



**ISKRA d. d. AND THE ISKRA GROUP  
ANNUAL REPORT 2005**



## LETTER TO THE SHAREHOLDERS

For Iskra d. d., operating in line with the policies set forth in the 2004 - 2008 medium-term development plan and the business plan, the business year was successful. It achieved all the major goals in the field of further concern upgrading, and performed certain projects common to the companies of the concern, and other tasks and activities contributing to a successful operation. In 2005, Iskra d. d. generated a net profit of SIT 336,427,000.

In 2005, Iskra d. d. continued to restructure the investment portfolio through acquisitions, reorganisation and establishment of new companies.

It formally concluded the acquisition of the companies Energetski servis E.S. d.o.o., Energetski servis d.o.o. in E.D.T. d.o.o., providing chimney sweeping services.

For the needs of the concern companies, Iskra d. d. established the company Iskra RUS d.o.o. in Moscow and Iskra Galeb d.o.o. in Belgrade. The company Iskra Transmission d. d. was merged by acquisition to Iskra Sistemi d. d., the company Glinek d. d. to Iskra TELA d. d., and the company Izterjava in prodaja d.o.o. to Iskra d. d. The reorganisation of Iskra Commerce d.o.o. - partial division by acquisition - was completed. By purchasing additional shares, Iskra d. d. further increased its majority stake in Iskra Kondenzatorji d. d., and it also bought shares of the associated Iskra Avtoelektrika d. d., in which it held a 24.29 % stake. As at the end of 2005, the Iskra Group consists of Iskra d. d. as the parent company, 19 directly affiliated companies, 14 companies within the affiliated companies, and 3 associated companies.

In 2005, several important tasks common to the concern companies were performed.

The joint project Reduction of Supply Costs was concluded; it is operatively continued and implemented in individual companies as a regular activity. The project of Achieving Uniformity in the Wage System of the Iskra Concern is in its final stage. The reforming and upgrading of the uniform information system of the concern took place in line with the programme planned. Two new companies were established abroad for the needs of marketing.

With some exceptions, the operation of companies integrated into the Iskra Group was in line with their business plans. Good results were primarily achieved by the companies: Iskra Kondenzatorji d. d., Iskra MIS d. d., Iskra INVEST d. d., Iskra Sistemi d. d. and Iskra Amper d.o.o. Despite the problems concerning the award of a concession, the newly-acquired companies Energetski servis E.S d.o.o., Energetski servis d.o.o. and E.D.T. d.o.o. operated relatively smoothly and with profits.

Among the major companies of the concern, a relatively high loss was recorded by Iskra Transmission d. d., merged by acquisition to the company Iskra Sistemi d. d. at the end of the year, and by Iskra PRINS d. d., and the companies Iskra EMS d.o.o. and Iskra TELA d. d. also continued to report losses. The loss recorded by Iskra Transmission d. d. mostly resulted from the situation in the market, and the reason is the same in Iskra TELA d. d., while in Iskra PRINS, in addition to the increased competition, the reasons were also the write-off of outdated inventories and adjustment of receivables for which it was established that they would not be fully repaid. The loss in the company Iskra EMS d.o.o. was recorded due to the delay in the orders of newly-developed products for the needs of the car industry.

In 2005, the companies in the Iskra Group increased their net revenues from sales by 4.1 %, amounting to SIT 26,386 million. After exclusions, the Group's consolidated net revenues from sales amounted to SIT 24,409 million (an increase of 6.2 %). The Group's consolidated net profit was SIT 72.7 million (SIT 302 million in 2004).

At the end of the business year 2005, the company Iskra Avtoelektrika d. d. announced the acquisition of Iskra d. d., and it realised its announcement in December 2005, when its takeover bid was made public. For Iskra d. d. and indirectly also for its affiliates, this meant a potential change in the ownership

with all the consequences that the majority owner may introduce in accordance with the law in the further development of the Iskra Group companies.

The Management Board of Iskra d. d. analysed the announcement of the takeover of Iskra d. d. by Iskra Avtoelektrika, and found that the potential takeover would not provide Iskra d. d. and the Iskra Groups companies with the planned further development on the long run, and assessed it as hostile. Therefore, the Management Board of Iskra d. d., supported by the Supervisory Board, together with Iskra's executives and managers, responded appropriately to the intention of Iskra Avtoelektrika d. d. In the beginning of December, 50 employees from the Iskra companies, including wider management, bought and increased the capital of the company MAOS, Poslovno svetovanje d.o.o., which publicly announced a counter-bid for the takeover of Iskra d. d. at the end of December 2005. After Iskra Avtoelektrika d. d. withdrew its intention to acquire Iskra d. d., the company MAOS d.o.o. continued its takeover activities. At the end of March 2006, the takeover was successfully concluded at the takeover price of SIT 1,400.00 per share of Iskra d. d. (the initial price offered was SIT 1,044.00). The company MAOS purchased 96.71 % of all Iskra d. d. shares and thus became the majority owner of the company Iskra d. d.

Iskra d. d. plans to also operate successfully and with profits in 2006. It will endeavour to implement its main strategic development tasks defined in the concern's revised development plan for 2005 - 2008, and specified in detail in the business plan for 2006. It is oriented towards making the concern even more efficient, successful and esteemed in Slovenia and abroad, all with the aim to increase the value of the company's assets. This will be achieved through a continuous upgrading of the concern, larger investments into development research activities, introduction of new products and programmes, conquering of new and expansion of the existing markets, consistent application of quality criteria and standards, active human resources policy and permanent systematic professional training of the employees, and other activities significantly contributing to the growth and development of Iskra d. d. and the Iskra concern.

The Management Board of Iskra d. d. and the management boards of the concern companies are aware that the development and progress are based on quality factors, contemporary professional know-how, which must be brought closer to the employees, and on the appropriate motivation and self-initiative of the employees. Consequently, endeavouring for the acquisition of new know-how is one of the permanent tasks. The implementation of this task is among the important goals as well as values that the concern offers to its employees, as the upgrading of the value system is one of the major motivators for the employees to achieve business results of even greater quality.

The business results of Iskra d. d. and the concern companies in the first months of 2006 show that most companies operate in line with the dynamic plan and that they have achieved the most important goals. It is especially encouraging that the companies Iskra EMS d.o.o. and Iskra TELA d. d. also began to record good results. Iskra d. d. has good reasons to expect both quantitative and above all qualitative progress in 2006, which will, of course, be also reflected in the business results of Iskra d. d. and Iskra's companies, and thus the concern as a whole.



Dušan Šešok  
President of the Management Board

Ljubljana, June 2006

## **SUPERVISORY BOARD REPORT**

### **COMPOSITION OF THE SUPERVISORY BOARD**

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

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1.	Simon Černetič, Chairman,
2.	Janez Peskar, Deputy Chairman,
3.	Mitja Močivnik, Member,
4.	Anton Sagadin, Member,
5.	Dimitrij Marjanovič, Member,
6.	Mitja Kokove, M.A., Member, from 1 January 2005 to 27 November 2005 Jože Pukl, Member, from 28 November 2005 to 31 December 2005

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Due to the potential collision of interests, Mitja Kokove, member of the Supervisory Board as the representative of the works council, submitted his resignation (intention of Iskra Avtoelektrika d. d. to take over Iskra d. d.), and was replaced by Jože Pukl.

### **METHOD AND SCOPE OF SUPERVISING COMPANY MANAGEMENT DURING THE BUSINESS YEAR**

In 2005, the operation of Iskra d. d. was supervised by its Supervisory Board within the scope of its powers and competences set forth in the applicable legislation and the company's articles of association.

The Supervisory Board regularly monitored the management and operations of Iskra d. d. and its affiliates in accordance with its terms of reference. The Supervisory Board monitored the management of the companies by reviewing interim business reports and results, comparing the results achieved with the planned and previous results, and by seeking oral and written explanations from the Management Board.

In 2005, the Supervisory Board held 5 regular sessions and 1 correspondence session.

The following areas of the company's operations were regularly discussed by the Supervisory Board at all its sessions:

- current financial achievements and the status of the company's and group's assets,
- current investment activities,
- securing financial resources,
- performance of the Management Board, and
- implementation of Supervisory Board resolutions.

