



ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE COMPANY'S OPERATIONS AND ASSETS IN **2008**



content

- Introductory words 3
- Company's profile and history 5
- 2008 Assessment outlook
and expectations for 2009 10
- Product range 12
- Overview of Ferona's products 12
- Major projects 16
- Ferona as a socially responsible
and strong company 17
- Investment 18
- Services 18
- Quality management system 20
- Human resources
and staff development 21
- Results of operations 23
- Comments on the development 25
- Documents 29

- Auditor's Report 30
- Balance Sheet 31
- Profit & Loss Account 34
- Auditor's Report 36
- Balance Sheet 38
- minimum required scope of a consolidated report
Profit & Loss Account 39
- minimum required scope of a consolidated report

introductory words

INTRODUCTION BY THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Friends,

In what one can only describe as unprecedented times, Feronia continues its extensive heritage at the forefront of the Central European steel industry. Whilst the past year has been challenging for all walks of the Global economy, the well balanced conservative management style, coupled with our embedded customer and supplier relationships, have seen Feronia weather the macro-economic storm thus far.

With a history dating back to early 19th Century Austria-Hungary, Feronia celebrates its 180th birthday this year. It always fills me with great joy to witness the refined characteristics of Feronia, and its parallels to the wider Czech economy. From an economic perspective Feronia, like the Czech Republic herself, does not represent a population within rigid geographical boundaries. Rather, it represents an area of dominant influence over markets in adjacent areas. This influence varies from one period of time to another, and 2008 was especially significant as we continued to deliver for our customers in new markets such as Poland, and with a wider service offering into established CEE markets for customers we continue to know well.

The Czech economy like most others has entered recession in 2009, and this is reflective of both external and domestic economic weakness. With the Euro zone and other key trading partners set for a period of economic contraction and with credit conditions remaining tight, it is clear that 2009 will be a year like no other in our history. Let me assure you, however, that we at Feronia are in a position of formidable strength thanks to the hard work and strategy implemented over the last 5 years by each and every employee. For that we should all be proud, and remember that now is a time like no other. We must continue in the same vein that we have for many years and continue to do what we do best, but this time only better.

Whilst 2009 will not be a year of record breaking, it will position us to emerge as an even stronger organisation in our chosen markets for the future. Our main aim this year is to deliver tonnage in line with 2008 performance, although margins may suffer due to increased competition and a contracting marketplace.

I would like to take this opportunity to once more thank you all for your hard work and commitment, as without this Feronia would not have got to where it is today. I wish you and your families all the best for the future.



Robert Kay
Chairman of the Supervisory Board

INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

When we assessed 2007, we did not have the slightest idea that we would be standing so close to the end of a very successful economic cycle which had started for the steel industry as a whole in 2004. Yet, no boom is eternal and is inevitably followed by lean years. Despite all the difficulties we were facing mainly in the second half of the year, we were able to meet all our obligations to our suppliers, banks and, of course, employees. A complete range of products was kept available in our warehouses for our customers, the agreed quantities were purchased from our suppliers at agreed terms, and all the ratios agreed with our banks were met. The 2008 result of operations was very good, as it was still in line with the average result over the last 8 years.

However, a good result of operations is only half of our success. We are proud that we were able to reinforce Feron's position as a strong Central European group last year. Feron Slovakia continued upgrading its facilities, improving its services and increasing the effectiveness of its operations, which led to another increase in the sales and a higher market share. Late in 2008, a final inspection was made in a new, state-of-the-art warehouse in Nitra that will allow us to offer a wider range of products and services in a region with a high consumption potential. In accordance with the strategy of its operations in the Polish market, Feron Polska expanded from Mysłowice (near Katowice) to Wrocław, creating the necessary prerequisites for opening another sales office in Łódź early this year. In the first whole year of its operation in the Polish market, Feron reported an excellent sales figure of 55 thousands tonnes. Feron also established a new subsidiary, Feron SCS (Service Centre Slovakia), in Bratislava. It will be the first centre in Central and Eastern Europe using the latest technology to split steel coils up to 2 meters wide, 16 mm thick and 1000 MPa strong. The new subsidiary will supplement and expand the production of the current well-established splitting centre, Feron dělicí centrum Ostrava. Last but not least, we also managed to finalise the legal and commercial matters regarding the acquisition of a majority stake in Pragmet, s. r. o., and reinforce our existing extensive business activities in the field of deliveries for the car industry.

This year, Feron will celebrate its 180th birthday. Due to the continued global economic crisis, it will be a year of cost reduction at all levels rather than a year of big celebrations. We succeed in reducing the costs of consumed purchases and services and optimising the costs of both internal and outsourced transport. In terms of the number of employees, our company became leaner by more than 10% over the last year. Employee loyalty, motivation of our sales teams, a wide customer platform, aggressive business policy, a wide range of products, support from our suppliers, and good communication with our banks guarantee that we will be able to keep our market share.

I believe that our company will emerge as lean and strong from the current crisis, standing on strong foundations and best prepared for the new challenges of the 21st century.



Jiří Plajner
Chairman of the Board of Directors
Chief Executive Officer

company's profile and history

FACTS AND FIGURES

- Commercial name: **Ferona, a. s.**
- Identification no: **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: **21/03/2001**

- 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**



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.

In 1992, the state-owned enterprise was transformed to Feronia, a joint-stock company. During the privatisation from 1992 until 1994, it became a fully privately owned company. In 2001, the assets of Feronia were taken over by its majority shareholder who continued its business operations. In 2004, Feronia was acquired by STEEL INVESTMENT GROUP, a. s., which, as of the effective date of 1 January 2005 ceased to exist following a merger with Feronia. Since then, Feronia has been controlled by IRG Steel Limited, London, the owner of the former STEEL INVESTMENTS GROUP, a. s.

The Company's **main objects** include steel stockholding and distribution, namely 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 2008, the **organizational structure** of Feronia 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.





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 2008.

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, born in 1970, graduated from the University of Economics, 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 Manager, born in 1970, graduated from the University of Economics, employed with the Company since 1996.

Ing. Pavel Horák, Logistics Manager, 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.



COMPANY'S INTEGRATION IN THE CONSOLIDATED GROUP

Ferona 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 2008:

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 1,044,921 thousand
- e) 2008 profit (or loss): SKK 5,796 thousand
- f) Share of Ferona, a. s., in the registered capital: 100%
- g) Net book value of Ferona's share: CZK 858,782 thousand

FERONA – Servis Centrum Slovakia, a. s.

