Impol Group

Annual Report

2005

May 2006

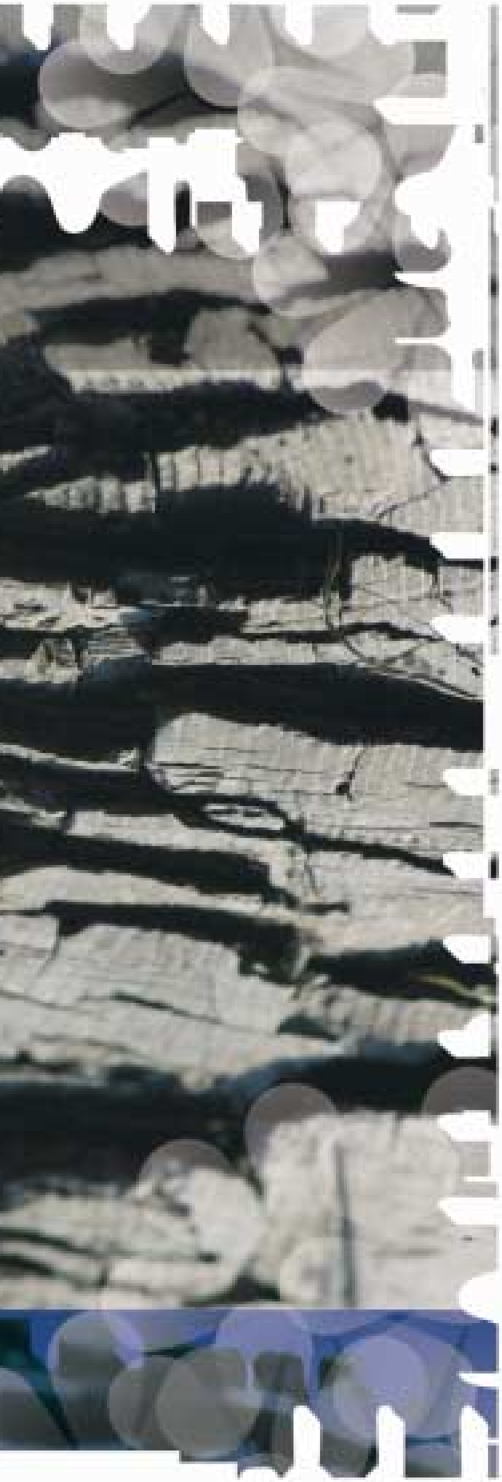
The Impol Group includes a joint stock company with ten subsidiaries and associated companies, two of them abroad.

Impol's mission is the manufacture of light metals, particularly aluminium, into products that meet our customers' highest possible expectations of value, especially in view of the price-quality correlation.

Business activities of the Impol Group are manufacture of aluminium into rolled, extruded, drawn, forged and other products.

The basis of the Group is business excellence. To achieve our goals we apply an integrated system of quality management, environment protection as well as health and safety. In that process, we respect basic values of our society: quality, flexibility and agility, reliability and team work, protection of environment and employees' health, constant education and inventiveness of all employees.

Our vision is to remain an independent medium-sized manufacturer of aluminium.



Impol,

industrija metalnih polizdelkov, d. d.

The company Impol, industrija metalnih polizdelkov, d. d., Slovenska Bistrica, Partizanska 38, is registered in the Company's Register of the District court in Maribor as of 19 May 1997 as a joint stock company with the decree number 96/01315, number of entry 1/00460/00. The company is registered under the Standard Classification of Activities code 28.400, i.e. forging, pressing, stamping and rolling of metal as well as powder metallurgy.

The company's register number is 5040736.

The share capital of the company as of 31 December 2004 amounted to SIT 4,063,000,000.00 and is split into 4,063,000 ordinary shares with nominal value of SIT 1,000.00 per share. The book value of shares as of 31 December 2004 amounted to SIT 4,960.81.

Impol is organised and functions as a concern within the parent company Impol d. d., and includes all operating results of its subsidiaries (Table 2) in its balance sheet via the equity method and according to the Slovenian Accounting Standards (SRS). Impol's consolidated financial statements show the business operation of all subsidiaries.

Associated companies, where Impol, d. d. holds the majority stake, are:

- ▪ Impol Montal, d. o. o.
- Impol Stanovanja, d. o. o.
- TGP Štatenberg, d. o. o.
- Unidel, d. o. o.
- Impol Aluminum Corporation
- Impol Seval, a. d.
- Stampal SB, d. o. o.

Other associated companies of Impol, d. d.:

- Simfin, d. o. o.
- Alcad, d. o. o.
- Impol Kadring, d. o. o.
- Impol 2000, d. d.


Significant
business
events
in 2005

Last year, Impol celebrated its 180th anniversary of continuous operation as an organized company.

In 2005, with its total export the Impol Group was the seventh biggest exporter in Slovenia and top exporter in the Podravje region. The Group was also fourth biggest Slovenian exporter into the EU member states.

Impol manufactured and sold 139,769 tons of aluminium products.

The product sale of the Impol Group was 14 % higher than last year.

In 2005, we increased the portion of foil production, which is the most demanding rolled product.

In April 2005, we reorganised production programmes by dividing them into a unit of rolled and a unit of extruded programmes with the aim to technically and developmentally improve the production process.

In 2005, Impol did not expand to new areas, but was fully concentrated on the improvement, modernisation and best possible use of its existent capacities. At the same time, Impol restructured and specialised its production programmes. In Slovenia, the company gradually stopped producing products with low added value.

Inventiveness is an increasingly important value – 266 employees created more than 170 beneficial innovative projects.

Last year, the Impol Group continued its investment cycle that preserves the Group's competitiveness on the global market. Investments were not as high as in 2004; nonetheless, they were of considerable amount. Total investments amounted to almost 7 billion tolars.

Impol is involved in preserving natural resources. That is why investments in new technologies are not only meant to increase productivity, but also to reduce the industry's impact on the environment. We regularly check and improve the protection of environment and employees' health according to the ISO 14001 and OHSAS 18001 systems.

A look into 2005

Figure 1:

Sales in individual regions

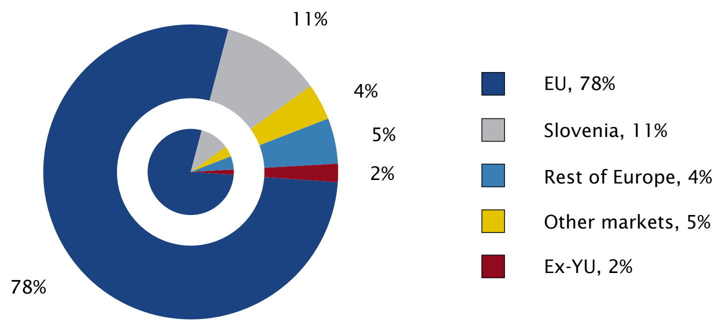


Figure 2:

Sales in individual countries

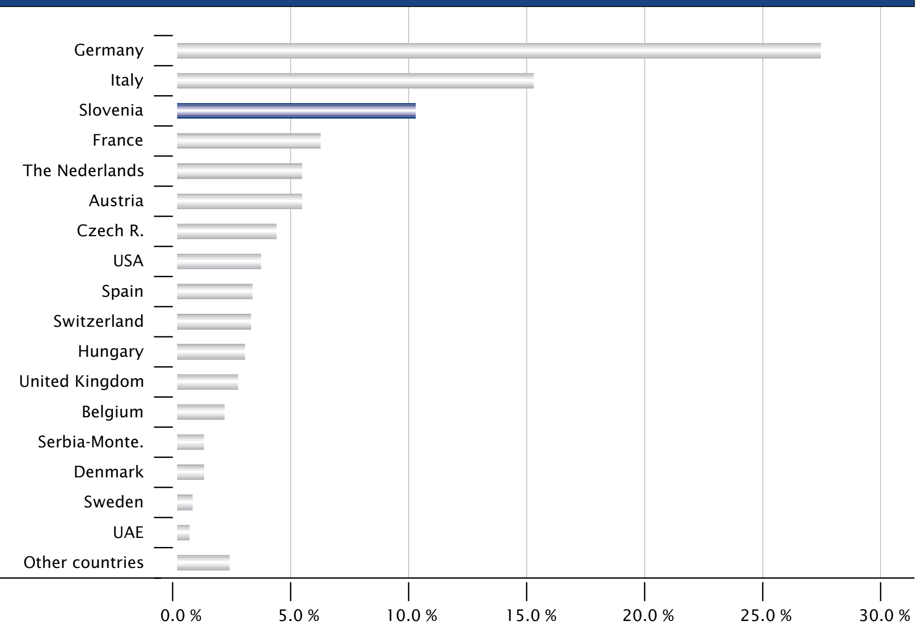


Figure 3:

Product sales and trend (in 000 EUR)

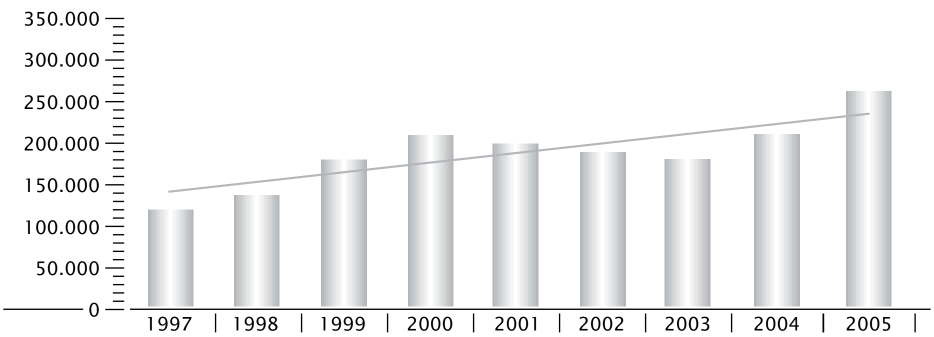
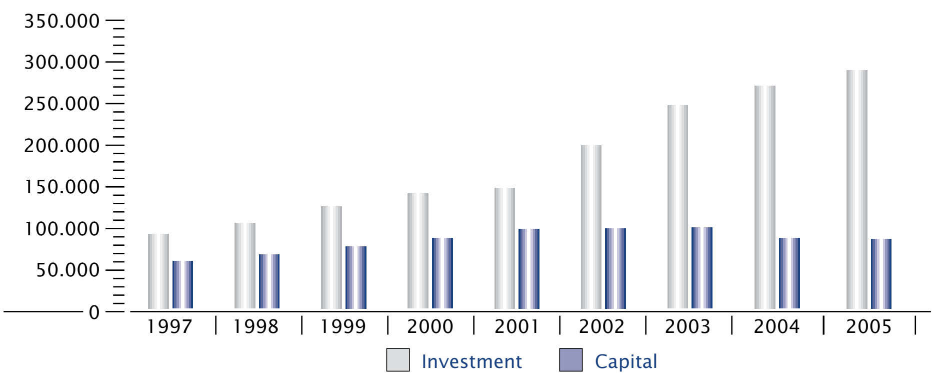


Figure 4:

Investment and capital (in 000 EUR)



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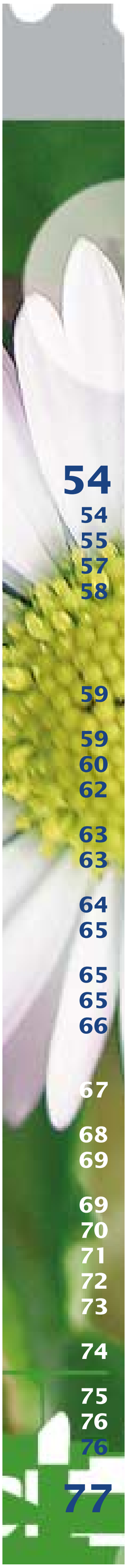
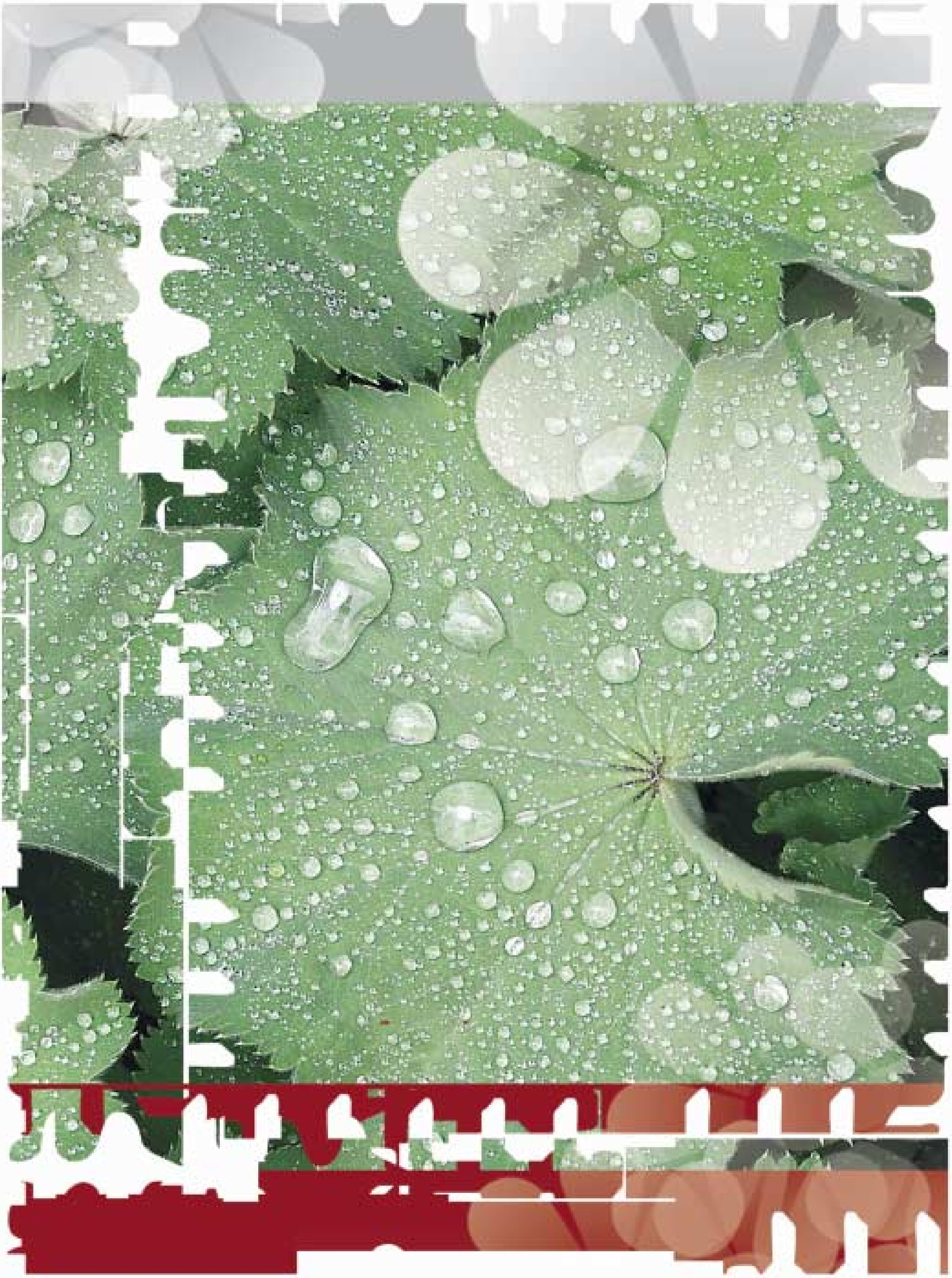


Accounting report

Revizorjevo poročilo



Report of the President of the Management Board and Report of the Impol Supervisory Board

Report of the President of the Management Board

A word to shareholders, business partners and other associates

2005 was a turbulent year in the field of aluminium, and turbulences are to continue in 2006. The situation is best illustrated by the base price movement at the LME[1], showing a constant and high increase of aluminium purchase prices. In Impol, aluminium is the prevalent material, accounting for 98% of total raw material. Its initial price in 2005 grew from € 1,369 per ton to € 1,937 per ton by the end of the year which is a 41% increase (i.e. € 568 per ton). At the beginning of 2006, the aluminium price increase at the LME has been even faster. That is why Impol's purchase prices of all aluminium materials are fluctuating. These circumstances demanded highest possible commitment of all parties concerned to neutralize at least a part of the consequent negative impact on the reduction of the difference between selling prices of Impol's products and purchase prices of aluminium materials. That was one of the reasons for the creation of a special board for risk management, use of price shields and hedging.

