

## **ANNUAL REPORT 2007**

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## KEY RESULTS

Amtel-Vredestein sold over 19 million tyres in 2007. This included over 14 million PCT in the *Premium* "A", *Value* "B" or *Discount* "C" segments – a 9% increase over the previous year. Net revenue from the Company's core PCT business grew 20% to \$612.4 million. Sales grew steadily across most businesses in 2007, with healthy top line and margin growth at the Company's Russian manufacturing subsidiaries and good performance of Vredestein Banden operations.

Gross profit on a continuing operations basis improved to \$234 million in 2007 from \$185 million in 2006 – an increase of 26.5%. However, the gross profit margin remained broadly the same at 23.5% in 2007 versus 23.1% in 2006.

Net loss for 2007 was \$243 million, versus \$5 million in 2006, principally due to significant asset impairment charges, additional non-cash tax charge related to \$12 million deferred tax asset write down, increased costs, including interest expense and other factors.

## CHAIRMAN'S FOREWORD

Dear Stakeholders,

2007 was one of the most difficult years in the history of Amtel-Vredestein N.V. It was a year in which the Company's growth was superseded by two fundamental weaknesses: our huge debt incurred to finance the expansion of previous years, and our resulting inability to adjust structural costs in line with global market volatility. The challenges faced in 2007 – over-capacity, rising costs, growing competition – intensified and significantly weakened our business.

Obviously, this is unsustainable and runs contrary to our projections from 2006, and that raises a critical point. Deleveraging the Company is crucial, and we are working intently to achieve that goal. But our objective is not just to manage the debt; our fundamental goal is to transform the Company for the long haul, to structure it for sustained profitability and growth. Major actions to accomplish this included negotiations with creditors on debt restructuring and with market peers on possible business combinations. We've made good progress in these complex negotiations over the past few months, and continue to be hopeful that a solution can be found soon that is in the best interests of the Company and its stockholders.

In 2007, we laid out and began to implement a turnaround plan aimed at strengthening our competitive position, deleveraging the Company and achieving strong business results for years to come. The last two points of the plan led to some difficult and painful decisions that required sacrifices from virtually everyone with a stake in the Company:

- We announced plans to dispose of the Moscow Tyre Plant, making redundant the workforce and relocating the equipment to other production facilities. The reason for this was the limited demand for MTP brand tyres, and the high cost of operations there due to its Moscow location, which made it inefficient to continue there.
- We suspended the Voronezh II project due to a shortage of funds that made it impossible to complete the new tyre complex. Production at Voronezh II is scheduled to start late 2008 - 2009, provided we settle our most acute issues.

- We suspended further expansion of our AV-TO retail unit and are going through a careful evaluation of our current retail asset portfolio.
- We started to look more openly to potential strategic and restructuring options the company may face

In view of the challenging market environment, which was generally more difficult than the previous year, our operational achievements are particularly gratifying. 2007 brought a yield of \$997 million in sales (22% growth vs. 2006) and over 19 million in units of tyres sold. The Company continued to demonstrate the steady growth of PCT output in line with our strategy to focus on the high-margin product range. Key factors behind this growth are our continued efforts to reestablish the Vredestein brand on the Russian market – and its booming premium segment – along with surging demand from OEM partners we are well-suited to satisfy. Specifically, last year was marked with exclusive contract the company has signed to supply Amtel tyres for Renault Logan and Fiat Albea passenger cars produced in Russia.

This year demonstrated the first results of the technological integration of the business. Amtel Russian plants started production of the completely new Planet-3 tire, which was developed in cooperation with the Vredestein design center. We expect continued effort in 2008 as we launch new products and expand our brands.

Amtel-Vredestein N.V. continues to place a high priority on operational safety, environmental protection and R&D. In doing so, we've taken ambitious initiatives and in 2007 obtained further certification of full compliance with the ISO 14001:2004 standard of systems on ecological management for our Kirov facility. This positions us as a responsible manufacturer and enables to respond to anticipated future regulations that are getting more stringent each year. With our R&D consistently on track, in 2007 we kept modernizing our production toolbase, making it more efficient and effective, and thus confirmed our commitment to industrial risk prevention and environmental protection.

We recognize that our stockholders have shared the pain as the Company has struggled over the past year. We appreciate your patience and advice, and we are committed to continue looking for ways of making your investment in Amtel-Vredestein N.V. a profitable one. Managing the significant financial burden of the past is a daunting task and success cannot be guaranteed. But it also gives us an opportunity to lead this unique company into a new era of growth and success in providing the world with innovation in transportation. I am confident that we'll emerge from these challenging times stronger, smarter, and a better global competitor.

Rafael Nagapetyants  
Chairman of the Supervisory Board

## CEO INTERVIEW

### Facing Challenges

an interview with Chief Executive Officer and Chairman of the Executive Board Petr Zolotarev

*Amtel-Vredestein faced one of its most challenging years in 2007, even as our core passenger tyre business remained strong. But growth stalled due to the significant amount of debt it had accrued in recent years, and the Company faced challenges of over-capacity, growing raw material costs, and increased competition.*

*The Company is taking many necessary steps to solve this problem. These include not only working with creditors to manage the debt, but to fundamentally reshape the business to compete for the long haul. CEO Petr Zolotarev, who joined the company in July 2007, here explains the situation and how he intends to restructure the Company for sustained profitability and growth.*

### **Q: What are the main achievements and disappointments that characterized 2007?**

“Although we delivered strong operational results in our core passenger tyre business last year, there are a number of reasons why 2007 proved difficult for us. Some of the challenges we faced relate to our market position – over-capacity, rising costs for doing business and for the raw materials that are essential for what we do, plus growing competition as markets continue to shift and develop. Each of these factors intensified last year.

But the biggest problem is simply that the Company’s debt incurred to finance its rapid expansion and development over the past few years has put a strain on the Company’s liquidity. When coupled with investments that did not pan out as hoped – like acquiring the Moscow Tyre Plant and retailer AV-TO – it created a difficult predicament for us.

Despite this, our central business remains strong. In 2007, our net sales rose by 22% from \$817.4 million in 2006 to \$997.4 million. Our net revenue from passenger car tyre sales grew 21%, to \$615.8 million. The Company sold a total of 14.2 million passenger tyres last year, up from 13 million the year before, which is a 9.3% increase.”

### **Q: How does the Company plan to manage its debt, to let these strong fundamentals step out of its shadows?**

“The restructuring of our debt is going to be a major priority for 2008 I’m happy to report that we’ve made good progress in recent months in these very complex discussions with our advisors and creditors. Despite a number of attempts not leading to practical results including the agreed merger with SIBUR Russian Tyre I’m still hopeful that we can find a solution that will be in the best interest of all creditors, the Company and its shareholders. The very existence of the company and continuation of production through 2008 can be considered a partial success. We also have not ruled out broader strategic options, including possible business combinations with other market peers. We’ve begun some conversations to explore different possibilities.”

### **Q: What has the Company done in regard to its loss-producing assets?**

“In light of our position, and the overall competitiveness of our market, we realized last year that we would need to urgently resolve several issues relating to the underperforming assets within the Company.

“Among the main issues was the Moscow Tyre Plant, which Amtel-Vredestein acquired in 2006.

The cost of doing business in a major city like Moscow, plus the limited market demand for the tyre brands produced there, outweighed any benefits the plant could provide. So in March 2008 we sold the plant for \$77 million, with proceeds going to reduce the company's existing debt and to fulfill certain obligations related to the acquisition of the plant. As part of the deal, we are still considering various options to relocate some of the plant's equipment, including possibly moving it to our other facilities.

We are currently still assessing our strategy regarding retailer AV-TO. Until we have chosen a clear path forward regarding this division, we have suspended any further expansion."

**Q: What global and domestic market trends do you anticipate will play the biggest roles in 2008?**

We anticipate an increasingly more difficult business environment that will be characterized by significantly higher raw materials costs, inflationary pressure on consumer behavior and tougher competition.

On the positive side, car sales in Europe are growing, and in Russia, sales of foreign cars are continuously growing at a steady rate, which is a good sign as we continue to emphasize our lines of premium and mid-range tyre brands. Sales of discount tyres appear to be slowing, and we are continuing to scale back our presence in this market segment."

**Q: What impact will the ever-growing cost of raw materials play in the future?**

"The cost of raw materials continues to rise, as most of the materials our industry uses are closely linked to oil prices, which as everyone knows skyrocketed in 2007 and continue to be highly volatile. This is an unfortunate fact of life for our business. These increases continue to put pressure on our margins, and some of these cost increases must be passed on to the consumer. However, our continuing emphasis on the higher-level "A" and "B" market segments rather than the lower margin "C" segment will help us manage this situation.

**Q: Could you give us an update on the Company's plans for its Voronezh II project?**

"The development of our Voronezh II facility is one of our most important projects going forward. While test production there began in May 2007, a shortage of funds has made it hard to complete the new complex when we would have liked. At this point, the mixing hall has been built, but the mixers and downstream equipment have yet to be installed. We have pushed back our full start-up date to some time after a solution for the Company's debt problems will be found.

This is going to be one of the most advanced tyre manufacturing facilities in Europe when it is completed, and will begin by making our Amtel brand of tyres. Soon after it will expand to make Vredestein and Maloya tyres for Europe. We will have invested about \$124 million in the facility, which we are designing based on our Vredestein Banden plant in the Netherlands. It will be able to produce over 2.5 million passenger and truck tyres a year, which in addition to our existing manufacturing capacity at the Amtel-Chernozemye facility will make it a core element of our future.

**Q: How are the Company's brands currently positioned in the market? And can you explain new brands that have been launched, and what old lines have been abandoned?**

"Our core brands remain strong, and are known across Europe for their value and performance. They include our high-performance Vredestein tyres, as well as our well-known midpriced brands Amtel and Maloya.

We are not content to rest on our laurels, and have unveiled some new brands that we expect will follow our tradition of proven success. In September 2007, we introduced our new Nord-Trac Xtreme and Icetrac tyres in Moscow. These are each designed especially to handle snowy and icy road conditions with exceptional traction and control.

Among our other brands, we are confident about the future of our specialized agricultural and industrial tyres. In 2007, we continued our effort to remain an industry leader in bicycle tyres. We introduced three new tyre brands after extensive research and design, and with the help of the Cannondale-Vredestein Mountainbike Racing team.

**Q: In the face of all this market uncertainty, the company continues to produce outstanding tyres for a variety of market segments. How is it able to continue to perform at such a high level?**

“A great deal of Amtel-Vredestein’s success can be attributed to our passionate commitment to research and development. This enables us to always push the envelope of what we can do, and to pass these innovations onto consumers.

Consumers know quality when they see it. In January, *Forbes* magazine published its list of the 50 best Russian brands based on retail sale volume from July 2006 to June 2007. Amtel is the only Russian tyre listed, in 34<sup>th</sup> place, up from 49<sup>th</sup> place in the previous year’s list. And auto producers have also noticed the quality of our work. Even though it remains a relatively small portion of our business, more and more auto-makers are turning to us for original equipment, including a deal we signed last year to provide for Renault Logan and Fiat Albea car made in Russia.

**Q: What can we expect from Amtel-Vredestein in 2008 and afterwards?**

“We are committed to continue to pursue the course we have begun to follow, to not only alleviate our debt load, but to go further. We are not in the business of managing debt – we are in the business of making high quality tyres for a variety of consumers and markets. We are in the business of deploying the best research and development to manufacture outstanding products in the safest and most environmentally responsible way we can.

And at this critical moment in the Company’s history, obviously a short-term task is to stabilize the Company. However our long-term goal remains to fundamentally transform the Company for the long-haul. We want to make it an operation for sustained profitability and growth for a long time to come.”

## CORPORATE GOVERNANCE

Amtel-Vredestein aspires to the highest standards of ethical conduct and shareholder advocacy. These standards consist of a forthright approach to all corporate communications; reporting results and important information with accuracy and in a timely manner; as well as maintaining full compliance with all the laws, rules and regulations in each of the jurisdictions that govern the Company’s businesses.

The Company regards it as a top priority to strengthen the trust placed in it by its shareholders. This includes openness to the investment community with a high degree of financial and operational transparency, and the existence of effective oversight mechanisms for the internal and external audit process.

The Company pursued several corporate governance goals in 2007. The first was to achieve a proper balance between entrepreneurship and control. The second was to facilitate performance-driven management, and provide leadership to ensure integrity and transparency in the decision-making process. The third was to enable the Board and management to pursue objectives in the best interests of the Company and its shareholders, and to create long-term value. The Company focused on these goals despite a challenging financial position, and the degree of ambiguity that presented.

### Board structure optimization

One of the most visible manifestations of the Company's commitment to strong corporate governance principles is the composition of its Board of Directors and board committees. All their members are senior professionals educated in the Netherlands, Russia, the United States and United Kingdom. The key positions on the Board are held by specialists with an extensive experience of working for both Russian and multinational companies. In 2007, the Company's Supervisory board consisted of three independent members, and we are committed to further optimize the Board structure to achieve full compliance with the Dutch Code of Corporate Governance.

### Financial reporting optimization

Transparency in financial reporting is another important aspect of corporate governance. Amtel Vredestein N.V. endorses financial reporting transparency by releasing semi-annual and annual reports under IFRS. While the Company has not been able to present semi-annual accounts over 2008, due to the restructuring efforts that are being undertaken, it aims to continue this past practice again in the future, also in order to fulfil its obligations under the relevant implementation rules of the Transparency Directive

We are convinced that creating value for our shareholders and adhering to the highest standards of corporate governance are essential to maintaining the trust of the investment community and maximizing the returns we generate for all our shareholders.

The Company understands that a sterling reputation for adhering to the highest standards is not granted, but only earned over an extended period. As we strive **to rethink our business** and meet the challenges of tomorrow, we are also determined to retain this trust and reputation through an unwavering commitment to our principles.