- a) Registered office: Prístavná 12, Bratislava, Slovakia
Identification no.: 44066716
- b) Other establishments: none
- c) Business: Steel strip cutting
- d) Equity capital: SKK 173,568 thousand
- e) 2008 profit (or loss): SKK 2,432 thousand
- f) Share of Ferona, a. s., in the registered capital: 100%
- g) Net book value of Ferona's share: CZK 157,230 thousand

FERONA POLSKA, S.A.

- a) Registered office: Mokolowska 31, Myslowice, Poland
Identification no.: 240569429
- b) Other establishments: none
- c) Business: Wholesale of metallurgical products
- d) Equity capital: PLN 5,587 thousand
- e) 2008 profit (or loss): PLN 928 thousand
- f) Share of Ferona, a. s., in the registered capital: 100%
- g) Net book value of Ferona's share: CZK 42,484 thousand



FERONA – Dělicí centrum, a. s.

- a) Registered office: Plzeňská 18, Ostrava,
Czech Republic
Identification no.: 26168634
- b) Other establishments: none
- c) Business: Steel strip cutting
- d) Equity capital: CZK 97,563 thousand
- e) 2008 profit
(or loss): CZK 6,168 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 THYSSEN PLASTICS, s. r. o.

- a) Registered office: ul. ČSA 730,
Velká Bystřice,
Czech Republic
Identification no.: 25354418
- b) Other establishments: Hořovice, Brno
and FTP Slovakia, s. r. o.,
Bratislava, Slovakia *)
- c) Business: Wholesale of plastics
for technological use
- d) Equity capital: CZK 117,964 thousand
- e) 2008 profit
(or loss): CZK 5,956 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 11,060 thousand
- e) 2008 profit
(or loss): SKK 1,904 thousand
- f) Share held by FERONA THYSSEN
PLASTICS in the registered capital: 100%
- g) Net book value of the share
held by FERONA THYSSEN
PLASTICS: CZK 3,573 thousand

2008 assessment outlook and expectations for 2009

2008 was a success in terms of business, although the two halves of the year were like day and night. While in the first half of the year, our main task was to purchase sufficient quantities of goods to satisfy the ever growing demand driven by increasing prices, the second half of the year made us change our strategy in response to falling consumption and the onset of the economic crisis to reduce inventories and maintain our market position.

I believe that we managed the two different tasks without difficulty, as we were able to sell 540 thousand tonnes by June 2008 and finish the year with inventories of 170,000 tonnes, which was a good result given the market development.

In the second half of the year, the key market factors were prices and the global crisis. As regards prices, we certainly experienced the most steep rise and fall in our history during an extremely short period of time. The rise of prices in the first half of the year was largely due to increasing prices of input raw materials for the production of steel, coupled with an increasingly strong demand driven by speculations as to a potential further rise of costs. In the second half of the year, the demand was declining as the market became increasingly overheated, often due to inflation purchase orders.



The situation worsened as a result of the financial crisis followed by a steep fall of economic and purchase activity, which reflected in a dramatic pressure on the reduction of current assets and subsequent suspension of a number of investment projects.

Inventories in Europe climbed to unprecedented highs and the gap between inventories and sales widened extremely fast. As a result, purchase orders for new goods went down to a minimum and the usage of production capacities was reduced dramatically. As was the case on many other occasions in the past, the manufacturers tried to win the market with cheap prices because they were unable to reduce their production as quickly as the situation required. The concurrence of low consumption and demand and increased inventories of both materials and semi-finished products, combined with an attempt to use as much of the production capacities as possible, resulted in a price war.

Unfortunately, that trend continued early in 2009. The economic slow-down in the Czech Republic and the adjacent countries, which are our export markets, is now apparent. Currently, a further decline is expected due to extensive cost-reduction programmes affecting repairs and investment.

The key markets for our company are still the Czech Republic, Slovakia and Poland. At present, we must focus on maintaining our market share, supporting our long-term customers and being best prepared for expanding our activities into new consumption segments as soon as the environment becomes more favourable. Our main priorities are effective management of current assets, including inventories and receivables, and the use of opportunities that may emerge in the market during the crisis, as well as a strong will to overcome this difficult period.



Ing. Miroslav Horák
vice chairman of the Board of Directors
Sales Director



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.



overview of ferona's products

LONG PRODUCTS

SALES

During the first half of 2008, we were able to meet our sales target for the tonnes of goods sold to some 90% compared to 2007. In the second half of the year, the market became sluggish which resulted in a year-on-year drop of sales of 30 to 40%. Despite the increasing pressure from our competitors, we managed to supply our products for some of the major construction projects in the Czech and the Slovak Republics throughout 2008. Our long products were also purchased by energy and engineering companies.

INVENTORIES

The development of inventories remained relatively stable during the first three quarters of 2008, while we were forced to reduce our inventories late in 2008 in response to falling sales. As a result, we also reduced our purchases to meet the target value of our warehouse inventories.

Early in 2009, the purchases included mainly concrete reinforcing bars and wire rods for long-term projects. During the first quarter of 2009, the purchases of brackets and section and drawn steel were minimised to optimise the inventories by 31 March 2009 at a level that is necessary to satisfy the needs of our sales.

PURCHASES

The structure of our supplier portfolio reflects the strong position of ArcelorMittal in our region and the fact that the costs of transport account for a major part of the purchase price. Yet, our purchases are diversified to include other suppliers who have a potential to supply our markets both in terms of their product range and the optimisation of the supplier cycles. With our preference for stable companies, we continue offering high-quality goods that are required by our customers, mainly in the construction business.

Despite the forecasted drop of consumption in 2009, we will continue focusing on construction projects. With our individual approach, we are able to offer custom-tailored supplies to construction firms.

SHEETS AND FLAT PRODUCTS

SALES

This was the best selling commodity in 2008. We believe that our past investment in the extension of the range of our products and services, including service centres and flame cutting facilities, paid off. Later, the sales volumes decreased due to a considerable negative impact of the economic slow-down after a number of export-oriented companies were forced to reduce production and purchases. The impact of the crisis was in particular dramatic on engineering which is typical of products with a little degree of finalisation and, as a consequence, a low value added. Another key factor in the segment of flat products was the advance buying by the end consumers during the economic boom.

INVENTORIES

Due to shorter delivery cycles, the development of inventories can be maintained at a level comparable to other leading wholesalers in Europe. Reduction of the turnover time to less than two months is an excellent result.

PURCHASES

In 2008, we continued working with the region's leading suppliers, including ArcelorMittal, U.S. Steel Košice and Evraz Vítkovice. This cooperation will help us overcome the difficult times the market is expected to face in the months to come.

During the first half of 2009, customers will keep on reducing their inventories. This will apply to both wholesalers and retail sellers and end consumers, with a negative impact on the sales volumes. We do not expect the demand to recover until the end of the second quarter of the year.

