

ANNUAL
REPORT
OF THE BOARD
OF DIRECTORS
ON THE COMPANY'S
OPERATIONS
AND ASSETS
IN 2006

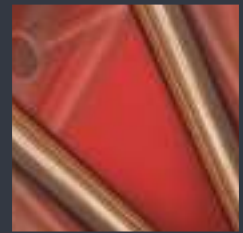


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INTRODUCTORY
WORDS



INTRODUCTION BY THE CHAIRMAN OF THE SUPERVISORY BOARD



Robert Kay, Chairman
of the Supervisory Board of Feron a.s.

Since 2004 Feron a.s. has been fully owned by an English company - IRG Steel Ltd. In the same year, Feron celebrated 175 years in business. On this occasion, we adopted the slogan "175 let – Zelezná Jistota = Cast Iron Certainty" which indicated that our company had always been as solid as cast iron and steel, its principal commodity.

The mentioning of iron always reminds me of the Iron Lady, Margaret Thatcher, and her firm and uncompromising political stance. As I spent most of my life in Britain, I had an opportunity – and it was an honour – to meet her personally on several occasions. Her enthusiasm and extreme persistence impressed and inspired me considerably, both in my professional and personal life. That is why I endeavoured to introduce the spirit of Lady Thatcher into Feron. One of the most important pillars of such philosophy is a professional judgement based on 'judge by results basis' rather than on personal connections or political allegiance.

Feron has always provided high quality services for all its customers in all industrial sectors. Although the company has very strong historical foundations, we simply can not afford to rest on our laurels.

Feron like any smart company always takes into account the fact that the building and construction industry as well as other industrial sectors are subject to economic cycles ranging from prosperity to recession. Therefore we need to be flexible enough to cater for those changing market requirements. As a result of this we pay special attention to the volumes of our warehouse stock as well as making special efforts to deliver the widest product range possible.

Our customers and partners are our priority. We seek to meet their needs and we are very interested in their views in order to fully satisfy their requirements.

We put great emphasis and value on continuous training and education of our employees, thus making sure that they are able to maintain the highest standards of service that our customers expect and are used to.

We plan and build for the future, even for the tougher times.

We are not afraid of large investments in measures improving handling and transportation of products or investments in processing facilities because we want to offer our customers more options and higher added value. Satisfied customers at the end of the entire process are our objective as well as our best reference.

I am very proud to be able to say that Feron, as a distributor, causes no environmental pollution. Unfortunately, it is a very little known fact that steel is one of the most environmentally-friendly materials used by mankind. Few other materials are as recyclable as steel.



Ferona has a very efficient, eager and highly motivated management team. This coupled with typical British bulldog persistence, will propel the company to new levels of corporate excellence.

At the same time we need to realise that success for Ferona is a journey and not a destination.

I appreciate very much the particularly good results accomplished by our company in 2006 and hope that we will be able to strengthen our market position in the Czech Republic even further in the years to come, and to improve our existing performance in those territories in which we are already active as well as in those to which we are planning to expand. Globalisation is clearly starting to affect even such historically locally orientated sectors as the distribution of steel.

Ferona has a clear goal to create a strong Central European Group, retaining our position as an important partner of our suppliers and extending our customer service to international level.

When assessing the past year, we must not forget the driving force of our business - our employees. I appreciate the efficiency and enthusiasm of all our employees in all departments and would like to use this opportunity to thank them for their efforts.

On behalf of the Board and myself, I would like to wish all those involved with Ferona every success in their professional and personal lives.

Robert Kay

INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS



Jiří Plajner,
Chairman of the Board of Directors

With an annual turnover of CZK 23 billion and sales of 1.2 millions of tonnes, Ferona is a key player in both the Czech and the Central European markets. Its strong position is due to a combination of action and flexibility of the current modern company and the reliability based on the long tradition of the Ferona brand.

The assortment of Ferona's products is very wide ranging from traditional steel to non-ferrous metals, but Ferona also offers services to its customers. And it is services that our main investment projects focus on with the aim of increasing the value-added in our distribution chain.

Our objective is to cooperate with the customers in controlling the costs involved in the purchase and deliveries of materials. In a number of companies, we have already taken over the entire process of purchases and the related monitoring of inventories at the customer's place. Customer service has become one of our company's competitive advantages, as the rising number of customer-oriented projects confirm.

However, we would have not achieved the excellent results if it had not been for the engagement and enthusiasm of our teams. We have been investing considerable amounts of time and money in the company's human resources policy. The excellent results of our business allow us to reward our employees appropriately and motivate them for outstanding achievements next year, as well.

In compliance with our commitment to maintain a firm position in the Central European market, we decided to expand our operations into Poland and become a reliable partner to some of the globally operating companies in the Czech and the Slovak Republics and in Poland. We want to provide all manufacturers cooperating with our company with the quality and the knowhow of steel distribution in a market that has a huge potential. Feronia intends to use this potential as a stepping stone on its way to further development and a lot of satisfied customers.

The macroeconomic outlook for our region remains positive, indicating that investment in the infrastructure will continue for some more years, the countries in the region will retain their competitiveness, and the payment morale will improve. These are the essential factors supporting the rising consumption of steel, which we intend to use in future.

Jiří Plajner

GENERAL TRENDS

Last year, major progress was achieved in the process of integration of the metallurgic production which is definitely a clear signal for the future. Stronger, globally operating players will continue increasing their market shares including both production and, most probably, distribution as well.

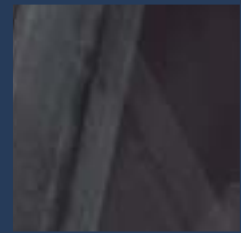
Since the rise of prices in 2004, there have been attempts to replace steel products with other materials but steel can only be replaced to a limited extent due to its unique properties. This is why the global demand for and consumption of steel keep rising.

In our region, an increasing demand for steel has been observed in the car and the building industries. Foreign investments in the countries of Central Europe contribute to long-term stability of the consumption. On the other hand, the structure of the demand for steel changes. New technology is being implemented to process high-grade steel and savings are achieved through the use of light-weight but rigid materials.

In future, the cyclical nature of the steel production will depend to a large extent on the further development in China, the availability of sources such as energy, scrap iron, iron ore and ferroalloys, and the development of the USD rate along with the import policy in the USA.



COMPANY'S
PROFILE
AND HISTORY



FACTS AND FIGURES

- ♦ Company name: **Ferona, a. s.**
- ♦ Identification number: **26 44 01 81**
- ♦ Registered office: **Havlíčková 1043/11, 111 82 Prague 1**

The company is entered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert 7143.

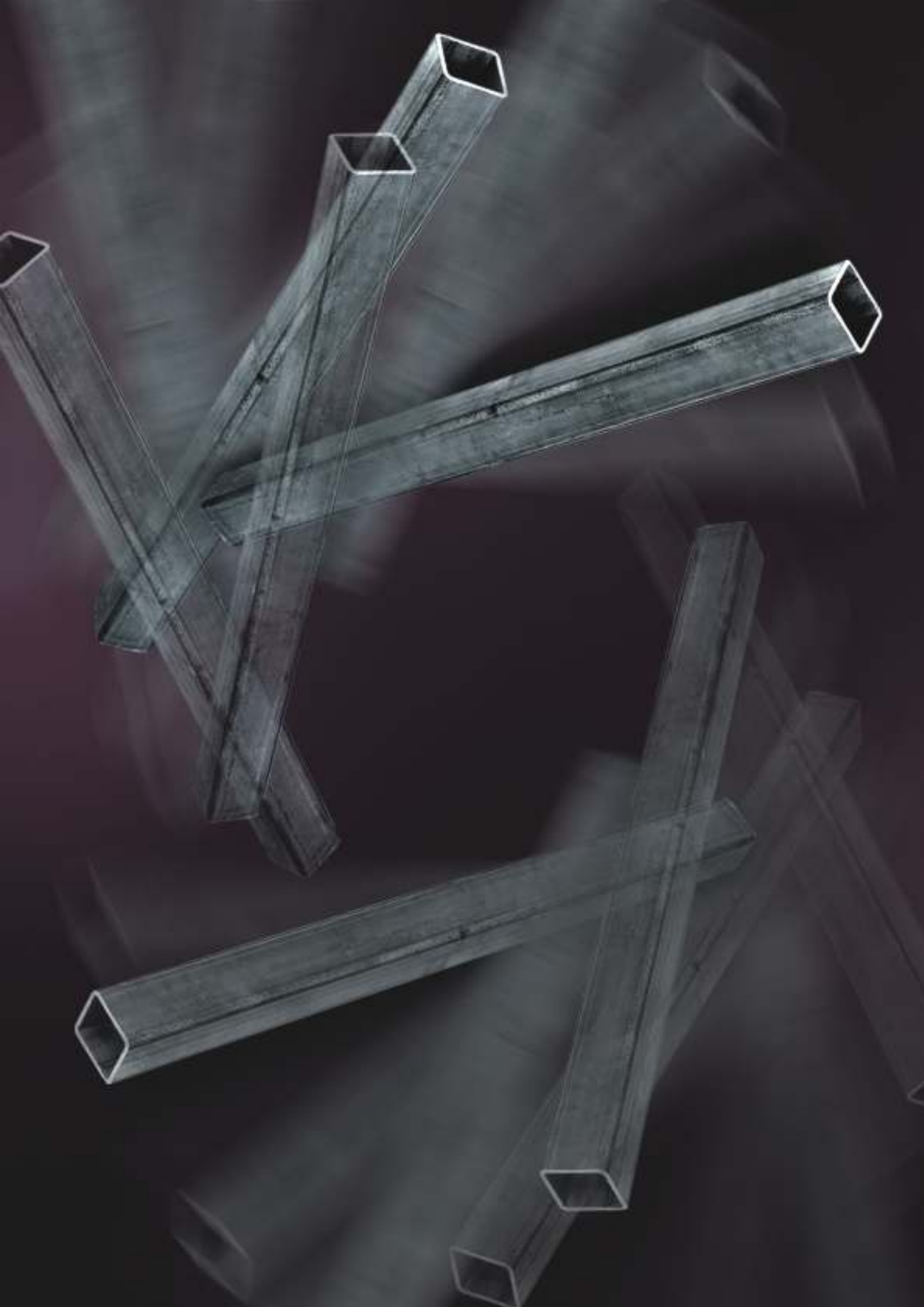
- ♦ Date of incorporation: **21 March 2001**

The company was originally established under the name of Rekulus, a. s., by a group of majority shareholders of the former Ferona, a. s. (identification no. 25 79 20 75), acting in concert.

