AMTEL-VREDESTEIN N.V. 2005 ANNUAL REPORT

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Forward Looking Statements: This document may contain forward-looking statements regarding future events or the future financial performance of Amtel-Vredestein, N.V. and its subsidiaries. These statements are not guarantees of future performance, which is subject to risks, uncertainties and assumptions that cannot be predicted with certainty. Accordingly, actual outcomes and results may differ materially from those expressed in the forward-looking statements. Amtel-Vredestein, N.V. does not intend to update these statements to reflect actual results.

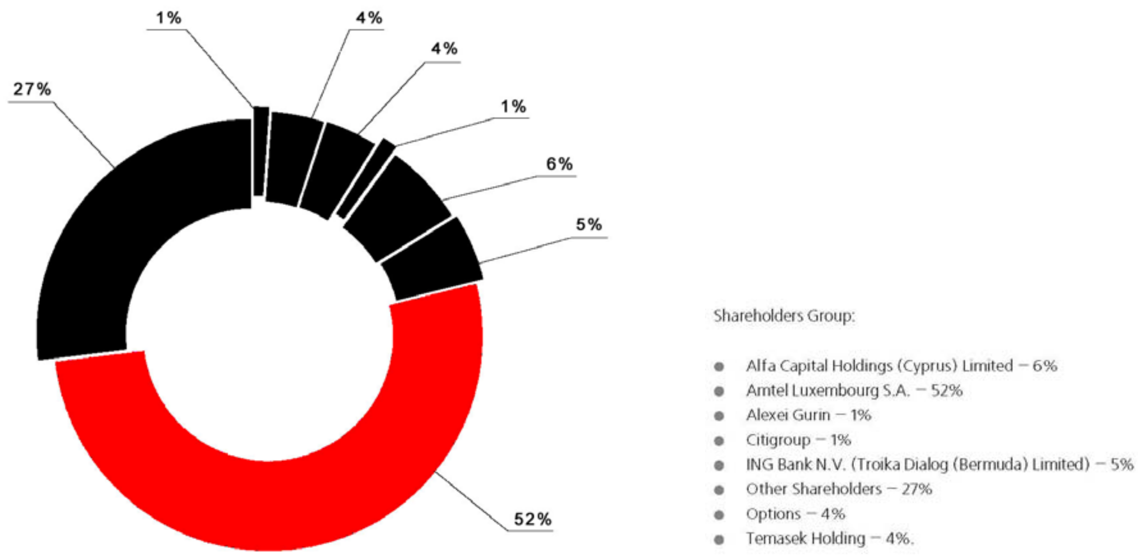
EXECUTIVE BOARD REPORT

DEVELOPMENTS IN 2005

A new beginning

Amtel-Vredestein became an entirely new enterprise in 2005. Following the 100% acquisition of the Dutch tyre manufacturer Vredestein Banden in April, the Company changed its name to Amtel-Vredestein N.V. and began a new chapter in the development of its business. The Vredestein addition transformed a Russian-focussed operation into a pan-European organisation and provides the Company with a considerable market presence in Europe – particularly in the vital German market. The VREDESTEIN and MALOYA brands have been added to the fast-growing Amtel brand to create a portfolio that is now firmly installed in the mid- to premium segments of the tyre market – consistent with the company's strategy of moving away from the highly commoditized, low-priced segment and into higher margin tyre production and sales. We have begun importing Vredestein ultra-high performance tyres into Russia and commenced production of Vredestein tyres at its Kirov facility for export into Europe.

Amtel-Vredestein also entered the capital markets in November 2005 by listing its Global Depository Receipts on the London Stock Exchange. This listing has served to diversify its shareholding, provide a currency for future acquisitions and thrust the Company onto the world stage.



** As of 31 December 2005*

London Stock Exchange listing and Dutch entity brings greater accountability

In addition to greater access to capital, the listing imposes a much higher standard of accountability and transparency to the Company's operations – a standard we have embraced to the benefit of our shareholders. In addition to meeting the requirements of the London Stock Exchange and both UK and Dutch regulatory authorities, Amtel-Vredestein also largely endorses the principles of the code for corporate governance established by the *Tabaksblat Committee* in The Netherlands. Though some provisions are excessively tailored to the Dutch situation, and lack of compliance to certain provisions does not in itself indicate a defective corporate governance structure, the Company will fully subscribe to the 'comply or explain' rules of this code and its detailed response is included as part of this annual report and posted to our website.

Though the Company continues to keep its head office in Moscow, Amtel-Vredestein N.V. is a Dutch entity with its legal seat situated in Amsterdam (to be relocated to Enschede in 2006 upon approval at the Company's Annual General Meeting). As such, the Company subscribes to the required two-tier structure of an Executive Board made up of senior management overseen by a Supervisory Board comprised of shareholders and independent directors. The Company's Annual General Meeting will be held in The Netherlands.