In addition to the above-mentioned supervisory activities, the Supervisory Board, among other, also discussed the following important areas of operation at its sessions in 2005:

- at its 12<sup>th</sup> regular session on 4 April 2005, the Supervisory Board treated the Report on the Operation of Iskra d. d. and the Iskra Group in 2004, prepared on the basis of unaudited figures and used as the basis for the preparation of the Annual Report. The Supervisory Board also took note of

the Report on the Implementation of the Purchase Optimisation Project and invited submissions for the 35<sup>th</sup> Vratislav Bedjanič Awards;

- at the 13<sup>th</sup> regular session on 31 March 2005, the Management Board submitted to the Supervisory Board the overview of the receivables of the Iskra Group as at the end of 2004 by maturity, and the overview of indebtedness, and the Report on the Restructuring of the Company Iskra Kondenzatorji d. d. The Supervisory Board took note of the Report on the Operation of Iskra d. d. and the Iskra Group in the Period January - April 2005. It granted its approval to the Management Board for the purchase of the shares of certain Iskra companies and for increasing the capital of an affiliate, as well as approval for raising two long-term loans with the proposed form of collateralising the loan;
- at its 2<sup>nd</sup> correspondence session on 23 June 2005, the Supervisory Board granted its approval of the appointment of the audit company to perform the audit procedures concerning the reorganisation of the company Iskra Commerce d.o.o. - partial division by acquisition;
- at its 14<sup>th</sup> regular session on 18 July 2005, the Supervisory Board adopted the Iskra d. d. and the Iskra Group Annual Report for 2004, including two auditor's reports, and the resolution on the use of distributable profit. It approved the Supervisory Board's Report on the Inspection of the Company Management, and set the agenda with resolution proposals for the General Meeting of Shareholders convened to be held on 26 August 2005. The Supervisory Board approved the intended acquisition of the company IC Izterjava in prodaja d.o.o. to Iskra d. d., and also approved the intended partial division by acquisition concerning part of the company Iskra Commerce d. d. to be acquired by Iskra d. d.;
- at its 15<sup>th</sup> regular session on 27 October 2005, the Supervisory Board took note of the Report on the Operation of Iskra d. d. and the Report on the Operation of the Iskra Group in the Period January - June 2005. The Supervisory Board approved the establishment of the company Iskra Galeb d.o.o. in Serbia and Iskra RUS d.o.o. in Moscow, and agreed that the concluded contracts on the acquisition of the companies Energetski servis E.S. d.o.o., Energetski servis d.o.o. and E.D.T. d.o.o. of 27 December 2004 should enter into force. The Supervisory Board agreed that the company's Management Board should continue the acquisition procedures and activities needed for a successful acquisition of the company Iskra Avtoelektrika d. d.;
- at its 16<sup>th</sup> regular session on 8 December 2005, the Supervisory Board took note of the intention of the company Iskra Avtoelektrika d. d. to take over the company Iskra d. d. and, with regard to the viewpoint that that would be a hostile takeover, supported the Management Board in its actions to prevent the takeover. The Supervisory Board took note that two members of the Management Board became members of the company MAOS Poslovne svetovanje d.o.o., the main goal of which was to take over the company Iskra d. d., and agreed with that. It also agreed with a member of the Management Board being the procurator in this company. It took note that, in line with the applicable legislation, the Management Board of Iskra d. d. would not continue any pre-acquisition procedures concerning the company Iskra Avtoelektrika d. d. The Supervisory board took note of the Report on the Operation of Iskra d. d. and the Iskra Concern Companies for the Period January - September 2005, and discussed and approved the Iskra d. d. Business Plan for 2006.

The Management Board also provided the Supervisory Board with all relevant information required for the implementation of its supervisory activities.

## **REVIEW OF THE ANNUAL REPORT FOR 2005**

The Supervisory Board treated the Report on the Operation of Iskra d. d. and the Report on the Operation of the Iskra Concern Companies in 2005 with explanatory notes at its 17<sup>th</sup> regular session on 10 April 2006.

The Supervisory Board treated the audited Iskra d. d. and the Iskra Group Annual Report, including the two auditor's reports, submitted by the Management Board, at its 19<sup>th</sup> regular session on 19 July 2006.

When inspecting the Annual Report for 2005, the Supervisory Board found that:

- the company concluded the financial year 2005 successfully, improved on all key elements of company performance compared to 2004, and met all the major goals planned;
- the Annual Report has been drafted clearly and transparently, and conforms to statutory regulations;
- the Annual Plan represents a true and credible illustration of the company's assets, liabilities, financial situation and profit and loss account; and
- the Annual Report represents a credible account of the operations and financial position of the company.

The above has also been confirmed by an authorised auditor, also issuing a written report which indicates that the Annual Report presents fairly the financial position of Iskra, d.d and the Iskra Group as at 31 December 2005, as well as the profit and loss account and the financial statement and cash flow for the year then ended.

The Supervisory Board had no comments on the auditor's reports and approved them.

## DETERMINATION OF THE AMOUNT OF DISTRIBUTABLE PROFIT

The supervisory Board finds that the distributable profit of Iskra d. d. as at 31 December 2005 amounted to SIT 664,396,000.

ISKRA d. d., in 000 SIT	As at	As at	Index
<i>DISTRIBUTABLE PROFIT</i>	31.12.2005	31.12.2004	05/04
1. Net profit for the business year	336,427	335,444	100
2. Net profits brought forward	327,969	230,379	142
<b>DISTRIBUTABLE PROFIT</b>	<b>664,396</b>	<b>565,823</b>	<b>117</b>

The use of the distributable profit will be decided by the General Meeting of Shareholders at the proposal of the Management and Supervisory Boards.

## PROPOSAL TO THE GENERAL MEETING OF SHAREHOLDERS

The Supervisory Board reviewed the Iskra, d.d and the Iskra Group Annual Report for 2005, had no comments on the Report and approved it. The Supervisory Board proposed the General Meeting to discharge the Management Board and Supervisory Board for 2005.

The Supervisory Board has prepared this Report in accordance with the provisions of Article 274.a of the Companies Act, addressing it to the General Assembly of Shareholders.

**Simon Černetič**  
Chairman of the Supervisory Board

Ljubljana, July 2006

## **VISION, MISSION, STRATEGIC AND GLOBAL GOALS**

### **Vision and mission**

The vision of the concern is to become a modern business system, capable of swiftly adapting its companies and products to market requirements to ensure its long-term development and business growth, and operating profitably in a manner that will increase the value of the Iskra d. d. shares.

In late 2003, Iskra d. d. and all concern companies adopted revised Development Plans for the period 2004 to 2008 which represent a broader and more profound vision of the concern as a whole.

### **Strategic policies**

Strategic policies focus mostly on the following:

- acquiring companies in order to broaden the range of products and services and strengthen the Group's financial stability,
- achieving a higher degree of innovation, accelerating the introduction of new and more complex products which require higher knowledge and added values,
- acting faster as regards changing the structure of knowledge and skills in favour of employees with two-year and four-year college and university degrees and in favour of younger management teams in the companies,
- proceeding with organisational changes and mergers between companies to better utilise the resources and improve the economic results,
- intensifying the implementation of already initiated mutual Group projects, particularly those regarding strategic personnel, information technology and international trade.

To this end, Iskra d. d. and its group of affiliates have been implementing the following strategic tasks:

- growth, development and programme restructuring strategy,
- cost reduction strategy,
- financial management and resource restructuring strategy,
- personnel restructuring strategy,
- integrated joint implementation strategy.

### **Programme policies**

The Iskra concern will continue to develop programmes in the following fields:

- automation,
- telecommunications,
- appliances and components,
- trade and other services,
- new programmes and acquisitions.

The fastest growth is envisaged in the field of telecommunications and the slowest growth in trade and other services. The above-mentioned policies and goals will, together with new programmes and new acquisitions, contribute to the further enhancing of the image of Iskra as a company active in the field of electrical and electronic industries, and in the fields of services and trade.

## KEY ACHIEVEMENTS OF ISKRA d. d. AND THE ISKRA GROUP

In 2005, Iskra d. d. earned a net profit of SIT 336,427,000 after tax.

In 2005, Iskra d. d. operated in line with its development and business plans. It primarily focused its activities on implementing the priority tasks set forth in order to establish a modern concern, and made significant progress.

The company's key achievements are shown below:

ISKRA d. d., in '000 SIT	Year	Year	Index
<b>KEY ACHIEVEMENTS</b>	2005	2004	05/04
Net sales revenues	775,713	615,336	126
Net profit	336,427	336,836	100
Assets – equity and liabilities	21,367,248	18,369,978	116
Tangible fixed assets	3,098,561	1,803,067	172
Long-term financial investment	16,161,723	14,653,089	110
Equity	14,463,331	14,134,379	102
Net return on equity, in %	2.33	2.44	95
Net earnings per share, in SIT	49.71	49.77	100
Dividends to share capital ratio	0,00	0,00	-
Book value of share, in SIT	2,137.00	2,088.40	102

Key achievements of the Iskra Group:

ISKRA GROUP, in '000 SIT	Year	Year	Index
<b>KEY ACHIEVEMENTS</b>	2005	2004	05/04
Net sales revenues - consolidated	24,408,781	22,973,507	106
Net profit	72,746	302,028	24
Assets – equity and liabilities	34,236,973	32,125,946	107
Tangible fixed assets	13,006,491	12,905,981	101
Long-term financial investment	4,568,831	3,329,637	137
Current assets	13,218,137	12,634,521	105
Equity	14,690,429	15,525,913	95
Financial and operating liabilities	18,360,300	15,433,445	119

## **CONCERN UPGRADING**

### **CHANGES IN THE PROPRIETARY RELATIONS IN THE CONCERN UPGRADING PROCESS**

In 2005, the concern upgrading (acquisitions, purchase of shares, restructuring of companies) involved changes in the proprietary relations in the affiliates of Iskra d. d., shown in the tables in chapter III.2 hereof.

