



Annual report of
Iskra, d. d. and Iskra
Group for 2007



LETTER TO THE SHAREHOLDERS

The financial year 2007 was successful for Iskra d. d., which operated in accordance with the guidelines set down in the mid-term development plan for the period 2004-2008 and the business plan. The company achieved all the key goals in Concern development, carrying out the agreed projects that are common to the companies in the Concern and other tasks and activities that contributed to successful performance. In 2007 Iskra d. d. posted net sales revenues of EUR 3,715 thousand and finished the financial year with a profit of EUR 3,254 thousand.

Most of the companies in the Iskra concern posted good results. The effect of fierce competition remained strong in 2007, as did the unyielding pressure on the reduction of retail prices, which, however, the companies in the Group managed to deflect. With the exception of Iskra PRINS, d. d. and Iskra EMS, d.o.o. the companies in the Concern achieved or even surpassed the performance targets set down in the business plan for 2007. Companies in the Iskra Group increased net sales revenues in 2007 by 3% to EUR 124,319 thousand. After the completed exclusions consolidated net sales revenues of the Iskra Group amounted to EUR 112,733 thousand, on par to those in the year before. The Group's consolidated net profit was at EUR 2,219 thousand.

In the management of dependent companies, the management of Iskra d. d. has been applying legal regulations, acting with due care and diligence and consistent in its moral and ethical stance towards the co-workers and business partners, in particular with consideration to the principles of equality, personal dignity, honesty and fairness in personal relations with co-workers and business partners.

Iskra d. d. plans a successful and profitable performance in 2008. It will endeavour to accomplish the key strategic tasks defined in the new Concern development plan for the 2008-2012 period and the business plan for 2008. The goal is to make the Concern more efficient, successful and respected in Slovenia and abroad, with a view to increase the value of the company's assets. This will be achieved in particular with investment in research and development, introduction of new products and programmes, modernisation of technology, penetration of new and growth in existing markets, consistent implementation of quality criteria and standards, active human resources development policy and permanent and targeted training of employees.

The Management Board of Iskra, d. d. and the boards of the companies in the Iskra Group realise that growth and development are based on quality factors, cutting-edge know-how that employees need to take up, and appropriate motivation of employees. The acquisition of new know-how by employees is an ongoing concern, the realisation of which places among the key goals as well as the values that the Concern offers employees; complementing and building the value system is among the crucial motivating factors for employees in the accomplishment of even better business results.



Dušan Šešok
Chairman of the Management Board

Ljubljana, June 2007

REPORT BY THE SUPERVISORY BOARD

COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board comprised in 2007 the following members:

ISKRA, d. d.

SUPERVISORY BOARD UNTIL 21.2.2007

1. Janez Hafner, President

2. Jože Pukl, Deputy President

3. Janez Peskar, Member

ISKRA, d. d.

SUPERVISORY BOARD FROM 21.2.2007

1. Irena Peternel, President

2. Jože Pukl, Deputy President

3. Janez Peskar, Member

MANNER AND SCOPE OF OVERSIGHT OF GOVERNANCE DURING THE FINANCIAL YEAR

The Supervisory Board supervised the operations of Iskra, d. d. in 2007 in accordance with its powers and jurisdictions as determined in regulations and the company's Articles of Association.

In accordance with its powers, the Supervisory Board carried out ongoing oversight of the governance and operations of Iskra, d. d. and its subsidiaries. The Supervisory Board supervised management by considering interim business reports and results, comparing the achieved results with planned and previous results, and obtaining additional oral and written explanations from the Management Board.

In 2007 the Supervisory Board convened four regular sessions and held one correspondence session.

In all sessions in 2007, the Supervisory Board regularly considered the following areas of company operation:

- Current operating achievements and the balance sheet of the Company and the Group,
- Current investment activity,
- Acquisition of financial sources,
- Work of the Management Board,
- Implementation of the adopted Supervisory Board resolutions.

In addition to these regular supervisory activities, the Supervisory Board in 2007 considered the following key areas of business operation:

- At the 1st regular session on February 21, 2007, the Supervisory Board took note of the information that on February 19, 2007 the Supervisory Board member Janez Hafner was relieved of his duties by the Annual General Meeting. He was succeeded by Irena Peternel, who was named at that session Supervisory Board President. At the same session the Supervisory Board cancelled the convocation of the regular session of December 15, 2006 and considered the alignment of the wording of the Articles of Association with resolutions of the Annual General Meeting of December 11, 2006.
- At the 1st correspondence session on March 29-30, 2007, the Supervisory Board confirmed the proposal of the Management Board on the use of net profit for the financial year 2006 and the settlement of the net loss carried in the balance sheet for 2006. The retained net loss was fully covered with net profit for the financial year 2006 and other components of capital.
- At its 2nd regular session on April 12, 2007, the Supervisory Board considered the report on the performance of Iskra, d. d. and the Iskra Group for 2006. It also adopted a resolution on the publication of the call for applications for the 37th Awards of Prof. V. Bedjančič, MD.
- At its 3rd regular session on June 22, 2007, the Supervisory Board took note of and adopted the Annual Report of Iskra, d. d. and the Iskra Group for 2006 along with the reports of the auditor, and adopted the Management Board's proposal for the allocation of distributable profit. The Supervisory Board also confirmed the Supervisory Board Report on the Supervision of Governance During the Financial Year 2006 and put it to the Annual General Meeting. It also confirmed the proposal for the convocation of the 2006 Annual General Meeting and took note of the performance of the Company and the Group for the period January-May 2007.
- At its 4th regular session on November 27, 2007, the Supervisory Board considered the report on the performance of Iskra, d. d. and the Iskra Group for the period January – September 2007, adopted the business plan for 2008 and took note of the proposal for the call for applications for the 38th Awards of Prof. V. Bedjančič, MD.

The Management Board submitted all other information that the Supervisory Board needed or required for the performance of its supervisory role.

CONSIDERATION OF ANNUAL REPORT FOR 2007

At its session of March 25, 2008 the Management Board approved the Financial Statements of Iskra d. d. for 2007. The Financial Statements of the Iskra Group were approved at the session of June 2, 2008.

In analysing the submitted Annual Report for 2007, the Supervisory Board established that:

- The company completed the financial year 2007 successfully, improving all key performance indicators compared to 2006 and achieving the key objectives;
- The Annual Report is clear and transparent, containing all components required by law;
- The Annual Report is a true and fair depiction of the assets, obligations, financial position and business results of the company;
- The Annual Report is a credible depiction of the development of operations and the financial position of the company.

These statements have been confirmed by the certified auditor, which has issued the written opinion that the Annual Report is a true and fair depiction of the financial position of Iskra, d. d. and the Iskra Group as at 31.12.2007 and of the Profit and Loss Statement, the Cash Flow Statement and the Statement of Changes in Capital for the year then ended.

The Supervisory Board has no remarks regarding the auditor's reports and agrees with them.

