

ANNUAL REPORT
OF THE BOARD OF DIRECTORS
ON THE COMPANY'S OPERATIONS AND ASSETS
IN 2007



TABLE OF CONTENTS

 Introductory words 3	 Human resources and staff development 30
 Company's profile and history 6	 Results of operations 32
 2007 assessment Outlook and expectations for 2008 12	 Documents 37
 Product range Overview of Ferona products 14	 Auditor's Report 38
 Major projects 17	 Balance Sheet 39
 Ferona as a responsible and strong player 21	 Profit & Loss Account 41
 Investment 23	 Auditor's Report 43
 Services 25	 Consolidated Balance Sheet 45
 Quality management system 28	 Consolidated Profit & Loss Account 46



INTRODUCTORY WORDS



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

INTRODUCTION BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear friends

As a company with a long-standing tradition, Feronia will soon celebrate two hundred years of its existence. This is a breathtaking figure, but the branch itself in which Feronia has been operating is much older, with its foundations dating back as far as the beginning of the human kind. It was the prehistoric people who discovered and used metals such as copper, gold and silver in their naturally occurring forms. The beginning of metallurgical production of iron date back to about the 2nd millennium BC globally and the 6th century BC in Europe. While historians say that the Iron Age was over at the beginning of the Christian calendar, I dare say that it still continues and keeps developing. We can hardly imagine a branch in which steel or other metals do not play a key role. These branches may even be miles away from each other, such as building industry and medicine, car industry and jewellery, heavy industry and electronics.

Metallurgy is a branch with unshakeable foundations. Feronia builds upon these foundations and expands and extends its influence throughout Europe. Since 2004, Feronia has been a 100%-owned subsidiary of the British IRG Steel, where the conservative English spirit is combined with a well-tryed German management model and young, competent and hardworking Czech managers who bring their fresh knowhow to the company. Being active in Slovakia and Poland, Feronia's international profile and influence is undoubted.

Global factors, such as globalisation of the markets, have exposed Feronia to dramatic changes in the last few years. However, Feronia has well been able to adapt to all the developments. A proof of this may be our successful last year when we stuck to a strategy of offering a wide range of services. That strategy definitely paid off. An important milestone for Feronia was its expansion to the Polish market and consolidation of its Slovak subsidy. The company aimed at becoming a good partner to some multinational corporations operating in the CEE markets, including the Czech Republic, Slovakia and Poland. And I make be so bold as to suggest that we did an excellent job.

Indisputably, Feronia is a company with a long-standing tradition and modern ways of thinking. By continuously expanding the territory in which it operates and extending the range of services it offers, it has the prospect of a long, promising future. I am well aware that none of this would have been achieved if it hadn't been for hard work done by all of our employees, as well as our suppliers, customers and other parties we are in business together.

I would like to reassure you all that I appreciate your effort very much. I would also like to use this opportunity to thank you all and wish you a lot of success in the future.



Jiří Plajner, Chairman of the Board of Directors and CEO

INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

When L. G. Bondy founded his hardware wholesale business in Prague in 1829, he could not have known that he was laying the foundations for a long-standing tradition. Ninety years later, his business was transformed into a joint-stock company named Ferra and renamed to Feronia in 1972. Looking back at the long and rich history of Feronia, one might think that Feronia is an experienced, dignified old lady who is already a bit tired and likes taking a rest and thinking of the gold old days.

Not me, because I see it with completely different eyes. Feronia is like our children. It grows up a little bit every year, learns something new, gets a little stronger, and its brain, muscles and the whole body are ready to win over their competitors. You may object that we all think that our own children are the best, but we have an annual report and excellent results in services, a wide range of products, operations in the Czech market and, last but not least, expansion to foreign markets that we are proud to boast.

With a wide, comprehensive range of metallurgical products comprising 200,000 tonnes of materials stored in 11 state-of-the-art warehouses and the related services, high-level logistics and customer orientation, we have been able to keep a high share of our sales in steel consumption in the Czech Republic. It was the first time in Feronia's history that its sales of materials exceeded 1 million tonnes. We have implemented a quality management system and extended it to meet ISO/TS 16949 requirements. Now we can start supplying our products to the car industry which is the fastest developing industry in the market.

Early in July 2007, our Polish subsidiary, Feronia Polska, s. a., Myslowice, started selling products. It was a significant milestone for Feronia because Poland is a huge market with very good prospects for the economy as a whole and the construction industry in particular. However, iron consumption per capita still remains half the quantity that is consumed in Western Europe, which is an indication that investment into this segment of the market is the right decision because there is still much to achieve. Thus, our strategy for the not-too-distant future will be to build a regional network of warehouse operators and dealers in Poland so that we are able to serve clients throughout the country. Feronia Polska has the potential of becoming one of the five largest dealers of metallurgical materials in Poland.

Another subsidiary, Feronia Slovakia, has been operating very successfully in the Slovak market since the early 1990s. Based on a strategy adopted by the new management of the Slovak subsidiary, we aim at doubling the sales in the Slovak market within the next five years to restore the leading position of Feronia Slovakia in the sale of metallurgical materials.

It is nice to think of the long history and the tradition that is associated with it. While achievements should be underscored and enjoyed, it is also necessary to trust in the future. The management and I are convinced that although nearly 180 years old, Feronia is still young, full of power and ideas, with the best of its years still ahead of it. I believe that you, our employees, customers, suppliers and other parties that we work with, will live the beautiful years with Feronia to create a new history, our future, together.

COMPANY'S PROFILE AND HISTORY



FACTS AND FIGURES

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

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

- ♦ 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 2007. The shares are certificated but not quoted.



COMPANY CHARACTERISTICS

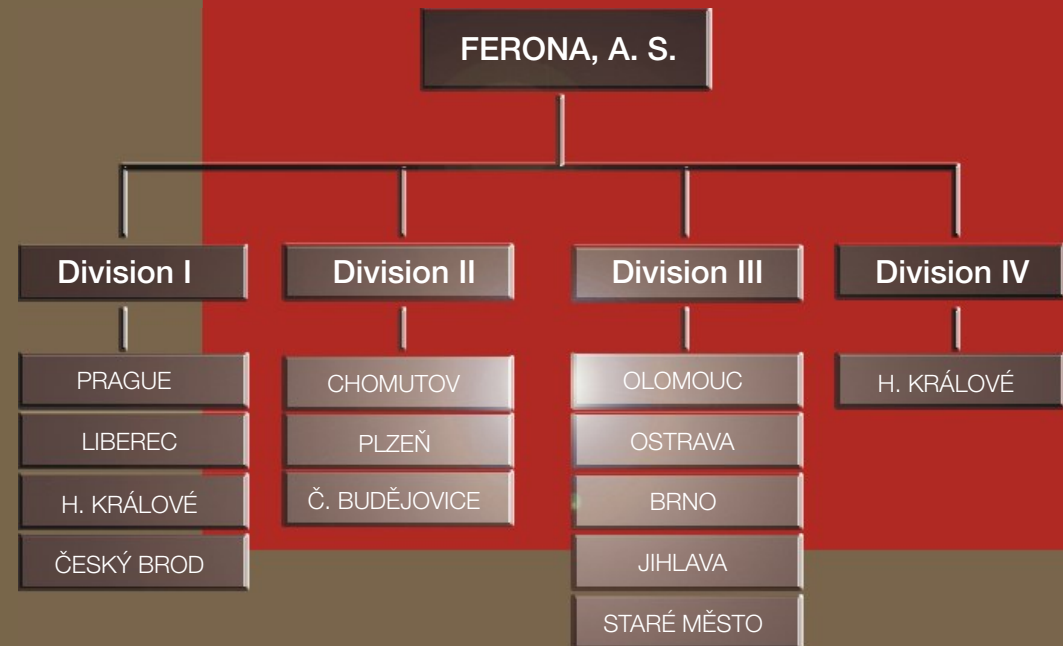
The current Feronia has assumed the activities of its legal predecessors who operated as distributors of metallurgical products throughout the history of post-1945 Czechoslovakia under various trade names and in various organizational forms. Thus, we have taken up a business tradition which dates back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