In all segments of the aluminium-manufacturing sector, the market is fully globalised. Both favourable and non-favourable factors on individual market segments can move to the rest of the market in a short period of time. In 2005, the prevailing trends had a positive impact on aluminium producers, but a negative impact on aluminium manufacturers. Impol, as a typical manufacturer, had to make an enormous effort to neutralize the negative impact.

The international aluminium industry is still in the period of deep restructuring. East Asian markets that are in the middle of explosive development, and are causing huge market shifts due to their size create the strongest impacts. The Chinese market has a particularly huge impact, and in the coming years, we expect an increase of the Indian market as well. But even at present, both markets are causing subversive innovations that are leading to global shifts on the market. Until the circumstances reach a balance, both markets will have a negative impact on the aluminium manufacturing industry, because they are causing the growth of entry prices of aluminium materials and are holding back the parallel price growth of products.

According to our estimates, in all developed markets with higher labour costs per production unit, products with higher added value are replacing the production of aluminium products, especially for further industrial applications, with lower added value entry material. The production of less demanding products is being moved or outsourced to developing markets with lower labour costs, and Impol is already a part of this trend.

Aluminium production demands around 15 kW/kg of electrical energy, however the process is not energetically wasteful if we consider the input energy over the whole serviceability period of aluminium which is unlimited due to the virtually complete secondary applicability of the material. Due to the very small amount of energy used for aluminium recycling, we expect that the consumption of aluminium will grow further. Thus, Impol will build its future business by refocusing on to the production of products with higher added value and ensur-

[1] London Metal Exchange

ing its constant growth. It also has to be taken into account that the aluminium industry has additional long-term possibilities due to expected energy shortages, and it is expected that aluminium will be used increasingly in transport industry, because it is a light material and considered as one of the possibilities for additional reduction of energy consumption.

Restructuring processes of the production programme in Impol have continued at a fast pace. They are a prosecution of the previous year's processes and will continue in the coming years with a view to reach our basic objective – to increase the achieved net cash flow and thus to ensure:

- the growth of the product range with higher added value in all parts of the Impol Group, especially where production costs are higher due to environmental influences;
- the use of input raw material in an adequate form to increase added value of the Group's products;
- the reduction of products with lower added value and the transfer of the remaining production to regions with lower production costs;
- the introduction of innovative measures in production processes to reduce production costs, and at the same time meet customers' demands more effectively;
- a speedy inclusion of non-EU markets with advantageous conditions for purchasing aluminium material without additional import tariffs;
- the purchase of at least a part of aluminium material by using advantageous conditions that are in force in the EU;
- production methods that do not harm the environment and employees, which for Impol means minimum necessary additional costs;
- sufficient cash flow that enables the financing of development processes and the settlement of liabilities to investors (shareholders, creditors etc).

Impol Management Board:
Adi Žunec,
Vlado Leskovar,
President of the Management Board
Jernej Čokl,
Janko Žerjev.

Despite disadvantageous environmental influences in 2005, Impol reached the highest net cash flow in the last ten years, i.e. € 16.3 million (SIT 3.9 billion). With the cash flow, Impol mainly financed development investments in fixed assets, amounting to € 16.7 million (SIT 4.0 billion). Investments in current assets (€ 12.5 million, SIT 2.9 billion) and repayments of long-term credits were financed with short-term sources.

Our sector has to meet very strict demands of global competition. In such circumstances, it is impossible to survive without offering high quality products and processes, and an entirely excellent business operation. That is why in 2005, Impol:

- completed the renovation of rolling programmes for foil production,
- continued and partially concluded the renovation of machinery and production processes of other rolled materials by restructuring the production,
- began to increase forging capacities,
- carried out an urgent renovation of machinery for extruded products,
- carried out a number of smaller enhancements and investments in renovation and growth of marketable programmes (of products and services).

Impol's basic objective from mid-2003 remains the same – to increase the yearly production capacity to 175,000 tons by 2007. According to our plans, we should be coming close to that objective in the middle of 2006, because we are planning a production and sales capacity that is supposed to exceed 167,000 tons.

In 2005, the success of important global Asian markets (China, India) caused changes in Impol despite their geographical distance. Impol planned to sell 139,000 tons of aluminium products to net a profit of € 3.7 million and cash flow of € 17.1 million. The sales amount was reached as planned, the net cash flow came up to € 16.3 million and profit was € 2.3 million (SIT 546 billion). In our opinion, Impol lived up to expectations, but to achieve that, some measures had to be taken that had been determined beforehand:

- production of sheets was replaced with other products,
- further use of some non-optimal machinery,
- additional lay-offs,
- search for additional export markets,
- gaining new sources of aluminium material supply,
- using more secondary aluminium material,
- reorganizing the internal structure into production processes and creating the basis of a future structure of product groups,
- restructuring the credit part of process' financing to avoid currency and price fluctuation,
- ensuring adequate organizational methods of risk management.

In comparison with the previous year, Impol considerably increased its profit and cash flow. However, revenue did not grow due to the reduced trade in the subsidiaries, which represents lower margins than sales of aluminium products and services, growing for almost a fifth.

Impol is not a publicly traded company on the Slovenian capital market, which allows its shareholders to evaluate their investments through an objective estimation of the company's value based on the company's financial statements. The consolidated value of equity per share has practically not been changing due to the dividend payment, and amounted to € 19.52 (SIT 4,678)[2] at the end of 2005. On the basis of the achieved business results and plans for 2006, Impol will preserve its dividend payment policy and set dividends at SIT 80.00 (€ 0.33) per share.

In the next business year, Impol will be primarily focused on increasing the exploitation of existent capacities that will not demand bigger additional investments. The bulk of the investments will go in tangible assets to ensure an adequate production quantity for the planned sales quantity. In short term, these investments will be financed mostly with short-term credit sources.

We will continue to carefully observe environmental impacts and minimise or eliminate them according to the ISO 14001 environmental standard. Additionally, we are still striving for a maximum use of secondary aluminium.

In the future, Impol will continue to assure that all knowledge acquired within the company will be preserved and improved. Impol encourages the acquisition of new skills that can increase productivity and offers its employees:

- stimulation for improving their results,
- stimulation for taking part in the processes of innovation, improvement and other development projects,
- a complementary pension plan, and
- secure and healthy environment in accordance with the acquired OHSAS 18001 standard.

Impol will continue to put great emphasis on employee training since adequately skilled employees are a way to achieve customer satisfaction.

Impol Management Board

Jernej Čokl,

President of the Board

[2] To convert balance items from SIT into EUR, the exchange rate 239.5756 SIT/EUR (exchange rate as of 31 December 2005) is used. To convert business statements, the exchange rate 239.6371 SIT/EUR is used (average annual exchange rate).

Report of the Impol Supervisory Board

According to its powers, the Supervisory Board of Impol d.d. of Slovenska Bistrica examined the managing of the company in the business year 2005 by discussing current business operation of the company and management's work at four sessions. The Board also examined investment processes and their results. Upon the proposal of the Management Board, the Supervisory Board discussed and confirmed the company's business plan and business policy for 2006 as well as a proposal for supplements in Impol's strategy between 2006 and 2010. Most frequently discussed issues at the Supervisory Board meetings concerned the price and market policy as well as the development and investment cycle of Impol, in particular a comprehensive modernisation and division of the rolling mill programme in Slovenska Bistrica and Sevojno, Serbia, and the construction of a foundry in Seval. The Board also supervised the introduction of process organisation in Impol.

The Supervisory Board confirms that the Management Board submitted correct and objective information and data on the business of the company and the completion of planed engagements throughout the year.

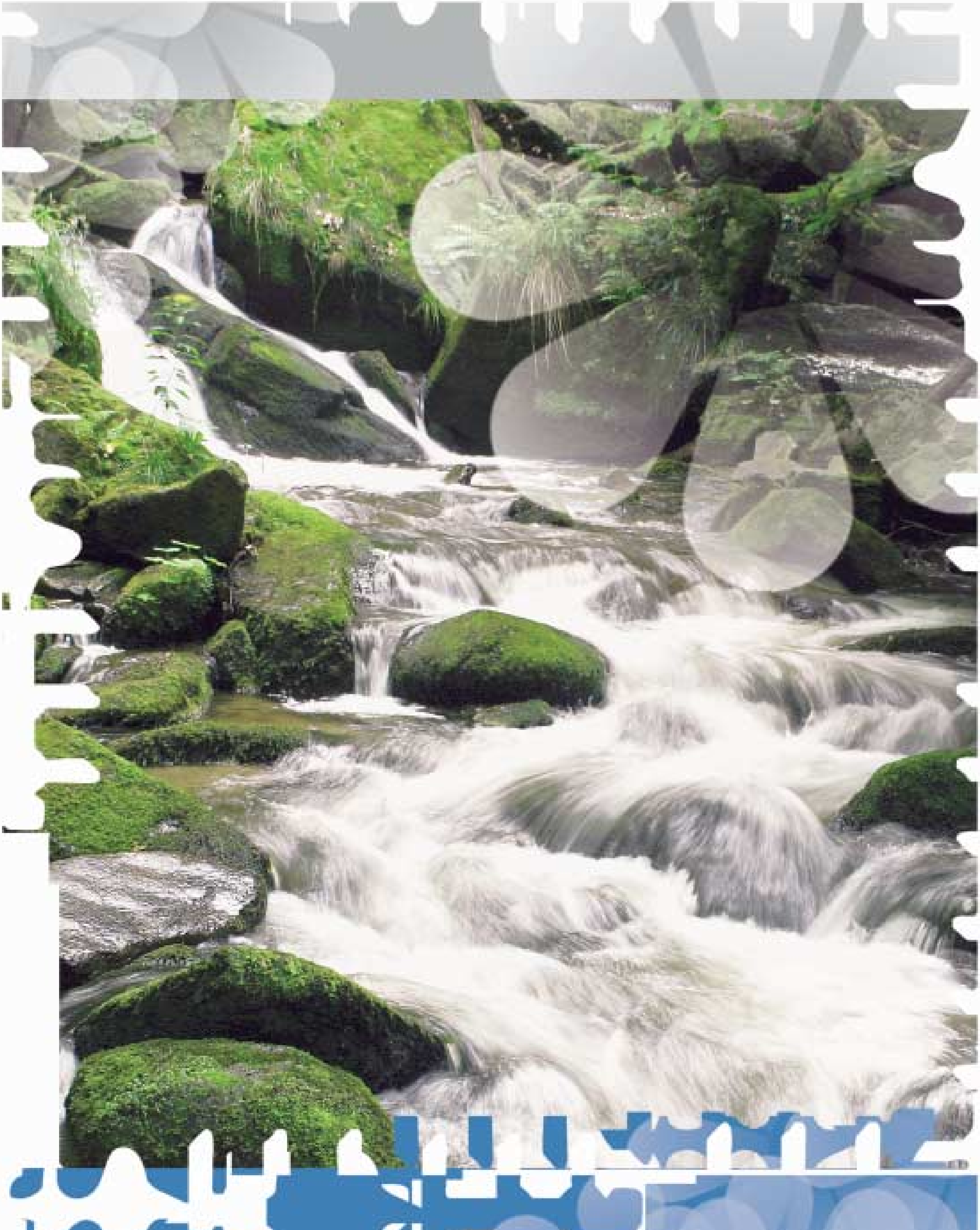
Impol Supervisory Board:
Irena Šela,
Bogdan Bizjak,
President of the Supervisory Board
Milan Cerav,
Zvonko Krošel,
Brigita Juhart

The Supervisory Board confirms that the Management Board regularly and consistently implemented decisions of the Supervisory Board.

All Supervisory Board sessions were attended by a quorum. The Management Board submitted regular monthly written reports on current business operation of the Group to the president and the members of the Supervisory Board.

1. The Supervisory Board confirms that the Group's business report contains an audit report by the audit company AUDITOR, d.o.o. Ptuj, confirming that according to Slovene Accounting Standards the financial statements give a true and fair picture of Impol's financial situation as of 31 December 2005. The same is true for Impol's business results and financial flow in the year that ended on the above-mentioned date. The business report by the Management Board is in accordance with the accounting statements. The Supervisory Board has no remarks on the audit report.
2. The Supervisory Board has no remarks on the business report of the Impol Group for 2005, approves it and puts forward a proposal for the Assembly to give a discharge to the Management Board for the 2005 business period.
3. Upon the proposal of the Management Board, the Supervisory Board discussed the Group's plan of equity, balance profit and profit after the 2005 financial period. The Supervisory Board suggested the Assembly of Impol, d.d. to adopt the plan.

Milan Cerar,
President of the Supervisory Board



Business
report

In 2005, Impol celebrated its 180th anniversary of continuous operation as an organized company. Since 1997, Impol has been a joint-stock company, but it is not present on the regulated market. Stocks are freely transferable; they all belong to the same class and are registered with the KDD (Central Securities Clearing Corporation). At the end of the year, Impol had the following shareholder structure (Figure 1):

Figure 1: Shareholder structure on 31 December 2005

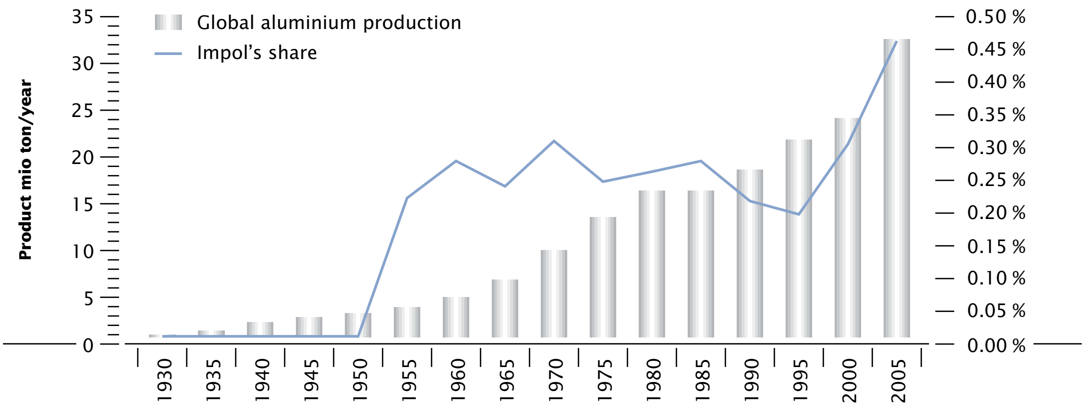
No.	Shareholder	no. of shares	%
1	Impol 2000 d. d., Slov. Bistrica	1,985,204	48.8605%
2	Kapitalska družba, d. d., Prvi pokojninski sklad, Ljubljana	587,550	14.4610%
3	Kapitalska družba pokojninskega in invalidskega zavarovanja, d. d., Ljubljana	392,596	9.6627%
4	Infond Holding, d. d., Maribor	304,755	7.5007%
5	D.S.U., d. o. o., Ljubljana	244,836	6.0260%
6	Infond Holding 1, d. d., Maribor	157,833	3.8846%
7	Zlata moneta 1, d. d., Maribor	156,322	3.8475%
8	Upimol, d. o. o., Slovenska Bistrica	100,000	2.4612%
9	Infond, ID 1, Maribor	69,000	1.6983%
10	AC Kapital, d .o. o., Ljubljana	41,939	1.0322%
11	Infond ID., d. d., Maribor	21,936	0.5399%
12	Zlata moneta II, Maribor	1,025	0.0252%
13	Other	4	0.0000%
		4,063,000	**100.0000%**

The company’s management owns no stocks.

Until 1950, Impol processed only copper; since 1950 the company has been processing aluminium (a detailed programme at http://www.impol.si). At that time, global aluminium production was somewhat over 1 million tons; whereas today’s global production already amounts to 31 million tons annually (Figure 5) with a growing importance of secondary (collected) aluminium production that is estimated to about 10 million tons annually.

Figure 5:

Aluminium production in million tons per year and Impol's share in use of primary aluminium



Impol has increased its market share in primary aluminium processing to around 4.5‰ globally, with a growing trend in the last decade. Since global aluminium processing and production of aluminium products amount to 40 million tons yearly, Impol's market share in total aluminium processing is slightly under 4‰. Other companies also increasingly use old aluminium, i.e. aluminium previously produced and used, that was eliminated from usage and turned into secondary aluminium. According to our estimates, there is around 10 tons of secondary aluminium globally, with the EU contributing 4.7 million tons and China creating a quarter of global processing and increasing its share at an extraordinary pace.

