annual report 2005 / **ELEKTRO MARIBOR**

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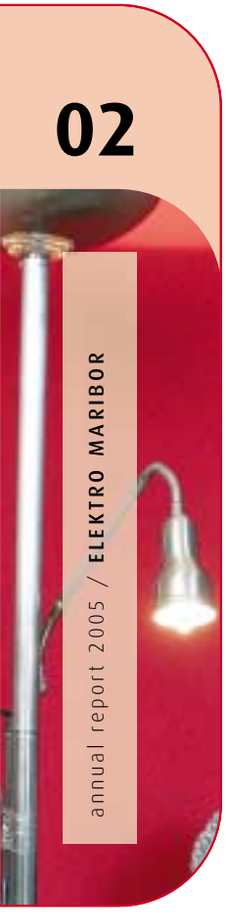

Tables and Graphs

Abbreviations index

AMM	Automated Meter Management
ARSE	Agency for the Republic of Slovenia for the Environment
DCM	Distribution Centre for Management
DTC	Delivery for Tariff Customers
DV	Trunk
ELES	Elektro Slovenija
EA	Energy Act
FERI	Faculty for electrical engineering, computer sciences and information technology
GIS	Geographical Information System
EPC	Economic Public Service
HE	Hydro-electric plant
HSE	Holdings of Slovene power plants
IO	Indirect offtake
PF	Public Firm
CC	Cable Conduit
AO	Annual offtake
GTP	Network Tone Control
NGS	New generation of telecommunications networks in conjunction with technology of synchronic digital hierarchy
LV	Low Voltage
TU	Territorial Unit
OPGW	Optical ground wire
PCB	Polychlor biphenil
RECS	Renewable Energy Certificate System
REDOS	Develepoment of the Slovene Electric Network
RTP	Substation
RTU	Remote Terminal Unit
SAIDI	Pointer of Delivery Reliability
SE	Service Unit
SOC	Slovene Organizational Climate
MV	Middle Voltage
SODN	Systemic Operator for a Distribution Network
SOTN	Systemic Operator for a Transmission Network
TP	Transformer Substation
TR	Transformer
HV	High Voltage

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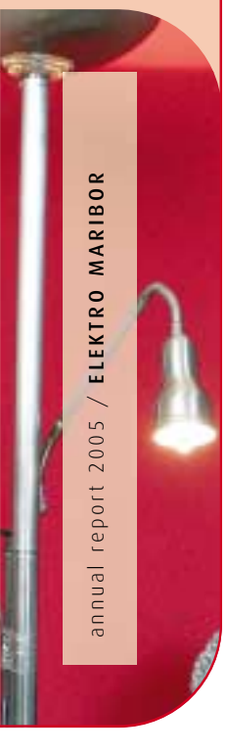
A Moment of Success

Introduction

I Feel Good



1. Introduction

1.1 More Notable Business Events in 2005

A change in the organizational structure and the implementation of a new salary based system

The new organizational structure of the company has been in place since the beginning of 2005. According to the statute, the following sectors were established for performing SODN activities and DTC activities until July 1st, 2007, respectively: a sector for managing the distribution network, a sector for distributing electricity and a sector for the offtake. Within the framework of the marketing practices, there are two operating sectors: a sector for purchasing and selling electricity and a service sector. Since January 1st, 2005, a new salary system or remuneration system was introduced.

The transfer of the TU Maribor-District to its new location

We moved the TU Maribor-District to its new location in February. This move was in response to the merging of two units, the TU Maribor-City and the TU Maribor-District, into a new unit, the TU Maribor with District.

The renovation of the substation Melje

The biggest investment in 2005 was the renovation of the substation 110/10kW at Melje, which provides app. 40 % of the offtake in Maribor. For ensuring a reliable and safe working environment, we upgraded all minor and major deficiencies found at the plant, as the substation at Melje was the oldest and the most burdened substation producing 110/x kW.

The web application E-Service for Households

We introduced a web application E-Service on our website. This application enables our customers an insight into the technical detail of meter reading measuring equipment, a review of issued bills and payments and an informative calculation system, which allows the user to estimate the cost of electricity consumed from a PC or a terminal in our information office.

The Blue Energy Project

After taking part in the Blue Energy Project, we began to offer electricity, which was produced from renewable sources to our customers. As partners of the Holding Slovenske elektrarne Ltd., we offer energy, produced in one of the three Slovene hydro-electric power stations.

A new supervisory board for Elektro Maribor

The joint-stock company Elektro Maribor set up a new supervisory board on August 31st, 2005. With a four-year term of office, the following members were nominated: Rajko Fajt, Slavko Visenjak, Milan Mendaš and Matjaž Rutar.

The first international conference on electricity distribution and the market-place: Energy 05

The joint-stock company Elektro Maribor was the general sponsor of the first international conference entitled Energy 2005 in November 2005. The main topic of the conference was “The Slovene distribution Companies in the Phase of Change: challenges and consequences”. Prominent European experts in this field attended the conference and also spoke on this issue.

The moving of the service unit Elektro Gradnje Ljutomer to its new location

The service unit Elektro Gradnje Ljutomer moved to the new seat at 5, Rado Pušenjak, Ljutomer in the middle of November 2005.

The joint-stock company Elektro Maribor was given the FERI award

The joint-stock company Elektro Maribor won an award for its assistance and co-operation in building the G2 structure in December 2005. The award was given to coincide with the Day of the Faculty for electrical engineering, computer sciences and informatics.

The Analysis Cost / Value Driver Project

At the end of 2005, we finished the first phase of improving the business with the help of the Cost / Value Driver Analysis. The collaborators on this project prepared numerous economically viable measures.

1.2 Key Data for the Business Year 2005

2005 was a successful year for the joint-stock company Elektro Maribor. The end result was a profit of 1,226,191,000 SIT, which was beyond the expected results for 2005, which was calculated as 1,179,790,000 SIT (Table 1.1)

Table 1.1: Key Data of the economic operations in 2005 in comparison to 2004 and the strategy for 2005

Element	2004	Plan 2005	2005	Index	Index
1	2	3	4	5=4/2	6=4/3
Income in 000 SIT	39.794.541	40.007.195	40.860.556	103	102
Result for the year in 000 SIT	1.275.826	1.179.790	1.226.191	96	104
Profit for appropriation in 000 SIT	606.017	560.400	585.543	97	104
EBIT in 000 SIT	1.254.194	1.241.395	893.609	71	72
EBITDA in 000 SIT	5.432.319	5.297.943	5.369.414	99	101
Assets on December 31st in 000 SIT	62.391.848	64.502.812	64.021.142	103	99
Capital on December 31st in 000 SIT	52.920.112	53.498.596	53.581.530	101	100
Sold electricity in MWH:	2.004.406	2.036.028	2.096.536	105	103
- households + ensured delivery	889.231	670.009	780.172	88	116
- eligible customers and others	1.115.175	1.366.019	1.316.364	118	96
The amount of transferred energy in MWh	1.870.142	1.923.352	1.899.490	102	99
The amount of borrowing in 000 SIT	0	3.200.000	0		0
Investments in 000 SIT	4.425.918	4.832.664	5.205.383	118	108
Added value per employee in 000 SIT*	10.434	10.848	11.094	106	102
Number of employees on December 31st	882	868	863	98	99

* The added value is calculated applying the following formula:
(Gross yield from operations - costs of goods, material and services - other business expenses)/the average number of employees hours.

1.3 The Management Board Report

In 2005 we achieved a profit of 1,226,191,000 SIT, or 4 % more than projected. Our company has in this period intensely devoted itself to a special project of lowering operational expenses on all levels of our operation networks. The majority of employees actively participated in this project in the form of research units, as we think that every individual can contribute to the optimization of certain working processes within his / her field. Within individual activities we have already reduced the expenses in such a way that they don't follow the business growth rate.

At the beginning of 2005, we introduced a new system of remuneration and organization of our company. The new system of remuneration is based on setting personal goals for each of our employees and on the evaluation and remuneration of efficiency of each person. 2005 was therefore, our first complete evaluation period.

In 2006 the situation in both our major activities became seriously strained for Elektro Maribor. With January 1st, 2006 a new three-year regulatory framework for systemic operators of distribution networks, which defines network charges, came into force. Due to this regulation, the financial conditions for operating exceedingly declined in Elektro Maribor. At the same time, the situation on the electricity market diminishes a positive difference in the purchase and sale of electricity. Considering current market conditions, only a rise in the selling price of electricity would transform the adverse operational results in the field of supplying tariff customers or selling electricity to households.

The operation of the electricity system owned by the joint-stock company Elektro Maribor was at and acceptable level. This means that we supplied our customers with electricity without major interruptions.

We completely realized our investments plan, which was based on the adopted plan, regarding the development of the distribution network. The most important investment, substation 110/10 kV Melje, which supplies the centre of Maribor, was completed to a certain phase, which allows for the running of normal operations.

The consumption of electricity in 2005 in the area of Elektro Maribor operations, increased by 3.1 % in comparison to that of 2004, while the average peak load increased by 4 % during the same period.

In the field of the purchase and sale of electricity, we saw a drastic increase in prices in reference markets in the second half of 2005, which reflects on the daily market of electricity within Slovenia. The average purchase price was in 2005 insignificantly higher than planned, although the purchase prices at the end of 2005 increased by more than 45 % in comparison to January 2005. A significant fall in the solvency of the Slovene electricity exchange also influenced our operations, where it has to be noted that supply doesn't always follow demand and that the unpredictability of bases for evaluating compensation electricity has negative consequences on our operations. We started using a system for keeping account of the electricity portfolio management and also initiated a risk management system.

Besides our basic activities, building and renovations of the electricity grid for the systemic operator of distribution networks, we constantly improve our services, and thus follow the demands of our customers and provide high quality services. In 2005, we robustly developed our engineering activities or comprehensive investment engineering and prepared all necessary documentation for obtaining an accreditation listing from the Slovene Accreditation for our measuring laboratory and measuring service.

Within our company and Economic Interest Grouping of Electricity Companies, we were adopting to the new legislation, i.e. procedures for the legal separation of our activities, as we have to complete the legal separation of the activities with reference to the systemic operator of the distribution network from our other activities by July 1st, 2007. We have already drawn up some proposals for the future organization of distribution companies in Slovenia and sent them to the appropriate minister. These activities are taking place in various groups and on different levels and will continue further, in order to achieve the optimal solution for our specific needs. Besides procedures for the legal separation of our activities, other equally important preparations are under way: preparations for the transition of the status of all our customers, who will become eligible customers. In accordance with the legislation, this will also take place on July 1st, 2007. Therefore, household customers will also be able to choose their electricity supplier. The task of Elektro Maribor as an electricity supplier will be to provide simple and transparent procedures for our customers and preserving and strengthening our market share.

We devote special attention to the environment, as we introduced the majority of procedures, which confirm our compliance with the ISO 14001 standard. In 2006 we will carry out a procedure for obtaining this certificate.

Chairman of the Management Board:
Stanislav Vojsk, Certified Electrical Engineer

Member of the Management Board:
Tomaž Orešič, Certified Mechanical Engineer

1.4 Report from the chairman of the Supervisory Board

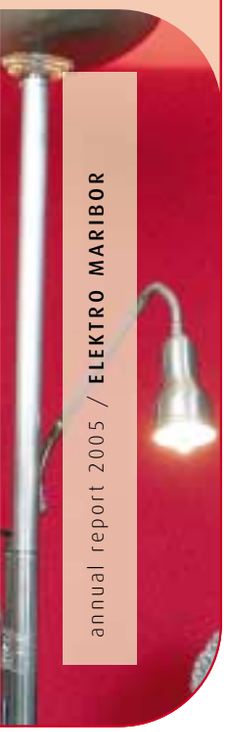
In accordance with Article 282 of the Companies Act-1, the Supervisory Board of the joint-stock company Elektro Maribor declares the following report on the verification and confirmation of the annual report, conducted by the management of the company.

The Supervisory Board has in the business year of 2005 regularly and currently monitored the company's operations and activities of the management of the company within its 8 regular meetings and 1 correspondence meeting.
In accordance with the resolution of the government of the Republic of Slovenia, the new members of the Supervisory Board, namely the representatives of capital, were appointed. For the new four year term those who were nominated are as follows: Rajko Fajt, Slavko Visenjak, Milan Mendaš and Matjaž Rutar.
The Supervisory Board monitored the business decisions of the management and also the company results, based on properly prepared material by professional services and procedures, made by the management. Apart from this function, the Supervisory Board monitored the dynamics of strategic goal fulfilment and investments and as a capable board validly adopted its decisions.
The operations of the company were in 2005 in accordance with the adopted economic plan. The business result is positive and was 4% greater than planned. Positive results can also be seen in the field of the income figures, added value and added value per employee, in the field of investment and in the streamlining the number of the employees. The changed organizational structure of the company, new salary or remuneration system, investments (the most notable is the renovation of the substation 110/10 kV Melje) and the increase in prices of electricity at the referential markets, especially in the second half of the year, have all left an indelible mark on the company's operations. The increase in the price of electricity at the referential markets, higher expenses in predicting deviations of electricity and corrections of claims value for households are the main factors, which caused a decrease in the business result of the business year in comparison to the business result of the accounting period from January to November.

The Court of Auditors of the Republic of Slovenia conducted an audit on the legality and manner of carrying out public tenders and economization at purchasing material and services for 2004. On December 20th, 2005, the Court of Auditors issued its opinion with a proviso on the standards of operations of Elektro Maribor. The company carried out appropriate measures to rectify irregularities in setting its standards and therefore showed its willingness in considering the Court recommendations.

The supervisory board discussed and approved the following important documents, suggestions and business decisions:

- the annual business report for 2004,
- the suggestions of the management for the use of the company's profit from 2004,
- the business plan for 2005,
- the programme for action in 2005,
- the suggestion of nominating an audit company,
- the management report on business operations from January to June, 2005 and a report regarding the carrying out the programme of action from January to June, 2005,
- a contract about informational services,
- a contract for purchasing electricity in 2005 and 2006,
- a rejection of offers from public tenders,
- an investment plan for building the substation Koroška vrata,
- the report from management with reference to the business operations from January to October, 2005,
- the audit report by the Court of Auditors of the Republic of Slovenia regarding the company's operations in 2005,
- the company's annual report for 2005.