ASCERTAINMENT AND DISTRIBUTION OF DISTRIBUTABLE PROFIT

The Supervisory Board has ascertained that distributable profit amounts to EUR 3,254,494. It has proposed the Annual General Meeting to adopt the resolution on the distribution of profit proposed by the Management and Supervisory Boards.

PROPOSAL TO THE ANNUAL GENERAL MEETING

Having conducted the final analysis of the Annual Report of Iskra, d. d. and the Iskra Group for 2007, the Supervisory Board has established that it has no remarks and therefore confirms it. It proposes the Annual General Meeting to give the Management Board and the Supervisory Board a discharge for the financial year 2007.

The Supervisory Board has prepared this report pursuant to the provisions of Article 282 of the Companies Act (Official Gazette RS, no. 42/06 of April 19, 2006) for the purposes of the Annual General Meeting.



Irena Peternel
Supervisory Board President

Ljubljana, June 10, 2008

FINANCIAL STATEMENTS OF ISKRA d. d. AND THE ISKRA GROUP

GENERAL INFORMATION ON ISKRA d. d.

Company: Iskra, elektro in elektronska industrija, d. d., Ljubljana

Short name: Iskra, d. d.

Registered office: Ljubljana, Kotnikova 28

Code of activity: 74.150

Activity: K 64.200 Management activities of holding companies

Share capital: 28,242,522.12

Reg. no. 061/10521800 District Court of Ljubljana, Corporate Law Division

Date of incorporation: 22.12.1989

Company ID no.: 5330424

Tax file no.: 53675444

Size of company: Large

Bank account: NLB, d. d., Ljubljana, account no. 02968-0017967282
Banka Celje, d. d., Celje, Subsidiary Ljubljana, account no. 06000-0064484638
Hypo Alpe-Adria-Bank, d. d., Ljubljana, account no. 33000-5367544461
Hypo Alpe-Adria-Bank AD, Beograd account no.: 543100-1924700169
Hypo Alpe-Adria-Bank AD, Beograd foreign currency account no.: 50311-1924700169

Management board: Dušan Šešok, Management Board Chairman
Jože Godec, Management Board Member

Supervisory board: Irena Peternel, President
Jože Pukl, Member

Shareholders of Iskra, d. d. as at December 31, 2007 compared to the year before:

ISKRA, d. d.	No. of shares	Share	No. of shares	Share
	31.12.2007	In %	31.12.2006	In %
MAOS, d. o. o.	6,768,038	100.00	6,768,038	100.00
TOTAL	6,768,038	100.00	6,768,038	100.00

INFORMATION ON THE ISKRA GROUP

The Iskra Group comprises MAOS, Poslovno svetovanje, d.o.o. as the holding company, Iskra, d. d. as a dependent and holding company, subsidiaries of Iskra, d. d. and subsidiaries of subsidiaries of Iskra, d. d..

In accordance with the 2006 Slovenian Accounting Standards the associated companies no longer constitute a group.

The subsidiaries of Iskra, d. d. and its interest as at December 31, 2007.

Ref.	SUBSIDIARIES	Registered office	Interest	Interest
No.	ISKRA, d. d.		31.12.2007	31.12.2006
1.	Iskra EMS, d. o. o.	Trubarjeva c. 27, Šentjernej, Slovenia	100.00%	100.00%
2.	TEVIS - Agencija za kadre, d. o. o.	Kotnikova 28, Ljubljana, Slovenia	100.00%	100.00%
3.	Cranex GmbH	Industrestrasse 49, Zug, Switzerland	100.00%	100.00%
4.	Iskra Investments B. V.	Koningslaan 14, Amsterdam, Netherlands	100.00%	100.00%
5.	Iskra Rus, d. o. o.	ul. B. Gruzinskaja 60, Moscow, Russia	100.00%	100.00%
6.	Iskra Posing, d. o. o.	Kotnikova 28, Ljubljana, Slovenia	100.00%	100.00%
7.	Iskra Vega Plus, d. o. o.	Kotnikova 28, Ljubljana, Slovenia	100.00%	100.00%
8.	Iskra TELA, d. d.	Cesta dveh cesarjev 403, Ljubljana, Slovenia	100.00%	99.16%
9.	Iskra INVEST, d. d.	Stegne 25a, Ljubljana, Slovenia	100.00%	93.96%
10.	Iskra MIS, d. d.	Ljubljanska 24a, Kranj, Slovenia	100.00%	94.14%
11.	Iskra Kondenzatorji, d. d.	Vajdova ul. 71, Semič, Slovenia	93.02%	93.02%
12.	Iskra Commerce, d. o. o.	Kotnikova 28, Ljubljana, Slovenia	100.00%	87.68%
13.	Iskra Sistemi, d. d.	Stegne 21, Ljubljana, Slovenia	93.16%	82.26%
14.	Iskra PRINS, d. d.	Cesta dveh cesarjev 403, Ljubljana, Slovenia	52.33%	52.33%

15. Iskra Galeb, d. o. o.	Hadži Nikole Živkovića 2, Belgrade, Serbia	51.00%	51.00%
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The companies Iskra TELA, d. d., Iskra INVEST, d. d. and Iskra Commerce, d.o.o. also hold own shares of 0.34%, 4.4% and 10.57% respectively.

On February 25, 2008 the squeeze-out of minority shareholders of Iskra Sistemi, d. d. was completed. The subsidiaries of subsidiaries and interests as at December 31, 2007:

Ref.	SUBSIDIARIES	Registered office	Holding	Interest
No.	OF SUBSIDIARIES		Company	
1.	Cavae Romanae, d. o. o.	Istarska 43, Umag, Croatia	Iskra Commerce	100.00%
2.	Iskra SEM SPS, d. o. o.	Tržaška 2, Ljubljana, Slovenia	Iskra INVEST	100.00%
3.	Iskra, d. o. o., Novi Sad	Izvidnička 5, Novi Sad, Serbia	Iskra PRINS	100.00%
4.	Tehnotrade plus, d. o. o.	Cesta dveh cesarjev 403, Ljubljana, Slovenia	Iskra PRINS	100.00%
5.	Iskra IP, d. o. o.	Metliška cesta 8, Semič, Slovenia	Iskra Kondenzatorji	100.00%
6.	Iskra Turizem, d. o. o.	Vajdova 71, Semič, Slovenia	Iskra Kondenzatorji	100.00%
7.	PAI, d. o. o.	Vajdova 71, Semič, Slovenia	Iskra Kondenzatorji	100.00%
8.	Iskra Orodjarna, d. o. o.	Vajdova 71, Semič, Slovenia	Iskra Kondenzatorji	100.00%
9.	IKOND	Švermova 268, Liberec, Czech Republic	Iskra Kondenzatorji	100.00%
10.	Standard Capacitors	Švermova 268, Liberec, Czech Republic	Iskra Kondenzatorji	100.00%
11.	Iskra EI, d. o. o.	Batajnički put 23, Beograd, Serbia	Iskra Kondenzatorji	75.00%
12.	Iskra CG, d. o. o. Podgorica	Bratstva i jedinstva 33, Podgorica, Montenegro	Iskra PRINS	60.00%
13.	Iskra Elektronika, d. o. o., Zagreb	Božidara Magovca 63, Zagreb, Croatia	Iskra PRINS	51.00%
14.	Iskra Elektronika, d. o. o., Split	Domovinskog rata 50, Split, Croatia	Iskra PRINS	51.00%
15.	EMM, d. o. o.	Brilejeva 9, Ljubljana, Slovenia	Iskra PRINS	50.00%
16.	TELA L, d. o. o.	Ul. Nemanjina 35, 78250 Laktaši, Bosnia and Herzegovina	Iskra TELA	100.00%