With the restructuring of Iskra Commerce d.o.o. – partial division by acquisition – the companies TEVIS - Agencija za kadre d.o.o. and Cranex GmbH became direct affiliates of the company Iskra d. d., and Iskra Autoelectricque S.A. became an associated company. The stake in Iskra Commerce d.o.o., which continues to operate with the detached part, remained unchanged (87.68 %).

Iskra d. d. acquired the companies Energetski servis E.S. d.o.o., Energetski servis d.o.o. and E.D.T. d.o.o., providing chimney sweeping services.

According to the needs of the concern companies, Iskra d. d. established the company Iskra Rus d.o.o., Moscow, and Iskra Galeb d.o.o., Belgrade, with the aim to directly appear on foreign markets.

The acquisition of the company Glinek d. d. by Iskra TELA d. d. and the company Iskra Transmission d. d. by Iskra Sistemi d. d. resulted in a changed stake of Iskra d. d. in the new companies.

The purchase of shares increased the stake of Iskra d. d. in Iskra Kondenzatorji d. d. and in Iskra Avtoelektrika d. d.. Iskra d. d. also bought a considerable amount of shares in Iskra Sistemi d. d., which is reflected in the total stake in the new company.

With the acquisition of the company IC IP d.o.o., Iskra d. d. also acquired some shares of the company Iskra MIS d. d..

The stake in the company Iskra INVEST d. d. increased due to the purchase of shares and exchange of Iskra's own shares made by Iskra d. d., and because of the gaining of shares upon the acquisition of part of Iskra Commerce d.o.o..

### **TRANSACTIONS INVOLVING ISKRA'S OWN SHARES**

As at 1 January 2005 Iskra d. d. had 4,494 own shares, acquired in the past years due to the restructuring processes and the termination of the operations of certain associated companies. With the restructuring of Iskra Commerce d.o.o. – partial division by acquisition – Iskra d. d. acquired 11,452 own shares.

In 2005, Iskra d. d. exchanged 11,452 own shares for a stake held by natural persons and the company Iskra Sistemi d. d. in the acquired part of the stake in Iskra commerce d.o.o., and simultaneously exchanged 4,484 shares of Iskra d. d. for 2,492 shares of the company Iskra INVEST d. d.. Exchange ratios on the basis of audited financial statements of the companies for 2004 were used in these exchanges.

Thus, at as 31 December 2005, Iskra d. d. had 10 own shares.

The movements in the balances of Iskra d. d.'s own shares (the nominal value of 1 share is SIT 1,000.00) were the following:

ISKRA d. d.'s OWN SHARES	As at	Increase	Decrease	As at
	1.1.2005			31.12.2005
Iskra d. d. IN TOTAL	<b>4,494</b>	<b>11,452</b>	<b>-15,931</b>	<b>10</b>
- acquisition of Iskra Commerce d.o.o.		11,452		
- exchange for a stake in Iskra Commerce			-11,452	
- exchange for the shares of Iskra INVEST d. d.			-4,484	

The portion of Iskra's own shares that Iskra d. d. held in all shares issued is minimal and insignificant.

As at 3 January 2005, the affiliates of Iskra d. d. held 32,305 shares of Iskra d. d., and after the exchanges for the shares of Iskra INVEST d. d. and transfers and acquisitions (Iskra Commerce d.o.o., Iskra Sistemi d. d.), they had 17,221 shares of Iskra d. d. as at 31 December 2005. The affiliates post the shares of Iskra d. d. as long-term financial investments and the share are considered to be the Group's own shares.

The movement in the balances of Iskra's own shares in its affiliates was the following:

SHARES OF ISKRA d. d.	As at	Increase	Decrease	As at
	1.1.2005			31.12.2005
<b>1. Iskra Commerce d.o.o.</b>	<b>14,497</b>	<b>0</b>	<b>-14,497</b>	<b>0</b>
- acquisition by Iskra d. d.			-11,452	
- exchange for the shares of Iskra INVEST d. d.			-3,045	
<b>2. Iskra PRINS d. d.</b>	<b>1,204</b>	<b>0</b>	<b>-878</b>	<b>326</b>
- exchange for the shares of Iskra INVEST d. d.			-878	
<b>3. Iskra TELA d. d.</b>	<b>3,364</b>	<b>0</b>	<b>-449</b>	<b>2,915</b>
- exchange for the shares of Iskra INVEST d. d.			-449	
<b>4. Iskra Sistemi d. d.</b>	<b>2,502</b>	<b>8,064</b>	<b>-2,366</b>	<b>8,200</b>
- exchange for a stake in Iskra Commerce		8,064		
- exchange for the shares of Iskra INVEST d. d.			-2,366	
<b>5. Iskra INVEST d. d.</b>	<b>4,972</b>	<b>0</b>	<b>-4,958</b>	<b>14</b>
- exchange for the shares of Iskra INVEST d. d.			-4,958	
<b>6. Iskra Transmission d. d.</b>	<b>536</b>	<b>0</b>	<b>0</b>	<b>536</b>
<b>7. Iskra MIS d. d.</b>	<b>4,514</b>	<b>0</b>	<b>0</b>	<b>4,514</b>
<b>8. Iskra Posing, d.o.o.</b>	<b>716</b>	<b>0</b>	<b>0</b>	<b>716</b>
<b>TOTAL</b>	<b>32,305</b>	<b>8,064</b>	<b>-23,148</b>	<b>17,221</b>

At as 31 December 2005, the Iskra d. d.'s shares held by Iskra d. d. (10) and the Iskra Group companies (17,221) totalled 17,231, which was 0.25 % of all shares of Iskra d. d.. Iskra d. d.'s own shares are not pledged.

The nominal value of Iskra d. d.'s own shares is SIT 17,231,000.

As at 31 December 2004, Iskra d. d. has treasury share reserves for a total of 23,785 shares amounting to SIT 53,451,000. With regard to the decrease in Iskra d. d.'s own shares, the Management Board of Iskra d. d. adopted, in line with its terms of reference, the resolution to allocate a treasury share reserve for 17,231 shares amounting to SIT 35,996,000 (at the book value of a share as at 31 December 2004 - -SIT 2,088.40), and the surplus of the treasury share reserves allocated in the previous year, amounting to SIT 17,455,000, was reallocated to other profit reserves.

## SPATIAL INTEGRATION

Based on the supplemented recording of the spatial conditions and locations of associated companies, and in line with the Development Plan, the management and integration of locations continued in 2005.

In the first half of 2005, the entire company Iskra Transmissions d. d. moved to the business premises at Stegne 21, owned by Iskra Sistemi d. d. and Iskra d. d. Thus, the business activity of this company, acquired by Iskra Sistemi d. d., is performed at a single location of the new company.

The restructuring process of Iskra TELA d. d. already included certain rationalisations of the use of business premises currently possessed at four locations, namely in Cesta dveh cesarjev in Vič, Ljubljana, at Škofljica, Vrhnika and Šentvid near Stična. With the intended relocation of the aerial manufacture, the location at Vrhnika will be freed and sold.

With the acquisition of part of Iskra Commerce d.o.o., Iskra d. d. obtained 3,345 m<sup>2</sup> of business premises at Kotnikova 28, Ljubljana (39 % of the whole office building).

With the acquisition of IC IP d.o.o., Iskra d. d. also formally obtained real estate – offices and other business premises – in Serbia, more specifically in Belgrade, Niš, Kragujevac, Zaječar, Vranje, Novi Sad and Titova Mitrovica. All real estate in Serbia, except the Business Service Centre in Belgrade, is posted off balance sheet.

## MARKETING AND SALES

### Iskra d. d.

In 2005, Iskra d. d. made SIT 775,713,000 of net revenues from sales, all in the domestic market.

<b>ISKRA d. d., in '000 SIT</b>	<b>Year</b>	<b>Year</b>	<b>Index</b>
<b>TYPES OF NET REVENUES</b>	<b>2005</b>	<b>2004</b>	<b>0/04</b>
Business services and counselling	446,767	296,758	151
Rents	238,206	114,338	208
The Iskra newsletter and the Iskra publication	8,772	6,067	145

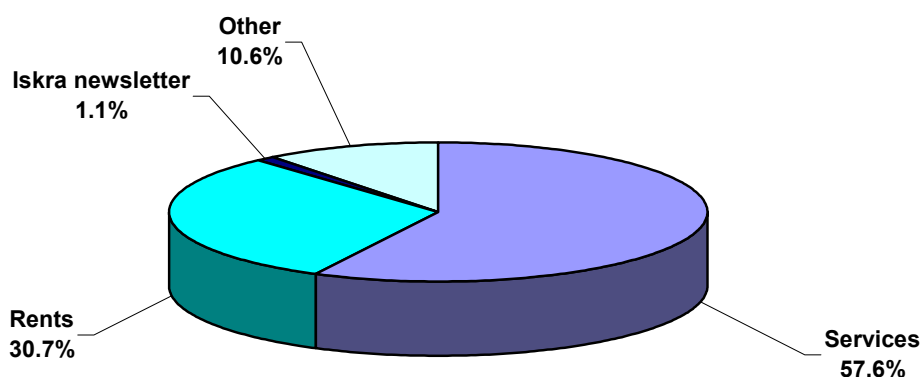
Other net revenues - ELES	81,968	198,193	41
TOTAL	775,713	615,356	126

Iskra d. d. made most of its net revenues by providing business services and counselling to the associated companies with which it had concluded annual contracts. These net revenues increased due to the increased volume of services performed, especially in the restructured companies, and partially because of the services that Iskra d. d. started to provide to the new companies acquired in 2005.