As of the record date of 1 April 2001, the Company took over Ferona, a.s. (ID No. 25 79 20 75) as a majority shareholder under Section 220p of the Commercial Code, on the basis of a Takeover Agreement approved by the Shareholders' Meetings of both companies on 27 June 2001. The takeover was entered in the Commercial Register with effect as of 29 August 2001. Pursuant to a Merger Agreement, the Company took over as a legal successor the assets from the dissolved parent company STEEL INVESTMENTS GROUP, a.s., as of the record date of 1 January 2005.

- ♦ Registered capital: **CZK 3,000,000,000**

The company is owned by IRG STEEL LIMITED with its registered office in London WC2B 4JF, 95 Aldwych, United Kingdom of Great Britain and Northern Ireland. This sole shareholder held a total of 300 registered shares with a nominal value of CZK 10,000,000 each on 31 December 2006. The shares are certificated but not quoted.



COMPANY CHARACTERISTICS

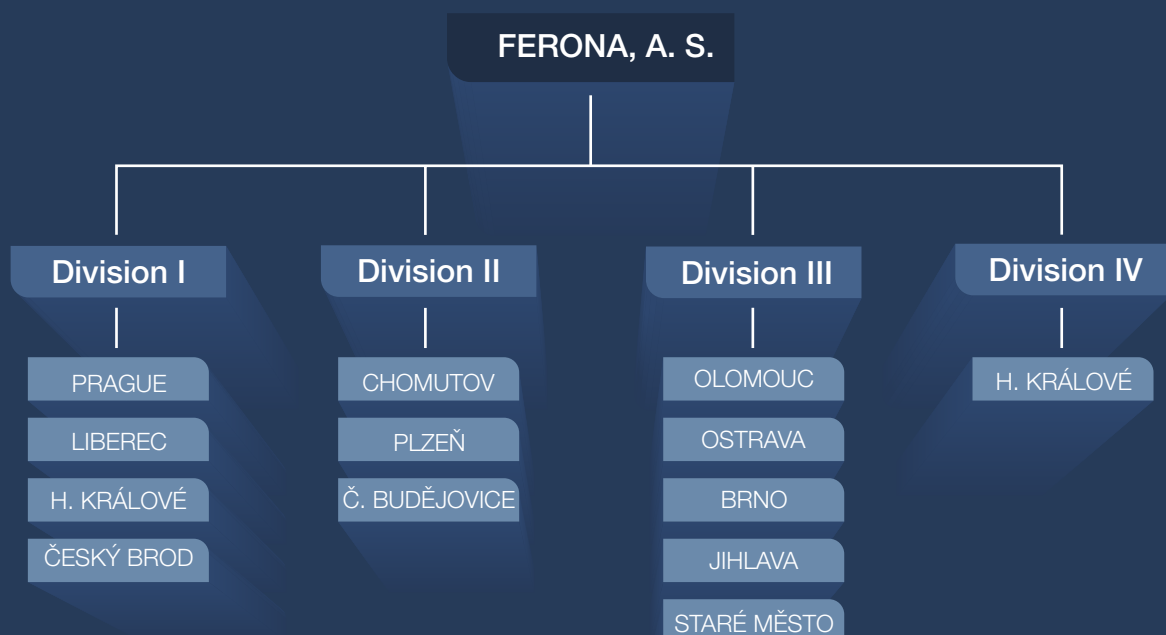
The current Feroná has assumed the activities of its legal predecessors who operated as distributors of metallurgical products throughout the history of post-1945 Czechoslovakia under various trade names and in various organizational forms. Thus, we have taken up a business tradition which dates back to 1829 in the territory of the Czech Republic.

The Company's main activity is steel stockholding and distribution, namely including the purchase, storage, processing and sale of metallurgical products, secondary products, non-ferrous metals and the related range of hardware goods. As regards its sales activities Feroná covers mainly the domestic market. Our customers include thousands of mostly medium- and small-sized engineering companies, the building sector, agriculture and commerce who find it inefficient to purchase directly from manufacturers. The sales units of Feroná - wholesale warehouses and retail outlets - are capable of satisfying a wide range of customers from large industrial enterprises to individual clients.

In 2006, the organizational structure of Feroná joint-stock company was comprised of three territorially defined sales divisions. The fourth division is the service centre for cross- and length-wise cutting of cold-rolled coiled steel sheets. All four divisions are registered in the Commercial Register as branch enterprises.

- ♦ **Division I**, with its seat in Prague, operates branches in Liberec and Hradec Králové, together with an establishment in Český Brod.
- ♦ **Division II**, with its seat in Chomutov, operates branches in Plzeň and České Budějovice (the establishment in Ostrově nad Ohří has been leased out).
- ♦ **Division III**, with its seat in Olomouc, operates branches in Brno and Ostrava, and establishments in Jihlava and Staré Město u Uherského Hradiště.
- ♦ **Division IV** - Steel Service Centre with its set in Hradec Králové.

Customers are welcome to contact any of the above listed locations with their enquiries or purchase orders.



BOARD OF DIRECTORS, SUPERVISORY BOARD AND EXECUTIVES

The following persons were members of the Supervisory Board, directors and/or managers of the Company, as the case may be, on 31 December 2006.

BOARD OF DIRECTORS

Jiří Plajner, chairman of the Board of Directors, graduated from a Grammar School, born in 1961, member of the statutory body since 1 January 2005

Ing. Miroslav Horák, vice chairman of the Board of Directors, graduated from the University of Economics, born in 1970, member of the statutory body since 1 January 2005

Ing. Pavel Horák, born in 1962, graduated from the Czech Technical University, member of the statutory body since 1 January 2005

Ing. Milan Rada, born in 1963, graduated from the University of Economics, member of the statutory body since 1 January 2005

Ing. Miroslav Vaníček, born in 1961, graduated from the University of Economics, member of the statutory body since 1 January 2005

SUPERVISORY BOARD

Robert Kay, chairman of the Supervisory Board, born in 1949, member of the Supervisory Board since 1 January 2005

Ing. Jiří Hypš, vice chairman of the Supervisory Board, born in 1943, graduated from the Agricultural University – Faculty of Business Operations and Economy, member of the Supervisory Board since 1 January 2005

Ing. Jana Fabianková, born in 1952, graduated from the University of Economics, employed with the Company since 1978, elected as a representative of the Company's employees, member of the Supervisory Board since 21 March 2002

EXECUTIVES

Jiří Plajner, Chief Executive Officer, born in 1961, graduated from a Grammar School, employed with the Company since 1992

Ing. Miroslav Horák, Sales Director, born in 1970, graduated from the University of Economics, employed with the Company since 1996

Ing. Pavel Horák, Logistics Director, born in 1962, graduated from the Czech Technical University, employed with the Company since 1986

Ing. Milan Rada, HR and IT Director, born in 1963, graduated from the University of Economics, employed with the Company since 1992

Ing. Miroslav Vaníček, Finance Director, born in 1961, graduated from the University of Economics, employed with the Company since 1985

Ing. Petr Mikulecký, Director of Division I, branch enterprise with its seat in Prague, born in 1966, graduated from the Faculty of Civil Engineering, the Czech Technical University, employed with the Company since 2003

Miroslav Vrkota, Director of Division II, branch enterprise with its seat in Chomutov, born in 1957, graduated from the Secondary School of Engineering, employed with the Company since 1992

Ing. Petr Vlach, Director of Division III, branch enterprise with its seat in Olomouc, born in 1965, graduated from the Faculty of Engineering, the Czech Technical University, employed with the Company since 1989

Ing. Ivo Juříčka, CSc., senior lecturer, Director of Division IV - Steel Service Centre, branch enterprise with its seat in Hradec Králové, born in 1963, graduated from the Faculty of Metallurgy and Material Engineering at the Mining College Technical University, employed with the Company since 2003

CONSOLIDATION SCHEME

Ferona, a. s., is the parent company in a group which involved the following controlled persons and accounting units under substantial influence and persons controlled by them as per 31 December 2006:

FERONA Slovakia, a. s.

a) Registered office and identification no.:	Bytčická 12, Žilina, Slovakia Identification no. 36401137
b) Other establishments:	Bratislava, Nitra, Martin, Košice
c) Business:	Wholesale of metallurgical products
d) Equity capital:	SKK 1,032,375 thousand
e) 2006 profit or loss:	SKK 47,293 thousand
f) Share of Ferona, a. s., in the registered capital:	100%
g) Net book value of Ferona's share:	CZK 687,679 thousand

FERONA THYSSEN PLASTICS, s. r. o.

a) Registered office and identification no.:	ul. ČSA 730, Velká Bystřice Identification no. 25354418
b) Other establishments:	Hořovice, Brno and FTP Slovakia, s. r. o., Bratislava *)
c) Business:	Wholesale of plastics for technological use
d) Equity capital:	CZK 106,983 thousand
e) 2006 profit or loss:	CZK 16,112 thousand
f) Share of Ferona, a. s., in the registered capital:	50%
g) Net book value of Ferona's share:	CZK 8,218 thousand

*) FTP Slovakia, s. r. o., Bratislava

a) Registered office and identification no.:	Púchovská 14, Bratislava, Slovakia Identification no. 35861134
b) Other establishments:	None
c) Business:	Wholesale of plastics for technological use
d) Equity capital:	SKK 7,211 thousand
e) 2006 profit or loss:	SKK 1,308 thousand
f) Share of FERONA THYSSEN PLASTICS in the registered capital:	100%
g) Net book value of the share of FERONA THYSSEN PLASTICS:	CZK 3,194 thousand

FERONA – Dělicí centrum, a. s.

a) Registered office and identification no.:	Plzeňská 18, Ostrava Identification no. 26168634
b) Other establishments:	None
c) Business:	Steel strip cutting
d) Equity capital:	CZK 72,569 thousand
e) 2006 profit or loss:	CZK 13,241 thousand
f) Share of Ferona, a. s., in the registered capital:	50%
g) Net book value of Ferona's share:	CZK 20,973 thousand



FERONA, a. s.

FERONA
SLOVAKIA, a. s.

FERONA
THYSSEN
PLASTICS, s. r. o.

FERONA -
DĚLÍČÍ
CENTRUM, a. s.

FERONA – CONSOLIDATION GROUP





RANGE OF
PRODUCTS
AND SERVICES



PRODUCT RANGE

A wide range of products, consisting of more than fifteen thousand items, are purchased from dozens of leading steel manufacturers both in the Czech Republic and abroad. It is a prevailing trend now in the manufacture and distribution of steel to have a detailed and reliable offer of products, and so an integral part of Feron's strategy is to add new products, focusing primarily on new qualities.

The main partners from which Feron purchases steel products include Mittal Ostrava, Moravia Steel, Vítkovice Steel and Jákl in the Czech Republic, U.S. Steel Košice and Železářny Podbrezová in Slovakia, Mittal Poland and CMC Zawiercie in Poland, Ekostahl and Salzgitter in Germany, and many others.