On the road to becoming Russia's top tyre retailer

Amtel-Vredestein initiated its strategy for developing a proprietary retail strategy in 2005 with the purchase of 41 tyre and service centres in Moscow and the Perm region of Russia. The Company also announced its commitment to develop a chain of 100 multi-brand stores by first quarter 2006 and 200 units by fourth quarter 2006 or early 2007. The benefit to the Company of owning its own tyre retail network is twofold. Since the tyre retail market in Russia is fragmented without any major player, consolidation of the best locations under common branding in and of itself will deliver significant value to shareholders. Most important, a network of company-owned retail outlets will assure growth of Amtel-Vredestein's brands in Russia.

Expanding in Voronezh

The Company advanced its construction of a new production line at **Amtel-Chernozemye**, its Voronezh tyre complex, in 2005. Begun in 2004, **Voronezh-II** will have an expected annual capacity of 2.5 million radial passenger car tyres from 13 to 18 inches in diameter under the VREDESTEIN and MALOYA brands for Russia and export to the European market. Designed using the same principals as the Company's Enschede plant and built under the supervision of its Dutch engineers, **Voronezh-II** will be equipped with new machines, including nine tyre assembly machines, 36 hydraulic presses for vulcanization as well as mixing machines. **Voronezh-II** is expected to be completed in 2007.

Increase in raw materials prices puts pressure on earnings

Raw materials costs continued to rise significantly in 2005 – a trend that began in 2002. During this 3+ year period oil prices have nearly tripled and natural rubber prices have increased by nearly 400% - driven by lower production at rubber plantations in SE Asia and higher demand from China. And we expect to see continued upward pressure on natural rubber prices in 2006. The high price of oil has also pushed up the price of synthetic rubber making it a less viable substitute to natural rubber in the production of tyres.

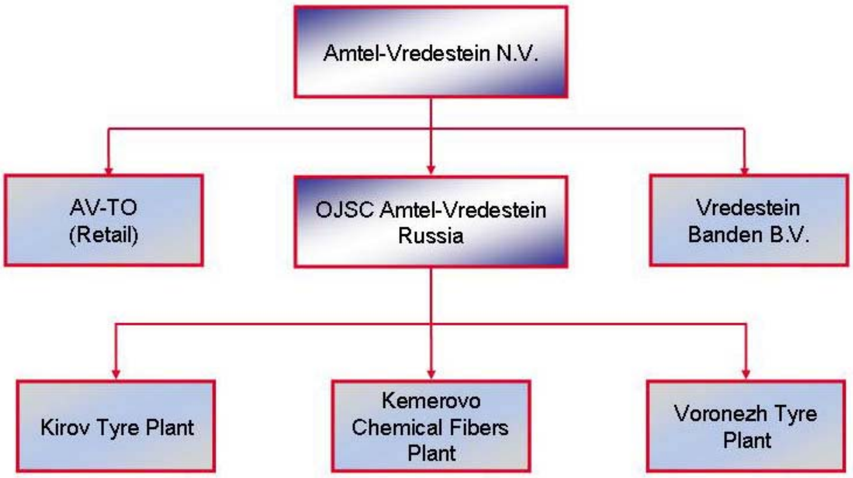
Most tyre manufacturers, including Amtel-Vredestein, were able to offset some of this cost rise through price increases. Also, Amtel-Vredestein's shift in its product mix to higher quality/higher margin tyres also acted as a natural hedge to these cost hikes in 2005.

Outsourcing supplements production output

The Company intends to outsource more of its production of non-passenger car tyres, including truck, bus, agricultural and bicycle tyres to manufacturers in Southeast Asia and China using off-take arrangements. The Company intends to limit in-house production to technologically complex tyres and has discontinued production of truck and bicycle tyres at its Voronezh facility.

Disposals and cost-cutting pave the way for future earnings growth

The disposal of loss-producing facilities in Krasnoyarsk and Volgograd were necessary to eliminate obstacles to earnings growth. The Soviet-era **Amtel-Sibir** tyre production complex in Krasnoyarsk no longer fit the Company's strategy of migrating from production of lower priced to higher margin passenger car tyres. And once it was determined that the modernization of the plant to higher quality production would have been too costly – well beyond an acceptable internal rate of return on investment – the decision was made to divest itself of the facility. The Company also disposed of its unprofitable carbon black facility, **Amtel-Carbon** in Volgograd. The Company has continued operations at **Amtel-Kuzbass**, its chemical plant in Kemerovo. However, it has announced plans to sell this facility in the near future.



The Company also retired its lower margin truck and agricultural tyre production in Voronezh during 2005. In addition to it being consistent with the Company's strategy for focussing its manufacturing capability on high quality passenger car tyres and outsourcing lower margin production, this move also proved to be a defensive measure against the rapid rise of raw materials – which make up a much larger percentage of cost of goods sold in truck and agricultural tyre production.

PASSENGER CAR AND LIGHT TRUCK TYRES

Strong demand in Europe; Vredestein launches in Russia

Strong demand for our passenger car tyres continued throughout 2005. Growth was limited only by production capacity, which created an unprecedented number of backorders in Europe for Vredestein tyres. Investments were made at our Enschede facility to increase production, notably in the highest margin segments of high performance summer and winter tyres.