PIPES

SALES

In general, the sales developed in compliance with the expectations and the plans during the first half of the year, with the price tendency still upward. The second half of the year began with a dramatic fall of sales and prices. This apparent result of the onset of a recession led to a drop of the sales of pipes by about 20% compared to the plan for the second half of the year. Moreover, the prices went also down in response to the sluggish demand. During the year, a number of measures were adopted to stimulate the sales, such as creation of item groups for special projects, flexible adjustment of project prices depending on the customers' requirements, and others.

INVENTORIES

Our active sales strategy turned out to be very effective, which helped us maintain the inventories of pipes at a level reflecting the sales at the end of the year, with a comprehensive product range.

PURCHASES

This commodity has always faced spot offers of imported seamless pipes, but time has told that those deliveries were of low quality. Therefore, we work with stable, mostly domestic suppliers offering high quality products, while always trying to achieve a reasonable compromise with respect to the use of the products.

A number of new manufacturers have emerged recently with the aim of penetrating the market of welded pipes and sections. To be successful in this segment, one has to offer high quality and a comprehensive range of products and be able to respond quickly to the customers' specific needs.

The consumption in this segment is correlated to the development of the construction and car industries and the infrastructure. For all these market segments, we expect that after the first six months of a recession, increased government spending will lead to the resumption and/or recovery of some of the projects that have been suspended.

HIGH-GRADE STEEL

SALES

The first six months of the year were clearly the result of economic boom both in the classic range of high-grade steel products and the recently introduced range of specialised products for the car industry. In total, we managed to exceed slightly our annual targets due to the excellent beginning of the year and our projects for the car industry. Specialisation of a large number of customers, mainly forge shops, in subcontracts for the car industry was the main cause for the drop in the other half of the year.

INVENTORIES

A fall of the sales resulted in a short-term increase in inventories, but we managed to reach agreements with our customers to stabilise the situation by the end of the year.

PURCHASES

The product range and the individual needs of our customers and their projects require Feron to work with a large number of suppliers. Our supplier base includes both established domestic firms and foreign manufacturers who are able to provide specific qualities.

In 2009, the expected recovery should be supported by the development of the car industry in the EU which is the largest export market for a number of our customers.

STAINLESS STEEL

SALES

The long-term downward tendency of stainless steel prices predetermines to a certain extent the further development of this commodity. The reduction of the price of the most important raw material, nickel, has a negative impact on this segment with relatively good prospects, high value added, and a high market potential. However, the contribution of this segment to the company's result of operations is rather small.

The development in the months to come will depend on the situation in the financial market, but it seems certain that the prices of the raw materials have already bottomed out and will start to rise again after a while.

SECONDARY METALLURGICAL PRODUCTS

SALES

In this segment, we were able to maintain an upward tendency in the number of tonnes sold despite the recession. An increase by 1.3% compared to 2007 was an outstanding success.

INVENTORIES

Although this segment was also negatively affected by reduced consumption and a slow-down in the overall economic activity, we did not have any difficulties in maintaining our inventories at reasonable levels reflecting the development of sales.

PURCHASES

We have been traditionally working with a large number of suppliers to be able to offer a wide range of products. Like in other commodities, we also prefer established suppliers with high-quality products.

Due to the recession forecasted for 2009, the visibility is very low making it rather difficult to estimate the development of sales in the months to come. We will do our best to keep our results as close as possible to those of 2008.

NON-FERROUS METALS

SALES

We managed to increase both the sales and our market share during the first six months of the year, benefiting from the steady prices of metals. It did not take long for the financial crisis to infect the commodity markets, resulting in falling prices of copper and aluminium.

INVENTORIES AND PURCHASES

The price volatility has been since long the key factor in this commodity, and so we prefer working with our suppliers on the basis of inventories replenished according to the actual operating needs and fixed price agreements according to the current development of the commodity markets. This strategy has proved to be successful, allowing us to maintain our inventories at reasonable levels.

The 2009 result of this segment will also be affected by the development of the global economy, and so we intend to keep to our operating management strategy in the months to come.



major projects

In every period there are jobs and projects whose importance must be underscored and which every company is rightly proud of. In 2008, special projects carried out and supported by Feronia included:

- In 2008, we supported close cooperation with manufacturers of parts for renowned car factories, including VW, BMW, Fiat, Iveco, Tatra, Scania, SAAB, and GM.

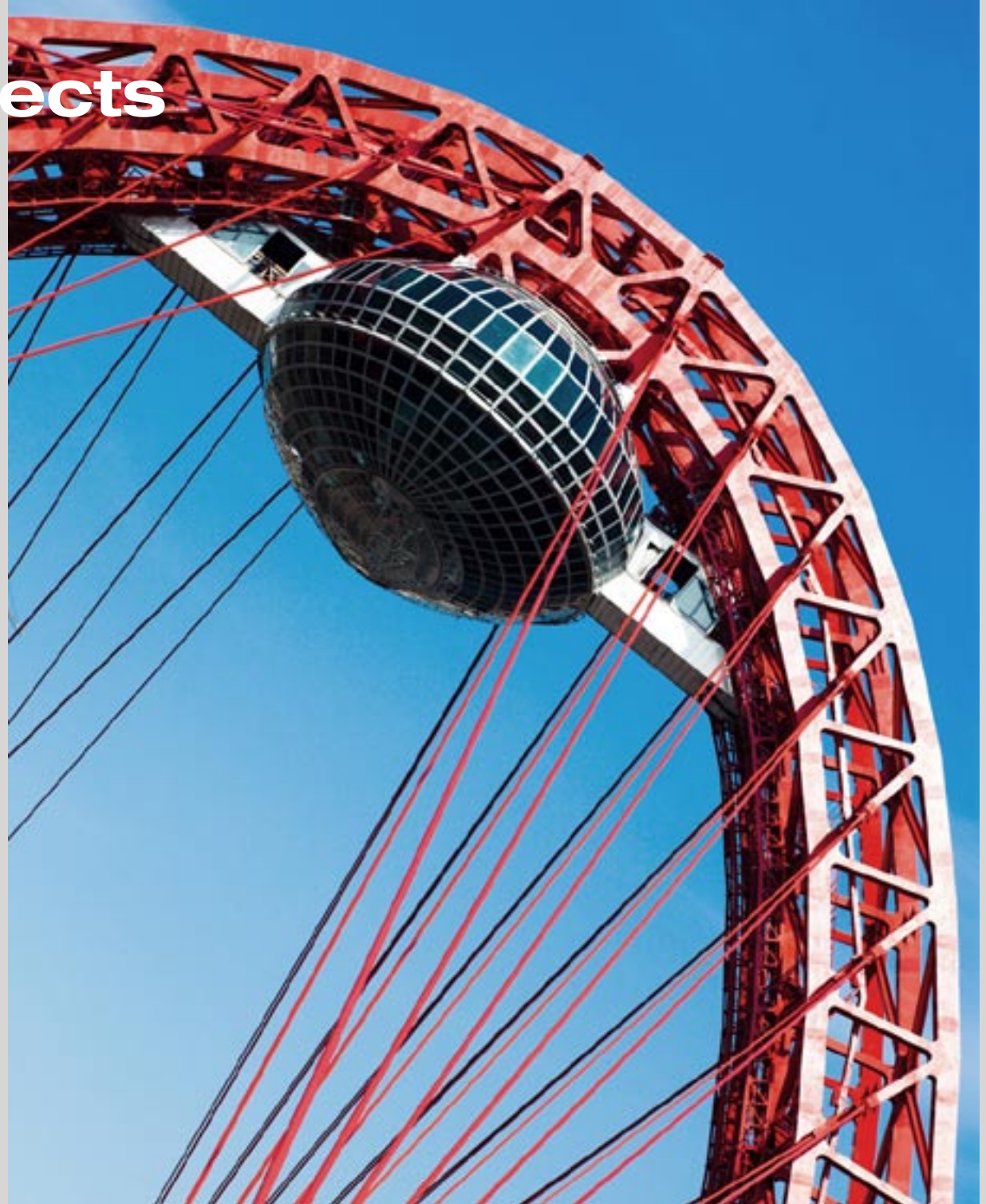
We delivered our products preprocessed at our Steel Service Centre in Hradec Králové to a number of pressing shops, including Karsit, Klein & Blažek, Tawesco, Unitools and Iveco, which transformed them into precise mouldings for cars.

