

ISKRA, d. d. AND THE ISKRA GROUP
ANNUAL REPORT 2004

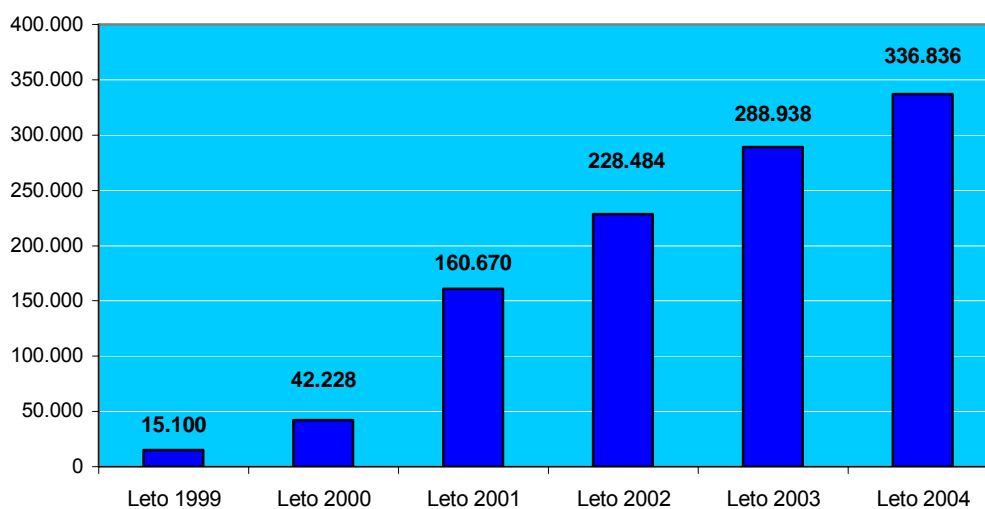


LETTER TO THE SHAREHOLDERS

In 2004, the Management Board of Iskra, d. d. managed the company and adopted business decisions in accordance with the policies set forth in the 2004 - 2008 medium-term development plan and the 2004 business plan.

2004 was another successful year for Iskra d.d. Its operations were in line with the adopted policies and achieved a net profit of SIT 366.8 million, which is 16.6 % higher than in the previous year and exceeds the business plan for 2004 .

ISKRA, D. D., NET PROFIT, in '000 SIT



The book value of shares as at 31. 12.2004 increased by 2.4% to SIT 2,088.40.

In 2003 Iskra, d. d. continued to restructure its investment portfolio and the companies within the Group. Company restructuring was formally completed at the end of the year. Iskra Stikala, d. d. and Iskra Instrumenti, d. d. were merged to establish a company under the new name of Iskra MIS, d. d. (measuring instruments and switchgear) which started operating in 2005, Iskra Invest, d. d. and Iskra SSD, d. o. o., were merged to establish Iskra Invest, d. d., and Iskra Baterije Zmaj, d. d., Iskra Tela-Sem, d. o. o. and Iskra Antene, d. o. o. were merged now operate under the name of Iskra TELA, d. d.

In February 2004, Iskra acquired a majority shareholding in Iskra Kondenzatorji, d. d. to increase its share in the company to 77.8%, which increased to 86.99% with the purchase of additional shares. The acquisition of the new company radically changed Iskra's profile in 2004.

At the end of the year, Iskra signed a contract to purchase 51% of the shares on Energetski servis E. S., d. o. o., Energetski servis, d. o. o. and E. D. t. servis, d.o.o., which are involved in chimney sweeping

services - a new activity for the Iskra concern. The companies are not included in the financial statements of Iskra d.d. or the Iskra Group.

In 2004 Iskra, d. d. continued to renovate and update the information system designed for the entire concern, particularly within reorganised companies and the newly acquired Iskra Kondenzatorji, d.d. Likewise, systematic controlling as a concept of management has been improved.

A number of other tasks covering the needs of the entire concern were implemented in 2004. These include a number of major tasks such as beginning the implementation of projects for the reduction of supply costs and the introduction of a unified payment system within the Iskra concern.

The companies belonging to the Iskra Group performed according to plan, with few exceptions. Iskra Kondenzatorji continued to operate in line with their plans, whilst Iskra Sistemi, d.d., Glinek, d.d., Iskra Invest, d.d., Iskra SSD, d.o.o. and the companies that were merged to establish Iskra MIS, d.d. also achieved significant results.

Significant losses were reported by Iskra Transmission and Iskra Prins, two of the Group's larger companies, whilst Iskra EMS also reported losses. The losses incurred by Iskra Transmission were primarily the consequence of market conditions, whilst those of Iskra Prins were the result of increased competition and write-offs of obsolete and outdated inventories and outstanding debts. Losses incurred by Iskra EMS are the result of lagging development and the company's failure to introduce new product lines and adapt to changing market conditions.

The Iskra Groups' net revenues from sales increased by 41.2% to SIT 25.336 million. After exclusions, the Group's consolidated net revenues from sales amounted to SIT 22.974 million (an increase of 36.0%), whilst the Group's consolidated net profit amounted to SIT 302 million (SIT 10 million in 2003).