Economic activities of Impol d.d. are processing of aluminium into rolled, extruded, drawn, forged and other products (economic activity code DJ 28.400).

Impol is organised and functions as a concern and as such includes all operating results of its subsidiaries (Table 2) in its balance sheet via the equity method and according to the Slovenian Accounting Standards (SRS). Impol's consolidated financial statements show the business operation of all subsidiaries.

Table 2: Subsidiaries and associated companies

Company	Share
Impol Seval, a. d., Serbia with associated companies:	70.0%
▪ Impol Seval Finalizacija, d. o. o. (100%) ▪ Impol Seval PKC, d. o . o. (100%) ▪ Impol Seval Tehnika, d. o. o. (100%) ▪ Impol Seval Final, d. o. o. (100%)	
Stampal SB, d. o. o.	100%
Impol Aluminium Corporation, New York	90.0%
Impol Stanovanja, d. o. o., with associated company:	100%
▪ Impol Stan, d. o. o. (95%)	
Štatenberg, d. o .o.	99.6%
Unidel, d. o. o.	72.6%
Impol Montal, d. o. o.	100%
Simfin, d. o. o.	49.5%
Impol Kadring, d. o. o.	49.0%
Alcad, d. o .o.	32.0%

Due to the application of new Slovenian Accounting Standards in 2006, there will be different items in the opening balance as stated in the 2005 accounts in this annual business report.

In 2005, Impol did not expand to new areas, but was fully concentrated on the improvement, modernisation and best possible use of its existent capacities. At the same time, Impol restructured and specialised its production programmes. In Slovenia, the company gradually stopped producing products with low added value.

Impol has got two subsidiaries abroad: Impol Seval with 100% ownership of four associated companies, and IAC New York, USA, operating in the county of Schnectady in 2005. There is also the company Impol Stan d.o.o., a subsidiary of Impol Stanovanja d.o.o., operating in Croatia.

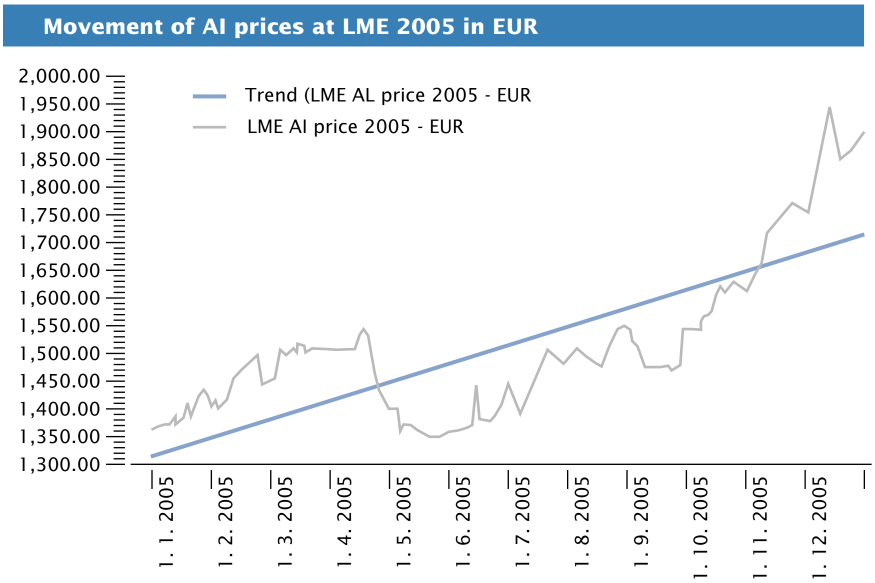
Some of the most important operating indicators of 2005 (Table 3) show that from the cash flow point of view the business year was satisfying, despite the strong impact of political and economic fluctuation.

Table 3: Key operating indicators

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating current assets indicator	1.21	1.38	1.24	1.38	1.52	1.38	1.38	1.41	1.40
Profitability	3.10%	8.00%	7.60%	8.60%	5.70%	5.52%	4.10%	-7.93%	2.96%
Margin	3.5%	3.6%	2.6%	1.6%	1.5%	1.7%	1.0%	-1.8%	0.7%
Equity/assets	60.9%	66.0%	60.0%	54.7%	59.0%	42%	33.9%	28.9%	27.3%
Debt/equity	66%	52%	64%	82%	74%	136%	193%	238%	259%
Long-term debt /equity	15%	10%	11%	13%	14%	48%	54%	53%	51%
Employees	803	834	873	895	895	2062	1900	1835	1803

The strongest fluctuation was caused by movement of aluminium prices at the LME (Figure 6), especially in the last quarter when extremely fast price changes have proven hard to control.

Figure 6: Movement of aluminium prices



The short business review (Table 4) shows a quick business growth and a simultaneous cash flow growth, however not followed by business profitability. The predominant part of cash flow was created through depreciation, influencing tax liabilities.

Table 4: Business results 1997–2005[3]

in 000 EUR

	1997	1998	1999	2000	2001	2002	2003	2004	2005
Consolidated revenue	145,130	175,295	294,977	352,892	332,472	276,174	346,394	366,708	350,644
Consolidated revenue without goods and services	120,680	141,002	294,977	212,432	332,472	273,979	344,339	363,818	347,664
Consolidated expenses	135,363	164,462	282,218	340,501	321,238	266,065	337,566	364,769	343,119
- write–offs (depreciation ...) - consolidated	4,395	4,986	5,312	6,637	6,281	6,309	7,908	10,956	14,043
Current business results - consolidated	9,766	10,833	12,758	12,391	11,234	10,109	8,829	1,939	7,525
Financial revenue/expenses difference - consolidated	-3,293	-3,843	-6,107	-6,545	-6,217	-5,611	-6,381	-9,365	-12,713
Extraordinary revenue/ expenses - consolidated	-284	816	2,096	815	762	328	1,157	883	7,642
Profit or loss - consolidated	5,052	6,337	7,690	5,472	4,926	4,581	3,381	-6,776	2,280
Cash flow from current business - consolidated	9,448	11,323	13,001	12,110	11,207	10,890	11,289	4,180	16,322
Equity - consolidated	57,311	65,929	72,861	78,592	83,459	83,802	83,465	78,411	79,330
Share book value in EUR	14.11	16.23	17.93	19.34	20.54	20.63	20.54	19.30	19.52
Profitability	8.82%	9.61%	10.55%	6.96%	5.90%	5.47%	4.05%	-8.64%	2.8%
No. of employees in Impol Group	839	868	899	904	902	2,062	1,900	1,835	1,803
Revenue per employee in EUR/year - consolidated	172,979	201,953	328,116	390,367	368,594	133,935	182,276	199,806	194,478
Revenue per employee in EUR/year - products only	143,837	162,445	328,116	234,991	368,594	132,870	181,195	198,231	192,824

Consolidated revenue is lower due to the trade reduction of the subsidiary IAC NY, decreasing revenue from SIT 23.6 billion (€ 98 million) to SIT 9.1 billion (€ 38 million).

[3] For business statements, the annual middle exchange rate was used to convert SIT into €, for the balance sheet, the last annual exchange rate was used.

Production programme

Impol's production programme includes the following:

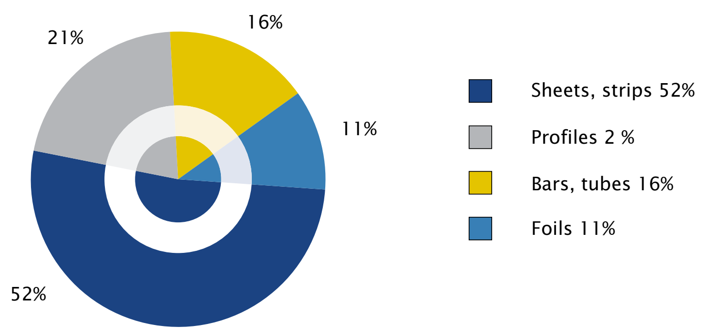
- all sorts of rolled aluminium products (strips, sheets, embossed and formed sheets, painted strips etc.);
- foils;
- profiles;
- bars, rods and tubes;
- forgings;
- and to a lesser extent trade activities and services.

The programme did not undergo any major products changes in 2005 (Figure 7). However, the structure of the programme shares has changed quickly. The share of foils has been growing, since they represent the most demanding rolled product. Products and services with negligible extent are not shown in the figure.

Due to the modernisation process of the rolling mill in Seval, there were some interruptions during the year, but they were handled successfully and did not have any impact on the market.

Slika 7:

Production share of individual programmes



The whole production programme was previously put in line with sales since the whole production is based on orders and will remain so in the future given the nature of the product.

Rolled products have the highest share, and the production of foils will grow quicker. To keep up these figures, we will have to, as soon as possible, finalise an investment in additional foundry capacities to produce suitable in-put material for production of rolled materials. The share of extruded products is currently 37% of total quantity and it will remain the same even though the market is saturated with profiles. All other products and services represent a less important part of the Impol Group's business, and even if they grow that does not cause an increase of their share in the company.

The most important assessment is an extraordinary share growth of products with higher added value (foils, plates).

Following an analysis of technological, market and cost advantages, specialisation and cost control processes were carried out in individual production programmes in 2005. This was followed by the sale or transfer of production machinery.

Market and customers

Impol sells its products all around the world. The most important markets are the same as in the previous year, namely: Germany, Italy, Slovenia, France, the Netherlands etc. (see Figure 1). Impol's customers are mainly producers in automotive industry and other transport industry, construction industry, electrical power industry, industry of heat exchangers, industry of household appliances and some other producers.

Figure 8:

Sales on individual markets

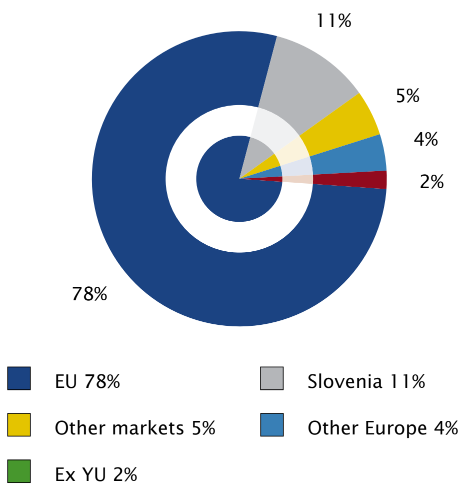
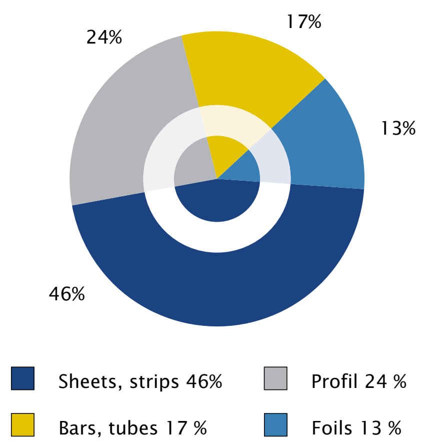


Figure 9:

Sales of product types



Impol offers its customers a wide range of rolled and extruded aluminium products and to a lesser extent forged products, all tailor-made to meet individual needs of a customer. Consequently, its production process is organised and run as individual production, but performed as mass production in order to meet price expectations of customers.

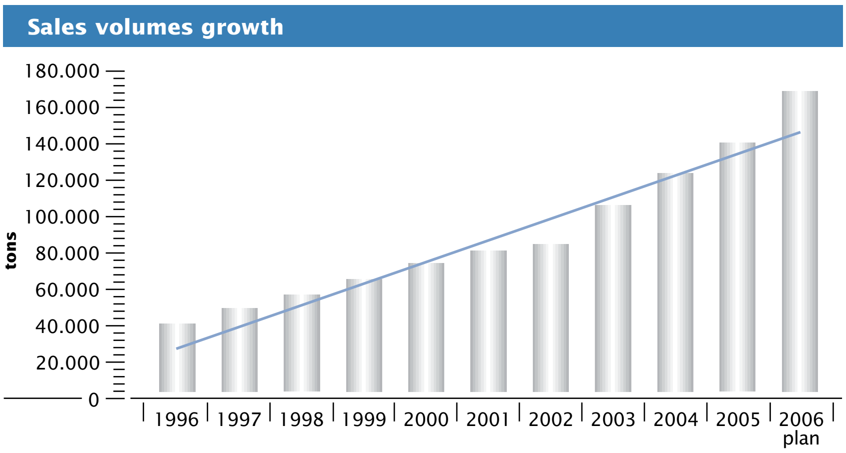
Table 5: Quantities and indexed volumes of sales

Year	Sales in tons	Index of sales volumes
1996	41,238	
1997	51,024	1.24
1998	56,134	1.10
1999	64,212	1.14
2000	74,092	1.15
2001	80,378	1.08
2002	84,452	1.05
2003	107,778	1.28
2004	122,233	1.13
2005	139,769	1.14
Plan 2006	167,765	1.20

Since aluminium is a commodity, its price is very volatile, that is why its sales volume alone does not show the actual activity on the market. Impol's market activity is evident from the constant growth of the sales volume, which is also expected in 2006.

Impol mostly sells to the EU, and its EU sales including Slovenia amount to 90% of all sold products. Impol has 400 major buyers, but none of them is prevailing.

Figure 10:



Purchase

Only the purchase of aluminium materials is performed centrally within the Impol Group in line with the rule of achieving optimal purchase conditions in terms of price, deadlines, cost and quality. Aluminium materials represent more than 70% of all purchases.

Impol's most important suppliers are providers of aluminium materials, energy and transport. Around 80% of aluminium material is imported. Consequently, terms and purchase prices of aluminium materials depend on the price fluctuation at the London Metal Exchange (LME). Impol has been constantly expanding the manufacture of secondary aluminium, which is in line with the company's business guidelines to protect the environment.

In 2005, purchase prices of materials grew considerably, which was a consequence of Slovenia's accession to the EU (customs duties grew by approximately € 100 per ton while aluminium prices at the LME increased by approximately € 660 per ton), extraordinary increase of demand on emerging markets, and increasing investment of stock investment funds in optional aluminium purchases.

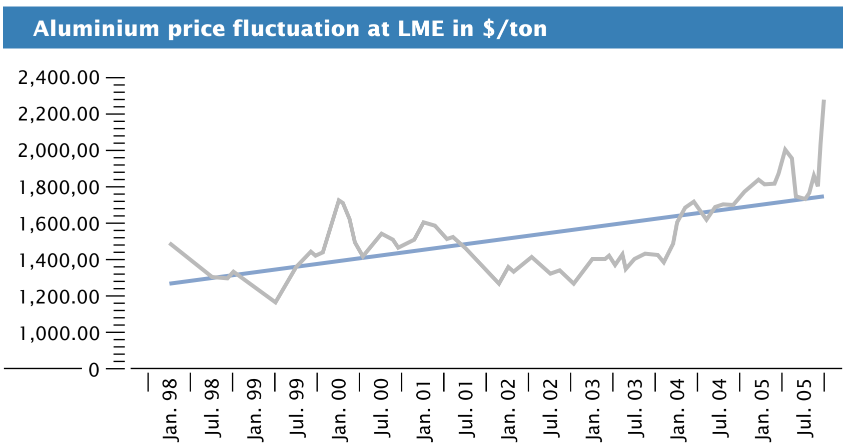
After a two-year trend of aluminium price rise (Figure 11), there was an extreme rise of aluminium prices at the end of 2005. The trend continued into the first months of 2006, and the management of subsequent risks has high priority in Impol.

Since aluminium purchase prices are formed autonomously and Impol has practically no influence on them, the Group follows the rule to use satisfactory aluminium types and quality at lowest possible prices (e.g. use of secondary aluminium instead of aluminium ingots, use of natural gas instead of propane-butane etc.).

All other purchase within the Impol Group is organised by the individual production or services unit, and does not cause major problems.

We put stress on trailing the origin of materials and according to that we select our purchase paths and sources.

Figure 11: Aluminium price fluctuation at the LME



Risk management

Since aluminium is purchased on the basis of tradable prices, Impol secures some purchase prices with the purchase and sale of special instruments (hedging). At the end of 2005, Impol had open positions of SIT 4.1 billion (€ 17 million or 9,213 tons of aluminium). Impol has secured sales positions that are not concluded with covering with aluminium material in stock.

Due to quick changes on the market and the occurrence of new risks, Impol's Risk Management Board carries out weekly assessments of all risks, and Impol simultaneously adopts measures to manage their negative impact. Internal audit is part of that process.