*Below we specify the areas where we focus our major efforts to enhance corporate governance in the Company.*

### **General**

The provisions of the Corporate Governance Code (the "Code") took effect on January 1, 2005 and apply to annual reports for financial years starting on or after January 1, 2004. Dutch companies whose shares or depositary receipts are listed on a government-recognized stock exchange must discuss compliance with the Code in their annual report. If a company does not apply the best practice provisions of the Code, it must explain the reasons for any deviations.

Each year Amtel-Vredestein reviews and updates the Code – a document that details the Company's level of compliance with the Dutch Code of Corporate Governance, which is prepared as a separate addendum to the Annual report and can be easily accessed on the corporate website.

The Company complies with the Code, but, in the following areas, deviates from the best practice provisions included therein:

## **Risk management and control**

The Company is aware of the necessity of the creation of an internal risk management and control system for the Group as a whole. The Audit Committee has already approved the Enterprise-wide Risk Management function development plan and budget. The Company is going to implement it after stabilizing its financial position (best practice provision II.1.3). The Executive Board shall declare in the next annual report that the internal risk management and control systems are adequate and effective and shall provide clear substantiation of this. In doing so, it shall describe any significant changes that have been made and any major improvements that are planned, and shall confirm that they have been discussed with the audit committee and the Supervisory Board (best practice provision II 1.4).

Internal control efficiency assessment is documented in the form of internal audit reports and internal audit working papers. Both sources so far reveal control inefficiencies and respective uncovered risks. Remediation is documented in the form of corrective actions plan, the execution of which is placed under tight control.

## **Share options and awards**

The Code states that options to acquire shares are a conditional remuneration component, and become unconditional only when the Executive Board members have fulfilled predetermined performance criteria after a period of at least three years from the grant date. The Company does not apply this best practice provision because arrangements were established and approved by the Company prior to listing. The Company is going to produce a separate internal policy on this matter, which is subject to approval of the Supervisory Board (best practice provision II.2.1).

Best-practice provision II.2.3 of the Code treats the allocation of shares for no financial consideration as a form of variable remuneration. According to the Code, the purpose of a variable element should be to reinforce the Executive Board members' long term commitment to the company and the furtherance of its interests. This can be achieved by requiring Executive Board members who are allocated shares for no financial consideration to undertake to retain them for at least five years or until termination of their employment. Since these shares are allocated for no financial consideration, the best-practice provision requires that allocation be dependent on the achievement of clearly quantifiable and challenging targets, which have been defined in advance. The performance criteria must be stated in the remuneration report. II.2.3 Shares granted to EB members without financial consideration shall be retained for a period of at least five years or until at least the end of the employment, if this period is shorter. The number of shares to be granted shall be dependent on the achievement of clearly quantifiable and challenging targets specified beforehand.

The Company has not applied this best practice provision in the past because some arrangements were established and approved by the Company prior to listing. Going forward the Company is going to produce a separate internal policy under this matter, which is subject to decision of the Supervisory Board.

According to best practice provision II 2.14, the Company shall state in the notes to the annual accounts, in addition to the information to be included pursuant to article 2:383d of the Dutch Civil Code, the value of any options granted to the Executive Board and the personnel and shall indicate how this value is determined. The Company intends to apply this best practice provision and disclose information about options in the notes to its 2007 annual accounts.

## **Regulations for transactions in securities in other companies**

One of the recommendations of best-practice provision II.2.6 of the Code is that the Supervisory Board should adopt regulations embodying rules on the ownership of and transactions in

securities by the Executive Board members other than those issued by their 'own' company. These regulations should be posted on the company's website. An Executive Board member shall give periodic notice, but in any event at least once a quarter, of any changes in his holding of securities in Dutch listed companies to the compliance officer or, if the company has not appointed a compliance officer, to the chairman of the Supervisory Board. An Executive Board member who invests exclusively in listed investment funds or who has transferred the discretionary management of his securities portfolio to an independent third party by means of a written mandate agreement is exempted from compliance with this last provision. The Company is not in compliance with this best practice provision II 2.6. The Company is not in compliance with this best practice provision as this provision is not relevant to the Company's business.

### **Conflicts of interest**

All transactions in which there are conflicts of interest with Executive Board members shall be agreed on terms that are customary in the sector concerned. Decisions to enter into transactions in which there are conflicts of interest with Executive Board members that are of material significance to the Company and/or to the relevant board members require the approval of the Supervisory Board. Such transactions shall be published in the annual report, together with a statement of the conflict of interest and a declaration that best practice provisions II.3.2 to II.3.4 inclusive have been complied with. The Company applies this best practice provision and formalized this procedure in the By-Laws of the Executive Board. In 2007, conflicts of interest have arisen with members of the Executive Board that were of material significance to the Company and/or any of the members of the Executive Board being the following: - for the purpose of internal adjustment of inter-group debts the Company entered into the Transfer, Surety and Novation Agreements, pursuant to which all of the Company's obligations under Loan Agreement with Petrokommerts Bank # 20.2-07/20094 dated June 26, 2007 with the credit amount of \$65 million have been transferred to OJSC "Amtel-Vredestein", a subsidiary of the Company.

### **Independence of all but one Supervisory Board member**

All Supervisory Board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.1. The Company is not in compliance with this best practice provision because of its current shareholding structure and arrangements between shareholders. In 2008 as for the date of adoption of 2007 Annual Report, the Supervisory Board of the Company consists of three independent and two dependent members. Further information about the composition of the Supervisory Board can be found on page 38 up to and including 39 of this report.

According to best practice provision III.2.2 a Supervisory Board member shall be deemed to be independent if the criteria of dependence as set out in the code do not apply to him.

The Company is not in compliance with this provision. One member of the Supervisory Board is affiliated with one of the current shareholders of the Company; another is a relative of the former SB Chairman

### **Retirement schedule**

The Supervisory Board shall draw up a retirement schedule in order to avoid, as far as possible, a situation in which many Supervisory Board members retire at the same time. The retirement schedule shall be made generally available and shall, in any event, be put on the Company's website. The Company intends to apply this best practice provision III.3.6, as it is laid down in the By-Laws of the Supervisory Board, and develop and post to its website a rotation plan for the Supervisory Board members.

The Company is not in compliance with this provision so far. However, it is going to draw up a retirement schedule for the SB members upon improvement of its distressed financial condition and return to normal business operations.

## **Internal Committees**

Principle III.5 requires the appointment of an audit committee, a remuneration committee and a selection and designation committee in case the Supervisory Board consists of more than four members. Our Supervisory Board consists of five members. The Company applies this best practice provision. The Supervisory Board has two key committees: the Audit Committee and a Remuneration & Nomination Committee (the latter being a combined remuneration committee and selection and appointment committee). The Company has adopted Regulations of the Remuneration and Appointment Committee and Charter of the Audit Committee, which have been posted on the Company's website (further information can be found on pages 40 - 46 of the annual report).

## **Prior approval transactions between the Company and legal or natural persons who hold at least ten percent of the shares in the Company**

All transactions between the Company and legal or natural persons who hold at least ten percent of the shares in the Company shall be agreed on terms that are customary in the sector concerned. Decisions to enter into transactions in which there are conflicts of interest with such persons that are of material significance to the Company and/or to such persons require the approval of the Supervisory Board. Such transactions shall be published in the annual report; together with a declaration that best practice provision III.6.4 has been observed. The Company shall apply this best practice provision **III.6.4**. However, we've considered disclosing the fact of existence of some financing agreements with OJSC Alfa-Bank, which is affiliated with our shareholder. All these agreements are made on arm's length terms in the ordinary course of business.

## **Further information on compliance with the Code**

Further information on compliance with the Code and the reasons for (partial) deviation of the abovementioned best practice provisions can be derived from the "Code" Corporate Governance of Amtel-Vredestein N.V. as attached to this annual report.

## **Capital and shares**

### **Capital structure, shares**

The authorised and issued capital of Amtel-Vredestein solely consists of ordinary shares. The 68,281,608 issued ordinary shares, which are all registered shares, are not listed on a stock exchange.

### **Global Depositary receipts**

Over 75% of the issued ordinary shares are held by Bank of New York Mellon. Bank of New York Mellon issues global depositary receipts ("GDRs") in exchange for these shares. The global depositary receipts are listed on the London Stock Exchange.

The GDRs can be exchanged, without any restrictions, for the underlying shares. An administrative fee may be charged for this.

### **Issue of shares**

According to its Articles of Association ("Articles") Amtel-Vredestein's authorised capital is EUR 2,346,428.50. New shares in excess of this amount can only be issued if the Articles are

amended. An amendment has to be passed by notarial deed, which requires a declaration of no objection to be issued by the Minister of Justice.

Share issues are to be decided by the General Meeting of Shareholders ("General Meeting"), which may also delegate its authority. In 2005 the General Meeting resolved to delegate authority to the Supervisory Board to issue new ordinary shares or to grant rights to take up new ordinary shares, both with and without a right of first refusal for existing shareholders for a period of five years (ending on 14 April 2010).

On 29 August 2008 the General Meeting resolved, conditional upon the closing of the Transaction with OJSC SIBUR Holding to amend the Articles to enlarge the authorized share capital from EUR 2,346,428.50 to EUR 10,000,000 and to extend the authority of the Supervisory Board for a period of three (3) years as the corporate body to resolve to issue and/or grant rights to subscribe for (depository receipts of) shares and to limit or exclude the preemptive rights with respect to such issuance and/or granting of rights to subscribe for (depository receipts of) shares. The Supervisory Board is authorized to resolve to issue as many (depository receipts of) shares as may be issued up to the maximum of the authorised share capital of the Company as it will read after execution of the notarial deed of amendment of the Company's Articles mentioned above. However on 30<sup>th</sup> of September 2008 Subscription agreement concluded with OJSC SIBUR Holding lapsed due to expiration of certain deadlines and the authorisation above may not be required.

### **Transfer of shares and depository receipts and transfer restrictions**

Shares are transferred by means of a deed of transfer between the transferor and the transferee. To become effective, Amtel-Vredestein has to acknowledge the transfer, unless Amtel-Vredestein itself is a party to the transfer. Pursuant to the Articles, there are no restrictions for the transfer of ordinary shares.

There are no restrictions for the transfer of GDRs pursuant to the Articles or the Depository agreement.

Amtel-Vredestein is not aware of the existence of any agreement under which transfer of ordinary shares or global depository receipts for such shares is restricted.

### **Repurchase of shares**

Amtel-Vredestein may acquire fully paid ordinary shares at any time for no consideration, or, subject to certain provisions of Dutch law and its Articles, if (i) the shareholders' equity minus the payment required to make the acquisition, does not fall below the sum of called-up and paid-up share capital and any statutory reserves, and (ii) Amtel-Vredestein and its subsidiaries would thereafter not hold Shares or hold a pledge with an aggregate nominal value exceeding ten percent of the aggregate nominal value of the Company's issued share capital.

An acquisition of ordinary shares for a consideration should be authorised by the General Meeting. Such authorisation may apply for a maximum period of 18 months. Each year, the General Meeting is asked to approve the Executive Board's authority to repurchase shares. The current authorisation is valid until 29 December 2008. When repurchasing shares the Executive Board is to observe the following price ranges: between par value and 110% of the opening price at the stock exchange date on the date of purchase.

## Shareholders' structure

The issued share capital on 31 December 2007 was 68,281.303 shares. On 31 December 2007 the following persons had an interest in Amtel-Vredestein and notified this to the Netherlands Authority for the Financial Markets in accordance with chapter 5.3 of the Dutch Financial Supervision Act.

Shareholders	Directors	Shares/GDRs	Percentage
JP Morgan Chase & Co		8,069,555 (GDRs)	11.84%
ABH Financial Limited		6,000,000 (Shares)	8.80%
	R.H. Oudshoorn	28,000 (GDRs)	0.04%
	K.T. Hetteema	20,000 (GDRs)	0.03%
	P. Zolotarev	(options lapsed on 2/7/08)	

Amtel-Vredestein understands that the actual shareholders' structure is different than above which have been made public in the relevant public registers of the Netherlands Authority for the Financial Markets and is not based on any other sources known to Amtel-Vredestein.

## Voting rights on shares and GDRs

### Voting rights on shares

Each Person with Meeting Rights (as defined in Amtel-Vredestein's Articles shall be entitled to attend the General Meeting, to address the meeting and to exercise his voting rights. The Executive Board must be notified in writing of the intention to attend the meeting. The Executive Board must receive such notice not later than on the date mentioned in the notice of the meeting.

Each share shall give the right to cast one vote at General Meetings of Shareholders. Unless the Articles require a greater majority, all resolutions shall be adopted by an absolute majority.

Amtel-Vredestein is not aware of any contract under which voting rights on any class of its shares is restricted.

### Voting on GDRs

Although the GDRs do not formally have any voting rights, holders of GDRs, in practice, can provide voting instructions in respect of the shares underlying their GDRs. More detail in respect of the GDRs and the rights of GDR holders is provided on pages 35 - 36 in the Executive Board Report.

The GDRs and the depositary structure would prevent a small minority of shareholders, which coincidentally may form the majority in the meeting, from taking decisions purely to suit themselves in the absence of other parties at the General Meeting.

## Other provisions

### Special rights of control

No special rights of control referred to in article 10 of the EU Directive on takeover bids are attached to any share.

## Amendments to the Articles

A resolution to amend the Articles of Amtel-Vredestein, may be adopted by absolute majority of the votes cast at a General Meeting at which at least one third of the issued share capital is represented.

### **Payments to Executive Board members upon the execution of a public offer**

The employment contracts with the members of the Executive Board provide for severance payments, which are to become due in case of termination of the contract in connection with a public bid defined in section 5:70 of the Dutch Financial Supervision Act.