In summer 2005, the Company began exporting high-performance Vredestein Tyres to Russia. At the end of 2005, it commenced testing and production of two sizes of Vredestein tyres at its Kirov facilities for export to Europe.

The Amtel brand performed extraordinarily well in 2005, with new models supported by an extensive advertising campaign.

Vredestein well on track

Vredestein's longstanding collaboration with Giugiaro Design is paying dividends to its operation thanks to the growing recognition of its ultra-high performance designer tyre concepts in new segments and markets – including Russia. As a result of a better product mix, average prices for Vredestein tyres have risen.

The increase in sales of high performance summer and winter tyres was according to plan. Sales for V- and W- rated (up to 270 kmh) WINTRAC XTREME winter tyres introduced in 2004 have been received positively, and sales were buoyant in 2005 – particularly in Germany. And Vredestein's all season QUATRAC 2 tyre continued to be successful throughout the year.

A strong niche category for Vredestein, where it faces little competition, is the manufacture of tyres for classic cars. Our **Classic Tyre** range, which offers period aesthetics manufactured with high-tech construction and compounds, has resulted in high market share for the Company. We introduced a number of new **Classic Tyre** sizes in 2005.

The most important introduction in 2005 was the WINTRAC 4 XTREME, a winter tyre range for luxury SUV's. Demand significantly outstripped production capacity in fourth quarter 2005; and we have invested in a new tyre building machine to be installed in mid-2006. The influential British car magazine, *Auto Express* published a comprehensive test declaring Vredestein the number one tyre for the fourth consecutive year. This sparked sales increases – mainly in the high performance segment – and ensured that we exceeded all our financial targets.

We experienced a particularly strong winter season thanks to an early snowfall in our key alpine markets and from a new German country-wide imperative to fit winter tyres during the winter season or risk nullification of insurance in the event of an accident. Overall, sales of winter tyres were robust, even in markets where sale of winter tyres are not generally significant.

We launched Vredestein tyres into the Russian market at the end of August 2005 with significant marketing support at trade fairs and via an aggressive advertising campaign. Research conducted at the end of November 2005 suggests that our advertising campaign led to a 33% level of aided brand awareness among our target audience in Moscow. By the end of 2005 we sold a modest, but encouraging number of Vredestein tyres – including ULTRAC, WINTRAC XTREME, WINTRAC 4 XTREME and SNOWTRAC 2 – into the largest retail outlets in Moscow and St. Petersburg. We will continue to expand our Vredestein brand proposition in Russia. In early 2006 we additionally launched SPORTRAC 2 and HI-TRAC Vredestein tyres and have extended the range of sizes available.

We opened a new sales office in Hungary in 2005 by acquiring our distributor and will use this office as a platform for further expansion in Central Europe.

While our strategy for Vredestein sales in Europe is focused primarily on the replacement tyre market, we continue to enjoy success in the original equipment (OE) market with SPACE MASTER – our innovative, compressible, space-saving spare tyre concept, which can be inflated by a compressor to replace a flat tyre. We supply SPACE MASTER to sports car and SUV's manufacturers like Porsche, Volkswagen, Audi, Mercedes, etc.

The development of our "run-flat" tyre is ready to be launched into production when and if the Company determines that the market for run-flat tyres is commercially viable.

MALOYA's growth limited only by production capacity

In 1993, Vredestein acquired the MALOYA tyre brand, originally produced in Switzerland. Today, MALOYA tyres are produced in The Netherlands to the same exacting standards as all Vredestein tyres. The MALOYA brand includes summer and winter passenger car tyres, and all-season light truck tyres which have traditionally been sold in small quantities due to limited production capacity. However, in 2005, we successfully began production of several sizes of MALOYA tyres at our Kirov facility. With expanded production of MALOYA in Kirov, and next year at our Voronezh factory, plans are under way to increase MALOYA's size range and distribution.

Explosive growth for AMTEL brand

We significantly grew our mid-segment volume market share in Russia and increased export sales to European and CIS countries.

Several new models of Amtel tyres were launched in 2005, including AMTEL PLANET T-301 and AMTEL PLANET FT-501 summer tyres, and AMTEL NORDMASTER ST-310 winter tyres.

Our extensive marketing campaign for Amtel (including television, outdoor, press, trade and consumer promotion) resulted in aided brand awareness growth in Russia of 61% in Oct-Nov 2005 and 75% in Moscow during the same period. (Source: GFK) In 2005, the Amtel brand won first prize in the annual brand awards "Effie 2005" in the automotive category for the most effective brand promotion.

In 2005 we delivered tyres to the OE market – including an exclusive arrangement with *Kia Spectra (Izh Auto)* and *Lada Kalina (AvtoVAZ)*.

Our wholesale price growth for Amtel branded tyres in 2005 was significant – an indicator of our brand success and the demand for our tyres. Prices increased 12% for our summer range and 6.5% for our winter range.