SERVICES

TRANSPORT

Feron uses mainly 108 Mercedes-Benz trucks of its own and trucks provided by contractual hauliers to transport products to the customers. Small-volume products are sent over large distances using collection services and/or as Profi parcels at reduced prices.

Most of our own trucks are equipped with special unloading devices to save our customers' time and reduce delivery times.

SPLITTING OF BARS

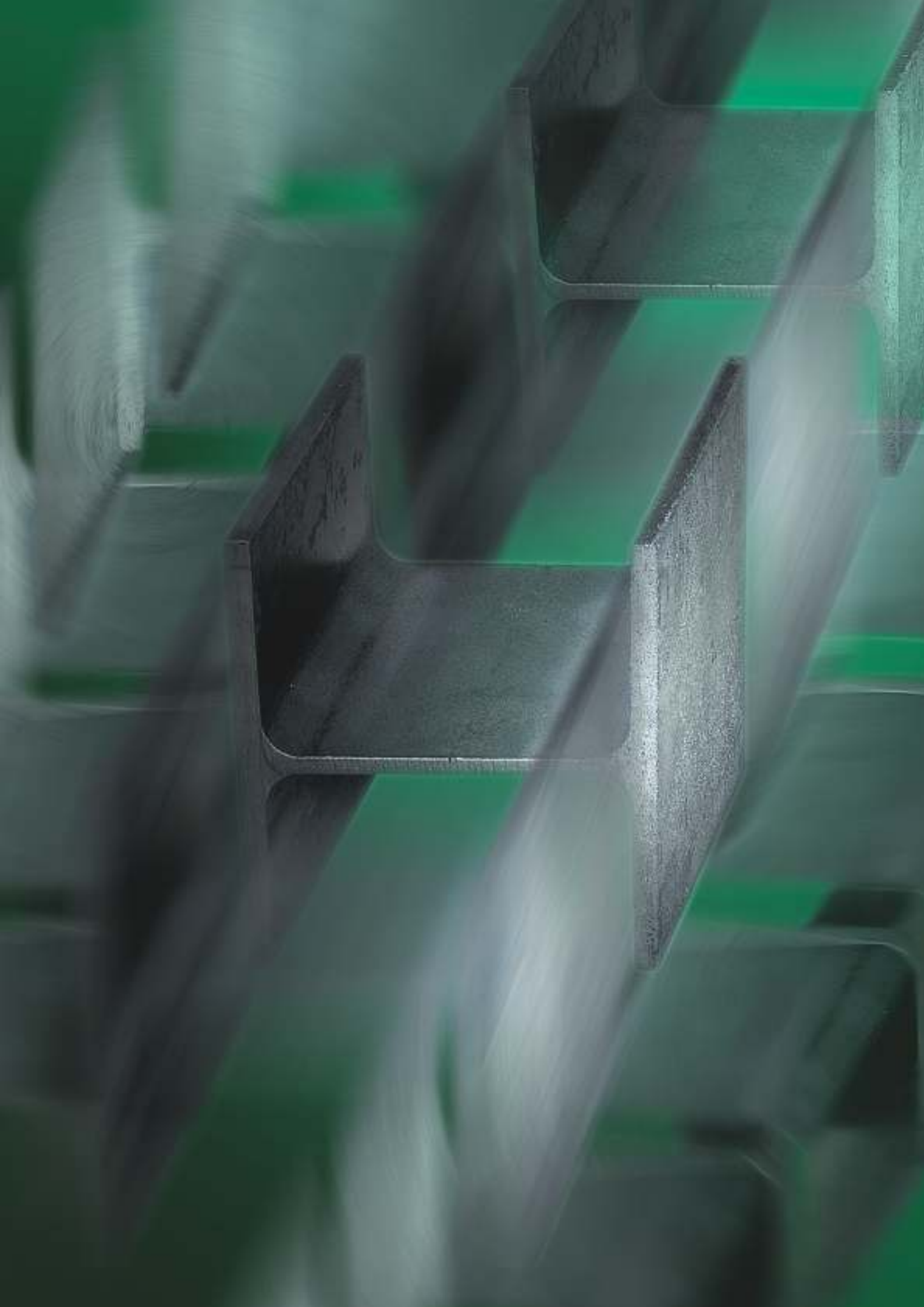
Every warehouse has a facility where rolled bars can be split to usual lengths of up to 12 metres. Hot rolled hexagonal bars (HEA, HEB), I-beams and U-bars (Euro beams) with lengths of up to 22 m and cross-sections of up to 600 mm are split centrally in our premises in Olomouc. The latest technology from KALTENBACH is used for precise splitting.

SPLITTING OF COLD ROLLED COILS

The Steel Service Centre in Hradec Králové has a new facility using modern technology from FIMI to split cold-rolled coils of sheets with various surface treatment and weights of up to 30 tonnes both in the longitudinal and the transverse directions. The result of the transverse splitting is sheets with thicknesses ranging from 0.5 to 3 mm, widths ranging from 300 to 1,600 mm, and lengths ranging from 500 to 4,000 mm. The result of the longitudinal splitting is strips of various widths ranging from 30 to 1,600 mm.

Besides its own production using purchased coils or materials delivered by the customers, the Steel Service Centre also issues certificates for its products. Reports on the measurement of the dimensions of the split sheets are available at request.

Special needs of our customers concerning tests of materials and calibration of measuring devices are dealt with in cooperation with various laboratories at the Czech Republic's leading technical universities.



SPLITTING OF HOT ROLLED COILS

On the premises of Feron Ostrava, Feron – Dělicí centrum, s. r. o. (FDC) operates a facility for splitting hot rolled materials, using a WEAN DAMIRON splitting line for transverse splitting and a BKM splitting line for longitudinal splitting. Standard deviations from the dimensions and the flatness of the sheets are confirmed according to EN 10051 + A1 and the quality according to EN 10025-2 and inspection certificates are issued in compliance with EN 10204 – 3.1. Other qualities, smaller tolerances and other specifications are subject to agreement before a purchase contract is signed.

FLAME CUTTING

Jednou z oblastí hlavních investičních záměrů je rozšiřování a další zkvalitňování služeb pálení plechů. Je to reakce na stále se zvyšující zájem trhu o tuto službu. Hladké, žebírkové či slzičkové plechy jsou ve Feroně vypalovány do libovolných tvarů při maximálním formátu až 3000 × 12 000 mm, v tloušťce od 1 do 250 mm. Služba funguje na pálicích automatech v pobočkách Plzeň, Hradec Králové, Brno a Olomouc. K vypalování plechů slouží stroje MGM CORTINA a MGM OMNICUT s autogenní výbavou a plazmovými zdroji firmy HYPERTHERM.

BLOCK CUTTING

It is mainly tool factories that use our service of cutting blocks and round bars made of high-grade steel and non-ferrous metals. The products are cut using Kasto block band saws to various dimensions of up to 1,000 x 1,300 x 4,000 mm. A special centre for cutting blocks and round bars made of high-grade steel and non-ferrous metals is operated in Olomouc as a service centre for tool factories. The products are cut using KASTO BBS U10 x 13 block band saws to various dimensions of up to 1,000 x 1,3000 x 4,000 mm and KASTO BBS U8 x 10 for dimensions not exceeding 860 x 1,060 x 3,000 mm, with a maximum weight of a block of 16,000 kg. The centre is also equipped with KASTO TEC Ac5 and KASTO TWIN A4 band saws.

PROCESSING OF REINFORCING STEEL

An automatic STEMA TWINMASTER machine is used to unbend, cut and bend reinforcing steel wires with diameters ranging from 6 to 16 mm. Products with diameters ranging from 6 to 39 mm are processed using EDDINGHAUS machines. HAMB I machines are used to cut and bend reinforcing wire meshes with wire diameters ranging from 4 to 8 mm.

UNBENDING AND BENDING REINFORCING WIRE COILS

An automatic STEMA TWINMASTER 16 II is used to unbend, cut and bend reinforcing wire coils with diameters ranging from 6 to 16 mm. Since recently, we are also able to process stainless reinforcing wire coils with diameters of 6, 8, 10 and 12 mm.

BENDING OF STEEL BARS

Reinforcing steel bars are bent using a Peddinghaus Perfekt 42 CA machine for diameters ranging from 6 to 39 mm.

CUTTING WITH A LASER LENGTH METER

A Peddinghaus Simplex AI 3000 machine is used to cut reinforcing bars with diameters ranging from 6 to 39 mm and BSt 500 S rebar steel.

WIRE MESH CUTTING

HAMBI TV 60 shears are used to cut reinforcing mesh with wire diameters ranging from 4 mm to 8 mm and aperture sizes of 100, 150 and 200 mm.

WIRE MESH BENDING

A HAMBI KSE 602 V machine is used to bend wire meshes.

TESTING OF MATERIALS AND CALIBRATION OF MEASURING DEVICES

The Steel Service Centre in Hradec Králové has a testing laboratory providing a wide range of services related to quality assurance. It uses a SPECTROTEST CCD spectrometer to carry out non-destructive chemical analyses and determine the quality of low-alloy carbon and nickel-chromium steel. A LABTEST tensile testing machine is used for static and dynamic mechanical tests of tensile, bending and compressive strengths. Hardness of materials is tested using a HPO 250 hardness meter. The device is fitted with a semi-automatic optical unit to measure the size of penetration using a camera and a picture analysis.

To improve our services and provide the necessary support for our business operations, a Laboratory for the Calibration of Geometric Quantities was established in Prague. It is authorised by the Czech Office for Standards, Metrology and Testing to test length gauges and accredited by the Czech Accreditation Institute to calibrate slide gauges, micrometer callipers including tubular ones, steel parallels and tape measures.

The Calibration Laboratory also calibrates thickness gauges for sheets, protractors, angles, measuring tapes and length gauging devices on a cutting line at the Steel Service Centre. These metrological services are provided both for Feron and third parties.



SPECIAL PROJECTS



There are always jobs and projects that are of special importance and of which the company may be proud of. In 2006, such special projects implemented by Feronia included:

Decorative cube – manufactured from Feronia's materials for Sazka



Bridge between Tošanovice and Žukov

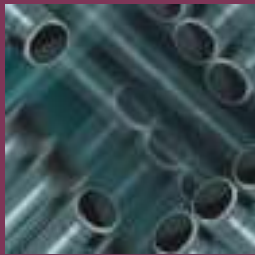
Feronia delivered materials for the steel structure of the left bridge built by Metrostav. The project of the bridge between Tošanovice and Žukov on the I/48 express road is being implemented for the Road and Motorway Directorate of the Czech Republic by a joint venture between Metrostav and Max Boegl & Josef Krýsl. The bridge should be completed by late 2007.