High-risk areas in Impol and risk management:

- Investments
  - Growth of fixed costs due to new investments and the consequent need for sales growth are managed by extending business operations.
  - Employing outside knowledge and organizing the Group in an adequate way to manage required technical and technological gain of new investments and markets. In 2005, the Group was restructured into product units.
  - The adequate cash flow for ensuring the repayment of invested assets was secured with the adequate depreciation.
  - Investment in and financing of fixed tangible assets was secured by gaining investments in the form of short-term credits, and by timely renewing investments.
  - Operational leasing was used for investments in politically unstable regions.
  - All investments in fixed assets were secured against most probable risks.

- Planning process
  - Business and strategic decisions were met only on the basis of required expert opinion and the assessment by adequate management organs.
  - The conclusion of purchase contracts and consequent investments in materials and production stocks was allowed only on the basis of a weekly harmonisation of purchased quantities with sold quantities, and on the basis of basic internal regulations and controls, including the immediate supervision by the management.
  - The influence of the unpredictable market on the decision to increase the sale was managed by increasing the sale among our familiar long-time buyers.

■ Purchase

- Aluminium – unpredictable activities concerning prices and premiums, currency risk (negative exchange rate differences), and unreliable purchase sources that would result in negative impacts on production were managed by dispersing purchase markets, buying derivative financial instruments and closing long-term contracts.
- Energy – unexpected price rises of electrical energy were managed by closing long-term purchase contracts for electrical energy. Gas is secured for a long term on the basis of forecasts and by shifting the use of less reliable sources to more reliable ones (from propane-butane to natural gas in Serbia).
- A multi-stage supervision of purposes is applied in all purchases.

■ Production

- The managing of technological processes and preservation of acquired technological skills was secured by using a harmonised system for the managing of internal knowledge, and by modernising the information system.
- Stock was managed by reliably informing all people involved about its current movement. That was achieved with the help of the information system and by defining the acceptable stock amount, under consideration of the expected production quantity, available purchase sources and customers' demands.
- Equipment has been insured against damage; most exposed areas have additionally been insured against loss of income.
- Bottlenecks in available foundry capacities were eliminated within the continuous supervision of capacity occupancy by launching an investment in a new foundry. These measures will continue in 2006.

■ Sales

- Due to quick aluminium price changes at the LME, Impol tried to adjust its sales prices with the same pace, even daily if required.
- Sale and after-sale services – to avoid substitutive purchases, production stops, logistical problems etc. were handled with customers before the realisation deadline; complaints were solved in 65 days.
- Receivables – deadline for engaging the funds is 50 to 60 days; in 2005, export receivables were insured at the Slovene Export Corporation; there are only few not collected receivables, but are already in the recovery process.
- Impol conducts daily supervisions of reaching the planned extent of liabilities and takes corresponding measures to avoid the growth of unmarketable stocks due to unharmonised deadlines of purchase and sales.
- Individual exposed sales areas are insured against producer responsibility risks (general, extended responsibility).

Finance

In 2005, following approaches for effective and systematic managing of financial risks were applied:

- achieving business stability and decreasing risk exposure to an acceptable level,
- increasing company's value and improving its credit position,
- preventing uncontrolled growth of financial expenses.

Impol Group has taken following measures for reduction of major financial risks:

- Risks due to mistrust of external investors (short-term and long-term creditors): due to an inadequate capital structure these risks are managed by dispersing the sources to secure the minimum risk exposure of individual investors.
- Currency risks are most prevalent on the markets of Serbia and Montenegro. They have been managed and reduced with the currency swap of loans from American dollars into euros (hedging with inflows that are mainly in euros), with early repayment of long-term credits, denominated in American dollars, with purchase of derivative financial instruments and reduction of required investments in tangible assets by including after-treatments.
- Interest rate risks have been managed simultaneously with currency risks.

The management estimates the risks as controllable. However, it is important to closely and continuously control the fluctuation of purchase prices and ensure an adequate capital structure.

Internal audit

The parent company has got a system of internal audit to help the management to adopt decisions with a minimum risk. The internal audit runs on the basis of a plan determined by the management and on the basis of management's current decisions on getting involved in the process of solving priority issues.

Internal auditors submit reports about their work to the parent company's management, and operate within the total Impol Group.

Development, organizational and investment processes

In 2005, major investments in development continued, enabling the Group to preserve its competitive status. There were activities on several levels, but here are most important events:

- Major innovating activities continued by gathering and implementing valuable proposals – there were over 170 proposals and over 266 people involved.
- Development technologists (over 20 in the Impol Group) carried out around 50 research and development projects, and the best ones – after being implemented successfully – were presented at Impol's research and development symposium.
- In April, production programmes were reorganized in a division of rolled and a division of extruded programmes to improve the technical and developmental support for buyers and the production process.
- Investments that were carried out were mostly intended to ensure organic growth. They were not as extensive as in the previous year, but they were still of considerable extent.

Table 6: Investment

	mil SIT	mil EUR
Investment in fixed assets	3,989	16.6
Investment in current assets	2,991	12.5
Total	**6,980**	**29.1**

Employees

In 2005, there were no major personnel changes; all changes took place on the basis of natural or voluntary fluctuation.

Impol, d. d.	978	971
Impol Seval, a. d.	544	564
Seval Finalizacija, d. o. o.	91	69
Seval PKC, d. o. o.	31	11
Seval Tehnika d.o.o.	76	67
Seval Final, d. o. o.	28	29
Stampal SB, d. o. o.	38	36
IAC	4	3
Impol Stan, d. o. o.	1	1
Stanovanja, d. o. o	1	2
Unidel, d. o. o.	49	50
Total Impol Group	**1841**	**1803**

Impol continues to offer a complementary pension plan for all employees to guarantee additional social security with monthly payments of up to SIT 6,000 per employee. Nearly all employees have joined this plan.

In all companies of the Group, wages are formed according to adopted contractual and legal terms.

Environmental and health policy

Impol is aware of the importance of preserving natural resources, which will have a long-term effect on the competitiveness and existence of any company. That is why Impol is constantly checking its system by renewing its ISO 14001 and OHSAS 18001 certifications.

We have got continuous control over and keep record of all areas of the production process, where harmful emissions could be produced or where dangerous substances are used. We carry out required measurements at regular intervals and take appropriate measures.

Impol has been adapting to EU regulations and is now planning an investment in weaknesses of foundries that will be completed in 2007.

In 2006, all material production units of the Group followed the parent company by becoming mostly independent from external sources of industrial water. That was achieved with a closed cooling system that only requires external sources to add water that evaporated during the process.

Objectives

In 2006, Impol is aiming at specific goals and tasks to complete its objectives included in its strategy for the 2006 – 2010 period. The situation at the beginning of 2006 has got important impacts on internal and external events. Here are the major influences:

- International competition is becoming stronger, especially with new competitors from Asia and – due to restructuring – from Eastern Europe.
- Prices of materials are growing due to additional demand by new producers, who – with additional supply in the area of manufacture – hinder the simultaneous changing of sales prices of Impol's products. It is necessary to continuously take measures for improvements of risk management and hedging.
- Added value per product unit of standard products is still decreasing, and the competition is growing.
- Due to major investment in the last three years, internal costs per product unit in the unchanged programme are higher, and demand an expansion and changes of the programme.
- Customs and origin of in-put materials remain an expensive obstacle to competitiveness.
- In 2006, the restructuring of production programmes is continuing, and will have positive effects on business results in the second half of the business year.

In 2006, Impol's basic goals (including marginal goals) are:

- Impol is orienting all its sources towards the production of products with higher added value. To achieve that, the company will adjust its development activities, financing, sales activities and channels, production and technological activities, innovations etc.
- Impol will pay close attention to its customers at all co-operation levels, especially in the area of common acquisition of new products and qualities, in securing supplies according to agreements and after-sale services.
- Seval will produce a bigger number of demanding products (plates, sheets, painted strips, strips of foil quality for further manufacture within the Group). As soon as new foundry capacities allow it, Seval will gradually shift to higher added value and to the full capacity of the hot rolling mill by increasing the supplies of hot rolled strips to Impol (around half of it of foil quality).
- Seval continues with the acquisition of the foil-stock production programme by redirecting a foundry line into it.
- In the middle of 2006, the new foundry line with the capacity of 40,000 tons of planed and cut ingots will start operating in Seval.
- In the future, certain product types will only be produced from purchased scrap material.

- Impol will reach the following minimum production for customers outside the Group:

Al production - sale	tons	000 EUR
products total	154,686	
Impol	108,864	261,017
Stampal SB	900	6,300
Impol Seval	44,922	133,003
manufacture	7,000	
Total	**161,686**	**400,320**

- Impol will offer a wider range of products adjusted to customers' demands by including all company's units and its subsidiaries in a unified supply and market co-operation system – the Impol trade name ensures quality.
- With growing business operation in 2006, Impol will ensure the growth of shareholders' property and offer a dividend amount that will be harmonized with Impol's long-term strategy.
- According to our expectations, the Group's marginal activities (trade and other services) will not have a negative impact on the total business operation. In 2006, the Impol Group plans to gain around € 6.5 million.
- Impol will continue to expand all its existent markets. Market risks will be reduced with adequate and rational ways of hedging. Our goal is to attain 20% non-EU markets in the sale of aluminium products. On the EU market, we will focus on our domestic market, and in regard to its potential size, we will meet its demands as comprehensively as possible.
- Our development and investment policy includes especially the long-term growth of the company along with ensuring better security in the purchase of in-put materials at an adequate price. We will focus on investment inside and outside the current business that will bring higher added value and annual physical productivity of around 119 tons per employee in Impol SB and 103 tons per employee in all companies of the Group that manufacture and sell aluminium. We are planning a more than 13% increase of physical productivity per employee.
- With regard to the data from the previous paragraph, financial measures will be harmonised with development and market goals of Impol. To gain cash for long-term investments, Impol will co-operate with other investors and banks, mostly using leasings. For short-term financing, Impol will mostly apply cheapest bank sources, while dispersing sources and reducing the size of investments in tangible assets.
- With a strict selection of investments, long-term investments will be aimed at sectors that have the potential to achieve higher added value and higher profitability. However, those investments must not cause a considerably higher risk, and the Risk Management Board will ensure that with its supervision.
- In the supply of raw materials, Impol will focus on sources with stable supply offering most favourable and acceptable price and other conditions, and enabling the Company to supply its customers with products of adequate EU origin.
- Changes in the structure of business operation will include training to achieve maximum customer satisfaction, optimising business operation in individual programmes, and building an integrated information system in the Group.

- We will continue to build our employee stimulation system by increasing productivity and ensuring high product quality, with most important stimulations of promoting and awarding the achievements of satisfactory profit levels.
- The selection and orientation of production programmes will be carried out in an integral way within the Group. We will secure higher added value per product unit by increasing the application of our own forgeries in the early stages of materials preparation from less demanding in-put materials. Our priority is to include a maximum amount of secondary materials, and exclude a maximum amount of materials that were previously elaborately processed by our suppliers.
- We will focus on the acquisition of new foil production processes in order to modernise and achieve the annual production of 20,000 tons of foils as soon as in the second half of 2006.
- In the first half of the year, it will be a priority to conclude the construction and start the operation of new forging capacities in Sevojno to ensure the long-term supply of rolled production.
- We will continue to check the advisability of the structure in individual activities of the parent company Impol in the field of rolling and extruding with the purpose to ensure better safety in the system with aluminium manufacture as its main activity.
- In 2006, we expect following business results for the Impol Group and especially for the parent company Impol d.d. (only selected indicators – all figures are in thousands of € except if stated otherwise):

Selected indicators	Impol Group	Impol d .d.
Total assets	275,541	231,861
- fixed assets	137,947	124,291
Equity	88,725	86,067
Long-term liabilities	42,728	30,493
Net sales revenue	453,753	374,171
Write-offs - depreciation	18,606	14,084
Interest cost	12,478	4,355
Net profit for the year (before taxes)	10,948	7,074
Net profit for the year (after taxes)	8,759	5,659
Net profit for the year (before investments)	27,365	19,743
Average number of employees	1,867	974

- Long-term investment will be put in forms that will perform well on the market and have a satisfactory profitability, adequate cash flow from the beginning of their operation, and a return in 5 to 7 years. At the beginning of the year, the second modernised press will start running in the regular production process. In Seval, we will increase forgery capacities in the first half of the year, activate the transferred format cutter in February, and complete the restructure and programme specialisation in the Group.
- Research activities continue to follow their objective – at least 3 development researches per researcher annually. Development researches include projects that bring innovations in the Group to meet customers' demands. We will take part in extensive PR projects that will enable us to use co-financing from national and international funds.

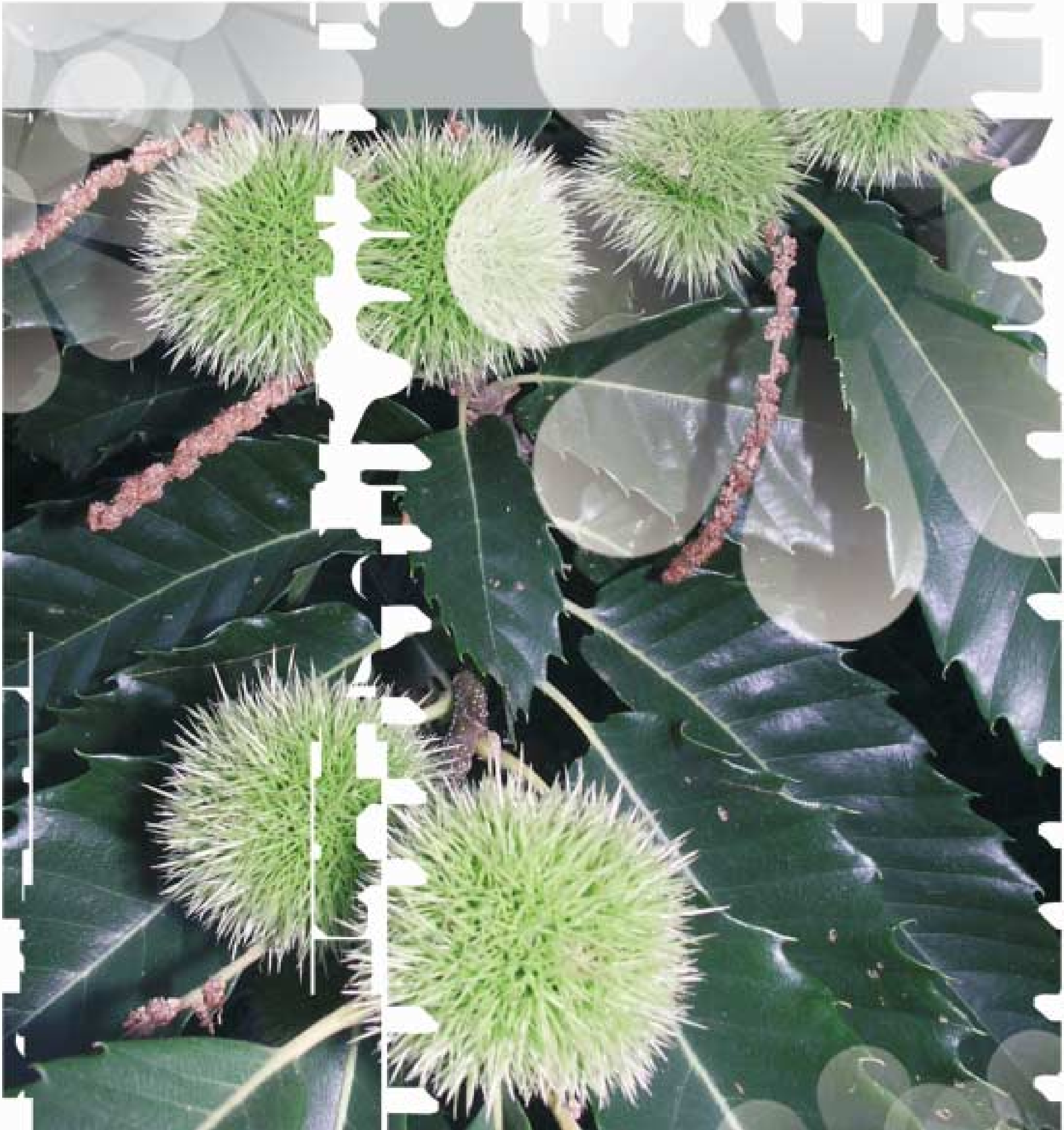
- Employees who meet demands to apply for the researcher status will acquire that status.
- The Group will have maximally 1870 employees, most of them in the parent company Impol (around 975) and Seval (up to 760 including Seval's subsidiaries).
- We will encourage production training for the needs of the production processes within the company, but we will also encourage self-education.

