

ISKRA AVTOELEKTRIKA IN THE YEAR 2004

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PRESIDENT'S LETTER

The business operations of Iskra Avtoelektrika were successful in the first half of the year 2004. The operations in the second half of the year were somewhat less successful, due to a noticeable drop in the value of the American dollar and the extreme increase in the prices of raw materials such as steel, copper and oil. We tried to mitigate the consequences of all these changes by introducing new cheaper supply sources, by taking measures for increasing the productivity and reducing the costs.

To penetrate the new growing markets we established a new production company in Brazil that will produce starters and alternators for the South American market. In China we have been gearing up for manufacturing of starters. By investing into the associated manufacturing company in Iran, we increased the share of local production, which had a substantial impact

on the improvement of business operations and maintenance of our market share.

Successful were the business operations of our companies in Belarus and especially in Bosnia and Herzegovina, which plays an important role in reducing our costs by supplies of special parts for our production in Slovenia. The trading companies in France, Spain, Italy, Germany,

THE YEAR 2004 WILL BE REMEMBERED FOR THE HISTORIC ENTRY OF SLOVENIA INTO THE EUROPEAN UNION AND NATO. SLOVENIA IS NOW ONE OF THE MANY COUNTRIES WITH EQUAL RIGHTS WITHIN THE EUROPEAN UNION, AND THAT WILL IMPROVE OUR ECONOMIC ESTABLISHMENT AND PROMINENCE.

Great Britain and the USA offered market support to the sales increase that was, compared to the year 2003, higher by 9.8%. Business operations of our subsidiary companies in Slovenia: Avtodeli in Bovec, Livarna in Komen, Orodjarna and Asing in Šempeter pri Gorici contributed to the growth of the consolidated sales of the entire Iskra Avtoelektrika Group.

We were engaged in several significant innovative and support projects. Special importance is attached to the project of development and industrialization of the manufacture of the electric motor with electronic switching for the EPS systems that will be carried out in our new strategic business unit Mechatronics in 2005. The business information system SAP, which we were implementing throughout the year 2004, was introduced into our operations at the beginning of the year 2005. There were important investments in growth and modernization of production capacities of cold forming and other technologies necessary for the integral and sustainable development of the company. An important factor in achieving this goal was also the increased educational level and competence of our staff. In order to assure a greater transparency in dealing in stocks and the business itself, we offered the company's shares on the stock market of Ljubljanska borza d.d.

The year 2005 will be full of new challenges. The business plan forecasts further sales growth, business globalisation, development of new products, and implementation of modern technologies. Considerable attention will be paid to the satisfaction of our customers and employees, the reduction of costs by introducing new supply sources, and the improvement of business processes, quality and business excellence.



Aleš Nemec

President of the Management Board

PRESENTATION OF ISKRA AVTOELEKTRIKA GROUP

Mission

Iskra Avtoelektrika is a global supplier of starter motors and generators for internal combustion engines, battery powered DC drive systems and other sophisticated components for the automotive industry such as ignition coils, light alloy pressure die castings, plastic parts and steel cold-forged components. Completing these product lines, we develop our own technology, and we produce tooling and special purpose equipment.

Iskra Avtoelektrika develops, manufactures and sells on a global basis, with its own manufacturing and distribution network, which, besides providing support to its industrial customers, also offers a broad range of aftermarket products.

Iskra Avtoelektrika is known for the innovation and high quality of its products, sustainable development, and strong marketing and development support to its customers. Its recognition is based on the competence of its people and on the flexibility of its processes.

Values

We are qualified to control events and changes by creative co-operation, entrepreneurial spirit and great awareness of the importance of quality and excellence. We are changing the organisational culture by realizing the common values: customer enthusiasm, respecting each individual, teamwork, determination, commitment, innovation and learning.

Vision

INNOVATION IN ROTATION

Iskra Avtoelektrika creates sustainable development and aims to be, with its own trademark, one of the world-leading suppliers of starter motors and generators, battery powered DC drive systems, actuators and components in its selected market segments.

History

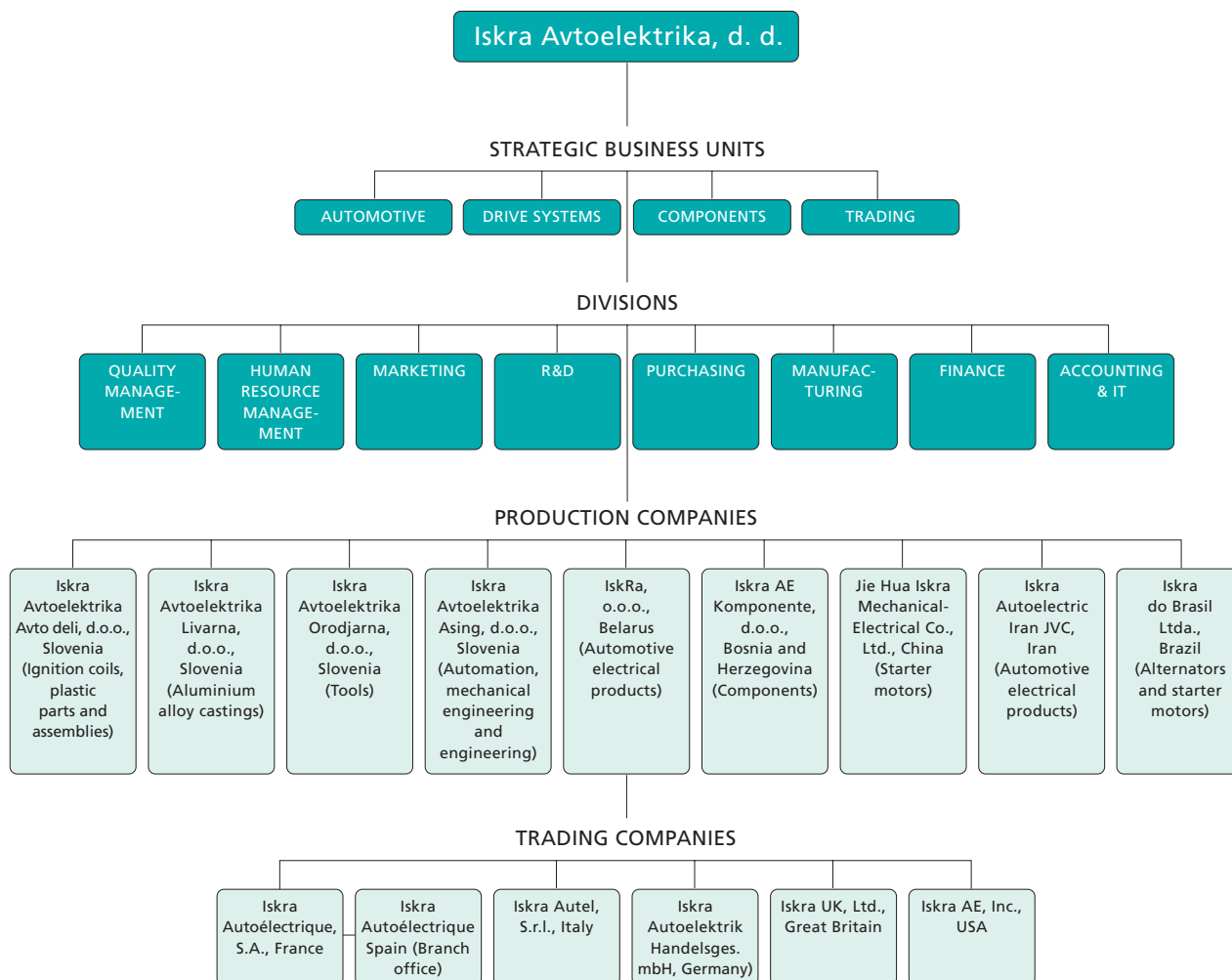
The beginnings of Iskra Avtoelektrika reach back to the year 1960, when a business unit of automotive electrical equipment and a head office were founded in Šempeter pri Gorici. Production of automotive electrical products was transferred to Šempeter from the then Iskra Kranj. In its past the company lived through quick development. It was marked by the challenges of domestic and foreign markets that were its goals from the very beginning. With time, other activities accompanying production developed, so today Iskra Avtoelektrika fully and independently manages all its business processes.

The Iskra Avtoelektrika Group employs over 2,100 people and is ranked among the largest Slovenian industrial companies. Today it realizes more than 93% of its sales in the markets of the European Union, North America and other developed and stable global markets. This makes Iskra one of the biggest exporters in Slovenia. Based on its own sales network and the companies in Slovenia and abroad, Iskra is increasingly globalising its operations.

Iskra Avtoelektrika Group

The Iskra Avtoelektrika Group is composed of production and trading companies as well as associated companies in Slovenia and abroad.

Organization structure of the Iskra Avtoelektrika Group



Production Companies in Slovenia

Iskra Avtoelektrika, d.d., Šempeter pri Gorici

The company manufactures starter motors, generators for internal combustion engines, battery powered DC drive systems and components.