Iskra, d. d. is planning to operate successfully and profitably in 2005 as well. It will strive to realise its main strategic development tasks set forth in the redesigned concern's development plan for the period 2004 to 2008 which have been made more concrete in its business plan for 2005. The main orientations of the concern include becoming more successful and known in Slovenia and abroad, increasing the value of the shareholders' investment and offering social security to the employees. This, however, can only be achieved by investing more heavily in research and development, introducing new products and providing training for employees.

The Management Board of Iskra, d. d. and the management boards of the companies comprising the concern are well aware that development and progress are based on quality and expertise and that such knowledge has to be transmitted to the employees who must be motivated to gain it, and also to acquire it independently by themselves. Therefore the task of acquiring new knowledge remains to be a permanent task while implementation of this task is among our most important goals and shall contribute to the values offered by the concern to the employees. Building the system of values and adding to it is among important motivators for the employees and shall contribute to enhanced business results.

Dušan Šešok
President of Management Board

Ljubljana, June 2005

SUPERVISORY BOARD REPORT

1. STRUCTURE OF THE SUPERVISORY BOARD

The Supervisory Board comprised the following members in 2004:

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1. Simon Černetič, Chairman,

 2. Janez Peskar, Deputy Chairman,

 3. Miloš Pavlica, Board Member, from 1 January 2004 to 30 August 2004,
Mitja Močivnik, Board Member, from 31 August 2004 to 31 December 2004

 4. Anton Sagadin, Board Member,

 5. Dimitrij Marjanovič, Board Member

 6. Mitja Kokove, Board Member.

2. METHOD AND SCOPE OF SUPERVISING COMPANY MANAGEMENT POSLOVNIM LETOM

In 2004, the Supervisory Board supervised the operations of Iskra d.d. within the scope of the authority and competence prescribed by statutory provisions 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 and operations of the company by reviewing mid-term results against forecasts and previous results, and by seeking written and oral explanations from the Management Board.

In 2004, the Supervisory Board held 7 regular sessions, 2 extraordinary 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,
- performance of the Management Board,
- current investing activities,
- securing financial resources,
- implementation of Supervisory Board resolutions.

In addition to the above-mentioned activities, the Supervisory Board also discussed the following areas of operations at its sessions:

- at its 5th regular session held on 30 January 2004, the Supervisory Board appointed the current Management Board for the period from 16 July 2004 to 15 July 2009, comprising the following members:
 - Dušan Šešok, President of the Management Board,
 - Jože Godec, member;

- at its 1st extraordinary session held on 9 February 2004, the Supervisory Board informed the management of the company's intended participation in the public auction of 443,500 shares of Iskra Kondenzatorji d.d.;
- at its 1st correspondence session held on 11 February 2004, after carefully evaluating the relevant documentation and considering additional explanations by the Management Board at the 1st extraordinary session and the macroeconomic aspects of the transaction, the Supervisory Board granted its approval to the Management Board for the purchase of 443,500 Iskra Kondenzatorji shares;
- at its 6th regular session held on 31 March 2004, the Supervisory Board received a report on the purchase of Iskra Kondenzatorji and the Management Board's activities following the purchase. The Supervisory Board also invited submissions for the 34th Prof. Vratislav Bedjanič Award;
- at its 7th regular session held on 13 May 2004, the Supervisory Board received the unaudited operating account for Iskra d.d. and the consolidated operating account for the Iskra Group for 2003, as well as information on the progress of the financial reorganisation of Iskra Kondenzatorji, d.d. The Board was also informed about the resignation of one of its members, Mr. Miloš Pavlica, due to a possible conflict of interest after being named deputy mayor of the city of Ljubljana;
- at its 2nd extraordinary session of 24 June 2004, the Supervisory Board approved the sale of its 42% share in Iskra SSD, d.o.o. to Iskra Invest, d.d.;
- at its 2nd regular session held on 16 July 2004, the Supervisory Board adopted the Iskra d.d. and the Iskra Group Annual Report for 2003, including the auditor's reports and the Supervisory Board's report, adopted the agenda for the General Meeting of Shareholders, and approved the financial restructuring of Iskra Transmission, d.d.
- at its 9th regular session held on 20 September 2004, the Supervisory Board received the report on the operations of Iskra, d.d. and its affiliates for the first semester, and the report on the implementation of measure for the restructuring of Iskra Transmission, d.d.;
- at its 10th regular session held on 24 November 2004, the Supervisory Board was informed of and approved the Iskra, d. d. Business Plan for 2005;
- at its 11th regular session of 20 December 2004, the Supervisory Board approved, on the basis of the Report on the Detailed Inspection of Company Transactions, the Report on the Assessment of Company Capital, and additional explanations from the Management, the proposal submitted by the Management Board on the purchase of a 51% stake in Energetski servis E. S., d. o. o., Energetski servis, d. o. o. and E.D.T., d. o. o.

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

3. REVIEW OF THE ANNUAL REPORT FOR 2004

The Supervisory Board discussed the report on operations as an outline of the company's and group's Annual Report for 2003 with explanatory notes, at its 12th regular session of 4 April 2005.

At its 14th regular session of 18 July 2005, the Supervisory Board discussed the audited Annual Report for Iskra, d. d. and the Iskra Group and the auditor's reports submitted by the Management Board.