Tanks for MERO

Feronia supplied sheets for tanks used by MERO. The central oil loading depot was extended to 2 x 125,000 m³.





STAFF



HUMAN RESOURCES AND STAFF DEVELOPMENT

Human resources play a key role in the outputs of every company. Feronia is well aware of it and so it esteems its employees highly, trying to remunerate and motivate them appropriately.

SOME FACTS AND FIGURES

In 2006, Feronia had 1,412 employees in average, out of which 744 were technical and accounting staff, 568 were blue-collar workers, 95 were sales and operating staff, and 5 were unskilled workers and operators. In terms of education, 107 employees had secondary education, 595 had complete secondary education, 601 had secondary education without a school-leaving examination, and 109 employees only had elementary education.

The average wages in 2006 amounted to CZK 30,569, which was an increase by more than 30% compared to last year. This positive development was due to the key indicators of the financial plan that were all met.

FRINGE BENEFITS

Social expenses amounted nearly CZK 30 million in 2006. They were used primarily to fund the priorities of the company's social programme, including meal allowance, commuting allowance, social assistance, holiday allowance and other benefits. This category also includes another major item which are loyalty bonuses according to the years worked for Feronia.

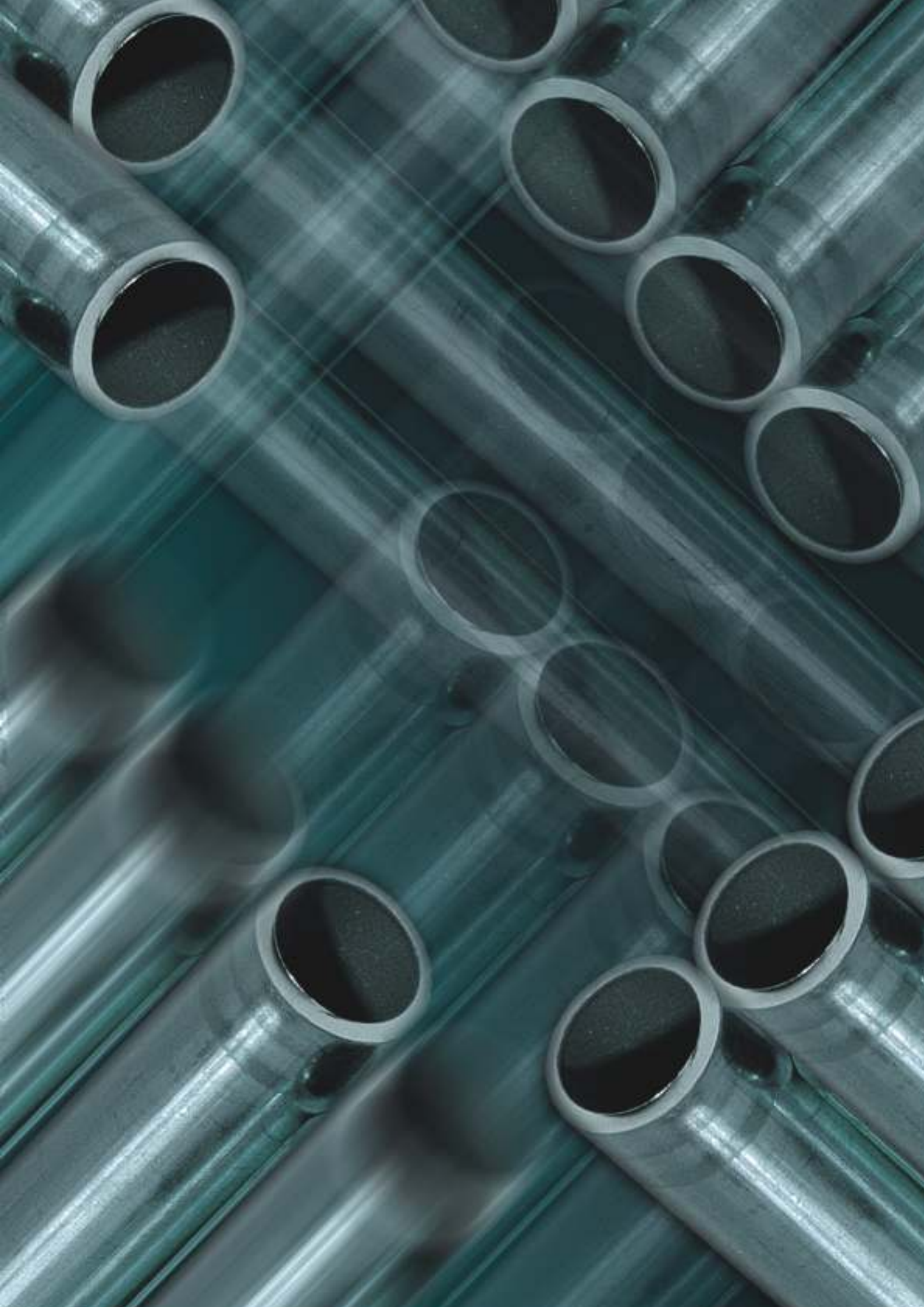
TRAINING

Personal development is an integral part of the company's care for its employees because training and professional education are important points on the company's way towards greater stability and further development. In the reported year, training and education included mostly language courses, workshops and professional seminars, as well as standard training focused on changes in legal regulations.

INTERNAL NEWSLETTER

Feronia issues a newsletter called Echo four times a year to inform its employees about important events in the company. The newsletters also contains entertainment news and funny articles, crossword puzzles and contests with interesting prizes, such as holiday trips.

The Echo newsletter was awarded a prestigious prize at the Golden Semicolon 2006 Contest. This contest assesses and awards periodic and non-periodic company newsletters and publications designed for the presentation of the company or its products and services to customers, business partners or employees. The jury awarded a Golden Semicolon 2006 Certificate of Professional Level to Echo.





FERONA AS
A RESPONSIBLE
AND STRONG
PLAYER



Ferona is one of the most important employers in many regions of the Czech Republic. It has also been regularly included in the prestigious “100 Best of...” study based on which the largest and most successful companies in the Czech Republic are announced every year.

Ferona is well aware that a good reputation of a strong and economically stable company also includes support for non-profit sectors, culture, sports and charity. This is why Ferona supported a number of various activities last year and provided funds for the purchase of aids, devices and equipment for charity and medical facilities.

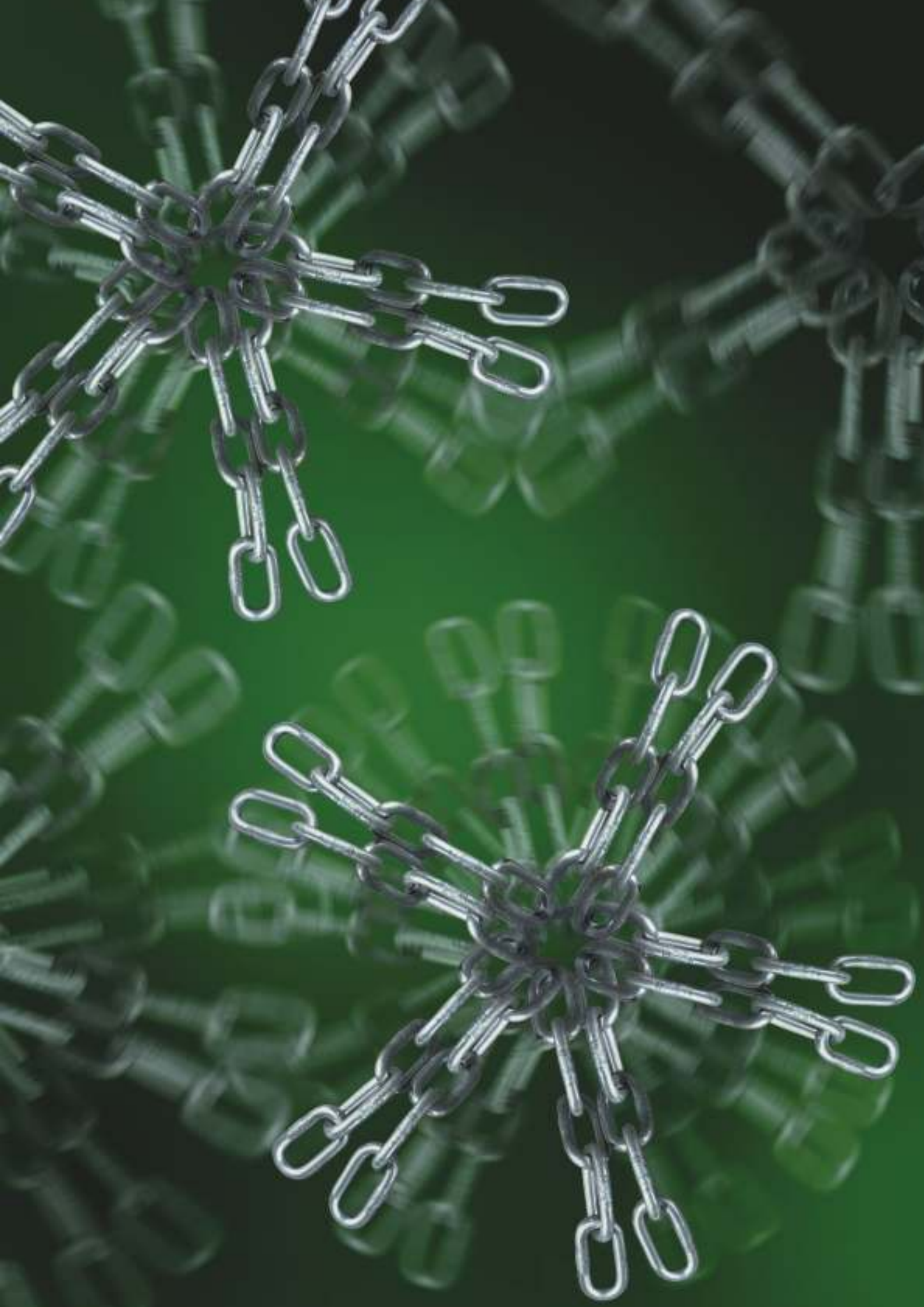
SUPPORT FOR SPORTS ACTIVITIES

Jaroslav Volf and Ondřej Štěpánek, canoeists, won golden medals at the 2005 Canoe Kayak Slalom Racing World Championship in Prague-Troja, and bronze medals at the 2004 Olympic Games in Athens.



Jaroslav Volf and Ondřej Štěpánek

Wheelchair Users Sports Club: Ferona has been supporting sports activities of people who are bound to a wheelchair after a spinal cord injury. The activities are closely related to the Paraple Centre providing the necessary mental and material support to the Club.



