying the Format I, defined in SAS 25.5.

Revenues
167,080,607 thousand SIT

Revenues are classified into operating, financial and extraordinary revenues.

REVENUES

Revenues *in SIT thousands*	2005	2004
Operating revenues	165,162,615	128,994,686
Financial revenues	1,479,048	1,560,500
Extraordinary revenues	438,944	643,675
Total	167,080,607	131,198,861

Most of net sales revenues refer to revenues from the controlling company that purchases electricity from producing companies, whose operating revenues have been eliminated during the process of consolidation, as well as the controlling company's operating revenues.

The value of capitalised own products and/or services increased by 842,504 thousand SIT in the process of consolidation; the increase represents the sale of intangible and tangible fixed assets within the Group.

Other operating revenues increased during the process of consolidation in the amount of 1,090,092 thousand SIT and refers to the utilisation of negative goodwill.

In the process of consolidation, net sales amounting to 95,646,690 thousand SIT have been eliminated.

Financial revenues from short-term receivables that mainly represent interest on short-term deposits, accounts for the major part among financial revenues. The majority of Group's other financial revenues were generated through interest on long-term deposits and dividends received.

Intragroup financial revenues amounting to 3,364 thousand SIT were eliminated in the process of consolidation.

Group's extraordinary revenues include damages received.

4 thousand SIT of extraordinary revenues were eliminated during consolidation.

Segments

The group distinguishes net sales between two geographical segments.

GEOGRAPHICAL SEGMENTS

Net sales by geographical segment *in SIT thousands*	2005	2004
Domestic market	114,006,930	91,870,594
Foreign market	44,469,964	32,984,640
Total	158,476,894	124,855,234

Furthermore, the net sales are also classified by two business segments.

BUSINESS SEGMENTS

Net sales by business segment *in SIT thousands*	2005	2004
Electrical energy	145,344,727	112,067,556
Other	13,132,167	12,787,678
Total	158,476,894	124,855,234

Expenses
152,461,719 thousand SIT

Expenses are classified into operating, financial and extraordinary expenses.

EXPENSES

Expenses *in SIT thousands*	2005	2004
Operating expenses	150,173,017	109,484,692
Financial expenses	2,002,069	3,048,668
Extraordinary expenses	286,633	316,536
Total	152,461,719	112,849,896

Purchase cost of goods sold represents the controlling company's purchase price of electricity on the foreign as well as domestic market.

Most of costs of material refer to energy costs, fuel, specific material for each individual type of production, and spare parts.

The item of cost of services refers to the production, maintenance and cost of transport services.

Labour cost encompasses salaries and wages, social insurance contributions, additional pension insurance and other labour cost (meal allowance, commuting allowance, vacation bonus, anniversary bonuses, severance pay, financial support, etc.). Other labour cost includes also tax on wages and salaries.

Complaints have been filed by employees and former employees against two subsidiaries based on alleged breach of employment contract. The amount at issue is 28,550 thousand SIT.

The item of amortisation or depreciation expense accounts for the amortisation of intangible fixed assets and depreciation of tangible fixed assets.

The depreciation for tangible fixed assets acquired by means of government grants is accounted for separately; thus, long-term provisions are utilised in the amount of depreciation and revenues recorded.

RATES OF AMORTISATION / DEPRECIATION APPLIED WITH TANGIBLE AND INTANGIBLE FIXED ASSETS

Assets	2005
Buildings	1 – 13 %
Manufacturing plant and equipment	2 – 25 %
Other equipment	5 – 33.3 %
Computer equipment	33.33 – 50 %
Intangible fixed assets	5 – 50 %

The Group applies similar rates of depreciation for tangible fixed assets of the same kind. As for the manufacturing plant and equipment, individual subsidiaries apply depreciation rates that are suitable for the activity carried out.

Other operating expenses include for the most part, rates for the use of the land and water, environmental levies and licenses payable to the state.