After inspecting the Annual Report for 2004, the Supervisory Board found that:

- the company concluded the financial year successfully, improved on all key elements of company performance, and met all important goals set out in the business plan;
- 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, who also issued 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 2004, 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.

4. PROPOSAL FOR THE USE OF DISTRIBUTABLE PROFIT

The Management Board submitted a proposal for the use of the distributable profit from the 2004 financial year.

The Supervisory Board was informed that the Management Board had already allocated treasury share reserves (pursuant to Article 228 of the Companies Act) to the amount of SIT 1,392 thousand from 2004 net profit and approved the Management Board's proposal for the use of the distributable profit, which are in accordance with company's strategic goals, investment plans and tax policy.

The Supervisory and Management boards propose to the General Meeting of Shareholders that the distributable profit for 2004 amounting to of SIT 565,823 thousand (retained net profits brought forward amounting to SIT 230,379 thousand and net profits for 2004 amounting to SIT 335,444 thousand, less the amount for the creation of treasury share reserves) be used for the following purposes:

- part of the distributable profit from net profits brought forward, amounting to SIT 230,379,382.57, is to be allocated to reserves.
- part of the distributable profit amounting to SIT 7,475,000.000 gross is to be allocated to the payment of bonuses to Supervisory Board members.
- the remainder of the distributable profit amounting to SIT 327,968,970.14 is to remain undistributed.

The proposal to allocate the retained distributable profit to reserves and to retain the net profits for 2004 is justified by the heavy investments involved in company acquisitions, the repayment of liabilities arising from loans drawn for the acquisitions, and the purchase of shares and stakes in existing and new affiliated. This is in accordance with the mid-term plan of the company, which anticipates the expansion of the concern through acquisitions.

5. PROPOSAL TO THE GENERAL MEETING OF SHAREHOLDERS

The Supervisory Board reviewed the Iskra, d.d and the Iskra Group Annual Report for 2004 and had no comments on the report. The Supervisory Board urged the General Meeting to adopt the resolution on the use of the distributable profit and to discharge the Management Board and Supervisory Board for 2004.

The Supervisory Board has issued this report in accordance with the provisions of Article 274 of the Companies Act and is addressed to the General Assembly of Shareholders.

Simon Černetič
President of Supervisory Board

Ljubljana, 18 July 2005

VISION, MISSION, STRATEGIC AND GLOBAL GOALS

The Vision and the Mission

The vision of the concern is to become a modern business system recognised throughout Europe and the rest of the world, capable of swiftly adapting its companies and products to market requirements and operating profitably in a manner that will increase the value of its shares.

In late 2003, Iskra, d. d. and its affiliates adopted amended 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 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,

It is envisaged that the fastest growth will be achieved 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 further enhancing the image of Iskra as a company active in the field of electrical and electronic industries.

KEY ACHIEVEMENTS

Iskra's net profit achieved in 2004 amounted to SIT 336,836 thousand and was by 16.6 % higher than in the previous year (SIT 288,938 thousand) and higher than planned (SIT 265,200 thousand).

In 2004 Iskra operated in line with its development and business plans. Its activities focused primarily on implementing the priority tasks set forth in order to establish a modern concern and made significant progress.

The company's key achievements are highlighted below:

ISKRA, d. d., in '000 SIT	Year	Year	Index
FINANCIAL HIGHLIGHTS	2004	2003	04/03
Net turnover	615,336	318,295	193
Net profit	336,836	288,938	117
Tangible fixed assets	1,803,067	1,757,975	103
Long-term financial investment	14,653,089	12,535,313	117
Equity	14,134,379	13,804,043	102
Net return on equity, in %	2.44	2.15	113
Net earnings per share, in SIT	49,77	42,69	117
Net earning per share, in SIT	0,00	0,00	-
Book value of share	2,088,40	2,039,60	102

Key achievements of the Iskra Group

ISKRA GROUP, in '000 SIT	Year	Year	Index
FINANCIAL HIGHLIGHTS	2004	2003	04/03
Net turnover	22,973,507	16,890,706	136
Net profit	302,028	10,049	3,006
Tangible fixed assets	12,905,981	10,516,051	123
Long-term financial investments	3,329,637	3,039,173	110
Equity	15,525,913	15,152,032	102

MARKETING AND SALES

Marketing is an independent business function of subsidiary companies which take the initiative and responsibility for successful sales of their products and services. Most of the net revenues from sales were realised on the basis of marketing activities carried out by subsidiary companies either on their own, through specialised agencies outside the Iskra system, or within Iskra. In 2004, Iskra focused on improving marketing efficiency and a joint market approach offering a comprehensive range of products and services.