In 2005, the net revenues from rents increased compared to the previous year because of the renting out of the new business premises acquired in the process of restructuring Iskra Commerce d.o.o. The impact of the increase in the prices is minimal, as the rents are tied to the euro.

Other net operating revenues include revenues that Iskra d. d. made as the transaction operator together with the affiliate Iskra Sistemi d. d. in the sale of systemic solutions to the public enterprise ELES Slovenia.

#### SHARES OF NET REVENUES OF ISKRA d.d. IN 2005



With regard to the business activity of Iskra d. d. – investment management and business services – the net revenues from the sales of Iskra d. d. amount to 2.94 % of the total sales in the Group (in 2004 they amounted to 2.43 %), and after exclusion in the consolidation of the financial statements, they account for 1.02 % (in 2004 they accounted to 1.09 %) of the consolidated net revenues from sales.

### The Iskra Group

Marketing is an independent business function of the affiliates.

Most net sales revenues of the companies in the Group were made on the basis of marketing activities performed by the affiliates, primarily independently through the sales of their products and services, and

partially also through the sales of commercial goods. In 2005, irrespective of its orientation, Iskra d. d. also actively operated with the aim to make the marketing even more efficient and that the Iskra companies can appear on the markets as uniformly as possible, with an integral range of products and services.

In 2005, the Iskra Group made the following net revenues from sales by individual fields before consolidation exclusions:

ISKRA GROUP, in %	Revenues	Revenues	Index	Share
NET REVENUES BY FIELDS	2005	2004	05/04	2005
Automation	5,421,197	4,606,925	118	20.5%
Telecommunications	2,144,020	2,002,037	107	8.1%
Components	12,120,575	10,676,124	114	45.9%
Appliances	298,086	1,480,286	20	1.1%
Trade and other services	6,386,572	6,532,353	98	24.2%
Other	15,408	37,805	41	0.2%
<b>TOTAL</b>	<b>26,385,859</b>	<b>25,335,530</b>	<b>104</b>	<b>100.0%</b>

In 2004, most of the net revenues from sales posted in the appliances programme were revenues of the company Iskra Instrumenti d. d., acquired by the company Iskra Stikala d. d. – Iskra MIS d. d. at the end of 2004, while in 2005 they are recorded in the components programme due to programme restructuring.

Despite the new programmes (chimney sweeping), net revenues in the field of trade and other services decreased, the reason being lower sales of the company Iskra PRINS d. d..

Net revenues by geographic regions before consolidation exclusions were made as follows:

ISKRA GROUP, in '000 SIT, in %	Net revenues	Net revenues	Index	Share
SALES BY MARKET	2005	2004	05/04	2005
Slovenia	12,890,652	12,307,213	105	48.9%
SE Europe	1,802,911	1,860,288	97	6.8%
East Europe	824,939	995,913	83	3.1%
EU and other European countries	7,842,643	7,866,321	100	29.7%
Asia	2,207,337	1,709,797	129	8.4%
America	349,370	224,601	156	1.3%
Rest of the world	468,007	371,398	126	1.8%
<b>TOTAL</b>	<b>26,385,859</b>	<b>25,335,530</b>	<b>104</b>	<b>100.0%</b>

Due to the activities of the companies in the field of trade and other services, and also of the company Iskra Sistemi d. d., the Iskra Group still makes most sales revenues in the domestic market, that is 48.9 % of all revenues (in 2004, the share was 48.6 %).

Consolidated net sales revenues amounted to SIT 24,408,781,000 (in 2004 they amounted to SIT 24,408,781,000).

In 2005, the share of sales within the Iskra Group amounted to 7.5 % (in 2004 it was 9.3 %) of all sales.

## RESEARCH & DEVELOPMENT

Iskra d. d. actively coordinated, mutually connected, guided and supervised the implementation of strategic development and technological projects based on the medium-term development plans of the company Iskra for the period 2004 to 2008.

From among 60 strategic projects, 29 projects were continued in 2005 and were concluded or will be concluded in a relatively short time, and transferred to production and to the market as new products. In 2005, a total of 17 products were developed – to the stage of a prototype and in some cases also to the stage of regular production – and two new technologies were introduced in the field of manufacturing lead-free integrated circuits and in batteries manufacturing.

The major research & development achievements in individual fields and companies were primarily the following:

In **telecommunications**, Iskra Sistemi d. d. developed three new products to the stage of prototypes, namely internal units for software-defined SDA and PHD radio, and a digital module for PLC transmission by overhead power lines.

In the field of **automation**, Iskra Sistemi d. d. developed to the stage of test operation two extremely important systems of automation in the energy sector (NEO 3000), one of them already being in test operation in the area of local distribution companies. Iskra Sistemi also developed and completed a system of railway traffic remote control (CTC), and is preparing it to be delivered to the foreign buyer. Iskra MIS d. d. developed a system for the remote control of small hydroelectric installations.

The most novelties and new products were brought to life in the field of **components**.

Iskra Kondenzatorji d. d. concluded the development of new electric filters for the needs of white goods of higher price brackets.

In the field of switches, Iskra MIS d. d. developed and put into production two new products, namely mass-production installation contactor for the partner Siemens, and state-of-the-art motor protective circuit breaker MS-32. In the field of measuring instruments, Iskra MIS d. d. presented a new communication adapted for the transmission of measurements by mobile networks, and a device for the detection of any power line failure.

Iskra TELA d. d. completed the development of special measuring glasses for the Russian business partner, developed a new family of current measuring transformers, and introduced new types of filters against electrical interference. In the aerials programme, a family of digital wide-band amplifiers was developed. In the field of special alkaline batteries, the production of the company Varta was moved to

Šentvid near Stična at the end of 2005. By taking over Varta's product lines, Iskra TELA d. d. became the largest manufacturer of alkaline-air batteries in Europe.

In the automobile programme, Iskra EMS d.o.o. developed a series of switches for the ceiling lamps of Audi vehicles. Based on its own development activity, quality certificates and supply references, the company Iskra EMS d.o.o. was also entered in the list of A-suppliers of the concern VW-AUDI for other products, like the family of switches for warning lights and raising of windows to be built into VW vehicles.

In 2005, the percentage of expenses for, i.e. investments in, research & development slightly increased, amounting to 5.8 % of the sales value (in 2004 it amounted to 5.6 %), with 110 employees in this field.

## HUMAN RESOURCES MANAGEMENT

Based on the finding that the key element in the implementation of the tasks set forth in the development plans of the Iskra concern and its affiliates is the knowledge and skills of employees, in 2005 Iskra will continue to perform the tasks formulated and adopted at the level of the concern in the project Development and Human Resource Management. This is designed to be a long-term project and is not meant to replace the usual every day process of education and training of employees at work. The project is managed and co-ordinated for Iskra by an agency specialised in human resources, TEVIS - Agencija za kadre d.o.o.

In 2005, Iskra concluded the two-year training programme organised for its employees. The programme was successfully completed by 38 attendees.

On the basis of the needs and recommendations, TEVIS – Agencija za kadre d.o.o. prepared a new training programme which can be started in 2006 in agreement with the companies and according to their interests. The contents of the programme focus on the training of young key staff, which in the future will be able to assume the responsibilities handed over by the retired or promoted employees.

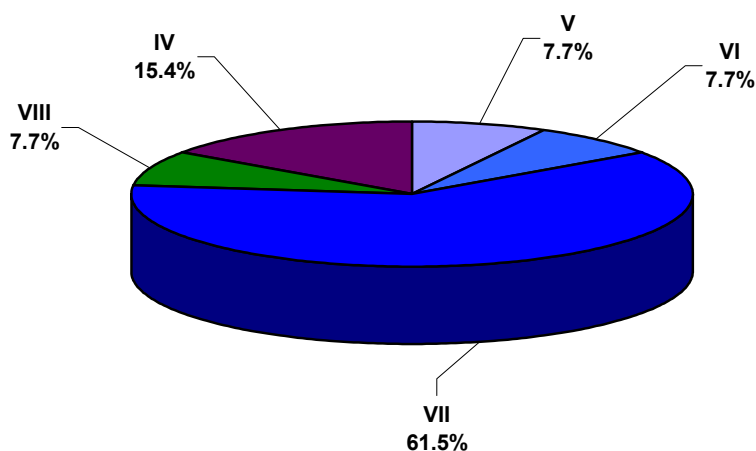
### EMPLOYEES OF ISKRA d. d.

In 2005, the average number of employees in Iskra d. d. was 13.54 (in 2004 it was 14.05) based on work hours.

As at the last day in the year, the number of employees of Iskra d. d. and their levels of education attained were:

Employees	IV	V	VI	VII	VIII	Total
As at 31 December 2005	2	1	1	8	1	13
As at 31 December 2004	2	2	1	9	1	15

### STRUCTURE OF EMPLOYEES IN ISKRA d.d. BY LEVEL OF EDUCATION ATTAINED



In 2005, four employees left the company, two of them due to retirement, and two new employees were hired.