The Companies Act (ZGD-1) allows for the possibility that one or more subsidiaries are excluded from consolidation if this is not important for the fair and true depiction of the financial position, Profit or Loss Statement, Cash Flow Statement, Statements of Changes in Capital and annexes to the Group Consolidated Financial Statements. The subsidiaries of subsidiaries of Iskra, d. d., Iskra Elektronika, d. o. o. Split, EMM, d. o. o. Ljubljana, Standard Capacitors Češka in Tehnotrade plus, d. o. o., Iskra EI, d. o. o. Beograd and IKOND have not been included in the Group consolidated financial statements.

The total interest in these companies does not account for a relevant proportion of the total unconsolidated capital.

Capital and net profit or loss of Iskra, d. d. subsidiaries in Slovenia (excluding subsidiaries having their registered office abroad) in 2007:

Ref.	CAPITAL AND NET PROFIT OR LOSS	Capital	Net profit or
no.	OF ISKRA, D. D. SUBSIDIARIES	31.12.2007	loss 2007
1.	Iskra Kondenzatorji, d. d.	7,509,869	207,942
2.	Iskra Sistemi, d. d.	9,285,474	618,663
3.	Iskra MIS, d. d.	11,604,411	151,564
4.	Iskra TELA, d. d.	6,377,742	207,625
5.	Iskra INVEST, d. d.	4,301,652	158,559
6.	Iskra EMS, d. o. o.	-1,022,649	-1,362,985
7.	TEVIS - Agencija za kadre, d. o. o.	466,184	119,606
8.	Iskra PRINS, d. d.	18,395	555,689
9.	Iskra Commerce, d. o. o.	3,416,316	27,440
10.	Iskra Posing, d. o. o.	59,390	-19,517
11.	Iskra Vega Plus, d. o. o.	21,035	1,373
12.	Cranex GmbH, Švica	1,263,196	28,000
13.	Iskra Galeb, Beograd	44,043	-4,030
14.	Iskra Rus, Moskva	-20,314	-26,483
15.	Iskra Investmenst BV, Netherlands	4,694,782	-8,356

The Consolidated Annual Report of the Iskra Group is available at the registered office of the holding company MAOS, d. o. o., Kotnikova 28, Ljubljana and at the registered office of Iskra, d. d., Kotnikova 28, Ljubljana.

VISION, MISSION, STRATEGIC AND GLOBAL GOALS

Vision and mission

The Concern's vision is to become a modern conglomerate which will ensure long-term development and growth, profitability and shareholder value with rapid market adaptability of companies in the group and their programmes.

Iskra, d. d. and all the companies in the Concern launched in the second half of 2007 the preparation of the Strategic Development Plan 2008-2012, an expanded and supplemented vision of the Concern as a whole.

Strategic policy

The strategic policy is aimed in particular at:

- Takeovers of companies which increase and expand the portfolio of products and services on the market, and improve the economic stability of the Group,
- Greater innovation, faster introduction of new and more complex products with more know-how and bigger value added,
- Faster changes in the structure of know-how towards higher education and the rejuvenation of leadership teams at the companies,
- Organisational changes and amalgamation of companies with a view to optimise the use of resources and increase economic effects,
- More intensive implementation of introduced joint concern activities, in particular in strategic human resources, IT and international trade.

Companies in the Iskra Concern and Iskra, d. d. have been carrying out the following strategic activities in this respect:

- Strategy of growth, development and programme restructuring,
- Cost-cutting strategy,
- Strategy of management of financial sources and restructuring of resources,
- Strategy of human resources restructuring,

Programming guidelines

The Iskra Concern will continue to develop the following programmes:

- Automation,
- Telecommunications,
- Appliances and components,
- Trade and Services,
- Other programmes within the Concern and through acquisitions.

It is estimated that growth will be fastest in telecommunications and slowest in trade and services. These guidelines and planned objectives, along with new programmes and takeovers, will reinforce Iskra's image as a concern focused on electrical and electronic industries as well as trade and services.

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

In 2007 Iskra, d. d. posted net sales revenues of EUR 3,715,181 and a net profit of EUR 3,254,494. The key achievements of Iskra, d. d. in 2007 compared to 2006:

ISKRA, d. d.	2007	2006	Index
KEY ACHIEVEMENTS	i.e. 31.12.2007	i.e. 31.12.2006	07/06
Net sales revenues	3,715,181	2,789,872	133
Net profit	3,254,494	3,469,066	94
Liabilities and capital	69,597,446	69,687,840	100
Tangible assets	591,943	629,978	94
Real estate investment	8,940,197	9,127,629	98
Assets intended for sale	2,772,702	2,962,515	94
Long-term financial investments	47,246,310	48,596,695	97
Capital	50,517,144	47,262,648	107
Financial and operating liabilities	17,093,224	21,982,336	78
Net return on capital (in %)	6.89	7.06	91
Net earnings per share (in SIT)	0.48	0.55	87
Book value of share (in EUR)	7.46	6.98	107

In 2007 the Iskra Group posted net sales revenues of EUR 124,319 thousand and finished the financial year with a profit of EUR 2,219 thousand. Key achievements of the Iskra Group:

ISKRA GROUP	Year	Year	Index
KEY ACHIEVEMENTS	2007	2006	07/06
Consolidated net sales revenues	112,733,045	112,295,694	100
Net profit	2,225,642	3,735,666	60
Liabilities and capital	144,321,953	139,640,465	103
Tangible assets	44,909,112	47,385,432	95
Long-term financial investments	7,979,875	7,351,498	109
Short-term assets	76,590,181	67,350,852	114
Capital	56,129,498	57,129,721	98
Financial and operating liabilities	77,302,750	73,312,535	105
Net return on capital (in %)	3.97	6.5	61
Net earnings per share (in SIT)	0.33	0.55	60
Diluted net earnings per share (in EUR)		0.55	

ROUNDING OFF THE CONCERN

Through 2007 activities to increase stakes in subsidiaries continued. At the proposal of Iskra, d. d. and pursuant to a resolution of the Annual General Meeting procedures were launched to squeeze out the minority interests in Iskra Sistemi, d. d. (completed in February 25, 2008), while the squeeze-out of minority interests from Ikra MIS, d. d. and Iskra INVEST, d. d. was completed.

In the bankruptcy proceedings Iskra, d. d. endorsed the conditional recapitalisation of Iskra PRINS, d. d. in the amount of EUR 753,304.