The Company's **main objects** include 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 Feronia 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 Feronia - 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 Feronia 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. sídlí v Hradci Králové.

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





SUPERVISORY BOARD, BOARD OF DIRECTORS 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 2007.

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

Roman Cypro, born in 1963, graduated from a secondary professional school, employed with the Company since 1987, elected as a representative of the Company's employees, member of the Supervisory Board since 22 March 2007

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



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 Manager and CIO, born in 1963, graduated from the University of Economics, employed with the Company since 1992

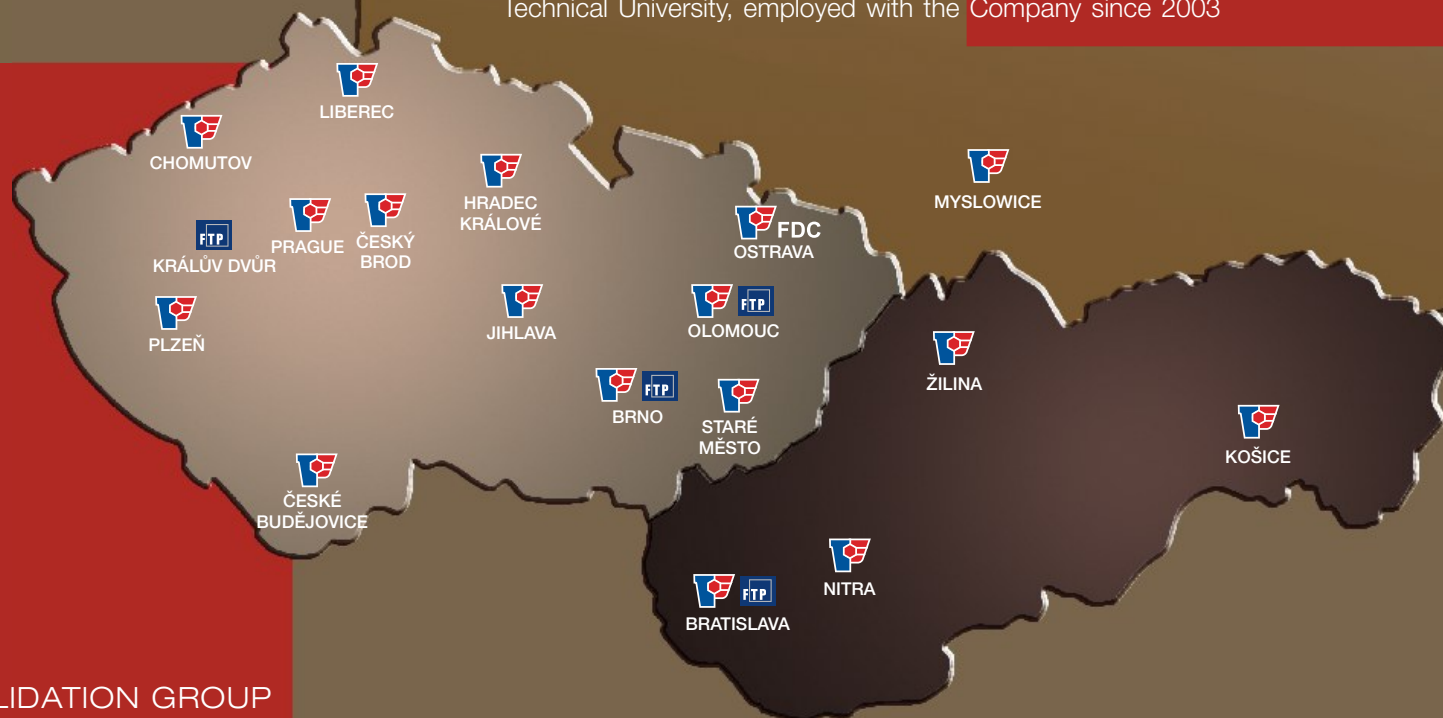
Ing. Miroslav Vaníček, Chief Financial Officer, born in 1961, graduated from the University of Economics, employed with the Company since 1985

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, PhD, 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



FERONA – CONSOLIDATION GROUP

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 2007:

FERONA Slovakia, a. s.

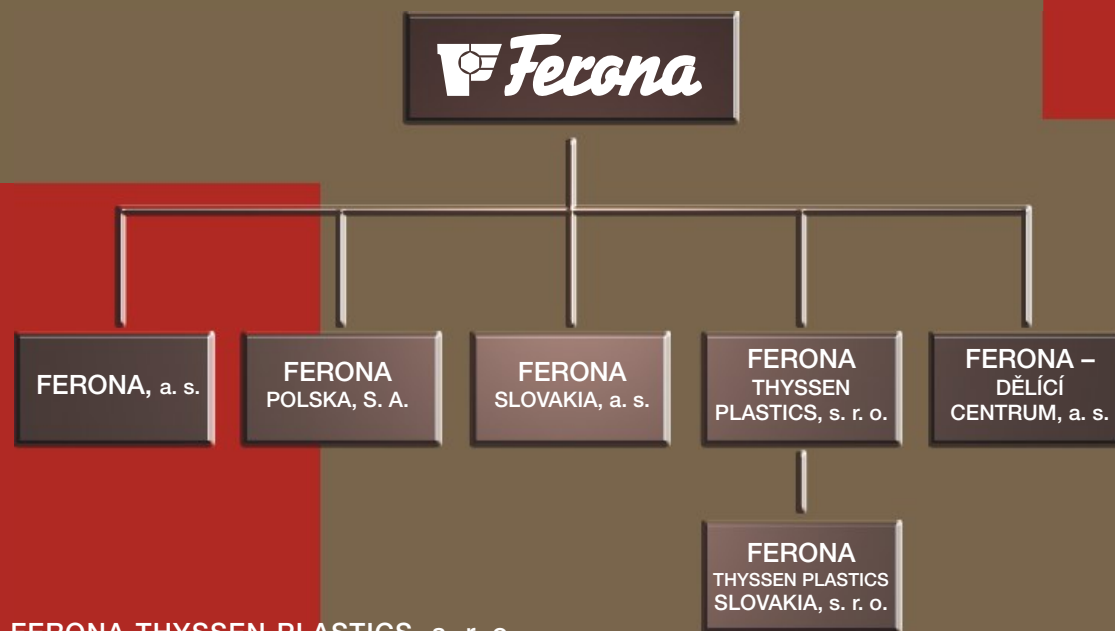
- a) Registered office: Bytčická 12, Žilina, Slovakia
- Identification no.: 36401137
- b) Other establishments: Bratislava, Nitra, Martin, Košice
- c) Business: Wholesale of metallurgical products
- d) Equity capital: SKK 1,050,511 thousand
- e) 2007 profit or loss: SKK 20,136 thousand
- f) Share of Ferona, a. s., in the registered capital: 100%
- g) Net book value of Ferona's share: CZK 681,152 thousand

Ferona Polska, S. A.