Quality principles

- Quality is one of Impol's long-time principles – everyone involved in our business processes is aware of it.
- For Impol, quality includes better, cheaper, faster and safer ways of meeting customers' demands.
- Improvement is achieved with goal setting and application of the PDCA cycle of constant improvements.
- In quality management, the ISO 9001: 2000 standard has been used to define processes, set their goals and determine their owners.
- We are aware that the quality system is influenced by demands concerning products. In that way, the goals of the quality system are at the same time the goals of processes, and correspond to company's business goals.
- Goals of processes are measured, controlled and improved with the help of harmonised indicators.
- Impol was among the first to adopt the ISO 9001 standard in 1992, and has since built its success story on that basis.
- One of our efforts to meet all specific quality demands of individual customers was the adoption of the ISO TS 16949 standard for products used in car industry.
- We combined the quality system with the systems for environment protection, health and safety to form an integrated management system.
- The systems are integrated at the execution level of the processes, but follow the clearly defined policy and objectives.

Important events after the concluded business year

From 1 January 2006 until the preparation of this annual report, there was an important change in the ownership structure. The new shareholder Slovenska odškodninska družba (Slovenian Compensation Fund) has bought 11.36% of Infond Holding and Infond Holdig 1 shares.



Financial statements

Consolidated balance sheet[4]

		2004 in SIT	2005 in SIT	2004 in EUR	2005 in EUR
A	FIXED ASSETS	37,068	37,692	154.60	157.20
I.	Intangible long-term assets	280	295	1.17	1.23
II.	Tangible fixed assets	36,332	36,955	151.53	154.13
III.	Long-term financial investments	456	442	1.90	1.84
B	CURRENT ASSETS	27,851	30,842	116.16	128.63
I.	Inventories	13,580	15,774	56.64	65.79
II.	Trade receivables	12,373	13,849	51.60	57.76
a)	Long-term trade receivables	60	53	0,25	0,22
b)	Short-term trade receivables	12,313	13,796	51.35	57.54
	1 Short-term receivables from customers	11,239	11,964	46.87	49.90
	3 Short-term receivables from associated companies	2	2	0.01	0.01
	4 Short-term receivables from others	44	2	0.18	0.01
	5 Other advance payments given	28	30	0.12	0.12
	6 Other receivables (VAT...)	1,000	1,798	4.17	7.50
III.	Short-term financial investments	445	348	1.86	0.85
IV.	Cash in bank, cheques and cash in hand	1,453	871	6.06	4.23
C	DEFERRED COSTS AND ACCRUED REVENUES	93	1,091	0.39	4.55
	ASSETS	**65,012**	**69,625**	**271.14**	**290.39**
	OFF BALANCE SHEET ASSETS	**22,595**	**25,398**	**94.24**	**105.93**
A	EQUITY	18,799	19,005	78.40	79.27
	equity of minority shareholders	931	885	3.88	3.69
I.	Called-up capital	4,063	4,063	16.95	16.95
II.	Capital reserves	0	0	0.00	0.00
III.	Reserves from profits	6,950	7,296	28.99	30.43
1.	Regulatory reserves	653	653	2.72	2.72
4.	Other reserves from profits	6,297	6,643	26.26	27.71
IV.	Retained net profit/loss	1,440	-731	6.00	-3.05
V.	Net profit/loss of the business year	-1,619	427	-6.75	1.78
	- profit/loss of minority shareholders	55	29	0.23	0.12
VI.	Capital revaluation adjustment	7,088	7,094	29.56	29.59
B	Provisions	1,306	939	5.45	3.92
C	FINANCIAL AND OPERATING LIABILITIES	44,805	49,290	186.87	205.57
a)	Long-term financial and operating liabilities	9,959	9,692	41.53	40.42
b)	Short-term financial and operating liabilities	34,846	39,598	145.33	165.15
2	- short-term financing liabilities to	28,023	31,832	116.87	132.76
	a) banks	26,606	31,687	110.97	132.16
3	- from advances	74	109	0.31	0.46
4	- from business operations	5,811	6,553	24.24	27.33
6	- to others	938	1,105	3.91	4.61
D	ACCRUED COSTS AND DEFFERED REVENUES	102	391	0.43	1.63
	LIABILITIES	**65,012**	**69,625**	**271.14**	**290.39**
	OFF BALANCE SHEET LIABILITIES	**22,595**	**25,398**	**94.24**	**105,93**

[4] All statements are stated in millions of SIT or EUR. All conversions from SIT into EUR are made according to the Bank of Slovenia exchange rate on 31 December 2005.

Consolidated business statement

	2004 in SIT	2005 in SIT	2004 in EUR	2005 in EUR
Net sales revenues	**85,866**	**83,288**	**359.48**	**347.56**
Sales of goods (tangible)	50,624	61,635	211.94	257.20
- domestic market	9,026	7,967	37.79	33.25
- foreign markets	41,597	53,668	174.15	223.95
Sales of services	690	714	2.89	2.98
- domestic market	442	632	1.85	2.64
- foreign markets	248	82	1.04	0.34
Sales of merchandise and material	34,552	20,939	144.65	87.38
- domestic market	13,486	5,162	56.46	21.54
- foreign markets	21,066	15,777	88.19	65.84
Change in inventories	1,277	-292	5.35	-1.22
Other capitalized products and services	37	24	0.15	0.11
Other operating revenue	412	2,140	1.73	8.94
GROSS OPERATING PROFIT	**87,592**	**85,160**	**366.71**	**355.39**
Cost of goods, material and services	76,554	71,995	320.50	300.44
Labour costs	7,033	6,549	29.44	27.33
- Cost of wages and salaries	5,051	4,500	21.15	18.78
- Social insurance costs	867	1,174	3.63	4.90
- Other labour costs	1,115	875	4.67	3.65
Depreciation costs	2,494	3,425	10.44	14.27
- Depreciation	2,471	3,370	10.34	14.04
- Operating current assets write-offs	24	55	0.10	0.22
Other operating expenses	1,048	271	4.39	1.09
TOTAL OPERATING COSTS AND EXPENSES	**87,129**	**82,220**	**364.77**	**343.12**
OPERATING PROFIT	**463**	**2,940**	**1.94**	**12.27**
TOTAL FINANCIAL REVENUES	**1,591**	**1,387**	**6.66**	**5.79**
Financial revenue from equity capital interests	24	25	0.10	0.10
Financial revenue from long-term receivables	7	4	0.03	0.02
Financial revenue for short-term receivables	1,560	1,358	6.53	5.67
- from interests to others	99	81	0.41	0.34
- positive exchange rate differences	1,217	642	5.09	2.68
- other financial revenues (discounts, futures)	244	635	1.02	2.65
TOTAL FINANCIAL EXPENSES	**3,828**	**4,433**	**16.02**	**18.50**
Financial expenses for investments write-offs	5,387	31	22.55	0.13
Interest expense and financial expenses for other liabilities	3,808	4,403	15.94	18.37
- interest from business operation	100	74	0.42	0.30
- interest from short-term loans	876	1,191	3.67	4.97
- interest from long-term loans	472	461	1.98	1.92
- negative exchange rate differences	1,919	2,127	8.03	8.87
- revaluation financial expenses (interest etc.)	11	8	0.04	0.03
- other financial expenses (discounts, futures)	537	541	2.25	2.26
Net profit from ordinary activities before taxation	-1,774	-106	-7.43	-0.44
Net profit from ordinary activities	-1,774	-106	-7.43	-0.44
Extraordinary revenue	268	721	1.12	3.01
Extraordinary expenses	57	27	0.24	0.11
Profit from extraordinary activities	211	694	0.88	2.90
Income tax	56	42	0.23	0.17
Net profit in the accounting period	-1,619	546	-6.78	2.28
Net profit of minority shareholders	55	29	0.23	0.12

Net revenues are lower due to the partial closure of trade activities in the subsidiary IAC NY because of their insufficient profitability. Additional closures of those activities are planned for 2006.

Consolidated cash flow statement

	Items	2004 v SIT	2005 v SIT	2004 v EUR	2005 v EUR
A.	**Cash flows from operating activities**				
a)	Inflows	87,317	83,448	365.56	348.23
	Operating revenues	87,592	85,164	366.71	355.39
	Extraordinary operating revenues	236	527	0.99	2.20
	Opening minus closing operating receivables	-683	-1,245	-2.86	-5.19
	Opening minus closing deferred costs and accrued revenues	173	-998	0.72	-4.17
b)	Outflows	-86,863	-78,515	-363.66	-327.64
	Operating expenses exclusive of depreciation and long-term provisions	-83,315	-78,454	-348.80	-327.39
	Extraordinary operating expenses	-57	-27	-0.24	-0.11
	Income tax and other taxes not included in operating expenses	-56	-42	-0.23	-0.17
	Opening minus closing inventories	-2,351	-2,195	-9.84	-9.16
	Opening minus closing operating liabilities	-917	1,913	-3.84	7.98
	Opening minus closing accrued costs	-167	289	-0.70	1.21
c)	Net operating inflow or net operating outflow	454	4,933	1.90	20.59
B.	**Cash flows from investment activities**	**0**	**0**	**0.00**	**0.00**
a)	Inflows from investment activities	2,370	1,329	9.92	5.55
	Financial revenues related to investment activities	607	1,074	2.54	4.48
	Extraordinary revenues related to investment activities	27	0	0.11	0.00
	Offset decrease in intangible fixed assets	1,153	0	4.83	0.00
	Offset decrease in tangible fixed assets	0	0	0.00	0.00
	Offset decrease in long-term investments	45	14	0.19	0.06
	Offset decrease in short-term investments	537	241	2.25	1.01
b)	Outflows from investment activities	-8,937	-5,543	-37.41	-23.13
	Financial expenses related to investment activities	-1,628	-1,259	-6.82	-5.25
	Extraordinary expenses related to investment activities	0	0	0.00	0.00
	Offset increase in intangible fixed assets	0	-47	0.00	-0.20
	Offset increase in tangible fixed assets	-7,592	-4,237	-31.78	-17.68
	Offset increase in long-term investments	283	0	1.19	0.00
	Offset increase in short-term investments	0	0	0.00	0.00
c)	Net investment inflow or net investment outflow	-6,567	-4,214	-27.49	-17.58
	Net operating/investment inflow or net operating/investment outflow	-6,113	719	-25.59	3.00
C.	**Cash flow from financing activities**	**0**	**0**	**0.00**	**0.00**
a)	Inflows from financing activities	9,368	4,423	39.22	18.46
	Financial revenue related to financing activities	134	0	0.56	0.00
	Extraordinary revenue related to financing activities	0	0	0.00	0.00
	Capital increase (excluding net profit)	662	0	2.77	0.00
	Offset increase in long-term provisions	-18	0	-0.07	0.00
	Offset increase in long-term financial liabilities	0	509	0.00	2.13
	Offset increase in short-term financial liabilities	8,590	3,914	35.96	16.33
b)	Outflows from financing activities	-2,503	-5,581	-10.48	-23.29
	Financial expenses related to financing activities	-1,955	-4,403	-8.19	-18.37
	Extraordinary expenses related to financing activities	0	0	0.00	0.00
	Capital decrease (excluding net loss)	0	-14	0.00	-0.06
	Offset decrease in long-term provisions	0	-220	0.00	-0.92
	Offset decrease in long-term financial liabilities	-194	-619	-0.81	-2.58
	Offset decrease in short-term financial liabilities	0	0	0.00	0.00
	Decrease in liabilities toward owners related to profit sharing (payments of dividend and other shares in profit)	-354	-325	-1.48	-1.36
c)	Net financing inflow or net financing outflow	6,865	-1,157	28.74	-4.83
	Inflow or outflow in the accounting period	752	-438	3.15	-1.83
	CLOSING BALANCE OF CASH	**1,453**	**1,015**	**6.08**	**4.24**
x)	Net cash flow in the period	752	-438	3.15	-1.83
y)	Opening balance of cash and cash equivalents	701	1,453	2.93	6.06

Revaluation items are excluded from the cash flow statement.

Performance indicators

	2004	2005
FINANCIAL STABILITY AND LIQUIDITY INDICATORS		
Equity financing rate (equity + reserves)/(inventories + tangibles + intangibles)	39.7%	37.3%
Financial stability indicators		
a) Equity capital / All operating assets sources	28.9%	27.3%
b) Equity capital + long-term liabilities/Operating liabilities	46.2%	42.6%
c) Equity capital/ Fixed assets (net carrying amount)	51.7%	51.4%
Financial leverage capability		
a) Equity capital + Long-term liabilities/Fixed asset + Inventories	56.8%	53.7%
b) Golden balance rule = long-term sources / long-term investments	77.6%	76.1%
c) Net debt / Revenue from operations	52.3%	49.5%
Financial independence rate in %		
liability repayment with assets	144.8%	140.1%
Current ratio		
current assets/short-term liabilities	79.8%	77.8%
Quick ratio		
(current assets - inventories)/ short-term liabilities	40.8%	37.9%
Quick liquidity indicator		
acid test ratio = (cash + securities)/short-term liab.	5.4%	3.1%
Financing costs indicators		
a) Financial expenses/total expenses	4.0%	5.1%
b) Short-term liabilities/(short-term + long-term liabilities)	77.8%	80.3%
Liabilities to long-term sources	67.1%	60.1%
Inventory to long-term sources	45.2%	53.2%
Equity capital/fixed assets	50.7%	50.4%
ASSETS TURNOVER		
Assets turnover ratios	1.36	1.26
Days assets outstanding	269	290
PROFITABILITY INDICATORS		
Net profit / Operating assets	4.10%	0.78%
Net profit / (Equity capital – Net profit for the current period)	-7.93%	2.94%
Reproduction capabilty rate	4.53%	20.58%
Depreciation vs. tangible and intangible fixed assets ratio	6.67%	8.93%
EFFICIENCY AND PRODUCTIVITY INDICATORS		
Operating revenues/operating expenses	100.25%	104.00%
Operating revenues/equity capital	399.42%	449.64%
Revenues per employee (annual basis) in mil SIT per employee	41.52	47.40
Financial revenues vs. financial expenses ratio	51.0%	31.3%
Net carrying value of fixed assets / total assets	55.9%	53.1%
Intangible fixed assets + long-term invest. + long-term receivables / assets	56.7%	53.8%

Business review of the Impol Group companies

The consolidated balance sheet is assessed on the basis of accounting statements of Impol d.d. and the following subsidiaries that are included in the consolidation of the Impol Group.