The total amounts of remuneration received by the two members of the Management Board and the employees hired through individual contracts are shown in the financial report.

### EMPLOYEES IN THE ISKRA CONCERN

In line with the long-term policy, the number of employees in the Iskra companies fell again.

In 2005, the number of those employed in the concern companies decreased by 121, which is 5.1 % on the average. As at 31 December 2005, the number of employees by company compared to the previous year was the following:

NUMBER OF EMPLOYEES	As at	As at	Index
COMPANY	31.12.2005	31.12.2004	05/04
Iskra Kondenzatorji d. d.	828	851	97.3
Iskra MIS d. d.	416	436	95.4
Iskra Sistemi d. d.	318	353	90.1
Iskra TELA d. d.	238	253	94.1
Iskra IP d.o.o.	93	100	93.0
Iskra PRINS d. d.	85	101	84.2
Iskra EMS d.o.o.	84	91	92.3
Iskra INVEST d. d.	75	81	92.6
Energetski servis E.S. d.o.o., E.D.T.	74	60	123.3
Energetski servis d.o.o. (total)			

TEVIS - Agencija za kadre d.o.o.	25	29	86.2
Iskra d. d.	13	15	86.7
Iskra Amper d.o.o.	6	6	100.0
TOTAL	2.255	2.376	94.9

In 2005, the Iskra concern companies hired 165 new employees (in 2004 the number was 93), while a total of 242 left (in 2004 the number was 333).

The average level of education attained was 3.6 in 2005, while in 2004 it was 3.59.

As at 31 December 2005, the average age of employees was 44.4, while as at 31 December 2004 it was 44.2.

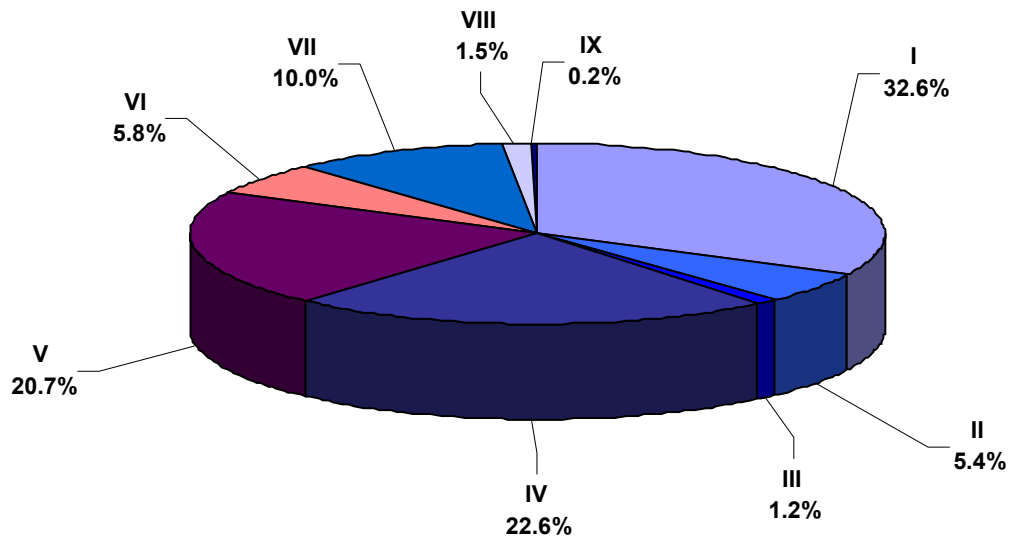
In 2005, the average number of employees in the concern companies was 2,304.5 and was 0.9 % lower than the average number of employees in 2004. The decrease in the number of employees was larger in the second half of the year, and it dropped in particular in December 2005, when contracts expired for some employees hired for a specified period of time.

The average numbers of employees in the concern companies by the level of education attained were the following:

ISKRA GROUP		Level of education attained									
		TOTAL		I		II		III		IV	
Employees	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
Annual average	2304.5	2325.2	751.3	782.6	123.3	118.0	27.8	25.2	521.3	510.8	
Share	100.0 %	100.0 %	32.6%	33.7%	5.4%	5.1%	1.2%	1.1%	22.6%	22.0%	

ISKRA GROUP		Level of education attained									
		V		VI		VII		VIII		IX	
Employees	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	
Annual average	476.2	497.5	134.6	118.9	230.3	235.4	34.9	32.1	4.7	4.6	
Share	20.7%	21.4%	5.8%	5.1%	10.0%	10.1%	1.5%	1.4%	0.2%	0.2%	

## SHARES OF EMPLOYEES IN THE ISKRA CONCERN IN 2005 BY LEVEL OF EDUCATION ATTAINED



## QUALITY AND BUSINESS EXCELLENCE

Iskra d. d. and all companies in the Group endeavoured for quality and business excellence. All manufacturing companies and services providers that had already been awarded the ISO 9000 certificate upgraded their standards and acquired the ISO 9000/2000 certificate.

Part of the efforts concerning the improvement of business excellence was the internal project of Introducing a System of Continuous Improvements implemented in Iskra TELA d. d.

In general, endeavouring for quality and business excellence is a permanent task in all concern companies, as they are aware that these are competitive elements that are increasingly important for appearing in foreign markets, which significantly influence the business relations with the existing clients, and even more so on the transactions with new ones.

## THE ENVIRONMENT AND SOCIETY

In 2005, the Iskra Group companies endeavoured for environment protection and friendly workplaces of their employees. All companies meet at least the statutory requirements concerning environment protection. It is important that the management of companies is ecologically efficient and responsible, and that the companies opt for environment-friendly operation.

In 2005, the company Iskra TELA d. d., or Glinek d. d., which concluded a three-year cycle of investing into a new electroplating technology, further improved all environment protection and ecological measures, so that it already exceeded the criteria set and required in the European Union states, and also achieved the stricter criteria that are expected in this field in the future.

The investment into the renovation of the technologies of waste process water purification at the location of electroplating, which started in 2004, continued in 2005 and will be concluded in 2006. The renovation project took account of the best technologies in the BATT and BREF regulations, which is the basis for the acquisition of the European environmental approval. Iskra TELA d. d. also implemented appropriate environment protection measures at Šentvid near Stična, where batteries are manufactured.

The company Iskra INVEST d. d. as the manager of the premises on the industrial site Stegne, Ljubljana, located on the margin of the 1<sup>st</sup> and 2<sup>nd</sup> water-protection zone of the Kleče pumping station, took action for the protection of drinking water sources. Devices containing pyralene (transformers and compensation devices) were improved in terms of environment protection, with the existing oil cables being abandoned. On the Labore industrial site, oil transformers (pyralene) were replaced by ecologically unproblematic dry substances, and the replacement of compensation devices was carried out. In the sense of ecological awareness, all consumers of electricity that are clients of Iskra INVEST d. d. were regularly notified of the share of green energy used in the past year, all in line with the implementing regulations of the energy act.

Iskra Kondenzatorji d. d., aware that the consumers increasing value the companies operating in an environment-friendly manner, primarily performed the following permanent activities in 2005:

- introduction of cleaner technologies into the production,
- replacement of dangerous substances with less dangerous ones,
- implementation of the environment management system ISO 14001,
- reduction of the amounts of waste and appropriate waste management.

In 2005, Iskra Kondenzatorji d. d. continued and concluded the replacement of certain materials, primarily those containing lead and other elements (cadmium, quick silver, hexavalent chromium etc.), which must not be in the electrical and electronic equipment after 1 July 2007 according to the relevant Directive. The prescribed measurements of emissions to the air from stationary sources were performed according to the applicable legislation, and a new high capacity nozzle tower was installed. All the waste sanitary and process water generated during the production process is conducted to the final water treatment plant in Semič. The wastes are collected separately. The company sends them to further processing or to a disposal site, with dangerous wastes being separated immediately at the place of origin.

The services of the new companies of the Iskra Group performing chimney sweeping activities not only directly impact the safety of combustion installations, but also improve, i.e. reduce, the emissions to the environment.

It should be emphasised that all companies stick to the rule that the environmental moment is already taken into account at the very beginning, i.e. when new products are developed (selection of materials), when modernisation is planned and old technologies are replaced with new ones, with new investment projects etc., and not just in the end, when the environmental conditions are improved, in principle primarily due to the changed criteria.

## Auditor's Report

to the Shareholders of Iskra, d. d., Ljubljana

We have audited the balance sheet of Iskra, d. d., as at 31 December 2005 and the related profit and loss account and statement of financial flows and the supplement to the financial statement for the year ended on that date. The Company's management is responsible for the preparation and presentation of the financial statements and the information contained therein. Our responsibility is to express an opinion on them.

Our audit has been conducted in accordance with the International Accounting Standards adopted by the International Federation of Accountants and other accounting standards adopted by the Slovenian Institute of Auditors. Pursuant to the said principles and standards, we are obliged to plan and conduct our audit so as to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination of evidence supporting the amounts and other disclosures in the financial statements. Moreover, we examined the significant methods of disclosing values in the financial statements used by the Company's management, and estimated the disclosures made in the financial statements. We believe that the audit conducted provides a good basis for forming an opinion on the financial statements.