Iskra Avtoelektrika Avto deli, d.o.o., Bovec

The company performs its mission as a manufacturer of parts for the automotive industry, i.e. plastic parts and assemblies, for which different technologies are used and mastered on a high quality level. In the touristic community of Bovec, lying in the northern part of Posočje, the company ensures work and social security for almost a quarter of the employed population.

Iskra Avtoelektrika Livarna, d.o.o., Komen

The long-standing tradition in manufacturing aluminium alloy castings has been continued in the independent company since 1992. Besides casting, the company is more and more developing mechanical treatment of castings, which contributes to the growth of the added value. Based on the tradition and knowledge, the company assures high quality supply of the group and the wider market.

Iskra Avtoelektrika Orodjarna, d.o.o., Šempeter pri Gorici

The company is a recognized manufacturer of tools for the production of parts in the automotive and other industries. It is known for its partnership relations with customers and the total support from development to regular production. Long years of experience, tradition, qualified staff and knowledge enable Iskra Avtoelektrika Orodjarna, d.o.o. to take part in the domestic and the global markets.

Iskra Avtoelektrika Asing, d.o.o., Šempeter pri Gorici

Programme orientation of the company includes development and manufacture of modern high-productive winding, assembly and testing devices and systems in accordance with the customers' requirements. The long-standing tradition in engineering industry, professional competence and comprehension of technologies and technological problems enable this company to take an active part in the domestic and global markets.

Production Companies Abroad

One result of the daring business plans for making oneself valued in the world and for business globalisation is also the transfer of production abroad within the production companies.

IskRa, o.o.o, Belarus

Iskra Avtoelektrika d.d holds the major share of the company that operates in Belarus and it presents the local production of starter motors for the needs of transport equipment industry on the markets of the former Soviet Union.

Iskra AE Komponente, d.o.o., Bosnia and Herzegovina

This company was founded in Bosnia and Herzegovina in 2003 and with its programme it represents mostly the production for the needs of the Iskra Avtoelektrika Group.

Iskra do Brasil Ltda., Brazil

The company was founded in the year 2004. The goal of this project is to assure the production and marketing of starter motors and alternators for the needs of customers on the local markets.

Jie Hua Iskra Mechanical Electrical Co., Ltd., China

This joint venture company was founded at the beginning of the year 2003 to produce starters. This production was primarily intended to meet the needs of the local market and to additionally supply the companies of the Iskra Avtoelektrika Group with components at competitive prices.

Iskra Autoelectric Iran JVC, Iran

This is one of the associated companies of the Group. Based on the knowledge and expertise of Iskra Avtoelektrika d.d., it produces alternators and starters for the local needs of the Iranian market.

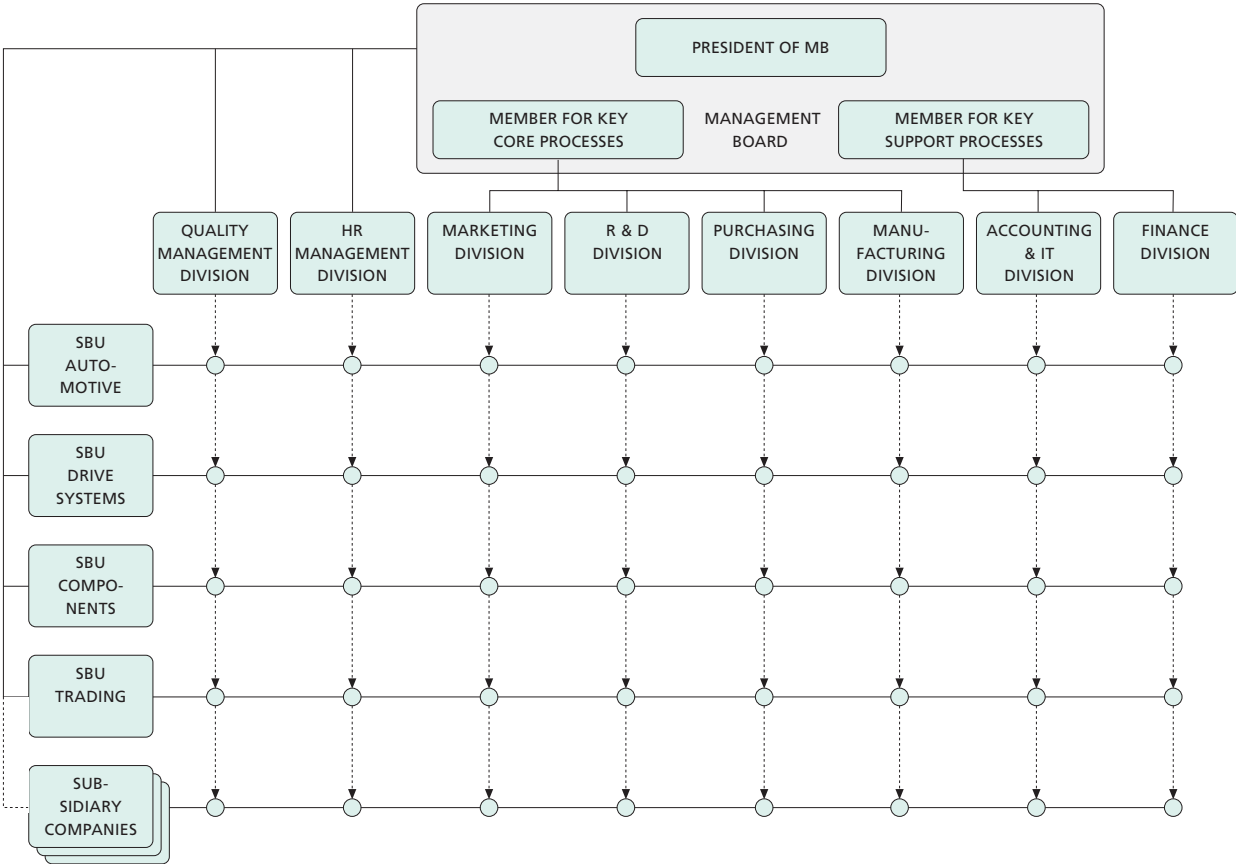
Trading Companies Abroad***Iskra Autel S.r.l., Italy******Iskra Autoélectrique S.A., France******Iskra Autoelektrik Handelsges. mbH, Germany******Iskra UK Ltd., Great Britain******Iskra AE Inc., USA***

Trading companies abroad form our own distribution network that is completed by the authorized distributors. The major part of their activities is represented by the marketing of the aftermarket equipment products. The trading companies also provide logistic and technical support to the customers within the frames of the industrial marketing. Iskra Autoélectrique from France has a subsidiary company in Spain - Iskra Autoélectrique Spain, which has the same mission as Iskra Autoélectrique for the needs of the Spanish and the Portuguese market.

Managing the Parent Company

Iskra Avtoelektrika d.d. is managed by the management board consisting of three members. In the year 2004 the company was composed of four strategic business units (SBU) and eight divisions. To coordinate the work between the experts from divisions, strategic business units and subsidiary companies expert colleges and councils were formed. The business is based upon the process approach: the key processes have been divided into the key core processes and the key support processes. The former are those that directly add the value for our customers, and the latter are those that are carried out in order to support the key core processes and the business in general.