Low margin, "C" Segment sales decline as expected

Consistent with our expectations, the "C" segment continued to contract in Russia as consumer demand for higher quality tyres has increased. As Amtel-Vredestein realises its strategy for growing market share in the "B" segment, it has reduced its production and distribution of "C" segment tyres – including the disposal of the Amtel-Sibir tyre plant in Krasnoyarsk. The Company no longer invests in new moulds for unbranded tyres.

Sales of unbranded Passenger Car Tyres decreased by 48% in 2005. C-segment sales as a percentage of overall sales has reduced from 25% in 2004 to 9% in 2005. C segment sales as a percentage of passenger car tyre sales decreased from 69% in 2004 to 18% in 2005 (from 14% to 12% on a pro forma[*] basis).

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[*] continued operations including the consolidation of Amtel-Vredestein N.V.'s companies in Kirov, Voronezh, Kemerovo, Moscow and its Vredestein Banden B.V. subsidiary for the fully years 2005 and 2004, but excluding its retail operations.

Despite this reduction, we entered into original equipment (OE) supply agreements with *Hyundai Accent (TAGAZ)* and new *UAZ* models *(UAZ Patriot, UAZ Hunter)* with low margin C-Segment tyres.

Light Truck segment on the rise

Light Truck tyre sales experienced rapid growth. In Russia, the annual Light Truck fleet has increased by 15%-18% and is estimated at almost 1 million vehicles. Annual vehicle production in Russia is estimated at 140,000 units. The commercial market volume in Russia reached approximately 5.3 million tyres.

The trend toward higher quality tyres persists in this segment as it does in passenger car tyres. The Company addressed this development with the introduction of AMTEL CARGO LIGHT TRUCK tyres (185R14C) for *Hyundai Porter*.

AGRICULTURAL TYRES

TRAXION leads the way for growth in 2005

In the Tractor and Agricultural tyres segment, Vredestein realised strong growth in 2005. With superior sales margins, the segment produced excellent financial results – especially due to the strong growing demand for the multi-functional tractor RADIAL TRAXION+ range. The product mix was further enhanced by the popular implement tyres, FLOTATION + and FLOTATION PRO.

Additional demand in agriculture tyres has positively impacted profitability – which has benefited from an increased economy of scale, as well as production optimisation through automation and modernisation. Professional farmers and contractors continue to demand innovation and place greater emphasis on productivity, reliability and comfort. Modern high tech tractors with large engine power, and agricultural machinery with a high capacity, are necessary for economical farming. As a consequence of these developments, there is higher market demand for tractor and implement tyres. Items like soil compaction, traction-power, rutting, speed and comfort are key differentiators in this increasingly sophisticated segment. Due to our expertise and active product development, in cooperation with the agricultural machine industry, we have expanded our portfolio of tyres to meet demand. A complete new range of RADIAL TRAXION 85 and a number of niche products for specific applications have been introduced with remarkable success.

Also in 2005, TRAXION+ and TRAXION 85 tractor Radial have rated very highly in comparative tests organised by credible industry publications. Vredestein is well known in this market as an agricultural specialist and has built up a respectable reputation. A growing number of leading manufacturers of agricultural machinery are turning to Vredestein as their preferred original equipment tyre supplier. Also our market share in the Agriculture tyre replacement segment shows a very positive trend.

Developments in the agricultural mechanisation of Eastern Europe offer Amtel-Vredestein further significant opportunities for growth in this segment. Though in Russia, low margin sales prompted us to close our production of agricultural tyres at our Voronezh facility.

INDUSTRIAL TYRES

Mixed results

We met our estimated targets on turnover in this segment in 2005 as well as on margin. In the commoditised **Slow-Traffic** and **Speed Tyres** segments we realized a slight decrease in volume sales, while there was positive trending in the **Small-Agro** segment.

We experienced continuous price pressure in the **Slow-Traffic** segment (hand carts, wheelbarrows, etc) caused by increased competition from the Far East. Fortunately, the Company maintains a competitive edge in this category because of our reliable and flexible deliveries of a wide range of high quality products from a central warehouse in Europe.

There is a declining market in Europe for the **Speed Tyres** segment due to a trend toward larger, extra wide tyres for small trailers, luggage trailers, boat trailers, etc. However, this trend may create opportunities to sell passenger car tyres into this market.

Our business in **Small-Agro** continued to grow modestly in 2005 based on our unassailable reputation in the agricultural sector and our narrow focus on tyres for haymaking machinery and soil cultivation equipment.

TRUCK TYRES

Sales in Russia continued to contract

Consistent with the Company's strategy to retreat from low margin tyre production, sales of truck tyres dropped by 34% in unit terms on an historical basis (including Rosava) and by 5% on a pro forma basis.

The Company plans to continue reductions of low margin truck tyres and focus only on a select, higher margin size range.

BICYCLE TYRES

We continue to expand in a competitive segment

Our vision for our line of bicycle tyres has evolved in 2005 to better meet the needs of the sport user and those consumers for whom the bicycle is perceived as an important part of their daily life, either for commuting or recreational purposes.