- a) Registered office: Mikolowska 31, Myslowice, Poland
- Identification no.: 240569429
- b) Other establishments: None
- c) Business: Wholesale of metallurgical products
- d) Equity capital: PLN 4,660 thousand
- e) 2007 profit or loss: PLN -1,840 thousand
- f) Share of Ferona, a. s., in the registered capital: 100%
- g) Net book value of Ferona's share: CZK 48,557 thousand

FERONA – Děličí centrum, a. s.

- a) Registered office: Plzeňská 18, Ostrava
- Identification no.: 26168634
- b) Other establishments: None
- c) Business: Steel strip cutting
- d) Equity capital: CZK 93,195 thousand
- e) 2007 profit or loss: CZK 20,626 thousand
- f) Share of Ferona, a. s., in the registered capital: 100%
- g) Net book value of Ferona's share: CZK 57,257 thousand



FERONA THYSEN PLASTICS, s. r. o.

- a) Registered office: ul. ČSA 730, Velká Bystřice
- Identification no.: 25354418
- b) Other establishments: Králův Dvůr, Brno
a FTP Slovakia, s. r. o., Bratislava, Slovakia *)
- c) Business: Wholesale of plastics for technological use
- d) Equity capital: CZK 111,602 thousand
- e) 2007 profit or loss: CZK 4,646 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: Púchovská 14, Bratislava, Slovakia
- Identification no.: 35861134
- b) Other establishments: None
- c) Business: Wholesale of plastics for technological use
- d) Equity capital: SKK 9,334 thousand
- e) 2007 profit or loss: SKK 2,228 thousand
- f) Share of FERONA THYSEN PLASTICS in the registered capital: 100%
- g) Net book value of the share of FERONA THYSEN PLASTICS: CZK 3,167 thousand

2007 ASSESSMENT
OUTLOOK AND EXPECTATIONS
FOR 2008



Ing. Miroslav Horák, Sales Director

2007 ASSESSMENT

Following a very successful year 2006, we wanted to achieve excellent results in 2007 as well. And we succeeded, both in terms of economic results and in terms of reinforcement of our position in the market.

Exceeding 1 million tonnes, the total sales set up a record in the company's modern history. Sales to local companies accounted for as much as 97% of this result.

The development of prices in 2007 was an example of accelerating cycles in the steel production, with the prices of metallurgical products seeing a steep rise in the first six months of the year, while the manufacturers had to reduce their prices in the remaining months of the year due to a glut in the market.

The situation in the market was rather up and down for the consumption, as well. In the first quarter of the year, the demand was still huge due to very warm weather, while it fell into its old rut later. By the end of the year, there were quite obvious attempts in the market to get rid of part of the inventory.

In 2007, we were able to increase considerably (by 10%) the sale of flat products which are now the strongest product group. There is also a very positive trend in the sale of materials with higher value added, such as high-grade and stainless products, showing a growth rate of 15%.

The structure of our sales has been traditionally based on a wide group of customers operating primarily in the construction industry.

We were also able to increase our sales to car manufacturers. With the newly implemented technology and processes, we are well prepared to continue increasing our share in the car industry.

With the sales exceeding 1 million tonnes, a magic limit was surpassed and, what is more important, Feronia is now indisputably one of the European leaders in the distribution of metallurgical materials.

I would like to thank all our employees for the results that were achieved and all our customers and suppliers for their cooperation.

The main partners from which Feronia purchases steel products include Mittal Ostrava, Moravia Steel, Vítkovice Steel and Jäkl 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.

I wish them all a successful business year.

OUTLOOK AND EXPECTATIONS FOR 2008

Estimates of the development of some key indicators suggest that the economic situation of the Czech Republic will remain favourable for the consumption of steel this year.

Reduction of inventory at the end of 2007 and the expected rise of costs of inputs for the steel production will probably result in an increase in the prices of final products, primarily in the first half of 2008.

The key factors for the company's further development include the implementation of our investment programme focusing on new technology for the treatment of products, various improvement projects and expansion to new markets.

For 2008, revenue from the sale of goods is expected to rise to CZK 23,600 million. The company's pre-tax profit is planned to amount to CZK 551 million.

Investment scheduled for 2008 is CZK 234 million, including mainly modernisation and renovation projects. The most important project will be reconstruction of access roads at our Hradec Králové subsidiary.

The focus of our sales activities will be on improvement of our customer services and support for customers relating to supplies of metallurgical products. Our experienced sales team is ready, and I believe that 2008 will be another very successful year for our company.



PRODUCT RANGE

OVERVIEW OF FERONA
PRODUCTS

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 Ferona's strategy is to add new products, focusing primarily on new qualities.

OVERVIEW OF FERONA PRODUCTS

LONG PRODUCTS

Long products were subject to a continuous rise of input prices throughout the first quarter of 2007. The increase in the sales of these products was mainly due to the sales of ribbed steel bars for concrete reinforcement due to the continued construction boom in the Czech Republic. The sales of carriers also showed an increase both in the construction industry and the manufacture of steel structures.

Our cutting services (cutting of sectional products from 24-meter carriers) accounted for a major part of the revenue from the sales of sectional products for the construction industry.

The structure of our supplier portfolio changed slightly following the merger of Mittal and Arcelor, resulting in an increase in the concentration of supplies from the leading local manufacturer. At the same time, long-term cooperation continued with other manufacturers, not only the local ones.

SHEETS AND FLAT PRODUCTS

The purchase and sale of flat products is one of the most important activities of the company, with its share in the company's total sales rising every year. This was also true in 2007 when demand for this group of products experienced a steep rise in the first half of the year. At the same time, the prices of flat products increased which had a positive effect on the company's revenue from the sale of goods. The indicators planned for this group of products were achieved. An important milestone in the development of this product group was the signing of annual contracts for coil cutting with some of the leading sub-suppliers in the car industry.

In 2007, our cooperation with a number of major suppliers in this region continued, including Arcelormittal, U. S. Steel and Evraz Vítkovice. We believe that our cooperation with the current and new suppliers will be successful in 2008 as well, contributing to the improvement of our reputation and the reinforcement of our position in the Czech market.

PIPES

2007 was another successful year for this product group in terms of purchase.

Despite a rather complicated situation in the segment of seamless pipes, with the Czech market suffering from the imports of cheap products from China, we were still able to achieve the key indicators planned for this commodity.