SUPPORT FOR CULTURAL ACTIVITIES

Ivan Kyncl's exhibition in Prague, showing a cross-section of the rich work by Ivan Kyncl (1953-2004). Born in the family of Karel Kyncl, the radio reporter, he was a sought-after photographer of the leading British and other theatres.

Exhibition at the National Theatre in Prague: It was a large private-view happening arranged by Jan Kunovský in cooperation with the prima ballerina of the English National Ballet, Daria Klimentová.

CHARITY AND HEALTH CARE

Foundation of Jedlička Institute – purchase of rehabilitation and compensatory aids.

Physical Education and Riding Club at Přední Kopanina – support for the development of riding focusing on the use of horses in the therapy of ill children suffering from inadequate muscular and mental coordination (hippotherapy).

Křižovatka Foundation – purchase of BabySense electronic breathing monitors monitoring the sleep of infants. These devices are the only protection available now against sudden infant death syndrome.



Dráček Civic Society – provision of funds for a rehabilitation team to treat children with neurologic diseases.

Association for the Rehabilitation of Children with Movement Disorders – arrangement of two weekend workshops for children with movement disorders and purchase of the necessary materials for these events.

Motol Teaching Hospital – treatment of patients, purchase of new medical devices, payment of operating expenses and support for scientific research done at the Institute for Biology and Medical Genetics of Motol Teaching Hospital and Medical Faculty II of Charles University, support for the Clinic of Rehabilitation, and purchase of a spinal unit.

Med Point, s. r. o. – provision of funds for the refurbishment of a department of internal medicine, purchase of a sterilizer (an steam apparatus used to sterilize surgical instruments).

Charity Golf Party – regular participation in the Charity Golf Party at the golf course of Olšová Vrata near Karlovy Vary the proceeds of which are distributed among various charity organisations.

Foundation of Charta 77 – Barriers Account – Feron has been supporting this foundation for many years now and it has helped a large number of handicapped persons. This year's funds provided by Feron were used to pay the costs of a special modification of a car for Michael Mencl who is seriously handicapped. The picture shows Michael Mencl and Jiří Plajner, the chairman of Feron's Board of Directors.





OUTLOOK AND
EXPECTATIONS
FOR 2007



ENTRY INTO NEW MARKETS WITHIN THE EU

Every company and its management have their short-term and long-term goals. Feron's long-term goal is to become number one in the distribution of metallurgical products in Central Europe. It has already attained this position in the Czech Republic and is very close to attaining it in Slovakia. Feron's management will use all the current expertise and skills of the company's staff and the currently used technology to achieve the goal.

Besides improving its services provided to its well-established customers, Feron also wants to focus on new demand and prospective customers outside the Czech Republic and Slovakia, where Feron's market presence is very strong. For example, a new subsidiary, Feron Polska, had to be established in Poland for warehouse sales in the region between Katowice and Krakow because deliveries across the border could no longer satisfy the needs of the local customers. In the not-too-distant future, other countries of Central and South-East Europe could follow, such as Hungary and Slovenia and later perhaps even Croatia and Serbia.

OTHER FUNDAMENTAL GOALS

In addition to an attack to the position of a strong Central European player, Feron's fundamental goal is also to increase the shareholders' value, extend the range of services and products with high value added, and provide its customers with competitive, global support in neighbouring markets. All these goals go beyond a single year. Another long-term goal, closely related to those named above, is to stabilise Feron's shares in the markets of metallurgical products and use new opportunities to increase them. Feron also has to achieve more favourable terms and conditions for the purchase of goods to be able to develop the company's internal potential and financial strength.

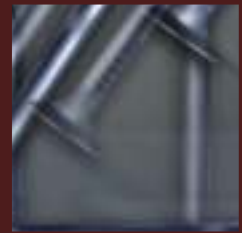
The 2007 plan envisages revenue from the sale of goods of CZK 18,934 million and pre-tax profit of CZK 530 million.

Capital expenditures are expected to amount to CZK 242 million in 2007, comprising mainly modernisation and refurbishment projects. Two development projects will be implemented, construction of a warehouse building with cranes in Plzeň and refurbishment of a warehouse building in Prague-Malešice.





RESULTS OF OPERATIONS



INVESTMENT ACTIVITIES

The investment activities in 2006 focused primarily on refurbishment and investments towards better satisfaction of customers' needs. **Tangible and intangible fixed assets** were purchased in the value of CZK 231,783 thousand. Of this, CZK 88,177 thousand was investments into machinery and equipment. Most funds were invested into cranes and equipment used for the treatment of goods. A total of CZK 63,172 thousand was invested into the renewal of our vehicle fleet. The investments into structures reached CZK 71,094 thousand, including mainly the modernisation of the warehouse premises in České Budějovice and Prague and the offices in Ostrava and the company's headquarters. A total of CZK 9,340 thousand was spent on intangible assets, mostly software.

KEY INDICATORS OF THE LAST THREE YEARS

The company has fully assumed the activities of its legal predecessor, formed as a joint-stock company in 1992.

		2004	2005	2006
Sale of materials	(thousands of tonnes)	960	873	981
Revenue from the sale of goods	(CZK million)	19 315	18 698	20 675
Profit/loss	(CZK million)	989	364	822
Inventory	(CZK million)	3 784	3 091	4 216
Short-term receivables	(CZK million)	2 407	2 537	3 152
Short-term payables	(CZK million)	2 042	2 296	3 050
Bank loans	(CZK million)	2 785	2 562	3 130
Employees	(persons)	1 471	1 445	1 412

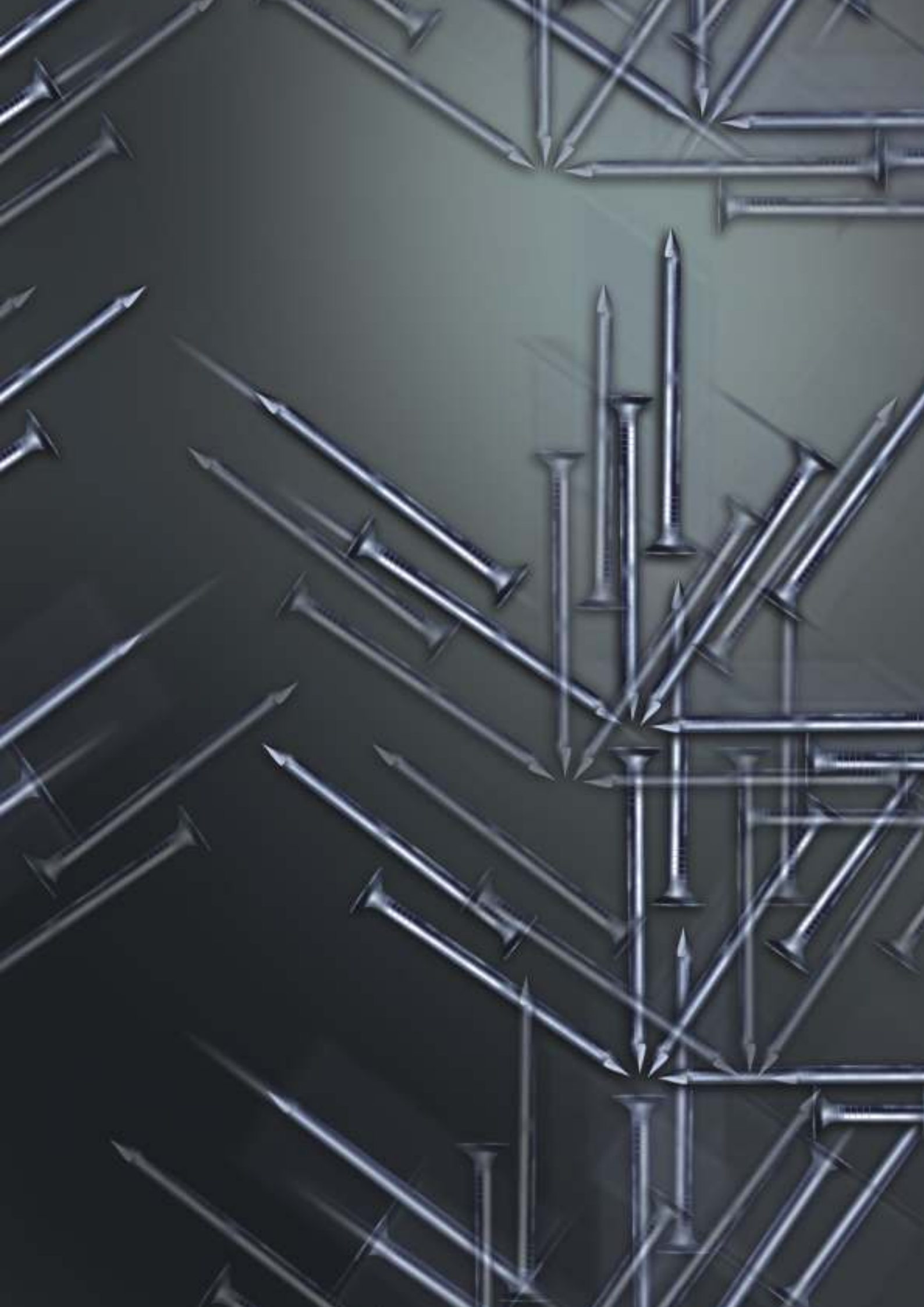
BUSINESS ACTIVITIES

In 2006, Feron continued as the leader in the field of steel stockholding and distribution of metallurgical products, secondary products, non-ferrous metals and the related range of hardware goods in the Czech Republic. Its market share differs from one product to another but generally it reaches 15 to 20 per cent of deliveries for use within the Czech Republic.