OTHER PROJECTS:

- Gas tanker, 110 meters long



- A bridge over Úhlava River at Štenovice, 120 meters long



ferona as a socially responsible and strong company

MONITORS FOR MOTOL UNIVERSITY HOSPITAL

One of Ferona's traditional social projects is support for the Czech healthcare system. With the aim of providing the best possible care for our babies, we funded the purchase of several Babysense monitors for Motol University Hospital by means of the Křižovatka Foundation.

OLYMPIC SILVER MEDALLISTS WITH FERONA ON THEIR HELMETS

Our support for sport activities also included water slalom. Ondřej Štěpánek and Jaroslav Volf have been a credit to the Czech Republic for years. What they have in common with Ferona is their good, profound relation to metals. While Ferona is a successful wholesaler of metals, the two kayakers keep collecting precious metals at local and international sports events. Their latest achievement is the Olympic silver medal from China.

THE CLEAN SÁZAVA RIVER

Sázava River connects people and is a place for relaxing and drawing energy. It is also a home to a variety of animals. A lot of historic sights are situated along the river. This is why we should consider the river an extraordinary treasure and give it all the care it deserves. We hope that with our financial support we were able to contribute to keeping the river and the countryside along it clean.



Ing. Pavel Horák
Logistics Director



investment

The investment activities in 2008, like in the previous year, focused primarily on renovation and upgrades with the purpose of improving the services that we provide to our customers. New tangible and intangible fixed assets were purchased for CZK 230,180 thousand. Out of this, CZK 173,660 thousand was invested into machinery and equipment. Most funds, as much as CZK 81,633 thousand, were invested into cranes and modernisation of the car fleet. The investments into structures reached CZK 63,760 thousand, including mainly the completion of the warehouse premises in Hradec Králové.

18

services

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 at reduced prices.

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

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. State-of-the-art-technology, certified by Ferona's calibration laboratory, 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. 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 dimensions of split sheets carried out by means of a calibrated optical gauge are available at request.

Special needs of our customers concerning tests of materials 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

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

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 1,300 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.

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 an image 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 (authorisation no. K 100; calibration service centre no. C 283) to test length gauges.

The laboratory is also accredited by the Czech Accreditation Institute for calibration of length gauges (accreditation certificate no. 2283).

The following accredited activities are carried out in the laboratory:

- calibration of slide gauges, micrometer callipers including tubular ones, steel parallels and tape measures, and calibration of the measuring devices used in bar splitting lines.

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

quality management system

To ensure high quality of the products and services that it provides, Feron 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.

Feron's Steel Service Centre also introduced a certified 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.

EN ISO 9001:2000



ISO/TS 16949:2002



human resources and staff development

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

SOME FACTS AND FIGURES

In 2008, Feronia had 1,361 employees in average, out of which 724 were technical and administrative staff, 564 were blue-collar workers, 67 were sales and operating staff, and 6 were unskilled workers and operators. In terms of education, 102 employees had university education, 532 had secondary education with a vocational certificate, 395 had upper secondary education with a school-leaving examination, 96 had upper secondary education with a vocational certificate and a school-leaving exam, and 93 employees only had elementary education.

The average wages in 2008 amounted to CZK 33,451.





SOCIAL BENEFITS

Social expenses amounted to CZK 30 million in 2008, comprising primarily expenses relating to the company's social programme provided for in the Collective Agreement. In 2008, those expenses included mainly meal and travel allowances, social allowances, healthcare and loyalty bonuses paid to long-term, high-performing employees for their outstanding work. In 2008, optional pension supplementary insurance and life assurance plans were introduced as a new incentive to motivate the company's employees. The employees may choose either of them and claim contributions from the employer. A total of CZK 7.4 million was invested in this new social benefit.

TRAINING

Personal development was an integral part of the company's ongoing commitment to care for its employees in 2008, 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.



Milan Rada
Human Resources Manager

results of operations

		<u>2006</u>	<u>2007</u>	<u>2008</u>
▪ Sale of materials	(thousands of tonnes)	981	1 012	931
▪ Revenue from the sale of goods	(CZK million)	20 675	23 042	21 637
▪ Profit (loss)	(CZK million)	822	533	326
▪ Inventories	(CZK million)	4 216	4 618	4 063
▪ Short-term receivables	(CZK million)	3 152	3 049	3 474
▪ Short-term payables	(CZK million)	3 050	2 633	1 864
▪ Bank loans	(CZK million)	3 130	3 845	4 486
▪ Employees	(persons)	1 412	1 404	1 362