Another important benefit that was achieved in 2007 was strengthening of our cooperation with Jakl Karviná, a key manufacturer of hollow-section products.

HIGH-GRADE STEEL

There were two major developments in the trade in high-grade steel – a continuous rise of prices and high demand for this group of products.

The key factor leading to the rising demand was the global trend of a reduction of quantities of processed steel combined with improving quality of the final products.

Expansion of capacities for the treatment of steel products is a trend that appears to be unavoidable in this group of products for our company to be able to offer high-quality products and increase the value added for our customers.

STAINLESS STEEL

2007 saw the best result in the sales of stainless steel in the company's history. It was mainly due to the direct effect of a project for the development of stainless steel products that Feronia prepared in response to the management's objective to increase the sale of high-grade steel products set late in 2005/early in 2006.

The ever stronger position of Feronia in the market is a direct result of a substantial extension of its range of stainless steel products, an increase in inventory, introduction of new services and, last but not least, inclusion of specialists in its sales teams.



SECONDARY METALLURGICAL PRODUCTS

This commodity also showed a considerable growth of sales last year, with hot-rolled wires being the most important product group. We were also able to increase the sale of welding materials, which are a traditional component of Feronia's product range.

Feronia's largest suppliers include Moravskoslezské drátovny Ostrava and Heko Praha for drawn wires, Esab Vamberk and Lincoln Electric for welding materials, V-Kuty, Lichtgitter and FB Trading for grates, and Retic Nové Sady and Dops Rádkyně for wire mesh.



NON-FERROUS METALS

Following nearly three years of a continuous rise, the prices of metals finally stabilised. During 2007, they fluctuated considerably and even dropped by the end of the year. Excess demand could be satisfied by an increase in the production capacities, and demand and supply levelled off.

In some segments, mainly copper-based materials, alternative products were preferred due to high prices, which resulted in a dramatic drop of their consumption. As opposed to copper, consumption of aluminium-based materials, mainly sectional and flat products, experienced a sharp rise. This trend helped the company to mitigate the negative effect of the decreasing consumption of copper products in 2007.



MAJOR PROJECTS

5



In every period there are jobs and projects whose importance must be underscored and which every company is rightly proud of. In 2007, special projects carried out by Feronia included:

WIND TURBINES



Materials supplied by Feronia are used by SIAG CZ, s. r. o., to erect wind turbines.



ELECTRICITY INSTALLATIONS



Feronia has been supplying 100 to 300 tons of sectional steel products to SEG, s. r. o., which is involved primarily in assembly of electricity installations, erection of utility poles and structures for power generation and distribution and preparation of projects for electricity installations and equipment.



PORCELAIN KILN

GRÜN
GmbH

Ferona has supplied materials, mainly sheets, pipes and sectional products, to Grün Karlovy Vary, a major customer who has produced and put into operation a porcelain kiln for Karlovarský porcelán, Nová Role.



CAR INDUSTRY

In 2007, a constructive cooperation was started with a number of companies operating in the car industry, including both car manufactures and sub-suppliers manufacturing various parts made of sheets by forming.



Buses

Iveco Czech Republic, a. s., manufactures new, modern types of buses. It is one of the most promising and continuously developing companies in the Czech market. Ferona's Steel Service Centre delivers steel strips for various parts of buses made using the state-of-the-art technology supplied by FIMI.



CONSTRUCTION OF BRIDGES



As a specialist in the construction of bridges, SMP CZ, a. s., is also involved in repairs and renovation of bridges, hydraulic and other structures. In 2007, Feronia supplied reinforcing steel products for the construction of a bridge over the I/6 road near Karlovy Vary.



A new bridge over the Oder River was built by Eurovia Sok, s. r. o. The necessary steel sheets were supplied by Division I.





FERONA AS A RESPONSIBLE AND STRONG PLAYER

Ferona has been regularly included in various prestigious studies. It has become one of the most successful companies and is regarded as one of the most important employers in many regions of the Czech Republic.

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

Ondřej Štěpánek and **Jaroslav Volf**, canoeists, may once again take pride in some impressive achievements in 2007:

Second place at the European Championship (doubles in a team race)

Fifth place at the World Championship (in an individual race)

First place at the World Championship (doubles in a team race)

Second place in the total world cup ranking

In 2008, the two young sportsmen will be facing a number of highly demanding challenges including the European Championship in Poland, the World Cups in Slovenia and Germany and the Olympic Games in China.

Ferona will continue supporting the young canoeists to help them make their dreams come true.



100 NEJ
Czech Republic's most successful
and largest companies

CHARITY AND HEALTH CARE

Křižovatka Foundation – prevention of the sudden infant death syndrome

Since its start, Křižovatka Foundation has been able to purchase BABYSENSE monitors for hospitals in all regions of the Czech Republic. Ferona has been funding monitors for Motol Teaching Hospital for years.

The following is a quote from a letter by Dr Zaban, PhD, senior lecturer, assistant to the head physician for neonatology, Department of Neonatology: "Please accept our heartfelt thanks for your financial gift designed for the purchase of Babysense monitors that have been donated to our hospital this year through Křižovatka Foundation. We appreciate your support very much and are grateful for it. The monitors will allow us to continue improving preventive treatment of our little patients."

Foundation of Jedlička Institute:

The Foundation's primary mission is to raise funds and obtain support for the development and renovation of Jedlička Institute and facilitation of social and occupational rehabilitation and social reintegration of handicapped persons.

Having been able to help a number of handicapped persons during its long-term cooperation with the Foundation, Ferona will continue providing its support for these deserving initiatives in future.

INVESTMENT



Ing. Pavel Horák, Logistics Director

The investment activities in 2007, like in the previous year, focused primarily on renovation and upgrades with the single purpose of improving the services that we provide to our customers. New **tangible and intangible fixed assets** were purchased for CZK 227,046 thousand. Out of this, CZK 163,286 thousand was invested into machinery and equipment. Most funds were invested into cranes and equipment used for the treatment of goods. A total of CZK 49,479 thousand was invested into the renewal of our vehicle fleet.

The investments into structures reached CZK 63,760 thousand, including mainly the completion of the warehouse premises in Plzeň and Prague.



SERVICES

8



TRANSPORT

Ferona 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 Ferona Ostrava, Ferona – Děličův 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

One of our major investment projects is the expansion and improvement of our services relating to flame cutting in response to the increasing interest for this type of service in the market. Smooth, ribbed and tear bossed plates of steel are flame-cut to any dimensions and forms with the maximum format of 3,000 x 12,000 mm and a thickness ranging from 1 to 250 mm.

This service is provided by means of automatic flame cutters installed in our premises in Plzeň, Hradec Králové, Brno and Olomouc. Plates of steel are flame-cut using MGM CORTINA and MGM OMNICUT machines with autogenous equipment and HYPER THERM plasma cutters.

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. HAMBI 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 Feronia and third parties.

QUALITY

MANAGEMENT SYSTEM



EN ISO 9001:2000

To ensure high quality of the products and services that it provides, Ferona has implemented a certified quality management to EN ISO 9001:2000.