During the course of 2007 Iskra, d. d. acquired 100% interest in the companies Energetski servis ES, d. o. o., Energetski servis, d. o. o., E.D.T., d. o. o. and Dimnikarstvo Primc, s. p., but it disposed of the stakes at the end of 2007.

MARKETING – SALES

ISKRA, d. d.

Iskra, d. d. generated net sales revenues of SIT 3,715,181 thousand in 2007, all of it on the domestic market.

ISKRA, d. d.	Year	Year	Index
NET SALES REVENUES	2007	2006	07/06
1. Net revenues from the sale of services	2,486,426	1,589,537	156
2. Net trademark revenues	263,287	256,824	103
3. Net rent revenues	965,468	943,513	103
TOTAL	3,715,181	2,789,874	133

All net revenues of Iskra, d. d. were generated on the domestic market.

Iskra, d. d. made the bulk of the net revenues with the performance of business services and consulting the subsidiaries, with which it has annual contracts.

Net rent revenues increased on account of the leasing of unoccupied offices to new tenants.

ISKRA Group

The bulk of the net sales revenues by companies in the Group was realised through marketing activities carried out by the subsidiaries independently with the sale of own products and services, and partially with the sale of merchandise.

In 2007 Iskra, d. d. started to take a more active part in the promotion of sales. The purpose of the inclusion was to improve the efficiency of marketing and helping Iskra companies consolidate their market activities with the entire range of products and services.

In 2007 the Iskra Group generated net sales revenues per divisions and before consolidation exclusions as follows:

ISKRA GROUP	Revenues	Revenues	Index	Share in %
NET REVENUES BY DIVISION	2007	2006	07/06	2007
Automation and telecommunications	36,848,201	33,584,022	110	30
Components	58,756,285	58,522,609	100	47
Devices	2,271,117	1,020,084	223	2
Trade and services	26,233,228	27,572,951	95	21
Other	210,259	265,498	79	0
TOTAL	124,319,090	120,965,164	103	100

The increase in devices sales is attributed to higher sales by Iskra MIS, d. d..

Net revenues by global markets before consolidation:

ISKRA GROUP	Net revenues	Net revenues	Index	Share in %
SALES BY MARKET	2007	2006	07/06	2007
Slovenia	60,251,551	53,899,996	112	48
Southeast Europe	7,194,455	9,142,284	79	6
Eastern Europe	7,180,190	4,846,941	148	6
EU and other European countries	37,176,156	40,118,670	93	30
Asia	7,475,958	10,019,016	75	6
America	817,421	974,837	84	1
Rest of the world	4,223,359	1,963,420	215	3
TOTAL	124,319,090	120,965,164	103	100

The group generated the bulk of the total sales revenues (52%) on foreign markets, mainly in the EU.

The share of foreign markets in total sales dropped by 3 percentage points year-on-year on account of brisker sales on the domestic market by Iskra Sistemi, d. d.. Sales increased the most in relative terms in Eastern European markets and the rest of the world.

Consolidated net sales revenues totalled EUR 112,733 thousand, up from EUR 112,296 thousand in 2006.

Sales within the Iskra Group accounted for 9.3% of total sales (7.2% in 2006).

RESEARCH AND DEVELOPMENT

Iskra, d. d. was actively coordinating, connecting, guiding and supervising the implementation of strategic development and technological projects set down in the mid-term development plans for Iskra companies for the period 2004 – 2008.

In 2007 the Group was engaged in 47 research and development projects, 27 of which were aimed at developing new products. The Group developed 26 new or substantially improved products which reached test production or marketing phase. Key achievements in research & development by divisions and companies:

- In **telecommunications** Iskra Sistemi, d. d. launched production of products from the SDR family (software-defined radio). A new SDH/ADM multiplex for synchronous broadband data transfer was developed and produced. A newly developed digital module, the 2000x, was included in the power line carrier (PLC) data transmission system.
- In **automation** Iskra Sistemi, d. d. started marketing and installing a CTC system for the remote centralised traffic control in Macedonia. Iskra MIS, d. d. developed 6 new 2nd generation measuring transducers that comply with European and US standards and are therefore appropriate for global marketing.
- In the **components** division Iskra EMS, d.o.o. developed prototypes for two new types of switches for VW and AUDI vehicles. In the field of low voltage switchgear Iskra MIS, d. d. launched production of three new switchgears: two devices in the family of installation contactors, a thermal overload relay and a load switch. Iskra TELA, d. d. completed development of specialised measurement glasses for a Russian partner. First prototypes of nickle transformer cores were developed. In the antennae programme the company developed a new family of duplex antennae and GSM antennae for the 1.8 GHz band.

Investment in the research and development amounted to 3.2% of sales in 2007. 74 employees worked in research and development on average, 3.7% of the total workforce in the Iskra Concern. Broadly defined investment spending, which includes investment in technology and auxiliary activities, accounted for 5% of total sales in 2007.

HUMAN RESOURCES MANAGEMENT

The value of human resources has been becoming ever more important and the competences, innovativeness and capabilities of the employees are instrumental in the accomplishment of the strategic development plans of the Iskra Concern and subsidiaries.

A total of 17 key employees, experts and promising staff trained at the ISKRA Business School in the 2007/08 academic year. The business school students acquire fresh and in-depth know-how that is vital for successful business.

Companies in the Concern carry out annual interviews with the employees and measure organisational climate.

The companies support supplementary education and training of their employees with seminars, workshops, courses and lectures with a view to improving performance.

Employees of ISKRA, d. d.

Employees of Iskra, d. d. by education as at December 31, 2007:

Employees	IV	V	VI	VII	VIII	Total
As at 31.12.2007	2	1	1	10	1	15
As at 31.12.2006	2	1	0	11	0	14

The average working-hours-based number of employees at Iskra, d. d. was 13.76 (2006: 13.22).

As at December 31, 2007 11 Iskra, d. d. employees had a management contract. The total compensation received by the Management Board members and these employees is shown in the Financial Statements.

Employees of the Iskra Concern

The number of employees at the Iskra Group dropped in 2007 as a result of measures geared towards streamlining, greater productivity and the introduction of higher value-added products. The total number of employees dropped by 192 (9.6%).

A total of 236 new employees were hired by Concern companies in 2007 (2006: 347) and 432 left (2006: 408). Group companies hired 37 employees with a vocational college degree or higher.

The educational structure of employees improved, as the share of those with university degrees increased.

Concern companies had an average of 2,145.9 employees in 2007 (2006: 2,240.4), down 4% compared to the year before.

Average number of employees in companies in the Concern by education as at December 31, 2007:

ISKRA GROUP		Degree of education								
	TOTAL		I.		II.		III.		IV.	
Employees	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Annual average	2,154.9	2240.4	665.4	719.7	111.4	118.8	29.8	29.3	515.5	523.0
Share	100%	100.0%	30.9%	32.1%	5.2%	5.3%	1.4%	1.3%	23.9%	23.3%

ISKRA GROUP		Degree of education								
	V.		VI.		VII.		VIII.		IX.	
Employees	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Annual average	451.4	464.8	128.3	129.8	217.3	217.1	30	32.3	5.8	5.6
Share	20.9%	20.7%	6.0%	5.8%	10.1%	9.7%	1.4%	1.4%	0.3%	0.2%

RISK MANAGEMENT

The Iskra Group managed risk in 2007 with intra-group techniques for alternative selection of the optimal business decision, the acquisition of rating information and reports of the business partners, as well as external techniques such as commissioning and acquiring guidelines and advice from specialised consultancies, banks and other institutions.