in thousands of SIT

BALANCE SHEET

	Impol	Impol Seval	Seval Finalizacija	Seval PKC	Seval Tehnika	Seval Final	Stampal SB
FIXED ASSETS	35,034,219	7,451,086	1,994	0	12,075	0	251,656
Intangible fixed assets	262,129	4,648	0	0	0	0	0
Tangible fixed assets	30,912,616	7,183,158	1,994	0	12,075	0	251,656
Fixed assets being acquired	2,930,069	1,295,165	0	0	0	0	0
Long-term financial investments	3,859,474	263,281	0	0	0	0	0
CURRENT ASSETS	27,286,603	2,240,504	183,408	19,634	63,924	22,723	512,461
Inventories	13,327,250	1,484,147	89,459	36	8,513	227	39,064
Long-term trade receivables	99,974	0	0	0	0	0	0
Short-term trade receivables	13,327,495	644,682	70,104	14,762	49,748	15,351	355,307
Short-term financial investments	75,735	12,125	1,720	1,938	1,347	4,377	0
Cash in bank and cash equivalents	456,149	99,551	22,126	2,898	4,316	2,768	118,090
DEFERRED COSTS ACCRUED REVENUES	284,432	797,401	2,118	0	0	177	2,127
ASSETS	62,605,254	10,488,992	187,520	19,634	75,999	22,900	766,244
OFF BALANCE SHEET ASSETS	22,353,744	2,446,428	0	0	0	0	172,542
EQUITY	20,075,668	2,820,983	(161,896)	14,276	34,101	17,397	386,812
Provisions	61	0	0	0	0	0	0
FINANCIAL AND OPERATING LIABILITIES	42,192,122	7,637,207	347,787	5,359	41,898	5,502	377,687
Long-term liabilities	8,440,888	2,084,957	88,696	0	0	0	37,887
Short-term liabilities	33,751,234	5,552,250	259,092	5,359	41,898	5,502	339,800
ACCRUED COSTS AND DEFFERED REVENUES	337,403	30,802	1,629	0	0	0	1,745
LIABILITIES	62,605,254	10,488,992	187,520	19,634	75,999	22,900	766,244
OFF BALANCE SHEET LIABILITIES	22,353,744	2,446,428	0	0	0	0	172,542

in thousands of SIT

BALANCE SHEET	IAC	Impol Stan	Impol Stanovanja	Unidel	Štatenberg	Impol Montal
FIXED ASSETS	21,286	3,759	457,720	73,376	144,107	1
Intangible fixed assets	0	0	454	473	0	0
Tangible fixed assets	18,013	3,759	367,400	72,902	141,058	0
Fixed assets being acquired	0	0	0	0	0	0
Long-term financial investments	3,273	0	89,866	1	3,049	1
CURRENT ASSETS	1,419,879	5,471	401,213	197,052	4,081	178,186
Inventories	831,832	0	0	46,184	0	0
Long-term trade receivables	0	0	0	0	0	0
Short-term trade receivables	533,950	2,015	10,390	109,428	353	5,675
Short-term financial investments	0	0	188,486	0	1,765	166,478
Cash in bank and cash equivalents	54,097	3,456	202,337	41,440	1,963	6,033
DEFERRED COSTS ACCRUED REVENUES	3,067	0	75	1,843	0	0
ASSETS	1,444,232	9,230	859,008	272,271	148,188	178,187
OFF BALANCE SHEET ASSETS	0	0	0	0	6,089	137,852
EQUITY	347,123	7,319	852,499	10,863	108,990	161,262
Provisions	0	0	0	162,962	0	0
FINANCIAL AND OPERATING LIABILITIES	1,096,536	1,911	6,428	97,190	38,473	147
Long-term liabilities	0	0	0	4,798	0	0
Short-term liabilities	1,096,536	1,911	6,428	92,392	38,473	147
ACCRUED COSTS AND DEFFERED REVENUES	573	0	81	1,256	725	16,778
LIABILITIES	1,444,232	9,230	859,008	272,271	148,188	178,187
OFF BALANCE SHEET LIABILITIES	0	0	0	0	6,089	137,852

in thousands of SIT

BUSINESS STATEMENT

	Impol	Impol Seval	Seval Finalizacija	Seval PKC	Seval Tehnika	Seval Final	Stampal SB
Net sales revenues	73,173,860	15,835,889	588,395	33,920	190,951	55,818	933,723
Sales of goods (tangible)	57,953,930	14,408,696	437,842	0	3,945	0	791,363
- domestic market	6,048,945	2,275,391	375,288	0	3,945	0	1,697
- foreign markets	51,904,985	12,133,305	62,554	0	0	0	789,666
Sales of services	1,053,914	1,302,353	16,158	33,920	186,853	55,818	37,423
- domestic market	527,538	73,268	16,158	33,920	186,853	55,818	15,197
- foreign markets	526,376	1,229,085	0	0	0	0	22,226
Sales of merchandise and material	14,166,016	124,840	134,395	0	153	0	104,937
- domestic market	1,353,341	29,229	134,395	0	153	0	104,937
- foreign markets	12,812,675	95,610	0	0	0	0	0
Change in inventories	594,438	(859,738)	(23,443)	0	0	0	(3,664)
Other capitalized products and services	0	24,269	0	0	0	0	0
Other operating revenue	330,599	1,806,716	0	0	0	0	11,515
GROSS OPERATING PROFIT	**74,098,897**	**16,807,136**	**564,952**	**33,920**	**190,951**	**55,818**	**941,574**
Cost of goods, material and services	64,876,860	13,791,060	480,112	9,604	50,701	6,384	611,366
Cost of goods	13,719,076	29,493	123,329	0	0	0	0
Cost of material	47,343,542	12,432,338	327,991	1,455	17,518	768	511,621
Cost of services	3,814,242	1,329,229	28,792	8,148	33,183	5,616	99,745
Labour costs	4,646,029	1,140,003	125,899	22,408	137,740	49,119	169,397
Depreciation costs	2,865,396	631,531	10,212	326	696	0	52,877
- Depreciation	2,838,722	615,529	372	0	533	0	52,877
Other operating expenses	140,666	87,931	7,600	1,052	2,051	301	8,427
OPERATING PROFIT	**1,569,946**	**1,156,611**	**(58,870)**	**530**	**(236)**	**14**	**99,507**
TOTAL FINANCIAL REVENUES	**1,651,090**	**99,402**	**1,312**	**146**	**185**	**114**	**553**
TOTAL FINANCIAL EXPENSES	**2,994,238**	**1,633,555**	**15,741**	**26**	**239**	**5**	**12,381**
Net profit from ordinary activities	226,798	0	0	0	0	0	87,679
Extraordinary revenue	22,016	478,070	9,061	0	672	0	2
Extraordinary expenses	11,150	15,233	120	120	9	0	102
Income tax							21,528
Net profit in the accounting period	237,664	85,295	(64,359)	530	373	123	66,051

in thousands of SIT

BUSINESS STATEMENT	IAC	Impol Stan	Impol Stanovanja	Unidel	Štatenberg	Impol Montal
Net sales revenues	9,159,257	22,011	68,743	340,799	1,231	0
Sales of goods (tangible)	2,445,709	0	0	0	0	0
- domestic market	0	0	0	0	0	0
- foreign markets	2,445,709	0	0	0	0	0
Sales of services	0	22,011	68,743	109,603	1,231	0
- domestic market	0	0	63,922	109,353	1,231	0
- foreign markets	0	22,011	4,821	250	0	0
Sales of merchandise and material	6,713,548	0	0	231,196	0	0
- domestic market	3,477,364	0	0	231,077	0	0
- foreign markets	3,236,184	0	0	119	0	0
Change in inventories	0	0	0	0	0	0
Other capitalized products and services	0	0	0	1,011	0	0
Other operating revenue	0	0	1,500	3,143	61	863
GROSS OPERATING PROFIT	9,159,257	22,011	70,243	344,953	1,292	863
Cost of goods, material and services	9,024,481	16,141	28,779	199,965	596	1,520
Cost of goods	8,928,235	0	0	128,989	0	0
Cost of material	0	2,269	5,488	36,802	0	0
Cost of services	96,246	13,872	23,291	34,174	596	1,520
Labour costs	78,327	927	12,095	166,542	0	0
Depreciation costs	4,145	137	10,943	16,608	421	0
- Depreciation	4,145	137	10,901	16,350	421	0
Other operating expenses	0	2,871	2,891	6,922	131	66
OPERATING PROFIT	52,304	1,934	15,535	(45,084)	144	(723)
TOTAL FINANCIAL REVENUES	5,032	42	16,345	41,630	134	6,194
TOTAL FINANCIAL EXPENSES	30,943	6	658	966	933	9
Net profit from ordinary activities	26,393	1,970	31,222	(4,420)	(655)	5,462
Extraordinary revenue	10,344	0	1,557	5,314	35	0
Extraordinary expenses	0	0	0	82	0	3
Income tax	10,097	394	8,311			1,382
Net profit in the accounting period	26,640	1,576	24,468	812	(620)	4,077

in thousands of SIT

Statement of changes in equity

		2004	2005
A)	EQUITY	930,939	885,144
	equity of minority shareholders		
I.	**Called-up capital**	**921,545**	**786,212**
1	Share capital	921,545	786,212
2	Uncalled capital (as deductible item)	0	0
II.	**Capital reserves**	**11,180**	**10,000**
III.	**Reserves from profits**	**241**	**241**
1	Regulatory reserves	241	241
2	Reserves for own shares	0	0
3	Statutory reserves	0	0
4	Other reserves from profits	0	0
IV.	**Retained net profit/loss**	**-1,011,871**	**-750,666**
V.	**Net profit/loss of the business year**	**54,979**	**28,008**
		0	0
VI.	**Capital revaluation adjustment**	**954,864**	**811,348**
1	General capital revaluation adjustment	396	811,503
2	Specific capital revaluation adjustment	954,468	
	Consolidation adjustment	0	-155

Important items of consolidation:

Adjustments in the business statement		in mil SIT	in mil EUR
Consolidated profit is different from Impol's profit in following items:			
1.	The profit is lower due to the Seval-Finalizacija loss not included in the business statement of Impol	-64.4	-0.27
2.	Profit of minority shareholders	28.9	0.12
3.	Profit increase due to the elimination of negative goodwill provision of Impol Seval 12/60	193.9	0.81
4.	Profit increase due to unachieved profits from selling IAC goods from 2004	37.2	0.16
5.	Profit decrease due to unachieved profits from IAC inventories and inventories of resale goods purchased from Impol Seval	-52.3	-0.22
6.	Profit decrease due to sold fixed assets – Alpur filter from Impol Seval – other operating revenue	-11.1	-0.05
7.	Profit increase due to charged depreciation of V2 (hot rolling mill) in Impol and charged depreciation of tangible fixed assets sold to the subsidiary in Seval	174.8	0.73
8.	Influence of the conversion between the average exchange rate in the business statement and the exchange rate in the balance sheet on 31/12/2005	1.459	0.006
Due to adjustments in the consolidated balance, consolidated profit is HIGHER than the business statement of the parent company Impol d.d. for an amount of:		**308.59**	**1.29**

Adjustments in the balance sheet:		in mil SIT	in mil EUR
1.	Non-depreciated goodwill in the associated company Sampal d.o.o.	27.11	0.113
2.	Elimination of fixed assets and profit from the sale of fixed assets among Impol and Seval minus charged depreciation	-2.009.83	-8.389
3.	Decrease of inventories due to unachieved profits in product inventories sold to IAC	-52.28	-0.218
4.	The balance sheet is adjusted with the capital of Impol Seval with negative goodwill provision (inclusion in revenue in coming 5 years; for 2005, already included). The loss of minority shareholders in Seval-Finalizacija that exceeds negative capital is settled with the item of negative goodwill.	775.70	3.238
5.	Elimination of consolidation adjustment for the amount of the subsidiaries' profit and exchange rate difference	-1.93	-0.008

Accounting

report 5

ACCOUNTING POLICIES[6]

The accounting statements, business and property statements, and results of the Impol d.d. controlling company have been compiled in line with Slovenian Accounting Standards. Impol has adequately stated results of its subsidiaries that use different standards depending on different environments of their operation (USA, Serbia).

Basic purpose of Slovenian Accounting Standards is consideration of the common international accounting practices (particularly international accounting standards), financial consideration of equity, and the requirement of maintaining equity.

In separate accounting statements of the controlling company, financial investments in subsidiaries, included in the consolidated accounting statements, are disclosed according to the equity method. In consolidated statements, the difference in value between the Impol d.d. investment and Impol Seval a.d. assets is disclosed as negative goodwill provision that was amortised on 31 December 2005 on the credit side of extraordinary revenues of SIT 193,925,000. Current value amounts to SIT 775,701,000. [7]

Intangible fixed assets

Intangible fixed assets are:

- long-term deferred operating costs, charges on leasehold fixed assets, software and emission allowances,
- goodwill amounting to SIT 75,046,000 is a result of the difference in value between the Impol d.d. investment and Impol Seval a.d. assets, and will be amortised in a five-year term. Current value amounts to SIT 27,113,000.

in thousands of SIT

Description	Long-term deferred operating costs	Long-term property rights	Goodwill	TOTAL
Purchase costs 31.12.04	**258,820**	**313,373**	**75,046**	**647,239**
Adjustments after opening	–454	458		4
Purchase costs 01.01.05	**258,820**	**313,377**	**75,046**	**647,243**
Direct increases	79,514	340		79,854
Transfer from investments in progress	–56,333	56,333		0
Revaluation due to impairment	–113			–113
Decreases	–16,429		–16,462	–32,891
Purchase costs 31.12.2005	**265,005**	**370,504**	**58,584**	**694,093**
Accumulated depreciation 31.12.2004		**335,618**	**31,471**	**367,089**
Adjustments after opening		4		4
Accumulated depreciation 01.01.2005	**0**	**335,622**	**31,471**	**367,093**
Depreciation in the year	2,475	29,708		32,183
Accumulated depreciation 31.12.2005	**2,475**	**365,330**	**31,471**	**399,276**
Carrying value 31.12.2005	**262,530**	**5,174**	**27,113**	**294,817**
Carrying value 31.12.2004	**258,820**	**–22,245**	**43,575**	**280,150**

Tangible fixed assets

Tangible fixed assets are land, buildings, production machinery, other machinery and equipment, tangible fixed assets under construction and advances paid for acquisition of tangible fixed assets, which are presented in the balance sheet under tangible fixed assets, but disclosed in the accounting records as receivables.

New tangible fixed assets are initially recognised at their cost, which comprises its purchase price, import duties and non-refundable purchase taxes, as well as directly attributable costs of bringing an asset to working conditions for its intended use, especially the costs of its delivery and installation costs. Non-refundable purchasing taxes include non-refundable value added tax. Trade discounts and rebates are deducted from the purchase price.

In the accounting records, an item of tangible fixed assets is disclosed separately at its cost and the accumulated depreciation, whereas in the balance sheet, only the net carrying amount is recognised, which is the difference between the cost of the item and its accumulated depreciation.

The net carrying amount of tangible fixed assets is reduced through depreciation.

Disposed or retired tangible fixed assets are no longer items of accounting records. Any existing profits or losses are recognised as revalued operating revenues or revalued operating expenses.

Tangible fixed assets that are retired, although they could still be used, are recorded according to their carrying amount on the date of their withdrawal from use.

[5] All accounting disclosures are stated in thousands of SIT.
[6] Disclosures and other explanations of financial statements of Impol d.d. are prepared and disclosed on the basis of requests and guidelines of the Commercial Companies Act, tax legislation and Slovenian Accounting Standards with regard to best practices and principles formed after the second year of their application.
[7] In disclosures are figures for items that are not zero.

in thousands of SIT

Description	Land	Buildings	Real estate in the process of acquisition	Total real estate	Production machinery and equipment	Other machinery and equipment	Small tools	Equipment and other TFA in the process of acquisition	Advances for equipment	Total machinery and equipment	TOTAL
Purchase value 31.12.2004	934,046	17,085,569		18,019,615	55,860,093	1,606,671	202,750	2,892,180	78,615	60,640,309	78,659,924
Adjustments after opening balance		3		3		–3				–3	0
Purchase value 01.01.2005	**934,046**	**17,085,572**	**0**	**18,019,618**	**55,860,093**	**1,606,668**	**202,750**	**2,892,180**	**78,615**	**60,640,306**	**78,659,924**
Direct increases	116,617	1,149	49,536	167,302	17,965	16,706		2,226,718	1,213,836	3,475,225	3,642,527
Transfer from investments in progress		32,793	–32,796	–3	1,261,140	82,222	70,347	–2,088,811		–675,102	–675,105
Transfer between the Group's companies				0	–19,746					–19,746	–19,746
Revaluation due to strengthening				0						0	0
Revaluation due to impairment				0						0	0
Decreases		–206,872		–206,872	–98,980	–168,578	–2,802		–113,901	–384,261	–591,133
Purchase value 31.12.2005	**1,050,663**	**16,912,642**	**16,740**	**17,980,045**	**57,020,472**	**1,537,018**	**270,295**	**3,030,087**	**1,178,550**	**63,036,422**	**81,016,467**
Accumulated depreciation 31.12.2004		7,781,975		7,781,975	33,355,387	1,114,375	76,538			34,546,300	42,328,275
Adjustments after opening		1		1	–1	–3	–1			–5	–4
Accumulated depreciation 01.01.2005	**0**	**7,781,976**	**0**	**7,781,976**	**33,355,386**	**1,114,372**	**76,537**	**0**	**0**	**34,546,295**	**42,328,271**
Depreciation		326,278		326,278	2,838,904	127,287	45,412			3,011,603	3,337,881
Direct increases	0		–130				–130	–130			
Transfer from investments in progress				0						0	0
Transfer between the Group's companies				0						0	0
Revaluation due to strengthening				0						0	0
Revaluation due to impairment				0						0	0
Decreases		–135,852		–135,852	–1,303,173	–162,892	–2,579			–1,468,644	–1,604,496
Accumulated depreciation 31.12.2005	**0**	**7,972,402**	**0**	**7,972,402**	**34,891,117**	**1,078,637**	**119,370**	**0**	**0**	**36,089,124**	**44,061,526**
Carrying value 31.12.2005	**1,050,663**	**8,940,240**	**16,740**	**10,007,643**	**22,129,355**	**458,381**	**150,925**	**3,030,087**	**1,178,550**	**26,947,298**	**36,954,941**
Carrying value 31.12.2004	**934,046**	**9,303,594**	**0**	**10,237,640**	**22,504,706**	**492,296**	**126,212**	**2,892,180**	**78,615**	**26,094,009**	**36,331,649**

- Depreciation is accounted for each asset individually following the method of steady depreciation.
- The non–depreciable value is recorded only for equipment that preserves this value.
- The revaluation of tangible fixed assets was not carried out, because market prices of the assets did not change.