In 2004, the Iskra Group realised the following net revenues from profits prior to the consolidation of exclusions:

ISKRA Group in '000, in %	Revenues	Revenues	Index	Percentage
NET REVENUES ACCORDING TO REGION	2004	2,004	04/03	2004
Automation	4,606,925	3,678,862	125	18.2%
Telecommunications	2,002,037	2,981,084	67	7.9%
Components and Component Parts	10,676,124	3,774,568	283	42.1%
Appliances	1,480,286	1,304,789	113	5.8%
Trade and Other Services	6,532,353	6,184,137	106	25.8%
Other	37,805	24,404	155	0.1%
TOTAL	25,335,530	17,947,844	141	100.0%

Net revenues according to geographical region prior to the consolidation of exclusions:

ISKRA GROUP, in '000 SIT, in %	Net revenues	Net revenues	Index	Percentage
SALES ACCORDING TO MARKETS	2004	2003	04/03	2004
Slovenia	12,307,213	11,755,447	105	48.6%
South-eastern Europe	1,860,288	1,507,808	123	7.3%
Eastern Europe	995,913	409,443	243	3.9%
European Union and other European states	7,866,321	3,703,036	212	31.0%
Asia	1,709,797	277,431	616	6.7%
America	224,601	121,344	185	0.9%
Rest of the world	371,398	173,335	214	1.5%
TOTAL	25,335,530	17,947,844	141	100.0%

The consolidated net revenues from sales amounted to SIT 22,973,507 and are shown in the Financial Report for the Iskra Group.

The relatively sharp increase in sales of components and on certain markets is the result of the acquisition of Iskra Kondenzatorji, d. d., which exports mainly to the European Union and Asia.

Iskra Group continues to generate most of its revenue from sales on the domestic market due to trade and services activities and those related to Iskra Transmission and Iskra Sistemi. In 2003, prior to the acquisition of Iskra Kondenzatorji, sales on the domestic market accounted for 65.6% of all sales.

In 2004, sales within the Iskra Group accounted for 9.3% of total sales (7.7% in 2003). This increase is the result of the sale of electricity by Iskra Invest to other Iskra affiliates in Ljubljana and Kranj, and from April 2004, to Iskra Kondenzatorji in Semič as well.

RESEARCH AND DEVELOPMENT

Iskra, d.d actively coordinated and directed specific research and development projects that were implemented by the entire Iskra Group.

Below are some of the more important research and development activities carried out in 2004:

Our leading **information and telecommunications technology** company Iskra Transmission, d.d. completed the prototype of a totally new product - a microwave transmission link with a software-defined PDH radio.

Iskra Tela – Sem, d.o.o. (Iskra Tela, d.d. – as one of the leading manufacturers of **electronic optical measuring systems** - developed an absolute measurement scale, making one of only three manufacturers in the world to market such a product. Production is expected to commence in 2005. The absolute measurement scale was developed in cooperation with the Faculty of Electrical Engineering in Ljubljana and the project was cofinanced by the Ministry of Economic Affairs. Iskra Tela also developed a new electronic chip that supports the absolute measurement scale and for which pilot production has already commenced.

In the field of **automation**, Iskra Sistemi completed the development of the new generation of NEO - 3000 microcomputer system for monitoring and managing power stations and power grids.

In the field of **appliances and component** parts, Iskra Instrumenti, d. d. developed and marketed the third generation of WS 03 digital measuring centres (an upgrade of WS 01 and WS 02), which measure the quality of electricity according to European Union standards.

In the field of **automotive components**, the team that has developed two types of automotive switchgear joined the Iskra Group with the acquisition of Iskra EMS, d. o. o. The development of switches for the hazard warning signal and window control for VW vehicles was completed in 2004. An automotive components program was also initiated at Iskra Kondenzatorji in 2004 (production of dedicated tools) and Iskra Tela-Sem (manufacture of component parts for the KTM concern).

The development of new applications and enhancement of existing products are the result of the efforts of 110 research and development personnel employed by Iskra's nine subsidiaries.

5.6% of the sales revenues of the Iskra concern were invested into research and development projects.

HUMAN RESOURCES MANAGEMENT

Based on the conclusion that the knowledge and skills of our employees are will be the key factor contributing to the implementation of the tasks outlined in the development plans of the Iskra concern

and its subsidiaries, activities were undertaken in the year 2004 to realise tasks set out in the concern's Development and Human Resources Management (HRM) project. 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.

The two-year training programme organised by Iskra continued in 2004 and was concluded in March 2005. The programme was attended by 39 staff members from several affiliates.

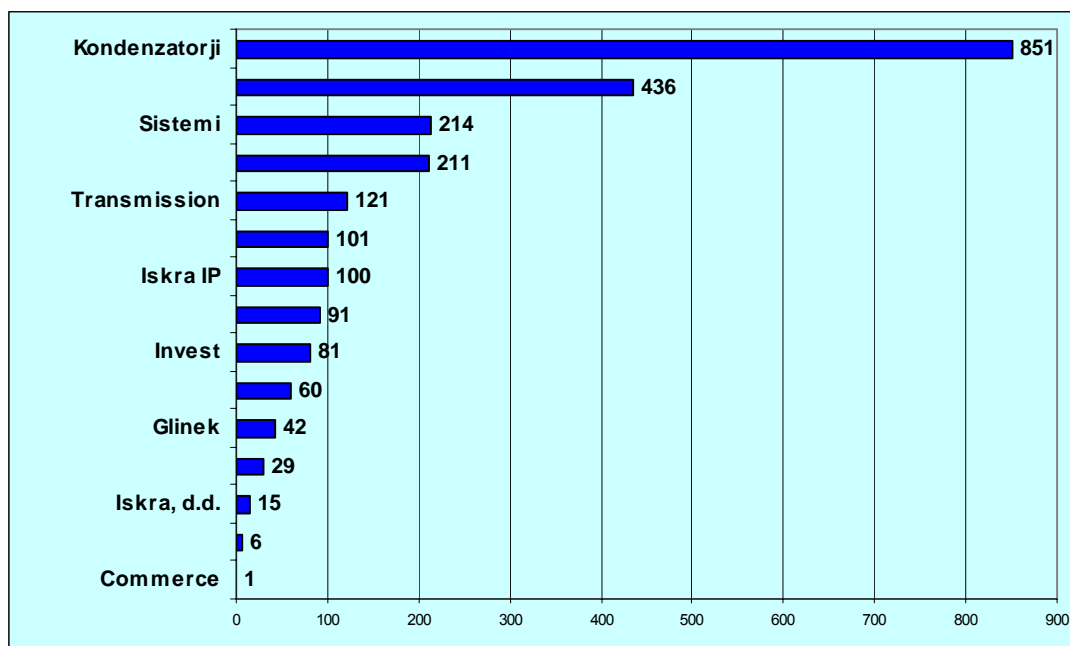
The "progressive personnel records" project encompassed all the subsidiaries was also implemented. The project facilitates monthly monitoring of employees according to different criteria that are important to the implementation of human resources policies.