In line with this vision and our corporate design strategy, as well as to meet the demands of wellness and health-conscious consumers in Western markets, Vredestein launched the innovative new city tyre named PERFECT MOIREE. Vredestein will use this introduction to shed its image as being primarily a tyre producer for the typical Dutch commuter style of bicycle. The new PERFECT MOIREE city tyre is designed for broad appeal to consumers all over Western Europe and the North American market.

Vredestein has also launched a new entry into the mountain bike market in 2005. The line initially focuses on the cross-country segment, with plans to expand to a full range. The innovative mountain bike tyres, named KILLER BEE and TIGER CLAW, have already received the *Red Dot design* award.

To increase awareness of our mountain bike product line and their inherent quality, Vredestein is sponsor of the *Cannondale Vredestein Mountain Bike Team*. This team is a top competitor in the global mountain bike cross-country racing circuit. Vredestein also sponsors the Pro tour cycling team *Davitamon – Lotto*. The cooperation with professional racing teams is building valuable equity for the Vredestein brand in the racing and mountain bike market segments.

With these new and exciting introductions in our bicycle tyre program we plan to fortify our position in the premium priced segments in key markets in Western Europe, North America, Australia and expand further in Asia, Africa and South America.

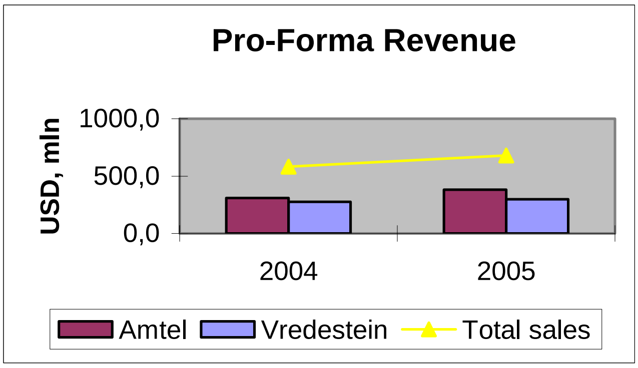
The global market for bicycle tyres has reached a point of maturity and saturation in most segments. Bicycle tyre production capacity exceeds demand producing continuous pressure on pricing and margins. With the notable exception of those bicycle manufacturers who have established a strong position in specific niche markets, the global trend among bicycle manufacturers is to focus on cost down projects. We closed our low margin bicycle tyre production in Voronezh in 2005.

EARNINGS AND FINANCIAL RESULTS

According to IFRS standards, Amtel-Vredestein's 2005 Financial Statements will be presented as consolidated (historical) Continued and Discontinued Operations, while explanation about the developments of the business will also be based on pro forma statements (p.34). These unaudited pro forma statements for the years 2004 and 2005 represent the consolidation of our companies in Kirov, Voronezh, Kemerovo, Moscow and its Vredestein Banden B.V. subsidiary, but excluding retail operations.

Significant Sales Growth driven by shift in product mix

Amtel-Vredestein's Net Sales increased 40% to $671 million in 2005 (16.8% on a pro forma basis). This revenue represents a compound annual growth rate (CAGR) of 22% during the period of 2003-2005.



This growth is primarily attributed to an increase in tyre revenue, which rose 40% in 2005 (17% on a pro forma basis). The most significant increase in the group's revenue resulted from the Vredestein acquisition in April 2005 as well as from aggressive sales and marketing initiatives. The tyre revenue derived from Vredestein Banden B.V. for the period from acquisition until 31 December 2005 is $212 million and represents 37% of total tyre revenue.

Net Sales for the two years ended 31 December, 2005

	Historical				Pro forma			
	2005		2004		2005		2004	
Revenues	**USD, million 671**	**%**	**USD, million 481**	**%**	**USD, million 681**	**%**	**USD, million 583**	**%**
Tyres	565	84%	403	84%	609	89%	522	90%
Non Tyre	97	15%	78	16%	72	11%	61	10%
Retail	9	1%	0	0%	0	0%	0	0%

The Rosava disposal on 31 December, 2004, which accounted for $115 million in 2004, was offset by the Vredestein acquisition, which delivered revenue from higher margin tyres.

In 2005, the Company continued to execute its strategy to exit the so-called “C” segment of unbranded/low price tyres and migrate to production and sales of higher margin, premium “A” and value-for-money “B” segment tyres. This resulted in a greatly enhanced product mix, where 44% of passenger car tyre (PCT) revenues are now in the “A” segment and 38% in the “B” segment – compared to 0% for “A” segment and 31% for “B” segment in 2004.