This system applies to the following activities throughout the company: purchase, warehousing, treatment, sale and transport of metallurgical products, secondary products, non-ferrous metals and the related hardware products for the wholesale, and lengthwise and crosswise cut steel coils.



ISO/TS 16949:2002

In 2007, Feronia's Steel Service Centre introduced a quality management system to ISO/TS 16949:2002 that applies to the production of strips and sheets for the car industry by lengthwise and crosswise splitting of steel coils. Feronia has had this system certified.

HUMAN RESOURCES AND STAFF DEVELOPMENT



Ing. Milan Rada, Human Resources Manager

The quality of a company's human resources has a major impact on the results and the quality of the work done. Feroná is well aware of it and so it esteems its employees highly, trying to remunerate and motivate them appropriately.

SOME FACTS AND FIGURES

In 2007, Feroná had 1,402 employees in average, out of which 742 were technical and accounting staff, 573 were blue-collar workers, 80 were sales and operating staff, and 7 were unskilled workers and operators. In terms of education, 107 employees had secondary education, 561 had secondary education with a vocational certificate, 413 had complete secondary education with a school-leaving examination, 95 had complete secondary education with a vocational certificate and a school-leaving exam, and 101 employees only had elementary education.

The average wages in 2007 amounted to CZK 31,183, which was an increase by more than 30% compared to last year. This positive development was mainly due to the introduction of a new compensation system (a modernisation of the previous one) as of 1 July 2007.

TRAINING

Personal development was an integral part of the company's care for its employees in 2007, as well. Like in the previous year, training focused primarily on language courses, workshops and professional seminars designed for the sales staff and standard training focused on changes in legal regulations.

INTERNAL NEWSLETTER

Feroná 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.

RESULTS OF OPERATIONS



Ing. Miroslav Vaníček, Chief Financial Officer

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.

		2005	2006	2007
Sale of materials	(thous. tonnes)	873	981	1 012
Revenue from the sale of goods	(CZK million)	18 698	20 675	23 042
Profit/loss	(CZK million)	364	822	533
Inventories	(CZK million)	3 091	4 216	4 618
Short-term receivables	(CZK million)	2 537	3 152	3 049
Short-term payables	(CZK million)	2 296	3 050	2 633
Bank loans	(CZK million)	2 562	3 130	3 845
Employees	(persons)	1 445	1 412	1 402

BUSINESS ACTIVITIES

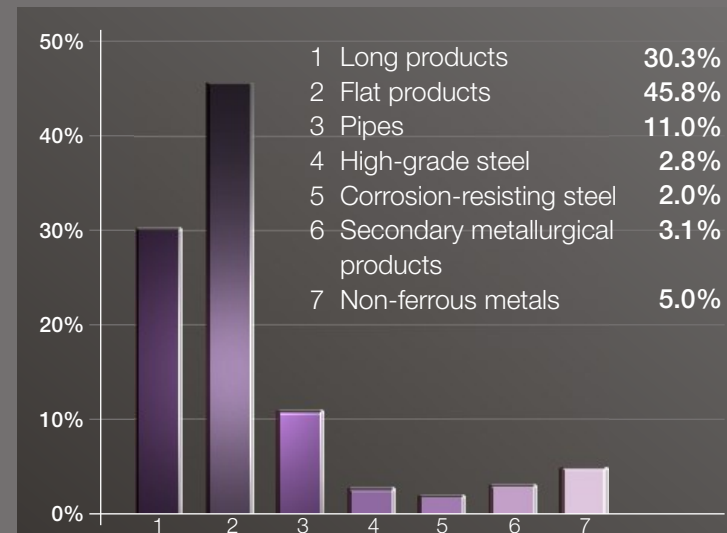
In 2007, Feron continued as the leader in the field of steel stockholding and distribution of metallurgical products, secondary products, non-ferrous metals and the related range of hardware goods in the Czech Republic. Its market share differs from one product to another but generally it ranges from 15 to 20 per cent of deliveries for use within the Czech Republic.

In 2007, the Company sold 1,012,379 **tonnes of goods** to its customers, which was an increase by 31,853 tonnes or 3.2% compared to 2006 and 139,255 tonnes or 15.9% compared to 2005. Last year's sales expressed in units of materials were the best result in the company's history.

Last year, **revenues from the sale of goods** amounted to CZK 23,041,996 thousand, which was an increase by CZK 2,367,277 thousand or 11.5% compared to 2006 and CZK 4,344,192 thousand or 23.2% compared to 2005.

Following a sharp decline in 2005, the prices were rising again during 2006. Combined with the increasing value of inventories, this had a major impact on the cost of acquisition of the goods sold as the valuation differential which originally was part of the sales margin slowly disappeared. The trend continued throughout the first six months of 2007, but later that year the demand cooled down which resulted in a gradual decrease in the prices. The resulting effect on our company's sales margin was exactly the opposite of that described above. Despite the fact, Feron was able to slightly reinforce its position in the market of metallurgical products which was an indication that its marketing and price policies were well chosen. A major part of the company's revenue is obtained in the Czech market, with only about 1.5% earned by exporting its products to other countries.

The **revenue structure** by product groups in 2007 was as follows:



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 2007, profit margin totalled CZK 1,910,081 thousand, which was CZK 302,051 thousand or 13.6% less than in 2006 but CZK 306,314 thousand more than in 2005. The decrease against the last year's figure was due to an unfavourable price development in the other half of 2007 combined with a rise by 16% of the sale of materials compared to 2005. Revenue from services consisting in splitting and processing of materials, such as flame-cutting of thick sheets according to the customers' requirements, and services provided to subsidiaries amounted to CZK 184,902 thousand, which was an increase by CZK 27,457 thousand or 17.4% compared to 2006 and 31.8% compared to 2005.

The costs of materials and energy consumed totalled CZK 1,334,414 thousand, out of which consumption of materials in Division IV – Steel Service Centre accounted for 89% or CZK 1,193,486 thousand. The largest item of services purchased from third parties was contractual transport (accounting for 44%) and repairs and maintenance (accounting for 14%).

Due to the developments described above, the value added decreased by CZK 291,166 thousand to CZK 1,551,440 thous., which was a drop by 15.8% compared to 2006 but an increase by 20.3% compared to 2005. Personnel expenses amounted to CZK 757,587 thous., which was an up by 1.7% compared to 2006. Depreciation and amortisation of tangible and intangible fixed assets amounted to CZK 220,820 thousand, which was a year-on-year increase of 6%.

The **result of operations** was CZK 811,002 thousand, which was a drop of CZK 258,778 thousand compared to 2006 due to the developments described above but an increase by CZK 234,535 thousand compared to 2005.

Interest paid on operating loans amounted to CZK 151,924 thous. Displaying a year-on-year growth of 32.6% due to the rising PRIBOR, it was still the largest item of expenses reducing the income from financial operations. Other financial expenses, such as bank fees and foreign exchange losses, amounted to CZK 78,721 thousand.

The income from financial operations also included shares in the profit earned from the business stake in Topham, amounting to CZK 9,168 thousand. Other financial income, consisting primarily of exchange rate gains, totalled CZK 72,889 thousand. **The result of financial operations** was a loss of CZK 143,662 thousand that was due to the developments outlined above.