BUSINESS ACTIVITIES

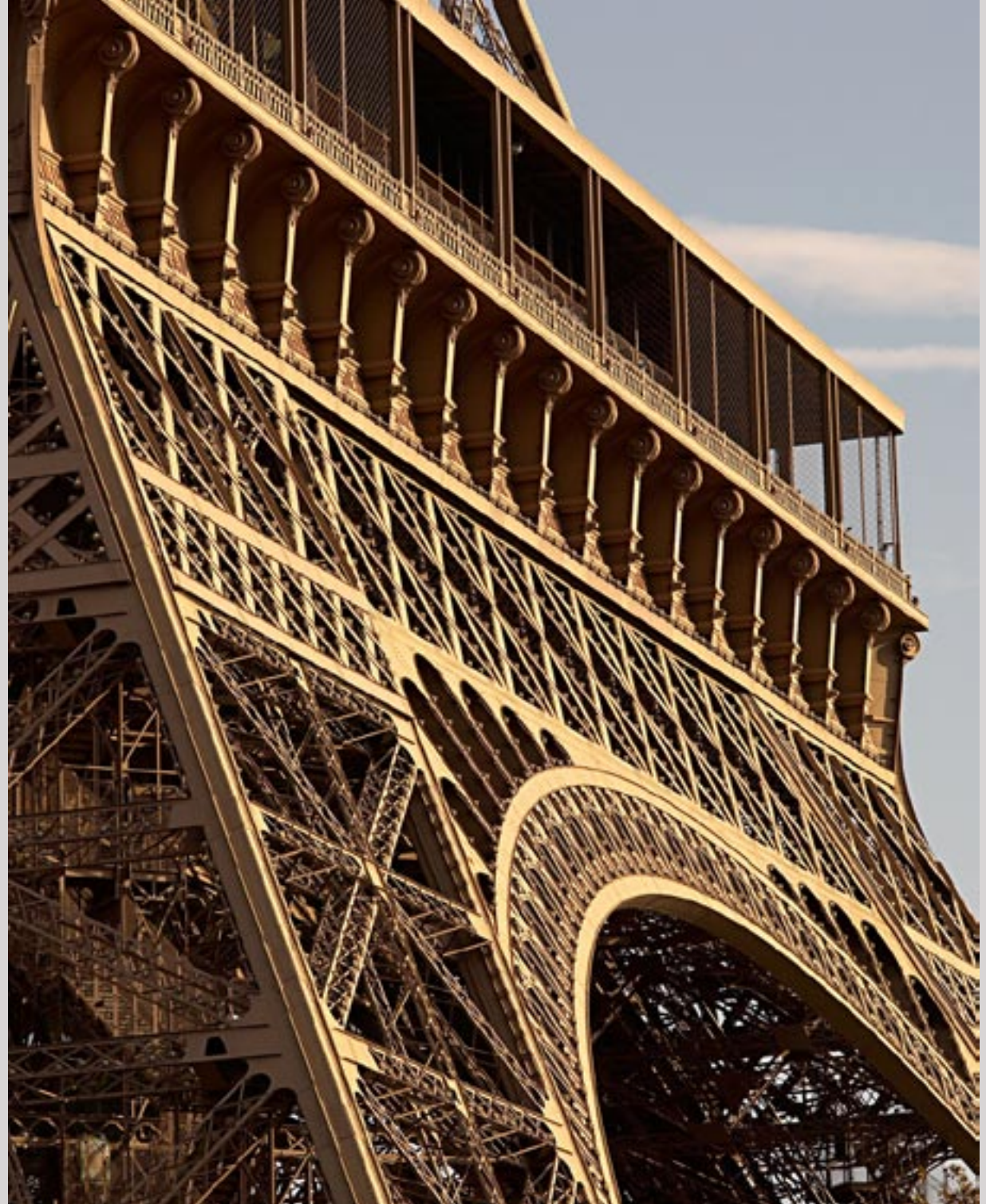
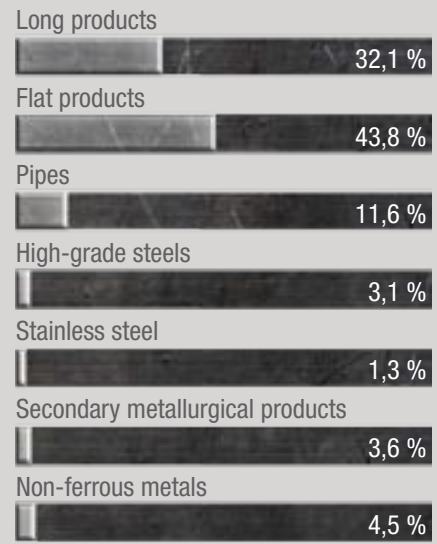
In 2008, the Company sold 931 142 **tonnes of goods** to its customers, which was a drop of 81,237 tonnes or 8% compared to 2007 and 49,384 tonnes or 5% compared to 2006. Nevertheless, last year's sales expressed in units of materials were the third best result in the company's history.

Last year, **revenues from the sale of goods** amounted to CZK 21,636,695 thousand, which was a decrease by CZK 1,405,301 thousand or 6.1% compared to 2007 and an increase by CZK 961,976 thousand or 4.7% compared to 2006.

Ing. Miroslav Vaníček
Chief Financial Officer



The **revenue structure** by product groups in 2008 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 2008, profit margin totalled CZK 2,051,032 thousand, which was CZK 140,951 thousand or 7.4% more than in 2007 and CZK 161,100 thousand less than in 2006. The drop of sales in units of materials compared to 2007 and its effect on the sales margin was partially offset by a change in the method of accounting for supplier discounts. 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 179,171 thousand, which was a decrease by CZK 5,731 thousand or 3.1% compared to 2007 and an increase by 13.8% compared to 2006.

The costs of materials and energy consumed totalled CZK 1,363,184 thousand, out of which consumption of materials in Division IV – Steel Service Centre accounted for 89% or CZK 1,209,887 thousand. The largest item of services purchased from third parties was contractual transport (accounting for 41%) and repairs and maintenance (accounting for 16%).

In 2008, the value added increased by CZK 166,697 thousand to CZK 1,718,137 thousand, which was an up by 10.7% compared to 2007 but a down by 6.8% compared to 2006. Personnel expenses amounted to CZK 765,157 thousand, which was an increase by 1.0% compared to 2007. Depreciation and amortisation of tangible and intangible fixed assets amounted to CZK 219,754 thousand, which was a year-on-year reduction of 0.5%.

The **operating result** was CZK 550,319 thousand, which was a drop of CZK 260,683 thousand compared to 2007 due to the developments described above and also a drop of CZK 519,461 thousand compared to 2006.

Interest paid on operating loans amounted to CZK 194,444. Displaying a year-on-year growth of 28%, 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 154 thousand. Other financial revenue, consisting mainly of exchange rate gains, were CZK 132,689. A major item of the **income from financial operations** was adjustments to long-term financial assets of CZK 80,000 thousand. The total **result of financial operations** was a loss of CZK 149,743 thousand.

In 2008, the Company did not record any accounting operations which would have affected the **extraordinary profit/loss**. Its 2008 **pre-tax profit** decreased by CZK 266,764 thousand compared to the previous year, amounting to CZK 400,576 thousand.