Tyre Sales by Segment

USD, Million		Historical		Pro Forma		Historical		Pro Forma	
Category	**Segment**	2005	2004	2005	2004	2005	2004	2005	2004
Tyre Revenue		**565**	**403**	**610**	**522**	**84%**	**84%**	**90%**	**90%**
Total PCT		345	174	388	298	52%	36%	57%	51%
Passenger car tyres	*«A»*	*151*	*-*	*205*	*187*	*23%*	*0%*	*30%*	*32%*
Passenger car tyres	*«B»*	*132*	*54*	*137*	*69*	*20%*	*11%*	*20%*	*12%*
Passenger car tyres	*«C»*	*62*	*120*	*46*	*42*	*9%*	*25%*	*7%*	*7%*
Light truck tyres		76	76	81	87	11%	16%	12%	15%
Truck tyres		81	118	73	58	12%	25%	11%	10%
Agricultural/Industrial tyres & tubes		46	22	52	59	7%	5%	8%	10%
Aviacraft tyres		4	4	-	-	1%	1%	0%	0%
Motorcycle tyres		-	1	-	1	0%	0%	0%	0%
Bicycle tyres & tubes		13	8	16	19	2%	2%	2%	3%
Non-tyre revenue		97	78	71	61	14%	16%	10%	10%
Retail		9	0	0	0	1%	0%	0%	0%
TOTAL		**671**	**481**	**681**	**583**	**100%**	**100%**	**100%**	**100%**

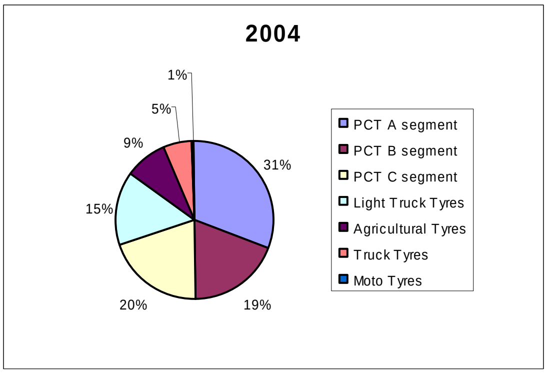
Dramatic Growth in revenue from passenger car tyres

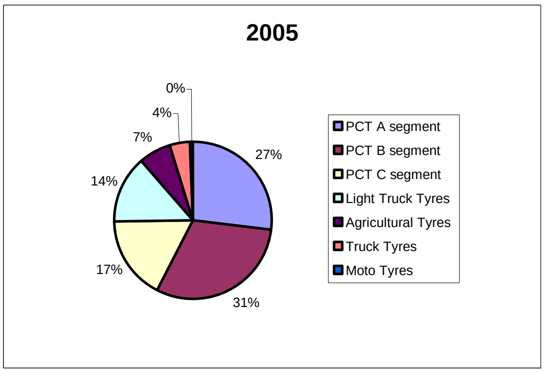
The significant shift towards branded passenger car and light truck tyres has had an extraordinary impact on tyre revenue. Revenue from sales of PCT has grown 98% from $174 million in 2004 to $345 million in 2005 (30% on pro forma basis). PCT sales became the greatest contributor to tyre revenue for the first time in 2005, representing 61% of total tyre revenue versus 43% in 2004 (64% and 57% respectively on pro forma basis). At the same time, the less profitable tyres such as truck, bicycle and other tyres have decreased as a percentage of tyre sales. The shift in product mix, as well as overall price increases across Europe and Russia, and greater demand for larger diameter tyres resulted in growth in the weighted average price per PCT of 102% - from $16.17 in 2004 to $32.60 in 2005.

In unit terms, Amtel-Vredestein sold 10.6 million PCT tyres in 2005 compared with 10.8 million PCT tyres in 2004 – a 2% decrease mainly attributed to the exclusion of the Rosava "C" segment PCT (a 29% increase from 8.8 million to 11.3 million on a pro forma basis).

The table below presents the shift of the product mix in units on a pro forma basis.

Tyres Sold in units by Category/Segment (pro forma basis)



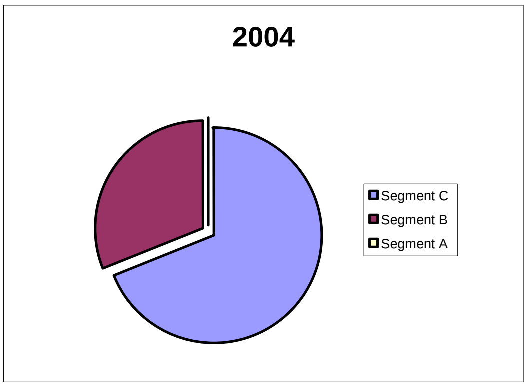


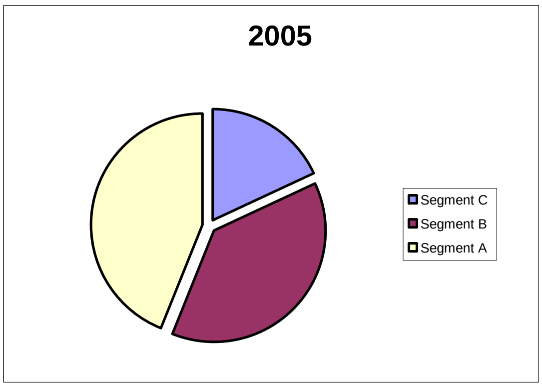
"A" Segment now 44% of PCT sales; "B" segment sales more than double

The addition of Vredestein to the brand portfolio resulted in significant revenue results in the "A" segment. Sales of 2.96 million "A" segment PCT delivered $151 million in revenue in 2005 – representing 44% of total PCT revenue and 23% of total revenue, compared to 0% in 2004 (from $187 million to $205 million; 53% of PCT sales and 30% of total revenue on pro forma basis). According to the Company's estimates, Amtel-Vredestein holds 1.8% of the "A" segment market share in Europe and 0.2% in Russia.