If the Company initiates the termination of the employment agreement for a Dutch resident Executive Board member and if the termination is for a reason other than an urgent reason (cf. Section 7:677 of the Dutch Civil Code (*Burgerlijk Wetboek*), the Company and the Executive Board member will observe the provisions laid down in the Code. For this reason, the neutral Sub-District Court formula will serve as a basis for the calculation of the severance payment.

If the Company initiates termination of the employment agreement for Russian resident Executive Board member and if the termination is “without cause” as defined in the employment agreements, such member is entitled to severance benefits as set forth in the employment agreement.

If the Company initiates termination of the employment agreement of the CEO at the election of the Supervisory Board, without Cause, upon not less than sixty (60) days prior written notice of termination; (ii) due to a change of control of the Company; or, without cause within one year following a change of control of the Company, the CEO shall receive a lump sum payment by the Company in an amount equal to three times his annual base salary.

With respect to the amounts due, there is no difference as to whether termination of the contract would be in connection with a public bid or not.

### **Appointment and dismissal of Executive Board members**

The General Meeting shall appoint the Executive Directors and may at any time suspend or remove any managing director. The Supervisory Board is also entitled to suspend a member of the Executive Board, but such suspension can be terminated at any time by the General Meeting.

The Supervisory Board may make a nomination for Executive Board members to be appointed. If a resolution of the General Meeting is taken in accordance with a nomination of the Supervisory Board an absolute majority of votes cast is required for appointment of such member(s). If the General Meeting wishes to appoint a member of the Executive Board other than in accordance with the nomination by the Supervisory Board, such a resolution may only be taken by absolute majority in a meeting at which at least one third of the issued share capital is represented. If this quorum is not met, but an absolute majority of the votes cast at the meeting is in favour of the proposal a new General Meeting can be called at which the proposal can be adopted by absolute majority without any quorum being required.

Executive Directors are appointed for a maximum period of four years starting on the day after the day of the General Meeting where they are appointed and ending on the day of the annual General Meeting to be held in the fourth year after their appointment. Each managing director is eligible for immediate reappointment.

### **Appointment and dismissal of Supervisory Board members**

The General Meeting shall appoint the members of the Supervisory Board and may at any time suspend or remove any such member. The members of the Supervisory Board will need to fit the profile as set out in the By-Laws Supervisory Board (as available on Amtel-Vredestein's website). If the General Meeting wishes to dismiss or suspend a member of the Supervisory Board other than in accordance with the proposal by the Supervisory Board, such a resolution may only be taken by absolute majority in a meeting at which at least one third of the issued share capital is represented. If this quorum is not met, but an absolute majority of the votes cast at the meeting is in favour of the proposal a new General Meeting can be called at which the proposal can be adopted by absolute majority without any quorum being required.

The Supervisory Board may make a nomination for Supervisory Board members to be appointed. If a resolution of the General Meeting is in accordance with the nomination of the Supervisory Board an absolute majority of votes cast is required for appointment. If the General Meeting wishes to appoint an executive director other than in accordance with the nomination by the Supervisory Board, such a resolution may only be taken in accordance with the same attendance and quorum rules as set out in the previous paragraph.

Members of the Supervisory Board are appointed for a maximum period of four years starting on the day after the day of the General Meeting where they are appointed and ending on the day of the annual General Meeting to be held in the fourth year after their appointment. Each director is eligible for immediate reappointment, save that such reappointment can - in principle - only take place twice.

### **Dividends and other distributions**

The distributable profits shall be at the disposal of the General Meeting at the proposal of the Supervisory Board by a resolution adopted with a majority of seventy five percent (75%) of the votes cast by the Supervisory Board members present or represented and with due observance of the relevant provisions in the Articles.

The Company may make distributions to shareholders and other persons entitled to distributable profits only to the extent that the equity exceeds the sum of the paid and called-up part of the share capital and the reserves which must be maintained by law (after adoption of the annual accounts demonstrating that the distributions are permitted). In calculating the appropriation of profits, the shares held by the Company in its own share capital shall not be taken into account.

Amtel-Vredestein may make interim distributions of profits provided the provisions set out in the Articles are duly observed.

## **MARKETS**

### **Growing international demand for tyres**

The world tyre market continues to show stable annual growth. Sales of passenger car tyres (PCT) are projected to grow at a compounded annual rate of just over 3%, according to Global Industry Analysts, Inc. According to recent figures from the International Rubber Study Group, by 2010 the worldwide passenger car tyre market will reach nearly 1.17 billion units. The European market by that time will be at 385 million, the second-largest in the world. In 2006, European tyre sales reached 200 million, representing approximately 30% of the world market.

### **European car sales continue significant growth**

Automobile sales in Europe showed healthy growth in 2007. According to the European Automobile Manufacturers' Association, production in Europe increased by 5.3% in 2007, with passenger cars accounting for 87% of the production. The biggest growth was in eastern Europe, with new European Union member states posting a 25.2% increase in auto production. In Europe, demand for new vehicles rose 1.8%, even though it was somewhat restrained by rising oil prices, tax changes, and a global credit crunch and declining purchasing power.

Forecasts from PricewaterhouseCoopers point to Russia becoming the second largest market in Europe for passenger cars after Germany with demand increasing to 2.7 million vehicles a year by 2010.

Although the growth rate in the auto market has shown some signs of slowing down, it is not expected to dramatically do so in Russia. On April 11, the director of the automotive division of Ernst & Young, Ivan Bonchev, told *Kommersant* that while there is a "modest slowdown in growth," he believed it "would not be serious." He predicted that total new Russian auto sales in 2008 would pass the 2 million mark.

And based on recent years, the Russian market remains sound. In Russia, positive growth in new sales since 2003 has never dropped below 50%, according to AutoStat, and last year came in at 63%. In that time, the market grew 6.7 times over – 9.4 times in terms of revenue.

### **Rise in foreign car sales in Russia drives demand for premium tyres**

Sales for foreign cars continue to grow at a steady pace. In early April, the Association of European Business in Russia (AEB) reported that in the first quarter of 2007, foreign car sales had increased 74 percent over the previous year. The magazine AutoReview reported late in 2007 that for the first half of last year, nearly all foreign car producers increased their sales in Russia. Altogether, they amounted to 68% of the market for new cars – 710,600 passenger cars, which marks a 71% increase over the first half of 2006. At the same time, sales of domestic Russian brands declined during that time by 25% to 325,400 units.

This growth builds on a breakthrough year for the Russian market in 2006. Nearly 2 million passenger cars were sold in Russia in 2006, and in that the AEB revealed that foreign sales increased by 65% that year to over 1 million cars. In missing that important "million" milestone, foreign cars for the first time captured a majority of the Russian market.

Foreign car sales are linked to demand for premium tyres in Russia such as those produced by Amtel-Vredestein. The company estimates that by 2010, the passenger car tyre market for "A-class" tyres in Russia will amount to 14.9 million units, up from an estimated 10.2 million in 2007. This category includes foreign competitors such as Michelin, Goodyear, Bridgestone, and Pirelli. The market share of "B-class" tyres – which includes Kama, Hankook, Cordiant, and Matador -- is expected to grow to 16.4 million tyres in 2010, up from an estimated 12.5 million last year. This is a particularly strong category for Amtel-Vredestein, which estimates it holds a 37 percent market share in the "B-class."

### **Sales of Discount tyres likely to continue to decline**

In the coming years, it is expected that the PCT market share for "C-class" discount tyres – where most Russian producers are active – will continue to shrink. In 2010, the company estimates the total market will amount to 12.7 million tyres, down from an estimated 14.1 million tyres last year.

Experts disagree over the future market share of each sector. Last year, Ernst & Young predicted that the share between premium “A-Class,” value-for-money “B-Class,” and discount “C-class” would become equal by around 2009, with each class accounting for about a third of the market. Other analysts anticipate the arrival of such a scenario may take a little longer, possibly until between 2010-2011, when foreign auto assembly plants based in Russia are expected to reach production capacity.

### **Raw materials costs continue to rise**

Performance-related factors in the tyre manufacturing industry worldwide are inextricably linked to the price of raw materials, which continue to rise year after year.

Most of the materials used by the industry are extensively linked to the petrochemical industry. In particular, oil prices (based on NYMEX prices for Light Sweet Crude) began the year down, but quickly began a rapid recovery. By the end of the year, the price of oil had nearly doubled.

Rising demand and costs for synthetic rubber reflect similar trends to that for natural rubber over the past 3-4 years. Over 97% of natural rubber is produced in the Asiatic region. The International Rubber Study Group estimates that by 2010, global production of natural rubber will amount to 10,634,000 tonnes. Projections for synthetic rubber are expected to follow consumption levels closely, especially in the long-term.

Synthetic rubber production processes are also deeply connected to the petrochemical industry, and products used are directly linked to fluctuations in world prices for petroleum. These are often volatile and sensitive to world events. As prices soared in 2007, the knock-on effect was to increase synthetic rubber prices around the world.

Increases in the costs of raw materials inhibits margin growth in the short term, but ultimately leads to price increases across the tyre manufacturing industry worldwide.

## **BRANDS**

### **Amtel-Vredestein boasts a strong portfolio of brands**

*Vredestein* tyres are famous for their exceptional performance in all weather conditions, and are suited for a wide variety of luxury automobiles, including Audi, Mercedes, BMW, and Porsche. A tour de force of function and style, the Vredestein brand is the result of years of investment in research & development, and the use of state-of-the-art production techniques.

*Amtel* is the leading value-for money tyre brand in Russia, while *Maloya*, the Company’s medium-priced brand, is an ever-popular choice across Europe for vans as well as passenger cars.

### **New AV models and specifications in 2007**

More than 100 new tyre specifications have been added in recent years to the Company’s fast-growing portfolio of tyre brands.

In September 2007, the Company unveiled its new *Nord-Trac Xtreme* tyre at the Moscow International Motor Show. This winter tyre was designed especially for Russia’s extreme weather conditions. It is a low-noise tyre designed for high-powered cars, with a rubber tread with a

special soft component that guarantees perfect traction on the most difficult roads. It was designed in cooperation with Italy's Giugiaro Design firm, and is a significant addition to the Company's line of premium tyres.

Also at the Moscow show, Amtel-Vredestein introduced its new *Icetrac*, which is built for snowy and icy roads. It features a mathematically optimised pattern of studs in 12 rows around the tyre to ensure excellent traction and perfect control. Among other advantages, the tyres are effectively self-cleaning, have a maximum zone of contact with the road, and enhanced durability.

### **Amtel leads the Russian market for price and reliability**

Amtel is among the leading tyre brands in Russia, known for its outstanding value for money. The Amtel *Planet* line of tyres is suited for summer driving, while Amtel's *NordMaster* is designed for even the harshest Russian winters. Both lines are renowned for their reliability and safe-handling. With a high brand-awareness among consumers, it is one of Russia's best-known brands as well, according to market research agency GFK.

In 2007, the winter range was expanded with the addition of *Icetrac* tyre – a Vredestein A-segment sub-brand to be marketed in Russian Federation. Production of *Icetrac* tyres was launched at Kirov facility in 2007. Demand is growing and the additions were well received. Two sizes were also added to Amtel's *Planet DC* range in 2006 -- which beginning in 2007 are fitted on all Renault Logans manufactured in Russia . Two recent models added to the winter range in 2006 - the *NordMaster 2* and the *NordMaster CL*, Amtel's first unspiked winter tyre for use in cities in Southern Russia – were successfully expanded in 2007.

Several new models of Vredestein T-Track Si summer tyre were tested at Voronezh 2 facility; after the project was temporarily suspended the production resumed at Kirov factory.

Sales of Amtel tyres have been steady thanks to Russia's strong passenger car market. The brand performed very well in the value-conscious "B-class" segment of the market, where the Company's sales accounted for 37% of that market segment in 2007.

### **The Swiss precision engineering of Maloya**

Maloya tyres are aimed at the upper-medium price range, and are well-known for their Swiss pedigree of precision and performance. Originally manufactured in Switzerland, Maloya tyres are now made in The Netherlands and at Amtel-Vredestein's plant in Kirov, Russia.

The brand includes a range of summer and winter tyres for passenger cars, as well as a popular range of all-season light truck tyres that keep vans transporting heavy loads at high speeds no matter the weather.

### **Taganca**

Taganca tyres are one of Russia's best-known legacy discount brands, offering a wide choice of tyres at low prices. The brand was acquired together with Moscow Tyre Plant. However, 2007 revealed general inefficiency of business operations at Moscow Tyre Plant and virtually low demand for Taganca tyres, which made the Company rethink the destiny of the renowned brand. The production of Taganca was terminated and the brand was added to historical array of the Company's portfolio.

## **Agricultural tyre brands continue to grow**

Agricultural tyre sales in 2007 sold well, primarily due to an improved range of products and by selling more premium products in the higher-class market segment. In the original equipment market the Company realized growth of 22.5% over the previous year. In the replacement market, the Company's market share is growing, thanks AV's unique *Traxion+* radial tractor tyres.

The agricultural sector of the market has changed fundamentally in recent years. Thanks to an ever-expanding global population that needs to be fed, and the brisk growth of the biofuels industry, agriculture is growing fast. Farming is increasingly more specialized and professionally-run, while farms themselves have increased in size. The result is a need for innovative machinery and equipment to meet demand. The industry is always searching for machinery that will improve efficiency and maximise yields by saving time, fuel, and reducing labour costs.

Thanks to our active product development program, in cooperation with the agricultural machinery industry, the assortment of our tractor and other machine tyres in the premium market segment is growing. A recent tractor tyre test organised by several trade magazines in Germany reported outstanding results for the *Traxion+*. During various industry exhibitions in Europe last year, we introduced the new *Flotation Trac* tyre.