In 2007, the Company did not record any accounting operations which would have affected the **extraordinary profit/loss**. Its 2007 **pre-tax profit** decreased by CZK 441,616 thous. compared to the previous year and amounted to CZK 667,340 thousand.

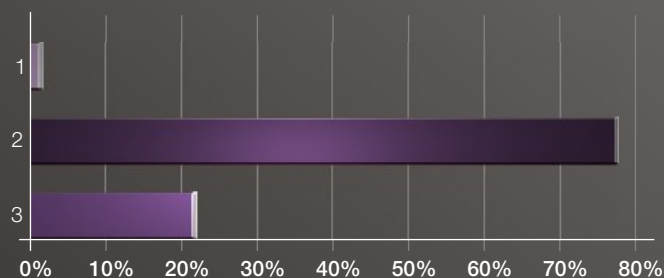
The **profit for the fiscal year** (net profit after taxation) totalled CZK 533,090 thousand, which was a down by CZK 289,342 thousand compared to the previous year but an up by CZK 169,369 thousand compared to 2005.

COMMENTS ON THE BALANCE SHEET

Compared to the end of the previous year, **total assets** as of 31 December 2007 increased by CZK 562,552 thousand to a total net book value of CZK 11,615,301 thous. This development was mainly due to a rise of inventories as a result of advance buying.

Fixed assets, accounting for 31.4% of the total assets, recorded a drop of 0.9%, although their value grew by 2.2% on a year-on-year basis amounting to CZK 3,643,638 thous. They were structured as follows (in CZK thous. and percentages of fixed assets):

1	Intangible fixed assets	CZK 14,225 thousand	0.4%
2	Tangible fixed assets	CZK 2,832,990 thousand	77.8%
3	Financial assets	CZK 796,423 thousand	21.8%



The largest items of the **tangible fixed assets** included buildings and structures with a total value of CZK 1,724,249 thousand or 60.9% of the total value of tangible fixed assets, movables with a value of CZK 581,613 thousand (20.5%) and land with a value of CZK 524,593 thousand (18.5%).

The net value of **financial assets** amounted to CZK 796,423 thousand, including a previously recorded adjusting entry for the financial investment in Feroná 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 2007 by a total of CZK 5,317 thousand. During the reported accounting period, a total of 1,350 shares of Hutníctví železa were sold and 50% of the shares of Feroná – Děličské centrum, a. s., Ostrava, were acquired. In addition, a new company was established – Feroná Polska, S. A., Myslowice.

Current assets accounted for 67.5% of total assets. They increased during the year by CZK 356,351 thousand to CZK 7,838,543 thousand.

The major item of the inventory was the **inventory of goods** that increased by CZK 465,827 thousand compared to the previous year to CZK 4,365,793 thousand due to acquisition of additional inventory before the end of the year. The immediate turnover time of inventory, calculated as the value of the goods sold at the cost of acquisition, was 75 days at the end of the reported year, which was a down by 2 days compared to 2006.

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 decreased by CZK 152,508 thousand during the year due to a reduction of the demand, amounting to CZK 2,939,755 thous. net. Adjusting entries are recorded for all receivables overdue for more than 1 year. The immediate turnover time of short-term trade receivables was 46 days at the end of the year, which was a year-on-year acceleration by 8 days.

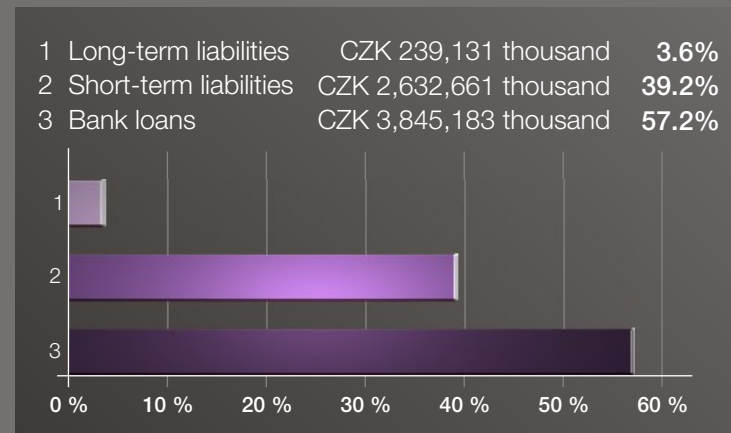
Short-term financial assets amounted to CZK 167,365 thous. at the end of the year, which was an increase by 50% compared to the beginning of the year due to large amounts credited to the company's current accounts in the last days of the reported year, as the balances of the current accounts were not used to repay bank overdrafts.

Accruals and deferrals of CZK 133,120 thous. only accounted to 1% of total assets.

Feroná'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 4,850,226 thousand as per 31 December 2007, covering 41.8% of the total book value of the company's liabilities.

Liabilities amounted to CZK 6,716,975 thousand at the end of 2007 and were structured as follows:



The major item of **long-term liabilities** was the deferred tax liability of CZK 239,003 thousand. The significant year-on-year decrease of its value was due to the reduction of the income tax rate applicable to future periods.

Short-term liabilities included primarily **trade liabilities** amounting to CZK 2,490,707 thousand at the end of the reported year. Except for liabilities prepared to be set off, none of the short-term liabilities was overdue.

Bank loans amounted to CZK 3,805,365 thousand at the end of the year, exclusive of factoring. As per the date of the annual accounts, Feroná 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 39,818 thousand.

Accruals and deferrals amounted to CZK 48,100 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 416,631 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 58.2% of its assets as per 31 December 2007.

The ratio of bank loans and total revenue was 17% at the end of 2007.

RESULTS OF THE CONSOLIDATED GROUP

The group companies reported total revenue from the sale of goods of CZK 23,178,962 thousand in 2007, which was a decrease by 3.6% compared to the previous year. The decrease was mainly due to the inclusion of the subsidiary Feron a – Děličí centrum, a. s., in the consolidated group by applying the full consolidation method, as Feron a became the sole shareholder of Feron a – Děličí centrum during 2007 and the transactions between the two companies relating to the sale of goods amounted to approx. CZK 1.6 bn. The value added recorded a year-on-year drop of 13% to CZK 1,803,943 thousand. The consolidated income from operations was CZK 879,038 thousand as per 31 December 2007.

The **consolidated result of operations**, including a share in the result of group companies in equivalence) was a profit of CZK 551,851 thousand, which again was a decrease by 36.9% compared to 2006.

The total value of the **assets** of the consolidated group amounted to CZK 13,010,015 thousand and that of the **equity** to CZK 5,064,862 thousand at the end of 2007.

EVENTS RECORDED AFTER THE BALANCE SHEET DATE

As part of its new activities, Feron a founded a new 100%-owned subsidiary, Feron a – Service Centrum Slovakia, a. s., with its registered seat in Bratislava, Slovakia. The company will manufacture customised flat products from hot-rolled coils as of mid-2009.