The verification and confirmation of the annual report 2005 and the evaluation of the audit report

The Supervisory Board discussed the company's annual report for 2005 and the audit report to the joint-stock company Elektro Maribor shareholders, carried out by the audit company KPMG Slovenia. It concluded that the accounting statements with additions, and the business report of the company as per December 31st, 2005 was a real and honest picture of the company operations. The statements are in accordance with the Slovene accounting standards, while the business results correspond to the developmental strategy, defined in the Economic Plan for 2005 and to the Supervisory Board position.

On the basis of the annual report verification and review of the audit report, the Supervisory Board assesses that:

- the annual report for the business year 2005 shows the real situation of the company's operations and therefore confirms the report
- the audit report confirms a true presentation of the financial situation and operations of the company in 2005 and therefore confirms its authenticity
- the suggestion of the management board for the use of the balance profit is appropriate and therefore recommends the company assembly to adopt it
- the Management Board ran the company successfully and in accordance with the economic plan in the business year 2005, therefore the Supervisory Board recommends the Assembly to release the Management Board from its obligations

Business results and information, presented at the Supervisory Board meetings clearly show that the joint-stock company Elektro Maribor has successfully reached its strategic, economic and business goals, written in the business plan for 2005.
The opinion of the Supervisory Board is that with a competent management team, there are sound foundations for successful business operations for the company in 2006. Together with the company management, we will strive to assure good business results, stable operations and development and a fair capital profit.

The structure of the Supervisory Board of the company Elektro Maribor

In accordance with the statute of the joint-stock company Elektro Maribor, the Supervisory Board consists of six members; four of them are the representatives of the company owners and two the representatives of the employees.

In 2005, the Supervisory Board consisted of the following members:

(up to August 31st, 2005):

- Mag. Zvonko Copot, the Supervisory Board chairman,
- Slava Kurtin, a member,
- Bojan Škof, a member,
- Jože Dover, a member,
- Franc Šmigoc, a member,
- Miro Pečovnik, a member.

(after August 31st, 2005):

- Rajko Fajt, the Supervisory Board chairman,
- Slavko Visenjak, vice-chairman,
- Milan Mendaš, a member,
- Matjaž Rutar, a member,
- Franc Šmigoc, a member,
- Miro Pečovnik, a member.

Ptuj, May 23rd, 2006

The Supervisory Board chairman,
Rajko Fajt

2

Bright Moments of My Life

I Feel Good

General information

2. General information

2.1 The Company's Identity Card

The joint-stock company Elektro Maribor, a public company for electricity distribution is part of electric system of the Republic of Slovenia and is one of the five companies, which is involved in the distribution of electricity in the Republic of Slovenia.

Table 2.1: General Information about the Company:

Company:	**Elektro Maribor, javno podjetje za distribucijo električne energije, d. d.**
Abbreviated name:	**Elektro Maribor d. d.**
Seat:	**Vetrinjska ulica 2, 2000 Maribor, Slovenia**
The company is registered to pursue the following activities:	**Distribution of electricity**
	Trade of electricity
	Production of electricity in HE
	Manufacture of electricity distribution and control apparatuses
	General construction of buildings and civil engineering works and other construction works, including special trades
	Manufacture of lighting equipment and electric lights
	Technical testing and analysis and other activities
Registation number:	**5231698**
ID for VAT:	**SI 46419853**
Account No.:	**04515-0000570965**
Share capital:	**33.495.324 thousand SIT**
Entered in companies' register:	**Registered at the District Court of Maribor, application No. 1/00847/00**
Number of employees on December 31st, 2005	**863**

2.2 The Company Organization

2.2.1 The Organizational Outline

Based on the Act Amending the Energy Act the "Decree on the method for the implementation of public service obligation relating to the transmission of electricity, and Public service obligation relating to the management of transmission network to tariff customers (DTC)" was issued in 2004, defining the organization and duties of SODN and DTC.

The organizational structure initiated on December 31st, 2005 was in coherence with the same structure, defined in December 2004, where the regulation regarding the organizational and systematisation of posts in the joint-stock company, Elektro Maribor was implemented. With this regulation, the following sectors for performing SODN activities, until July 1st, 2007 for performing DTC activities were formed:

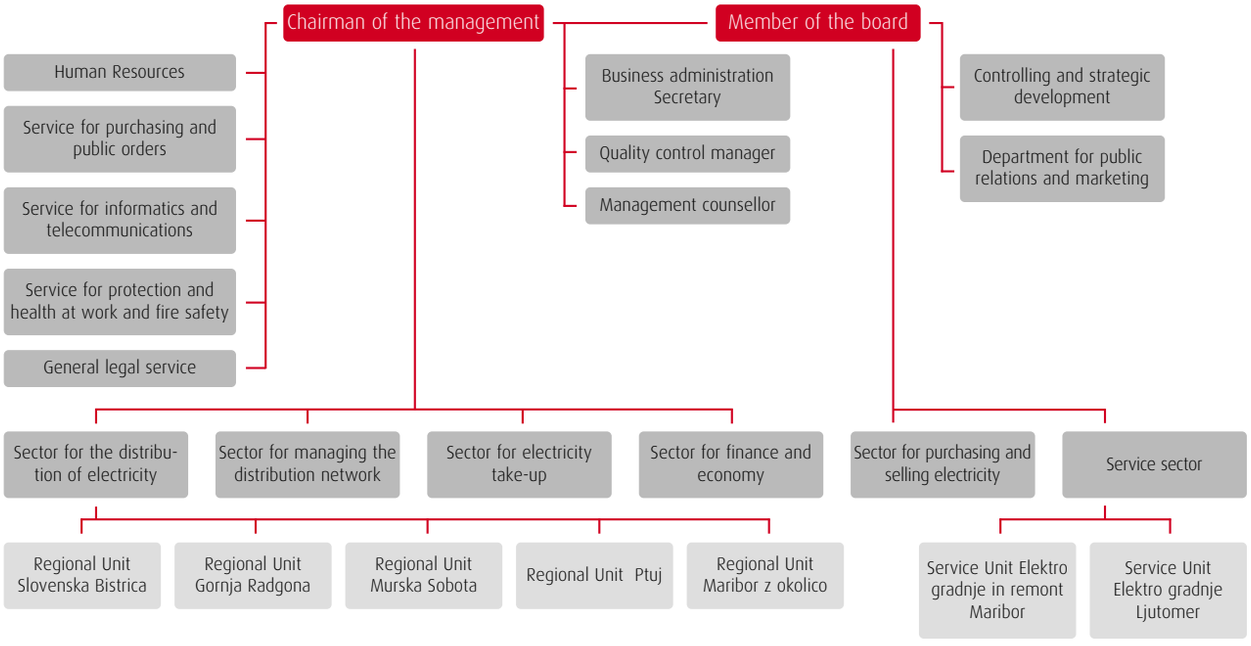
- Sector for managing the distribution network,
- Sector for the distribution of electricity,
- Sector for the electricity take-up.

Within the marketing responsibilities, two sectors are in operation:

- Sector for purchasing and selling the electricity, as an energy trading operation,
- Service sector, as a non-energy trading operation.

The organizational structure of the company on December 31st, 2005, is shown in the Table 2.2.

Table 2.2: The Organizational Structure of the Joint-stock Company Elektro Maribor on December 31st, 2005



2.2.2 Management Board Introduction

The joint-stock company Elektro Maribor's management board has two members:

- Stanislav Vojsk, B. Sc. E. E., the chairman of the management board
- Tomaž Orešič, B. S. M. E., member of the management board

The management board started their four-year term of office on May 1st, 2003.

2.2.3 Supervisory Board Introduction

In 2005, the Supervisory Board consisted of the following members:

- Representatives for the owners of the company (until August 31st, 2005):
  - Mag. Zvonko Copot, M. A., Supervisory Board chairman
  - Slava Kurtin, LL. B., member
  - Dr. Bojan Škof, Ph. D., member
  - Jože Dover, B. S. Ec., member
- Representatives for the owners of the company (after August 31st, 2005):
  - Rajko Fajt, electric engineer, Supervisory Board chairman
  - Milan Mendaš, electric engineer, member
  - Slavko Visenjak, life science professional, member
  - Matjaž Rutar, computing engineer, member
- Representatives for the employees:
  - Franc Šmigoc, B. S. Ec., member
  - Miro Pečovnik, B. S. E. E., member

2.2.4 The Managing of the Company

The company has a two-tier system of management. The management of the company is based on the valid legal regularization, the company statute and internal acts, prepared according to the ISO standards, regarding the rights and responsibilities of the operational and management bodies.

The Assembly:
The shareholders assembly decides on all legally defined issues. The assembly is convened by the company management board, on their own incentive and on the demand of the supervisory board or shareholders, who represent at least 5 % of the company's share capital.

The Supervisory Board:
The supervisory board has six members, who are elected for a four-year term of office and can be re-elected after the termination of their term. Four members represent the interests of the shareholders and are elected by the assembly, while the other two members represent the interests of the workers and are elected by the workers' council, in accordance with the Workers Participation in the Management Act. The chairperson of the supervisory board produces the report of the supervisory board, in which he/she outlines the main activities and workings of the supervisory board for the previous business year and expresses his/her opinion of the reviser's report and confirms the Annual Report.

The Management Board:
The management board consists of the chairperson and a member of the management board. The management board is nominated and dissolved by the Government of the Republic of Slovenia. The term of office of the management board is four years and can be prolonged for another term. The management board independently and of their own volition decide on all the company's organizational and management issues. The management board regularly, at least quarterly, reports to the supervisory board, referring to all relevant business issues and business results.

Revision:
The joint-stock company Elektro Maribor is in accordance with the Companies Act and is obliged to audit its financial statements or annual reports. The annual reports of the company are audited according to the provisions of the Companies Act, the Energy Act and Slovene Accounting Standards.

Informing Shareholders:
The way of keeping the shareholders posted on the activities of the company is determined by the company's statute and the general orientation of the company in the field of communicating with stakeholders, among whom the company's shareholders represent an important section.

2.2.5 The Ownership Structure of the Company, Its Shares and Capital Ties

At the end of 2005, the company had 1,024 shareholders (at the end of 2004 the number of shareholders was 1,282).

The ownership structure of capital on December 31st, 2005 is shown in the Table 2.3.

Table 2.3: The Ownership Structure of Capital on December 31st, 2005

Owners:	Share in %
The Republic of Slovenia	79,50
Infond Holding, d. d.	5,08
KS2 Naložbe, d. d.	2,72
Probanka, d. d.	2,07
Kapitalska družba, d. d.	1,21
Holding IMV, d. d.	1,12
Zlata Moneta I, d. d.	1,11
Vipa Holding, d. d.	1,01
Minor shareholders in total (less than 1 %)	6,18
Together	**100,00**

The accounting value of one share on December 31st, 2005 was 1,599.67 SIT (at the end of 2004 the accounting value was 1,579.93 SIT).

The joint-stock company Elektro Maribor has long-term financial investments with at least a 20 % share in the following companies:

Hidroelektrarne Elektro Maribor d.o.o., Vetrinjska ulica 2, Maribor, Slovenia	100 %,
Moja energija d.o.o., Jadranska cesta 28, Maribor, Slovenia	33,3 %,
Eldom d.o.o., Vetrinjska ulica 2, Maribor, Slovenia	25 %,
Informatika d.d., Vetrinjska ulica 2, Maribor, Slovenia	22 %.

2.3 A Brief History

The period from 1914 to 1990

- The inauguration of the construction of the electricity network in 1914 marks the beginning of today's company.
- In 1920, the first sector of the electrification of Maribor was completed. In the following few years, the City Electro Company continued with the electrification of the city and its outskirts.
- In 1925, the company renamed itself to Electro Company Maribor. In the years prior to World War II, the company was actively engaged in the electification of industry in Maribor (especially the textile industry).
- In 1941 the occupation and annexation of the company to the joint Styrian Electro Company with its seat in Graz interrupted the activities of the Electro Company Maribor.
- Between 1946 and 1990, the company went through numerous re-organizational processes.

The period after 1991

- After Slovenia's independence, the company began to prepare itself for ownership transformation. Since that year on, the company has operated as "Elektro Maribor p. o., a public company, owned by the Republic of Slovenia".
- The ownership transformation of the company was completed in 1998. On May 20th, 1998 it became a joint-stock company with the full name Elektro Maribor, a public company for the distribution of electricity.
- In 2001, the joint-stock company Elektro Maribor split its activity in an organizational and informational sense, towards public services, marketing of energy, marketing of non-energy activities and joint specialist services. The same year, the company was granted the quality certificate ISO 9001: 2000.
- A subsidiary "Male hidroelektrarne Elektro Maribor Ltd." was established in 2003.
- The joint-stock company Elektro Maribor decided in 2004 to create its own group for appropriation. At the end of 2004, the company celebrated the 90th anniversary of its operations, as a supplier of electricity.

Business Report 2005

3

I Feel Good

Time for Myself

3. Business Report 2005

3.1 Plans for the Future Development of the Joint-stock Company Elektro Maribor

2005 was another successful year for the joint-stock company Elektro Maribor; a year in which we introduced several important organisational and content innovations; and especially a year, in which we efficiently managed the primary objective of our company.

2006 is the last year before two major turning points in the organization and external operational framework of our companies will occur. Both innovations are based on the European Energy Directive, which calls for a legal separation of the activities of the systemic operator of a distribution network, from other activities and a complete opening up of the electricity market. Both procedures must be completed by July 1st, 2007 at the latest. The first, the legal separation, will be most likely executed by the beginning of next year. This legal separation will bring significant organizational changes, as it won't mean a necessary formal adjustment, but the first actual separation of some ties within the company itself. It is undisputable that an open electricity market demands transparent relations and undiscriminating relations of the network managers towards interested contractors responsible for marketing activities, which is a reason for the legal separation of activities in the field of selling electricity, and activities in the field of network management. There are several possibilities and our main task will be – with the co-operation of the majority owner representatives and the grantor at the same time – to find the optimal solution and carry it through to its nth degree. Within our company, we are already preparing a solution, which will meet these demands and we shall do our best to bring it into the line with other companies as well. We also designed some drafts for possible future organization within the Economic Interest Grouping and sent them to the appropriate minister.

A complete opening up of the electricity market in the middle of 2007, will allow all customers, even households, to choose their electricity supplier freely from July 1st, 2007. On a management level, this will mean numerous adjustments in the field of network access, procedures regarding the change of the supplier and IT systems. The completion of the renovation of the IT system will be the collective task of five companies with reference to the distribution of electricity. This change will bring great marketing challenges in the field of selling electricity, as we will need to uphold our market position with the help of preserving the trust of our customers and providing a reliable and stable partnership. This change will be accompanied by the issue of prices for household customers, as the current tariff system allows certain price disproportions.