In addition to our success in the "A" segment, "B" segment PCT unit sales have more than doubled in 2005, representing an increase of 144% in value terms from $54 million in 2004 to $132 million in 2005 (from $69 million to $137 million on pro forma basis). Prices across all tyres have grown on average by 9.5% due to market positioning and change in sales mix. Amtel-Vredestein's market share of "B" segment PCT in Russia has grown from to 19% in 2004 to 24% in 2005. As planned, sales of "C" segment PCT decreased by 48% in value terms from $120 million to $62 million. Though "C" segment sales remain significant as a percentage of overall sales, the Company expects sales in this segment to continue to decrease at a rapid pace.

Passenger Car Tyres Sold By Segment





Significant improvement in gross profit margin

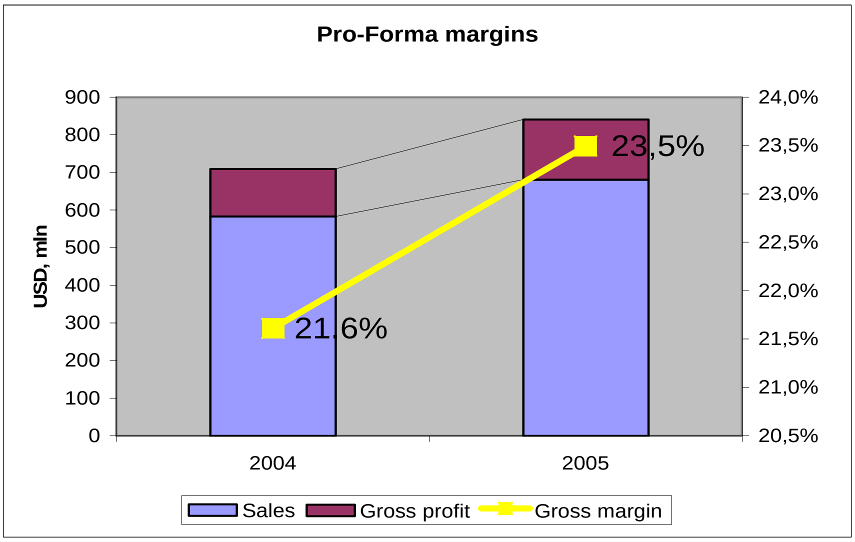
Gross profit increased by 104% from $69 million to $141 million, resulting in gross margin improvement from 14.3% in 2004 up to 21% in 2005 (from 21.6% to 23.5% on a pro forma basis). The gross profit margin improved in 2005 as a result of the following major factors:

- Inclusion of Vredestein Banden B.V, results for the period beginning 25 April 2005, which had better than average Gross Profit margin in 2005
- A further shift in sales mix towards more expensive and higher profit margin tyres

These favourable effects on gross profit margin were partially offset by the following factors:

- Increase in prices of raw materials
- Increase in prices of chemical products
- Increased energy and utilities prices
- Rising labour costs
- Rise in charges for depreciation due to an increase of property, plants and equipment

Margin Development (on pro forma basis)



The Company believes that it has the ability to further increase profitability by negotiating long-term contracts with its major suppliers and by diversifying its supplier base by standardising its tyre compounds.

Other Operating Income /Expenses

Impairment

According to IFRS requirements, a $15.8 million write off against fixed assets has been taken on our Voronezh production facility as a result of restructuring after the discontinuation of production of truck and bicycle tyres and the reduction of agricultural tyres.

Distribution Expenses

Distribution Expenses, which include selling expenses, increased by $34 million – primarily resulting from the acquisition of Vredestein. Selling expenses include the cost of the Vredestein sales network operating through Vredestein subsidiaries.

Distribution Expenses

	USD, million				as % of total			
	Historical		Pro forma		Historical		Pro forma	
	2005	2004	2005	2004	2005	2004	2005	2004
Amtel	*20*	*16*	*18*	*7*	*40%*	*100%*	*30%*	*16%*
Vredestein	*30*	*-*	*42*	*36*	*60%*	*0%*	*70%*	*84%*
Total Distribution Expenses	*50*	*16*	*60*	*43*	*100%*	*100%*	*100%*	*100%*

Advertising Expenses

In 2005, advertising expenses increased to $12 million or 1.8% of sales. This figure incorporates the addition of Vredestein advertising in Europe, the additional advertising support required for the introduction of Vredestein tyres in Russia, as well as on-going campaigns to build the Amtel brand.