Topham Eisen- und Stahlhandels-G.m.b.H., Vienna, Austria, which entered into liquidation early in 2007, was unable to complete the process. We expected that the company will be expunged from the Commercial Register during this year.

The registered capital of Feron a Polska, S. A., a 100%-owned subsidiary seated in Myslowice, Poland, was fully repaid by Feron a.

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 2007
- ◆ Auditor's Report on the consolidated financial statements
- ◆ Consolidated financial statements as per 31 December 2007

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 2007, 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 2007, 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, 17 March 2008

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 2007 (in CZK thousand)

Ident. a	ASSETS b	Line c	Gross 1	Current year Adjustment 2	Net 3	Previous year Net 4
	TOTAL ASSETS	01	13 622 972	-2 007 671	11 615 301	11 052 749
B.	Fixed assets	03	5 379 945	-1 736 307	3 643 638	3 563 733
B. I.	Intangible fixed assets	04	59 407	-45 182	14 225	10 453
3.	Software	07	52 511	-43 865	8 646	8 803
4.	Valuable rights	08	1 460	-1 317	143	197
7.	Intangible fixed assets not in use	11	5 436	0	5 436	1 453
B. II.	Tangible fixed assets	13	4 444 115	-1 611 125	2 832 990	2 834 756
B. II. 1.	Land	14	524 593	0	524 593	526 622
2.	Buildings, halls and structures	15	2 409 885	-685 636	1 724 249	1 735 709
3.	Machinery, tools and equipment, vehicles and fixtures	16	1 507 102	-925 489	581 613	556 010
6.	Other tangible fixed assets	19	371	0	371	301
7.	Tangible fixed assets not in use	20	164	0	164	16 034
8.	Prepayments for tangible fixed assets	21	2 000	0	2 000	80
B. III.	Long-term investments	23	876 423	-80 000	796 423	718 524
B. III. 1.	Shares in subsidiaries	24	866 966	-80 000	786 966	687 679
2.	Shares in associates	25	9 166	0	9 166	30 170
3.	Other securities and ownership interests	26	25	0	25	675
6.	Long-term financial assets acquired	29	266	0	266	0
C.	Current assets	31	8 109 907	-271 364	7 838 543	7 482 192
C. I.	Inventory	32	4 633 490	-15 268	4 618 222	4 215 854
C. I. 1.	Material	33	248 577	0	248 577	305 496
2.	Work in progress and semi-finished products	34	3 698	0	3 698	3 167
5.	Finished products	37	4 381 061	-15 268	4 365 793	3 899 966
6.	Prepayments towards inventory	38	154	0	154	7 225
C. II.	Long-term receivables	39	3 664	0	3 664	3 689
5.	Long-term prepayments	44	3 664	0	3 664	3 689
C. III.	Short-term receivables	48	3 305 388	-256 096	3 049 292	3 152 343
C. III. 1.	Trade receivables	49	3 195 750	-255 995	2 939 755	3 092 263
2.	Receivables from controlling entities	50	15 176	0	15 176	17 247
6.	Taxes receivable	54	79 789	0	79 789	0
7.	Short-term prepayments	55	5 116	0	5 116	6 330
8.	Estimated assets	56	234	0	234	32 998
9.	Other receivables	57	9 323	-101	9 222	3 505
C. IV.	Short-term investments	58	167 365	0	167 365	110 306
C. IV. 1.	Cash in hand	59	2 467	0	2 467	2 443
2.	Cash at bank	60	159 704	0	159 704	101 907
3.	Short-term investments	61	5 194	0	5 194	5 956
D. I.	Temporary assets	63	133 120	0	133 120	6 824
D. I. 1.	Deferred expenses	64	6 688	0	6 688	6 727
3.	Accrued income	66	126 432	0	126 432	97

BALANCE SHEET for the year ended 31 December 2007 (in CZK thousand)

Ident.	LIABILITIES	Line	Current year	Previous year
a	b	c	5	6
	TOTAL LIABILITIES	67	11 615 301	11 052 749
A.	Equity	68	4 850 226	4 572 453
A. I.	Registered capital	69	3 000 000	3 000 000
A. I. 1.	Registered capital	70	3 000 000	3 000 000
A. II.	Capital funds	73	209 442	214 759
2.	Other capital funds	75	230 534	230 534
3.	Gains or losses from revaluation of assets	76	-21 092	-15 775
A. III.	Reserve funds, non-distributable fund and other funds created from profit	78	165 313	124 191
A. III. 1.	Statutory reserve fund / Non-distributable fund	79	165 313	124 191
A. IV.	Retained earnings or loss from previous years	81	942 381	411 071
A. IV. 1.	Retained earnings from previous years	82	942 381	411 071
A. V.	Profit or loss of current year [+/-]	84	533 090	822 432
B.	Liabilities	85	6 716 975	6 455 766
B. II.	Long-term payables	91	239 131	275 947
5.	Long-term advances received	96	128	105
10.	Deferred tax	101	239 003	275 842
B. III.	Short-term payables	102	2 632 661	3 049 664
B. III. 1.	Trade payables	103	2 490 707	2 818 432
2.	Payables to a controlling entity	104	285	0
4.	Payables to partners and members	106	23 718	0
5.	Payables to employees	107	236	220
6.	Social security and health insurance	108	36 249	28 118
7.	Tax payable and subsidies	109	16 708	98 660
8.	Short-term advances received	110	2 774	1 207
10.	Estimated liabilities	112	7 827	60 543
11.	Other liabilities	113	54 157	42 484
B. IV.	Bank loans and borrowings	114	3 845 183	3 130 155
B. IV. 1.	Long-term bank loans	115	2 000 000	2 000 000
2.	Short-term bank loans	116	1 805 365	1 073 861
3.	Short-term borrowings	117	39 818	56 294
C. I.	Temporary liabilities	118	48 100	24 530
C. I. 1.	Accrued expenses	119	34 543	23 075
2.	Deferred income	120	13 557	1 455

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2007 (in CZK thousand)

Ident. a	TEXT b	Line c	Accounting period	
			Current 1	Previous 2
I.	Sales of goods purchased for resale	01	23 041 996	20 674 719
A.	Cost of goods sold	02	21 131 915	18 462 587
+	Gross margin	03	1 910 081	2 212 132
II.	Production	04	1 424 138	1 407 576
II. 1.	Sale of own products and services	05	184 902	157 445
3.	Own work capitalised	07	1 239 236	1 250 131
B.	Purchased consumables and services	08	1 782 779	1 777 102
B.1.	Consumables	09	1 334 414	1 320 775
2.	Services	10	448 365	456 327
+	Value added	11	1 551 440	1 842 606
C.	Staff costs	12	757 587	744 863
C.1.	Wages and salaries	13	527 826	519 798
2.	Remuneration of board members	14	10 080	9 360
3.	Social security and health insurance	15	189 067	186 186
4.	Social benefits	16	30 614	29 519
D.	Taxes and charges	17	15 239	15 492
E.	Depreciation/amortisation of tangible and intangible fixed assets	18	220 820	208 359
III.	Sale of fixed assets and material	19	24 328	43 519
III.1.	Sale of fixed assets	20	15 348	34 443
2.	Sale of material	21	8 980	9 076
F.	Net book value of fixed assets and material sold	22	12 355	36 366
F. 1.	Net book value of fixed assets sold	23	4 168	27 530
2.	Material sold	24	8 187	8 836
G.	Change in reserves and adjusting entries in operation and complex deferred expenses	25	-8 254	35 673
IV.	Other operating income	26	1 374 759	1 164 209
H.	Other operating expenses	27	1 141 778	939 801
*	Operating profit or loss	30	811 002	1 069 780