Business risk

Business risk is the risk that customers and suppliers change the conditions for mutual business relations.

For Iskra, d. d. business risk was low: in sales it is predominantly engaged with companies in the Group and in purchasing it has relations with selected suppliers.

Iskra companies have contractual relations with domestic and foreign customers and suppliers that do not individually represent a significant share of revenues or purchases.

Business risk was relatively low. This estimate is based on the fact that Group companies perform most of the sales and purchasing on the domestic market, which was relatively stable, and in European Union countries. As a precaution the companies acquired rating reports, in particular for prospective business partners.

In sales the trend of declining retail prices came to a halt, mostly in companies falling into the components division.

In purchasing counterparty default risk was also relatively small, as the companies have multiple suppliers for key purchases, adapted to market conditions, pursued a policy of keeping down input prices and monitored foreign exchange fluctuations. The companies acquired rating reports for suppliers, mostly for bigger supplies.

Credit risk

Credit risk is the risk of non-fulfilment of contractual and operating obligations by the counterparty, i.e. that the counterparty to a financial instrument contract will default on its obligation and incur the Company a financial loss.

Iskra, d. d. is not exposed to significant credit risk, as the majority of business relationships involve intra-group companies and the bulk of purchasing involves suppliers who have been delivering in the agreed schedules.

Credit risk for individual Group companies was moderate notwithstanding the fact that most operating liabilities are not covered with special insurance instruments. Moreover, no single customer accounts for a large and significant share of total sales at Group level. There was no major risk of counterparty default in purchasing, as the companies so business with suppliers who meet their contractual obligations due to ever fiercer competition.

Interest risk

Interest risk is the risk that the value of a financial instrument will due to a change in market interest rates.

The interest risk of Iskra, d. d. and the companies of the Iskra Group was low until August. Thereafter it started to increase due to the global financial crisis and the sub-prime mortgage crisis in the United States. EURIBOR rates and LIBOR rates for Swiss francs rose.

Iskra companies conducted business with 15 commercial banks in Slovenia and taking advantage of competition on the financial market, they pursued the goal of reducing interest expenses by replacing more expensive financing with cheaper options.

Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

At Iskra, d. d. the foreign exchange risk was relevant only for foreign-currency credit denominated in Swiss francs. With the adoption on January 1, 2007 of the euro as the national currency, the euro-based foreign exchange risk was eliminated. The Swiss franc continued to drop over the euro, which had a positive effect on Iskra, d. d. and companies in the group as borrowers. There was no foreign exchange risk for the Group.

Iskra Group companies sell the majority of their products and services on the domestic market and the markets of the European Union and other European countries. In these markets the euro is the main currency, rendering foreign exchange risk insignificant.

Through 2007 the exchange rate of the US dollar dropped, from USD 1.317 per euro at the beginning of the year to USD 1.4721 at the end of the year, an increase of 11%. Export and purchasing markets tied to payments in US dollars are relatively small, below 7% of total sales and 6% of total purchasing. Since Group companies sell more in the dollar area than they purchase there, the lower value of the US dollar (the increase in sales prices did not keep up with the declining dollar) had a negative impact on the business results.

Inflation risk

Inflation risk is the risk tied to price changes. In 2007 inflation risk was not in line with forecasts, as the inflation rate in Slovenia was increasing.

Liquidity risk

Liquidity risk is the risk that the company will run into problems in finding sources of finance necessary to fulfil its financial obligations.

The reliance of Group companies on external short- and medium-term financing is normal. The companies are settling their current obligations largely with own funds but also with bridging short-term loans and the drawing of approved credit lines. Considering the possibilities for financing, especially by banks, and the ratings of most Group companies, liquidity risk was low.

Iskra, d. d. and most Iskra Group companies did not have major liquidity problems.

Operating risk

Operating risk is risk associated with the reduction of commercial benefits due mostly to inappropriate planning, implementation and oversight of business processes.

Group companies have introduced an effective start-to-finish system of business process planning and oversight (input control, production control, final control). Minor risks may be present in certain research and development projects and in the introduction of new products to the market, where quality is given priority over time (delay in completion of a project). There were no such risks in 2007.

QUALITY AND BUSINESS EXCELLENCE

Iskra, d. d. and all the Group companies continued to attend to quality and business excellence. All production and service companies carried out a renewal of standards and obtained the ISO 9000/2000 certificate. Regular quality system assessments were carried out in individual companies.

Quality and business excellence are an ongoing concern of all companies in the Concern. They realise that quality and business excellence are an increasingly important element of competitiveness which has a strong impact on business relations with existing customers and, even more importantly, cooperation with new customers.

ENVIRONMENT AND SOCIAL RESPONSIBILITY

The companies in the Iskra Group were making an ongoing effort in 2007 to protect the environment and create a friendly work environment. All the companies achieve at least the statutory requirements on environment protection. It is essential that management is ecologically prudent and responsible, and that the companies are environmentally-friendly.

The Glinek plant of Iskra TELA, d. d., which uses a new electroplating technology, obtained an environmental permit in 2007. This makes it one of the top electroplaters in Slovenia, as it meets the strictest EU environmental demands, and it is already in conformity with the even stricter criteria to be put in place in the future.

Iskra INVEST, d. d. carried out measures to protect drinking water sources as the manager of a location in the Stegne Industrial Zone in Ljubljana, which is located on the edge of the 1st and 2nd water protection zones of the Kleče water pumping station. Devices which contain environmentally hazardous substances have been replaced or overhauled. In the Industrial Zone Labore oil transformers were replaced with ecologically unharmed dry transformers. To raise ecological awareness, Iskra INVEST, d. d. informed all users that it supplies electricity to about the share of green energy that they used in the previous year, which is in accordance with the executive regulations of the Energy Act.

Iskra Kondenzatorji, d. d. continued to replace certain materials, in particular those containing lead and other elements (cadmium, mercury, chromium VI, etc.) which, in accordance with a new EU directive, may not be present in electric and electronic devices. The prescribed measurements of airborne emissions were carried out from static sources in accordance with the law.

It should be underlined that all companies in the Group adhere to the rule that environment protection is considered from the onset – the development of new products (choice of materials), planning of upgrades and replacement of old technologies, new investment projects, etc. not just at the end, when the environment impact needs tends to be reduced due to changes in legislation.

RELATIONS WITH SUBSIDIARIES

Supervision and management

Majority interests formally allowed Iskra, d. d. to cooperate directly with the subsidiaries to a larger degree.

Iskra, d. d. monitored the business results of the subsidiaries with the established controlling system. It monitored the achieved business results of the Concern companies on a monthly basis and cumulatively for the year to the relevant month, comparing them year-on-year and with the targets.