Organisation Structure of the Parent Company

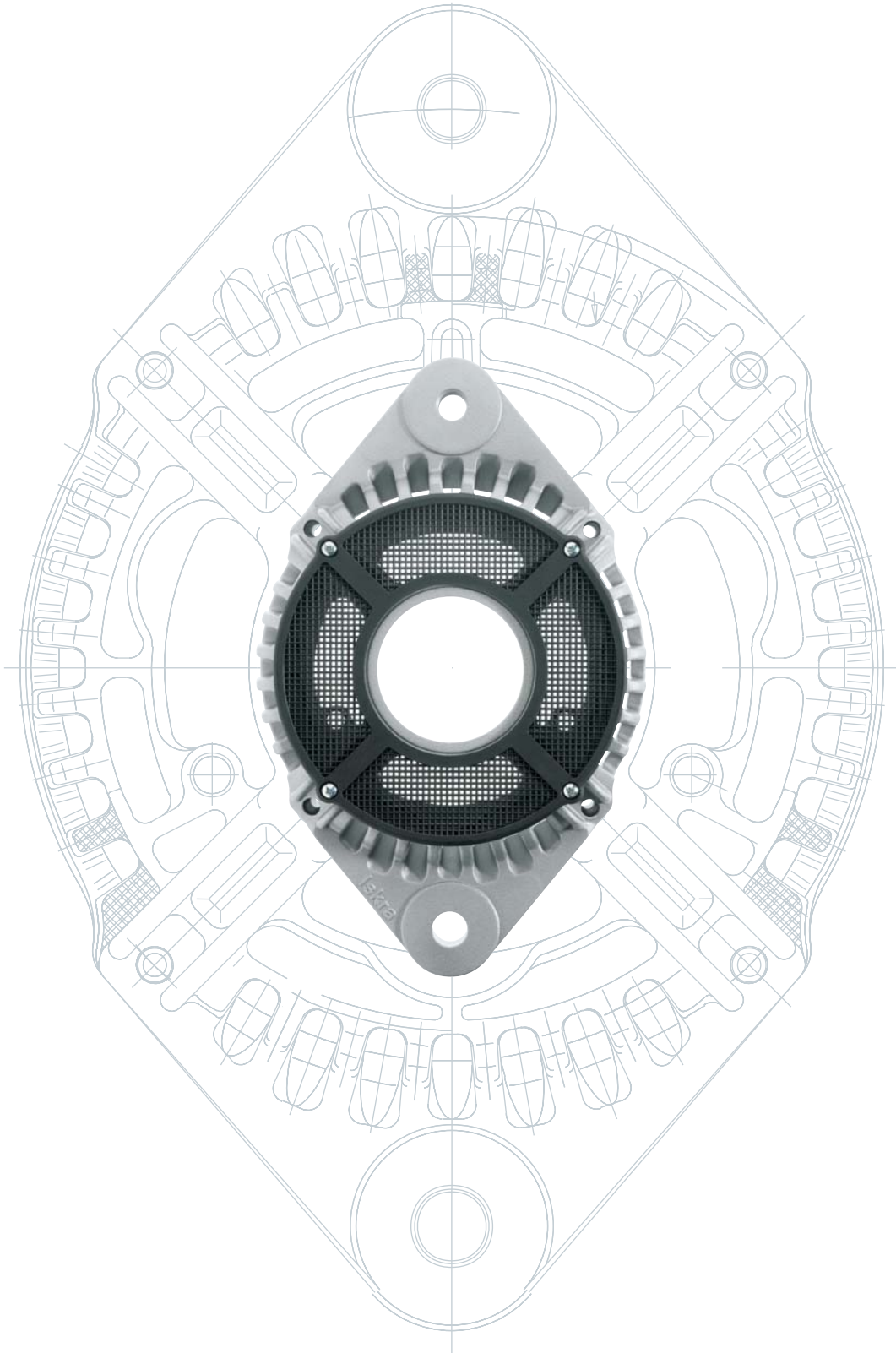


Management board

- Aleš Nemec, President
- Ivan Lisjak, Member Responsible for Key Core Processes
- Tadej Vidic, Member Responsible for Key Support Processes

Supervisory board

- Marijan Groff, MSc, President
- Mirko Kaluža, MSc, Member
- Vladimir Uršič, Member
- Dušan Šešok, Member
- Cvetka Peršak, MSc, Member
- Oton Grapulin, Member



Iskra Avtoelektrika Group

The year 2004 was the year of Slovenia's entry into the European Union and NATO. The Iskra Avtoelektrika Group was well prepared for the entry; since our exports to the member states of the European Union had already amounted to almost 70 % in the previous years.

In 2004, the net consolidated sales of the Group were EUR 150 million, which indicates an annual growth of 7.5 % compared to the year 2003. However, in spite of the sales growth, the profit was lower than in 2003 because of a drop in the value of the US dollar, and because of the rise in prices of the strategic raw materials and the increase in labour costs.

The business year 2004 was marked by three key projects in the Group: establishment of a new strategic business unit Mechatronics, which will produce products for the automotive industry, establishment of the production company in Brazil, and introduction of the business information system SAP in the parent company. Important investments were made in the field of cold forming of steel parts. The year 2004 was also characterized by listing of the shares of Iskra Avtoelektrika d.d. on the Ljubljana Stock Exchange.

Iskra Avtoelektrika, d.d.

The operations of the parent company were successful in the first half of the year and less successful in the second half. Company's results were strongly affected by the drop in the value of the US dollar, the boom in prices of raw materials, such as steel, copper and aluminium, and the rise in oil prices. Our response to these unfavourable circumstances was the introduction of new lower-price purchase sources, and steps taken to increase productivity and reduce costs. In the parent company an 11 % growth was registered compared to the year 2003, which we achieved by the sales of 125.3 million. The profit in the parent company is EUR 2,004,717.

By restructuring the parent company we established a new strategic business unit Mechatronics, where we shall produce electric motors in large batches for the needs of automotive industry. Despite globalisation, we want to develop and produce innovative products with high added value in Slovenia, where the needs for highly qualified professionals are still present.

Data given in thousand EUR
and/or as indicated

	Iskra Avtoelektrika, d.d.			Group consolidated		
	2004	2003	Index	2004	2003	Index
Net sales revenues	125,314	112,300	111.59	149,874	139,452	107.47

Share of exports in the						
total value of sales	93.69 %	93.98 %	99.69	93.46 %	93.23 %	100.25

Investment in fixed assets	11,534	6,812	169.32	13,501	8,549	157.93
- as a % of depreciation	120,5 %	95,4 %	126.31	156.78 %	102.9 %	152.36

Average number of employees	1,537	1,538	99.73	2,161	2,116	102.12

Company's assets	112,887	97,983	115.21	128,759	110,771	116.24

Share of capital in financing	41.45 %	47.55 %	87.17	34.80 %	40.96 %	84.96

Net profit	2,005	2,804	71.5	1,414	3,100	45.61

Net return on equity	4.4 %	6.3 %	69.84	3.2 %	7.2 %	44.41

Subsidiary Companies

Our subsidiary companies in Slovenia (except for Iskra Avtoelektrika Asing d.o.o.) and abroad had positive results in compliance with business plans. Last year we established a new production company in Brazil, which will produce starters and alternators for the market of South America. In China everything is ready for the beginning of the production of starters and, later on, also alternators for commercial vehicles. By investments in the associated production company in Iran, we increased the share of local production. Good results are also reported by the companies in Belarus, and in Bosnia and Herzegovina.

MARKETING AND SALES

In 2004, the sales process continued in accordance with the standard practice from the sales divisions of strategic business units in the parent company and the sales departments in the subsidiary companies.

Our sales teams, including also young specialists, have adapted to the new organisation and are efficient in their endeavours. By new employments in subsidiary trading companies abroad, the support to the customers in traditional western markets was improved as well. Progress was registered in the Japanese market and also in the production companies of the fast growing markets in China, Brazil, and the former Soviet Union after we had employed our own staff there. The number of customers in Japan is growing, the deliveries to new industrial customers in Russia have been set up, the sales to Brazil are on the increase, and the first supplies to China began. On the other side, along with the growth of the sales to final customers in Iran, the supplies from the parent company to Iran are going down because of the acceleration of local production.

Cyclical trends in the market were favourable with the industrial customers of the market segment of automotive, component parts,

and especially drive systems. Consequently, the greatest sales growth was achieved to the great global customers, which demonstrates the concentration of sales and a favourable position for further growth. Despite the drop in the dollar value compared to the Euro value we sold more than we had planned to the USA.

The great rise in prices of steel, copper and aluminium, as well as in energy, generated the increase of production costs, for which we partly succeeded to compensate by increasing the sales prices.

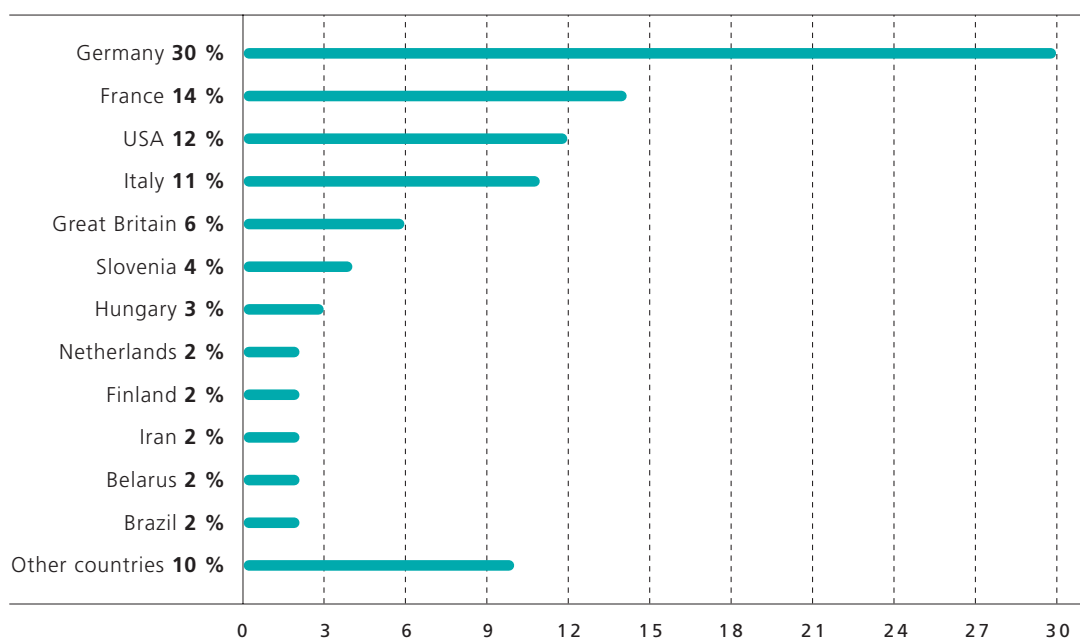
In addition to the increase of sales through the globalisation of sales and production, our sales activities were directed towards the acquisition of new customers. We acquired a great project for the supplies of brushless motors for the steering systems of passenger cars from the product line of Mechatronics. Several new customers were also attracted for the product lines of cold forged parts, and plastic and other components. We shall achieve a renewed growth of sales in the aftermarket by enlarging our own range of products and by speeding up the introduction of complementary and supplementary product lines that were begun in 2004. They are suitable for distribution through our trading companies abroad.