The **profit for the fiscal year** (net profit after taxation) totalled CZK 325,561 thousand, which was a down by CZK 207,529 thousand compared to the previous year and also a down by CZK 496,871 thousand compared to 2006.

COMMENTS ON THE BALANCE SHEET

Compared to the end of the previous year, total assets as of 31 December 2008 decreased by CZK 4,510 thousand to a total net book value of CZK 11,610,791 thousand. This development was mainly due to a reduction of inventories of commercial goods in response to the expected fall of prices of metallurgical products.

Fixed assets, accounting for 34.3% of the total assets, increased by 2.9% to CZK 3,984,687 thousand. It was a year-on-year growth of 9.4%. They were structured as follows (in CZK thousand and percentages of fixed assets):

	%	CZK thousand
Intangible fixed assets	0,5	21 023
Tangible fixed assets	71,1	2 831 969
Financial assets	28,4	1 131 695

The largest items of the **tangible fixed assets** included buildings and structures with a total value of CZK 1,679,832 thousand or 59.3% of the total value of tangible fixed assets, followed by movables with a value of CZK 605,304 thousand (21.4%) and land with a value of CZK 524,635 thousand (18.5%).

The net value of **financial assets** amounted to CZK 1,131,695 thousand, including an increase 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 2008 by a total of CZK 108,603 thousand. During the reported accounting period, adjustments to the financial investment in Feronia Slovakia, a. s., of CZK 80,000 thousand were released and a new company, Feronia - Servis Centrum Slovakia, a. s., was established in Bratislava.

Current assets accounted for 65.6% of total assets. They decreased during the year by CZK 218,825 thousand to CZK 7,619,718 thousand.

The major item of the inventory was the **inventory of goods** that decreased by CZK 493,206 thousand compared to the previous year to CZK 3,873,587 thousand. The immediate turnover time of inventory, calculated as the value of the goods sold at the cost of acquisition, was 72 days at the end of the reported year, which was a down of 3 days compared to 2007 as a result of an intentional reduction of inventories during the second half of 2008.

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 the company's short-term receivables. They increased by CZK 198,647 thousand during the year due to a slow-down in the collection during the last quarter of 2008, amounting to CZK 3,138,402 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 53 days at the end of the year, which was a year-on-year acceleration by 7 days.

Short-term financial assets amounted to CZK 79,311 thousand at the end of the year, which was a decrease by over CZK 88 million compared to the beginning of the year due to larger amounts collected from the customers and credited to the company's current accounts in the last days of the reported year.

Accruals and deferrals of CZK 6,386 thousand had only a negligible share in the company's 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 5,034,391 thousand as per 31 December 2008, covering 43.4% of the total book value of the company's liabilities.

Liabilities amounted to CZK 6,535,917 thousand at the end of 2008 and were structured as follows:

	%	CZK thousand
Long-term liabilities		
	2,8	185 664
Short-term liabilities		
	28,5	1 864 350
Bank loans		
	68,7	4 485 903

The major item of **long-term liabilities** was the deferred tax liability of CZK 185,526 thousand. The significant year-on-year decrease of its value was due to the reduction of the income tax rate applicable to future periods and the application of an adjustment to the inventories of goods.

Short-term liabilities included primarily **trade liabilities** amounting to CZK 1,583,177 thousand at the end of the reported year. Except for invoices unpaid for goods that were not delivered by the end of 2008 and liabilities prepared to be set off, none of the short-term liabilities was overdue.

Bank loans amounted to CZK 4,447,439 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. Liabilities from regressive factoring amounted to CZK 38,464 thousand.

Accruals and deferrals amounted to CZK 40,483 thousand at the end of the year, with the largest item being accrued interest on bank loans drawn in tranches during various interest periods.

FINANCIAL STANDING

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 1,609,197 thousand at the end of 2008 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 banks did not lose confidence in the company during 2008, and so Ferona was able to enter into loan contracts to obtain funds sufficient to cover all its needs. The company's liabilities accounted for 56.6% of its assets as per 31 December 2008.

The ratio of bank loans and total revenue was 20% at the end of 2008.

RESULTS OF THE CONSOLIDATED GROUP

The group companies reported total revenue from the sale of goods of CZK 25,573,510 thousand in 2008, which was a rise of 10.3% compared to the previous year. This increase was mainly due to a growth of the sales revenue reported by Ferona Slovakia. The value added recorded a year-on-year up by 12.7% to CZK 2,034,136 thousand. The consolidated income from operations was CZK 625,219 thousand as per 31 December 2008.

The consolidated result of operations, including a share in the result of group companies in equivalence, was a profit of CZK 255,885 thousand, which was a decrease by 39% compared to 2007.

The total value of the assets of the consolidated group amounted to CZK 13,567,522 thousand and that of the equity to CZK 5,186,200 thousand at the end of 2008.

POST BALANCE SHEET EVENTS

As part of the expansion of its business activities, the company acquired a 70% stake in Pragmet, s. r. o., with its registered office in Prague, involved in deliveries to the car industry.

Topham Eisen- und Stahlhandels-G.m.b.H., Vienna, Austria, which entered into liquidation earlier, was unable to complete the process. The company fully paid up the registered capital of its new subsidiary, Ferona - Servis Centrum Slovakia, a. s., with its registered seat in Bratislava, which is now 100% owned by Ferona.

Following the balance sheet date, another steep fall of the demand for metallurgical products was observed due to global recession and a continued decrease in the prices of metallurgical products. This will have a negative impact on the company's result in 2009. Nevertheless, sufficient capital is available to protect Ferona's stable economic position from the negative developments.



documents

- Auditor's report on the financial Statements
- Financial statements for the year ended 31 December 2008
- Auditor's report on the consolidated financial statements
- Consolidated financial statements for the year ended 31 December 2008

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 prepared for the year ended 31 December 2008, the profit and loss account covering the period from 1 January 2008 until 31 December 2008, as well as 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 RESPONSIBILITIES

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 2008, and of its expenses, revenue and income from operations for the year then ended in accordance with the applicable Czech accounting regulations.