One of the main objectives of our company is, to provide a high quality supply of electricity, which is possible only through constant development and deliberate investment in our distribution network. Therefore we are preparing a new 10-year development plan for the network in 2006, which we are going to send to the appropriate minister for his approval. The most important and technically complex investment in our investment schedule is the substation 110/10 kV Koroška vrata, which will provide a back-up supply of electricity for the centre of Maribor. The investment in the cable conduit 110 kV, which will supply the-afore mentioned substation and will probably be laid in the bed of the river Drava. Our investment activities will be focused also on solving problems of poor voltage conditions, which are still present, especially in the low-voltage network. One of the important tasks of the systemic operator in 2006 will be the execution of meter measurements; therefore we are going to put additional investments into a remote meter reading.

Cost-effectiveness has an important role in 2006, as our operating conditions have had significantly declined in both major activities of our company. With the beginning of 2006 a new three-year regulatory framework, which defines network charges, came into force and considerably constricted the financial activities of the public trading service Systemic Operator of a Distribution Network. At the same time, the situation on the electricity market curtails the positive difference in the purchase and sale of electricity. Therefore we are carrying out a comprehensive project for lowering operational expenses in all levels of our operations.

Regarding the purchase and sale of electricity, we saw a drastic increase in prices on the reference markets in the second half of the year 2005, which reflects upon the daily market of electricity in Slovenia and which substantially aggravates the operating conditions for individual electricity traders. Another factor was a significant fall in the solvency of the Slovene electricity exchange. In 2006, we started using a system for electricity portfolio management and a risk management system, in order to minimize unfavourable and unpredictable conditions on the energy market.

As a company, we will follow the strategic directions and resolutions of the owners in defining the future strategic position and in forming a possible new structure in the electricity sector. Our current position allows us an additional flexibility and adaptability in possible future integrations.

3.2 Market situation and operations

The global trend in the rising prices of energy products; unstable political regimes in some parts of the world, which have an impact on the safe supply of primary energy sources; and greater consumption of electricity played a vital part in the dramatic rise of electricity prices on reference markets. This impact can be seen in the Slovenian market, mostly in daily market, where prices have reached the same levels as those in the German market place. The rise in prices on forward markets of almost 50 % reflects in the trends in pricing of electricity in the coming years. There are also stronger competitors, who offer energy from S.E. Europe.

When purchasing and trading in electricity we saw a substantial fall in the liquidity of the Slovene stock exchange, where supply is not compatible with the demand. This consequently results in the non-transparency of prices on the Slovene regulated market and the non-transparency for the basis of evaluating counteravailable energy, which results in more unpredictable expenses for counteravailable energy.

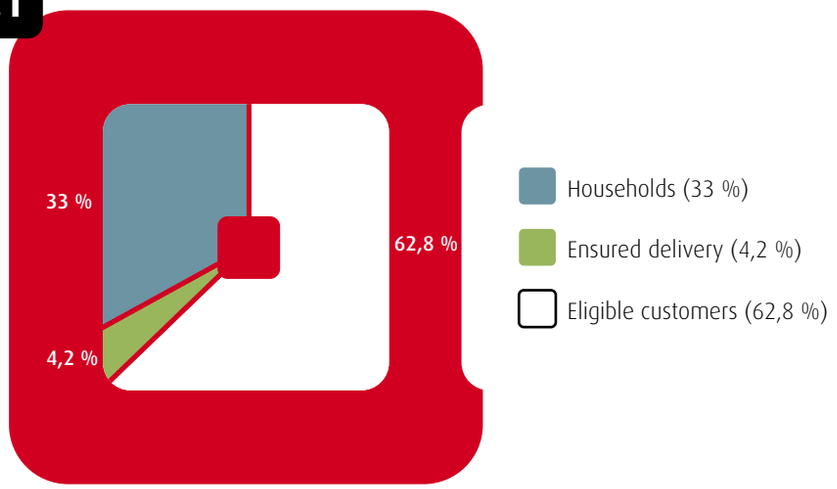
The selling of electricity to eligible customers in 2005 was running according to the projected goals. In 2004, we made two-year selling contracts; therefore we didn't notice the greater fluctuation of customers in 2005. As the complete opening of the market in 2007 is approaching rapidly, we have steered our efforts into searching for ideal solutions for our participation in the market and the regulations of business relations with customers under new conditions.

In the field of services we follow our customers' demands and thus preserve the high quality of our services. The competition has become stronger, but this is only an additional stimulation for a more intensive development with these stated services, which will enrich our supply as a support network in the selling of electricity. We are intensely developing and marketing our engineering services and our new measuring laboratory and measuring services techniques. The acquisition of an accreditation document regarding the measuring laboratory will meet the conditions for expanding our business in Slovenia and abroad.

3.3 The Purchasing and Selling of Electricity

The joint-stock company Elektro Maribor supplied electricity to 202,302 customers in 2005. Together, they consumed 2,096,536 MWh of electricity. The structure of electricity sold to different groups of customers is displayed in the graph 3.1

Graph 3.1 **The Structure of electricity sold in 2005** (in MWh)



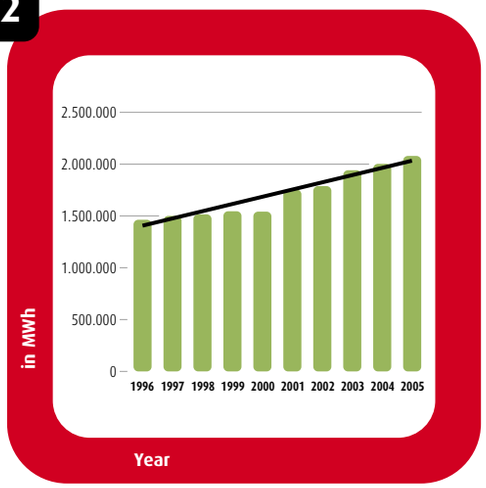
The household offtake consists of the electricity consumption in individual houses and apartment blocks. Household customers are connected to the low voltage mains, below 1 kW and use this electricity for domestic purposes.

The ensured delivery is the right of the electricity supply for those customers, who perform business or other activities with less than 50 employees and a yearly turnover of less than 10 million euros and do not have a contract for the supply of electricity.

Eligible customers have the right to choose the energy supplier freely and can have influence on the delivery conditions.

The joint-stock company Elektro Maribor has increased the amount of sold energy in the last 10 years, as shown in the graph 3.2.

Graph 3.2 **The movement of electricity sold between 1996 and 2005** (in MWh)



3.3.1 The Purchase of Electricity

The purchase of electricity was running according to our projected plans. The achieved average cost price was a tad higher than planned. This is the result of higher purchase expenses from qualified producers and miscellaneous discrepancies.

In 2005, we were purchasing electricity from HSE BORZEN, qualified and independent producers, ENTRADE, APT Power Trading SL, Električni Finančni Tim, C & G and Istrabenz-Gorenje.

For the needs of all customers with the joint-stock company Elektro Maribor, compensations of losses in the network and trading, we bought 2,217.2 GWh of electricity in 2005. For the needs of eligible customers and trading we bought 1,309.3 GWh, for tariff customers 780.2 GWh and for loss compensations 127.7 GWh of electricity. The actual purchase of electricity was 3 % higher than planned.

In 2005 we successfully achieved our goals:

- The average cost price of electricity is only slightly higher than planned, although the cost prices on the market at the end of 2005 were more than 45 % higher than in January 2005.
- We put in use a system for managing the energy portfolio and also a risk management strategy.
- Absolute discrepancies (surpluses + deficit) were 68.134 MWh in 2005 and 50.162 MWh in 2004. The main cause for the increase lies in an imperfect system of presenting information regarding the consumption of electricity within the appropriation group in the past. System operators should according to the regulations, provide this data, which are the basis for short-term forecasts for electricity consumption.
- We expanded the list of suppliers.
- We designed a draft of regulations for a risk management programme.

The issue of discrepancies between the actual and predicted cost prices in 2005 became topical again. The planned discrepancies for 2005 were 48.0 million tolars, while the actual costs were 484.1 million tolars. This discrepancy is the result of numerous factors:

- Deficient information in regards to the electricity consumption of the appropriate group for the past, which is the grounding for a short-term prediction for electricity in the future. This is a consequence of abolishing the so far existing method of electricity purchasing for our own distribution area. It has an impact on the success of the short-term prediction with reference to the consumption within a five-day period.
- The weather, which has an influence on electricity consumption with the majority of our customers.
- Non-transparent defining price costs for electricity with regards to the compensation of the discrepancies by SOTN (Eles).

3.3.2 The Sale of Electricity

3.3.2.1 The sale of Electricity to Households and an Ensured Supply

The joint-stock company Elektro Maribor, as a part of EPC DTC, supplies the electricity to the households and those customers, for whom the conditions of ensured supply are applicable.

In 2005, the activities in the field of selling electricity to households and customers with the ensured supply were focused mainly on:

- monitoring the dynamics of the purchase and sale of electricity,
- timely and correct clearance of the delivered electricity,
- classification of households into proper tariff groups, in accordance with the valid tariff system,
- consistent recovery of overdue claims for electricity and network charges,
- rationalization of costs for executing activities.

The quantitative sale of electricity within the context of EPC DTC decreased by 12 % in comparison to 2004. The reason for this decrease is related to the opening up of the Slovene market from July 1st, 2004, where customers of the former other offtake became eligible customers. Those, who didn't sign a market contract, the EPC DTC supplied the electricity under the conditions of ensured delivery. The quantitative sale to households increased by 3.4 % in comparison to 2004.

Within the context of EPC DTC realm of activity, we supplied the electricity to 187,973 customers, who consumed 780,172 MWh of electricity at the end of 2005.

The EPC DTC financial situation in 2005 was negative, despite the 3.7 % price increase in April. This is mainly the result of negative fluctuations between the average sale and average purchase price of electricity for households. The loss at the household offtake was 1.48 SIT/kWh.

3.3.2.2 The sale to Eligible Customers

In 2005 we sold 1,316,364 MWh of electricity with trading on the stock exchange and sale to eligible customers. This is 18 % more than in 2004 and 4 % less than projected for 2005. The reason for the unfulfilled realization of this projection is, that some procedures for incorporating new customers, planned in our group for appropriation, were delayed for several months. The plan of sale for 2005 takes into the consideration eligible customers, who didn't sign contracts for buying electricity and are therefore from January 1st, 2005 supplied through the institute of ensured delivery within the context of EPC DTC.

The revenue from trading and selling electricity to eligible customers is 5 % less than projected. This is the result of classifying customers in the segment of ensured supply.

3.4 Services

Our service sector carries out various construction and fitting services for our own investments and for other customers. We offer different services: engineering, calibration of electricity metres, current and voltage measuring transformers and clock switches. Regarding the demand we are expanding our supply with production of various universal metal frames and constructions.

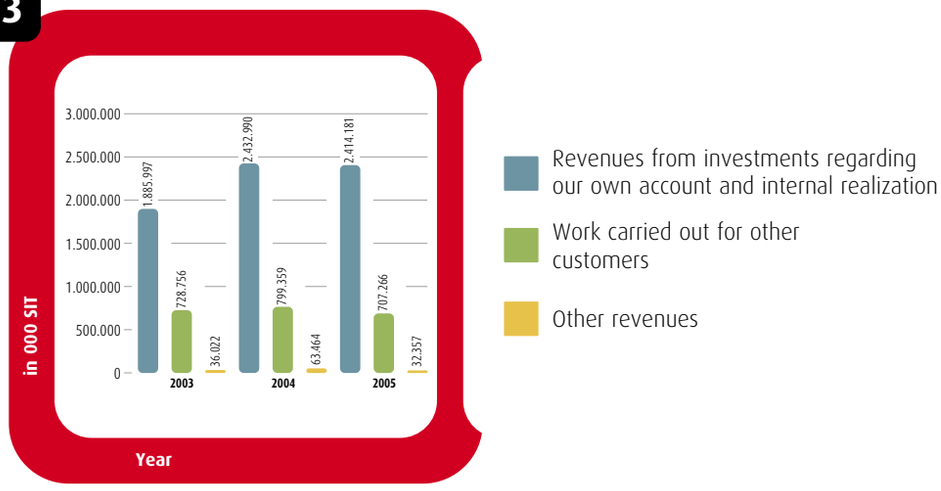
Our service sector accomplished the following goals in 2005:

- The performance of a comprehensive investment, engineering and preparation of project documentation for larger energy buildings.
- We were making technical documentation for electricity lines and instruments and public lightning on a larger scale, for our own investments and for other customers. We also maintained other TPs.
- We expect to receive a letter with reference to the granting of the accreditation document from the Slovene Accreditaion Board. On this basis we will apply for the nomination for executing authentication in the field of metrology, and for the nomination as a controlling organ at the Office of Metrology for the Republic of Slovenia. This and modern measuring equipment will enable us to expand our activities into new markets.

The service sector had revenue of 3,153,804,000 SIT in 2005, which is 4 % less than in 2004 and 14 % less than planned.

The revenues of the service sector between 2003 and 2005 are shown in the Graph 3.3.

Graph 3.3 **The revenues of the service sector between 2003 and 2005** (in 000 SIT)



The service sector has a negative financial situation in the period from January to December 2005, but this is mainly due to the introduction of new services. Their planned scope wasn't yet fully executed in 2005. With the aid of our marketing services, we are going to improve the visibility of our services and enlarge our market share in 2006; with the rationalization of expenses, which will enable us to create conditions for a more successful penetration into the Slovene market environment.

3.5 The Distribution of Electricity

We carried out the basic tasks of the EPC distribution of electricity in accordance with Slovene legislation and also our goals. Our basic task is to ensure a reliable and high quality supply of electricity to our customers. This is achieved by regular and effective maintenance of electrical instruments and their continuous development and enhancement.

3.5.1 The Maintenance of Electrical Instruments

The maintenance functions (review, revision, clearing, measuring) are planned for all voltage levels within the system. Therefore the maintenance work is dispersed across the whole territory of the joint-stock company Elektro Maribor. While performing these activities, we decrease the possibilities of breakdowns, which have to be repaired and can cause unwanted interruptions within the electricity supply system.