Intragroup operating expenses in the amount of 95,033,867 thousand SIT were eliminated during the process of consolidation.

Interest on long-term and short-term borrowings account for the most part among financial expenses. In the process of consolidation, intragroup financial revenues amounting to 3,362 thousand SIT have been eliminated.

The Group records under extraordinary expenses mainly damages and fines.

Costs in terms of function

The Group's income statement shows the costs in terms of their type or nature (purchase cost of goods and material sold, costs of services, costs of wages and salaries, amortisation/depreciation costs), while below the costs are presented in terms of their function.

COSTS IN TERMS OF THEIR FUNCTION

in SIT thousands	2005	2004
Purchase cost of goods sold or production cost of quantities sold	129,863,748	92,070,794
Selling expenses	3,028,434	1,070,866
General administrative costs	13,886,624	15,065,070

Corporate income tax
204,184 thousand SIT

The corporate income tax is calculated by taking into account prescribed tax regimes and rates in countries, in which the Group companies are located. All Group companies are subject to this tax.

In 2005 four of the Group companies and the Group were liable for the payment of the corporate income tax, whereas the remaining companies were not subject to this tax due to the utilisation of tax benefits for covering losses from previous periods.

Deferred taxes

The Group companies record no deferred tax assets or deferred tax liabilities in the reporting period.

Net profit
14,414,704 thousand SIT

The item of net profit represents the controlling company's net profit amounting to 7,034,166 thousand SIT. The controlling company's share in subsidiarys' profit is recorded at 6,063,816 thousand SIT, the net profit from the utilisation of negative goodwill at 1,063,092 thousand SIT, and the minority interests at 253,630 thousand SIT.

OPERATING RESULT OF THE GROUP

in SIT thousands	2005	2004
Gross operating yield	165,162,615	128,994,686
Operating income	14,989,598	19,509,994
Operating result from ordinary activities	14,466,577	18,021,826
Operating result from extraordinary activities	152,311	327,139
Total operating result	14,618,888	18,348,965
Net profit for the period	14,414,704	17,986,422
· of which majority interest	14,161,074	17,443,799
· of which minority interest	253,630	542,623

5.7.3 Consolidated cash flow statement

General notes

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

The Group's cash assets include money on transaction accounts and deposits on call.

In 2005 the Group did not disclose any cash equivalents.

Indirect method

The Group prepares its cash flow statement using the indirect method that reconciles net income with cash from operations.

Data in the consolidated cash flow statement are obtained from the consolidated balance sheet for the current and the previous year, from the consolidated income statement and from additional data that are required for the adjustment of inflows and outflows.

Disclosures

Increase in long-term financial investments among outflows within the item of investments refers to the first instalment of the purchase price of the minority interests in thermal power plants Brestanica and Šoštanj.

CASH FLOWS

Cash flows *in SIT thousands*	2005	2004
Cash flows from operating activities	31,588,283	36,105,306
Cash flows from investing activities	-24,569,783	-22,103,150
Cash flows from financing activities	-6,846,622	-16,508,106
Cash flow for the period	171,878	-2,505,950

5.7.4 Consolidated statement of changes in equity

General notes

The consolidated statement of changes in equity discloses all changes of equity components over the financial year.

Method

The consolidated statement of changes in equity is prepared in accordance with Format II under SAS 27.

Accumulated profit is not established at the Group level.

In 2005 the equity increased by 9,990,737 thousand SIT. Increases, decreases and changes within equity are discussed below.

Transfers to equity

In the reporting period, transfers to equity were recorded at 15,142,725 thousand SIT.

The Equity of the Group (exclusive of minority interests) increased:

- by the net profit of the Group amounting to 14,161,074 thousand SIT and
- by the specific equity revaluation adjustment of 713,445 thousand SIT referring to other financial instruments in the controlling company.

Equity of minority interests increased by their share:

- in Group's net profit for the period amounting to 253,630 thousand SIT and
- in the specific equity revaluation adjustment amounting to 14,576 thousand SIT.