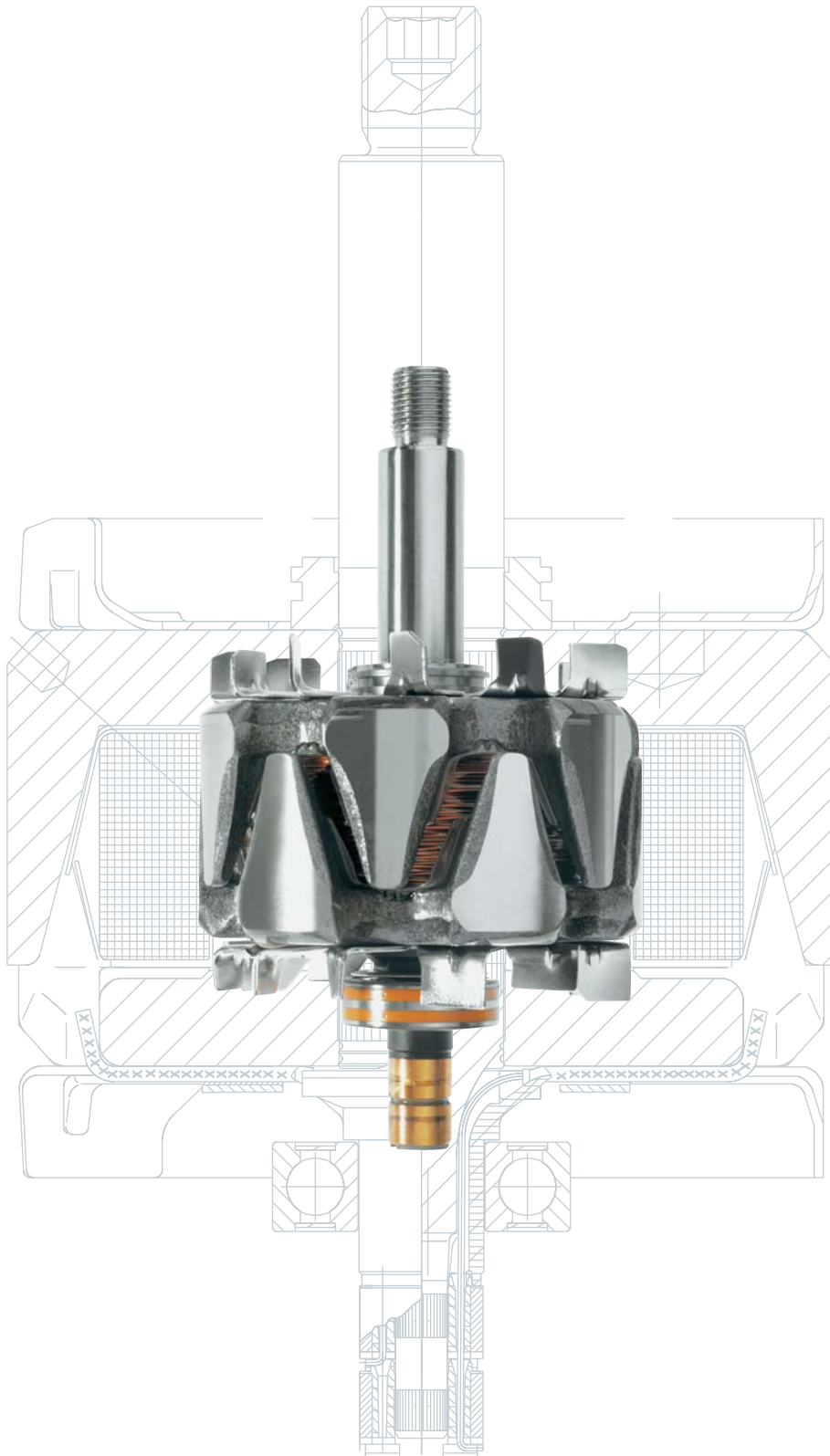
IN THE FIELD OF MARKETING, THE YEAR 2004 WAS THE YEAR OF QUICK CHANGES. CONSOLIDATION OF CUSTOMERS FROM THE MARKET SEGMENTS OF AUTOMOTIVE ELECTRICAL SYSTEMS AND DRIVE SYSTEMS PROCEEDED. PRODUCTION, ESPECIALLY THE PRODUCTION FOR THE CUSTOMERS OF AUTOMOTIVE ELECTRICAL PRODUCTS, CONTINUED TO MOVE FROM DEVELOPED COUNTRIES TO EMERGING MARKETS WHERE PRODUCTION COSTS ARE LOW.

Net Income from Sales by Companies in the Group in Thousand EUR (non-consolidated)

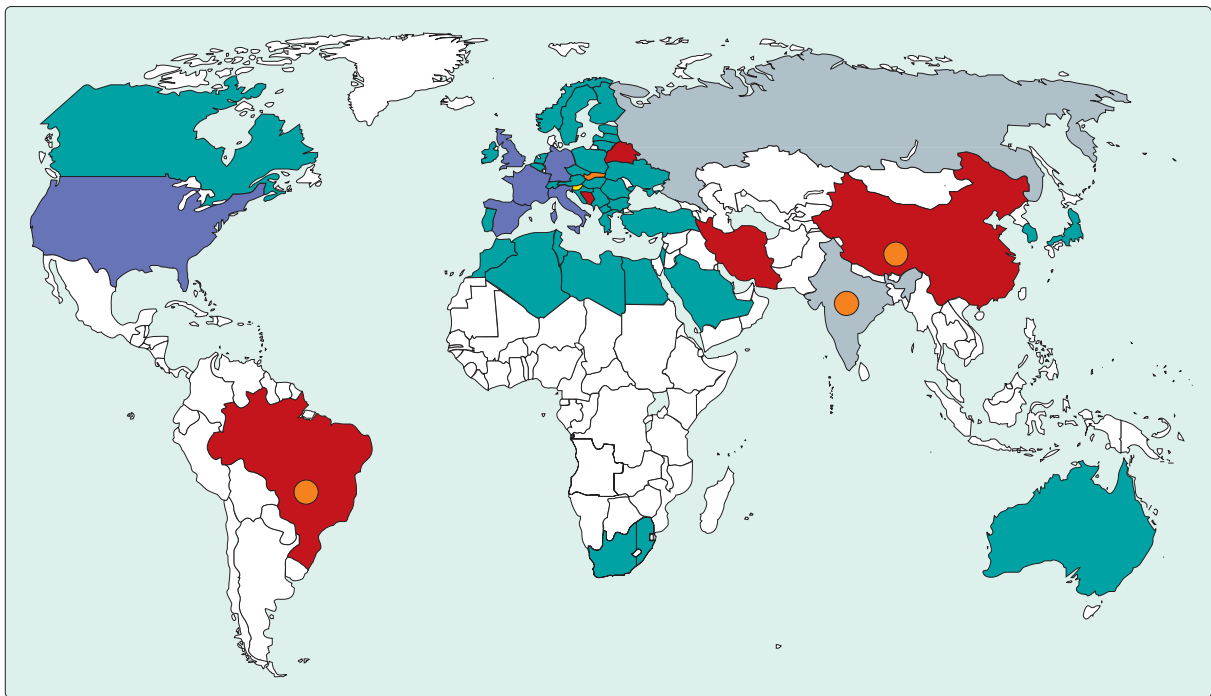
PARENT COMPANY	2004	2003	Index
Iskra Avtoelektrika, d.d.	125,314	112,300	111.6
PRODUCTION COMPANIES	2004	2003	Index
Iskra Avtoelektrika Avto deli, d.o.o.	17,906	16,755	106.9
Iskra Avtoelektrika Livarna, d.o.o.	5,020	4,574	109.7
Iskra Avtoelektrika Orodjarna, d.o.o.	3,228	3,175	101.7
Iskra Avtoelektrika Asing, d.o.o.	2,826	3,166	89.2
IskRa o.o.o.	1,549	638	243.0
Iskra AE Komponente, d.o.o.	795	338	235.3
TRADING COMPANIES	2004	2003	Index
Iskra Autel S.r.l.	22,465	19,130	117.4
Iskra Autoélectrique S.A.	16,817	16,700	100.7
Iskra Autoelektrik Handelsges. mbH	20,773	17,633	117.8
Iskra UK Ltd.	4,915	5,152	95.4
Iskra AE Inc.	10,194	6,812	149.7

Structure of Consolidated Sales Value of Products of the Iskra Avtoelektrika Group by Countries in 2004





Sales and Production Network of the Group



- PARENT COMPANY**
Iskra Avtoelektrika, d. d., Šempeter pri Gorici, Slovenia

- PRODUCTION COMPANIES IN SLOVENIA**
Iskra Avtoelektrika Asing, d. o. o.
Iskra Avtoelektrika Avto deli, d. o. o.
Iskra Avtoelektrika Livarna, d. o. o.
Iskra Avtoelektrika Orodjarna, d. o. o.