## **Industrial tyres that meet specialty needs**

The Company's range of industrial tyres provides performance and value for money for industrial vehicles, for fast traffic (up to 130 km/h), for slow traffic (up to 20 km/h) or for specific grassland and horticultural machinery. Our tyres are a combination of an innovative tread design, strong carcass, riding comfort and, of course, long lifespan.

## **Space saver in the boot**

Spare tyres are not often needed, but they can be a life-saver when they are. The Company's focus on functional design extends to the compact design of its Space Master spare tyres – now original equipment in many models by Audi, Mercedes, Porsche and Volkswagen. The innovative design takes up a minimal amount of space when stored in the car boot, but once inflated by the included compressor, assumes the same diameter as the original, fitted tyre.

## **Bicycle tyres that are a tour de force**

As more and more people put a priority on quality of life and exercise, the Company has developed a line of Vredestein bicycle tyres to help them lead an active lifestyle. The line includes a range of tyres for children's bikes as well as bicycles for trekking, touring, mountain riding, mopeds/scooters, and racing bikes.

In 2007 Vredestein Two Wheel Tyres continued concentrating on the sportive market segment. After ample market analysis and expansive input of the bike-riders from the Cannondale-Vredestein Mountainbike Racing Team three new MTB-tyres were developed: The Tiger Claw XC-G that performs at its best on a dry hard surface; The Black Panther – a fast all-mountain tyre and The Bull Lock that performs exceptionally well in mud.

Before introducing above mentioned MTB-tyres they were subjected to an extensive testing programme. The tyres are meant for professional use, each one with specific qualities for different terrain conditions.

In March the official introduction of these tyres took place in Cannes as well as the Press presentation of the Cannondale-Vredestein Racing Team.

The sponsoring of the award-winning Predictor-Lotto Professional Cycling Team and the Cannondale-Vredestein Mountainbike Racing Team has contributed to higher brand recognition and a large amount of free publicity in 2007.

### **Scooter tyres racing ahead**

Our *Staccata* and *Tornante* are the first *sports* and all-weather *touring* scooter tyres developed in collaboration with top Italian industrial designer Giugiaro Design.

Both tyres feature innovative and creative characteristics – including aggressive, sleek lines that give the tread a powerful look. The designs of the *Staccata* and *Tornante* are in keeping with developments in the scooter market, where design, comfort, safety and performance have become just as important as they are for passenger car tyres.

### **AV-TO**

Amtel-Vredestein is now Russia's leading player in the three key sectors of tyre manufacture, distribution and retail -- giving the Company a unique strength with a capability to deliver unbeatable benefits in automotive and retail markets.

Amtel-Vredestein's decision to enter the retail sector in 2005 was based on two factors. First and foremost, to secure retail distribution and market recognition for its tyre brands in Russia, and second to establish a leading retail brand capable of capturing significant market share in a highly fragmented sector.

### **Number One in Tyre Retail**

As of 31 December, AV-TO operates 92 multi-brand tyre sales and service centers under one unified brand in 13 cities throughout Russia, including , Kaluga, Maloyaroslavets, Moscow, Nizhny Novgorod, Perm, Rostov-on-Don, Samara, Salavat, St.Petersburg, Sterlitamak, Tolyatti, Volgograd, and Ufa. With the total number of 92 stores in 13 cities and the total number of over 400 thousand tyres sold in 2007 AV-TO is the largest tyre retailer in Russia.

In addition to Amtel and Vredestein brands (representing approximately 25 - 30% of AV-TO sales), AV-TO stores offer a full range of tyres, auto parts and accessories by other leading international producers. And many of its locations provide a full range of services including exhaust systems, break replacements, fluid changes and car washes.

However reaching profitability of the chain may require further expansion focusing on strengthening AV-TO's brand and buying power, product range and quality of services, as well as exploiting commercial opportunities in new sectors, like internet trade and new retail formats.

### **A leading auto parts distributor**

Acquired in the second half of 2006 LLC Trade House "Pigma" operates 2 branches in Nizhniy Novgorod and Voronezh supplying a wide range of auto parts to a diverse customer base. AV-TO sells more than 27,000 auto components from approximately 40 producers to over 1500 customers throughout Russia and CIS. However, this business is not profitable and may not be considered as core business for a tyre company.

### **Now a leading tyre distributor**

Tyre wholesale distributor LLC Trade House "Megashina", in addition to Amtel and Vredestein brands also distributes tyres from other leading international brands like Goodyear, Pirelli and Kumho (under Marshal brand) to over 1500 customers specialising in tyre sales, including tyre retailers, auto dealers and auto service stations. As of December 31, "Megashina" operates branches and warehouses in 14 major cities of Russia including Moscow, St. Petersburg, Nizhny Novgorod, Ekaterinburg, Chelyabinsk, Perm, Novosibirsk, Krasnoyarsk, Novokuznetsk, Rostov, Krasnodar, Samara and Voronezh. The total number of tyres sold by Megashina in 2007 exceeded 3mln units.

## **PEOPLE**

Amtel-Vredestein's total workforce today amounts to about 9,500 dedicated employees working in 14 countries. The Company is proud of the work they do every day as the Company continues to steer a course to become one of Europe's premier high-quality passenger car tyre producers. Our success so far is the result of the cooperative effort and exemplary performance of our people at every level.

### **Sustaining an optimal workforce**

In 2007, Amtel-Vredestein continued to follow through on plans to make its Russian plants more effective and its staffing levels consistent with standards throughout the tyre manufacturing industry for companies with similar production outputs. Over the course of the year, the Company reduced its total workforce by 4.5%, or about 425 positions. Most of the restructuring was at the Kirov plant, due to labour market problems there, and in the Company's AV-TO division, as work continued to optimize that division's organizational structure.

Last year, the Company reached a 3.5% absence rate, which is the lowest in Company history. On the job accidents in 2007 were down 80% compared to 2006.

### **Investing in education**

Amtel-Vredestein remains proud of its outstanding training programmes for our personnel, which has raised the efficiency of plants throughout the Company and increased our capacity to produce top-quality products.

In 2007, more than 50% of Company employees, from a variety of positions and divisions within the company, participated in at least one of our training and development programmes. Whether they studied full-time or part-time, the programmes offered them a chance to build on their existing experience and acquire new skills.

Beyond in-house training sessions, about 25 people attended the Tyre Technology Course, which is a special course regularly organized by Vredestein Consulting at the Enschede factory.

Also, the Company unveiled its “Healthy Nutrition” project at several of the Company’s plants, and has met with great success.

Education will remain a primary focus of the company. It is a critical component of our commitment to quality production, to maintaining a knowledgeable staff, and to achieving and maintaining the necessary quality and production standards.

## **Preparing Voronezh-II**

The Company is continuing plans to launch its state-of-the-art Voronezh-II project later in 2008 - early 2009, which presents several unique staffing challenges. This plant – which will produce high-quality Vredestein tyres – is the product of close cooperation between our Dutch and Russian management teams, and Voronezh-II will have an organisational structure based on the model used by Vredestein at its Dutch plants. New staff has been hired and trained in accordance with Vredestein’s high standards – including training programmes in Enschede with the new equipment they will be using. A new compensation and human resources development policy has also been implemented, focusing on high efficiency and productivity.

## **QUALITY, SAFETY & ENVIRONMENT**

### *Dutch quality and engineering applied to next generation of tyres for Russia*

Amtel-Vredestein has centralised the Company’s Research and Development resources to its Enschede facility in The Netherlands. The move resulted in the development of a new tyre for Russia – the Amtel *Planet 3* – which was launched in June 2007. Amtel *Planet 3* tyres are inspired by the technology and design of *Maloya Crono* tyres and have a prominent “Designed by Vredestein” insignia.

### *Certification goal set for all production sites*

Additionally, Amtel-Vredestein’s goal is to further improve the overall quality of its design, management and production systems. The company achieved ISO/TS 16949 certification for its factories in Enschede and in Kirov in 2006 and confirmed its compliance in 2007. Its Voronezh plant is scheduled to follow in 2008.

Another significant achievement of 2007 was obtaining the ecological certification ISO/TS 14001. Amtel-Vredestein was the first to pass these stringent audit requirements, and was accredited for ISO/TS 14001 first among Russian tyre manufacturers, having proved its reputation as a responsible producer. Having all these certifications in place proves not only AV’s high reputation and status among its peers, but also inspires the Company to review its relationship with suppliers and opt for better quality and environmentally safe materials. It also gives us an advantage in competing on the OE market by minimizing risk.

### *Technology transfer improves efficiency*

In order to maximise co-operation within the international Research and Development groups, top Russian engineers have participated in a technology transfer programme at the Enschede facility. Now, strategies for all brands—Amtel, Maloya and Vredestein—are part of one comprehensive product development plan.

Amtel-Vredestein has also begun to collaborate with Dutch universities on two impressive PhD programmes to further increase technological research activities.

The Company continues to implement a policy of standardisation, which entails unifying the quality, choice of materials and construction basics for all tyres produced within the Group. This policy has prompted the Russian divisions of the Company to adopt the world market practice of specifications versus GOST practices widely used in Russia.

### **Eliminating contact with hazardous substances**

Multiple actions have been taken to guarantee the health of Enschede plant workers. Virtually all hazardous substances have been eliminated from production processes, and Amtel-Vredestein is now working on alternatives to aromatic oils and complying, well in advance, with new European standards.

Concurrently, the Company is busy creating these same conditions for its plants in Kirov (Amtel-Povolzhye) and Voronezh (Amtel-Chernozemye).

The concept of a “green tyre” – a tyre produced without hazardous substances – is becoming more and more popular in Russia as consumers grow more sophisticated in terms of quality of life issues, and as the income level continues to rise.

### **Setting a standard for environmental safety**

Environmental procedures have been undertaken throughout most of Europe to ensure that tyres are properly recycled. In The Netherlands, the Company has been the frontrunner in efforts to implement a reliable system for removing tyre waste and preventing unnecessary environmental harm.

Vredestein Banden and other manufacturers and importers charge each wholesaler/retailer €2 for every new tyre purchased a cost that is then passed along to customers. This money, constantly flowing between tyre manufacturers and sellers, is invested into an end-of-life tyre fund that sustains the operating costs of a government-approved recycling programme, and therefore guarantees that used tyres are disposed of properly. The recycling programme is functioning so well in The Netherlands that other countries in Europe now look to it as an example.

## **FACILITIES**

Amtel-Vredestein in 2007 operated four tyre production facilities, in Enschede (The Netherlands), and in Kirov, Voronezh, and Moscow in Russia. Each of these facilities continued to undergo investment and reorganization to improve the quality of their production and efficiency in 2007. Amtel-Vredestein has been improving its production and management systems by working to obtain ISO TS certification at all of its factories.

### **Amtel-Povolzhye, Kirov**

Production at the Amtel-Povolzhye Tyre Complex in Kirov has successfully catered to ever-growing demand in Russia and Europe. The facility is one of the most dynamically developing plants in the Russian tyre industry. After becoming part of the Amtel-Vredestein Group in 2003, the Company invested \$40 million into bringing the quality of production up to international standards and began manufacturing premium tyres in 2005.

In September, the Complex received the ISO 14001:2004 Ecology Certificate and the Certificate of Accordance with the ISO/TS 16949:2002 quality standard. Amtel-Povolzhye is the first tyre

plant in Russia to receive this Certificate in Quality Management, which is given for meeting strict criteria. This includes that the plant meets international standards of safety requirements, implements improvements in technological processes on an on-going basis, and guarantees reliable high quality production.

Audit certification for ISO 14001:2004 confirmed that Amtel-Povolzhye meets international ecological requirements in full. Application of the integrated environmental system ensures ecological safety in tyre production, optimization of resource conservation and prevention of environmental pollution at every stage of production.

The Amtel-Povolzhye plant takes its ecological responsibilities very seriously. With a dedicated laboratory for ecological monitoring and control, it keeps constant watch over air quality, noise levels, thermal emissions and other variables throughout all stages of production. The plant undertakes annual reviews of its environmental protection policy, including waste reduction, emissions control and waste disposal, consistent with Russian and international standards. It is fully compliant with Russian legislation regulating the use of natural resources, paying tens of millions of rubles each year in expenses related to environmental protection.

Amtel-Povolzhye produces more than 20 models of Vredestein tyres and more than 50 models of Amtel tyres, with a total production annually of approximately 7.2 million tyres and holds original equipment supply contracts with GM-AvtoVAZ and KIA as an original equipment supplier.

The quality of Vredestein tyres produced in Kirov fully complies with the original European standards produced at the Company's plant in Enschede, The Netherlands, and the plant has won numerous awards in different competitions, including gold medals in "The Best Tyre on the Russian Roads" contest from 2001 to 2005.

### **Amtel-Chernozemye, Voronezh**

The Amtel-Chernozemye Tyre Production Complex is one of the largest tyre manufacturers in Russia. Founded in 1960, it was the first tyre plant in Russia to produce large-diameter tyres for road-building machinery. It was acquired by Amtel-Vredestein in 1999.

High quality production is the top priority of the plant and all passenger and light truck tyres meet Russian (GOST) quality control standards. The tyres also conform to the international rules of the United Nations Economic Commission for Europe and the plant has ISO 9001:2000 certification.

Amtel-Chernozemye was named winner of *Best Plant* at the international exhibition *Tyres, Rubber and Rubber Goods* in 2005, as well as winning a *Best Tyre on Russian Roads* gold medal the same year. In 2006, the plant's tyres were listed among the *100 Best Products in Russia*.

The nature and complexity of tyre production imposes particular responsibilities on tyre producers, particularly regarding the environmental safety of production processes. Environmental control at Amtel-Chernozemye is undertaken by a specialist laboratory, accredited by the Russian standards and certification agency, GOST R, and covers all manufacturing and production processes, as well as supporting functions and infrastructure.