The highest priority in 2005 was the strategic maintenance and maintenance of 110 kV structures.

We started testing the presence for PCBs in TR oil samples from our distribution transformers. ARSO validated and accepted the quick method since 2004. We tested 669 samples, which means that we surpassed our goal of 34 % compliance. Our goal is to finish testing in 2009, or one year before the official expiration of the deadline.

The high numbers and physical remit of installations of the distribution system of the joint-stock company Elektro Maribor, maintained in 2005 is displayed in the Table 3.1.

Table 3.1: The Quantities and Physical Remit of Installations

Structure	Physical Scope
Substation HV/MV	**19 pieces**
Transformer substation MV/LV	**3,210 pieces**
Trunk 110 kV	165,3 km
Trunk 35 kV	58,5 km
Trunk 20 kV	2.894,8 km
Trunk 10 kV	38,2 km
Together	**3.156,8 km**
Cable Conduit 35 kV	8,8 km
Cable Conduit 20 kV	410,9 km
Cable Conduit 10 kV	252,1 km
Together	**671,8 km**
Network 0,4 kV, free-trunks	7.220,8 km
Network 0,4 kV, cable conduit	4.146,6 km
Together	**11.367,4 km**
Cables together	**15.196,2 km**

In comparison to 2004, the length of above ground cables decreased, while the length of underground cables increased, in accordance with the strategy of the technological development of the company.

3.5.2 Investments

The value of executed investments in 2005 was 5,205.4 million SIT, which is 7.7 % more than projected. In comparison to the investments in 2004, the investments in 2005 were higher by 17.6 %.

The more important investments were those investments in distribution structures, i.e. structures RTP110/x kV.
The largest investments in distributions structures and installations are the MV and LV networks and the construction of transformer substations MV/LV.

Within the context of distribution structures the MV and LV voltage levels, the following works were carried out in 2005:

- 42 new transformer substations MV/LV,
- 33 renewed and reconstructed existing transformer substations MV/LV,
- 106 km of MV connections and basic trunks and cable conduits,
- 116 of renewed and new LV networks,
- 13 remotely controlled MV switches in the MV network.

Among the more important investments is the continuation of upgrading the DCV Elektro Maribor in step with the upgrading of the software for keeping the records of planned works, i.e. the change-over switching on MV and LV levels and an introduction of a system for monitoring AC dumps/disconnections at a take-off location.

Among some of our other investments are, modernizing the telecommunication network, equipment for monitoring and managing the distribution network and information system.

In respect of documented needs for new distribution structures of all voltage levels, the means for investments are insufficient. But it has to be stressed, that insufficient financial means are not the only problem. Another problem is the installation of these structures in the physical environment.

3.5.3 The Purchase of Materials and Equipment

In 2005, we were intensely focused in managing stocks. This was achieved by the consistent planning of executing investments and performing regular maintenance schemes.

The purchase of materials and equipment to the value of more than 10 million was carried out according to the Public Procurement Act (PPA-1 and PPA-1A), and according to the expected schedule of due dates of the company regarding public tenders.

We carried out 36 public tenders by open procedure. For 26 of them we signed the contracts and realized them. The rest of these public tenders are pending. We also carried out public tenders by restricted procedures and by negotiated procedures.

Purchases of materials and equipment, where the value is below that, which is required for public tender, were carried out according to the Regulation for Delivering Public Orders of Lesser Values.

Through public tenders and public orders of lesser values we provided material and equipment for investments, regular maintenance and services.

3.6 The Distribution Network Management

The operation of the management sector in 2005 was running according to the ground rules of the business policy and business goals for the company in 2005. We carried out the management, operation and control of electricity flow through the distribution network, provided safe and reliable operations, systemic protection installations and measurements. We ensured the restoration of the system after interruptions, the working of the telecommunication network and installations and the transfer and distribution of information.

3.6.1 The Quality of the Electricity Supply

The quality of the electricity supply was in 2005 in accordance with the Energy Act and the Decree on general conditions for the supply and consumption of electricity. The quality of supply surpassed that of the supply in 2004.

We are assessing poor voltage conditions by measuring voltage deviations, according to the standard SIST EN 50 160 at various points on the LV network. We carried out 515 such measurements, or 3.3 % more than planned in 2005.

We are noticing that the number of customers with poor voltage conditions is on the decline. We are expecting fluctuations with these numbers in the near future, since customers are moving from urban areas to countryside, where the network is more sensitive to interruptions. The other factor is that, tariff customers are increasingly using more sensitive devices and installations.

The positive effect of introducing the automation of the MV network is a fall off in the number of interruptions and these interruptions are of a shorter time period, especially in relation to unexpected interruptions (AC dumps). While the number of AC dumps, longer than three minutes in the HV and MV network has increased by 5 %, we managed to shorten the average time of unexpected interruptions per customer by 14 %, with reference to 2004 and 46 % regarding 2003.

The consumption of electricity has a greater degree of permanence and is at a high at the present moment. The recorded consumption of electricity in 2005 was 2,039 GWh or 3.1 % greater than that of 2004. (Table 3.2)

Table 3.2: The Increase of Consumption of Electricity regarding the Previous Year

Year	2003	2004	2005
Consumption increase	2,8 %	1,9 %	3,1 %

Especially crucial is a permanent and high increase of the average peak load. In 2005 we recorded an average peak load of 322.6 MW or 4 % greater than in 2004 (Table 3.3).

Table 3.3: The increase of the average peak load regarding the previous year

Year	2003	2004	2005
Load increase	3,2 %	3,3 %	4,0 %

A high increase of consumption and average peak load is mainly the result of a favourable price and the applicability of electricity, a higher standard of living and the connecting of new customers.

3.6.2. Ensuring Safe and Reliable Operations

We set up a system for recording planned maintenance works for MV and HV levels and prepared guidelines in order to safeguard a healthy and safe work place. We also set up a system for monitoring AC dumps or circuit breaking of each customer and a calculation formula for pointers to offset supply reliability. Besides these initiatives, we developed a system for informing our customers about future planned interruptions on our web site. We continued with the active replacement of old protective installations in our substations, with the replacement of final substations and with the automation of the MV network. We also fully performed the obligatory maintenance of the existing protective installations.

3.6.3. Working of the Telecommunication Network

With the building of NGS network at the Pomurje Loop and expansions at other key locations, we increased the capacity for information transfer for the business and the process of IT on all key relations greater than 500 times (to 1 GbE). Thus we prevented bottlenecks, which already started disturbing the work process, for a longer time period.

We improved the availability of the radio network with newly built base repetition stations, and built an optical connection at the relay Substation at Ljutomer - Substation Ormož through the MV network.

3.7 The Electricity Offtake

The offtake sector in 2005 fulfilled its aims in the field of network access, meter measurements and communications with our customers.

3.7.1 Network Access

The distribution network took over 1,965,946 MWh of electricity from the transmission network in 2005 or 99.1 % of the projected amount, or 2.9 % greater than in 2004. We transferred 73,477 MWh of electricity from the power plants, which are connected to the distribution network. This represents 91.9 % of the planned amount or a 10 % increase regarding the year 2004. The SODN network overall took over 2,039,423 MWh of electricity or 99.7 % of the planned amount or 3.1 % greater than in 2004.

The recorded network usage was 1,899,490 MWh of electricity, which is 98,8 % of the planned amount or 1.6 % greater than in 2004. The cleared power for network usage was 21,671 MW, which is 99.7 % of the planned amount or 7.1 % less than in 2004. The revenue from the network usage was 15,009,173,000 SIT, which is 100 % of the projected revenue or 2 % greater than in 2004. The number of access contracts increased from 4,267 customers in 2004 to 16,081 in 2005, due to the opening up of the market for non-household customers.

Considering the out sourced amounts of electricity into the SODN network and calculated electricity for the network usage, the losses in the distribution network were 127,767 MWh, which is 6.3 % of out sourced electricity into the distribution network. The losses are 4.1 % higher than planned or 13 % higher in comparison with these figures in 2004. Due to the calculation method or calculation corrections, which overlap the calendar year, these losses have to be considered in the long-term, as they were less than planned in 2004, and represented 5.4 % of the out sourced electricity into the distribution network itself.

In 2005, we recorded 60,958 MWh of obligatory purchase, from 38 qualified producers of electricity and paid out a premium for the independent sale of electricity on the market to two producers for the amount of 5,107 MWh.

3.7.2 Meter Measurements

In the field of meter measurements we performed the following tasks in 2005:

- We achieved all our goals in renovating the measuring locations for the intake / outtake measurements bordering the ELES' transmission network, and in executing control measurements in other substations. Our automated data intake now includes several renovated measuring locations and the rebuilt substation 110/10 kV Melje.
- We carried out the maintenance plan and verification of measuring and controlling installations.
- We monitored if the measurements were correct by checking the accuracy of installed measuring equipment, the quality of performed work and by checking if the measuring locations were in accordance with the legislation and our internal instructions.
- Due to the complete opening up of the electricity market, we vigorously started searching for the most suitable solution for the most appropriate technologies for measuring, recording and data capture from the measuring points for the rest of the network users.
- We started to carry out pilot projects for testing new technologies in real time and searching for the most appropriate solutions for future Automated Meter Management system. Test measurements enabled us to establish learning and training conditions for our experts, who will build this complex system.

3.8 Research and Development

The joint-stock company Elektro Maribor carries out its activities in the field of development within the process of developing the electricity network. This process is divided into permanent projects and projects with time restrictions.

The research in companies for the distribution of electricity is carried out as a study, which tackle problems in the field of planning, building, managing, operating and maintaining the electricity system. These studies are carried out when introducing new electricity markets.

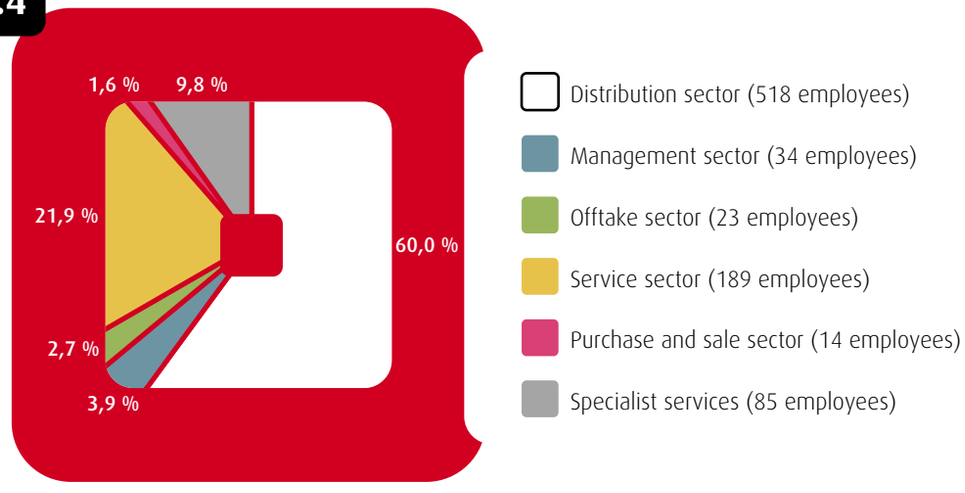
In 2005, we carried out the following developmental projects:

- Realization of the organizational changes of the joint stock company Elektro Maribor in accordance with the demands of the EA-DGC1.
  The project group studied possible alternatives with reference to the legal parting of the systematic operator within the distribution network from the rest of the activities within the company. It seems that the most suitable organizational solution would be the establishment of a subsidiary, performing activities of the SODN for the joint-stock company Elektro Maribor or even a state-owned company with minimal staff numbers.
- The introduction of a geographical information system
  We continued with introducing above ground MV network with appropriate transformer substations and substations into the GIS or "Electricity Network". 87 % of the whole MV network was established in 2005.
  In the first half of 2005 we introduced the application E-Network in our internet. It is based on the established GIS, and enables a 3-D representation of the location of cables and buildings and their properties. The data is stored in the technical database. This tool enables quick access to the electricity network data.

3.9 Employees

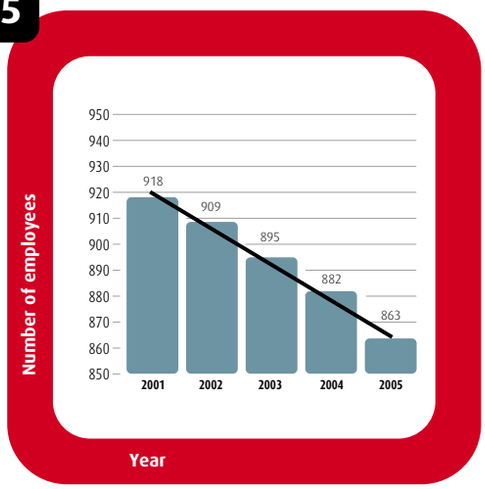
The joint-stock company Elektro Maribor had at the end of 2005 863 employees (Graph 3.4) or 1 % less than forecast. Regarding 2004, the number of employees decreased by 2 %

Graph 3.4 **The structure of employees, according to their activities on December 31st, 2005:**



In the last five years the number of employees has been on the decline. In this period the number of employees decreased for 55 people, as is shown in the Graph 3.5. We achieved this decrease with careful organizational reshuffling within the joint-stock company Elektro Maribor and with the purchase of a pensionable service for those employees with disabilities or with work limitations.

Graph 3.5 **The fluctuation in the Number of Employees from 2001 to 2005**



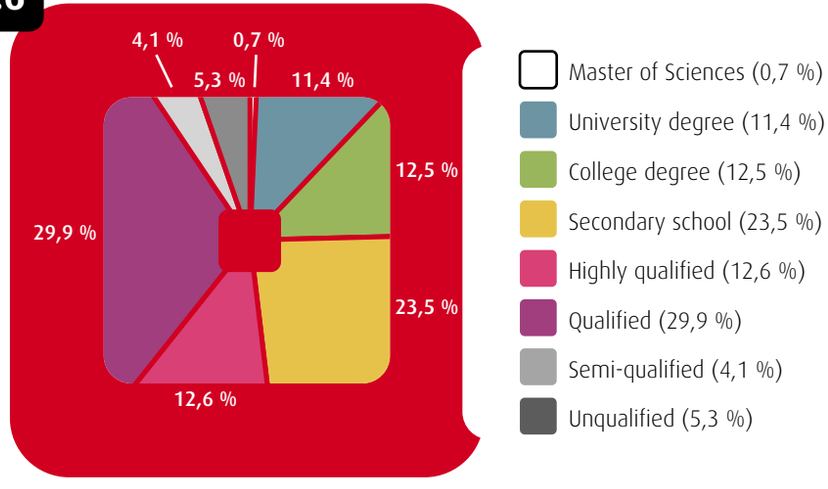
The employees are the key factor in the further development of our company and for achieving its business goals and ambitions. The measurement of the organizational climate (SOC) gave us some useful results, which will lay the map for our future directions, namely in communication and salary systems. The general satisfaction of our employees is good and slightly above the average in Slovenia.