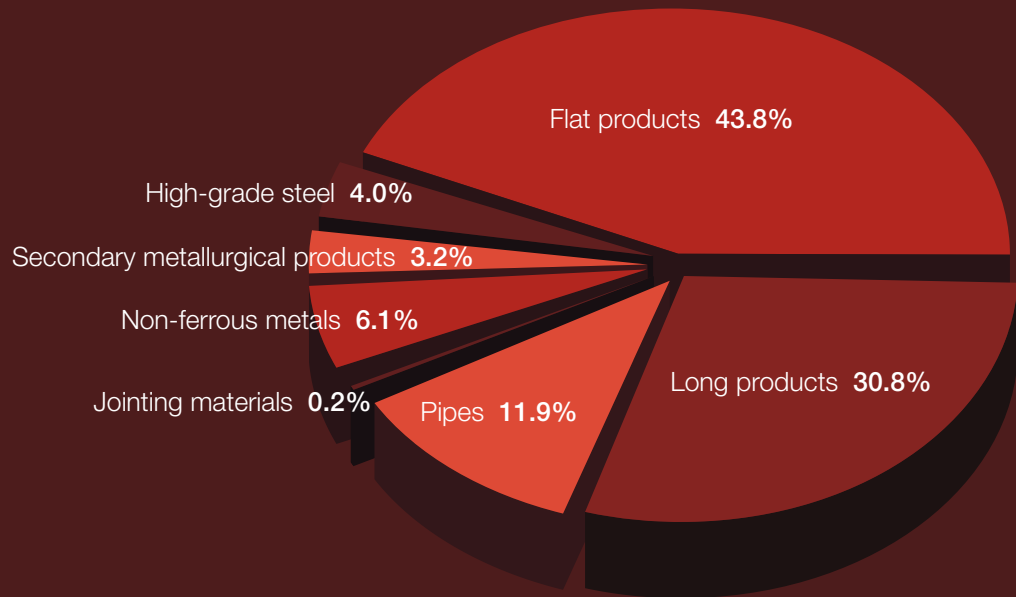
In 2005 the Company sold 980,526 tonnes of **goods**, which was an increase by 107,402 tonnes or 12.3% compared to 2004 and 20,958 tonnes or 2.2% compared to 2004. Last year's sales expressed in units of materials was the best result for the past decade.

Last year, **revenues from the sale of goods** amounted to CZK 20,674,719 thousand, which was an increase by CZK 1,976,915 thousand or 10.6% compared to 2005 and CZK 1,360,073 thousand or 7% compared to 2004.

Most of the company's revenue is obtained in the Czech market, with exports to other countries only accounting for about 2% of the revenue.



The **structure of the revenue** according to groups of products in 2006 was as follows:



Jointing materials only accounted for a negligible share in the total revenue, especially after Feronia discontinued the wholesale business with these products in the second half of 2006. Since then, jointing materials are only available in retail outlets.

COMMENTS ON THE DEVELOPMENT

COMMENTS ON THE PROFIT AND LOSS ACCOUNT

It was the profit margin that accounted for most of the company's revenue. In 2009, profit margin totalled CZK 2,212,132 thousand, which was CZK 608,365 thousand or 37.9% more than in 2005 but CZK 854,627 thousand less than in 2004. The increase against the last year's figure was due to a favourable price development combined with a rise by 12.3% of the sale of materials compared to 2005. Revenue from services consisting in splitting and processing of materials, such as flame-cutting of thin sheets according to the customers' requirements, and services provided by the subsidiary amounted to CZK 157,445 thousand, which was an increase by CZK 17,138 thousand or 12.2% compared to 2005 and 10.8% compared to 2004.

The costs of materials and energy consumed totalled CZK 1,320,775 thousand, out of which consumption of materials in Division IV – Steel Service Centre accounted for 89% or CZK 1,175,395 thousand. The largest item of services purchased from third parties was contractual transport (accounting for 40%) and repairs and maintenance (accounting for 19%).

Due to the developments described above, the value added also increased by CZK 553,364 thousand to CZK 1,842,606 thousand, which was an increase by 42.9% compared to 2005 but a decrease by 30.9% compared to 2004. Total personnel expenses of CZK 744,863 thousand, up by 27.1% compared to 2005, helped increase the satisfaction of the company's employees. Depreciation and amortisation of tangible and intangible fixed assets amounted to CZK 208,359 thousand, which was a year-on-year drop of 1.5%.

The **result of operations** was CZK 1,069,780 thousand, which was an increase by CZK 493,313 thousand compared to 2005 but a decrease by CZK 456,686 thousand compared to 2004.

Interest paid on operating loans amounted to CZK 114,564 thousand and was still the largest item of expenses reducing the income from financial operations, despite a year-on-year decline by 18%. Other financial expenses, such as bank fees and foreign exchange losses, amounted to CZK 48,802 thousand. The income from financial operations also included dividends received from ownership interests of CZK 115,590 thousand and the profit from the sale of shares of Nypro – hutní prodej, a. s. Other financial income totalled CZK 38,339 thousand. The **result of financial operations** was a profit of CZK 12,176 thousand.

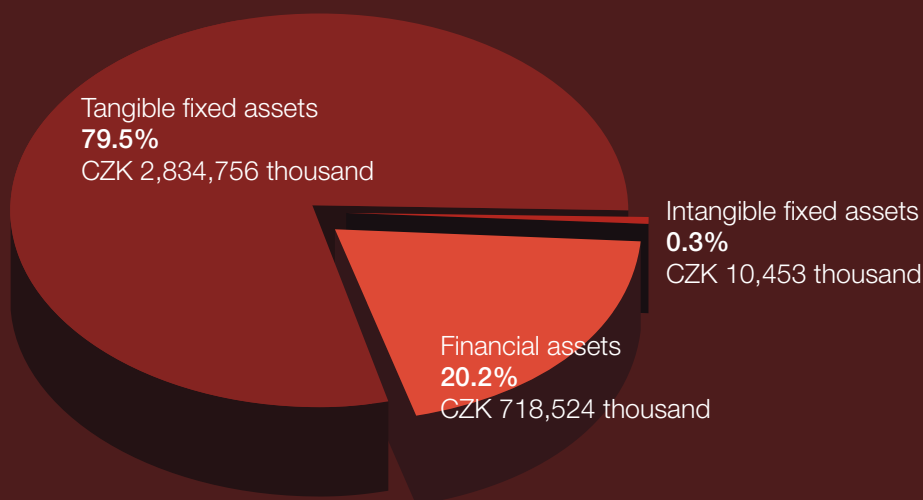
In 2006, the Company did not record any accounting operations which would have affected the **extraordinary profit/loss**. The gross profit of 2006 before taxation increased by CZK 620,604 thousand compared to the previous year and amounted to CZK 1,081,956 thousand.

The **profit for the fiscal year** (net profit after taxation) totalled CZK 822,432 thousand, which was an up by CZK 458,711 thousand compared to the previous year but down by CZK 166,375 thousand compared to 2004.

COMMENTS ON THE BALANCE SHEET

Total assets as of 31 December 2006 increased by CZK 1,664,209 thousand to a total net book value of CZK 11,052,749 thousand. This development was due to a rise of inventory and short-term receivables as a result of increasing prices of the goods sold.

Fixed assets, accounting for 32.2% of the total assets, recorded a year-on-year relative drop of 0.5% and amounted to CZK 3,563,733 thousand. They were structured as follows (in CZK thousand and percentages of fixed assets):



The largest items of the **tangible fixed assets** included buildings and structures with a total value of CZK 1,735,709 thousand or 61.2% of the total value of tangible fixed assets, movables with a value of CZK 556,010 thousand (19.6%) and land with a value of CZK 526,622 thousand (18.6%).

The net value of **financial assets** amounted to CZK 718,524 thousand, including a previously recorded adjusting entry for the financial investment in Ferona Slovakia which, according to the principle of prudence, decreased the book value thereof by CZK 80,000 thousand, and a decrease in the value of financial investments in other countries according to the current exchange rate announced by the Czech National Bank for the Czech koruna on the last day of 2006 by a total of CZK 15,775 thousand. During the reported accounting period, shares of Nypro – hutní prodej, a. s., were sold. See the comments on the Profit and Loss Account for details of the impact of the sale on the income from operations.

Current assets accounted for 67.7% of total assets. They increased during the year by CZK 1,702,379 thousand to CZK 7,482,192 thousand.

The major item of the inventory was the inventory of goods that increased by CZK 1,053,547 thousand compared to the previous year to CZK 3,899,966 thousand. The immediate turnover time of inventory, calculated as the value of the goods sold at the acquisition price, was 77 days at the end of the reported year, which was an up by 16 days compared to 2005 due to acquisition of additional inventory before the end of the year.

The company reported **long-term receivables** from security deposits for rented premises and activation of mobile phones.

Trade receivables accounted for the largest portion of short-term receivables. They increased by CZK 609,364 thousand during the year due to a rise of prices, amounting to CZK 3,092,263 thousand net. Adjusting entries are recorded for all receivables overdue for more than 1 year. The immediate turnover time of short-term trade receivables was 54 days at the end of the year, which was a year-on-year slow-down by 6 days caused by an increase in the sales with extended maturity periods for receivables in the second half of the year.

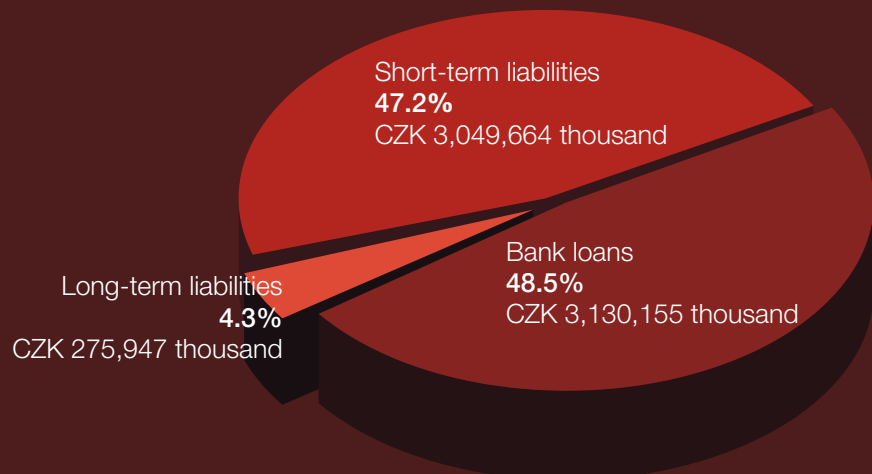
Short-term financial assets amounted to CZK 101,306 thousand at the end of the year, which was a decline by 25% compared to the beginning of the year due to a more favourable use of an overdraft loan.

Accruals and deferrals of CZK 6,824 thousand only accounted to 0.1% of total assets.

Ferona's **registered capital** was CZK 3,000,000 thousand and it was divided into 300 shares with a nominal value of CZK 10,000 thousand each. The shares were certificated but not quoted. See the annex to the Financial Statements for details of changes.

The company's **equity** totalled CZK 4,572,453 thousand as per 31 December 2006, covering 41.4% of the total book value of the company's liabilities.

Liabilities amounted to CZK 6,455,766 thousand at the end of 2006 and were structured as follows:



The major item of **long-term liabilities** was the deferred tax liability of CZK 275,842 thousand. A loan received from the parent company of CZK 500,000 thousand was completely repaid during the reported accounting period, along with the related accrued interest, fees and other expenses.

Bank loans amounted to CZK 3,073,861 thousand at the end of the year, exclusive of factoring. As per the date of the annual accounts, Ferona was still repaying an operating loan taken out to finance current assets and various short-term revolving loans also taken out to fund current assets. Liabilities from regressive factoring amounted to CZK 56,294 thousand.