Used depreciation rates

TYPES OF DEPRECIABLE ASSETS	DEPRECIATION RATES in % lowest	highest
Intangible fixed assets		
goodwill	20.00%	20.00%
other investments	10.00%	10.00%
Tangible fixed assets		
Real estate:		
constructed buildings	1.30%	1.30%
other buildings	2.00%	5.00%
Equipment:		
production equipment	4.50%	10.00%
other equipment	8.20%	25.00%
small tools	25.00%	25.00%
other equipment and small tools till I/2003		33.00%
IT equipment:		
software	10.00%	10.00%
hardware	50.00%	50.00%
Motor vehicles:		
transportation vehicles	6.20%	20.00%
private vehicles	12.50%	12.50%

Depreciation is charged from the purchase costs of intangible long-term assets. Depreciation rate is determined by the forecasted utility period of individual assets considering the expected physical and technical exploitation, expected economic aging, and expected legal and other provisions. Depreciation rates for production equipment were assessed at the end of the year according to its utilization rate during the year.

Depreciation of intangible long-term assets and depreciation of tangible fixed assets is recognised separately following the method of steady depreciation.

Intangible long-term assets are amortised when they become available. The depreciation of tangible fixed assets begins on the first day of the month following the beginning of its use.

Long-term financial investments in subsidiaries and associated companies and other long-term financial investments

Long-term financial investments are assets with maturity longer than one year, and are initially determined with their purchase value, which equals the value of the invested cash assets.

Investments in stocks and shares of foreign joint-stock companies, investments in shares of domestic banks and domestic companies, and granted long-term domestic loans based on loan contracts are categorised separately.

If a long-term financial investment looses its value, its initial value is adjusted by debiting the expenses of the investment.

Collections of dividends cause a reduction of the initially recognised investments increase based on the share of profits.

Long-term investments in other companies' equity are not increased on an annual basis, collected dividends are treated separately.

The revaluation of long-term financial investments was not required and not carried out.

in thousands of SIT

LONG-TERM FINANCIAL INVESTMENTS	Purchase costs of LTFI on 31 December	of that LTFI in:			Carrying value 31 December	
		subsidiary	associated	other	2005	2004
Long-term financial investments (+)	442,042		184,472	257,570	442,042	455,795
Short-term portion						
of long-term financial investments (–)	0				0	
TOTAL LONG-TERM FINANCIAL INVESTMENTS	**442,042**	**0**	**184,472**	**257,570**	**442,042**	**455,795**

Long-term financial investments in detail

in thousands of SIT

LONG-TERM FINANCIAL INVESTMENTS	Purchase costs of LTFI on 31 December	of that LTFI in:			Carrying value on 31 December	
		subsidiary	associated	other	2005	2004
	=	+	+	+	=	
Investments in shares and stakes	300,444		132,137	168,307	300,444	295,111
Long-term loans to companies	141,597		52,335	89,262	141,597	160,684
Long-term invested assets	1			1	1	
TOTAL long-term financial receivables	**141,598**	**0**	**52,335**	**89,262**	**141,598**	**160,684**
TOTAL LONG-TERM FINANCIAL INVESTMENTS	**442,042**	**0**	**184,472**	**257,570**	**442,042**	**455,795**

- Long-term financial investments in subsidiaries are accounted for in accordance with the equity method. Business results of subsidiaries are monitored through increases of financial revenues or expenses.
- Long-term financial investments in associated companies are accounted for in accordance with the equity method. Business results of associated companies are shown through specific equity revaluation adjustments.

Inventories

Valuation methods:

- Inventories are accounted for by means of the FIFO method.
- Production inventories and inventories of products are valued according to direct production costs.
- Conversion of items from foreign currencies into tolars is carried out according to the average exchange rate of the Bank of Slovenia.

in thousands of SIT

	2005	2004
Raw materials and material	6,322,240	4,258,255
Work in progress	5,141,804	5,307,400
Products	3,338,482	3,567,691
Merchandise	873,896	364,578
Advances for inventories	98,013	81,975
TOTAL	**15,774,435**	**13,579,899**

Raw and primary materials inventories are assessed on the basis of the purchase cost, which is comprised of the purchase price, import duties and direct purchase costs. The purchase price is reduced by trade discounts. In 2005, the company's accounting principles did not change.

Work in progress inventories and inventories of finished products are initially assessed according to production costs that include direct material costs, direct labour costs, direct services costs, direct depreciation costs and general production costs.

Receivables

a) Long-term receivables

in thousands of SIT

	2005	2004
Long-term operating receivables (+)	60,205	65,237
Short-term portion of long-term operating receivables (–)	–7,379	–5,032
Long-term operating receivables on 31 December *	**52,826**	**60,205**

Receivables are classified into long-term and short-term receivables due from customers and others. Long-term receivables with maturity less than one year upon the balance sheet date are disclosed as short-term. All long-term operating receivables belong to other long-term operating receivables, and are not separately secured, since they are not major operating items.

Receivables are initially disclosed in amounts recorded in the relevant documents under the assumption that they will be collected. Later increases of receivables will usually result in increases of operating revenues or financial revenues, whereas later decreases of receivables will usually decrease relevant operating revenues or expenses, granted advances excluded. Interests on receivables are disclosed as financial revenues.

On the basis of experience and expectations a value adjustment of receivables is formed for domestic and foreign customers.

Receivables due from foreign customers are converted into domestic currency according to the average exchange rate of the Bank of Slovenia on the balance sheet date. The exchange rate discrepancy that accumulates up to the date of receivables collection or balance sheet becomes an item of financial revenues or expenses.

b) Short-term operating receivables

in thousands of SIT

	Short-term operating receivables	of that short term receivables due from:			Accumulated depreciation due to impairment*		
		subsidiaries	associated	other		2005	2004
	=	+	+	+		−	=
Short-term operating receivables	11,961,852		1,977	11,959,875		11,961,852	11,240,329
- of that due by 31 December 2005 (data for Impol d.d.)	3,567,869			3,567,869		3,567,869	3,083,885
Short-term advances and collaterals	29,403			29,403		29,403	28,425
Short-term receivables related to financial revenues	200		200			200	0
Short-term revenues toward state institutions	1,674,483			1,674,483		1,674,483	999,658
Other short-term receivables	129,974			127,797		129,974	44,282
TOTAL short term operating receivables	**13,795,912**	**0**	**2,177**	**13,793,735**	**0**	**13,795,912**	**12,312,694**

There are no receivables due from members of management, supervisory board or employees with individual contracts.

Short-term financial investments

Short-term financial investments are run on the basis of the purchase value. If expressed in foreign currency they are converted on the balance sheet date using the average exchange rate of the Bank of Slovenia.

in thousands of SIT

	Carrying value 31 December 2005	2004
Shares acquired for sale	0	195,058
Stakes acquired for sale	0	
TOTAL short-term financial investments in equity	**0**	**195,058**
Short-term portion of long-term financial investments	33,306	3,138
Short-term loans	136,781	240,769
TOTAL Short-term loans	**170,087**	**243,907**
Received bills of exchange and other securities purchased for sale	0	1,035
Receivables purchased for sale	33,647	4,856
Short-term deposits in banks and other financial institutions	145,110	
Own shares and stakes	0	
TOTAL other short-term financial investments	**178,757**	**5,891**
TOTAL SHORT-TERM FINANCIAL INVESTMENTS	**348,844**	**444,856**

Short-term financial investments include shares, bought for sale, short-term granted loans, investments in securities and in the short-term part of long-term financial investments, and bank deposits.

Cash

in thousands of SIT

	2005	2004
Cash on hand and immediately realizable securities	183	484
Balances in banks and other financial institutions	869,931	1,452,825
TOTAL	**870,114**	**1,453,309**

An approximately three-day revenue exists in the form of cash, and according to our estimates that amount is manageable.

Deferred cost and accrued revenues

in thousands of SIT

	2005	2004
Short-term deferred costs and expenses	579,685	93,009
Short-term accrued revenues	511,452	
TOTAL	**1,091,137**	**93,009**

- Short-term deferred costs and expenses include received invoices for granted advance payments and issued invoices for received advances from value added tax return.
- Short-term accrued revenues mainly include accrued services of Impol Seval from manufacture.

Equity

in thousands of SIT

Possible events in individual equity items	Share capital	Uncalled capital	Capital of minority shareholders	Regulatory reserves	Other reserves from profit	Retained net profit of business year	Net profit of business year	Net loss of business year	General equity capital revaluation adjustment	Specific equity capital revaluation adjustment	TOTAL EQUITY
Balance on 1 January 2005	**4,063,000**	**1**	**930,939**	**652,623**	**6,297,459**	**1,666,505**	**–226,862**	**–1,673,545**	**7,061,649**	**26,792**	**18,798,561**
Equity inflows											**0**
Called-up share capital											0
Uncalled share capital											0
Called-up subscribed share capital											0
Additional payments of equity											0
Net profit for the period			28,859				517,402				546,261
General equity revaluation adjustments											0
Specific equity revaluation adjustments										7,270	7,270
Other increases of equity items			–54,979					54,979			0
Transfers within equity											
Allocation of net profit from the accounting period following the decision of the Management and Supervisory Boards					118,832		–118,832				0
Allocation of net profit to additional reserves following the decision of the Assembly					226,863	–226,863					0
Settlement of losses as equity deduction item											0
Reserves for own shares from other equity items											0
Liquidation of provisions for own shares and reallocation to other equity items											0
Transfer of net profit from this business period to the next											0
Payment of dividends as shares											0
Other allocations of equity items											0
Equity outflows											
Payment of dividends						–325,041					–325,041
Profit participation of Management and Supervisory Board members											0
Equity redemption											0
Use of specific capital revaluation adjustment (for impairment of assets or strengthening of liabilities)											0
Transfer of specific capital revaluation adjustment (to operating or financial revenue)											0
Liquidation of other equity items			–19,675						–1,934		–21,609
Balance on 31 December 2005	**4,063,000**	**1**	**885,144**	**652,623**	**6,643,154**	**1,114,601**	**171,708**	**–1,618,566**	**7,059,715**	**34,062**	**19,005,442**
BALANCE PROFIT/ BALANCE LOSS						**1,114,601**	**171,708**	**–1,618,566**			**–332,257**

Specific capital revaluation adjustments

in thousands of SIT

	Balance on 1 Jan. 2005	Formation	Disposal	Total 31 Dec. 2005
Specific capital revaluation adjustment concerning:	+	+	–	=
tangible fixed assets				0
long-term financial investments	26,792	7,270		34,062
short-term financial investments				0
operating liabilities				0
long-term liabilities from financing				0
short-term liabilities from financing				0
TOTAL	**26,792**	**7,270**	**0**	**34,062**

Balance profit/loss

in thousands of SIT

	2005	2004
Net profit of accounting period	517,402	–1,673,545
Retained profit/Retained loss	–233,902	2,606,300
Decrease of capital reserves		0
Decrease of reserves from profit in individual types of reserves (payment of dividends)	–325,041	–353,878
Increase (additional formation) of reserves from profit in individual types of reserves	–290,716	–344,975
Balance profit / Balance loss	**–332,257**	**–233,902**

Long-term provisions

in thousands of SIT

	Other long-term provisions	Received grants from budget	Negative goodwill	TOTAL
Balance on 31 Dec. 2004		154,709	1,151,058	1,305,767
Adjustments after opening balance				0
Balance on 1 Jan. 2005	**0**	**154,709**	**1,151,058**	**1,305,767**
Formation (+)	61	46,700		46,761
Other increases (+)				0
Utilization (–)		–38,447		–38,447
Disposal (–)			–193,925	–193,925
Other decreases (–)			–181,432	–181,432
Balance on 31 Dec. 2005	**61**	**162,962**	**775,701**	**938,724**

Long-term financial and operating liabilities in individual loan types

in thousands of SIT

Lender	Debt amount 1 Jan. 2005	New loans	Repayments in current year	Exchange rate difference	Debt amount	due in 2006	after 2007
Local associated comp.	0	75,376	–1,684	0	73,692	–20,643	53,049
Foreign associated comp.	0	0	0	0	0	0	0
Total associated companies	**0**	**75,376**	**–1,684**	**0**	**73,692**	**–20,643**	**53,049**
Other local companies	424,892	912	–26,749	–276	398,779	–24,465	374,314
Other foreign companies	0	0	0	0	0	0	0
Total other companies	**424,892**	**912**	**–26,749**	**–276**	**398,779**	**–24,465**	**374,314**
Local banks	8,158,342	3,497,337	–2,155,609	281,365	9,781,435	–2,129,308	7,652,127
Foreign banks	1,375,380	252,596		266,727	1,894,703	–281,762	1,612,941
Total banks	**9,533,722**	**3,749,933**	**–2,155,609**	**548,092**	**11,676,138**	**–2,411,070**	**9,265,068**
TOTAL	**9,958,614**	**3,826,221**	**–2,184,042**	**547,816**	**12,148,609**	**–2,456,178**	**9,692,431**

Long-term operating liabilities in individual collaterals

in thousands of SIT

Description	Debt amount 1 Jan. 2005	New credits in current year	Repayments in current year	impair-ments	Exchange rate difference	Debt amount 31 Dec. 2005	of that due for payment: in 2006	after 1/2007
Mortgage	7,918,377	3,498,249	–2,089,771	0	280,966	9,607,821	–2,058,043	7,549,778
Bills of exchange	110,835	0	0	0	–78	110,757	0	110,757
Acceptance orders	0	0	0	0	0	0	0	0
Receivables	0	0	0	0	0	0	0	0
Inventories	0	0	0	0	0	0	0	0
Equipment	57,603	75,376	–22,606	0	–30	110,343	–41,564	68,779
Guarantees	114,877	12,152	–45,934	0	–65	81,030	–45,918	35,112
Other	0	0	0	0	0	0	0	0
Unhedged	1,756,922	240,444	–25,731	0	267,023	2,238,658	–310,653	1,928,005
TOTAL	**9,958,614**	**3,826,221**	**–2,184,042**	**0**	**547,816**	**12,148,609**	**–2456,178**	**9,692,431**

a. Long-term liabilities are initially run by their purchase value. Long-term liabilities expressed in foreign currencies are converted on the balance sheet day using the average exchange rate of the Bank of Slovenia.

b. Long-term financial and operating liabilities are financial and operating debts of the company and include long-term financial liabilities to banks, long-term financial liabilities to companies and long-term operating liabilities to others.

c. The portion of long-term liabilities with maturity less than a year after the balance sheet date is shown as short-term financial and operating liabilities.

d. Long-term loans interest rates:

- in foreign currency from euribor +1.1% to euribor + 6% (depending on the region)
- in domestic currency from 5% to 6.25% for long-term loans
- Long-term liabilities are secured with a mortgage on all real estate of the company and on some parts of the equipment.