Prague, 15 March 2009

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



Ing. Ladislav Novák
Auditor, certificate no. 0165



Ing. Eva Knyplová
Auditor, certificate no. 1521

balance sheet

FOR THE YEAR ENDED 31 DECEMBER 2008 (in CZK thousand, full details)

Identification	ASSETS	Line	Gross	Current year	Net	Previous year
a	b	c	1	Ajustment	3	Net
				2		4
	TOTAL ASSETS	01	13 898 170	-2 287 379	11 610 791	11 615 301
B.	Fixed assets	03	5 767 811	-1 783 124	3 984 687	3 643 638
B. I.	Intangible fixed assets	04	71 311	-50 288	21 023	14 225
	3. Software	07	69 506	-50 163	19 343	8 646
	4. Royalties	08	214	-125	89	143
	7. Intangible fixed assets not in use	11	1 591	0	1 591	5 436
B. II.	Tangible fixed assets	13	4 564 805	-1 732 836	2 831 969	2 832 990
B. II.	1. Land	14	524 635	0	524 635	524 593
	2. Buildings, halls and structures	15	2 452 418	-772 586	1 679 832	1 724 249
	3. Machinery, tools and equipment, vehicles and furniture	16	1 565 554	-960 250	605 304	581 613
	6. Other tangible fixed assets	19	371	0	371	371
	7. Tangible fixed assets not in use	20	3 833	0	3 833	164
	8. Prepayments for tangible fixed assets	21	17 994	0	17 994	2 000
B. III.	Long-term investments	23	1 131 695	0	1 131 695	796 423
B. III.	1. Shares in subsidiaries	24	1 115 752	0	1 115 752	786 966
	2. Shares in associates	25	9 177	0	9 177	9 166
	3. Other securities and ownership interests	26	25	0	25	25
	6. Long-term financial assets acquired	29	6 741	0	6 741	266
C.	Current assets	31	8 123 973	-504 255	7 619 718	7 838 543
C. I.	Inventory	32	4 304 196	-241 000	4 063 196	4 618 222
C. I.	1. Material	33	161 052	0	161 052	248 577
	2. Work in progress and semi-finished products	34	2 232	0	2 232	3 698
	5. Merchandise	37	4 113 587	-241 000	3 872 587	4 365 793
	6. Prepayments towards inventory	38	27 325	0	27 325	154
C. II.	Long-term receivables	39	3 664	0	3 664	3 664
	5. Long-term prepayments	44	3 664	0	3 664	3 664

Identification	ASSETS	Line	Gross	Current year	Net	Previous year
a	b	c	1	Ajustment	3	Net
				2		4
C. III.	Short-term receivables	48	3 734 968	-261 421	3 473 547	3 049 292
C. III.	1. Trade receivables	49	3 399 739	-261 337	3 138 402	2 939 755
	2. Receivables from controlling entities	50	24 168	0	24 168	15 176
	3. Receivables from associates	51	157	0	157	0
	6. Taxes receivable	54	95 949	0	95 949	79 789
	7. Short-term prepayments	55	5 447	0	5 447	5 116
	8. Estimated assets	56	206 556	0	206 556	234
	9. Other receivables	57	2 952	-84	2 868	9 222
C. IV.	Short-term investments	58	81 145	-1 834	79 311	167 365
C. IV.	1. Cash in hand	59	1 979	0	1 979	2 467
	2. Cash at bank	60	61 439	0	61 439	159 704
	3. Short-term investments	61	17 727	-1 834	15 893	5 194
D. I.	Temporary assets	63	6 386	0	6 386	133 120
D. I.	1. Deferred expenses	64	6 230	0	6 230	6 688
	3. Accrued income	66	156	0	156	126 432

Identification	LIABILITIES	Line	Current year	Previous year
a	b	c	5	6
	TOTAL LIABILITIES	67	11 610 791	11 615 301
A.	Equity	68	5 034 391	4 850 226
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	318 045	209 442
	2. Other capital funds	75	230 534	230 534
	3. Gains or losses from revaluation of assets	76	87 511	-21 092
A. III.	Reserve funds, non-distributable fund and other funds created from profit	78	191 968	165 313
A. III.	1. Statutory reserve fund / non-distributable fund	79	191 968	165 313
A. IV.	Retained earnings or loss from previous years	81	1 198 817	942 381
A. IV.	1. Retained earnings from previous years	82	1 198 817	942 381
A. V.	Profit or loss of current year [+/-]	84	325 561	533 090

Identification a	LIABILITIES b	Line c	Current year 5	Previous year 6
B.	Liabilities	85	6 535 917	6 716 975
B. II.	Long-term payables	91	185 664	239 131
5.	Long-term prepayments received	96	138	128
10.	Deferred tax liability	101	185 526	239 003
B. III.	Short-term payables	102	1 864 350	2 632 661
B. III.	1. Trade payables	103	1 583 177	2 490 707
	2. Payables to a controlling entity	104	0	285
	4. Payables to partners and members	106	43 774	23 718
	5. Payables to employees	107	195	236
	6. Social security and health insurance	108	30 007	36 249
	7. Tax payable and subsidies	109	121 840	16 708
	8. Short-term prepayments received	110	452	2 774
	10. Estimated liabilities	112	6 548	7 827
	11. Other liabilities	113	78 357	54 157
B. IV.	Bank loans and borrowings	114	4 485 903	3 845 183
B. IV.	1. Long-term bank loans	115	0	2 000 000
	2. Short-term bank loans	116	4 447 439	1 805 365
	3. Short-term borrowings	117	38 464	39 818
C. I.	Temporary liabilities	118	40 483	48 100
C. I.	1. Accrued expenses	119	39 177	34 543
	2. Deferred income	120	1 306	13 557

profit & loss account

FOR THE YEAR ENDED 31 DECEMBER 2008 (in CZK thousand, full details)

Identification	TEXT	Line	Accounting period	
			Current	Previous
a	b		1	2
I.	Sales of goods purchased for resale	01	21 636 695	23 041 996
A.	Cost of goods sold	02	19 585 663	21 131 915
+	Gross margin	03	2 051 032	1 910 081
II.	Production	04	1 479 369	1 424 138
II. 1.	Sale of own products and services	05	179 171	184 902
3.	Own work capitalised	07	1 300 198	1 239 236
B.	Purchased consumables and services	08	1 812 264	1 782 779
B.1.	Consumables	09	1 363 184	1 334 414
2.	Services	10	449 080	448 365
+	Value added	11	1 718 137	1 551 440
C.	Staff costs	12	765 157	757 587
C.1.	Wages and salaries	13	554 370	527 826
2.	Remuneration of board members	14	10 080	10 080
3.	Social security and health insurance	15	169 860	189 067
4.	Social benefits	16	30 847	30 614
D.	Taxes and charges	17	16 750	15 239
E.	Depreciation/amortisation of tangible and intangible fixed assets	18	219 754	220 820
III.	Sale of fixes assets and materials	19	138 615	24 328
III.1.	Sale of fixed assets	20	11 338	15 348
2.	Sale of material	21	127 277	8 980
F.	Net book value of fixed assets and material sold	22	126 011	12 355
F. 1.	Net book value of fixed assets sold	23	634	4 168
2.	Material sold	24	125 377	8 187
G.	Change in reserves and adjusting entries in operation and complex deferred expenses	25	231 057	-8 254
IV.	Other operating income	26	1 640 307	1 374 759
H.	Other operating expenses	27	1 588 011	1 141 778
*	Operating profit or loss	30	550 319	811 002