In our opinion, the financial statements and the supplement present fairly the financial position of the company as at 31 December 2005 and the results of its operations and its cash flows for the financial year ended on that date, in accordance with the Slovene Accounting Standards adopted by the Slovenia Institute of Auditors.

The Annual Report corresponds to the audited financial statements.

KPMG SLOVENIJA d.o.o.  
Chartered Accountants

Andrej Korinšek  
Chartered Accountant  
Director

Ljubljana, 28 June 2006

**BALANCE SHEET OF ISKRA d. d.**

Iskra d. d.	Notes	As at	As at	Index
<b>BALANCE SHEET, in '000 SIT</b>		31.12.2005	31.12.2004	05/04
<b>ASSETS</b>		21,367,248	18,369,978	116
<b>A. FIXED ASSETS</b>		19,260,848	16,458,562	117
<b>I. Intangible fixed assets</b>	IV.7.1	564	2,406	23
3. Long-term industrial property rights		564	2,406	23
<b>II. Tangible fixed assets</b>	IV.7.2	3,098,561	1,803,067	172
1. Land and buildings		3,066,410	1,788,594	171
a) Land		328,933	296,540	111
b) Buildings		2,737,477	1,492,054	183
3. Other equipment		32,151	14,473	222
<b>III. Long-term financial investments</b>	IV.7.3	16,161,723	14,653,089	110
1. Interests in the Group companies		12,564,743	11,759,790	107
3. Interests in associates		2,850,525	2,143,016	133
5. Other participating interests		746,445	745,229	100
7. Treasury shares		10	5,054	0
<b>B. CURRENT ASSETS</b>		2,098,361	1,883,818	111
<b>II. Operating receivables</b>	IV.7.4	1,034,155	1,094,550	94
a) Non-current trade receivables		400,700	0	-
2. from the Group companies		400,700	0	-
b) Current trade receivables		633,455	1,094,550	58
1. from buyers		5,113	108,296	5
2. from the Group companies		594,688	965,475	62
3. from associates		4,614	6,022	77
4. from others		29,040	14,757	197
<b>III. Short-term financial investments</b>	IV.7.5	1,004,583	717,600	140
1. Current investments in the Group companies		573,176	525,307	109
4. Current investments in others		431,407	192,293	224
<b>IV. Bank balances, cheques and cash</b>	IV.7.6	59,623	71,668	83
<b>C. ACCRUALS AND DEFERRED INCOME</b>	IV.7.7	8,039	27,598	29
<b>Off-balance sheet assets</b>	IV.7.19	5,019,093	4,364,350	115

Iskra d. d.	Notes	As at	As at	Index
<b>BALANCE SHEET, in '000 SIT</b>				
		31.12.2005	31.12.2004	05/04
<b>EQUITY AND LIABILITIES</b>		21,367,248	18,369,978	116
<b>A. EQUITY CAPITAL</b>	IV.7.8	14,463,331	14,134,379	102
<b>I. Called-up capital</b>		6,768,038	6,768,038	100
1. Share capital		6,768,038	6,768,038	100
<b>II. Capital reserves</b>		2,068,119	2,068,119	100
<b>III. Profit reserves</b>		735,770	505,391	146
2. Treasury share reserves		35,996	53,451	67
4. Other reserves from profits		699,774	451,940	155
<b>IV. Net profit or loss brought forward</b>		327,969	230,379	142
<b>V. Net profit or loss for financial year</b>		336,427	335,444	100
<b>VI. Equity revaluation adjustments</b>		4,227,008	4,227,008	100
1. General equity revaluation adjustments		4,227,008	4,227,008	100
<b>B. PROVISIONS</b>	IV.7.9	12,890	12,890	100
3. Other provisions		12,890	12,890	100
<b>C. FINANCIAL AND OPERATING LIABILITIES</b>	IV.7.10	6,866,244	4,210,189	163
<b>a) Long-term financial and operating liabilities</b>	IV.7.11	2,701,408	1,125,336	240
2. Long-term financial liabilities to banks	IV.7.12	2,547,947	1,123,811	227
6. Long-term financial and operating liabilities to the Group companies		150,000	0	-
8. Long-term financial and operating liabilities to others	IV.7.13	3,461	1,525	227
<b>b) Short-term financial and operating liabilities</b>	IV.7.14	4,164,835	3,084,853	135
2. Short-term financial liabilities to banks	IV.7.15	2,896,252	1,818,208	159
3. Short-term operating liabilities from advances		0	0	-
4. Short-term operating liabilities to suppliers		29,218	46,275	63
6. Short-term financial and operating liabilities to the Group companies	IV.7.16	573,674	765,704	75
8. Short-term financial and operating liabilities to others	IV.7.17	665,691	454,665	146
<b>D. ACCRUED COSTS AND DEFERRED REVENUES</b>	IV.7.18	24,783	12,520	198
<b>Off-balance sheet liabilities</b>	IV.7.19	5,019,093	4,364,350	115

## INCOME STATEMENT OF ISKRA d. d.

Iskra d. d.	Notes	2005	2004	Index
INCOME STATEMENT		in '000 SIT	in '000 SIT	05/04
1. NET SALES REVENUE	IV.7.20	775,713	615,356	126
4. OTHER OPERATING INCOME	IV.7.21	379,736	58,545	649
5. COSTS OF GOODS, MATERIAL AND SERVICES	IV.7.22	393,717	449,485	88
a) Cost of products and materials and costs of materials used		7,308	7,912	92
b) Services		386,409	441,573	88
6. LABOUR COSTS	IV.7.23	210,589	214,795	98
a) Wages and salaries		155,081	161,576	96
b) Social security		26,378	27,512	96
- pension		15,797	16,669	95
c) Other labour costs		29,131	25,707	113
7. WRITE-OFFS	IV.7.24	67,026	44,081	152
a) Depreciation and other operating expenses from revaluation of tangible and intangible fixed assets		63,400	42,978	148
c) Operating expenses from revaluation of current assets		3,626	1,102	329
8. OTHER OPERATING EXPENSES		3,018	3,971	76
9. FINANCIAL REVENUES FROM PARTICIPATING INTERESTS	IV.7.25	647,324	1,456,140	44
a) Financial revenues from participating interests in the Group companies		448,623	1,278,351	35
b) Financial revenues from associated companies		54,755	153,456	36
c) Other financial revenues from participating interests		143,946	24,333	592
10. FINANCIAL REVENUES FROM LONG-TERM RECEIVABLES		7,660	7,891	97
a) Financial revenues from long-term current receivables from the Group companies		1,039	7,429	14
c) Other financial revenues from long-term receivables		6,621	462	1433
11. FINANCIAL REVENUES FROM SHORT-TERM RECEIVABLES	IV.7.26	46,901	104,005	45
a) Financial revenues from short-term receivables (interest income) from the Group companies		44,998	72,848	62
c) Other financial revenues from short-term receivables (interest income)		1,903	31,156	6

<b>ISKRA d. d., in '000 SIT</b>	<b>Notes</b>	<b>2005</b>	<b>2004</b>	<b>Index</b>
<b>INCOME STATEMENT</b>		<b>in '000 SIT</b>	<b>in '000 SIT</b>	<b>05/04</b>
12. FINANCIAL EXPENSES FOR WRITE-OFFS OF LONG-TERM AND SHORT-TERM FINANCIAL INVESTMENTS	IV.7.27	559,736	1,242,988	45
a) Financial expenses from revaluation of investments in the Group companies		542,204	1,219,494	44
b) Financial expenses from revaluation of investments in associated companies		9,100	0	-
c) Other revaluation financial expenses		8,432	23,494	36
13. FINANCIAL EXPENSES FOR INTEREST AND OTHER LIABILITIES	IV.7.28	231,358	219,062	106
a) Interest expenses and financial expenses from other liabilities to the Group companies		46,230	64,662	71
c) Other interest expenses and financial expenses from other liabilities		185,128	154,400	120
15. NET PROFIT FROM ORDINARY ACTIVITIES		391,890	67,556	580
16. EXTRAORDINARY REVENUES	IV.7.29	9,340	280,603	3
17. EXTRAORDINARY EXPENSES		17,651	11,323	156
a) Extraordinary expenses, less equity revaluation adjustments		17,651	11,323	156
18. NET PROFIT FROM EXTRAORDINARY ACTIVITIES		-8,310	269,280	-
19. TAX ON PROFIT		47,153	0	-
21. NET PROFIT FOR ACCOUNTING PERIOD	IV.7.30	336,427	336,836	100

Income statement of Iskra d. d. by functional group:

<b>Iskra d. d.</b>	<b>2005</b>	<b>2004</b>
<b>INCOME STATEMENT BY FUNCTIONAL GROUP</b>	<b>in '000 SIT</b>	<b>in '000 SIT</b>
1. NET REVENUES FROM SALES AND OWN WORKING CAPITAL	775,713	615,356
2. HISTORICAL COSTS OR PRODUCTION COSTS OF PRODUCTS	0	0
<b>3. GROSS PROFIT FROM SALES</b>	<b>775,713</b>	<b>615,356</b>
4. DISTRIBUTION COSTS	0	0
5. ADMINISTRATIVE COSTS	-674,350	-712,332
6. OTHER OPERATING REVENUE (INCLUDING REVALUATED OPERATING REVENUES)	379,736	58,545
<b>7. OPERATING PROFIT</b>	<b>481,099</b>	<b>-38,431</b>