Accruals and deferrals amounted to CZK 24,530 thousand at the end of the year, with the largest item being accrued interest on bank loans.

FINANCIAL POSITION

The results of the annual accounts show that the company is in a good financial standing. The total value of short-term receivables exceeded the total value of short-term payables by CZK 102,679 thousand at the end of the year and the company was not insolvent.

The company's total debt ratio was maintained at reasonable levels and the company was not in default with the payment of any of its liabilities. The company entered into loan contracts to obtain funds sufficient to cover all its needs. The company's liabilities accounted for 58.6% of its assets as per 31 December 2006.

The ratio of bank loans and total revenue was 15% at the end of 2006.

RESULTS OF THE CONSOLIDATED GROUP

The group companies reported total revenue from the sale of goods of CZK 24,056,585 thousand in 2006, which was an increase by 3.7% compared to the previous year. The value added recorded a year-on-year rise of 35.3% to CZK 2,072,691 thousand. The consolidated income from operations amounted CZK 1,153,971 thousand as per 31 December 2006.

The **consolidated result** of operations, including a share in the result of group companies in equivalence) was a profit of CZK 875,308 thousand, which again was an increase by 147% compared to 2005.

The total value of the assets of the consolidated group amounted to CZK 12,322,757 thousand and that of the **equity** to CZK 4,770,920 thousand at the end of 2006.

EVENTS RECORDED AFTER THE BALANCE SHEET DATE AND OUTLOOK FOR 2007

As part of its new activities, Feroná founded a subsidiary, Feroná Polska S.A., to promote warehouse-based wholesale business in Poland.

Topham Eisen- und Stahlhandels-G.m.b.H., Vienna, Austria, in which Feroná held an ownership interest, entered into liquidation. Due to the small amount of the ownership interest, this will not have any impact on the company's business.

Feroná acquired 50% of the shares of Feroná – Dělící centrum, a. s., Ostrava, and became the 100% owner of the company.

After the balance sheet date, no events occurred that could have any significant effect on the assessment of the performance, activities and economic position of the company.



DOCUMENTS



- ◆ Auditor's Report
- ◆ Financial statements as per 31 December 2006
- ◆ Auditor's Report on the consolidated financial statements
- ◆ Consolidated financial statements as per 31 December 2006

INDEPENDENT AUDITOR'S REPORT FOR THE SHAREHOLDERS OF FERONA, A. S.

We have audited the accompanying financial statements of Ferona, a. s., which comprised the balance sheet as of 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory body's responsibility for the financial statements

The statutory body of Ferona, a. s., is responsible for the preparation and fair presentation of these financial statements in accordance with Czech financial reporting standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, 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 the Auditors Act, the International Audit Standards and the related application clauses issued by the Czech Chamber of Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the appropriateness of accounting policies 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 audit opinion.

Opinion

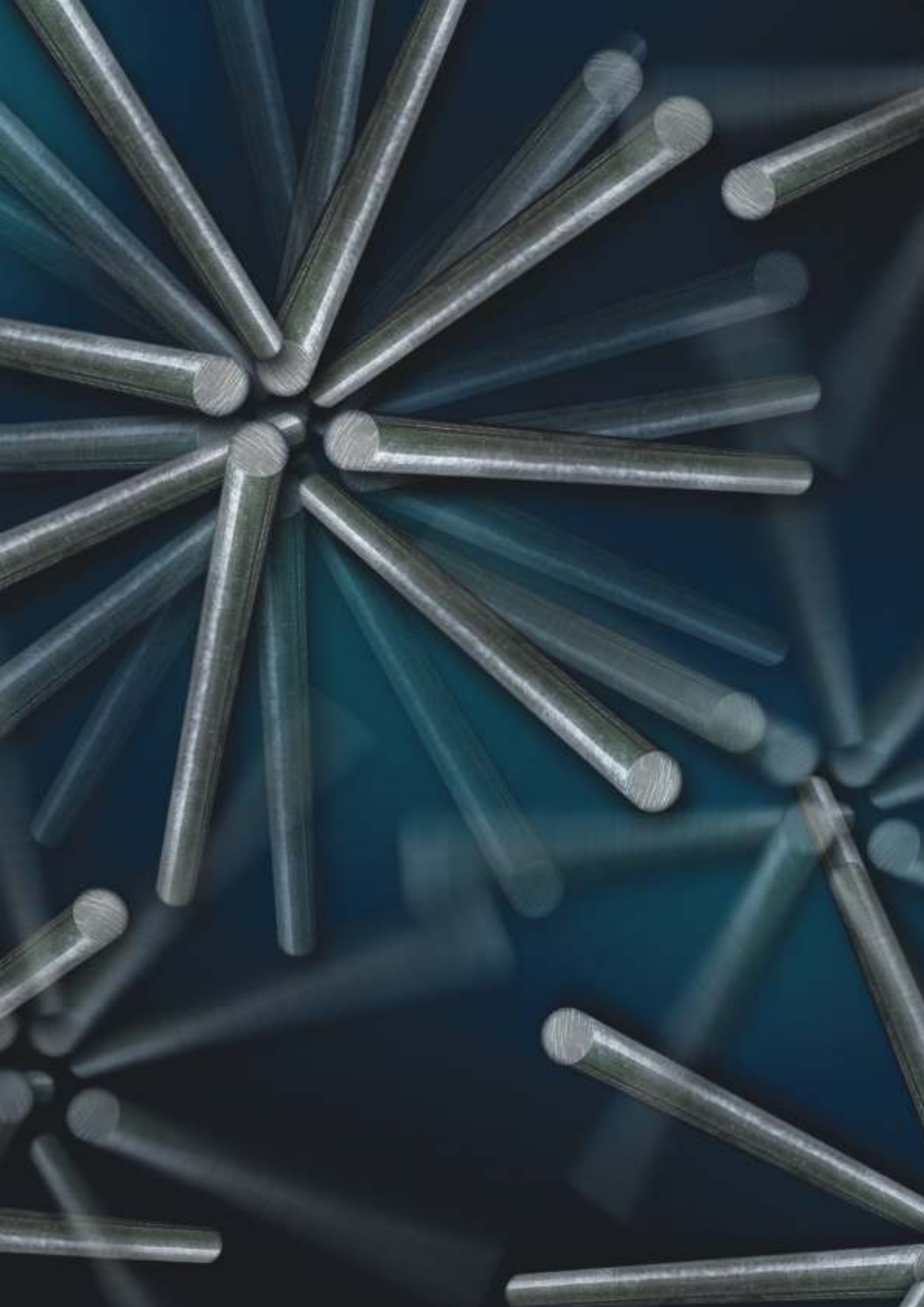
In our opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of Ferona, a. s., as of 31 December 2006, and of its expenses, revenue, income from operations and cash flows for the year then ended in accordance with the applicable Czech accounting regulations.

Prague, 15 March 2007

BDO Prima Audit, s. r. o.
represented by partners:


Ing. Ladislav Novák
Auditor, certificate no. 0165


Ing. Eva Knyplová
Auditor, certificate no. 1521



BALANCE SHEET for the year ended 31 December 2006 (in CZK thousand)

Ident.	ASSETS	Current year			Previous year
		Gross	Adjustment	Net	Netto
	TOTAL ASSETS	12 938 007	-1 885 258	11 052 749	9 388 540
B.	Fixed assets	5 169 372	-1 605 639	3 563 733	3 583 228
B. I.	Intangible fixed assets	52 634	-42 181	10 453	3 630
3.	Software	49 721	-40 918	8 803	2 373
4.	Valuable rights	1 460	-1 263	197	0
7.	Intangible fixed assets not in use	1 453	0	1 453	1 257
B. II.	Tangible fixed assets	4 318 214	-1 483 458	2 834 756	2 846 696
B. II. 1.	Land	526 622	0	526 622	546 146
2.	Buildings, halls and structures	2 333 460	-597 751	1 735 709	1 766 858
3.	Machinery, tools and equipment, vehicles and fixtures	1 441 717	-885 707	556 010	524 429
6.	Other tangible fixed assets	301	0	301	301
7.	Tangible fixed assets not in use	16 034	0	16 034	8 649
8.	Prepayments for tangible fixed assets	80	0	80	313
B. III.	Long-term investments	798 524	-80 000	718 524	732 902
B. III. 1.	Shares in subsidiaries	767 679	-80 000	687 679	702 004
2.	Shares in associates	30 170	0	30 170	30 223
3.	Other securities and ownership interests	675	0	675	675
C.	Current assets	7 761 811	-279 619	7 482 192	5 779 813
C. I.	Inventory	4 215 854	0	4 215 854	3 091 392
C. I. 1.	Material	305 496	0	305 496	243 761
2.	Work in progress and semi-finished products	3 167	0	3 167	1 212
5.	Finished products	3 899 966	0	3 899 966	2 846 419
6.	Prepayments for inventory	7 225	0	7 225	0
C. II.	Long-term receivables	3 689	0	3 689	3 809
5.	Long-term prepayments	3 689	0	3 689	3 809
C. III.	Short-term receivables	3 431 962	-279 619	3 152 343	2 537 393
C. III. 1.	Trade receivables	3 371 768	-279 505	3 092 263	2 482 899
2.	Receivables from controlling entities	17 247	0	17 247	0
6.	Taxes receivable	0	0	0	45 975
7.	Short-term prepayments	6 330	0	6 330	4 025
8.	Estimated assets	32 998	0	32 998	864
9.	Other receivables	3 619	-114	3 505	3 630
C. IV.	Short-term investments	110 306	0	110 306	147 219
C. IV. 1.	Cash in hand	2 443	0	2 443	2 579
2.	Cash at bank	101 907	0	101 907	143 159
3.	Short-term investments	5 956	0	5 956	1 481
D. I.	Temporary assets	6 824	0	6 824	25 499
D. I. 1.	Deferred expenses	6 727	0	6 727	5 598
3.	Accrued income	97	0	97	19 901

BALANCE SHEET for the year ended 31 December 2006 (in CZK thousand)