In the field of education and training, we accomplished all strategic projects, finished the first part of the Cost / Value Driver analysis, and designed our first competitive catalogue and organized workshops in the training of our managers and training in order to work hand in hand with our customers.

This educational approach is focused on gaining the appropriate knowledge, skills and the honing personal skills. We are well on the way to becoming a real learning based company. We are constantly improving the system of internal communication and awarding systems, as we think that only a well-informed worker is satisfied and motivated to work in a good and effective manner.

The educational structure of our employees on December 31, 2005 is shown in the Graph 3.6.

Graph 3.6 **The Educational Structure of the Employees on December 31st, 2005:**



Employees also hold an integral part in the company's management, as they have representatives on the supervisory board and on the executive committee of the company's union. The employees therefore have an opportunity to participate in the management, as we believe, that without an appropriate system of workers' co-management, the company cannot develop successfully to its fullest potential.

One of the important goals in the field of managing human resources is the well being and good health of our employees. We have developed a system, where all our employees have a chance to discuss and receive professional help for their health, social and other problems, which may manifest within the working environment.

Safety and health at work are also important elements for the employees' well being, therefore we fully respect all the legal provisions in the field of safety and health in the work environment and carry out all necessary legal obligations to ensure the safe performance of all work tasks.

One of the most important elements of safety and health at work is the discussion and examination of accidents within the work place. We had 57 accidents at work in 2005, which is slightly more than in 2004. One of the accidents was serious, and was a result of electrical current displacement.

3.10 Communication with the Stakeholders

A comprehensive marketing orientation programme is a key category, which makes the difference between a successful and less successful company in a highly competitive environment.

We are very well aware of this situation and therefore we invest financial means and efforts in the hope that our communication and marketing activities will always push the envelope. Our public relations and marketing teams were acting in 2005 as a support to develop the business decisions of the management. We used all modern communication skills and tools that were at our disposal.

3.10.1 Communication with Customers

Our customers are divided into two larger groups, into tariff and eligible customers. Because both groups are very specific, we appropriately adapted our communications to suit both groups.

For the tariff customers, we put useful information on the flipside of our bills. We also kept them posted regarding information material, our web page and the application of our E-Service. Our kind and professional staff at the information offices and call centres have a key role in keeping tariff customers happy. We paid special attention to the information material in our information offices. At the end of 2005 we informed all our customers in writing with reference to their electricity consumption, the structure of production sources and provided them with information about the efficient use of energy.

For our eligible customers we tried to provide adequate information throughout the whole year with the help of information material, information on our web page and other activities. We established a communication support system for signing contracts.

Communication methods

- **Direct post, brochures**
  We prepared various printed materials with useful information for our customers. Our service sector prepared a leaflet "From the idea, to the realization of electricity structure". We participated in designing Guidelines for technological development for a system for electricity distribution.

- **Internet**
  We promptly updated all data and added new topics on our web page. We devoted special attention to topical events and simultaneously added them to our web page.

3.10.2 Communication with our Employees

Internal public (employees) is an important part of our company. The communication with them was carried out mainly through the internal newspaper Infotok, notice boards, intranet and notices by e-mail.

Communication methods

- **Internal newspaper**
  We published 5 issues of our internal newspaper Infotok in 2005. The aim of this newspaper is to establish connections among our employees, where their active participation in topics and articles for the newspaper were included and considered. The role of the internal newspaper is also the free transfer of information regarding events and happening in all spheres of society.

3.10.3 Communication with the Company Owners and the Financial Public

Communication methods

- **Annual report**
  The annual report for 2004 was published in the middle of 2005. We prepared a Slovene and English version of the report and sent it to all those on our mailing list with a stake in the company.

3.10.4 Communication with the Professional Public

Communication methods

- **Conference Energy 05**
  We participated in the conference Energy 05. The subjects discussed and analysed at the conference were current events and movements in the field of electricity distribution and on the electricity market as a whole.

- **Project An Energy Efficient Company**
  We participated in the project An Energy Efficient Company, because we are aware of the importance of the efficient use of energy and the meaning of this topic for the environment as a whole. We presented our company with leaflets and other promotion material.

- **Other professional events**
  Besides the above-mentioned communication with the professional public we also supported some other professional events (CIGRE, Kotnik Days).

3.10.5 Communication with the General public, Local Community and Media

Communication methods

Press conference

In April 2005 we organized a media conference, where we announced the business results for 2004 and our plans for the future. We invited those journalists, who cover the field of electricity distribution.

Sponsoring

We sponsored several important events and institutions:

- The Lent Festival, the traditional Slovene carnival "Kurentovanje" at Ptuj, Radio Center for the city centre, Špas Fest.
- Cultural institutions and events (SNG Maribor and other institutions and events in the cultural field).
- Athletic associations and events.
- Different activities within the energy field spectrum.

Advertising

We would like to heighten the awareness of our trademark and improve the company's reputation, and increase our customers' satisfaction. With advertising, we wish to position our company as a modern, flexible and customers orientated. We want to show our customers that they are very important to us: we want to make sure that they will feel this in every contact with us. We prepared two TV commercials in 2005 and presented them at the local TV network.

Promotional material

The main purpose for a promotional presence at the company is to allow for a greater and more varied publicity campaign when different occasions occur, and also in the organizing of competitions with prizes to be won on our web page, at special events and for minor sponsorships, where we give promotion material rather than monetary gain.

3.11 Risk Management

Risk management is an important condition in successfully and effectively reaching our short- and long-term business goals. Risk is defined as any uncertainty concerning planned business activities, which can impair expected business goals and projections.

Activities' risks

Activities' risks are connected with performing and controlling the activities within individual procedures and business processes. We asses that these risks will be small, as we have introduced the ISO 9001 system in reference to quality control, which provides for delimitation of responsibilities in performing processes and ensures regular internal and external assessments of process performance execution.

Regulatory risks

Regulatory risks encompass non-market influences and are still strongly present despite the opening up of the market. Our company has no influence on them, as it has to operate in accordance with the legislation in place. These risks reflect mainly in:

- The determination of the selling prices for electricity for our tariff customers, which is within the remit of the government of the Republic of Slovenia. The selling prices are too low, because they don't cover even the purchase costs of electricity for these customers and cause a loss in this segment from its very inception.
- The determination of network usage prices and with this SODN's network charges, which falls within the remit of The Public Agency of the Republic of Slovenia for Energy. Despite the expected rise in network charges in 2006, the Government with a provision for price regulation intervened in this field and didn't approve the suggested price rises.

We are confronted with legislative risks while on our investment course, due to the complex urbanism legislation and complex procedures, we have to invest a lot of effort in attaining the appropriate permission for placing electricity structures within the environment. This has an influence on the execution of our investment plans.

We are exposed to risks also due to the adjustment of Slovene legislation to European directives, most notably in the field of metrology.

Market risks

Our company is exposed to market risks due to ever-stronger competition and the fluctuations of the electricity prices in the market. The main factors, which contribute to this situation:

- The prices of primary energy products have risen considerably. The prices for electricity, follows this market.
- A limited number of electricity suppliers within the Slovene market, where there are limited possibilities for international electricity transfer. This additionally increases the prices and quantity supply risks.

We manage these risks with long-term contracts for purchasing electricity, active monitoring of the situation in international electricity trading and as accurate forecasting of electricity consumption, in order to prevent excessive discrepancies from actual demand.

Market risks are connected to the field of public contracts for equipment and services for the maintenance and investments in developmental projects. These risks manifest themselves in complex legislation, with regard to public contracts, also in energy legislation and in the knowledge of the Slovene standardization system.

The risks regarding uncertainty with electricity supply

The electricity supply is uncertain due to unexpected deficits in delivery, mainly because of breakdowns in electricity installations or planned maintenance works on these installations. This affects supply reliability.

We ensure a reliable supply of electricity to our customers through:

- Regular maintenance of electricity installations.
- Strategic developments and the introduction of new technologies.
- Greater network construction with cables.
- Preventative maintenance and providing efficient attending-intervention services.

Na poslabšanje faktorja zanesljivosti oskrbe odjemalcev z električno energijo pa vplivajo tudi nepredvidljivi vremenski pojavi, na katere pa ne moremo vplivati.

Financial risks

Our operations are confronted also with financial risks.

Credit risk is a risk regarding overdue payments from clients or in some cases that our claims will not be paid at all. To contain this risk, we have regularly monitored overdue claims movements and tried to recover them to the fullest extent.

Controlling claims means recovery in the field as well. In order to improve this method, we started developing a system procedure within the ISO system at the end of 2005. We defined tasks and responsibilities of individuals in greater detail within this system. Besides this development, we engaged an outside business partner to recover more complicated claims.

A part of our active policy regarding claims management is claims insurance, with different instruments of payment insurance, such as bills and indemnities. We lessened the credit risk through checking the financial stability of our customers. But we must not forget that a too stringent policy with reference to managing credit risks can also aggravate the company's competitive position, where certain segments of our customers can simply choose another supplier.

We have protected ourselves against the risk within the statute of limitations with regular monthly reminders about overdue payments.

Exchange rate risks derive from a change in the exchange rate, which could affect us in the long-term loans with particular reference to the euros. We have been managing this risk with regular monitoring of the changes in the exchange rate.

A risk of short-term insolvency or insolvency risks derive from the possibility that our company would not have sufficient means for paying its current obligations or for normal running operation in a certain time span. Therefore we carefully planned our cash flow for the future and invested free monetary means under the most favourable conditions in various banks, in the form of tied-up deposits and deposits redeemable upon notice. We didn't need to contract debts, as we planned in accordance with the Decree on the Terms and Conditions and Methods of Borrowing by Legal Entities from Article 87 of the Public Finance Act to ensure solvency in 2005.

3.12 Steps Towards Excellence

The joint-stock company Elektro Maribor successfully attained the quality certificate ISO 9001: 2000 in 2001. This certificate is not permanent; therefore it has to be upgraded constantly. So in 2005 we earmarked on four important activities to attain this certificate:

- Integration of the ISO 14001 standard into the quality control system.
- New Rules of Management.
- Preparations for attaining the ISO 14001 certificate.
- Preparations for attaining the ISO 17020 certificate.

According to the demands of the standard, we identified all processes in our company in order to define their goals, company workers and their responsibilities; make them uniform in all parts of the company and define proper safeguards to comply with the environmental protection demands of the ISO 14001 standard. The Slovene Institute for Quality and Metrology carried out their research in April and assessed that our operations meet the demands of the ISO 9001:2000 standard.

In order to stimulate our employees to think about the development of the company in a more earnest fashion, we adopted the Rule Book awarding those who partake in new innovations, while working within the framework of the company in 2005.

3.13 Social Responsibility

Social responsibility is an integral part of our operations, as this indirectly reflects our relationship towards the environment and influences the dynamics in our internal and the broader spaces within which the company operates.

3.13.1 Environmental Protection

Our activities in the field of environmental protection in the previous business year were focused mainly on the education and preparation of the documentation for attaining the ISO 14001 standard for quality environmental management. We organized educational programmes regarding environmental protection and legislation and carried out preliminary environmental protection reviews of our territorial units. In accordance with our company's policy, we prepared the following documents in 2005:

- Systemic procedure for identifying environmental aspects.
- Systemic procedure for identifying and following the legislation.
- A list of environmental aspects.
- A register of legislation.
- A plan for managing wastes with basic guidelines for waste separation.

We changed the systemic procedures and guidelines in order to align them with the demands of ISO standard, among those were the rules of management. Therefore we expect to obtain the ISO 14001 standard for the joint-stock company Elektro Maribor at the beginning of 2006.

Another field of activity in 2005 was the safe management of hazardous wastes and checking for the existence of PCBs in the oil of our distribution transformers. We achieved the planned number of measurements within this program with reference to critical transformer identifications.

We received the assessment of our waste disposal system at the beginning of 2005. This was the basis for handing over of waste materials to the authorized collectors and for its disposal at the appropriate landfill sites. All reports were forwarded to the Environment Agency. We also analysed the trends in waste production within our company. We renewed the company's cadastre for wastes, in which hazardous waste materials are defined and described in greater detail.

We carried out several measurements involving the output of electro-magnetic radiation for our 110/x kV and DV 110/kV substations. The results were within the allowable limits of the environmental regulation guidelines.

3.13.2 Blue Energy

We started offering electricity from renewable sources. Those customers will henceforth be able to make their own contribution in lessening the pressures on the environment.
As partners of Holding Slovenske Elektrarne Ltd., we are a part of the project "Blue Energy" and offer electricity produced in one of the three chains of hydroelectric power-stations owned by the afore mentioned holding. Water is a renewable source for electricity production, as these three hydroelectric power-stations prove with their environmental certification (RECS, Renewable Energy Certificate System).

A condition of purchase is a signed contract on the selling and buying of electricity for eligible customers or the accession contract for tariff customers. Customers can therefore decide to purchase part of their electricity produced within the project "Blue Energy". They can choose a share, which must be between 10 and 100 % of the transferred electricity and must be rounded off in tenths. They can do that by signing an annex to the basic contract for purchasing electricity.

The emphasis of this project is on lessening the burden on the environment. Buyers of blue energy will be able to show their environmental awareness by using special marks, advertising their business excellence and giving them a better public image.

3.13.3 Donations and Sponsorships

As we are literally present in every corner in our Slovene environment, we stimulate those areas in which we work and live in. We are aware of our social responsibilities and therefore take active roles in various socially important developments and activities. We contribute material and financial means for cultural institutions and events, for athletic societies and events and activities from the field of energy and education. We also support our important projects, which enhance our relationship with the environment.