Accounting period

Identification	TEXT	Line	Current	Previous
a	b	c	1	2
VI.	Proceeds from sale of securities and ownership interests	31	0	780
J.	Cost of securities and ownership interests sold	32	0	650
VII.	Income from investments	33	0	9 168
VII. 1.	Income from intercompany securities and ownership interests	34	0	9 168
M.	Change in reserves and adjustments relating to investments	41	-78 166	0
X.	Interest income	42	8 230	4 796
N.	Interest expense	43	194 444	151 924
XI.	Other financial income	44	124 459	72 889
O.	Other financial expenses	45	166 154	78 721
*	Financial profit or loss	48	-149 743	-143 662
Q.	Income tax on ordinary activities	49	75 015	134 250
Q.1.	- due	50	128 492	171 089
2.	- deferred	51	-53 477	-36 839
**	Profit or loss from ordinary activities	52	325 561	533 090
***	Profit or loss of current year [+/-]	60	325 561	533 090
****	Pre-tax profit or loss of current year	61	400 576	667 340

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

We have audited the accompanying consolidated financial statements of Feronia, a. s., which comprised the balance sheet prepared for the year ended 31 December 2008, the profit and loss account and the cash flow statement covering the period from 1 January 2008 until 31 December 2008, as well as a summary of significant accounting policies and other explanatory notes.

STATUTORY BODY'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The statutory body of Feronia, a. s., is responsible for the preparation and fair presentation of these consolidated 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 RESPONSIBILITIES

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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the assets, liabilities and financial position of Ferona, a. s., as of 31 December 2008, 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 2008. 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 2008 contains material factual misstatements.

We have also audited the consolidated annual report for consistency with the consolidated financial statements referred to above and the non-consolidated financial statements prepared for the year ended 31 December 2008, on which we expressed our opinion on 15 March 2009, as specified in Article 14 of the Annual Report. 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 the 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 2008 is consistent, in all material respects, with the financial statements referred to above.

Prague, 20 April 2009

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



Ing. Ladislav Novák
Auditor, certificate no. 0165



Ing. Eva Knyplová
Auditor, certificate no. 1521

balance sheet

MINIMUM REQUIRED SCOPE OF A CONSOLIDATED REPORT (in CZK thousand)

Identification	Text	Current period as per 31/12/2008 1	Last period as per 31/12/2007 1	Last but one period as per 31/12/2006 2
	TOTAL ASSETS	13 567 522	12 971 262	12 322 757
A.	Receivables from subscriptions			
B.	Fixed assets	3 929 416	3 560 236	3 519 964
B.I.	Intangible fixed assets	22 480	15 211	10 812
B.II.	Tangible fixed assets	3 837 106	3 486 155	3 416 476
B.III.	Long-term investments	7 725	973	1 654
B.IV.	Consolidation difference – positive “+”, negative “-”	0	0	0
B.V.	Securities in equivalence	62 105	57 897	91 022
C.	Current assets	9 629 010	9 276 495	8 795 021
C.I.	Inventories	5 530 856	5 450 160	4 774 651
C.II.	Long-term receivables	8 773	6 861	8 842
C.III.	Short-term receivables	3 843 764	3 537 425	3 747 587
C.IV.	Short-term investments	245 617	282 049	263 941
D.	Temporary assets	9 096	134 531	7 772
	TOTAL LIABILITIES	13 567 522	12 971 262	12 322 757
A.	Equity	5 186 200	5 064 862	4 770 920
A.I.	Registered capital	3 000 000	3 000 000	3 000 000
A.II.	Capital funds	229 365	229 354	229 385
	Loss from revaluation of assets and liabilities	-1 169	-1 180	-1 149
A.III.	Funds created from profit	191 968	165 313	124 191
A.IV.	Retained earnings or loss from previous years	1 466 056	1 078 989	504 507
A.V.	Profit (loss) of current year excluding minority shares	255 885	551 851	875 308
1.	Profit (loss) of operations of current year (+/-)	252 088	548 691	860 080
2.	Contribution to the profit in equivalence (+/-)	3 797	3 160	15 228
A.VI.	Consolidation reserve fund	42 926	39 355	37 529
B.	Liabilities	8 339 536	7 852 142	7 521 114
B.I.	Reserves	0	2 337	0
B.II.	Long-term payables	227 347	270 429	283 990
B.III.	Short-term payables	2 143 661	2 881 632	3 388 247
B.IV.	Bank loans and borrowings	5 968 528	4 697 744	3 848 877
C.	Temporary liabilities	41 786	54 258	30 723

profit & loss account

MINIMUM REQUIRED SCOPE OF A CONSOLIDATED REPORT (in CZK thousand)

Identification	Text	Accounting period		
		Current as per 31/12/2008	Last as per 31/12/2007	Last but one as per 31/12/2006
		1	1	2
I.	Revenue from the goods sold	25 573 510	23 178 962	24 056 585
A.	Cost of goods sold	23 120 508	20 995 910	21 526 654
+	Gross margin	2 453 002	2 183 052	2 529 931
II.	Production	1 968 525	3 599 622	1 411 540
B.	Purchased consumables and services	2 387 391	3 978 731	1 868 780
+	Value added	2 034 136	1 803 943	2 072 691
C.	Personnel expenses	926 299	881 153	850 321
E.	Depreciation/amortisation of tangible and intangible fixed assets	269 034	256 805	233 379
G. + H.	Change in reserves, adjust. and deferrals and accruals relating to operat. expenses	231 048	-8 243	52 784
III.+ VI. - VII.	Other operating income	2 031 664	1 574 034	1 335 948
D.+ F.+ I. - J.	Other operating expenses	2 014 200	1 369 224	1 118 184
*	Consolidated operating profit (loss)	625 219	879 038	1 153 971
VIII + IX + X + XI + XII + + XIII + XIV - XV	Financial income	202 962	116 701	254 140
K + L + M + N + + O + R - P	Financial expenses	633 549	484 086	540 159
*	Consolidated financial profit (loss)	-430 587	-367 385	-286 019
R.2.	Deferred income tax on ordinary activities	-57 456	-37 038	7 872
**	Consolidated profit (loss) from ordinary activities	252 088	548 691	860 080
***	Consolidated profit (loss) of current year exclusive of equivalence	252 088	548 691	860 080
z toho	- Profit (loss) of operations of current year exclusive of minority shares	252 088	548 691	860 080
	- Minority profit (loss) of operations of current year	0	0	0
	Contribution to the result in equivalence	3 797	3 160	15 228
****	Consolidated profit (loss) of operations of current year	255 885	551 851	875 308