## CASH FLOW STATEMENT OF ISKRA d. d.

<b>ISKRA d. d. CASH FLOW STATEMENT, in '000 SIT</b>	<b>2005</b>	<b>2004</b>
<b>A. CASHFLOW FROM OPERATING ACTIVITIES</b>		
<b>a) Inflows from operating activities</b>	<b>1,244,743</b>	<b>1,841,129</b>
Operating revenues	1,155,449	673,901
Extraordinary revenues associated with operations	9,340	280,603
Opening minus closing operating receivables	60,395	902,951
Change in deferred expenses and accrued revenues	19,559	-16,326
<b>b) Outflows from operating activities</b>	<b>-528,778</b>	<b>-772,875</b>
Operating expenses less amortisation, depreciation and provisions	-610,950	-668,188
Extraordinary expenses associated with operations	-17,651	-11,323
Tax on profit and other taxes not included in operating expenses	-47,153	0
Opening minus closing operating debts	134,713	-82,501
Opening minus closing short-term accrued expenses and deferred revenues	12,263	-10,863
<b>c) Net cash from/used in operating activities (a minus b)</b>	<b>715,965</b>	<b>1,068,254</b>
<b>B. CASHFLOW FROM INVESTING ACTIVITIES</b>		
<b>a) Inflows from financing activities</b>	<b>198,701</b>	<b>177,789</b>
Investment income (not including revaluation)	198,701	177,789
<b>b) Outflows from investing activities</b>	<b>-3,263,780</b>	<b>-2,600,224</b>
Offset increase in intangible assets (not including revaluation)	-266	0
Offset increase in tangible assets (not including revaluation)	-1,356,784	-84,218
Offset increase in non-current investments (not including revaluation)	-1,619,747	-2,121,166
Offset increase in current investments (not including revaluation)	-286,983	-394,840
<b>c) Net inflows from operating activities (a minus b)</b>	<b>-3,065,079</b>	<b>-2,422,435</b>

<b>ISKRA d. d. CASH FLOW STATEMENT, in '000 SIT</b>	<b>2005</b>	<b>2004</b>
<b>C. CASHFLOW FROM FINANCING ACTIVITIES</b>		
<b>a) Inflows from financing activities</b>	<b>2,575,902</b>	<b>1,513,857</b>
Finance income (not including revaluation)	54,561	111,896
Offset increase in non-current financial liabilities (not including revaluation)	1,574,136	131,641
Offset increase in current financial liabilities (not including revaluation)	947,205	1,270,320
<b>b) Cash used in financing activities</b>	<b>-238,833</b>	<b>-180,308</b>
Finance expenses (not including revaluation)	-231,358	-180,308
Decrease in the capital	-7,475	0
<b>c) Net inflows and outflows from financing activities (a minus b)</b>	<b>2,337,069</b>	<b>1,333,549</b>
<b>Č. CLOSING BALANCE OF CASH</b>	<b>59,623</b>	<b>71,668</b>
Net cash flow for period (sum of Ac, Bc and CC)	-12,045	-20,632
Opening balance of cash and equivalents	71,668	92,300

## **CONSOLIDATED FINANCIAL STATEMENTS FOR THE ISKRA GROUP**

### **AUDITOR'S REPORT FOR THE ISKRA GROUP**

#### **Auditor's Report**

to the Shareholders of Iskra, d. d., Ljubljana

We have audited the consolidated balance sheet of Iskra, d. d. and its subsidiaries (the Iskra Group), as at 31 December 2005 and the related profit and loss account and statement of financial flows and the supplement to the financial statement for the year ended on that date. The Company's management is responsible for the preparation and presentation of the financial statements and the information contained therein. Our responsibility is to express an opinion on them.

Our audit has been conducted in accordance with the International Accounting Standards adopted by the International Federation of Accountants and other accounting standards adopted by the Slovenian Institute of Auditors. Pursuant to the said principles and standards, we are obliged to plan and conduct our audit so as to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination of evidence supporting the amounts and other disclosures in the financial statements. Moreover, we examined the significant methods of disclosing values in the financial statements used by the Company's management, and estimated the disclosures made in the financial statements. We believe that the audit conducted provides a good basis for forming an opinion on the financial statements.

In our opinion, the financial statements and the supplement present fairly the financial position of the company as at 31 December 2005 and the results of its operations and its cash flows for the financial year ended on that date, in accordance with the Slovene Accounting Standards adopted by the Slovenia Institute of Auditors.

The Annual Report corresponds to the audited financial statements.

KPMG SLOVENIJA d.o.o.  
Chartered Accountants

Andrej Korinšek  
Chartered Accountant  
Director

Ljubljana, 30 June 2005

## CONSOLIDATED BALANCE SHEET FOR THE ISKRA GROUP

<b>ISKRA GROUP - BALANCE SHEET</b>	<b>Notes</b>	<b>As at</b>	<b>As at</b>
<b>ITEM, in '000 SIT</b>		<b>31.12.2005</b>	<b>31.12.2004</b>
<b>ASSETS</b>		34,236,973	32,125,946
<b>A. FIXED ASSETS</b>		20,929,607	19,056,958
I. Intangible fixed assets	V.6.3	3,354,286	2,821,340
1. Long-term deferred operating costs		320,219	79,376
2. Long-term deferred development costs		173,677	292,100
3. Long-term industrial property rights		54,999	46,917
4. Goodwill		2,645,477	2,327,052
5. Intangible assets in acquisition process		106,443	41,690
6. Other intangible fixed assets		0	1,945
7. Advances for intangible assets		53,471	32,260
II. Tangible fixed assets	V.6.4	13,006,491	12,905,981
1. Land and buildings		8,225,563	8,192,735
a) Land		1,120,997	1,110,189
b) Buildings		7,104,566	7,082,546
2. Production equipment and machinery		3,670,261	3,441,137
3. Other equipment		696,552	986,801
4. Fixed assets in acquisition process		367,628	247,740
7. Other - advances		46,485	37,568
III. Long-term financial investments	V.6.5	4,568,831	3,329,637
3. Stakes in associated companies		2,850,525	2,302,019
4. Long-term financial receivables from associated companies		0	0
5. Other participating interests		1,620,125	893,566
6. Other long-term financial receivables		87,420	81,702
7. Treasury shares		10,760	52,350

<b>ISKRA GROUP - BALANCE SHEET</b>	<b>Notes</b>	<b>As at</b>	<b>As at</b>
<b>ITEM, in '000 SIT</b>		<b>31.12.2005</b>	<b>31.12.2004</b>
<b>C. CURRENT ASSETS</b>		13,218,137	12,634,521
I. Inventories	V.6.6	4,196,248	4,373,887
1. Materials		1,505,755	1,554,327
2. Uncompleted manufacturing		1,587,723	1,294,055
3. Products and finished goods		1,063,268	1,470,670
4. Advances for inventories		39,502	54,835
II. Operating receivables	V.6.7	5,743,119	5,356,427
a) Non-current trade receivables	V.6.7	23,358	50,105
1. from buyers		0	13,439
4. from others		23,358	36,666
b) Current trade receivables	V.6.7	5,719,761	5,306,322
1. from buyers		5,220,097	4,964,640
3. from associates		26,496	26,537
4. from others		473,168	315,144
III. Short-term financial investments	V.6.8	2,355,951	2,206,766
4. Other short-term financial investments		1,754,694	324,728
5. Shares purchased to be sold		197,900	1,388,049
6. Loans granted and receivables from other		132,184	273,640
7. Bank deposits		271,172	220,349
IV. Bank balances, cheques and cash	V.6.9	922,819	697,441
<b>C. ACCRUALS AND DEFERRED INCOME</b>	V.6.10	89,229	434,467

<b>ISKRA GROUP - BALANCE SHEET</b>		<b>Notes</b>	<b>As at</b>	<b>As at</b>
<b>ITEM, in '000 SIT</b>			<b>31.12.2005</b>	<b>31.12.2004</b>
<b>EQUITY AND LIABILITIES</b>			34,236,973	32,125,946
<b>A. EQUITY CAPITAL</b>		V.6.11	14,690,429	15,525,913
I. Called-up capital			6,768,038	6,768,038
1. Share capital			6,768,038	6,768,038
II. Capital reserves			2,068,119	2,068,119
III. Profit reserves			498,805	498,805
2. Treasury share reserves			10,760	52,350
4. Other reserves from profits			488,045	446,455
5. Reserves after adjustment			0	0
IV. Net profit or loss brought forward			227,620	55,809
V. Net profit or loss for financial year			67,554	171,811
VI. Equity revaluation adjustments			4,227,008	4,227,008
1. General equity revaluation adjustments			4,227,008	4,227,008
2. Consolidated capital adjustment			0	0
Minority interests			833,285	1,736,323
<b>B. LONG-TERM PROVISIONS</b>		V.6.12	520,284	360,895
4. Other provisions (third persons)			520,284	360,895
<b>C. FINANCIAL AND OPERATING LIABILITIES</b>		V.6.13	18,360,300	15,433,445
a) Long-term financial and operating liabilities		V.6.14	5,437,967	3,943,869
2. Long-term financial liabilities to banks			5,169,667	3,678,037
8. Long-term financial and operational liabilities to others			268,300	265,832
b) Short-term financial and operating liabilities		V.6.15	12,922,333	11,489,576
2. Short-term financial liabilities to banks			7,007,526	5,721,084
3. Short-term operating liabilities from advances			17,113	656,042
4. Short-term operating liabilities to suppliers			3,335,080	2,708,126
7. Short-term financial and operating liabilities to associates			2,053	19,078
8. Short-term financial and operating liabilities to others			2,560,561	2,385,246
<b>ACCRUED EXPENSES AND DEFERRED REVENUES</b>		V.6.16	665,960	805,693
<b>OFF-BALANCE SHEET ASSETS/LIABILITIES</b>		V.6.17	14,118,075	4,364,350