Direct cooperation with individual, or multiple, companies in the Group was enacted to a greater extent in 2007. The result was more efficient management and supervision and the adoption of joint guidelines for ongoing improvements in efficiency of the subsidiaries.

One of the forms of monitoring performance and supervising the subsidiaries was participation in supervisory boards and active participation at Annual General Meetings.

Participation in financial restructuring and bailouts

Iskra, d. d. played an active part in the financial restructuring of two companies that operated in the red, Iskra PRINS, d. d. and Iskra EMS, d.o.o..

Coordination in the acquisition of finance, crediting and surety

Iskra, d. d. monitored the transactions of the subsidiaries with banks on a monthly basis with special emphasis on the state of credits drawn and conditions for obtaining bank credit.

Iskra, d. d. cooperated in the acquisition of finance and surety under favourable conditions from banks for subsidiaries. It furthermore participated in the refinancing of loans with a view to achieving the best credit conditions.

Iskra, d. d. moreover provided short-term loans to bridge the liquidity problems of certain subsidiaries. It credited mostly Iskra EMS, d.o.o. and Iskra PRINS, d. d..

Marketing

In 2007 Iskra, d. d. was particularly proactive in sales and purchasing, where the completed project *Lowering of Purchase Prices* was being carried out as a regular activity.

In sales it coordinated and set up a strategy for efficient marketing in particular in markets where Iskra and its subsidiaries are underrepresented with respect to their potential and the opportunities. These include the markets of Southeast Europe (countries of the former Yugoslavia), Eastern Europe (Russia and other former Soviet republics), France, Spain, Great Britain and the US.

To boost business in Russia and several other markets in Eastern Europe, Iskra, d. d. restructured the staff at its subsidiary Iskra Rus, d.o.o..

Development and programme consultancy

The main tasks of programme consultancy and coordination in the companies were directed at the restructuring of programmes and boosting growth rates in core companies in the Concern in order to unify and integrate production technologies.

Iskra, d. d. was particularly active in the development of programme projects in companies that were planning and introducing new solutions and products (Iskra EMS, d. o. o., Iskra Sistemi, d. d., Iskra Kondenzatorji, d. d.). It also monitored the realisation of development projects and programmes being carried out in all subsidiaries under the Development Plans.

IT

Intense activities were under way for the introduction of the common IT system at Iskra Kondenzatorji (and its four subsidiaries), where the system Navision was implemented at the end of the year. Due to the transition to the new currency, the euro, the IT system in all subsidiaries had to be prepared for the conversion in late 2006. The project was completed in the first half of 2007.

For the purposes of the development of an executive information system (which includes the design of portals for purchasing, sales, finance, production, etc.), hardware and software was purchased and the structure of the data determined. Tests with the solution Panorama have already been carried out in Iskra Sistemi, d. d. and Iskra Kondenzatorji, d. d.. Many other activities were being carried out in IT in accordance with the plans, ranging from maintenance to the installation of new software and hardware.

Controlling, economic and programme analysis

Controlling involved specific in-depth analysis of the performance of some subsidiaries, which served as a basis for certain measures (Iskra PRINS, d. d., Iskra EMS, d. o. o.). Preliminary analysis on potential for division-based integration of subsidiaries was carried out with a view to ensure greater price competitiveness. For example, international marketing, which had been carried out for certain subsidiaries by Iskra PRINS, d. d., was transferred directly to the subsidiaries after it was established that greater economic benefits can be reaped with direct integration.

In addition to analyses in subsidiaries, Iskra, d. d. analysed the performance of companies with which it could cooperate more tightly in the future in accordance with its long-term strategy. All options of business cooperation were considered, tighter operating cooperation as well as potential mergers or acquisitions.

Legal counsel

Iskra, d. d. ensured regular legal counsel on corporate, labour and obligational law, and legal counsel on changes and amendments to articles of association and other bylaws of the subsidiaries (changes required by the new Companies Act and the introduction of the euro).

Iskra, d. d. ensured the legal protection of the Iskra trademark, which is protected in 54 countries worldwide. However, there are still some ongoing civil procedures due to the illegal use of the protected trademark by third parties.

Iskra, d. d. also cooperated and provided counsel in the resolution of some legal disputes involving its subsidiaries.

FINANCIAL STATEMENTS WITH NOTES, ISKRA, d.d

AUDITOR'S REPORT

Independent auditor's report
To the shareholders of Iskra, d. d.

We have audited the attached Financial Statements of Iskra, d. d., Ljubljana, which include the Balance Sheet as at 31 December 2007, Profit and Loss Statement, Statement of Changes in Capital and the Cash Flow Statement for the year then ended, as well as the summary of key accounting policies and other explanatory notes. We have also read the Management Report.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovenian Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards of Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Iskra, d. d., Ljubljana as at 31 December 2007, the results of its operations and its cash flows for the year then ended in accordance with the Slovenian Accounting Standards.

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

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

Marjan Mahnič, B. Econ.
certified auditor
partner

Ljubljana, 23 June 2008

KPMG Slovenija, d. o. o.

BALANCE SHEET, ISKRA, d. d.

ISKRA, d. d.	Balance	Balance
BALANCE SHEET	31.12.2007	31.12.2006
ASSETS	69,597,446	69,687,840
A. LONG-TERM ASSETS	56,805,593	58,372,582
I. Intangible assets and long-term deferred expenses and accrued revenues	0	98
II. Tangible assets	591,943	629,976
1. Land and buildings	486,541	502,014
a) Land	20,447	20,447
b) Buildings	466,094	481,567
3. Other devices and equipment	105,402	127,962
III. Investment real estate	8,940,197	9,127,628
IV. Long-term financial investments	47,246,310	48,596,696
1. Long-term financial investments except loans	44,475,347	45,999,311
a) Shares in companies in the Group	41,517,422	43,041,386
b) Shares in associates	1,922,281	1,922,281
č) Other long-term financial investments	1,035,644	1,035,644
2. Long-term loans	2,770,963	2,597,385
VI. Deferred tax assets	27,143	18,184
B. SHORT-TERM ASSETS	12,206,741	10,951,008
I. Assets (disposal group) available for sale	2,772,702	2,962,515
III. Short-term financial investments	6,001,414	4,784,294
1. Short-term financial investments except loans	2,264,033	2,681,740
2. Short-term loans	3,737,381	2,102,554
a) Short-term loans to companies in the Group	3,691,010	2,090,962
c) Other short-term loans	46,371	11,593
IV. Short-term operating receivables	3,414,966	2,792,974
a) Short-term operating receivables from companies in the Group	1,200,709	2,344,678
c) Short-term operating receivables from customers	1,557,100	85,290
d) Other short-term operating receivables	657,157	363,006
V. Cash	17,659	411,226
C. SHORT-TERM DEFERRED EXPENSES, ACCRUED REVENUES	585,112	364,249