Transfers within equity

Transfers within equity amounted to 3,517,083 thousand SIT and represents the appropriation of half of the controlling company's profit of 2005 among other revenues reserves pursuant to a resolution by the Supervisory Board that was adopted upon a proposal by the controlling company's Managing Director.

Transfers from equity

Transfers from equity are disclosed at 5,151,988 thousand SIT.

Decrease in Group's equity (exclusive of minority interests) results from:

- distribution of the controlling company's total accumulated profit of 2004 in the amount of 4,931,414 thousand SIT,
- decrease of the specific equity revaluation adjustment by 217,667 thousand SIT referring to other financial instruments in the controlling company,
- decrease of the consolidated adjustment of equity by 277 thousand SIT due to the translation of subsidiary's financial statements into the local currency, and
- reversal of the controlling company's specific equity revaluation adjustment in the amount of 2,502 thousand SIT at the liquidation of a subsidiary, denoting profits of this company in previous periods.

Decrease in equity of minority interests amounting to 128 thousand SIT is attributable to the decrease of share capital in the subsidiary TDR – Metalurgija by merging shares.

5.7.5 Other disclosures

Remuneration of management and other employees with individual contracts of employment

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

- gross remunerations contained in the notice for income tax returns,
- premiums paid for additional pension insurance, and
- other fees paid.

Remuneration of Supervisory Board members

Remuneration of Supervisory Board members represent:

- attendance fees (gross) and travel expenses.

Upon a resolution adopted by the Shareholders' Meeting in 2005 members of Management Boards and other employees on individual contracts of employment, as well as members of the Group's Supervisory Boards did in not participate in the net profits nor were they approved any advances, loans or guarantees by Group companies.

REGULAR REMUNERATION OF INDIVIDUAL GROUPS OF PERSONS

Groups of persons *in SIT thousands*	2005	2004
Members of Management Boards	326,156	304,737
Employees on individual contracts	938,550	864,791
Members of Supervisory Boards	19,729	15,519

For these same groups of individuals, remunerations and payables pertaining to housing loans approved prior to 2002, as well as reimbursements of expenses such as (vehicle) fuel and motorway tolls, are shown in the tables below.

Loan receivables decreased in the reporting period by the repaid amount of 1,709 thousand SIT.

Rates of interest on granted loans are governed by the following parameters:

- basic interest rate (TOM) plus 3 %,
- foreign currency clause, and
- point value for ascertaining the value of housing, which is stipulated in accordance with the movement of the euro against the tolar as defined by the middle exchange rate of the Bank of Slovenia.

PAYABLES ON LOANS GRANTED TO INDIVIDUAL GROUPS OF PERSONS

Groups of persons *in SIT thousands*	2005	2004
Members of Management Boards	0	0
Employees on individual contracts	10,810	12,359
Members of Supervisory Boards	930	1,083

OPERATING RECEIVABLES DUE BY INDIVIDUAL GROUPS OF PERSONS

Groups of persons *in SIT thousands*	2005	2004
Members of Management Boards	0	189
Employees on individual contracts	16	962
Members of Supervisory Boards	0	0

5.8 Financial ratios of the HSE Group

Financial ratios of the Group for 2005 and 2004 are presented below.

Equity financing rate	2005	2004
in SIT thousands		
1. Liabilities	357,853,560	342,271,621
2. Equity	250,744,708	240,753,971
Equity financing rate = 2 / 1	70.07 %	70.34 %

The Group finances itself through own funds, hence the equity's share in financing accounts for more than 70 % in 2005. The high equity financing rate indicates that financing of the Group is not subject to risk. Compared to the previous year, the equity financing rate decreased by 0.3 percentage points due to lower profit generated in 2005, as well as to the distribution of the controlling company's total profit from 2004.