Short-term liabilities

in thousands of SIT

A. Short-term liabilities	2005	2004
Short-term portion of long-term liabilities	2,456,178	2,035,656
Short-term liabilities from bonds		
Short-term financial liabilities to banks	29,275,811	24,570,712
Short-term operating liabilities from advances	111,286	74,225
Short-term trade payables - others	6,469,877	5,811,355
Short-term bills payable		
Short-term financial and operating liabilities to associated companies	179,406	188,876
Short-term financial and operating liabilities to others	1,104,923	2,165,665
TOTAL short-term financial and operating liabilities	**39,597,481**	**34,846,489**

B. Classification of short-term liabilities	2005	2004
Short-term financial liabilities	29,420,558	25,987,276
Short-term portion of long-term financial liabilities	2,411,070	2,035,656
Total short-term financial liabilities	**31,831,628**	**28,022,932**
Short-term operating liabilities	7,723,745	6,823,557
Short-term portion of long-term operating liabilities	42,108	
Total short-term operating liabilities	**7,765,853**	**6,823,557**

C. Short-term operating liabilities	2005	2004
Short-term portion of long-term operating liabilities	42,108	
Short-term liabilities to companies in the Group as suppliers		
Short-term liabilities to associated companies as suppliers	59,444	44,580
Short-term liabilities to other suppliers	6,448,092	5,766,775
Total short-term liabilities to suppliers *	**6,549,644**	**5,811,355**
* of that due liabilities by 31 December **		
Short-term liabilities to employees	417,314	376,220
Short-term liabilities to the state	101,114	149,679
Short-term liabilities from advances	111,286	74,225
Short-term liabilities from interest		
Other short-term liabilities	586,495	412,078
TOTAL short-term operating liabilities	**7,765,853**	**6,823,557**

e) Short-term loans interest rates
- in foreign currency from euribor + 0.65% to euribor + 6%
- in domestic currency from 4.2% to 5.5%

f) Short-term liabilities are partially secured with a mortgage (422 million), the other portion is secured with bills, assignment of receivables and guarantees.

Short-term liabilities stated in a foreign currency are converted into domestic currency at the exchange rate effective on the date when the obligation arises. The exchange rate difference up to the balance sheet date is defined as financial expense.

Short-term operating liabilities include short-term liabilities to suppliers, liabilities from advances and short-term financial and operating liabilities to others.

Short-term liabilities are initially entered as amounts recorded in relevant documentation, under the assumption that creditors request their repayment.

Short-term liabilities to foreign parties are converted into domestic currency on the date when the obligation arises. The exchange rate difference up to the balance sheet date is defined as financial expense.

Accrued costs and deferred revenues

in thousands of SIT

Accrued costs and deferred revenues	2005	2004
Accrued costs and expenses	390,992	102,134
Deferred revenues		
TOTAL	**390,992**	**102,134**

- Accrued costs and expenses include deferred receivables and liabilities for advances of issued and received pro forma invoices.

Off-balance sheet record

in thousands of SIT

	2005	2004
Mortgage	14,341,4657	12,718,510
Equipment	359,363	394,222
Guarantees (issued and received)	7,507,537	6,511,851
Letters of credit	412,835	
Derivative financial instruments	1,853,733	2,204,496
Other	923,832	765,894
TOTAL secured	**25,398,765**	**22,594,973**

Operating revenues

Operating revenues

in thousands of SIT

	Operating revenues created in associated companies	other companies	2005	2004
Net operating revenues from sales	1,264,583	82,023,567	83,288,150	85,866,022
Change in the value of product inventories and work in progress		–292,407	–292,407	1,277,228
Capitalised own products and services			0	36,835
Other operating revenues		2,164,502	2,164,502	412,295
– of that revalued operating revenues*		1,165,530	1,165,530	28,091
TOTAL	**1,264,583**	**83,895,662**	**85,160,245**	**87,592,380**

Revalued operating revenues*

in thousands of SIT

	2005	2004
from intangible fixed assets		
from fixed assets	1,165,268	28,091
from operating receivables	262	
from operating liabilities		
TOTAL	**1,165,530**	**28,091**

Net revenues from sales per area division

in thousands of SIT

Product, goods or service	2005	2004
rolled products – sheets and strips	18,194,941	16,987,721
rolled products – foils	9,270,712	5,477,984
extruded products – tubes and bars	18,240,933	15,391,461
extruded products – profiles	12,695,607	12,018,384
cast semi-products	10,964	298,776
other products and services	3,936,085	827,953
material sale	7,041,784	303,037
goods sale	13,897,124	34,560,706
TOTAL	**83,288,150**	**85,866,022**

Net revenues from sales per regional division (per market)

in thousands of SIT

	2005	2004
Revenues from sales in Slovenia	13,761,338	22,954,327
– associated companies	1,264,583	1,083,564
– other companies	12,496,755	21,870,763
Revenues from sales in former Yugoslav republics	2,770,862	3,075,933
– associated companies		
– other companies	2,770,862	3,075,933
Revenues from sales in the EU	58,709,856	48,527,325
– associated companies		
– other companies	58,709,856	48,527,325
Revenues from sales in the rest of Europe	2,761,188	1,679,254
– associated companies		
– other companies	2,761,188	1,679,254
Revenues from sales in other markets	5,284,906	9,629,183
– associated companies		
– other companies	5,284,906	9,629,183
TOTAL	**83,288,150**	**85,866,022**

Costs per functional group

Analysis of costs and expenses

in thousands of SIT

	Production costs	Sales costs	Costs of general activities	TOTAL 2005	TOTAL in 2004 purchased from: subsidiaries	associated companies	other companies	TOTAL 2004
Purchasing costs of sold goods and material		8,909,019		8,909,019			8,909,019	21,812,735
Cost of material	57,489,401	775,085	255,519	58,520,005		647	58,519,358	50,376,992
Costs of services	1,793,680	2,109,235	663,214	4,566,129		480,011	4,086,118	4,364,259
Labour cost	5,510,614	317,776	720,096	6,548,486			6,548,486	7,032,793
Depreciation	2,992,524	198,098	179,442	3,370,064			3,37,064	2,470,797
Revaluation operating expenses			55,442	55,442			55,442	23,588
Provisions				0			0	0
Other operating expenses	139,476	17,041	94,252	25,769		32,179	218,590	1,048,007
TOTAL	**67,925,695**	**12,326,254**	**1,967,965**	**82,219,914**	**0**	**512,837**	**81,407,077**	**87,129,171**

Revaluation operating expenses

	2005	2004
from intangible fixed assets		
from tangible fixed assets	622	
from inventories		
from operating receivables	54,820	23,585
from operating liabilities		
from labour cost		
TOTAL	**55,442**	**23,585**

Other disclosures:

Management Board:

- Jernej Čokl, president
- Janko Žerjav, member
- Adi Žunec, member
- Vlado Leskovar, member

Supervisory Board

- Milan Cerar, president
- Brigita Juhart, member
- Davorin Brodnjak, member until July 2005
- Irena Šela, member from July 2005 on
- Peter Vuk, member until August 2005
- Branko Ačko, member until August 2005
- Zvonko Krošel, member from August 2005 on
- Bogdan Bizjak, member from August 2005 on

Income of Supervisory Board members and Management Board members

in thousands of SIT

	2005				2004			
	Management Board	Supervisory Board	Other IC	Total	Management Board	Supervisory Board	Other IC	Total
Impol, d. d.	162,590	2,352	326,078	**491,020**	192,316	7,210	304,198	**503,724**
Unidel, d. o. o	11,145		18,385	**29,530**	10,530		9,282	**19,812**
Impol Stanovanja, d. o. o.	8,020			**8,020**	8,251			**8,251**
Impol Seval, a. d.	26,337	3,835	60,754	**90,926**	27,010	8,134	10,686	**45,830**
IAC New York	34,668			**34,668**	28,721			**28,721**
Stampal SB, d .o. o.	32,629		25,492	**58,121**	23,369		24,653	**48,022**
Total Impol Group	275,389	6,187	430,709	**712,285**	290,197	15,344	348,819	**654,360**

In the table are actual incomes of the calendar year.

Financial revenues and expenses

in thousands of SIT

	Total 2005	of that from: subsidiaries	associated	other	Total 2004
Financial revenues					
Revenues from interests	85,823		2,242	83,581	105,560
Revenues from dividends and shares	24,703		4,315	20,388	24,346
Revenues from revaluation of receivables and debts aimed at maintaining value	641,776			641,776	1,216,919
Revenues from issued loans aimed at maintaining value	0				0
Decrease of long-term provisions	0				0
Revenues from sale of financial investments	0				0
Other financial revenues	634,774			634,774	243,824
Revaluation financial revenues	0				0
TOTAL financial revenues	**1,387,076**	**0**	**6,557**	**1,380,519**	**1,590,649**
Financial expenses					
Expenses from interests	1,727,890		4,174	1,723,716	1,342,004
Expenses from revaluation of debts and receivables aimed at maintaining value	2,126,623			2,126,623	1,918,840
Expenses from sale of financial investments	0				19,265
Increase of long-term provisions	0				0
Other financial expenses	540,593			540,593	536,820
Revaluation financial expenses	38,505	30,861		7,644	10,605
TOTAL financial expenses	**4,433,611**	**30,861**	**4,174**	**4,398,576**	**3,827,534**

Extraordinary revenues and expenses

in thousands of SIT

	Total 2005	of that from: subsidiaries	associated	other	Total 2004
Extraordinary revenues					
Subsidies, grants and other revenues not related to operations	0				8,965
Recovered written off receivables	120,738			120,738	27,041
Revenues from loss settlements of previous years	0				0
Received indemnity	0				0
Received compensations	35,382			35,382	10,036
Other unusual items	370,951			370,951	222,045
Elimination of provisions for negative goodwill of Seval	193,925			193,925	0
TOTAL	**720,996**	**0**	**0**	**720,996**	**268,087**
Extraordinary expenses					
Provisions for settlement of potential losses from critical contracts	0				0
Loss settlements of previous periods	0				0
Penalties	292			292	323
Compensations	6,301			6,301	29,725
Other unusual items	20,226			20,226	27,167
Revaluation adjustment of profit and loss	0				0
account aimed at maintaining equity purchase power	0				0
TOTAL	**26,819**	**0**	**0**	**26,819**	**57,215**

BUSINESS ACTIVITY

1. The company IMPOL, industrija metalnih polizdelkov, d.d. Slovenska Bistrica, Partizanska 38, is registered in the Company's Register of the District court in Maribor as of 19 May 1997 as a joint stock company with the decree number 96/01315, number of entry 1/00460/00. The company is registered under the Standard Classification of Activities code 28.400, i.e. forging, extruding, stamping and rolling of metal as well as powder metallurgy. The company's register number is 5040736.
2. Company activities are performed in accordance with the registration.
3. The share capital of the company as of 31 December 2005 amounted to SIT 4,063,000,000.00 and is split into 4,063,000 ordinary shares with nominal value of SIT 1,000.00.
4. The book value of shares as of 31 December was as follows:

Year	Nominal value in SIT	Book value in SIT
2005	1,000.00	4,941.09
2004	1,000.00	4,960.81
2003	1,000.00	4,935.23
2002	1,000.00	4,726.59
2001	1,000.00	4,546.44
2000	1,000.00	4,093.48

SUBSIDIARIES OF IMPOL d.d.

Subsidiaries, where IMPOL d.d. holds the majority stake, are:

Company	Register number	Standard Classification of Activities code	Country of origin	Share capital value	IMPOL d.d. Participation rate	IMPOL's input in share capital
Impol Montal podjetje za projektiranje, izdelavo in montažo, d.o.o., Partizanska c. 38, Slovenska Bistrica	5479355	28.120	Slovenia	SIT 83,661,567	100%	SIT 83,661,567.00
Impol Stanovanja, podjetje za pridobivanje, upravljanje in oddajanje stanovanj, d. o .o. Partizanska c. 39, Slovenska Bistrica	5598010	70.320	Slovenia	SIT 386,704,618	100%	SIT 386,704,618.90
TGP Štatenberg, turistično gostinsko podjetje, d. o. o., Makole, Dvorec Štatenberg	5465249	55.301	Slovenia	SIT 12,825,846	99.55%	SIT 12,768,846.00
Unidel, podjetje za zaposlovanje in usposabljanje invalidnih oseb, d. o. o., Kraigherjeva 37, Slovenska Bistrica	5764769	85.325	Slovenia	SIT 8,813,734	72.62%	SIT 6,400,734.60
Impol Aluminium Corporation, 155 Erie Boulevard, 12305 New York, USA		51.520	ZDA	$ 100,000	90%	$ 90,000
Impol Seval, a. d.., Sevojno, Srbija in Črna gora	07606265	27.423	SMN	DIN 942,287,000	70%	$ 6,500,000
Stampal SB, d. o. o., Partizanska 38, Slovenska Bistrica	1317610	28.400	Slovenia	SIT 200,000,000	100%	SIT 200,000,000

OTHER ASSOCIATED COMPANIES OF IMPOL d.d.

Other associated companies, where Impol d.d. directly holds more than 20% of capital, are:

Name	Address		Share
Simfin, d. o. o.	Partizanska 38, Slovenska Bistrica	Slovenia	49.5
Alcad, d. o. o.	Partizanska 38, Slovenska Bistrica	Slovenia	32
Impol Kadring, d. o .o.	Partizanska 38, Slovenska Bistrica	Slovenia	49

The Management Board confirms accounting statements for the year ending on 31 December 2005, and applied accounting measures.

Management Board's statement of responsibility

The Management Board is responsible for preparation of the annual report to the extent that the figures represent the true and fair value of the equity stake of the Group and the results from operations performed in 2005.

The Management Board confirms that all accounting measures have been followed thoroughly and that the accounting estimates were made in accordance with the principle of caution and good governance. The Management Board confirms that the accounting statements with all explanations were prepared after taking into account further operations of the company and are in accordance with the valid legislation and Slovenian Accounting Standards.

The Management Board is also responsible for the appropriate accounting policy, the application of appropriate measures to secure equity, for constant control of other business risks as well as adoption and implementation of measures for risk minimization, and for prevention and detection of frauds, other irregularities or illegal activities.

Member of the Management Board
Vlado Leskovar

Auditor's report

AUDITOR

REVIZIJSKA DRUŽBA d.o.o. PTUJ

AUDITOR'S REPORT

To the shareholders of IMPOL industry of metal semi products d.d., Slovenska Bistrica

We have audited the accompanying consolidated balance sheet of IMPOL d.d., Partizanska 38, Slovenska Bistrica, and subsidiaries as of December 31, 2005, and the related consolidated statements of income, cash flow and capital changes for the year then ended. We also read the company's management business report for the year 2005. These financial statements 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 basic auditing principles and International Standards on Auditing. Those principles and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We assess also Accounting Standards used, significant estimates made by management, as well as evaluating the overall financial statement presentation. The financial statements are composed in accordance with Slovenian Accounting Standards. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of IMPOL d.d., Partizanska 38, Slovenska Bistrica, as of December 31, 2005, give a true and fair view of the financial positions as at December 31, 2005, and the results of its operations, cash flow and capital changes for the year then ended, in accordance with Slovenian Accounting Standards. Company's management business report is consistent with financial statements.

The company changed its depreciation rates of some major fixed tangible assets according to SAS 13.12 at the end of the accounting period. The change of depreciation rates resulted in lowering the costs of depreciation by the amount of 236.112 thousand SIT.

The audit of the financial statements for the subsidiary Impol Seval a.d. Sevojno, in which Impol d.d. owns 70% of the company shares, was conducted by the auditing firm Deloitte d.o.o., Belgrade. In his report the auditor points out the following items:

AUDITOR REVIZIJSKA DRUŽBA d.o.o. PTUJ, podjetje za revizijo, vrednotenje in svetovanje, Murkova 4, 2250 Ptuj

AUDITOR
REVIZIJSKA DRUŽBA d.o.o. PTUJ

- *Short term liabilities of the company on December 31st, 2005 exceed current assets by the amount of 2.517.750 thousand SIT, therefore the auditor expressed doubt about the company's ability to continue as a going concern. However, the management of the company believes, that the funds, invested in the revitalization of the production process, the sale of stocks and other steps, undertaken to increase the productivity, will improve the financial position of the subsidiary Impol Seval a.d. Sevojno.*
- *The auditor of the subsidiary could not gain assurance in the existence of the potential liability of the company Impol Seval a.d. Sevojno arising from the receivables of Investbanka a.d. (which went bankrupt) for the issued warranty by the amount of 787.725 thousand SIT to the company Sevojno Overseas Corp., New Jersey, USA, in which Impol Seval a.d. Sevojno holds 50 % of the company shares. The Seval Overseas Corp. ceased to operate after the USA lifted the sanctions against the former Federal Republic of Yugoslavia.*
- *The financial statements of the company do not include provisions according to IAS 19 - Employee Benefits.*

Ptuj, March 10, 2006

AUDITOR
AUDITING COMPANY Ltd. Ptuj
General manager
D.Sc. ERIKA TURIN
Certified auditor

AUDITOR REVIZIJSKA DRUŽBA d.o.o. PTUJ, podjetje za revizijo, vrednotenje in svetovanje, Murkova 4, 2250 Ptuj

Impol, d.d., Annual Report 2005

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Slovenska Bistrica, May 2006