- PRODUCTION COMPANIES ABROAD**
Iskra AE Komponente, d. o. o., Bosnia and Herzegovina
Iskra Autoelectric Iran JVC, Iran
Iskra do Brasil Ltda., Brazil
IskRa o. o. o., Belarus
Jie Hua Iskra Mechanical-Electrical Co., Ltd., China

- TRADING COMPANIES ABROAD**
Iskra AE Inc., USA
Iskra Autel S.r.l., Italy
Iskra Autoélectrique S.A., France
Iskra Autoélectrique Spain, Spain
Iskra Autoelektrik Handelsges. mbH, Germany
Iskra UK Ltd., Great Britain

- INDEPENDENT DISTRIBUTORS**
Algeria, Australia, Canada, Croatia, Egypt, Finland, Greece, Ireland, Israel, Japan, Korea, Libya, Macedonia, Morocco, Netherlands, New Zealand, Norway, Portugal, Romania, Saudi Arabia, Serbia and Montenegro, South Africa, Sweden, Switzerland, Tunisia, Turkey

- LICENCE PARTNERS**
India, Russia

- PURCHASING OFFICES**
Brazil, China, India, Slovakia

RESEARCH AND DEVELOPMENT

By increasing the investments into research and development, which exceeded the sales value of 3.2 % in the joint stock company in 2004, we provided an effective development support to the customers in fulfilling their requirements and expectations.

Iskra Avtoelektrika intends to remain an innovative company friendly to the environment, generating at least 25 % of its sales by selling new high value added products and systems that are in the introduction and growth stage. The company is competitive as a co-creator using modern development techniques for the following product lines:

- Starters for internal combustion engines;
- DC voltage generators;
- Low-voltage commutator DC electric motors with stator winding or permanent magnet excitation;
- Low-voltage asynchronous electric motors;
- Low-voltage brushless electronically commutated electric motors using permanent magnets on the armature with in-built or separate electronic controls;
- Low-voltage brushless electronically commutated electric motors and actuators using permanent magnets on the armature for mechatronic systems in passenger vehicles;
- Electronic controls for asynchronous electric motors;
- Low-voltage brushless asynchronous and permanent magnet drive systems;
- Low-voltage electromagnetic and electronic switches;
- Integrated generators of DC and AC low voltage;
- Integrated starter - generators.

Our products are modern and designed in accordance with the most exacting European and international standards and directives. They are safe and friendly to the environment, and excel by their high efficiency, specific powers and operating reliability even in the most demanding conditions of operation and use.

TECHNOLOGIES AND INVESTMENTS

Technology management strategy is defined and given in the strategic business plan of the Group and reflected in the following activities:

- Focus on key technologies;
- Implementation of world class manufacturing strategy;
- Use of environmentally friendly materials;
- Preservation of natural resources;
- Health and safety of employees.

THE GROWTH OF SALES IN 2004 IS IN DIRECT CORRELATION WITH THE EFFICIENCY AND EFFECTIVENESS OF THE RESEARCH AND DEVELOPMENT WORK. THE SHARE OF THE SALES INCOME OF PRODUCTS THAT HAD BEEN IN PRODUCTION FOR LESS THAN FIVE AND/OR THREE YEARS ACHIEVED THE RECORD VALUE OF 64 % AND/OR 34 %.

IN THE PERIOD OF GREAT CHANGES IN PRODUCTION FOR THE AUTOMOTIVE INDUSTRY, WHICH ARE THE CONSEQUENCE OF GLOBALISATION, THE MANUFACTURERS MUST DEVELOP A COMPETITIVE PRODUCTION SYSTEM. WORLD CLASS PRODUCTION IS SUCH A SYSTEM THAT MEETS THE MOST IMPORTANT REQUIREMENTS OF AUTOMOTIVE PRODUCERS: QUALITY AND BUSINESS EXCELLENCE, COST EFFECTIVENESS, RELIABILITY OF SUPPLIES, FLEXIBILITY AND INNOVATION.

Technologies

The Iskra Avtoelektrika Group responds to these challenges by using the appropriate technologies and the flexible production system capable of rapid response to the needs of the customers. Our flexibility is the result of the use of intelligent automatic control and information technology, uninterrupted production flow system with JIT deliveries, quick changeover methods, and other lean manufacture tools. We are a global supplier of automotive electrical products; therefore the strategy of world class production has the highest priority.

Key technologies of the Group

- Assembly of products, switches, rectifiers, production of armatures and stators, production of alternator voltage regulators, production of controls for electronically commutated motors, cold massive forming of steel parts complete with machining in the parent company.
- Production of plastic parts for the automotive industry and production of ignition coils in the company Iskra Avtoelektrika Avto deli, d.o.o., Bovec.
- Casting and machining of aluminium castings in the company Iskra Avtoelektrika Livarna, d.o.o., Komen.
- Assembly of starters, manufacture of armatures and stator windings and machining of the starter motor brackets in the company Iskra o.o.o., Belarus.
- Manufacture of armatures (rotors), production of stamped parts from sheet metal and assembly of components in the company Iskra AE Komponente, d.o.o., BiH.

Investments

The main investments that have significantly contributed to the expansion of the production capacities and to further growth in 2004 were:

- Equipment for the expansion of production of new families of starter motors;
- Equipment for the expansion of production of new families of alternators;
- Equipment for the development and production of BLPM and AC motors;
- Equipment for the expansion of production capacities for cold formed parts;
- Development infrastructure and equipment for the expansion of development capacities on new projects;
- Business information system SAP R/3;
- Equipment for the expansion of production of plastic parts;
- Business and production premises for Iskra Asing, d.o.o.;
- CNC cylindrical grinding machine for the production of tools for cold massive forming.

In 2004, investments were continued within the Iskra Avtoelektrika Group to meet the target production capacities and improve the capability of delivering products to the customers, to initiate the production of new families of products, improve the working conditions, and control the requirements relating to the environment protection and safety and health of employees.

Information Technology

Iskra Avtoelektrika has its own computer information system covering all elements of the business process, both in the field of business information technology and in the control of technical information technology used for the development of products.

The new information technology covers the following activity areas of the company: quality management, sales and distribution, production with production planning, material requirements planning, material management (purchasing), foreign trade with our own forwarding agency, financial accounting, assets accounting, and controlling.

IN 2004, THE KEY PROJECT IN THE FIELD OF IT WAS THE INTRODUCTION OF THE SAP BUSINESS INFORMATION SYSTEM IN THE PARENT COMPANY. THE PREPARATIONS FOR THE PROJECT BEGAN AT THE END OF 2003. IN 2004, THE MAJORITY OF ACTIVITIES WERE CARRIED OUT.

PURCHASE AND SUPPLIERS

The year 2004 was marked by the end of favourable price movements for the basic materials such as steel, copper, aluminium, plastics, insulation paper, chemicals, and greases. The rise in prices was the most deeply felt in iron metallurgy, where the price of some basic steels increased by 40 % and more. In the conditions of a general lack of materials necessary for ensuring undisturbed production process, we - as a small consumer of these materials - could not succeed in completely protecting ourselves from this increase in prices against the great and outstandingly monopolistic suppliers.

From the point of view of the purchase of stock exchange materials (copper, aluminium) the prices were rising in a very similar way as in the steel market; however, the provision of these materials was not problematic in the course of the year. We were busy in searching for new sources of material purchase.

We were transferring the production of some mechanical parts from our strategic business units to the suppliers, trying to soften in this way the unfavourable impacts of continuous changes in the material market. At the same time we were doing our utmost to ensure the production of a great number of new products and we were performing approximately the same number of technical modifications on the existing products.