Long-term financing rate	2005	2004
in SIT thousands		
1. Equity	250,744,708	240,753,971
2. Long-term financial and operating liabilities	31,522,943	39,045,152
3. Long-term provisions	34,577,721	36,066,749
4. Total (1+2+3)	316,845,372	315,865,872
5. Liabilities	357,853,560	342,271,621
Long-term financing rate = 4 / 5	88.54 %	92.29 %

Out of Company's total liabilities 88.5 % are long-term and 11.5 % short-term. Compared to 2004 the long-term financing rate has dropped by 3.8 percentage points, which is attributable to the decrease in long-term provisions and long-term financial liabilities to banks (repayment of loans and transferring part of long-term loans that mature in 2006 among short-term loans).

Operating fixed assets rate	2005	2004
in SIT thousands		
1. Tangible fixed assets	285,885,057	279,230,452
2. Intangible fixed assets	6,377,467	5,076,640
3. Total fixed assets at carrying amount (1+2)	292,262,524	284,307,092
4. Assets	357,853,560	342,271,621
Operating fixed assets rate = 3 / 4	81.67 %	83.06 %

The share of tangible and intangible fixed assets is recorded at 81.7 % within the assets structure and this is quite comprehensible taking into account the Group's activity. The operating fixed assets rate decreased by 1.4 percentage points compared to the previous year's figures.

Long-term investment rate	2005	2004
in SIT thousands		
1. Tangible fixed assets	285,885,057	279,230,452
2. Intangible fixed assets	6,377,467	5,076,640
3. Long-term investment	1,377,293	1,349,304
4. Long-term operating receivables	1,062,297	1,044,204
5. Total (1+2+3+4)	294,702,114	286,700,600
6. Assets	357,853,560	342,271,621
Long-term investment rate = 5 / 6	82.35 %	83.76 %

The long-term investment rate refers to the share of long-term assets among total assets. In 2005 the ratio was established at 82.4 % which is 1.4 percent less than in 2004. The decrease is attributable to a higher share of short-term assets among total assets (especially short-term operating receivables).

Equity to operating fixed assets rate	2005	2004
in SIT thousands		
1. Equity	250,744,708	240,753,971
2. Tangible fixed assets	285,885,057	279,230,452
3. Intangible fixed assets	6,377,467	5,076,640
4. Total fixed assets at carrying amount (2+3)	292,262,524	284,307,092
Equity to operating fixed assets rate = 1 / 4	0.86	0.85

The equity-to-operating-fixed-assets ratio represents the balance between equity and operating fixed assets. The ratio for 2005 was determined at 0.9 meaning that most of the Company's fixed assets is financed by means of the owner's equity. Compared to 2004 the ratio increased by 0.01 percentage points.

Immediate solvency ratio	2005	2004
in SIT thousands		
1. Cash in bank, cheques and cash in hand	1,560,308	1,388,430
2. Short-term investments	23,619,674	29,297,874
3. Total liquid assets (1+2)	25,179,982	30,686,304
4. Short-term financial and operating liabilities	40,277,531	25,675,615
Immediate solvency ratio = 3 / 4	0.63	1.20

The immediate solvency ratio is the relation between operating current assets and short-term liabilities. The ratio shows a decrease of 0.6 compared to 2004 when it was recorded at 1.2 percentage points. The decrease is a result of lower short-term financial investments and higher short-term liabilities. Notwithstanding, the Group is capable to assure solvency.

Quick ratio	2005	2004
in SIT thousands		
1. Cash in bank, cheques and cash in hand	1,560,308	1,388,430
2. Short-term investments	23,619,674	29,297,874
3. Short-term receivables	29,241,480	17,886,397
4. Total (1+2+3)	54,421,462	48,572,701
5. Short-term financial and operating liabilities	40,277,531	25,675,615
Quick ratio = 4 / 5	1.35	1.89

The quick ratio shows whether the Company finances short-term assets through short-term liabilities or also long-term. The ratio decreased to 1,4 compared to 2004, when it was established at 1.9 percentage points. The ratio's value is higher by more than 1 % in 2005 as well as 2004, indicating that in addition to inventories the Group finances on a long-term basis also other short-term assets.