## CONSOLIDATED INCOME STATEMENT FOR THE ISKRA GROUP

ISKRA GROUP - INCOME STATEMENT		Notes	Year	Year
ITEM, in '000 SIT			2005	2004
1. Net sales revenue	V.6.16		24,408,781	22,973,507
2. Change in inventories of products and work in progress			187,374	-205,129
3. Capitalised own products and services			336,251	451,343
4. Other operating revenues	V.6.17		1,039,922	1,535,711
5. Costs of goods, material and services	V.6.18		14,169,693	13,077,385
a) Cost of products and materials			2,209,667	2,021,370
b) Costs of materials used			7,324,334	6,994,585
c) Services			4,635,692	4,061,430
6. Labour costs	V.6.19		9,400,779	9,488,527
a) Wages and salaries			6,798,918	6,784,883
b) Social security			701,523	864,687
c) Pension			566,680	366,324
d) Other labour costs			1,333,658	1,472,633
7. Write-offs	V.6.20		2,158,325	1,940,785
a) Depreciation and other operating expenses from revaluation of tangible and intangible fixed assets			1,737,973	1,530,981
b) Operating expenses from revaluation of current assets			420,352	409,804
8. Other operating expenses	V.6.21		152,315	166,130
9. Financial revenues from equity capital interests	V.6.22		376,593	331,722
b) Financial revenues from participating interests in associated companies			55,430	233,067
c) Other financial revenues from participating interests			321,163	98,655
10. Financial revenues from long-term receivables	V.6.23		59,123	110,010
b) Financial revenues from long-term receivables from associated companies			-57	0
c) Other financial revenues from long-term receivables			59,180	110,010
11. Financial revenues from short-term receivables	V.6.23		145,499	251,195
b) Financial revenues from short-term receivables (interest income) from associates			489	132
c) Other financial revenues from short-term receivables (interest income)			145,010	251,063

<b>ISKRA GROUP - INCOME STATEMENT</b>	<b>Notes</b>	<b>Year</b>	<b>Year</b>
<b>ITEM, in '000 SIT</b>		<b>2005</b>	<b>2004</b>
12. Financial expenses for long-term and short-term financial investment write-downs	V.6.23	60,109	429,008
b) Financial expenses from revaluation of investments in affiliates	V.6.13	0	303,654
b) Financial expenses from revaluation of investments in associated companies		9,100	963
c) Other revaluation financial expenses		51,009	124,391
13. Interest expenses and financial expenses from other liabilities	V.6.13	619,243	749,365
c) Other interest expenses and financial expenses from other liabilities		619,243	749,365
14. Tax on profit from ordinary activities		0	5,540
15. Profit from ordinary activities		-6,920	-408,383
16. Extraordinary revenues	V.6.24	226,571	783,805
17. Extraordinary expenses		87,538	42,657
18. Profit from extraordinary activities		139,033	741,148
19. Tax on profit from extraordinary operations		0	21,259
20. Other taxes not shown under other items		59,367	9,478
21. Net profit for the financial year	V.6.25	72,746	302,028
- Net profit of majority shareholders		67,554	171,811
- Net profit of minority shareholders		5,192	130,217

Income statement of the Iskra Group for 2005 by functional group:

<b>ISKRA GROUP</b>	<b>2005</b>	<b>2004</b>
<b>INCOME STATEMENT BY FUNCTIONAL GROUP</b>	<b>in '000 SIT</b>	<b>in '000 SIT</b>
NET REVENUES FROM SALES AND OWN WORKING CAPITAL	24,745,032	23,383,309
HISTORICAL COSTS OR PRODUCTION COSTS OF PRODUCTS	-17,361,549	-17,137,138
GROSS PROFIT FROM SALES	7,383,483	6,246,171
DISTRIBUTION COSTS	-3,808,199	-3,643,070
ADMINISTRATIVE COSTS	-4,523,990	-4,051,006
OTHER OPERATING REVENUE (INCLUDING REVALUATED OPERATING REVENUES)	1,039,922	1,530,510
<b>OPERATING PROFIT</b>	<b>91,216</b>	<b>82,605</b>

## CONSOLIDATED CASH FLOW STATEMENT FOR THE ISKRA GROUP

<b>ISKRA GROUP, CASH FLOW STATEMENT, in '000 SIT</b>	<b>2005</b>	<b>2004</b>
<b>A. CASHFLOW FROM OPERATING ACTIVITIES</b>		
<b>a) Inflows from operating activities</b>	<b>25,970,071</b>	<b>24,603,185</b>
1. Operating revenues	25,784,954	24,960,561
2. Extraordinary revenues associated with operations	226,571	783,805
3. Opening minus closing operating receivables	-386,692	-1,031,428
4. Change in deferred expenses and accrued revenues	345,238	-109,753
<b>b) Outflows from operating activities</b>	<b>-23,624,300</b>	<b>-22,210,667</b>
1. Operating expenses less amortisation, depreciation and provisions	-23,761,000	-23,393,265
2. Extraordinary expenses associated with operations	-87,538	-42,657
3. Closing minus opening inventories	177,639	-736,713
4. Opening minus closing operating debts	245,699	1,765,084
5. Opening minus closing short-term accrued expenses and deferred revenues	-139,733	233,161
6. Tax on profit and other taxes not included in operating expenses	-59,367	-36,277
<b>c) Net inflows and outflows from operating activities</b>	<b>2,345,771</b>	<b>2,392,518</b>
<b>B. CASHFLOW FROM INVESTING ACTIVITIES</b>		
<b>a) Inflows from financing activities</b>	<b>376,593</b>	<b>-3,833,363</b>
1. Investment income (not including revaluation)	376,593	331,722
2. Offset decrease in intangible assets (not including revaluation)		0
3. Offset decrease in tangible fixed assets (not including revaluation and in-kind capital contributions)		-3,874,621
4. Offset decrease in non-current financial investments (not including revaluation)		-290,464
5. Offset decrease in current financial investments (not including revaluation)		0
<b>b) Outflows from investing activities</b>	<b>-3,695,902</b>	<b>-3,507,342</b>
1. Financial expenses (not including revaluation)	0	-429,008
2. Offset increase in intangible assets (not including revaluation)	-1,018,340	-1,652,290
3. Offset increase in tangible fixed assets (not including revaluation and in-kind capital contributions)	-1,229,075	0
4. Offset increase in non-current financial investments (not including revaluation)	-1,299,302	0
5. Offset increase in current financial investments (not including revaluation)	-149,185	-1,426,044
<b>c) Net inflows/outflows from investing activities</b>	<b>-3,319,309</b>	<b>-7,340,705</b>

<b>ISKRA GROUP, CASH FLOW STATEMENT, in '000 SIT</b>	<b>2005</b>	<b>2004</b>
<b>C. CASHFLOW FROM FINANCING ACTIVITIES</b>		
<b>a) Inflows from financing activities</b>	<b>2,885,778</b>	<b>5,574,267</b>
1. Finance income (not including revaluation)	204,622	361,205
2. Offset increase in non-current financial debts (not including revaluation)	1,448,627	2,478,886
3. Offset increase in current financial debts (not including revaluation)	1,232,529	2,446,867
4. Increase in equity capital (excluding net profit)	0	71,851
5. Offset increase in provisions (not including revaluation)	0	215,458
<b>b) Cash used in financing activities</b>	<b>-1,686,862</b>	<b>-749,365</b>
1. Finance expenses (not including revaluation)	-619,243	-749,365
2. Decrease in the capital	-908,230	0
3. Net decrease in provisions (not including revaluation)	-159,389	0
4. Net decrease in non-current financial debts (not including revaluation)		0
5. Net decrease in current financial debts (not including revaluation)		0
<b>c) Net inflows and outflows from financing activities</b>	<b>1,198,916</b>	<b>4,824,902</b>
<b>Closing balance of cash and equivalents</b>	<b>922,819</b>	<b>697,440</b>
<b>Net cash flow for period (sum of Ac, Bc and Cc)</b>	<b>225,378</b>	<b>-123,285</b>
<b>Opening balance of cash and equivalents</b>	<b>697,441</b>	<b>820,725</b>