The plant is also quite committed to its social responsibilities. Among its various community programmes, it offers full support of the Bobrovsky Residential School for Orphans and the No.5 Residential School for Sick Children in Voronezh, in co-operation with the Administration of the Voronezh Oblast.

## *Voronezh II begins test production in 2007*

In May, Amtel-Chernozemye began test production at its new factory, months earlier than planned. By the time the factory is completed, the company plans to have invested approximately \$124 million in Voronezh, including new equipment, tooling, molds, production planning and management systems. The new 44,000 square meter facility is modeled after the Company's Vredestein Banden plant in Enschede, Holland, and was designed in cooperation with the company's Dutch designers.

The company will begin production of its Amtel tyres. Once new rubber mixing equipment is installed, the Company expects to begin production of Vredestein and Maloya tyres for export to Europe, as well as for domestic distribution. Voronezh II will be among the most technologically advanced tyre factories in Europe. It will initially produce approximately 2.5 million passenger car and light truck tyres per year, bringing the total annual capacity at Amtel-Chernozemye to over 7 million tyres. The completion of the project is scheduled for late 2008 – early 2009.

## **Vredestein Banden, The Netherlands**

Founded in 1946, the Vredestein Banden factory in Enschede currently manufactures a complete range of high performance and ultra high performance passenger car tyres.

As smaller size and higher volume Vredestein tyre production is shifted to Russia, the Netherlands-based factory will continue to improve its production mix by concentrating on the flexible manufacture of larger, high margin tyres in numerous specifications.

The plant received ISO 9001:2000 standard certification in 2003 and last year was awarded ISO TS status – the highest certification available. All of its control systems adhere to the highest international standards at every stage of production – from verification of supplier compliance with certification standards to final product quality tests and evaluation.

The Enschede facility produces tyres for all types of performance cars from 13" to 20" including tyres capable of supporting speeds of up to 300 kilometres per hour. Its tyres are sold and distributed throughout Europe, North America and South-East Asia.

Currently, the plant's output is approximately five million tyres and is capable of producing over one hundred specifications daily, which underlines its efficiency and flexibility. In addition, it produces hi-tech tractor and implement tyres for the most powerful tractors in the market. It also focus on low profile radial tractor tyres up to 42", and radial flotation tyres for agricultural vehicles.

The Company's commitment to the environment leads it to install dust extractors and filters as well as systems for water purification, and undertakes extensive re-cycling at the plant to reduce potentially harmful processes (such as atmospheric pollution and wastewater).

Amtel-Vredestein is very conscious of its responsibility to operate its business in a socially responsible manner. Close attention is paid to labour safety. A comprehensive assessment of working conditions is undertaken every year, and any issues arising are dealt with promptly. All equipment meets exacting labour safety standards, and each plant holds all necessary operating licences.

## **Moscow Tyre Plant, Russia**

In March 2008, OJSC Amtel-Vredestein, a subsidiary of Amtel-Vredestein N.V., announced the completion of the sale of its wholly-owned subsidiary CJSC “Moscow Tyre Plant-M. The reason for disposal of MTP plant was limited demand for MTP branded tyres and high cost of production due to central Moscow location, making it not economical to continue manufacturing there.

As part of the transaction, Amtel-Vredestein N.V. is considering various options in relation to the existing equipment within MTP-M, including a possible sale of the equipment and relocating it to other Amtel-Vredestein N.V. plants for internal use.

## EXECUTIVE BOARD REPORT

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EARNINGS AND FINANCIAL RESULTS  
FINANCIAL INSTRUMENTS  
RISKS AND RISK MANAGEMENT  
MANAGEMENT’S REPORT ON INTERNAL CONTROL

### **Developments in 2007**

2007 has been another challenging year for Amtel-Vredestein N.V. The Company has come to a point where both accomplishments and disappointments should be analyzed in a bold and practical way to ensure a better future.

While still digesting the acquisitions of the previous years, the Company has been forced to manage a highly leveraged business, and to consider various restructuring options.

The Company started the process of disposing of the Moscow Tyre Plant, facility that proved inefficient to operate in the long run. Flexible manufacturing capacity will be especially important as the prospects of economic recovery remain uncertain.

In 2007 the performance of our PCT market hit the forecast and amounted to 14.2 Mio units. The product mix sold continued to improve thanks to the ongoing success of our top products highly appreciated by our consumers. As the demand was positive, strong gains were recorded in both B and C segments.

Our marketing activities were rejuvenated in 2007, especially in the second half of the year, after almost a standstill in 2006. In 2007 we improved our product mix and targeted our resources to better market our B segment brands. To accomplish this, we’ve started optimization of our AV-TO retail and wholesale division and launched an extensive advertising campaign.

One of the opportunities we’ve started to explore is the position of our premium Vredestein brand on the Russian market. We expect to further realize an increased awareness of the brand and, obviously, increase sales, market share and profitability. Capitalizing on the brand’s European heritage as well as on the accelerating “flight to quality” trend among Russian consumers, we will reinforce Vredestein’s position as a tyre offering superior performance to stylish and passionate drivers.

We have made both broad and deep changes to our leadership team and organizational structure. Our current management team has the right skills, the right experience, the right mindset and the right incentives to execute a significant turnaround of our Company.

As a result of changes in the Company's shareholding in 2007, Amtel-Vredestein no longer has a majority shareholder – the Bank of New York Mellon reports a free-float of nearly 80%.

### **AV-TO to be restructured**

After a significant investment in AV-TO in 2006, Amtel-Vredestein faced serious difficulties in managing the Russian retail and wholesale network in 2007. The purchase of Pigma and Megashina made the situation even more complex. While wholesale tyre distribution business increased client penetration it also made relationships with other industry players more challenging. This, together with underperformance of the Pigma spare part distribution business, put restructuring of the AVTO division at the top of the Company's agenda. It's imperative that we optimize our infrastructure and distribution network and reconsider the Company's general acquisition strategy to optimally leverage growth opportunities while also reducing strategic risks.

### **Voronezh II suspension**

Despite promises to complete Voronezh II production complex in 2007, the high level of debt made it impossible to raise financing to put the facility into operation. However, the Company continues hope for successful continuation of this project as following completion of this project, the Company will have a modern production and distribution platform from which it can ensure sustainable growth for its shareholders.

### **Moscow Tyre Plant disposed**

In 2006 Amtel-Vredestein purchased the Moscow Tyre plant with purpose to meet the rising demand for tyres in Russia. Unfortunately the acquired facility showed performance materially different from planned. There was limited demand for MTP Taganka brand and high costs of production attributable to Moscow location made it not economical to produce tires of other brands at MTP. The new management decided to utilize MTP's equipment to upgrade other production units and to sell MTP for better use to a developer who can utilize central Moscow location. The transaction was completed in March 2008.

### **State-of-the-Art R&D**

In recent years Amtel-Vredestein has sharpened its focus on research and development to continually introduce unique premium products. Unique in design, unique in construction is our vision for the contemporary tyre. An example of this strategy is all season tyre Quatrac3 launched in 2007 with a very specific tread pattern.

Our teams worldwide are trained in tyre technology as well as in other professional skills. They are continuously fed with tyre and market related information by our Tyre Information Centre at Enschede (NL) via electronic newsletters, Tyre Technology Seminars, factory visits and technical sessions at local meetings in the various countries.

### **A strong focus on our dealer network**

We further developed our network of Preferred Dealers across Europe and Russia. Our premium products are serviced by professionals, and only by professionals. We believe that the millions of motorists should be advised in their choice for the right tyre by a tyre specialist. With a tyre being a SAFETY product, our customers-end users deserve the assistance of trustworthy professionals. That is why you will not find our premium products in department stores throughout Europe.

Presence at all relevant car and tyre shows allows the public to know, see and feel our products. Year on year, our wave of communication with the market starts at the Geneva Car Show in February. In 2007 we were happy to display the unique Giugiaro version of the Ford Mustang.

The car was displayed on our Ultrac Sessanta 20' ultra high performance tyres, for this specific occasion embellished with orange stripes on the tread. The Quatrac3 all season tyre was displayed in preview and attracted many visitors, as well as other new products such as our Runflat winter tyre.

In the beginning of March we organized an international press and dealer event at Cannes and in the wonderful Esterel surroundings of this area at the Côte d'Azur. All could try out the new Black Panther, Bull Lock and Tiger Claw mountain bike tyres, guided by the (world) champions of our Vredestein-Cannondale professional MBK Team. It was an overwhelming event with an enormous group of riders and a large coverage in the international press.

At the Rai Car Show in Amsterdam, Vredestein was simply the most remarkable exhibitor from the tyre business. Again the unique Giugiaro Mustang was displayed, together with our newest tyres. But our, sometimes special 'green' Vredestein tyres were also on display under various prototypes of 'green' car projects, from various Universities. As we are supporting several studies and projects in the Netherlands, but also in Germany and other countries leading to develop more environmental friendly vehicles.

Amtel-Vredestein participated in a variety of car and tyre shows in a long list of countries, from Bologna (Italy) via Moscow (Ru) to Las Vegas (USA).

## **PASSENGER CAR TYRES**

The Company's core PCT business continued its steady growth in 2007 – sales increasing 20% to \$612,2 mln. The Company sold a total of 14,2 mln. passenger car tyres, up from 13 mln. in 2006, which is a 9% increase. We achieved a fast growing turnover and margin mainly due to the improved product mix by selling more premium products in the high market segment. Amtel has become one of the leading tyre brands on the Russian market. The Amtel *Planet* line is designed for summer driving, while its *NordMaster* line is built for Russia's harsh winter conditions. Both lines are well-known for their reliability and safe handling.

The Company unveiled its new *Nord-Trac Xtreme* tyre at the Moscow International Motor Show in September 2007. This product is designed especially for Russia's extreme winter weather conditions, with a special rubber tread that guarantees perfect traction under the most difficult road conditions, and low-noise qualities to ensure a comfortable ride. It was designed in cooperation with Italy's Giugiaro Design firm, and is a major addition to Amtel-Vredestein's line of premium tyres.

Also at the Motor Show, the Company reintroduced its *Icetrac* tyres, a premium segment tyre aimed at the Russian market. This model is designed for snowy and icy roads, featuring a mathematically-optimal pattern of studs in 12 rows around the tyre to ensure excellent traction and perfect control. In addition, they feature a maximum contact area with the road for enhanced durability. Production of these tyres was launched last year at the Company's Kirov facility.

These new additions were well-received by the driving public, and demand for Amtel-Vredestein tyres continues to grow. Two new sizes were added to Amtel's *Planet DC*, which beginning in 2007 has been fitted as original equipment on all Renault Logan's manufactured in Russia. The new models added to the winter range are the *NordMaster 2* and the *NordMaster CL* (which is the Company's first unspiked winter tyre for use in southern Russia).

## **AGRICULTURAL TYRES**

In 2007, sales of agricultural tyres were very successful. In the original equipment market The Company achieved growth of 22,5 % over the previous year, and enjoyed fast growing demand in the replacement market as well, especially for our unique Traxion+ radial tractor tyres and Flotation implement tyres. A tractor tyre test organised by a well-known magazine in Germany showed outstanding results for the Traxion+. And during various exhibitions in Europe, the Company introduced the new Flotation Trac, which immediately earned recognition.

The agricultural sector has changed fundamentally in recent years. Due to the the expanding world population and the ever-growing demand for food, agricultural businesses are booming. Also, the bio-energy business is growing very fast, also feeding increased demand for agricultural products. Agriculture is becoming increasingly more specialised and professional, and farms themselves have increased significantly in size. These factors will demand future innovation in machinery to cope. This is positive for the industry since it means agricultural machinery manufacturers are continually improving products in order to meet market demand.

Farmers are always looking for machinery that will improve efficiency and maximise yields by saving time, fuel and labour costs. Factors like like soil compaction, traction power, rutting, speed and comfort are what discerning customers look for. Due to our active product development, in cooperation with the agricultural machinery industry, the assortment of our tractor and implement tyres in the premium market segment, has expanded.

## **INDUSTRIAL TYRES**

Market targets for industrial tyres have been realised in turnover as well as in margin. In the original equipment market segment, sales were above target. Especially in the small agro/horticulture tyre segment leading manufacturers of agricultural machineries prefer to fit Vredestein for haymaking machines, pickups and tillage equipment based on Vredestein's reputation for quality. Sales in the slow traffic market segment were slightly below target while small speed tyres were level.

All industrial tyres are delivered via our central warehouse in Europe, so that we can guarantee reliable and flexible deliveries of a wide range of high quality products. Based on our good reputation as a producer and reliable supplier of high quality products, a growing number of leading manufacturers are choosing to partner with Vredestein.

## **TWO-WHEEL TYRES**

In 2007, Vredestein Two-Wheel Tyres continued concentrating on the sporting market segment. After extensive market analysis and expansive input from riders on the Cannondale-Vredestein Mountainbike Racing Team, three new MTB-tyres were developed: *The Tiger Claw XC-G*, *The Black Panther*, *The Bull Lock*.

Before introduction to the market, the new MTB-tyre brands were subjected to an extensive testing programme. Each line is meant for professional use, with specific qualities for different terrain conditions.

In the racing segment the carbon rim is continuing to gain in popularity. This results in a growing demand for tubes. In the past, only 21 mm wide tubes were requested. As broader tyres offer more comfort and have lower rolling resistance they are increasing in demand. With the introduction of the *Fortezza Pro TriComp* 23 mm we believe we can meet this extra demand.

In the high-end *Tour Trek City* segment we introduced the pliable *Girando 37-622* for recreational on-road use. This tyre is meant to be taken as a spare tyre on long bicycle tours.

For extension of the distribution network we found partners worldwide which fit the Vredestein philosophy. For better geographic division in the Netherlands, we teamed up with Juncker Bike Parts, a part of the Accell Group.

Our sponsorship of the Predictor-Lotto Professional Cycling Team and the Cannondale-Vredestein Mountainbike Racing Team has contributed to higher brand recognition and a large amount of free publicity for the Company in 2007.