Current ratio	2005	2004
in SIT thousands		
1. Current assets	63,851,737	56,498,814
2. Long-term operating receivables	1,062,297	1,044,204
3. Deferred costs (expenses) and accrued revenues	362,006	116,411
4. Total short-term assets (1-2+3)	63,151,446	55,571,021
5. Short-term financial and operating liabilities	40,277,531	25,675,615
Current ratio = 4 / 5	1.57	2.16

The current ratio reflects the financing of short-term assets by means of short-term liabilities. The Group records good solvency although the current ratio is recorded at 1.6 percentage points.

Operating efficiency ratio	2005	2004
in SIT thousands		
1. Operating revenues (net sales + other operating revenues)	165,162,615	128,994,686
2. Costs of goods, material and services	94,589,095	55,700,137
3. Labour cost	30,752,661	29,685,116
4. Amortisation and depreciation expense	19,129,895	18,147,115
5. Other operating expenses	5,701,366	5,952,324
6. Total operating expenses (2+3+4+5)	150,173,017	109,484,692
Operating efficiency ratio = 1 / 6	1.10	1.18

The operating efficiency ratio is higher than 1 percentage point, indicating that operating revenues are higher than operating expenses. The aforesaid shows that the Group records an operating profit. Compared to 2004, the ratio decreased from 1.2 to 1.1 percentage points mainly due to unfavourable business conditions.

Net return on equity ratio (ROE)	2005	2004
in SIT thousands		
1. Net profit for the period	14,414,704	17,986,422
2. Average capital	245,749,340	231,774,239
Net return on equity ratio = 1 / 2	0.06	0.08

The net-return-on-equity ratio (ROE) indicates that the Company generated 6 SIT of net profit on 100 SIT of funded capital. Compared to 2004 the ratio decreased by 24 % due to low profit generated (unfavourable hydrology, introduction of explicit auctions etc.) and higher average capital.

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Glossary of Acronyms

CCGT	combined cycle gas turbine
d.d.	a joint-stock company
d.o.o.	a limited-liability company
DEM	*Dravske elektrarne Maribor d.o.o.* – an HSE subsidiary enterprise operating hydropower plants on the Drava river
EECS	*Energy Certification System*, a EU format of the *Renewable Energy Certificate System* (RECS).
EEX	European Energy Exchange, Leipzig
ELES	*Elektro-Slovenija d.o.o.*, Slovenia's electric power transmission network (grid) operator
HPP	hydroelectric power plant
HSE	*Holding Slovenske elektrarne d.o.o.* – the parent company of the HSE Group
Modra Energija	Green energy from renewable sources
OHSAS	Occupational Health and Safety Management Systems
PPE	*plinsko parna elektrarna* – combined cycle gas turbine power plant
PV	*Premogovnik Velenje d.d.* – the Velenje lignite mine, an HSE subsidiary enterprise
RECS	*Renewable Energy Certificate System*
RES-E	electricity generated from renewable sources
RE–GO	Renewable Energy Guarantees of Origin
SEL	*Savske elektrarne Ljubljana d.o.o.* – an HSE subsidiary enterprise operating hydropower plants on the Sava river
SENG	*Soške elektrarne Nova Gorica d.o.o.* – an HSE subsidiary enterprise operating hydropower plants on Slovenia's Soča (Isonzo) river
SIT	Slovene tolars
UCTE	Union for the Co-ordination of Transmission of Electricity
TDR – Metalurgija	*Tovarna dušika Ruše – Metalurgija d.d.*, a subsidiary of the HSE Group
TEB	*Termoelektrarna Brestanica d.o.o.* – the Brestanica thermal power plant, an HSE subsidiary enterprise
TEŠ	*Termoelektrarna Šoštanj d.o.o.* – Šoštanj thermal power plant, an HSE subsidiary enterprise