ISKRA, d. d.	Balance	Balance
BALANCE SHEET	31.12.2007	31.12.2006
LIABILITIES AND CAPITAL	69,597,446	69,687,840
A. CAPITAL	50,517,144	47,262,650
I. Called-up capital	28,242,522	28,242,522
1. Share capital	28,242,522	28,242,522
II. Capital surplus	19,020,128	19,020,128
VII. Net profit or loss for the financial year	3,254,494	0
B. PROVISIONS AND LONG-TERM ACCRUED EXPENSES, DEFERRED REVENUES	1,794,760	375,262
1. Provisions for pensions and similar liabilities	135,713	103,723
2. Other provisions	1,605,256	217,748
3. Short-term accrued expenses, deferred revenues	53,791	53,791
C. LONG-TERM LIABILITIES	5,360,055	7,159,713
I. Long-term financial liabilities	5,351,078	7,148,208
1. Long-term financial liabilities to companies in the Group	0	208,646
3. Long-term financial liabilities to banks	5,351,078	6,939,562
II. Long-term operating liabilities	8,977	11,505
4. Other long-term operating liabilities	8,977	11,505
Č. SHORT-TERM LIABILITIES	11,733,169	14,822,619
II. Short-term financial liabilities	10,554,487	9,129,190
1. Short-term liabilities to companies in the Group	2,749,725	2,409,477
3. Short-term financial liabilities to banks	7,804,762	6,719,713
III. Short-term operating liabilities	1,178,682	5,693,429
1. Short-term operating liabilities to companies in the Group	409,220	3,065,016
3. Short-term operating liabilities to suppliers	136,532	82,986
4. Other short-term operating liabilities	632,930	2,545,426
D. SHORT-TERM ACCRUED EXPENSES, DEFERRED REVENUES	192,318	67,596
OFF-BALANCE SHEET ITEMS	20,140,176	19,659,941

PROFIT AND LOSS STATEMENT, ISKRA, d. d.

ISKRA, d. d.	Year	Year
PROFIT AND LOSS STATEMENT	2007	2006
1. NET SALES REVENUES	3,715,181	2,789,874
- Net revenues from the sale of services	2,486,426	1,589,537
- Net trademark revenues	263,287	256,824
- Net rent revenues	965,468	943,513
4. OTHER OPERATING REVENUES (INCL. REVALUATION OPERATING REVENUES)	2,265,170	11,444
GROSS OPERATING REVENUES	5,980,351	2,801,318
5. COST OF GOODS, MATERIALS AND SERVICES	1,174,593	1,319,999
a) Cost of used material	36,475	29,171
b) Cost of services	1,138,118	1,290,829
6. LABOUR COSTS	921,100	873,809
a) Wage costs	707,089	670,043
b) Cost of pension insurance	78,680	69,432
c) Cost of social insurance	51,251	46,228
č) Other labour costs	84,080	88,106
7. WRITE-OFFS	187,352	602,244
a) Depreciation	53,472	59,336
b) Impairment of operating expenses for operating assets	133,880	542,893
8. OTHER OPERATING EXPENSES	1,599,229	242,024
OPERATING PROFIT	2,098,077	-236,758
9. FINANCIAL REVENUES FROM SHARES	3,483,365	5,030,853
a) Financial revenues from shares in companies in the Group	3,159,838	290,338
b) Financial revenues from shares in associates	0	4,553,259
c) Financial revenues from shares in other companies	323,527	187,256
10. FINANCIAL REVENUES FROM LOANS GRANTED	369,007	363,676
a) Financial revenues from loans to companies in the Group	261,700	137,195
b) Financial revenues from loans to others	107,307	226,481

ISKRA, d. d.	Year	Year
PROFIT AND LOSS STATEMENT	2007	2006
11. FINANCIAL REVENUES FROM OPERATING RECEIVABLES	11,663	0
12. FINANCIAL EXPENDITURE FROM IMPAIRMENT LOSS OF FINANCIAL INVESTMENTS	2,147,350	799,444
13. FINANCIAL EXPENSES FOR FINANCIAL LIABILITIES	786,014	794,768
a) Financial expenses for loans from companies in the Group	110,761	110,668
b) Financial expenses for loans from banks	672,845	676,071
c) Financial expenses for other financial liabilities	2,408	8,029
PROFIT OR LOSS FROM ORDINARY ACTIVITIES	3,028,748	3,563,559
15. OTHER REVENUES	507,950	165,121
16. OTHER EXPENSES	291,163	255,068
18. DEFERRED TAXES	8,959	-4,546
19. NET PROFIT OR LOSS FOR THE FINANCIAL YEAR	3,254,494	3,469,066

Profit and loss statement of Iskra, d. d. by functional groups:

ISKRA, d. d.	2007	2006
PROFIT AND LOSS STATEMENT BY FUNCTIONAL GROUPS	In EUR	In EUR
1. NET SALES REVENUES AND CAPITALISED OWN PRODUCTS AND SERVICES	3,715,181	2,789,874
3. GROSS OPERATING PROFIT OR LOSS FROM SALES	3,715,181	2,789,874
5. COSTS OF GENERAL ACTIVITIES	-3,882,274	-3,038,076
6. OTHER OPERATING REVENUES (INCL. REVALUATION OPERATING REVENUES)	2,265,170	11,444
7. OPERATING PROFIT OR LOSS	2,098,077	-236,758

CONSOLIDATED FINANCIAL STATEMENTS OF THE ISKRA GROUP

AUDITOR'S REPORT FOR THE ISKRA GROUP

Independent auditor's report
To the shareholders of the Iskra Group

We have audited the attached Financial Statements of the Iskra Group, which include the Balance Sheet as at 31 December 2007, Profit and Loss Statement, Statement of Changes in Capital and the Cash Flow Statement for the year then ended, as well as the summary of key accounting policies and other explanatory notes.

We have also read the Management Report.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Slovenian Accounting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards of Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Iskra, d. d., Ljubljana as at 31 December 2007, the results of its operations and its cash flows for the year then ended in accordance with the Slovenian Accounting Standards.

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

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

Marjan Mahnič, B. Econ.
certified auditor
partner

Ljubljana, 23 June 2008

KPMG Slovenija, d.o.o.