3.14 Financial Criteria for Business Success

3.14.1 Business Analysis

Our business activities in 2005 were influenced by internal and external factors. The most important external factor was the legislation, which regulates public firms. Among the most important legislative instruments for our operations are:

- Energy Act (Official Journal of the Republic of Slovenia, No. 26/2005)
- Decree on the method for the implementation of public service obligation relating to the activities of the systemic operator of the electricity distribution network, and the public service obligation relating to electricity delivery to tariff customers (Official Journal of the Republic of Slovenia No. 117/2004).
- Decision on prices for electricity delivery for households and prices covering supplier's expenses on electricity delivery (Official Journal of the Republic of Slovenia No. 66/2004, 38/2005).
- Decree on the rules for determining prices and purchasing of electricity from qualified electricity producers (Official Journal of the Republic of Slovenia No. 25/2002) and decision on prices and premiums for purchasing of electricity from qualified electricity producers (Official Journal of the Republic of Slovenia No. 8/2004).
- Rules on setting prices for the use of electricity networks and the criteria for the justification and clarification of costs (Official Journal of the Republic of Slovenia No. 134/2003) in part, which governs the appendixes for preferential dispatching and the appendix for supervising contracts in the organized electricity market and the means for operating the Agency.
- The Regulation fixing of prices of network charges for distribution and transmission networks (Official Journal of the Republic of Slovenia No. 70/2004).
- Act on determining the methodology for network charges calculations and the methodology for network charges for energy firms and Order setting of network charges for the electricity networks usage (Official Journal of the Republic of Slovenia No. 84/2004).
- Order for setting the average costs of connecting new network users and for increasing the connection power of existing users (Official Journal of the Republic of Slovenia No. 11/2003) and its correction (Official Journal of the Republic of Slovenia No.16/2004).
- Implementation of the Incomes Policy Agreement in the Private Sector for the period 2004-2005 (Official Journal of the Republic of Slovenia No. 100/2004) and Annex No. 1 to collective agreement of Slovene electricity industry (Official Journal of the Republic of Slovenia No. 81/2005).
- General Administrative Procedure Act (Official Journal of the Republic of Slovenia No. 22/2005).
- Price Control Act (Official Journal of the Republic of Slovenia No. 63/1999).
- Consumer Protection Act (Official Journal of the Republic of Slovenia No. 98/2004).
- Companies Act (Official Journal of the Republic of Slovenia No. 15/2005)
- Slovenian Accounting Standards.

Other external factors, which influenced our business results:

- Selling prices for KWh of electricity for tariff customers increased on April 16th, 2005 for 3.7 %.
- Price increase of consumer good coefficient was 0.023 in the period from January to December, 2005. The average price increase of consumer goods coefficient in the period from January to December, 2005 was in comparison with the average for 2004 0.025. The annual inflation rate was 2.3 %, while the average annual inflation was 2.5 %.

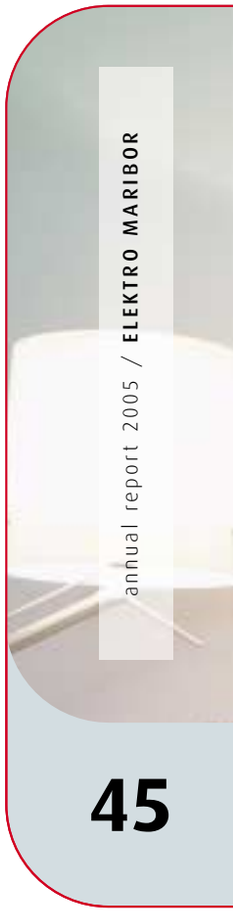
Internal influences were:

- Economic projection and plan for 2005 (adopted at the meeting of supervisory board on March 15th, 2005).
- Undertaking Collective Contract, signed on April 23rd, 2004, and annexes to the Undertaking Collective Contract.
- The new organizational structure of the joint-stock company Electro Maribor, valid from January 1st, 2005.
- The Rules on internal distribution proportions of the joint-stock company Elektro Maribor, for which we obtained the consensus of the Public Agency of the Republic of Slovenia for Energy.
- Action programme for 2005.

The main characteristic of our operations in 2005 was that the joint-stock company Electro Maribor has achieved and surpassed the goals, set out in its Economic Plan for 2005.

- The result for 2005 is positive, in the amount of 1,226,191,000 SIT or 4 % more than projected (1,179,790,000 SIT). The result is negative in the sector regarding the electricity supply for tariff customers (759,455,000 SIT). This is the consequence of the disproportion between the selling and purchasing prices for kWh of electricity. The result is also negative in the service sector (55,110,000 SIT), mainly due to the lower realization of income in comparison to planned revenues in 2005 (only 86 % of the plan for 2005 was realized). Therefore the fixed operating expenses were covered to a lesser degree than planned.
- All the company's revenues to the amount of 40,860,556,000 SIT are in comparison to the actually achieved revenues in 2004 higher by 3 % and surpass the projected revenues of 2 %. The revenues are higher mainly due to a 4 % increase in electricity sales, which has a 52-percent share in all revenues.
- The operating revenues of our company were in 2005 40,447,347,000 SIT and were 2 % higher than in the same period in 2004 or 1 % higher than the projected revenues in 2005.
- The company's operating expenses in 2005 were 39,634,365,000 SIT and were 2 % higher than planned or 3 % higher than in 2004. A higher than planned operating expenses was mainly due to the cost of purchasing electricity (3 %), labour expenses (2 %) and depreciation (3 %).
- We sold to our customers 2,096,536 MWh of electricity or 3 % more than planned and 5 % more than in 2004.
- We planned for 4,832,664,000 SIT for investment purposes, and realized investments to the amount of 5,205,383,000 SIT, which is 7.7 % more than planned and 17.6 % more than in 2004.
- Our solvency was buoyant; therefore we didn't need to take new loans out in 2005.

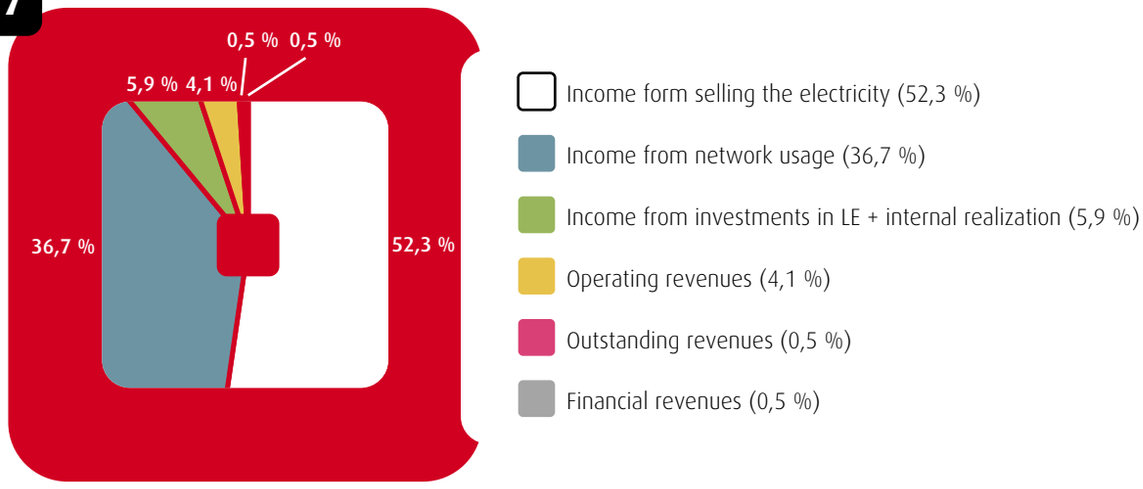
The achieved result for 2005 was positive and was in comparison to what was projected was higher by 46,401,000 SIT.



3.14.1.1 Operating Revenues

All revenues together in 2005 were 40,860,556,000 SIT and in comparison to the projected revenues were 2 % higher. The structural proportions of individual items didn't shift significantly regarding 2004. The revenue structure is shown in the Graph 3.7.

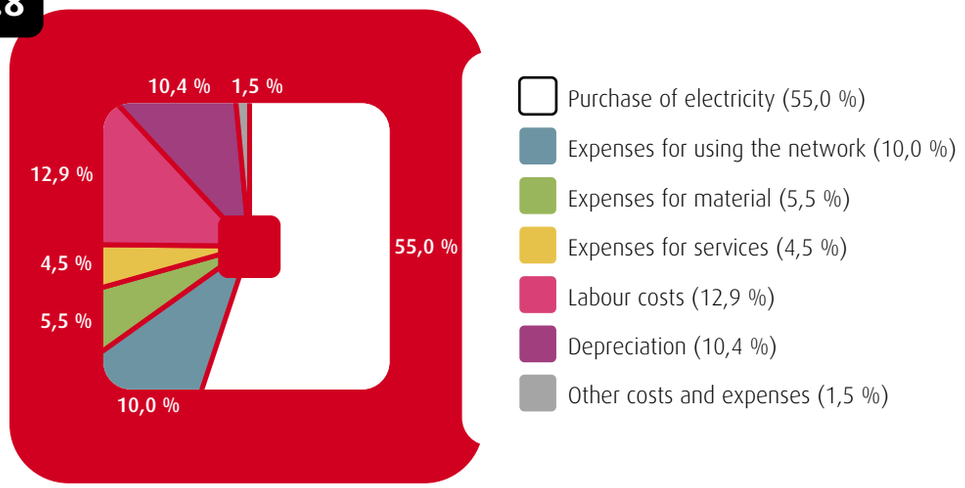
Graph 3.7 The Revenue Structure in 2005



3.14.1.2 Operating Expenses

All expenses in 2005 were 39,634,365,000 SIT or 3 % greater than in 2004 and 2 % greater than projected for 2005. This is mainly due to the higher costs of purchasing electricity and higher revaluated expenses (claims value corrections). The greatest change in comparison to 2004 was the percentage in expenses for purchasing electricity, which rose from 53.2 % to 55 %, while the percentage of costs for network usage fell from 12.5 % to 10 %. The structure of expenses in 2005 is shown in the Graph 3.8.

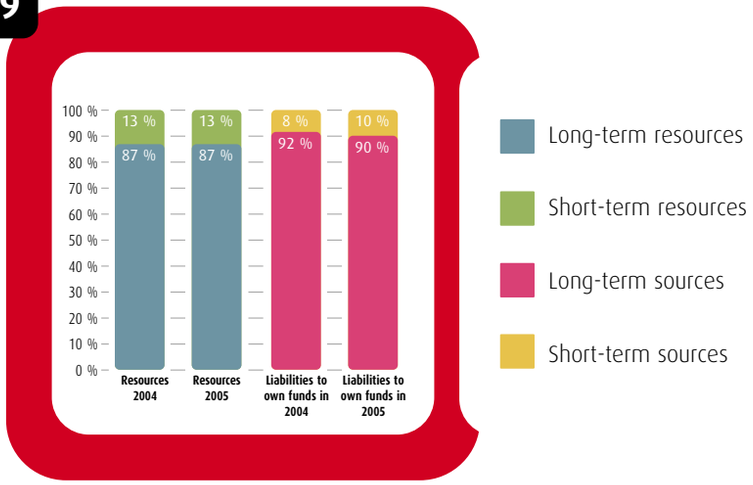
Graph 3.8 **The Structure of Expenses in 2005**



3.14.1.3 The Balance Sheet Structure

The percentage of all short-term resources in the structure of resources as a whole in 2005 remained on the same level as in 2004. The percentage of short-term sources of resources increased by 2 %, namely due to the increase of the short-term operating liabilities to suppliers regarding the year 2004. (Graph 3.9)

Graph 3.9 The structure of resources and liabilities with reference to the company's own funds on December 31st, 2004 and 2005



3.15 Events after the Conclusion of the Fiscal Year

The beginning of 2006 was the start of a new three-year regulative period, which determines key foundations for the joint-stock company Elektro MAribor's operations in the field of regulated activities of the SODNs. The Public Agency for the Republic of Slovenia for Energy adopted a new Act on determining the methodology for network charges calculation and the methodology for network charges for energy firms and an Order setting network charges for electricity network usage (Official Journal of the Republic of Slovenia No. 121/05) at the end of 2005. On this basis, the joint-stock company Elektro Maribor will have a substantially lower income from network usage (network charges) in 2006 than what it earned in 2005.

We made the first steps towards the transformation or reorganization of the joint-stock company Elektro Maribor.

We have to provide for a legal separation of the systemic operator of the distribution network from other activities, and to comprehensively prepare for a complete opening up of the electricity market from July 1st, 2007. For this transition we'll have to prepare sales strategies and attend to the development of information and communication procedures and techniques. The situation in the market at present complicates our sales activities, where prices, uncertainty and the number of competitors in the market are constantly on the increase. So far, we have successfully managed all risks and challenges, but we are well aware of the fundamental changes and hazards in all the market segments after 2007.

In accordance with Slovenian Accounting Standards (SAS) 2006 (Official Journal of the Republic of Slovenia No. 118/05), the company will after its standing on January 1st, 2006 carry out all adjustments and recalculations from the Item 15, Introduction to the SAS 2006.

I Feel Good

4

Accounting Report 2005

Time for Play

4. Accounting Report 2005

4.1 Financial Statements

A balance sheet for 2005 is a financial report showing the status of a company's assets, liabilities and equity on December 31st, 2005. Assets are comprised of all active items on the balance sheet, which are financed by the company's own funds. The balance sheet gives us key accounting information for managing the economic situation and providing pointers for the growth of the company.