## **EARNINGS AND FINANCIAL RESULTS**

Sales grew steadily across most businesses in 2007, with healthy top line and margin growth at the Company's Russian manufacturing subsidiaries and good performance of the Vredestein Banden operations.

During the period, the Company announced that it had begun equipment tests for the production of tyres at Voronezh II – an investment project expected to greatly expand the Company's tyre complex in Voronezh. Completion of this project was suspended due to the lack of financing and is expected to resume upon improvement of the Company's distressed financial position.

The Company's AV-TO retail and wholesale division ("AV-TO") delivered higher sales due to the expansion and the consolidation of the wholesale business unit which took place in 2006. However, the business performance of the unit failed to meet expectations and management's current estimate of AV-TO's economic value is significantly lower than the value attributed to the assets at the time of acquisition in 2006. This led to the Company to recognise a significant impairment of assets in this business unit. AV-TO has also contributed to a significant proportion of the Company's loss for the period and put additional pressure on the Company's results due to significant associated costs.

The Company repaid a \$155 million credit linked note in June 2007 from operational cash flow and short-term borrowings. This, combined with significant deterioration of Russian and international debt markets in second half of 2007, led, among other reasons, to the Company abandoning its proposed Eurobond offering and curtailed the Company's ability to make further borrowing for working capital and investment purposes as well as plans to refinance its debt. This led to the Company starting discussion with lenders to its Russian operations in respect of debt restructuring.

### **Net Sales up 29.4% (on a continuing operations basis)**

Consolidated revenues rose by 29.4% year on year to \$994 million in 2007 from \$768 million in 2006 on a continuing operations basis, boosted by our core PCT segment strong performance, as well as good trading in other tyre segments. This revenue increase can be primarily attributed to increased sales to the original equipment market, as well as to increased sales through the Company's AV-TO unit due to the acquisitions of auto parts and tyre wholesale businesses Pigma and Megashina, and to the increased number of retail stores in the Company. Generally, the demand for Amtel-Vredestein tyres rose steadily during the period.

Sales from the Company's Russian operations grew 30% to \$439 million. Sales from European operations via the Company's Vredestein Banden subsidiary grew 18% to \$402 million.

### **Consolidated gross profit margin growth curtailed by AV-TO**

Gross Profit on a continuing operations basis improved to \$234 million in 2007 from \$187 million in 2006, an increase of 25.1%. However, the Gross Profit Margin remained broadly the same at 23.5% in 2007 versus 24.3% in 2006. Though the Company showed positive margin development in its passenger car tyre business, lower than expected margins at AV-TO were made worse by the introduction of wholesale operations unit resulting from the acquisition of Pigma and Megashina.

### **AV-TO and Pigma contributed significantly to sales; also losses**

AV-TO and Pigma contributed \$254 million to sales (on a stand alone basis) during 2007 – a 141.9% increase in sales from \$105 million in 2006; however it also contributed a \$161 million loss in 2007 versus a \$9 million loss in 2006 due to poor operational results and \$122 million of write-downs relating to goodwill and other intangible assets acquired during 2006. AV-TO's results in 2007 were impacted significantly by the wholesale businesses, Pigma and Megashina, acquired in late 2006.

### **EBITDA was affected by the negative contribution from AV-TO\***

EBITDA calculated on comparable basis decreased 25.3%: \$59 million in 2007 versus \$79 million in 2006; primarily due to a negative contribution of \$26 million from AV-TO. Additional factors impacting EBITDA were provisions created for bad debts and other balance sheet items totalling to \$21 million, \$14 million non-cash cost related to cancellation of stock option plan issued to the previous management team and stock option expense issued to current CEO and cancelled in 2008, significant \$9 million consulting expense related to refinancing and restructuring attempts and \$3 million in redundancy payments to outgoing management. Operational EBITDA adjusted to those extraordinary items is in line with the Company's expectations.

### **Profitability was seriously affected by asset impairment and growing interest expense**

Net Loss for 2007 was \$243 million, versus \$5 million in 2006, principally due to significant asset impairment charges, additional non-cash tax charge related to \$12 million deferred tax asset write down, increased costs, including interest expense, and other factors discussed above.

### **Loans and borrowings continued to increase**

Despite the lack of new borrowings in the second half of 2007, the Company's net debt increased to \$778 million as of 31 December 2007, up 14.6% from \$679 million calculated as of 31 December 2006 on comparable basis. Most of the debt is attributable to the Russian operations where certain covenant breaches and payment delays have occurred during the period without triggering any repayment demands from the financing banks. Those and consequent breaches are expected to be fully waived upon completion of the contemplated debt restructuring. Vredestein Banden operations were not directly impacted by debt problems on the Russian side due to the ring fenced structure of its financing and good financial performance.

## **OUTLOOK FOR 2008**

The Company hopes that its net debt will stabilize in 2008 on more stable and sustainable terms following debt restructuring exercise we intend to contemplate this year. The sought equity injection is intended to overcome overdue payments to suppliers and creditors and complete the expansion of its Voronezh tyre factory.

Sales are expected to keep around \$1 billion in 2008 based on current sales trends and scheduled production output despite disposal of Moscow Tyre Plant-M. In case short-term financial issues are resolved, the management also intends to undertake steps towards improvements in gross profit and EBITDA consistent with previous years as it continues to migrate up the value chain via a product mix geared to higher quality, higher priced tyres.

The Company will consider steps to lower its overheads through consolidation and continued cost cutting. However, the profitability of the Company in 2008 will be impacted by its distressed financial position pending completion of debt restructuring and correspondent significant restructuring related costs.

In an attempt to ensure tyre manufacturing business going forward, in early 2008 the Company entered negotiations with SIBUR Russian Tyres (SRT) on possible business combination. The talks have progressed significantly within 1<sup>st</sup> half 2008 and 30 June 2008 a transaction was announced. The deal was structured as a reverse takeover, where Amtel-Vredestein N.V. acquires all issued and outstanding shares of OJSC SIBUR Russian Tyres from SIBUR Holding and issues new equity with subsequent conversion into GDRs and listing on the London Stock Exchange. However the deal lapsed on 30<sup>th</sup> September 2008 due to expiration of deadlines for certain conditions precedent which were not met due to significant deterioration of business conditions. Following discontinuation of this transaction the Company's going concern status and its continuing prospects became uncertain; restructuring discussions with the core financing banks of its Russian operations were significantly complicated by discontinuation of the merger with SRT and global financial turmoil. If the Group will be unable to find a strategic solution in short term, the continuity of the Group could become uncertain, in which case the underlying assumption of going concern may no longer be appropriate. In this event, the value of fixed assets, intangible and other assets might become impaired and additional liabilities may be incurred which may require change of accounting basis to liquidation accounts.

\*The Company's new management has adopted a more conservative approach to treatment of EBITDA and therefore its calculation in regards to 2007 appears somewhat adjusted compared to previously reported figure

## **RISKS AND RISK MANAGEMENT**

Locally, Amtel-Vredestein N.V. faces a variety of risks that could also have an impact on business processes and thus affect employees, customers or shareholders. Though the Company has no integrated risk management system in place yet, the management track status of the risks mentioned below, and separate control procedures, which would help the Company to decrease probable impact of risks are being applied. Also, the Company is committed to develop and implement a framework for risk management based on international standards. This framework will allow us to strengthen resilience to disruptions by turning variety of current risk management activities to a systematic exercise.

### **Market risk**

- Foreign exchange risk: The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR and RUR on sales, purchases and borrowings. Vredestein Banden uses forward contracts and currency options to reduce this risk. Its risk management policy requires at least 50% of sales anticipated for a period of 6-12 months in advance to be hedged.
- Fair value interest rate risk: Vredestein Banden is exposed to interest rate risk because the fair value of derivative financial instruments may fluctuate due to changes in interest rates. This will result in an unrealized profit or loss because derivative financial instruments are not held for sale. The Group holds derivative financial instruments to hedge interest rate risk exposures. Derivative financial instruments are measured at fair value. Publicly quoted market prices and rates are used to define the fair value of derivatives. Hedge accounting is not applied in cash flow hedging in connections with interest rate swaps and caps. Changes in fair values of these derivatives instruments have been recorded in profit and loss. Except for Vredestein Banden, the Group does not have any interest rate hedges.

## **Credit risk**

The Company has no significant credit risks for its trade debtors., Credit risk for other debtors is addressed in a series of provisions and write offs for bad and doubtful debts, recorded in financial statements for 2007. Its current policies prevent sales to any customer with a sub-standard credit history. The Company has also installed a strong credit management team, which is responsible for overdue receivables.

Derivative counterparties and cash transactions are limited to high-credit quality financial institutions.

## **Liquidity risk**

The majority of the expansion of the Group, which started back in 2002, was financed through loans and borrowing and since some of the investments did not meet the forecasted targets, the Group has continued to be cashflow negative, as at 31 December 2007.

In early 2008 the Group had completed its review of the cash raising alternatives and in June 2008 the Group had reached an agreement with OAO Sibur Holdings ("Sibur") to merge its tyre and rubber goods production and distribution business OAO Sibur Russian Tyres ("Sibur Tyres") with the Amtel Group.

On the basis of the merger agreement the Group has negotiated a deal with main lenders of its Russian operations that principal repayments due under the existing credit facilities were deferred to period till 31 December 2012 and interest up to 30 June 2009 was capitalized. The debt restructuring program and possible merger with SRT was supposed to provide the Group the necessary funds to fulfill its repayment obligations. However, discontinuation of SRT merger discussion renewed financial pressure on the Company and put its going concern status under a question mark.

## **Cash flow interest rate risk**

In Russia, Amtel-Vredestein primarily uses fixed-rate debt financing. The variable rate debt is linked to MosPrime Rate, EURIBOR or LIBOR. There is no policy to define the proportion between fixed and variable rate debt. The short-term nature of most of the borrowing increases risk if interest rates are adjusted at refinancing. These fluctuations taken together with a significant portion of the debt denominated in foreign currencies, lead to certain risks and restrictions to the Company when it issues debt. Vredestein Banden B.V. uses variable rate debt to finance its operations. The Company is exposed to the variability in interest payments due to changes in interest rates. Management has established a policy for limiting its exposure to a variability in interest rates to 60% of its interest payments through the use of interest rate swaps and interest caps. The interest rate swaps somewhat insulate the Company from variable rate cash flow exposure from long-term loans by placing it in a pay-fixed, receipt-variable position. Vredestein Banden B.V. makes fixed interest payments to counterparty and receives variable interest payments in return. The interest cap limits the Company's overall exposure to increases in long-term interest rates.

## **Risks from acquisitions**

As part of its strategy, Amtel-Vredestein has completed several acquisitions, including Vredestein Banden B.V., Moscow Tyre Plant and various retail and distribution assets. Some acquisitions made in the past were already liquidated or were subjected to significant impairment charges. Acquisitions may fail due to a variety of factors such as valuation mistakes or ineffective integration of operations. The Company may have been unsuccessful in addressing these and other obstacles and may repeat this mistake in future, which could have a material impact on its business, financial condition and results of operations.

## **Strategic risks**

Amtel-Vredestein's strategy of prioritizing the "A» and "B" passenger car tyre segments over the C-segment may be unsuccessful. The Company has identified the "A» and "B" segments as the most profitable segments within the Russian passenger car tyre market, and it believes that Russian consumers will pay a premium for high- quality "A" and "B" segment tyres. The Company therefore plans to expand its presence in these segments. However, the Company's strategy of developing production capacity in A and B segment ahead of sales may prove risky. At the same time, the Company plans to decrease its sales of low-margin "C" segment tyres. Despite onrising consumer demand for premium and mid-segment tyres, the Company may face the risk of overcapacity due to general market congestion in the related segments. The tendency to commoditization in A and B segments is seen to grow year on year, causing prices and therefore operating margins to decline.

Any of these scenarios could undermine the Company's strategy; decrease its market share and profit margins in these segments, which could materially adversely affect Amtel-Vredestein's business, financial condition or operating results.

Amtel-Vredestein's strategy of developing and expanding its proprietary tyre retail operation could prove unsuccessful. The Company has acquired numerous retail tyre centre chains – a move that brings with it numerous inherent risks and challenges. The process of re-branding these chains and consolidating them into a cohesive has taken longer than anticipated. Sales and margins achieved at these stores have fallen short of the Company's expectations and continue produce losses. The strategy of using these centers to develop and increase sales of the Company's tyre brands could prove unsuccessful and, thus, adversely affect the Company's business and financial performance.

## **Market and operational risks**

The Company relies on a relatively small number of customers in the OE market. The OE market is not the Company's largest market on a historical basis or pro forma basis. However, it believes that the OE market is important to its future success in the replacement market. The Company uses its position in the OE market to establish brand recognition and cultivate customer loyalty, both of which are crucial to generating follow-on sales in the more stable and higher-margin replacement market. Accordingly, loss of a major OEM customer could negatively impact sales, thus having a material adverse effect on the Amtel-Vredestein's business, financial condition or operating results.

Falling efficiency of purchase / sales logistics due to financial distress may constitute another material risk for Amtel-Vredestein. Deteriorating credit standing of the Company distorts normal payment terms with suppliers and customers - a situation which hinders our competitiveness and enforces unfavorable trade terms.

## **Debt risks**

Amtel-Vredestein is highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness. Any failure to comply with such covenants could put the Company into default.

The Company is subject to certain pledges and financial and other restrictive covenants under the terms of its various loan agreements. Vredestein is also subject to certain financial and other restrictive covenants under its syndicated loan facilities with ING Bank N.V. ("ING Bank") and ABN Amro Bank N.V. ("ABN Amro Bank") (the "Syndicated Loans"). Vredestein has pledged substantially all of its assets as collateral for these Syndicated Loans.