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2007 (in CZK thousand)

Ident. a	TEXT b	Line c	Accounting period	
			Current 1	Previous 2
VI.	Proceeds from sale of securities and ownership interests	31	780	66 500
J.	Cost of securities and ownership interests sold	32	650	47 081
VII.	Income from investments	33	9 168	115 590
VII. 1.	Income from intercompany securities and ownership interests	34	9 168	115 590
VIII.	Income from short-term investments	37	0	7
X.	Interest income	42	4 796	2 187
N.	Interest expense	43	151 924	114 564
XI.	Other financial income	44	72 889	38 339
O.	Other financial expenses	45	78 721	48 802
*	Financial profit or loss	48	-143 662	12 176
Q.	Income tax on ordinary activities	49	134 250	259 524
Q.1.	- due	50	171 089	252 790
2.	- deferred	51	-36 839	6 734
**	Profit or loss from ordinary activities	52	533 090	822 432
***	Profit or loss of current year [+/-]	60	533 090	822 432
****	Profit or loss of current year before taxes	61	667 340	1 081 956

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 2007, 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 Ferona, a. s., as of 31 December 2007, 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 Ferona, a. s., for the year ended 31 December 2007. This related party transactions report is the responsibility of Ferona'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 Ferona'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 Ferona, a. s., for the year ended 31 December 2007 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 the responsibility of Ferona'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 Ferona, a. s., for the year ended 31 December 2007 is consistent, in all material respects, with the consolidated financial statements referred to above.

Prague, 22 April 2008

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 2007 1	Previous fiscal year as per 31 Dec 2006 1	Fiscal year before last as per 31 Dec 2005 2
	TOTAL ASSETS	12 971 262	12 322 757	11 034 273
A.	Amounts receivable for subscribed capital			
B.	Fixed assets	3 560 236	3 519 964	3 538 112
B.I.	Intangible fixed assets	15 211	10 812	4 124
B.II.	Tangible fixed assets	3 486 155	3 416 476	3 456 487
B.III.	Long-term investments	973	1 654	1 707
B.IV.	Consolidation difference: active "+", passive "-"	0	0	0
B.V.	Securities in consolidation	57 897	91 022	75 794
C.	Current assets	9 276 495	8 795 021	7 468 726
C.I.	Inventory	5 450 160	4 774 651	3 686 460
C.II.	Long-term receivables	6 861	8 842	3 809
C.III.	Short-term receivables	3 537 425	3 747 587	3 486 561
C.IV.	Cash and investments	282 049	263 941	291 896
D.	Other assets – temporary assets	134 531	7 772	27 435
	TOTAL LIABILITIES	12 971 262	12 322 757	11 034 273
A.	Equity	5 064 862	4 770 920	3 948 770
A.I.	Registered capital	3 000 000	3 000 000	3 000 000
A.II.	Capital funds	229 354	229 385	229 439
	Gains or losses from revaluation of assets and liabilities	-1 180	-1 149	-1 095
	Gains or losses from revaluation upon transformation			
	Gains or losses from revaluation upon consolidation adjustments			
A.III.	Funds created from profit	165 313	124 191	106 004
A.IV.	Retained earnings or loss from previous years	1 078 989	504 507	251 171
A.V.	Profit or loss of current year exclusive of minority shares	551 851	875 308	337 274
1.	Profit or loss of current year [+/-]	548 691	860 080	324 627
2.	Share in profit or loss in equivalence [+/-]	3 160	15 228	12 647
A.VI.	Consolidation reserve fund	39 355	37 529	24 882
B.	Liabilities	7 852 142	7 521 114	6 961 079
B.I.	Reserves	2 337	0	0
B.II.	Long-term liabilities	270 429	283 990	805 415
B.III.	Short-term liabilities	2 881 632	3 388 247	2 809 876
B.IV.	Bank loans and borrowings	4 697 744	3 848 877	3 345 788
C.	Other liabilities – temporary liabilities	54 258	30 723	20 799
D.	Minority equity	0	0	103 625
D.I.	Minority registered capital	0	0	16 350
D.II.	Minority capital funds	0	0	0
D.III.	Minority funds created from profit, incl. retained earnings from previous years	0	0	70 329
D.IV.	Minority profit or loss of current year	0	0	16 946

PROFIT AND LOSS ACCOUNT – Minimum extent required of the consolidated profit and loss account (in CZK thousand)

Ident.	TEXT	Fiscal year		
		Curr. as per 31 Dec 2007 1	Prev. as per 31 Dec 2006 1	Before last as per 31 Dec 2005 2
I.	Sales of goods purchased for resale	23 178 962	24 056 585	23 199 971
A.	Cost of goods sold	20 995 910	21 526 654	21 233 857
+	Gross margin	2 183 052	2 529 931	1 966 114
II.	Production	3 599 622	1 411 540	1 290 451
B.	Purchased consumables and services	3 978 731	1 868 780	1 724 891
+	Value added	1 803 943	2 072 691	1 531 674
C.	Staff costs	881 153	850 321	698 914
E.	Depreciation/amortisation of tangible and intangible fixed assets	256 805	233 379	249 550
	Depreciation (clearance) of consolidated differences ["+" / "-"]	0	0	307
G. + H.	Change in reserves, adjusting entries and deferred operating expenses	-8 243	52 784	4 514
III. + VI. – VII.	Other operating income	1 574 034	1 335 948	1 142 995
D. + F. + I. – J.	Other operating expenses	1 369 224	1 118 184	1 040 290
*	Consolidated profit or loss from operations	879 038	1 153 971	681 094
VIII. + IX. + X. + XI. + XII. + XIII. + XIV. – XV.	Financial income	116 701	254 140	67 878
K. + L. + M. + N. + O. + R. – P.	Financial expenses	484 086	540 159	422 949
*	Consolidated financial profit or loss	-367 385	-286 019	-355 071
R.2.	Deferred income tax on ordinary activities	-37 038	7 872	-15 550
**	Consolidated profit or loss from ordinary activities	548 691	860 080	341 573
XVI.	Extraordinary income	0	0	0
S. + T.1.	Extraordinary expense	0	0	0
T.2.	Deferred income tax on extraordinary activities	0	0	0
*	Consolidated profit or loss from extraordinary activities	0	0	0
***	Consolidated profit or loss of current year, excl. equivalence	548 691	860 080	341 573
Out of which:	-Profit or loss of current year excl. minority shares	548 691	860 080	324 627
	-Minority profit or loss of current year	0	0	16 946
	Share in the profit or loss incl. equivalence	3 160	15 228	12 647
****	Consolidated profit or loss of current period	551 851	875 308	354 220