WORKFORCE

The acquisition of Iskra Transmission, d.d. significantly increased the number employees in the Iskra Group. The average number of employees in the core companies of the Group was 2,325 in 2004 (1,437 in 2003).

The number employees in the Iskra concern as of the end of 2004 was as follows:

NUMBER OF EMPLOYEES IN THE ISKRA GROUP AS AT 21.12.2004



QUALITY AND BUSINESS EXCELLENCE

Iskra, d. d. and the Iskra Group lay special emphasis on quality and business excellence. All manufacturing companies and aservices providers that had already been awarded the ISO 9000 certificate upgraded their standards and acquired the ISO 9000/2000 certificate, and individual companies were awarded the ISO 1400 certificate.

FINANCIAL STATEMENTS AND NOTES ON THE ACCOUNTS FOR Iskra, d. d.

AUDITOR'S REPORT

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 2004 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 2004 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 2005

BALANCE SHEET

ISKRA, d. d.	Notes	Balance	Balance
BALANCE SHEET, in '000 SIT		31.12.2004	31.12.2003
ASSETS		18,369,978	16,721,635
A. FIXED ASSETS		16,458,562	14,297,802
I. Intangible fixed assets	IV.7.1	2,406	4,514
3. Long-term industrial property rights		2,406	4,514
II. Tangible fixed assets	IV.7.2	1,803,067	1,757,975
1. Land and buildings		1,788,594	1,738,056
a) Land		296,540	278,224
b) Buildings		1,492,054	1,459,832
3. Other equipment		14,473	19,919
III. Long-term financial investments	IV.7.3	14,653,089	12,535,313
1. Interests in group enterprises		11,759,790	9,828,316
3. Interests in associates		2,143,016	2,273,619
5. Other participating interests		745,229	429,716
7. Treasury shares		5,054	3,662
B. CURRENT ASSETS		1,883,818	2,412,561
II. Operating receivables	IV.7.4	1,094,550	1,997,501
a) Non-current trade receivables		0	595,322
2. from group enterprises		0	595,322
b) Current trade receivables		1,094,550	1,402,179
1. from buyers		108,296	64,693
2. from group enterprises		965,475	1,316,559
3. from associates		6,022	13,633
4. from others		14,757	7,294
III. Short-term financial investments	IV.7.5	717,600	322,760
1. Current investments in group enterprises		525,307	317,717
4. Current investments in others		192,293	5,043
IV. Bank balances, cheques and cash	IV.7.6	71,668	92,300
C. ACCRUALS AND DEFERRED INCOME	IV.7.7	27,598	11,272
Off-balance sheet assets	IV.7.19	4,364,350	1,495,472

ISKRA, d. d.	Notes	Balance	Balance
BALANCE SHEET, in '000 SIT		31.12.2004	31.12.2003
EQUITY AND LIABILITIES		18,369,978	16,721,635
A. EQUITY CAPITAL	IV.7.8	14,134,379	13,804,043
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		505,391	275,513
2. Treasury share reserves		53,451	52,059
4. Other reserves from profits		451,940	223,454
IV. Net profit or loss brought forward		230,379	228,486
V. Net profit or loss for financial year		335,444	236,879
VI. Equity revaluation adjustments		4,227,008	4,227,008
1. General equity revaluation adjustments		4,227,008	4,227,008
B. PROVISIONS	IV.7.9	12,890	25,208
3. Other provisions		12,890	25,208
C. FINANCIAL AND OPERATING LIABILITIES	IV.7.10	4,210,189	2,890,727
a) Long-term financial and operating liabilities	IV.7.11	1,125,336	993,754
2. Long-term financial liabilities to banks	IV.7.12	1,123,811	324,666
6. Long-term financial and operating liabilities to group enterprises		0	667,504
8. Long-term financial and operating liabilities to others	IV.7.13	1,525	1,584
b) Short-term financial and operating liabilities	IV.7.14	3,084,853	1,896,973
2. Short-term financial and operating liabilities to banks	IV.7.15	1,818,208	789,529
3. Short-term operating liabilities from advances		0	519
4. Short-term operating liabilities to suppliers		46,275	20,952
6. Short-term financial and operating liabilities to group enterprises	IV.7.16	765,704	533,740
8. Short-term financial and operating liabilities to others	IV.7.17	454,665	552,234
D. ACCRUED COSTS AND DEFERRED REVENUES	IV.7.18	12,520	1,657
Off-balance sheet liabilities	IV.7.19	4,364,350	1,495,472