Under the terms of the agreements that govern the Company's loan portfolio is subject to certain restrictions limiting its ability to expand its business. Some of those covenants and limitations will be difficult to fulfill given the Company's constrained financial position. This forced the Company to start negotiations with its lenders in respect to terms of possible debt restructuring.

### **Raw materials risks**

Amtel-Vredestein's supply of key raw materials is subject to price fluctuations, including highly volatile oil and natural rubber prices. Increases in the prices of synthetic rubber and natural rubber could materially affect the Company's manufacturing costs. The price of synthetic rubber as well as that of many other raw materials, including tyre cord, carbon black and certain chemicals that require derivatives of oil to produce, is sensitive to oil prices, and any increase in world oil prices could inflate the prices for such products.

Due to the nature of Amtel-Vredestein's sales contracts with its distributors and the competitive nature of its business, it may be impossible for the Company to pass these costs along to its customers. As such, increasing costs of natural rubber, synthetic rubber and other raw materials could materially adversely affect the Company's business, financial condition or operating results.

Some of the Group's suppliers are affiliated with its competitors and supply it with certain key raw materials, and they could withdraw or delay such supply to gain a commercial or other advantage over the Company. Any disruptions in deliveries from suppliers of key materials could have a material adverse effect on the Company's business, financial conditions or operating results.

### **Sales and marketing risks**

The Company is putting great emphasis on building and differentiating each of its tyre brands and clearly understands the vital importance of pro-active marketing strategy as well as possible risks of financing shortfall. Underfunding of marketing activities may result in decrease of brand awareness and brand recognition of the Company's products, which inevitably leads to lower sales. Thus, insufficient funding of marketing policies may adversely affect the Company's business and financial condition.

Similarly, the Company anticipates a certain negative impact of mild winters across Europe and Russia in recent years. Such climate shift entails falling demand for winter tyres and, thus, may have adverse effect to the Company's business, financial and operating results.

### **Product liability risks**

Amtel-Vredestein could be subject to product liability claims and product recalls that may adversely affect its operating results. Any material product defect in the Company's tyres that are sold to third parties could expose the Company to product liability claims or require it to undertake service actions or product recalls. Satisfying such liability claims or undertaking such service actions or recalls could require Amtel-Vredestein to expend considerable resources. Although none of the Company's products has, to date, been subject to material liability claims, service actions or recalls, any such event in the future could materially adversely affect the Company's business, financial condition or operating results.

Additionally, because product quality and the perception thereof significantly influence a customer's decision to purchase tyres, any such liability claims, service actions or recalls could, even if they successfully address the underlying defects, decrease the Company's future sales

and profitability, thereby materially adversely affecting the Amtel-Vredestein's business, financial condition or operating results.

### **Insufficient insurance risks**

The Company's insurance policies may be insufficient to cover losses arising from business interruption, damage to its property or third party liabilities. The Company has insurance policies covering its real estate, inventory, equipment and vehicles. However, such insurance policies might be insufficient to cover full losses arising as a result of a business interruption or damage to property as a result of fire, explosion, flood or other circumstances. In addition, the Company maintains third party liability insurance for its Russian subsidiaries only where and only to the extent that, Russian law so requires. This is because the market does not provide additional coverage on commercial terms. If the Company suffers material losses or incurs a significant liability, its insurance policies might be insufficient to cover such losses or liability, which could materially adversely affect its business, financial condition or operating results.

### **Environmental and regulatory risks**

Compliance with environmental and safety laws and regulations could require Amtel-Vredestein to incur costs or restrict its operations in a manner that could materially adversely affect the Company's business, financial condition or operating results. The Company's business of manufacturing tyres may potentially be damaging to the environment. The Company is subject to a variety of environmental laws and regulations, including those regulating the use, handling, treatment, storage, discharge and disposal of substances and hazardous wastes used by or generated in its manufacturing facilities in Russia and The Netherlands. Amtel-Vredestein must invest financial and managerial resources to comply with such environmental laws and regulations.

The Company will likely be subject to increasingly stringent environmental standards in the future and may be required to make additional capital expenditures relating to environmental matters on an ongoing basis. If the Company fails to comply with current and future environmental laws and regulations, it could be subject to severe penalties, possibly including suspension of production. Environmental laws and regulations could also restrict Amtel-Vredestein's ability to expand its facilities or could require it to acquire costly equipment or incur other significant expenses in connection with its manufacturing processes.

The Company currently believes that compliance with existing laws and regulations and the cost of remediation efforts will not materially adversely affect the Group's business, financial condition or operating results.

### **Global Depository Receipts and trading market risks**

The Deposit Agreement for the Global Depository Receipts (GDR) and the relevant requirements of Dutch law limit or exclude the voting rights of GDR holders with respect to Amtel-Vredestein's shares. GDR holders have no direct voting rights with respect to the shares represented by the GDRs and will be able to exercise voting rights with respect to such shares only in accordance with the deposit agreement with the Bank of New York ("Depository"), relating to the GDRs. GDR holders face practical limitations on their ability to exercise voting rights due to the additional procedural steps involved in communicating with them.

For example, both applicable Dutch law and the Company's Articles of Association require the Company to notify shareholders at least 15 days in advance of any shareholders' meeting. The

Company's shareholders will receive such notice directly from the Company and can exercise their voting rights either by attending the meeting in person or voting by proxy. By contrast, GDR holders will receive no such notice directly from the Company. Rather, in accordance with the deposit agreement, the Company will dispatch such notice to the Depository. In turn, the Depository has undertaken, if the Company so requests in writing and at the Company's expense, to mail to each GDR holder, as soon as practicable thereafter, copies of voting materials (if and as received by the Depository from the Company), as well as a statement as to the manner in which GDR holders may give voting instructions. To exercise their voting rights, GDR holders must then instruct the Depository as to how to vote the shares represented by the GDRs that they hold.

Because of this additional procedural step involving the Depository, the process for exercising voting rights may take longer for GDR holders than for holders of shares. GDR holders may not receive voting materials in time to enable them to return timely voting instructions to the Depository. GDRs for which the Depository does not receive timely voting instructions will not be voted in accordance with the instructions of the relevant GDR holder.

Additionally, GDR holders will be unable to instruct the Depository to:

- vote the shares represented by their GDRs on a cumulative basis;
- introduce resolutions on the agenda of shareholders' meetings or request the convocation of shareholders' meetings; or
- appoint members for the Company's Supervisory Board and Executive Board.

GDR holders who wish to take such actions must timely request the cancellation of their GDRs and take delivery of the underlying shares, thus becoming the owner of such shares on the Company's share register.

Future sales of shares or GDRs may affect the market price of the GDRs. Sales or the possibility of sales, of material quantities of shares or GDRs in the public markets could have an adverse effect on the trading prices of the GDRs. The Company's subsequent equity offerings may reduce the percentage ownership of its current shareholders.

### **Tax risks**

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances, a tax year may remain open longer.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Some retail chains acquired by the Group were involved in tax optimization programmes. Management of the relevant retail chains controlled the transactions. Although the Group is not responsible for potential violations of the tax legislation, this all could result in a possible tax liability that cannot be estimated at this stage. Based on the facts available, the risk of a significant economic benefit outflow as a result of potential claims is seen by management as low as and less than probable.

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL**

The management of Amtel-Vredestein N.V. is responsible for establishing and maintaining an adequate system of internal controls over operational effectiveness, laws and regulations and financial reporting. Therefore, management has assessed the effectiveness of Amtel-Vredestein's internal controls for the full year to 31 December 2007. Management has documented its assessment as criteria set forth in the Dutch Corporate Governance Code attachment under section II.1.4.

### **The Executive Board**

Peter Zolotarev (Chairman)

Vadim Pesochinskiy (Director B)

## SUPERVISORY BOARD REPORT

### INTRODUCTION

It was a transformative year for Amtel-Vredestein N.V. in 2007. The Company made a number of important strategy shifts as it rethought and redefined how it does business, with the goal of creating an organization primed for long-term profitability and sustained growth. This process has been guided by the extraordinary efforts of the Company's new management team.

The Supervisory Board was actively involved throughout this pivotal year in the development and oversight of the Company's evolving strategy. The Board's list of duties includes the approval of certain of the Company's activities, oversight of audit matters for interim and annual results, and preparations for the Annual General Meeting of Shareholders. Its responsibilities fall in with the Company's Articles of Association, Dutch law, and the Dutch Corporate Governance Code – also known as the *Tabaksblat Code* (or simply as "the Code").

### THE SUPERVISORY BOARD'S ROLE

The primary purpose of the Supervisory Board is to oversee the business policies and decisions of the Company's Executive Board, and to offer advice that represents the best interests of the Company and its shareholders. It answers only to itself about the quality of its work.

Mr. Sudhir Gupta, founder of the Company, once largest shareholder and Chairman of Supervisory Board, left Amtel-Vredestein to pursue other challenges and ceased to exercise significant influence over the Company's business. At present, Rafael Nagapetyants serves as Chairman of the Board, and Hendrik ten Bosch serves as Vice-Chairman.

### CORPORATE GOVERNANCE

Last year, the Executive Board, with the support of the Supervisory Board, continued its efforts to implement provisions from the *Tabaksblat Code* in order to provide shareholders with more reliable and transparent information concerning the Company's business and its management.

Starting from last year's Annual General Meeting, the Executive Board and the Supervisory Board will submit detailed information regarding the Company's corporate governance structure at this year's Annual General Meeting of Shareholders. In addition, all new by-laws and regulations considered by the Executive Board, the Supervisory Board, and various Board subcommittees will be posted on the Company's website, as stipulated by the Code.

### COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of the Company may consist of up to 10 members, but never less than three members, as mandated by the Company's Articles of Association.

Members are appointed by the Annual General Meeting of Shareholders based on nominations made by the Supervisory Board. Current members of the Supervisory Board are as follows:

MR. RAFAEL NAGAPETYANTS	Managing Director, Corporate Finance Department at Alfa-Bank.
Chairman	Degree in International Finance from Moscow Finance Institute; 1995 - Moscow State University PhD. in Law; 1991 - PhD. in Economics.
Age: 46	
Nationality: Russian Federation	
Appointed: 2007	

MR. HENDRIK TEN BOSCH Member of the Supervisory Board of the Russian subsidiary of Standard Bank of South Africa. Former General Director and Chairman of the Executive Board of ING Bank Eurasia (ZAO). Former General Director and Chairman of the Executive Board of ABN Amro Bank Russia. Degree in Law from Utrecht State University, the Netherlands, 1974

Vice-Chairman,  
Member Audit Committee  
Age: 58  
Nationality: The Netherlands  
Appointed: 2007

MR. DANIEL GUPTA Director of Amtel Properties and Development, and is responsible for the company's activities in Russia and CIS.

Chairman Remuneration and Appointment Committee  
Age: 26  
Nationality: Russian Federation  
Appointed: 2005

Masters Degree in Political Economy and Political Science from the London School of Economics.

MR. MAXIM IGNATIEV Chairman of the Board of Sport and Fashion Retail Group; Vice-President and co-founder of Russian Fitness Group.

Vice Chairman  
Member Remuneration and Appointment Committee  
Age: 47  
Nationality: Russian Federation  
Appointed: 2005

Degree in Mathematics and Computing from the People's Friendship University named after Patrice Lumumba.

MR. HUBERT PANDZA Former Director Russia and Central Asia Business Group and the Group for Small Business from EBRD's Headquarters in London, former CEO of Deutsche Bank, Moscow

Chairman Audit Committee  
Age: 60  
Nationality: Germany  
Appointed: 2006

At the start of 2007, the Supervisory Board had six members: Messrs. Sudhir Gupta, Daniel Gupta, Paul Dominic Gualtieri, Maxim Ignatiev, Tarik Chaudri and Hubert Pandza. Over the course of the year, Messrs. Sudhir Gupta, Tarik Chaudri and Dominic Gualtieri resigned and another three members were appointed to replace them: Messrs. Rafael Nagapetyants, Hendrik ten Bosch and Hubert Hoedl (who resigned in December 2007). At the end of 2007 the Board assumed its current five-member structure, with the people listed above. Of the current members, Messrs. Pandza, Ignatiev, and ten Bosch are independent as defined by the Dutch Corporate Governance Code.

The Supervisory Board held 12 meetings in 2007. Each meeting was attended by all the members, and the minutes were properly recorded.

## COMPOSITION OF THE EXECUTIVE BOARD

As of December 2007, the Executive Board was comprised of six members:

- Petr Zolotarev, CEO of Amtel-Vredestein N.V.
- Vadim Pesochinskiy, CFO of Amtel-Vredestein N.V.
- Ilya Ivanov, Deputy Director of Sales and Operations, Amtel-Vredestein N.V.
- Robert H. Oudshoorn, CEO of Vredestein Banden B.V.
- Kornelis (Kees) Hetteema, Managing Director of Vredestein Consulting B.V.

- Marc Luyten, Director Corporate Marketing and Sales of Vredestein Banden B.V

Significant changes to the Executive Board took place after the 2007 Annual General Meeting, when the former management team stepped down to pursue opportunities outside of the tyre and automotive industries. A new team led by Mr. Petr Zolotarev was put in place, and the present Board was assembled in October 2007.

To comply with stipulations in the Code and the Company's Articles of Association, newly appointed Executive Board members will be limited to four-year terms.

The Chairman of the Supervisory Board and the Executive Board remain in frequent contact throughout the year, enabling the Supervisory Board to closely monitor the business' operations and financial developments.

## BUSINESS REVIEW

Several key events took place in 2007 that are pivotal to the company's efforts to succeed in the premium passenger car tyre business. The four most important events are that the Company:

- Announced its intention to dispose of the Moscow Tyre Plant (a process completed with the plant's sale in March 2008).
- Postponed the launch of its Voronezh II, with a commitment to complete the installation of new equipment and bring the facility into production operation late 2008 – early 2009.
- Suspended further expansion of its AV-TO retail unit until a careful and thorough evaluation of the division's current retail asset portfolio can be completed, and a strategy for its future can be charted.
- Launched a debt-restructuring program in order to facilitate the financial turnaround.