Ident.	LIABILITIES	Current year	Previous year
	TOTAL LIABILITIES	11 052 749	9 388 540
A.	Equity	4 572 453	3 718 419
A. I.	Registered capital	3 000 000	3 000 000
A. I. 1.	Registered capital	3 000 000	3 000 000
A. II.	Capital funds	214 759	183 157
2.	Other capital funds	230 534	230 534
3.	Gains or losses from revaluation of assets	-15 775	-47 377
A. III.	Reserve funds, non-distributable fund and other funds created from profit	124 191	106 004
A. III. 1.	Statutory reserve fund / Non-distributable fund	124 191	106 004
A. IV.	Retained earnings or loss from previous years	411 071	65 537
A. IV. 1.	Retained earnings from previous years	411 071	65 537
A. V.	Profit or loss of current year [+/-]	822 432	363 721
B.	Liabilities	6 455 766	5 656 866
B. II.	Long-term payables	275 947	798 011
2.	Payables to a controlling entity	0	500 000
5.	Long-term advances received	105	77
8.	Estimated liabilities	0	28 826
10.	Deferred tax	275 842	269 108
B. III.	Short-term payables	3 049 664	2 296 371
B. III. 1.	Trade payables	2 818 432	2 214 828
2.	Payables to a controlling entity	0	186
5.	payables to employees	220	152
6.	Social security and health insurance	28 118	15 701
7.	tax payable and subsidies	98 660	32 305
8.	Short-term advances received	1 207	1 005
10.	Estimated liabilities	60 543	5 912
11.	Other liabilities	42 484	26 282
B. IV.	Bank loans and borrowings	3 130 155	2 562 484
B. IV. 1.	Long-term bank loans	2 000 000	0
2.	Short-term bank loans	1 073 861	2 502 091
3.	Short-term borrowings	56 294	60 393
C. I.	Temporary liabilities	24 530	13 255
C. I. 1.	Accrued expenses	23 075	12 821
2.	Deferred income	1 455	434

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2006
(in CZK thousand)

Ident.	TEXT	Accounting period	
		Current	Previous
I.	Sales of goods purchased for resale	20 674 719	18 697 804
A.	Cost of goods sold	18 462 587	17 094 037
+	Gross margin	2 212 132	1 603 767
II.	Production	1 407 576	1 285 759
II. 1.	Sale of own products and services	157 445	140 307
3.	Own work capitalised	1 250 131	1 145 452
B.	Purchased consumables and services	1 777 102	1 600 284
B.1.	Consumables	1 320 775	1 231 732
2.	Services	456 327	368 552
+	Value added	1 842 606	1 289 242
C.	Staff costs	744 863	585 907
C.1.	Wages and salaries	519 798	402 469
2.	Remuneration of board members	9 360	10 360
3.	Social security and health insurance	186 186	144 898
4.	Social benefits	29 519	28 180
D.	Taxes and charges	15 492	12 058
E.	Depreciation/amortisation of tangible and intangible fixed assets	208 359	211 589
III.	Sale of fixed assets and material	43 519	13 655
III.1.	Sale of fixed assets	34 443	8 234
2.	Sale of material	9 076	5 421
F.	Net book value of fixed assets and material sold	36 366	10 052
F.1.	Net book value of fixed assets sold	27 530	4 864
2.	Material sold	8 836	5 188
G.	Change in reserves and adjusting entries in operation and complex deferred expenses	35 673	16 890
IV.	Other operating income	1 164 209	734 280
H.	Other operating expenses	939 801	624 214
*	Operating profit or loss	1 069 780	576 467
VI.	Proceeds from sale of securities and ownership interests	66 500	0
J.	Cost of securities and ownership interests sold	47 081	0
VII.	Income from investments	115 590	39 000
VII. 1.	Income from intercompany securities and ownership interests	115 590	39 000
VIII.	Income from short-term investments	7	594
X.	Interest income	2 187	4 012

Ident.	TEXT	Accounting period	
		Current	Previous
N.	Interest expense	114 564	139 722
XI.	Other financial income	38 339	36 133
O.	Other financial expenses	48 802	55 132
*	Financial profit or loss	12 176	-115 115
Q.	Income tax on ordinary activities	259 524	97 631
Q. 1.	- due	252 790	115 017
2.	- deferred	6 734	-17 386
**	Profit or loss from ordinary activities	822 432	363 721
***	Profit or loss of current year [+/-]	822 432	363 721
****	Profit or loss of current year before taxes	1 081 956	461 352

INDEPENDENT AUDITOR'S REPORT FOR THE SHAREHOLDERS OF FERONA, A. S.

We have audited the accompanying consolidated financial statements of Ferona, a. s., which comprised the balance sheet as of 31 December 2006, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory body's responsibility for the consolidated financial statements

The statutory body of Ferona, a. s., is responsible for the preparation and fair presentation of these financial statements in accordance with Czech financial reporting standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditors Act, the International Audit Standards and the related application clauses issued by the Czech Chamber of Auditors. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of Feron, a. s., as of 31 December 2006, and of its expenses, revenue, income from operations and cash flows for the year then ended in accordance with the applicable Czech accounting regulations.

We have also reviewed the factual accuracy of the information included in the related party transactions report of Feron, a. s., for the year ended 31 December 2006. This related party transactions report is the responsibility of Feron's Board of Directors. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with the International Audit Standards applicable to review engagements and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Feron's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of Feron, a. s., for the year ended 31 December 2006 contains material factual misstatements.

We have also audited the consolidated annual report for consistency with the consolidated financial statements referred to above. This consolidated annual report is the responsibility of Feron's Board of Directors. Our responsibility is to express an opinion on the consistency of the annual report and the consolidated financial statements based on our audit.

We conducted our audit in accordance with International Audit Standards and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the consolidated annual report prepared by Feron, a. s., for the year ended 31 December 2006 is consistent, in all material respects, with the consolidated financial statements referred to above.

Prague, 24 April 2007

BDO Prima Audit, s. r. o.
represented by partners:


Ing. Ladislav Novák
Auditor, certificate no. 0165


Ing. Eva Knyplová
Auditor, certificate no. 1521

BALANCE SHEET

Minimum extent required of the consolidated balance sheet (in CZK thousand)

Ident.	TEXT	Current fiscal year as per 31 Dec 2006	Previous fiscal year as per 31 Dec 2005	Fiscal year before last as per 31 Dec 2004
	TOTAL ASSETS	12 322 757	11 034 273	11 872 544
A.	Amounts receivable for subscribed capital	0	0	0
B.	Fixed assets	3 519 964	3 538 112	3 764 294
B.I.	Intangible fixed assets	10 812	4 124	5 880
B.II.	Tangible fixed assets	3 416 476	3 456 487	3 693 200
B.III.	Long-term investments	1 654	1 707	1 759
B.IV.	Consolidation difference: active "+", passive "-"	0	0	307
B.V.	Securities in consolidation	91 022	75 794	63 148
C.	Current assets	8 795 021	7 468 726	8 086 247
C.I.	Inventory	4 774 651	3 686 460	4 447 213
C.II.	Long-term receivables	8 842	3 809	3 872
C.III.	Short-term receivables	3 747 587	3 486 561	3 194 622
C.IV.	Cash and investments	263 941	291 896	440 540
D.	Other assets – temporary assets	7 772	27 435	22 003
Ident.	TEXT	Current fiscal year as per 31 Dec 2006	Previous fiscal year as per 31 Dec 2005	Fiscal year before last as per 31 Dec 2004
	TOTAL LIABILITIES	12 322 757	11 034 273	11 872 544
A.	Equity	4 770 920	3 948 770	5 382 310
A.I.	Registered capital	3 000 000	3 000 000	3 994 200
A.II.	Capital funds	229 385	229 439	250 981
	Gains or losses from revaluation of assets and liabilities	-1 149	-1 095	-1 043
	Gains or losses from revaluation upon transformation	0	0	0
	Gains or losses from revaluation upon consolidation adjustments	0	0	0
A.III.	Funds created from profit	124 191	106 004	56 593
A.IV.	Retained earnings or loss from previous years	504 507	251 171	-42 271
A.V.	Profit or loss of current year exclusive of minority shares	875 308	337 274	1 105 571
1.	Profit or loss of current year [+/-]	860 080	324 627	1 097 924
2.	Share in profit or loss in equivalence [+/-]	15 228	12 647	7 647
A.VI.	Consolidation reserve fund	37 529	24 882	17 236
B.	Liabilities	7 521 114	6 961 079	6 351 366
B.I.	Reserves	0	0	0
B.II.	Long-term liabilities	283 990	805 415	301 979
B.III.	Short-term liabilities	3 388 247	2 809 876	2 504 593
B.IV.	Bank loans and borrowings	3 848 877	3 345 788	3 544 794
C.	Other liabilities – temporary liabilities	30 723	20 799	46 198
D.	Minority equity	0	103 625	92 670
D.I.	Minority registered capital	0	16 350	16 350
D.II.	Minority capital funds	0	0	0
D.III.	Minority funds created from profit, incl. retained earnings from previous years	0	70 329	40 432
D.IV.	Minority profit or loss of current year	0	16 946	35 888

PROFIT AND LOSS ACCOUNT

Minimum extent required of the consolidated profit and loss account
(in CZK thousand)

Ident.	TEXT	Fiscal year		
		Current as per 31 Dec 2006	Previous as per 31 Dec 2005	Before last as per 31 Dec 2004
I.	Sales of goods purchased for resale	24 056 585	23 199 971	23 535 244
A.	Cost of goods sold	21 526 654	21 233 857	19 911 390
+	Gross margin	2 529 931	1 966 114	3 623 854
II.	Production	1 411 540	1 290 451	1 025 600
B.	Purchased consumables and services	1 868 780	1 724 891	1 530 184
+	Value added	2 072 691	1 531 674	3 119 270
C.	Staff costs	850 321	698 914	986 119
E.	Depreciation/amortisation of tangible and intangible fixed assets	233 379	249 550	304 686
	Depreciation (clearance) of consolidated differences ["+" / "-"]	0	307	307
G. + H.	Change in reserves, adjusting entries and deferred operating expenses	52 784	4 514	120 141
III. + VI. - VII.	Other operating income	1 335 948	1 142 995	811 119
D. + F. + I. - J.	Other operating expenses	1 118 184	1 040 290	737 725
*	Consolidated profit or loss from operations	1 153 971	681 094	1 781 411
VIII+IX+X+XI+XII+ +XIII+XIV-XV	Financial income	254 140	67 878	219 875
K+L+M+N+ +O+R-P	Financial expenses	540 159	422 949	882 250
*	Consolidated financial profit or loss	-286 019	-355 071	-662 375
R.2.	Deferred income tax on ordinary activities	7 872	-15 550	-14 776
**	Consolid. profit or loss from ordinary activities	860 080	341 573	1 133 812
***	Consolidated profit or loss of current year, excl. equivalence	860 080	341 573	1 133 812
Out of which:	- Profit or loss of current year excl. minority shares	860 080	324 627	1 097 924
	- Minority profit or loss of current year	0	16 946	35 888
	Share in the profit or loss incl. equivalence	15 228	12 647	7 647
****	Consolidated profit or loss of current period	875 308	354 220	1 141 459

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