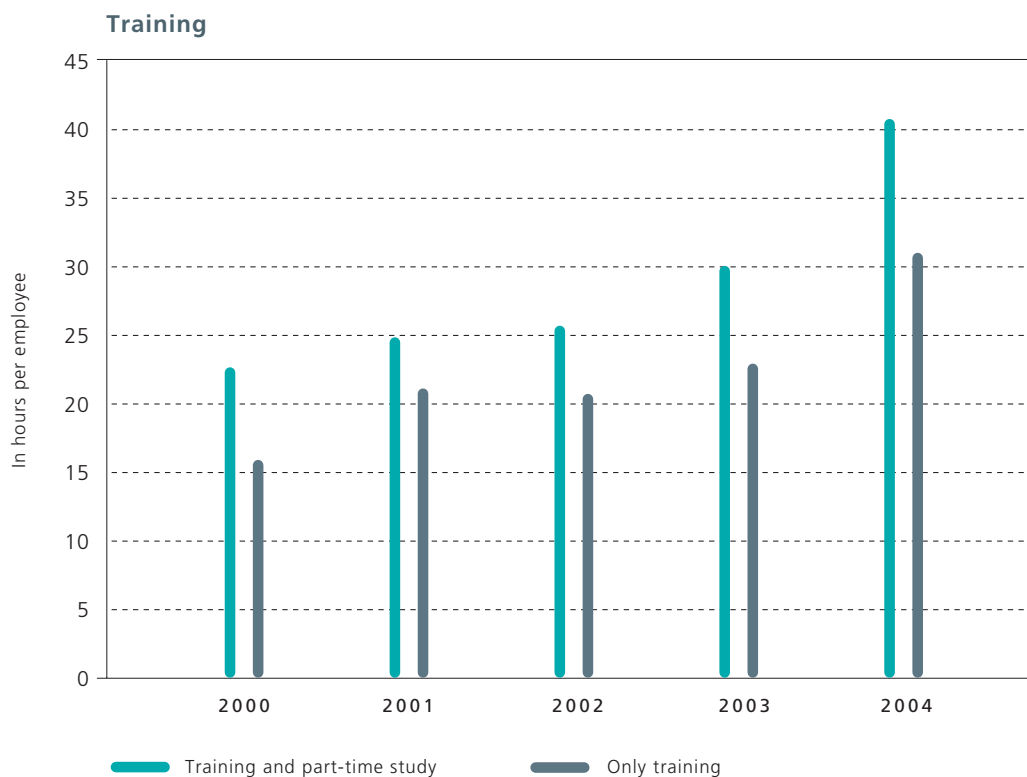
As for the purchase, we can say that the results achieved in the year 2004 were lower than in the previous years; nevertheless, we successfully tackled our long-term activities which - assuming that the above mentioned basic materials attained the highest possible values in 2004 - will ensure more successful attainment of our objectives.

IN ACCORDANCE WITH THE STRATEGIC ORIENTATIONS OF PURCHASE, WE CONTINUED AT ACCELERATED PACE OUR LONG-TERM WORK FOR THE GLOBALISATION OF PURCHASE RESOURCES IN THE TARGET PURCHASE MARKETS OF EASTERN EUROPE AND THE FAR EAST.

HUMAN RESOURCES MANAGEMENT

IN THE YEAR 2004 WE ACHIEVED PROGRESS IN THE TEAMWORK, DUE TO THE IMPLEMENTATION OF THE INFORMATION SYSTEM SAP AND NUMEROUS PROJECTS FOR DEVELOPING NEW PRODUCTS. THE NUMBER OF PEOPLE WHO TAKE UP PART-TIME STUDY TO GAIN A FORMAL EDUCATION IS INCREASINGLY GROWING. WE ACHIEVED THIS BY CHANGING THE INTERPERSONAL RELATIONSHIPS THAT ARE THE BASIS FOR PROMOTING THE DESIRED CULTURE OF CREATIVE COOPERATION.

People are our crucial factor in further achieving business goals and results to realize the orientation and aims that we accepted by the strategy of human resources management in 1999. In order to improve the human resources management we are in the process of establishing the standard Investors in People.



Surveys are our principal way of gathering the general opinion of the employees about different things that are important for successful management and implementation of changes in human resources management. As in the past eight years, we conducted a survey about the opinion of the employees in 2004.

We also took part in the survey within the SiOK project (Slovenian Organisational Culture), which is carried out using a uniform questionnaire for all the participating Slovenian companies, and which supplies us with the data that compare us with other companies. In the year 2004, based on the results of the survey, we upgraded the payment system, introduced regular meetings at all organisational levels, and improved the intranet.

By part-time education, study grants for regular schooling programmes, hiring people with higher education we are achieving continual growth of the average level of education of the employees. By encouraging the co-workers to undertake part-time study, we accomplished a steep growth in the part-time students. At the end of the year 2004 the company enabled schooling for 173 co-workers, i.e. 11.3% of all employees. In recent years we have been increasingly stressing the internal education and training that, in 2004, amounted to 51% of the total number (31.5) of hours of education and training per employee.

Great attention has been paid to working conditions and problem solving of co-workers, keeping and improving their health, and reducing the anti-social phenomena. To lower the absence from work due to illness we systematically send people to the preventive physical check-ups. In the year 2004 we achieved the lowest sick-leave rate and, in safety at work, the lowest injuries rate.

QUALITY AND BUSINESS EXCELLENCE

The wish of all employees and managers - as presented in the document "Commitment to Excellence": to achieve and exceed the customers' expectations - is not enough, if it is not supported by an efficient quality management system. One of the characteristics of the last years is also the perceptible reduction of time for the product development. All these things require constant improvements and more investing in different fields to meet the customers' expectations in the broader sense of quality.

In the year 2004, special emphasis was given to the improvements of all business processes, with the following results:

- in the Iskra Avtoelektrika Group:

- Reform and improvement of all processes in line with the internal needs, requirements of appropriate standards and special customers' requirements.
- Implementation of the special purpose computer application for identifying the customers' needs and requirements in order to monitor the planned aims of an individual project.
- Making uniform contents of the quality plans and monitoring the achievements at the regular meetings of the top management, including the formulation of improvement plans.
- Upgrading of the internal audits system that is carried out by the group of 23 auditors qualified for the audit to ISO 9001, QS-9000, ISO/TS 16949 and ISO 14001.
- Realization of the educational and training programme in the field of quality and excellence.

- in Iskra Avtoelektrika, d.d.:

- Further upgrading of the system to the standard ISO/TS 16949 with reference to all core and support processes.
- Implementation of the information system SAP with the module for quality management.
- Improved support for the process of introducing new supply sources.
- Introduction of the regular workshops system for the supplier development.

- in the subsidiary companies:

- Iskra Avtoelektrika Avto deli, d.o.o., as completion of the system with reference to the requirements of the standard ISO/TS 16949.
- Iskra Avtoelektrika Livarna, d.o.o., Iskra Avtoelektrika Orodjarna, d.o.o. and Iskra Avtoelektrika Asing, d.o.o., as further improvement and upgrading of the system with reference to the standard ISO 9001.

Considerable attention was paid to the implementation of ISO/TS 16949, as can be seen in the already mentioned activities. All the companies in the Group successfully stood the test of the regular audits to ISO 9001, QS-9000 and ISO 14001 that were conducted by the British Standards Institution.

Quality Policy Statement

We, the people of Iskra Avtoelektrika, wish to be a preferred supplier to our customers and to be known for satisfying their needs and quality requirements.

We plan, implement and monitor the realization of quality management principles in all our business processes and organisational units with the aim of exceeding the expectations of our customers and other stakeholders. With such an approach, and with the involvement of all employees in continuous improvements, we achieve the quality objectives and assure the effectiveness of management of the quality system.

We are committed to quality and business excellence, which are the key issues of our mission.

ENVIRONMENTAL IMPACTS AND RESPONSIBILITIES TO THE COMPANY

Environmental Impacts

Responsibility to the environment, and following the guidelines of sustainable development, are the two most important views of managing in the entire Group. Being aware of the importance of conserving the natural resources and raw materials, we constantly control the environmental aspects and impacts in the development and operations. In the year 2001 we took part in the first group of Slovenian companies that were introducing the methodology of clean production, and at the end of 2002 we successfully passed the audit in compliance with the standard ISO 14001.

Following the guidelines that were set down by the project of clean production we have every year achieved improvements regarding the consumption of energy and water per sales unit. We are continuously using less hazardous chemicals, substituting them by those with the same effect but environmentally friendlier. When choosing the production equipment, together with the future users, we always consider the environmental aspects.

Despite transferring parts of production to other places in Slovenia and worldwide, we maintain stable employment and social security for a large number of people. Safety at work mostly depends on the knowledge of the employees, and that is why we enable them to obtain the part-time education.