## COMMITTEES

The Supervisory Board is comprised of two committees – an Audit Committee and a Remuneration and Appointment Committee.

### Audit Committee

The Supervisory Board has delegated to the Audit Committee responsibility for overseeing the financial reporting and internal control of the Company and for maintaining an appropriate relationship with the Company's auditors.

### *Role of the Audit Committee*

The main role of the Audit Committee is to encourage and safeguard the highest standards of integrity, financial reporting, risk management and internal control. In doing this, the principal responsibilities of the Audit Committee include:

- reviewing the Company's financial statements;
- reviewing the adequacy and effectiveness of the Company's internal control and risk management;
- recommending to the Supervisory Board the appointment, re-appointment or removal of the internal and external auditors;
- reviewing and monitoring the Company's ethical standards.

### *The Composition of the Audit Committee*

No.	Position	Name	Status	Independent
1.	Chairman	Hubert Pandza	Non-Executive Director	Yes
2.	Member	Rafael Nagapetyants	Non-Executive Director	No
3.	Member	Hendrik ten Bosch	Non-Executive Director	Yes

During 2007, the following changes in the composition of the Audit Committee have taken place.

1. Dominic Gualtieri has left the Supervisory Board and position of Chairman of the Audit Committee due to his permanent appointment. Hubert Pandza has been elected as new Chairman of the Audit Committee.
2. Rafael Nagapetyants has been elected as a new Audit Committee member. As a representative of a significant shareholder, Alfa Bank, Rafael in the Audit Committee member role will be able to devote sufficient time for assuring that the financial reports show real position of the Company, as well as that the Company's management implement proper corporate governance policies.
3. Tarik Chaudri has left the Supervisory Board for personal reasons. Hendrik ten Bosch has been elected as a new member of the Audit Committee.

For the purposes of the Code, Hubert Pandza is considered by the Supervisory Board to have recent and relevant financial experience. Rafael Nagapetyants joined Supervisory Board in July 2007 and Hendrik ten Bosch served on the Supervisory Board and Audit Committee since October 2007.

The Company's internal and external auditors, as well as certain members of the Executive Board attended most of the meetings during the financial year. The Audit Committee met with the internal and external auditors in separate private sessions during all the Audit Committee meetings throughout the financial year. This provided an opportunity for external and internal auditors to raise matters of concern in confidence.

#### *Report on the Audit Committee's activities in 2007*

#### Meetings and Attendance

The Audit Committee met nine times in 2007 and there was full attendance by all members. Members and the auditors participated either in person or via a conference call.

The Committee examined the Group's track record of past acquisitions, including the performance of entities against that originally envisaged as well as their compliance with appropriate procedures, and agreed that for future acquisitions, a more robust process needs to be in place to ensure alignment with the Group's overall strategic direction.

To assist the Audit Committee in fulfilling its role, a number of Executive Board members and other executives and advisors were invited to attend some or all of the Audit Committee meetings. These included the Company's CEO, CFO, Director of Internal Audit and the Company's legal counsel, each of whom provided reports to the relevant Audit Committee meeting on their area of responsibility. The Company's external auditors, KPMG and its successor, Deloitte, also attended a number of meetings and presented updates on their activities.

The Audit Committee followed a formal program of issues to review over the course of the year. As its principal guide in the process, the Audit Committee used publications of the Audit Committee Institute, sponsored by KPMG. This review program was designed to ensure that all matters that fall within the Audit Committee's remit are properly reviewed at the appropriate time.

The Audit Committee carried out the following activities during 2007:

#### *Risk and Controls*

- Reviewed the progress of implementing by the Company of risk management and control system-- including ongoing identification and monitoring of key risks, and the controls implemented by the respective departments in managing these risks;
- Evaluated the overall effectiveness of the system of internal controls through the review of work performed by internal and external auditors and discussions with the key members of the Executive Board;

#### *Financial Results*

- Reviewed with appropriate officers of the Company and external auditors, the half-yearly financial results and annual audited financial statements of the Company including the announcements pertaining thereto, before recommending to the Supervisory Board for their approval and release of the Company's results to the AFM and the LSE;

#### *External Audit*

- Reviewed with the external auditors their audit plan for the financial year ended 31 December 2007 to ensure that their scope of work adequately covered the activities of the Company;
- Reviewed the results and issues arising from the external auditor's audit of the year end financial statements and the resolution of such issues highlighted in correspondence to the Committee;
- Reviewed the external auditor's audit performance and independence before recommending to the Supervisory Board their appointment and remuneration;

#### *Internal Audit*

Reviewed with the internal auditor its annual audit plan for the financial year ended 31 December 2007 to ensure that principal risk areas were adequately identified and covered in the plan;

- Reviewed the recommendations by internal audit, representations made and corrective actions taken by management in addressing and resolving issues as well as ensuring that all issues are adequately addressed on a timely basis;
- Reviewed the results of ad-hoc activities performed by internal audit and the actions taken relating to those activities;
- Reviewed the adequacy of resources and the competencies of staff within the internal audit activity to execute the plan, as well as the audit working programmes used in the execution of the internal auditor's work and results of their work.

## Remuneration and Appointment Committee

The Remuneration and Appointment Committee was formed in 2005 and consists of Daniel Gupta and Maxim Ignatiev. The Remuneration and Appointment Committee held two formal meetings (as required) in September and December 2007.

### *Role of the Remuneration and Appointment Committee*

The Remuneration and Appointment Committee has no authority to take decisions regarding remuneration but only to make proposals and recommendations to the Supervisory Board regarding the remuneration policy and the remuneration of individual Executive Board members. The current policy was adopted at a General Shareholders' Meeting in October 2005.

### *Remuneration Report of the Executive Board*

Full details of the remuneration of Executive Board members for the financial year ended 31 December 2007 are set forth in the 2007 financial statements. The members of the Supervisory Board received compensation for a full year of service in 2007.

## REMUNERATION REPORT OF THE SUPERVISORY BOARD

### Introduction

In accordance with the Articles of Association, the remuneration of the Executive Board members is the responsibility of the Supervisory Board as a whole. Resolutions on the remuneration proposed by the Supervisory Board should be in line with the remuneration policy for Executive Board members as adopted by the General Meeting of Shareholders.

The Supervisory Board has appointed a Remuneration and Appointments Committee from among its members to prepare proposals, advice and recommendations for the Supervisory Board on the remuneration policy and individual remuneration for the Executive Board members, and to prepare the remuneration report.

Furthermore, the Remuneration and Appointments Committee is to advise the Supervisory Board on the yearly targets for the Executive Board. The remuneration of Supervisory Board members is determined by the General Meeting of Shareholders.

The remuneration policy and any future material changes will be submitted to the General Meeting of Shareholders for adoption. The remuneration policy will be available on the Company's website.

The following is an overview of the remuneration policy for 2007 and subsequent years. It takes into account the best practice provisions of the Code.

## REMUNERATION POLICY

### Introduction

In accordance with the Articles of Association, the remuneration of the Executive Board members is the responsibility of the Supervisory Board as a whole. Resolutions on the remuneration proposed by the Supervisory Board should be in line with the remuneration policy for Executive Board members as adopted by the General Meeting of Shareholders.

The following is an overview of the remuneration policy for 2008 and subsequent years. Any future material changes in the remuneration policy will be submitted to the General Meeting of Shareholders for adoption.

#### *Remuneration Policy Statement*

It is essential that the executive remuneration programme rewards the Executive Board members for their ability to achieve operational and financial targets.

In order to achieve this, we will provide a competitive base salary and the opportunity to achieve significant rewards if the Company creates value for its shareholders.

#### *Employment Agreements*

Executive Board members have an employment agreement with the Company and/or with one of its subsidiaries.

If the Company initiates the termination of the employment agreement for a Dutch resident Executive Board member and if the termination is for a reason other than for urgent reasons (cf. Section 7:677 of the Dutch Civil Code (*Burgerlijk Wetboek*), the Company and the Executive Board member will observe the provisions laid down in the Code. For this reason, the neutral Sub-District Court formula will serve as a basis for the calculation of the severance payment.

If the Company initiates termination of the employment agreement for Russian resident Executive Board member and if the termination is “without cause” as defined in the employment agreements, such member is entitled to severance benefits as set forth in the employment agreement.

If the Company initiates termination of the employment agreement of the CEO (i) at the election of the Supervisory Board, without Cause, upon not less than sixty (60) days prior written notice of termination; (ii) due to a change of control of the Company; or, (iii) without cause within one year following a change of control of the Company, the CEO shall receive a lump sum payment by the Company in an amount equal to three times his annual base salary.

#### *Term of appointment*

Executive Board members are to be appointed for a period of 4 years. On expiry, the Executive Board member may be re-appointed for successive terms of not more than 4 years.

#### *Remuneration elements*

The remuneration strategy for the Executive Board shall be aligned with the Company’s business strategy to seek profitable growth.

The remuneration of the Executive Board members currently comprises of the following elements: base salary and cash bonus incentives.

The components of base salary and the cash bonus incentive programmes are fixed. The Company considers the bonus incentives to be an important part of the remuneration package of Executive Board members.

#### *Base salary*

Our guiding principle is that compensation should be comparable to that offered by a reference group of public companies that are roughly similar to the Company in size and complexity.

#### *Operational Bonus*

The current bonus scheme applicable to the Executive Board members is based on individual financial targets. The quantitative criteria reflect the financial parameters that the Supervisory Board considers to be the most critical annual measures to enable the business to achieve the goals of its objectives. The qualitative targets for the Executive Board are set by the Supervisory Board based upon the approved annual budget.

In accordance with reaching the set qualitative targets, Executive Board members will receive a bonus equal to 50 percent of their respective base annual compensation.

When an employment agreement is terminated by a member of the Executive Board, this member is no longer entitled to any bonus. In case of long lasting absence of a member of the Executive Board as a result of illness or leave of absence, the Supervisory Board is entitled to decide that no cash bonus or only part thereof will be granted. Achievement against the quantitative targets will be assessed following the end of the financial year and on the basis of audited results. The Company does not disclose individual performance targets for Executive Board members.

The current CEO, Mr. Zolotarev, has the right to receive a salary and an annual cash bonus incentive in an amount equal to 100% of his annual base salary and annual bonus for 2008 subject to attaining certain performance indicators established by the Board. The CEO is to receive an annual bonus in the amount of 13,500,000 roubles for 2007. From 2008 onwards, the CEO will receive a bonus equal to 100 percent of annual compensation, subject to annual targets approved by the Supervisory Board. During the first and second quarters of the 2008 calendar year, the CEO is entitled to an advance against the 2008 annual bonus (quarterly amounts equal to 12.5% of the CEO's bonus for 2008).

#### *Bonus incentive programmes*

##### *❖ M& A Bonus Programme*

The M&A Bonus Programme will provide a cash bonus equal to one year's compensation (according to the relevant employment contract). The bonus will be paid either:

- Within 20 days from the date when restructuring agreements are signed with the Company's lenders who hold in total 75% of the Company's total outstanding debt.

Or

- Within 20 days from the date when new shares are issued or existing shares are sold to counterparty where the counterparty becomes controlling shareholder of the resulting entity.

##### *❖ Retention Bonus Programme*

The Retention Bonus Programme provides quarterly cash payments equal to 12.5% of the relevant employee's operation bonus for the current year (as per the bonus figures in his/her respective contract) payable at the end of the first and second quarter of the current year during the restructuring period. The retention bonus will be subtracted from the respective annual bonuses outlined above.

#### ❖ *Severance payments programme*

The Severance Payments Programme provides that in the event a manager is terminated within a one year period following a merger (change of control) and/or without cause, such manager will receive a cash payment equal to one year (or in the case of the CEO, a 3 year) guaranteed portion of his/her compensation.

#### *Share options and share grants*

In April 2007, the Supervisory Board decided to discontinue the share option programme in its existing form.

As of March 2008, the Company decided to terminate the CEO's share option agreement.

#### *Allowances and benefits in kind*

Members of the Executive Board benefit from certain allowances and/or benefits in kind. The majority of these allowances and benefits comprise elements based on general local practice (such as a company car, contribution to health care costs, fixed annual cost allowances) or relate to specific international circumstances (such as relocation costs, housing). The latter are often one-off amounts or time-limited.

#### *Loans*

It is the current policy of the Company not to grant the Executive Board members any personal loans and guarantees.

#### *Supervisory Board remuneration*

The members of the Supervisory Board are compensated as follows:

- (i) Members – EURO 50,000 net for full year of service;
- (ii) Vice Chairman and each committee Chair – EURO 75,000 net for full year of service;
- (iii) Chairman –EURO 100,000 net for full year of service.

Further, the members of the Supervisory Board will be provided the opportunity to receive an incentive bonus for their work on the Supervisory Board of the Company.

#### *Indemnification*

The Company has agreed to indemnify Members of the Executive and Supervisory Board with respect to their activities as members of the Executive or Supervisory Board of the Company against expenses (including, without limitation, attorneys' fees, judgments, fines, and amounts paid in settlement) actually and reasonably incurred in connection to any threatened, pending, or completed action, suit, or proceeding whether civil, criminal, administrative, investigative, or otherwise and whether formal or informal, to which the Member was, is, or is threatened to be made a party by reason of facts which include the Member being or having been such a member

of the Executive or Supervisory Board of the Company. Any indemnification is subject to AGM approval.

Enschede, 31 December 2008

**The Supervisory Board**

Rafael Nagapetyants (Chairman)

Hendrik W. ten Bosch

Daniel Gupta

Hubert Pandza

Maxim Ignatiev