Table 4.1: Balance Sheet on December 31st, 2005

in 000 SIT

	Item	Explanations	2005	2004
A.	**Fixed Assets (I. + II. + III.)**		**55.858.832**	**54.524.315**
I.	Intangible fixed assets (1 to 6)	4.3.1.1	173.796	3.619
	1. Deferred operating costs		0	2.714
	3. Long-term ownership rights		173.796	905
II.	Tangible goods (1 to 4)	4.3.1.2	54.997.316	53.852.878
	1. Land and buildings (a + b)		43.260.925	42.926.121
	a. Land		1.714.022	1.727.390
	b. Buildings		41.546.903	41.198.731
	2. Equipment and spare parts		11.342.075	10.124.844
	4. Acquired fixed assets (a + b)		394.316	801.913
	a. Advances for acquiring tangible fixed assets		2.815	0
	b. Tangible fixed assets in course of construction		391.501	801.913
III.	Financial fixed assets (1 to 7)	4.3.1.3	687.720	667.818
	1. Investments in shares and stocks in companies within the group		484.600	447.434
	3. Investments in shares and stocks in associated enterprises		161.869	171.607
	5. Other long-term investments in shares and stocks		22.032	22.032
	6. Other long-term financial claims		19.219	26.745
B.	**Working capital (I. + II. + III. + IV.)**		**8.154.453**	**7.858.661**
I.	Stocks (1 to 4)	4.3.1.4	538.051	473.413
	1. Material		538.051	473.413
II.	Operating receivables (a + b)	4.3.1.5	6.084.193	5.530.673
	a. Long-term operating receivables (1 to 5)		**22.283**	**28.206**
	1. Long-term operating receivables to customers		93	93
	4. Long-term operating receivables to others		22.190	28.113
	b. Short-term operating receivables (1 to 5)		**6.061.910**	**5.502.467**
	1. Short-term operating receivables to customers		5.578.247	5.162.180
	2. Short-term operating receivables to companies within the group		1.014	1.349
	3. Short-term operating receivables to associated enterprises		4.866	2.771
	4. Short-term operating receivables to others		477.783	336.167
III.	Short-term investments (1 to 4)	4.3.1.6	909.589	1.105.064
	4. Short-term investments to others		909.589	1.105.064
IV.	Holdings in banks, checks and ready cash	4.3.1.7	622.620	749.511
C.	**Prepayment and accrued income**	**4.3.1.8**	**7.857**	**8.872**
	MEANS: (A+B+C)		**64.021.142**	**62.391.848**
	Off-balance sheet means		1.138.072	1.904.630

A.	**Capital**	**4.3.1.9**	**53.581.530**	**52.920.112**
I.	Called-up capital (1 to 2)		33.495.324	33.495.324
	1. Share capital		33.495.324	33.495.324
III.	Profit reserves (1 to 4)		1.415.325	771.575
	1. Statutory reserves		134.793	73.483
	4. Other reserves		1.280.532	698.092
IV.	Carry-forward from result of previous year		3.102	0
V.	Result for the fiscal year		582.441	606.017
VI.	Capital revaluation adjustments (1 + 2)		18.085.338	18.047.196
	1. General capital revaluation adjustments		18.002.137	18.002.137
	a. Special revaluation adjustments		18.002.137	18.002.137
	2. Special revaluation adjustments		83.201	45.059
	b. Revaluation adjustment for long-term investments		83.201	45.059
B.	**Provisions (1 to 3)**	**4.3.1.10**	**3.900.700**	**3.199.295**
	3. Other provisions		3.900.700	3.199.295
C.	**Financial and operating liabilities (a + b)**		**6.538.912**	**6.272.441**
	a. Long-term financial and operating liabilities (1 to 8)	**4.3.1.11**	**324.324**	**998.315**
	2. Long-term financial liabilities to banks		322.689	993.749
	8. Long-term financial and operating liabilities to others (a to č)		1.635	4.566
	č. Other long-term financial and operating liabilities		1.635	4.566
	b. Short-term financial and operating liabilities (1 to 8)	**4.3.1.12**	**6.214.588**	**5.274.126**
	2. Short-term financial liabilities to banks		181.153	488.453
	3. Short-term operating liabilities on the basis of advances		72.380	60.709
	4. Short-term operating liabilities to suppliers		5.374.169	4.093.938
	6. Short-term financial and operating liabilities to companies within the group		12.530	12.159
	7. Short-term financial and operating liabilities to associated enterprises		160.469	98.383
	8. Short-term financial and operating liabilities to others (a to d)		413.887	520.484
	c. Short-term liabilities to employees		288.246	298.694
	č. Short-term liabilities to the State and other institutions		80.351	179.067
	d. Other short-term liabilities		45.290	42.723
	LIABILITIES: (A+B+C)		**64.021.142**	**62.391.848**
	Off-balance sheet liabilities	4.3.1.13	1.138.072	1.904.630

A profit and loss account is a key financial statement, which shows the method for assessing a company's profit and loss account for a given 'financial year' (Table 4.2). It shows revenue, expenditure and the profit and/or loss resulting from operations, and is an important financial statement for assessing a company's success.

Table 4.2: Profit and Loss Account for 2005

in 000 SIT

	Item	Explanations	2005	2004
1.	Net sales (a+b)	4.3.2.1	37.473.300	36.453.435
	a. On the domestic market		37.473.290	36.453.435
	b. On markets abroad		10	0
3.	Own products and own services		2.414.181	2.432.990
4.	Other operating revenues		559.866	586.171
	OPERATING REVENUES (1 do 4)		**40.447.347**	**39.472.596**
5.	**Expenses on goods, materials and services (a + b)**	**4.3.2.2**	**29.793.233**	**29.332.690**
	a. Acquisition price of sold goods and cost of used materials		24.009.574	22.660.037
	b. Cost of benefits		5.783.659	6.672.653
6.	**Labour costs (a+b+c+d)**	**4.3.2.3**	**5.124.178**	**4.593.117**
	a. Cost of wages and salaries		3.506.259	3.089.262
	b. Cost of supplementary pensions for employees		173.290	153.028
	c. Cost of employer's contributions and other benefits from salaries		778.214	677.179
	d. Other labour costs		666.415	673.648
7.	**Depreciation expense (a+b+c)**	**4.3.2.4**	**4.475.805**	**4.178.125**
	a. Depreciation		4.138.564	4.096.458
	b. Revaluated operating charges for intangible and tangible fixed assets		43.589	11.276
	c. Revaluated operating charges for working capital		293.652	70.391
8.	**Other operating charges**	**4.3.2.5**	**160.522**	**114.471**
	OPERATING PROFIT OR LOSS: (1+2+3+4-5-6-7-8)		**893.609**	**1.254.194**
9.	**Income from shares (a+b+c)**	**4.3.2.6**	**0**	**33**
	c. Other income from shares (with revaluated income)		0	33
11.	**Income from short-term claims (a + b + c)**		**224.213**	**184.311**
	c. Other income from interests and short-term claims (with revaluated income)		224.213	184.311
12.	**Expenditures on long and short-term investments write-down (a + b+ c)**	**4.3.2.7**	**10.714**	**780**
	b. Revaluated expenditures on investments in affiliated companies		10.714	0
	c. Other revaluated expenditures		0	780
13.	**Expenditures on interests and other liabilities (a + b + c)**		**53.856**	**99.801**
	c. Other expenditures for interests and other liabilities		53.856	99.801
15.	**NON-TECHNICAL ACCOUNT: (1+2+3+4-5-6-7-8+9+10+11-12-13-14)**		**1.053.252**	**1.337.957**
16.	**Extraordinary revenue**	**4.3.2.8**	**188.996**	**137.601**
17.	**Extraordinary expenditure (a+b)**	**4.3.2.9**	**16.057**	**199.731**
	a. Extraordinary expenditure without the revaluated capital adjustment		16.057	199.731
18.	**EXCEPTIONAL RESULT: (16 - 17)**		**172.939**	**-62.130**
21.	**RESULT FOR THE ACCOUNTING PERIOD: (15+16-17-19-20)**	**4.3.2.10**	**1.226.191**	**1.275.826**

A cash-flow statement includes important information for financial decisions (Table 4.3). Its role is to explain the influences of financing, investing, de-financing and de-investing on the changes in the financial statues, from the beginning to the end of a given financial year.

Table 4.3: Cash-flow Statement from January 1st to December 31st, 2005

v 000 SIT

Item	Explanations	Leto 2005	Leto 2004
A. The Operating Cash Flow	**4.3.3.1**		
a) Operating income		45.777.546	43.922.535
aa) Income from products and service sales		45.404.678	43.555.700
ab) Other operating income		372.868	366.835
b) Operating expenditures		41.821.616	41.717.431
ba) Expenditures on material and services		34.790.270	35.239.326
bb) Expenditures on salaries and employees' share profits		2.892.408	2.583.103
bc) Expenditures on charges of any kind		3.783.763	3.411.799
bd) Other operating expenditures		355.175	483.203
c) Excess of operating cash flow or excess of operating expenditures (b-a)		3.955.930	2.205.104
B Investment cash flow	**4.3.3.2**		
a) Investment income		2.063.424	9.105.709
aa) Income from interests and shares from the profits of others		187.011	190.183
ac) Income from disposal of tangible fixed assets		48.873	21.423
ae) Income from disposal of short and long-term investments		1.827.540	8.894.103
b) Investment expenditures		4.514.021	10.526.485
bb) Expenditures on acquisition of tangible fixed assets		2.879.021	2.081.191
bc) Expenditures on acquisition of long-term investments		0	21.290
bd) Expenditures on acquisition of short-term investments		1.635.000	8.424.004
c) Excess of expenditures on investment activities (b-a)		-2.450.597	-1.420.776
C Cash flows from financing activities	**4.3.3.3**		
b) Expenditure on financing activities		1.632.224	673.594
ba) Expenditures on given interests		56.360	91.811
bd) Expenditures on repayments of long-term loans		977.856	490.076
bf) Expenditure on payment of dividends and other share profit		598.008	91.707
c) Excess of income from financing activities (a-b) or excess of expenditures on financing activities (b-a)		-1.632.224	-673.594
D The final position of monetary and similar means		**622.620**	**749.511**
x) Financial outturn in the accounting period (Sum of Ac, Bc and Cc)		**-126.891**	**110.734**
+			
y) Initial position of monetary and similar means		**749.511**	**638.777**

Table 4.4: Statements of changes in capital for 2005 and 2004

	2005	Called-up capital Share capital
		I/1
A.	Initial position in the period	33.495.324
B.	Movements into capital	0
d)	The entry for the yearly results	
f)	Entry of the amount of special capital revaluation	
C.	Movements in capital	0
a)	Allocation of net profits as a part of capital in accordance with the decisions of management and supervisory board	
D.	Movements from capital	0
a)	Payment of dividends	
c)	The use of special revaluated capital adjustment (for means disabling or debt amplification)	
E.	Final position in the period	33.495.324

	2004	Called-up capital Share capital
		I/1
A.	Initial position in the period	33.495.324
B.	Movements into capital	0
d)	The entry for the yearly results	
f)	Entry of the amount of special capital revaluation	
C.	Movements in capital	0
a)	Allocation of net profits as a part of capital in accordance with the decisions of management and supervisory board	
D.	Movements from capital	0
a)	Payment of dividends	
E.	Final position in the period	33.495.324

in 000 SIT

	Profit reserves		Transferred result for the year	The result for the year	RCA *		Together
	Statutory profit reserves	Other reserves	Transferred net profit	Net profit	General RCA	Special RCA	
	III/1	III/4	IV/1	V/1	VI/1	VI/2	
	73.483	698.092	606.017		18.002.137	45.059	52.920.112
	0	0	0	1.226.191	0	38.454	1.264.645
				1.226.191			
						38.454	
	61.309	582.441	0	-643.750	0	0	0
	61.309	582.441		-643.750			
	0	0	-602.915	0	0	-312	-603.227
			-602.915				
						-312	
	134.793	1.280.532	3.102	582.441	18.002.137	83.201	53.581.530

* Revaluated Capital Adjustment (RCA)

	Profit reserves		Transferred result for the year	The result for the year	RCA *		Together
	Statutory profit reserves	Other reserves	Transferred net profit	Net profit	General RCA	Special RCA	
	III/1	III/4	IV/1	V/1	V/2	VI/1	VI/2
	9.692	92.074	92.075		18.002.137	14.199	51.705.501
	0	0	0	1.275.826	0	30.860	1.306.686
				1.275.826			
						30.860	
	63.791	606.018	0	-669.809	0	0	0
	63.791	606.018		-669.809			
	0	0	-92.0750	0	0	0	-92.075
			-92.075				
	73.483	698.092	0	606.0170	18.002.137	45.059	52.920.112

* Revaluated Capital Adjustment (RCA)

On August 30th, 2005 the company's assembly unanimously adopted a resolution for partitioning the profit for appropriation to the amount of 606,017,000 SIT. The profit for appropriation was divided among the shareholders, posted on the share register on the day of the assembly meeting. The gross value of dividend return per share was 18.00 SIT. According to the assembly's resolution, a carry-forward of profit to the amount of 3,102,000 SIT was transferred to the next fiscal year.

On the basis of the management board resolution, the company used 1,226,191,000 SIT of the net profit for statutory reserves to the amount of 61,309,000 SIT and for other reserves to amount of 582,441,000 SIT on December 31st, 2005. Since the assembly decided to transfer the carry-forward of profit from 2004 to the amount of 3,102,000 SIT, the profit for appropriation was 585,543,000 SIT (Table 4.5).

Special revaluated capital correction consists of the appropriate share of profit from the dependant company Hidroelektrarne Elektro Maribor Ltd. to the amount of 79,137,000 SIT and of appropriate share of profit from the associated joint-stock company Informatika to the amount of 4,064,000 SIT.

Table 4.5: Addition to capital-flow statement for 2005: profit for appropriation in 000 SIT

PROFIT FOR APPROPRIATION:	2005	2004
a) Result for the fiscal year	**1.226.191**	**1.275.826**
b) Any carry-forward of profits	**3.102**	**0**
c) Increase of profit reserves under the management board decision	**61.309**	**63.791**
Statutory reserves	61.309	63.791
d) Increase of profit reserves under the management and supervisory board decision	**582.441**	**606.018**
Other profit reserves	582.441	606.018
PROFIT FOR APPROPRIATION IN 2005 (a + b - c - d)	**585.543**	**606.017**

4.1.1 The Assessment of the Profit for Appropriation and Its Suggested Usage

The reliability and quality of electricity supply are the key goals of the joint-stock company Elektro Maribor, therefore we constantly strive to achieve extremely high business standards, which consist of the upgrading of our technological, educational, communicational and servicing techniques with our users.

The increase in electricity consumption calls for larger investments in the rebuilding and expansion of the electricity network. Electricity consumers are more and more sensitive to interruptions in the supply of electricity; therefore we are going to invest in the rehabilitation of low grade voltage conditions.

In 2005, we started offering electricity produced from renewable sources. We are aware of our responsibility for environmental preservation; therefore we are going to increase our investments in the renewable sources sector in future. In 2005, we reorganized the joint-stock company Elektro Maribor to adapt the company to the amended Energy Act of 2004 and to the Decree on the method for the implementation of public service obligation, relating to the supply of electricity to our tariff customers, which defined the organization and tasks of SODN and the supply of electricity to tariff customers.

At the end of 2005 the methodology for calculating network charges and assessing eligible expenses for electricity networks was adopted. The methodology was prepared by the Public Agency of the Republic of Slovenia for Energy for the new regulatory period of 2006 - 2008. This methodology will increase the operating expenses and will have negative influences on the monetary flow. This will impair the company's solvency.