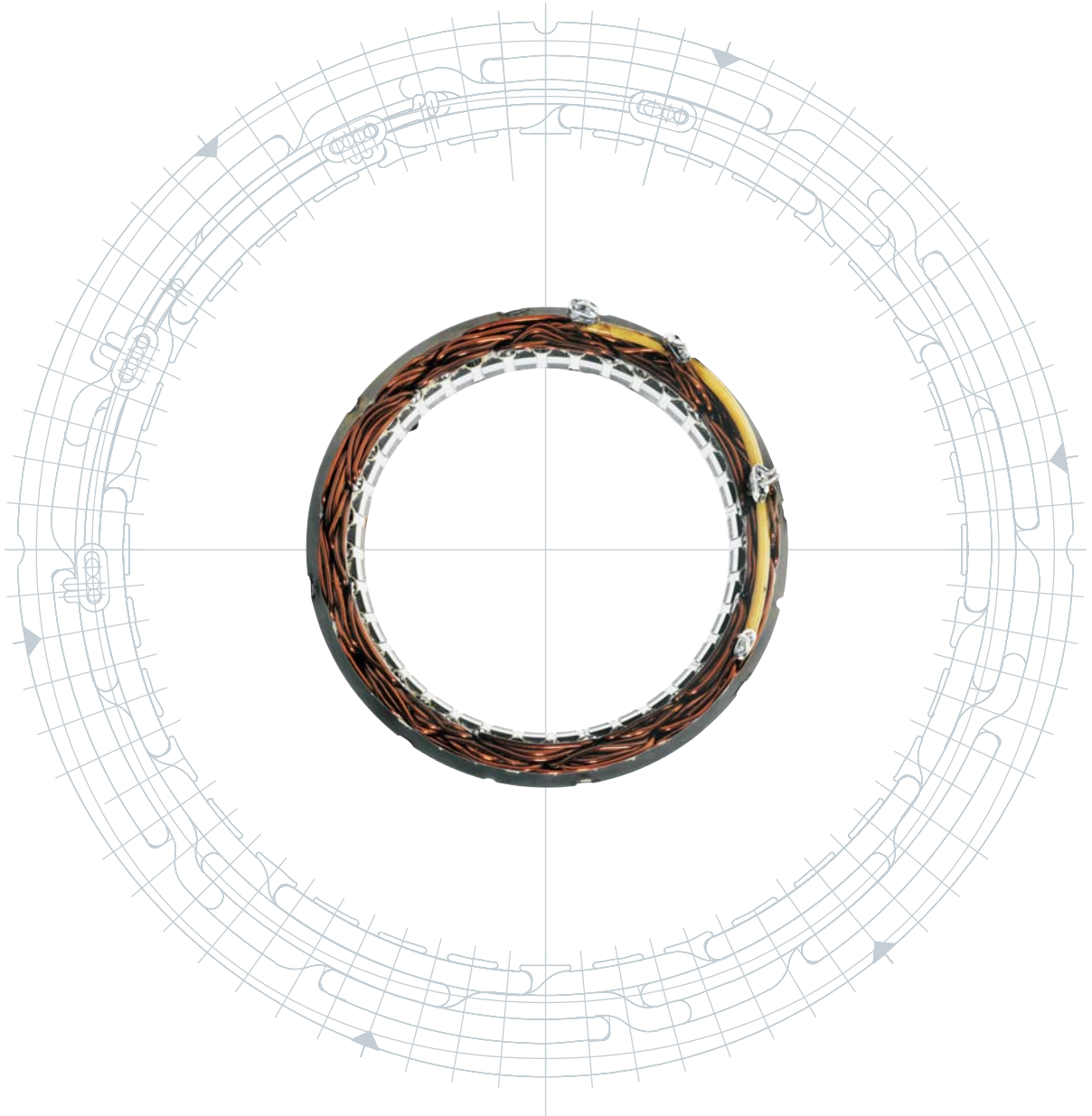
Responsibilities

As the largest company in the local region, which mostly hires people with technical education, we take part in the projects that enhance technical education. This includes regular welcomes to pupils and students, and presentations of professions and production. We have signed an agreement with the technical school centre TSC Nova Gorica to carry out the practical education in the secondary schools and to cooperate in the new graduate-school programme Mechatronics. We are the co-founder of the graduate and research centre Visokošolsko in raziskovalno središče Nova Gorica, whose task is to develop new educational programmes, in order to retain educated people within the region.

In the year 2004 we cooperated with Politehnika Nova Gorica as the social partner in the preparation of the new graduate-school programme Instrumentalization. Together with TSC Nova Gorica we prepared two professional qualifications in the field of mechanical engineering. Shortly we plan to include into this training and gaining of professional qualification also our co-workers from the company. Later, however, the centre will offer this possibility also to other people in the region. In 2003 the training for the profession of metal former started under the special programme. In the year 2004 we attracted not only co-workers from the company to enroll, but also people from the Slovenian subsidiary companies and other companies in the region. With all the programmes we intend to help reducing the percentage of residents without profession.

Our contribution to the linking of academic and developmental knowledge with industrial knowledge can be seen in many joint projects that are underway, under agreement, by nine faculties, research and development institutes, technological centres and technological parks.

We help people in the region to enjoy a better life, also through sponsorship of their social and cultural activities and by donations to humanitarian, cultural and educational institutions, associations and minor sports clubs. Our contributions in the year 2004 can mostly be seen in the field of sports, health and culture.



FURTHER DEVELOPMENT STRATEGY AND POLICIES

Also in the year 2005 we will be exposed to the price pressure and constant requirements for product innovations. With a goal to lower the costs, we will, in our subsidiary production companies abroad, proceed with accelerated development of the local production and by obtaining process materials and parts from the local suppliers. Besides the quality - that has to be at the world level and the prices that have to be competitive if compared to the prices of global and established manufacturers, - our key competitive advantages can be developmental efficiency, which leads to a shorter time of the market entry, and production flexibility, which can be seen in the shorter response to the customers' orders.

In the Group we plan successful business processes for the year

2005 under the motto "Creating lean production", which reflects our approach to increased competitiveness, decreased time of business processes and reduced costs of any kind.

THE MAIN CHALLENGE THAT WE ARE FACING IN 2005 IS TO ENSURE THE RETURN ON ASSETS ALSO IN THE PERIOD OF HIGH PRICES OF STRATEGIC RAW MATERIALS AND ENERGY, AND LOW VALUE OF THE AMERICAN DOLLAR AND TO ENSURE ENOUGH ASSETS FOR THE INVESTMENTS PLANNED. BASED ON THE EXPECTED SALES GROWTH AND FASTER GLOBALISATION OF PRODUCTION AND SUPPLY WE ALSO PLAN A LARGER NET PROFIT AND HIGHER RATE OF RETURN ON EQUITY. BASED ON SUCCESSFUL BUSINESS OPERATIONS, STABLE CAPITAL MARKET CONDITIONS, AND FAIR INFORMING OF STOCKHOLDERS AND POTENTIAL INVESTORS, WE EXPECT ALSO GROWTH OF THE SHARE VALUE.

Assumptions in Planning

When preparing the annual business plan for the year 2005 we planned the sales based on the successful business, real projects, and customers' forecast, and the costs on the unfavourable conditions of the outer environment. Calculations of the needed material are based on the price levels from the fourth quarter of 2004 that are on a very high level; reductions were not planned. However, we did plan the reduction of the direct costs, due to the supply of less expensive components, mostly from China. The labour costs were based on the current situation and the consideration of additional hiring and statutory salary increase. The financing costs were calculated based on the expected slight increase of the interest rates.

Aims of the Iskra Avtoelektrika Group

Despite the fierce economic conditions we plan the growth of the consolidated sales of the Iskra Avtoelektrika Group at EUR 158 million, which denotes 2 % growth if compared to the year 2004. As every year, also in 2005 the majority of investments regarding the value will be in the parent company. The biggest investment is being carried out as the project of industrialization of the motor for the power-assisted steering system in the new strategic business unit Mechatronics.

In addition, we shall also modernize other production capacities. Of the other companies in the group, special attention should be paid to our company in Brazil, where we shall invest into the assembly technology for the local production of starters and alternators.

In the strategic plan for the period between 2004 and 2007 we outlined the growth of sales value with a strategy of products innovations and business globalisation. For 2005 we therefore plan more innovative projects and continuation of the globalisation projects. Wider support for improving the business results, quality rise, production system, lowering of costs, information technology, health and safety of the employees and human resources management will be ensured by implementing the support projects and tasks.

Basic Strategy

The basic strategy of the Group is the strategy of growth that is based on the customers' satisfaction and globalisation. In addition to high quality at competitive prices and greater flexibility and responsiveness, we shall in the future increase the developmental support to our customers and the added value by innovations.

We shall ensure growth by accelerating the sales of new products to the existing and to new customers and by business globalisation.