INCOME STATEMENT

ISKRA, d. d.	Notes	2004	2003
INCOME STATEMENT		in '000 SIT	in '000 SIT
1. NET SALES REVENUE	IV.7.20	615,356	318,295
4. OTHER OPERATING INCOME	IV.7.21	58,545	674,536
5. COSTS OF GOODS, MATERIAL AND SERVICES	IV.7.22	449,485	238,546
a) Cost of products and materials and costs of material used		7,912	6,856
b) Services		441,573	231,690
6. LABOUR COSTS	IV.7.23	214,795	166,583
a) Wages and salaries		161,576	121,691
b) Social security		27,512	22,740
- pension		16,669	13,896
c) Other labour costs		25,707	22,152
7. WRITE-OFFS	IV.7.24	44,081	35,071
a) Depreciation and other operating expenses from revaluation of tangible and intangible fixed assets		42,978	26,484
c) Operating expenses from revaluation of current assets		1,102	8,587
8. OTHER OPERATING EXPENSES	IV.7.25	3,971	2,511
FINANCIAL REVENUES FROM PARTICIPATING INTERESTS	IV.7.26	1,456,140	533,449
a) Financial revenues from participating interests in subsidiaries		1,278,351	355,782
b) Financial revenues from affiliated companies		153,456	177,621
c) Other financial revenues from participating interests		24,333	46
10. FINANCIAL REVENUES FROM LONG-TERM RECEIVABLES		7,891	56,829
a) Finance income from long-term current receivables from subsidiaries		7,429	47,841
c) Other financial revenues from long-term receivables		462	8,988
11. FINANCIAL REVENUES FROM SHORT-TERM RECEIVABLES	IV.7.27	104,005	37,781
a) Financial revenues from short-term receivables (interest income) from subsidiaries		72,848	33,879
c) Financial revenues current receivables (interest income)		31,156	3,902

ISKRA, d. d., in '000 SIT	Notes	2004	2003
INCOME STATEMENT		in '000 SIT	in '000 SIT
12. FINANCIAL EXPENSES FOR WRITE-OFFS OF LONG-TERM AND SHORT-TERM FINANCIAL INVESTMENTS	IV.7.28	1,242,988	622,531
a) Financial expenses from revaluation of investments in subsidiaries		1,219,494	515,766
b) Financial expenses from revaluation of investments in associates		0	91,765
c) Other revaluation financial expenses		23,494	15,000
13. FINANCIAL EXPENSES FOR INTEREST AND OTHER LIABILITIES	IV.7.29	219,062	265,792
a) Interest expenses and financial expenses from other liabilities TO group enterprises		64,662	146,022
c) Interest expenses and financial expenses from other liabilities		154,400	119,770
15. NET PROFIT FROM ORDINARY ACTIVITIES		67,556	289,856
16. EXTRAORDINARY REVENUES	IV.7.30	280,603	159
17. EXTRAORDINARY EXPENSES		11,323	1,077
a) Extraordinary expenses. less equity revaluation adjustments		11,323	1,077
18. NET PROFIT FROM EXTRAORDINARY ACTIVITIES		269,280	-918
19. TAX ON PROFIT		0	0
21. NET PROFIT FOR ACCOUNTING PERIOD	IV.7.31	336,836	288,938

Income statement of Iskra d.d. according to functional group in 2004

ISKRA, d. d.	2004
INCOME STATEMENT ACCORDING TO FUNCTIONAL GROUP	in '000 SIT
NET REVENUES FROM SALES AND OWN WORKING CAPITAL	615,356
HISTORICAL COSTS OR PRODUCTION COSTS OF PRODUCTS	0
GROSS PROFIT FROM SALES	615,356
DISTRIBUTION COSTS	0
ADMINISTRATIVE COSTS	-712,332
OTHER OPERATING REVENUE (INCLUDING REVALUATED OPERATING REVENUES)	58,545
OPERATING PROFIT	-38,431

CHASH FLOW STATEMENT

<i>ISKRA, d. d., CASH FLOW STATEMENT, in '000 SIT</i>	2004	2003
A. CASHFLOW FROM OPERATING ACTIVITIES		
a) Inflows from operating activities	1,841,129	569,924
Operating revenues	673,901	408,295
Extraordinary revenues associated with operations	280,603	159
Opening minus closing operating receivables	902,951	166,619
Change in deferred expenses and accrued revenues	-16,326	-5,149
b) Outflows from operating activities	-772,875	-417,940
Operating expenses less amortisation, depreciation and provisions	-668,188	-407,646
Extraordinary expenses associated with operations	-11,323	-1,077
Opening minus closing operating debts	-82,501	-10,114
Opening minus closing short-term accrued expenses and deferred revenues	-10,863	897
c) Net cash from/used in operating activities (a minus b)	1,068,254	151,984
B. CASHFLOWS FROM INVESTING ACTIVITIES		
a) Inflows from financing activities	177,789	1,504,460
Investment income (not including revaluation)	177,789	177,667
Net decrease in non-current investments (not including revaluation)	0	1,326,793
b) Outflows from investing activities	-2,600,224	-1,081,108
Net increase in intangible assets (not including revaluation)	0	-2,183
Net increase in tangible assets (not including revaluation)	-84,218	-892,647
Net increase in non-current investments (not including revaluation)	-2,121,166	0
Net increase in current investments (not including revaluation)	-394,840	-186,278
c) Net inflows from operating activities (a minus b)	-2,422,435	423,352