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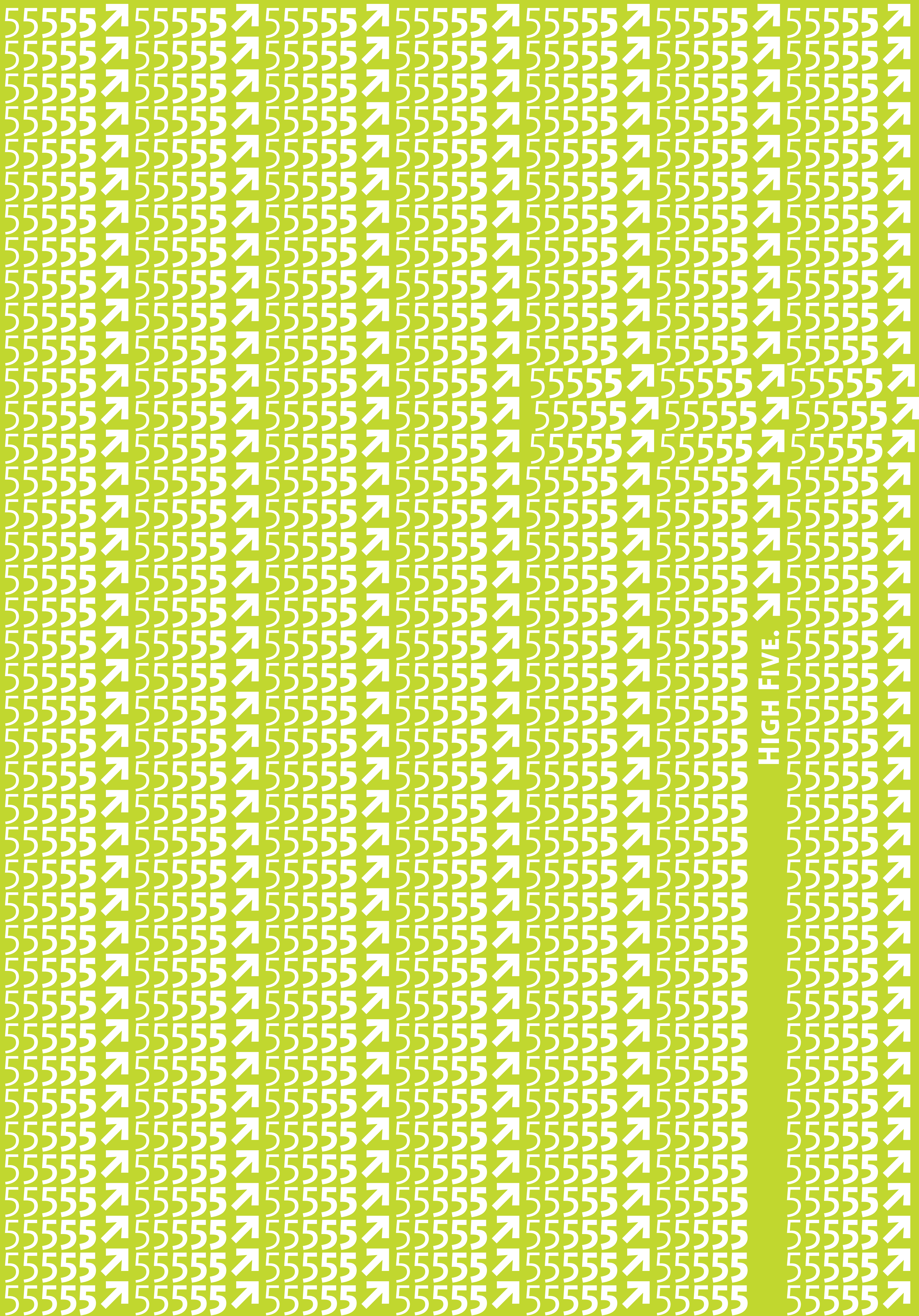
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