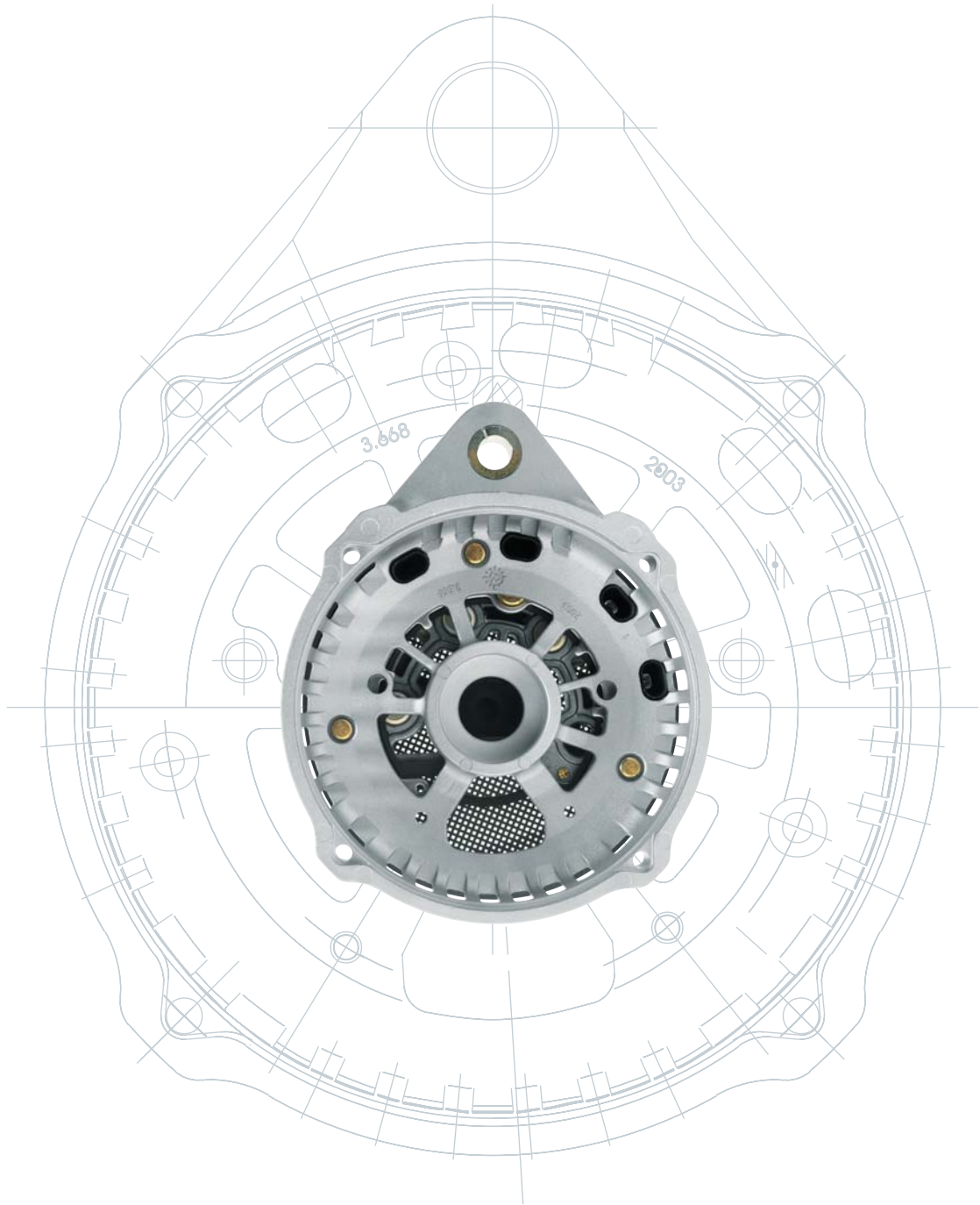
Maintaining a more favourable relation between price and quality will be ensured by providing high quality products and services with quality control in all processes and with business excellence, faster increase of productivity, efficiency and added value in Slovenia, in particular by developing and producing larger batches of up-to-date products using new technologies, by transferring the production of smaller batches of older products into the countries with a cheaper labour force (globalisation), by introducing less expensive supply sources and implementing support activities (outsourcing).

Maintaining greater flexibility and responsiveness will be ensured by business processes control, the implementation of the world-class production principles in the process of fulfilling an order, efficient IT support that will be based upon the business information system SAP, and by flexible engagement of all sources.

Increasing of the developmental support to the customers and innovativeness will be ensured by investing in people (education and training) and in the development and research infrastructure, by accelerated cooperation with the outer R&D institutions and creative cooperation of the employees, suppliers and customers.

Dividend Policy

Iskra Avtoelektrika shall ensure a stable growth of a dividend per share and pay in the long term one third of the current yield after previous coverage of investment and development needs.



FINANCIAL STATEMENTS

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BALANCE SHEET AS OF 31 DECEMBER 2004

in EUR

	Iskra Avtoelektrika, d.d.		Iskra Avtoelektrika Group	
	2004	2003	2004	2003
ASSETS	112,886,765	97,982,801	128,758,797	110,770,967
FIXED ASSETS	56,908,428	52,012,394	59,353,719	53,253,230
Intangible fixed assets	2,358,721	1,733,640	2,659,517	2,106,816
Tangible fixed assets	44,313,050	40,773,482	53,528,068	50,181,948
Long-term investments	10,236,657	9,505,266	3,166,134	964,467
CURRENT ASSETS	55,823,425	45,859,046	69,083,848	57,269,447
Inventories	15,811,476	13,601,761	29,486,235	23,987,156
Operating receivables	39,351,700	31,609,541	37,103,125	31,814,529
Long-term operating receivables	26,463	178,323	3,749	104,845
Short-term operating receivables	39,325,237	31,431,218	37,099,376	31,709,688
Short-term investments	476,224	467,431	1,040,666	304,592
Cash in banks, cheques and cash in hand	184,025	180,313	1,453,822	1,163,165
Deferred costs (expenses) and accrued revenues	154,912	111,366	321,230	248,289
Off-balance-sheet items	56,465,621	58,397,052	56,903,680	66,194,197
LIABILITIES	112,886,765	97,982,801	128,758,798	110,770,967
CAPITAL	46,788,348	46,589,189	44,803,328	45,368,985
Called-up capital - share capital	13,466,315	13,762,986	13,416,976	13,762,986
Capital reserves	2,011,508	2,055,823	2,004,138	2,055,823
Revenue reserves	6,733,158	6,881,493	6,708,488	6,881,493
Consolidated capital adjustment	0	0	-1,919	-462
Retained net profit or loss from previous years	3,973,330	3,558,477	1,693,986	1,025,062
Net profit or loss for the financial year	2,004,717	1,482,844	1,316,493	1,694,790
Equity revaluation adjustments	18,599,319	18,847,561	18,531,172	18,847,561
Minority owners' share	0	0	1,133,994	1,101,727
PROVISIONS	413,640	576,726	990,442	1,095,690
Financial and operating liabilities	65,399,038	50,761,678	82,530,580	64,045,244
Long-term financial and operating liabilities	29,278,106	22,458,046	36,578,134	27,458,742
Short-term financial and operating liabilities	36,120,932	28,303,631	45,952,446	36,586,507
Accrued costs (expenses) and deferred revenues	285,739	55,208	434,447	261,048
Off-balance-sheet items	56,465,621	58,397,052	56,903,680	66,194,197

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

in EUR

	Iskra Avtoelektrika, d.d.		Iskra Avtoelektrika Group	
	2004	2003	2004	2003
NET SALES REVENUES	125,314,350	112,299,512	149,874,116	139,451,505
Changes in inventories of products and work in process	439,559	89,553	587,873	333,294
Capitalized own products and/or services	481,009	161,855	2,009,937	1,762,376
Other operating revenues	742,584	1,344,758	807,724	1,610,855
Cost of goods, materials and services	87,771,662	75,656,291	99,249,387	90,133,354
Cost of merchandise and materials sold				
and cost of raw materials and consumables used	76,863,570	65,575,346	83,584,004	74,897,258
Cost of services	10,908,092	10,080,944	15,665,382	15,236,097
Labour cost	28,274,922	26,097,939	40,560,960	37,687,263
Write-offs	7,563,189	7,258,759	9,109,373	8,546,037
Other operating expenses	384,837	307,609	681,497	713,709
Operating profit or loss	2,982,891	4,575,084	3,678,433	6,077,675
Financial revenues from shares	702,574	654,393	54	6,833
Financial revenues from long-term receivables	19,463	39,073	392,610	33,417
Financial revenues from short-term receivables	2,202,943	1,640,108	2,354,111	1,826,651
Financial expenses from long- and short-term investment write-offs	405,623	590,324	202,290	251,930
Interest expenses and financial expenses from other liabilities	3,534,002	3,519,888	4,581,237	4,257,878
Profit or loss from ordinary activities	1,968,245	2,798,443	1,407,835	3,434,771
Net profit or loss from ordinary activities	1,968,245	2,798,443	1,407,835	3,434,771
Extraordinary revenues	78,023	79,511	257,726	161,688
Extraordinary expenses	41,551	74,030	207,279	221,757
Tax on profit or loss	0	0	36,506	255,374
Other taxes not shown under the above items	0	0	8,209	19,263
Profit or loss from extraordinary activities	36,473	5,481	5,732	-60,073
Net profit or loss for the accounting period	2,004,717	2,803,924	1,413,567	3,100,061

in EUR

	Iskra Avtoelektrika, d.d.		Iskra Avtoelektrika Group	
	2004	2003	2004	2003
CASH FLOWS FROM FINANCIAL ACTIVITIES				
Inflows	11,216,107	886,804	14,411,570	2,184,205
Financial revenues from financing activities	996,284	76,439	1,223,748	127,347
Increase in capital	0	186,667	0	0
Offset increase in long-term provisions	0	0	88,410	56,813
Offset increase in long-term financial liabilities	7,304,159	0	9,794,340	993,040
Offset increase in short-term financial liabilities	2,915,665	623,698	3,305,073	1,007,006
Outflows	-3,347,043	-3,083,524	-3,964,049	-3,769,516
Financial expenses from financing activities	-2,383,773	-2,086,899	-2,969,515	-2,520,704
Offset decrease in long-term provisions	-3,944	-46,462	0	0
Offset decrease in long-term financial liabilities	0	-69,170	0	0
Decrease in dividends payable	-959,326	-950,163	-959,326	-950,163
Decrease in capital	0	0	-35,208	-298,649
Net cash used in financing activities	7,869,065	-1,481,094	-959,326	-1,585,311
Cash and cash equivalents at end of period	184,025	180,313	1,459,170	1,330,266
Net increase / decrease in cash and cash equivalent	7,598	-906,931	321,077	-582,331
Cash and cash equivalents at beginning of period	176,426	1,087,244	1,138,092	1,912,597

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