ISKRA, d. d., CHASHFLOW STATEMENT, in '000 SIT	2004	2003
C. CASHFLOWS FROM FINANCING ACTIVITIES		
a) Inflows from financing activities	1,513,857	227,617
Finance income (not including revaluation)	111,896	94,610
Increase in equity capital (excluding net profit)	0	132,819
Net increase in provisions (not including revaluation)	0	188
Net increase in non-current financial liabilities (not including revaluation)	131,641	0
Net increase in current financial liabilities (not including revaluation)	1,270,320	0
b) Cash used in financing activities	-180,308	-763,388
Finance expenses	-180,308	-265,792
Net decrease in current financial liabilities (not including revaluation)	0	-497,596
c) Net inflows and outflows from financing activities	1,333,549	-535,771
D. CLOSING BALANCE OF CASH	71,668	92,300
Net cash flow for period (sum of Ac, Bc and CC)	-20,632	39,565
Operating balance of cash and equivalents	92,300	52,735

NOTES TO THE CASH-FLOW STATEMENT

The cash-flow statement was compiled on the basis of Iskra d.d. balance sheet items as at 31.12.2003 and 31.12.2004, and the profit and loss account for 2004. The cash-flow statement has been compiled according to version II.

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 2004 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 2004 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 2005

CONSOLIDATED BALANCE SHEET FOR THE ISKRA GROUP

ISKRA GROUP - BALANCE SHEET	NOTES	Balance	Balance
Item, in'000 SIT		31.12.2004	31.12.2003
ASSETS		32,125,946	24,612,609
A. FIXED ASSETS		19,056,958	14,724,274
I. Intangible fixed assets	V.6.3	2,821,340	1,169,050
1. Long-term deferred costs		79,376	77,008
2. Long-term deferred development costs		292,100	64,551
3. Long-term industrial property rights		46,917	43,621
4. Goodwill		2,327,052	908,460
5. Intangible assets in acquisition process		41,690	58,306
6. Other intangible fixed assets		1,945	17,104
7. Advances for intangible assets.		32,260	0
II. Tangible fixed assets	V.6.4	12,905,981	10,516,051
Land and buildings		8,192,735	8,203,931
a) Land		1,110,189	1,025,020
b) Buildings		7,082,546	7,178,911
2. Equipment and machinery		3,441,137	1,128,219
3. Other equipment		986,801	795,031
4. Fixed assets in acquisition process		247,740	327,520
7. Other - advances		37,568	61,351
III. Long-term financial investments	V.6.5	3,329,637	3,039,173
3. Investments in affiliated companies		2,302,019	2,274,582
5. Other participating interests		893,566	629,073
6. Other long-term receivables		81,702	100,333
7. Treasury shares		52,350	35,185

ISKRA GROUP BALANCE SHEET	NOTES	Balance	Balance
ITEM, in '000 SIT		31.12.2004	31.12.2003
C. CURRENT ASSETS		12,634,521	9,563,620
I. Inventories	V.6.6	4,373,887	3,637,174
1. Finished goods		1,554,327	1,054,643
2. Uncompleted manufacturing		1,294,055	1,405,876
3. Products and finished goods		1,470,670	168,505
4. Advances for inventories		54,835	8,150
II. Trade receivables	V.6.7	5,356,427	4,324,999
a) Long-term trade receivables		50,105	101,435
1. from buyers		13,439	65,902
4. from others		36,666	35,533
b) Current trade receivables		5,306,322	4,223,564
1. from buyers		4,964,640	3,896,077
3. from affiliated companies		26,537	30,848
4. from others		315,144	296,639
III. Short-term financial investments	V.6.8	2,206,766	780,722
4. Short-term investments in others		2,206,766	780,722
IV. Bank balances, cheques and cash	V.6.9	697,441	820,725
C. PREPAYMENTS AND ACCRUED INCOME	V.6.10	434,467	324,714