CONSOLIDATED BALANCE SHEET

ISKRA GROUP	Balance	Balance
BALANCE SHEET	31.12.2007	31.12.2006
ASSETS	144,321,953	139,640,465
A. LONG-TERM ASSETS	66,371,813	71,491,441
I. Intangible assets and long-term deferred expenses and accrued revenues	5,114,982	9,057,599
1. Long-term deferred costs of development	841,466	1,126,473
2. Long-term property rights	428,042	276,999
3. Goodwill	3,599,414	6,863,800
5. Other intangible assets	245,805	565,490
6. Advances for intangible assets	0	215,878
7. Other long-term deferred expenses and accrued revenues	255	8,959
II. Tangible assets	44,909,112	47,385,432
1. Land and buildings	26,011,414	27,959,819
a) Land	4,914,976	4,591,454
b) Buildings	21,096,438	23,368,365
2. Production devices and machinery	13,912,884	14,524,320
3. Other devices and equipment	2,827,178	3,306,652
4. Tangible assets under construction and in production	2,088,960	1,451,127
5. Advances for intangible assets	68,676	143,515
III. Investment real estate	7,316,910	6,483,938
IV. Long-term financial investments	7,979,875	7,351,498
1. Long-term financial investments except loans	7,899,780	7,204,978
b) Shares in associates	2,018,510	1,923,331
c) Other long-term financial investments	5,881,270	5,281,647
2. Long-term loans	80,095	146,520
V. Long-term operating receivables	94,832	146,775
VI. Deferred tax assets	956,103	1,066,199
B. SHORT-TERM ASSETS	76,590,181	67,350,852
I. Assets (disposal group) available for sale	2,909,337	3,647,434
II. Inventories	24,795,695	18,648,920
1. Materials	9,371,446	7,650,259
2. Works in progress	10,412,013	6,693,390
3. Products and merchandise	4,589,155	4,067,443
4. Advances for inventories	423,081	237,828
III. Short-term financial investments	11,231,238	10,584,130
1. Short-term financial investments except loans	9,298,192	9,852,725
2. Short-term loans	1,933,046	731,405

ISKRA GROUP	Balance	Balance
BALANCE SHEET	31.12.2007	31.12.2006
IV. Short-term operating receivables	33,459,198	30,028,138
b) Short-term operating receivables from associates	77,241	45,347
c) Short-term operating receivables from customers	29,798,509	25,607,428
d) Other short-term operating receivables	3,583,448	4,375,363
V. Cash	4,194,713	4,442,230
C. SHORT-TERM DEFERRED EXPENSES, ACCRUED REVENUES	1,359,959	798,172
LIABILITIES AND CAPITAL	144,321,953	139,640,465
A. CAPITAL	56,129,498	57,129,721
I. Called-up capital	28,242,522	28,242,522
1. Share capital	28,242,522	28,242,522
II. Capital surplus	19,020,126	19,020,126
IV. Revaluation surplus	5,864,749	6,585,847
V. Retained net profit	146,603	-4,571,340
VI. Net profit or loss for the financial year	2,218,988	3,735,666
Minority interest	636,510	4,116,900
B. PROVISIONS AND LONG-TERM ACCRUED EXPENSES, DEFERRED REVENUES	7,178,076	7,119,024
1. Provisions for pensions and similar liabilities	3,600,416	3,586,196
2. Other provisions	1,261,043	2,427,558
3. Short-term accrued expenses, deferred revenues	2,316,617	1,105,270
C. LONG-TERM LIABILITIES	18,598,705	19,595,927
I. Long-term financial liabilities	17,395,432	17,799,228
2. Long-term financial liabilities to banks	17,051,730	17,249,078
3. Other long-term financial liabilities	343,702	550,150
II. Long-term operating liabilities	236,661	424,720
1. Other long-term operating liabilities	236,661	424,720
III. Deferred tax liabilities	966,613	1,371,979
Č. SHORT-TERM LIABILITIES	58,704,045	53,716,608
II. Short-term financial liabilities	35,926,106	26,198,105
2. Short-term financial liabilities to banks	35,088,525	25,947,608
3. Other short-term financial liabilities	837,581	250,497
III. Short-term operating liabilities	22,777,939	27,518,503
2. Short-term operating liabilities to associates	106,901	76,715
3. Short-term operating liabilities on advances	525,285	182,653
4. Short-term operating liabilities to suppliers	16,875,527	16,900,071
5. Other short-term operating liabilities	5,270,226	10,359,064
D. SHORT-TERM ACCRUED EXPENSES, DEFERRED REVENUES	3,711,629	2,079,185
OFF-BALANCE SHEET ITEMS	74,764,157	51,935,011

CONSOLIDATED PROFIT AND LOSS STATEMENT

ISKRA GROUP	Year	Year
PROFIT AND LOSS STATEMENT	2007	2006
1. Net sales revenues	112,733,045	112,295,694
2. Change in value of inventories and works in process	1,155,245	467,689
3. Capitalised own products and own services	1,060,662	1,424,161
4. Other operating revenues	7,091,220	1,692,184
5. Cost of goods, materials and services	69,850,373	67,059,024
a) Purchase value of sold merchandise and materials	6,295,775	6,624,637
a) Costs of used material	40,549,506	41,175,553
c) Cost of services	23,005,092	19,258,834
6. Labour costs	38,360,487	39,372,605
a) Wage costs	28,057,037	28,413,370
b) Cost of social insurance	2,576,660	2,230,216
c) Cost of pension insurance	2,582,887	3,203,827
d) Other labour costs	5,143,903	5,525,192
7. Write-offs	8,113,066	8,621,808
a) Depreciation	6,151,908	7,480,888
b) Expenses from revaluation	1,961,157	1,140,920
8. Other operating expenses	1,585,897	1,358,780
9. Financial revenues from investments	783,694	5,209,435
b) Financial revenues from shares in associates	95,182	4,553,259
c) Other financial revenues from shares	688,512	656,176
10. Financial revenues from loans granted	472,452	553,276
c) to others	472,452	553,276
11. Financial revenues from operating receivables	630,270	579,131
b) from associates	714	0
c) from others	629,556	579,131
12. Financial expenditure from impairment and write-off of financial investments	1,808,347	99,866
c) from others	1,808,347	99,866
13. Financial expenses for financial liabilities	2,232,963	1,919,914
b) Financial expenses for loans from banks	2,161,692	1,579,432
c) Other financial expenses	71,271	340,482

ISKRA GROUP	Year	Year
PROFIT AND LOSS STATEMENT	2007	2006
14. Financial expenses for operating liabilities	499,002	748,265
c) for other operating liabilities	499,002	748,265
15. Profit and loss from ordinary activity	1,476,454	3,041,308
16. Other revenues	1,042,529	961,133
17. Other expenses	368,679	184,347
19. Tax on profit	90,497	130,746
20. Deferred taxes	-165,835	-48,318
21. Net profit or loss for the financial year	2,225,642	3,735,666
- Net profit or loss of the majority interest	2,218,988	3,623,310
- Net profit or loss of the minority interest	6,654	112,356

Profit and Loss Statement of Iskra Group by functional groups:

ISKRA GROUP	Year	Year
PROFIT AND LOSS STATEMENT BY FUNCTIONAL GROUPS	2007	2006
1. NET SALES REVENUES AND CAPITALISED OWN PRODUCTS AND SERVICES	112,733,045	112,295,694
2. PURCHASE VALUE OR PRODUCTION COSTS OF SOLD QUANTITIES	73,374,536	77,508,125
3. GROSS OPERATING PROFIT OR LOSS FROM SALES	39,358,509	34,787,569
4. SALES COSTS	-26,281,209	-18,170,322
5. COSTS OF GENERAL ACTIVITIES	-16,038,171	-18,841,930
6. OTHER OPERATING REVENUES (INCL. REVALUATION OPERATING REVENUES)	7,091,220	1,692,184
7. OPERATING PROFIT OR LOSS	4,130,349	-532,499