Due to the complete opening up of the electricity market, our company will prepare and incorporate new sales strategies and will also provide for the development of information and communication procedures. Due to the changeable market conditions, we'll have to be competitive and reliable in every aspect of our workings. Therefore we'll have to provide funds for staff restructuring.

The joint-stock company Elektro Maribor wishes to continue ensuring its owners of the expected growth rate and coordinated rate of social security to its employees will endure

The management board of the company has therefore decided to use a portion of the net profit from 2005 to the amount of 1,226,190,969.12 SIT, which is after deductions for statutory reserves to the amount of 61,309,548.46 SIT, 1,164,881,420.66 SIT for other reserves to amount of 582,441,710,33 SIT.

The supervisory board of the company confirmed the suggested other reserves from the net profit, as it evaluates that this is in compliance with the strategic goals and investment plans of the company. These reserves are adequately shown in the company's accounting statements.

The structure of the net profit for 2005 is shown in the Table 4.6.

Table 4.6: The Structure of the Net profit for 2005 in SIT

Result for the fiscal year	**1.226.190.969,12**
+ transferred net profit	3.101.545,03
- increase of the statuary reserves under the management board decision	61.309.548,46
- increase of the statutory reserves under the management and supervisory board decision (other reserves from profit)	582.440.710,33
= profit for appropriation	**585.542.255,36**

The management and supervisory board of the joint-stock company Elektro Maribor suggest the shareholders assembly to allocate the profit for appropriation from 2005 to the amount of 585,542,255.36 SIT in the following manner:

- To use a part of the profit for appropriation in the amount of 175,662,676.6 SIT for shareholders' dividends to the gross value of 5.24 SIT per ordinary share.
- To allocate a segment of the profit for appropriation in the amount of 409,879,578.76 SIT to other profit reserves.

4.2 The Summary of Important Accounting Orientation

4.2.1 The basis for compiling accounting statements

The accounting statements in this report are compiled with particular reference to the Slovene Accounting Standards of 2001, issued by the Slovene Audit Institute. They are prepared in compliance with basic accounting assumptions: time accrued for business events, unlimited duration of activities and the true and fair representation in conditions of fluctuation values with the euro and other individual prices.

Qualitative characteristics of accounting statements and accounting as a whole should hold to the following characteristics; readability, suitability, reliability and comparability.

The accounting statements are in Slovene tolars, rounded up to the thousand units.

What follows is a description of more relevant accountant orientations.

4.2.2 Intangible Long-term Items

Long-term intangible items are long-term deferred expenses and long-term property rights.

Long-term intangible items are in the beginning evaluated by their purchasing value. Purchasing values include import duties and extending purchasing taxes.

The company demonstrates among it intangible long-term items, namely investments in acquired long-term rights of industrial property (licenses, programme solutions).

4.2.3 Tangible Goods

Tangible goods are in the beginning evaluated by their purchasing value. It is comprised from their purchasing price, import duties and extending purchasing taxes and the offset expenses, which can be attributed directly to their commissioning structure for designated usage, especially those of transport and installation costs.

The purchasing value of tangible goods, built or made within the company is comprised of costs for their assembly or manufacture and the indirect costs for their assembly or manufacture.

The company delimits its investments into its fixed assets on the basis of systemic guidelines for delimiting expenses for the maintenance and investments in its fixed assets.

Purchases of tangible goods in 2005 are evaluated by their original values.

4.2.4 Depreciation

Non-written-off value of tangible goods is weakened by depreciation.

Tangible goods start amortising on the first day of the next month after they were allowed to begin their designated activities.

The company uses the method of straight-line depreciation ratings. Depreciation is treated individually.

Depreciation rates are based on the service line of assets and are shown in the Table 4.7.

Table 4.7: Depreciation Rates

	2005
Buildings	2 % - 4 %
Equipment	2,86 % - 6,67 %
Motor vehicles	8,33 % - 14,29 %
Other equipment	6,67 % - 25 %
Computer equipment	25 %
Intangible items	33,3 %

4.2.5 Financial Investments

Long- term and short-term financial investments are in the beginning are displayed by their purchasing value in invested monetary assets or other assets.

If the financial investment is loosing its value, a correction of its originally displayed value is made in the debit of revaluated financial expenses.

Part of long-term financial investments, which falls, due in one year time, after the day of the balance sheet is presented as a short-term financial investment.

Investments in shares in dependent and associated companies are evaluated by the capital method (with the exception of Eldom Ltd.). For the appropriate segment of profit of a dependent or associated company, special revaluated corrections of the capital in connection to long-term financial investments are shown. When profit shares are remitted to the account, the financial income is identified.

Accounting statements of the joint-stock company Elektro Maribor and its dependant company HE Elektro Maribor are not shown together, as the dependant company is operating within strict long-term limitations, which significantly impair its abilities to transfer its assets to the parent company. The accounting statements of the dependant company are also not shown in a group with the parent company, as this is not necessary for a real and fair representation of the operations of the group as a whole.

4.2.6 Claims

Claims of all kinds are at the identification shown in amounts, which derive from appropriate documents, providing that they will be paid. Initial claims can be later increased or can be, depending on the received payment or other settlements, decreased for amounts, substantiated by a contract.

The company must show all claims for which doubt of settlement exists, as either dubious or contradictory. The company uses an individual approach in forming corrections to the values of those claims, which become dubious or contradictory due to their lack of settlement. The correction of the claim's value is made for the whole value of the claim with regards to the particular customer, regardless of its realization rate. The company also designs corrections to the claims' values when it has information regarding the introduction of a compulsory settlement, bankruptcy or lawsuit.

In 2005, the company changed its use of accounting evaluations with regard to the formation of corrections of claims' values for electricity sold to tariff customers. Instead, it pursued a correction of claims policy with an individual approach.

4.2.7 Stocks

The quantitative unit of material is, after the initial evaluation identification by its purchasing price, which is comprised of the purchasing price, import duties and other extending purchasing taxes and direct purchasing costs.

The materialization of stocks is carried out by the acquisition principle. The consumption of material is shown by the method of floating average prices. The stocks are revaluated due to deterioration; if their book value exceeds their market value. The value of the stocks is reduced also for the use of unsuitable material write-off.

4.2.8 Monetary assets

Monetary assets are money in bank accounts, cash in the process of collection, cash in a register and deposits, redeemable on notification.

4.2.9 Capital

Complete capital is share capital, statutory reserves, other profit reserves, the result of the financial year, transferred result, general revaluated capital adjustment and special revaluated capital adjustment from long-term financial investments.

Share capital is displayed in the domestic currency.

4.2.10 Long-term Reservations

The company makes long-term reservations from fixed assets, taken over free of charge from average connection costs and contributions for co-financing. The company draws upon them to cover depreciation costs.

Based on experience, the company allows for a 3.33 % depreciation annual rate for the low voltage network, as the basis for consumption and transfer to revenues.

4.2.11 Debts

Debts can be accrued both in the fiscal and business sectors, short-term and long-term.

Short-term and long-term liabilities of all kinds are initially displayed with amounts from the appropriate documents, providing that creditors demand their payment. The liabilities are later increased by assigned yields (interests and other compensations), for which an agreement with the creditor has been accepted. The liabilities are reduced by paid up sums and other settlements agreed with the creditor. Long-term liabilities are reduced also in part, which should be paid up in less than one year. This is displayed as a short-term liability.

4.2.12 Short-term Time Delimitations

Active short-term time delimitations are short-term deferred expenditures.

4.2.13 Identification of Revenues

Revenues are identified, if the increase of economic benefits in a given accounting period is connected with asset increases or with the debt reduction, providing that the increase can be reliably measured.

Revenues are identified, when it is eligibly expected that they will lead to revenues, if they are not already realized from the outset.

Operating revenues

Sales revenues represent the sale value of sold products, services and material in a given accounting period, providing it is reasonable to expect to be paid and are stated in bills and other documents and reduced for all discounts on selling and later also with regard to the value of returned amounts and discounts, approved at a later date.

Other operating revenues, connected to business effects, are subsidies, premiums and similar revenues. Revaluated operating revenues occur when tangible goods and intangible long-term items are separated and when all already off-written claims are paid in full, providing their adjustment was made in the previous years.

Financial revenues

Financial revenues are revenues from investments. They occur in connection with long-term and short-term investments and with claims in the form of accrued interests, profit shares and as revaluated financial revenues.

Financial revenues are recognized on an account, regardless of receipts, providing there is no reasonable doubt regarding their size, maturity and clearance.

Interests are calculated proportionally to the elapsed time period and regarding the unpaid share principal and legitimate interest rate.

Outstanding revenues

Outstanding revenues are comprised from unusual items. They occur in the form of actually incurred sums.

4.2.14 Identification of Expenses

Expenses are identified, if a decrease in economic benefits within a given accounting period is connected to a decrease in asset holdings or debt increases, providing that this decrease can be reliably measured.

Operating expenses

Operating expenses are identified, when expenses are not encompassed in the value of product stocks any longer.

Operating expenses are in principle the same as those allowed for expenses in a given accounting period. The purchasing value of sold material is also included in the operating expenses.

Revaluated operating expenses appear due to their connection with tangible goods, intangible long-term items and working capital, where a decrease has occurred.

Financial expenses

Financial expenses are expenses involved in financing and investment initiatives.

Financial expenses are identified on the account regardless of payments connected to them.

Revaluated financial expenses occur due to the deterioration of long-term and short-term financial investments or due to the recreation of long-term and short-term debts.

Outstanding expenses

Outstanding expenses are comprised from unusual items. They occur in the form of actually incurred amounts.

4.2.15 Taxes

Corporation tax is calculated using revenues and expenses, stated in the result for a given year, in compliance with tax legislation measures.

In accordance with the legislation, the company established its taxable base from revenues and expenses to the amount of 100 % and not the 20.5 % as stated in the legislation from previous years.

Due to the covering of tax losses from previous years, the company does not state the taxable base at the calculation of income tax.

The company in 2005 didn't identify claims for deferred taxes, as it is not probable that in the next few fiscal years a taxable profit will occur, which could be possible to clear with deductive temporary differences, unused tax losses and unused tax credit notes.

Also, the company in 2005 didn't declare liabilities for deferred taxes, because the sums are not substantial and neglecting their identification does not have a net influence on user business decisions, as these are based purely on accounting statements.

4.2.16 Cash-flow Statement

The cash flow statement is based on a direct method.

In the statement, the data for revenues and expenses are stated, i.e. in sums of received and used cash or other monetary forms, which represent cash flows. These are treated separately within our business activities, separately for investments and separately for financial activities.

Based on this method, the company obtained information from the turnover and standing statements from the following business banks: Nova KBM d. d. Maribor, Poštna banka Slovenije d. d. and Raiffeisen Krekova banka d.d.

4.2.17 Importance of Disclosure

The company regards as relevant those situations, where the values exceed 2 % of the assets real value or the value of liabilities to the company's own funds on the day of the balance sheet.

The company regards highly, those business activities, where their values exceed 10 % of all revenues or expenses within a given business year.

4.3 Auditor's Report

KPMG

Revizorjevo poročilo

Delničarjem družbe Elektro Maribor, d.d., Maribor

Revidirali smo priloženo bilanco stanja gospodarske družbe Elektro Maribor, d.d., Maribor na dan 31. december 2005 ter z njo povezane izkaz poslovnega izida, izkaz finančnega izida, izkaz gibanja kapitala in prilogo k računovodskim izkazom za tedaj končano leto. Pregledali smo tudi poslovno poročilo uprave. Za te računovodske izkaze, pripravljene v skladu s Slovenskimi računovodskimi standardi in prilogo k njim je odgovorna uprava gospodarske družbe. Naša naloga je na podlagi revizije izraziti mnenje o teh računovodskih izkazih.

Revizijo smo opravili v skladu z mednarodnimi standardi revidiranja, ki jih je izdalo Mednarodno združenje računovodskih strokovnjakov in drugimi pravili revizijske stroke, ki jih sprejema Slovenski inštitut za revizijo. Ti zahtevajo od nas načrtovanje in izvedbo revizije za pridobitev primernega zagotovila, da računovodski izkazi ne vsebujejo bistveno napačnih navedb. Revizija vključuje preizkuševalno preverjanje dokazov o zneskih in razkritjih v računovodskih izkazih. Revizija vključuje tudi presojanje uporabljenih računovodskih načel in pomembnih ocen uprave ter ovrednotenje celovite predstavitve računovodskih izkazov. Prepričani smo, da je naša revizija primerna podlaga za naše mnenje.

Po našem mnenju so računovodski izkazi s prilogo iz prvega odstavka v vseh bistvenih pogledih poštena predstavitev finančnega stanja gospodarske družbe na dan 31. december 2005, poslovnega izida in finančnega izida njenega poslovanja ter gibanja kapitala v tedaj končanem letu v skladu s slovenskimi računovodskimi standardi, ki jih je izdal Slovenski inštitut za revizijo.

Poslovno poročilo je skladno z revidiranimi računovodskimi izkazi.

KPMG SLOVENIJA,

podjetje za revidiranje, d.o.o.

Danilo Bukovec, univ. dipl. ekon.
pooblaščeni revizor

Marjan Mahnič, univ. dipl. ekon.
pooblaščeni revizor
partner, direktor

Ljubljana, 7. marec 2006

KPMG Slovenija, d.o.o.
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Auditor's Report

To the shareholders of Elektro Maribor d.d.

We have audited the financial statements of the joint-stock company Elektro Maribor, consisting of the balance sheet as of December 31st, 2005, the profit and loss statement, the cash-flow statement and the annex to the financial statements for the year that ended. We also revised the business report of the management. These financial statements and their annexes, conformed to the Slovene Accounting Standards, are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, give a true and fair view of the financial position of the company up to December 31st, 2005, the results of its operations and its cash flow for the year then ended, in conformity with the Slovene Accounting Standards, issued by the Slovene Institute of Auditors.
The business report is in conformity with the audited financial statements.

KPMG Slovenija d. o. o.
Audit Company, Ljubljana

Danilo Bukovec, BSc (Econ.)
Certified Auditor

Marjan Mahnič, BSc (Econ.)
Managing Partner and Certified Auditor

Ljubljana, 7 march, 2006

Contacts

I Feel Good

My Minutes

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5 Contacts With The Joint-Stock Company Elektro Maribor

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