ISKRA GROUP - BALANCE SHEET	NOTES	Balance	Balance
ITEM, in '000 SIT		31.12.2004	31.12.2003
EQUITY AND LIABILITIES		32,125,946	24,612,609
A. EQUITY CAPITALA	V.6.11	15,525,913	15,152,032
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. Total profit reserves		498,805	396,507
2. Treasury share reserves		52,350	52,059
4. Other reserves from profits		446,455	223,454
5. Reserves after adjustment		0	120,994
IV. Retained earnings		55,809	56,100
V. Net profit for financial year		171,811	0
VI. Equity capital revaluation adjustments		4,227,008	4,227,066
1. General capital inflationary adjustments		4,227,008	4,227,008
2. Consolidated capital adjustment		0	58
Minority interests		1,736,323	1,636,202
B. PROVISIONS	V.6.12	360,895	145,437
C. FINANCIAL AND OPERATING LIABILITIES	V.6.13	15,433,445	8,742,608
a) Long-term financial liabilities and operating liabilities	V.6.14	3,943,869	1,369,374
2. Long-term financial liabilities to banks		3,678,037	1,050,343
8. Long-term financial and operational liabilities to others		265,832	319,031
b) Short-term financial and operating liabilities	V.6.15	11,489,576	7,373,234
2. Short-term financial liabilities to banks		5,721,084	2,902,177
3. Short-term operating liabilities for advances received		656,042	360,207
4. Short-term operating liabilities to suppliers		2,708,126	2,077,498
5. Short-term notes receivable		0	17,792
7. Long-term financial and operating liabilities to group enterprises		19,078	1,244
8. Short-term financial and operating liabilities to others		2,385,246	2,014,315
ACCRUED EXPENSES AND DEFERRED REVENUES	V.6.16	805,693	572,532

CONSOLIDATED INCOME STATEMENT FOR THE ISKRA GROUP

ISKRA GROUP - CASH-FLOW STATEMENT		NOTES	Year	Year
ITEM, in '000 SIT			2004	2003
1. Net sales revenue	V.6.18		22,973,507	16,890,706
2. Change in inventories of products and work in progress			-205,129	372,093
3. Capitalised own products and services			451,343	136,039
4. Other operating revenues	V.6.19		1,535,711	1,152,539
5. Costs of goods, material and services	V.6.20		13,077,385	10,156,166
a) Cost of products and materials and costs of materials used			9,015,955	7,104,772
b) Services			4,061,430	3,051,394
6. Labour costs	V.6.21		9,488,527	6,369,586
a) Wages and salaries			6,784,883	4,473,173
b) Social security costs			1,231,011	860,572
c) Other labour costs			1,472,633	1,035,841
7. Write-offs	V.6.22		1,940,785	1,771,904
a) Depreciation and other operating expenses from revaluation of intangible and tangible fixed assets			1,530,981	1,083,284
b) Operating expenses from revaluation of current assets			409,804	688,620
8. Other operating expenses	V.6.23		166,130	160,020
9. Financial revenues from equity capital interests	V.6.24		331,722	193,904
b) Revenues from participating interests in group enterprises			233,067	177,621
c) Other financial income from participating interests			98,655	16,283
10. Financial revenues from long-term receivables	V.6.24		110,010	16,478
b) Financial revenues from long-term receivables from associates			0	0
c) Other financial revenues from long-term receivables			110,010	16,478
11. Financial revenues from short-term receivables	V.6.24		251,195	337,888
b) Financial revenues from current receivables (interest income) from group enterprises			132	654
c) Other financial revenues from current receivables (interest income)			251,063	337,234

ISKRA GROUP - CASH-FLOW STATEMENT	NOTES	Year	Year
ITEM, in '000 SIT		2004	2003
12. Financial write-offs for long-term and short-term financial investment write-downs	V.6.25	429,008	192,883
b) Financial expenses from revaluation of investments in group enterprises		303,654	0
Financial expenses from revaluation of investments in associates		963	92,902
c) Other financial expenses from revaluation of investments		124,391	99,981
13. Interest expenses and financial expenses from other liabilities	V.6.25	749,365	498,676
b) Interest expenses and expenses in connection with other liabilities to group enterprises		0	2424
c) Other interest expenses and financial expenses from other liabilities		749,365	498,652
14. Tax on profit from regular operations		5,540	0
15. Profit from ordinary activities		-408,383	-49,588
16. Extraordinary revenues	V.6.26	783,805	153,061
17. Extraordinary expenses		42,657	70,628
18. Profit from extraordinary activities		741,148	82,433
19. Tax on profit from extraordinary operations		21,259	9,446
20. Other taxes not shown under other items		9,478	13,350
21. Net profit for the financial year		302,028	10,049
- Net profit of minority shareholders		130,217	-10,261
- Net profit of majority shareholders		171,811	20,310

INDICATORS FOR THE ISKRA GROUP

ISKRA GROUP	Year	Year	Index
INDICATORS	2004	2003	04/03
Profitability Indicators			
Net return on assets	0.011	0.001	1100
Net return on equity	0.020	0.007	286
Net return on revenues	0.012	0.006	200
Financing Indicators			
Self-financing ratio	0.48	0.62	77
Long-term financing ratio	0.62	0.67	93
Investment Indicators			
Fixed assets investment ratio	0.49	0.43	114
Long - term investment ratio	0.59	0.55	107
Horizontal Financial Structure Indicators			
Equity capital to fixed assets ratio	0.99	1.44	69
Immediate ratio	0.07	0.11	64
Quick ratio	0.52	0.68	76
Current ratio	1.10	0.79	139
Efficiency Indicators			
Operating efficiency ratio	1.07	1.00	107
Total efficiency ratio	0.99	1.01	98
Productivity indicators			
Revenues per employee based on hours (in '000 SIT)	10,542	11,420	92
Labour costs per employee based on hours (in '000 SIT)	4,081	4,307	95
Added value per employee	5,040	5,568	91
Number of employees			
	2325	1479	157