Administrative Expenses

Administrative expenses increased by $16 million or 47% to $50 million (7.5% of revenues) for the year 2005 as compared to $34 million (7% of revenues) for the year 2004.

Administrative Expenses

	USD, million				as % of total			
	Historical		Pro forma		Historical		Pro forma	
	2005	2004	2005	2004	2005	2004	2005	2004
Amtel	*40*	*34*	*33*	*22*	*80%*	*100%*	*69%*	*76%*
Vredestein	*10*	*-*	*15*	*7*	*20%*	*0%*	*31%*	*24%*
Total Administrative Expenses	*50*	*34*	*48*	*29*	*100%*	*100%*	*100%*	*100%*

This increase was mainly attributable to increases in labour costs and the addition of Vredestein's administrative expenses, which amounted to 20% of administrative expenses for the year.

Profit from operations increased over 68% before impairment

Profit from operations on a consolidated basis decreased by 24% in 2005 to $16 million. Without impairment charges profit from operations would have increased by 68% in 2005 – rising from $19 million to $32 million, or 4.8% of revenue (up from 4.0% of revenue in 2004).

Profit from Operations - Consolidated

In USD	**2005**	**2004**
Profit from Operations	16	21
Impairment	16	-2
	32	**19**

On a pro forma basis, profit from operations decreased $22 million to $32 million due to higher distribution and administrative costs. Without impairment charges profit from operations would have decreased from $53 million to $48 million, or 7% of revenue (down from 9% of revenue in 2004)

Profit from Operations – Pro Forma

In USD	2005	2004
Profit from Operations	32	54
Impairment	16	-1
	48	**53**

Restructuring Costs

The Company incurred restructuring costs in 2005 from employee reductions at its Russian facilities by 4114, primarily as a result of discontinued operations at Krasnoyarsk and Volgograd, but also at its factories in Kirov, Voronezh and Kemerovo. Restructuring costs were $6 million, including redundancy costs.

Employee Reductions from 1 January to 31 December 2005

	Moscow Office	Regional Trade Houses	Voronezh	Kirov	Krasnoyarsk	Kemerovo	Volgograd	Vredestein	TOTAL
Employees as of 01 Jan 2005	281	208	5.116	4.821	3.267	2.808	758	1.055	18.314
Employees as of 01 July 2005	300	173	5.094	4.976	3.033	2.721	763	1.049	18.109
Employees as of 01 Oct 2005	265	2	3.465	4.757	2.334	2.738	742	1.044	15.347
Employees as of 31 Dec 2005	286	2	2.802	4.150	-	2.628	-	1.032	10.900

Financing costs increase to support acquisition and expansions

Financing costs increased from $22 million to $48 million. The main reason for this growth was the significant increase of loans and borrowings in the first half of the year, primarily due to the acquisition of Vredestein. Debt was significantly reduced at the end of 2005 using proceeds from the Company's IPO in November.

The average cost of debt (average weighted interest rate) decreased from 13.2% to approximately 8.5% as a result of significant restructuring of the loan portfolio executed within the year. This restructuring included the repayment of expensive rouble bonds, which matured in December 2005; reduction of the coupon rate of existing rouble bonds (from 12 to 8%); refinancing of expensive loans from Russian banks with CLN proceeds and loans granted by foreign banks.

Deferred tax liabilities decreased

A decrease of deferred tax liabilities due to recognised impairment and the establishment of a tax unity in The Netherlands resulted in a $9 million tax income.

Loss on discontinued operations from disposals

The Company recorded a book loss of $55.4 million in 2005 as a result of several disposals of loss-producing assets – of which $50.8 million is due to the divestiture of its Krasnoyarsk tyre facility and $4.6 million from the sale of its Volgograd carbon black factory.

Net Result is negative due to extraordinary write-offs

Net Result amounts to a loss of $81 million as a result of write-offs of $86 million and other adjustments.

Assets doubled as a result of acquisitions

Total assets of the Company doubled to $1.1 billion in 2005 versus $532 million in 2004. This result, and the corresponding increase in goodwill, was largely due to the acquisition of Vredestein Banden B.V. in April 2005, and of two retail chains (November 2005). Investments in property, plant and equipment were $60 million in 2005.

Operating cash flow was negative $39 million at the end of 2005, mainly due to an increase in trade and other receivables. A change in the distribution policy at the company's Russian subsidiary improved the company's cash flow position through an extension of payment terms. However, this improvement was offset by seasonal sales factors, which had a negative impact on accounts receivable. Higher sales (winter tyres in Europe, summer tyres in Russia) in the last part of the year resulted in increases in total working capital, while inventories decreased slightly. Trade payables decreased because of better conditions from suppliers, offset by shorter payment terms.

Shareholders equity and minority interest

Shareholders equity increased through private placements ($75 million) during the first half of 2005 and via the company's Initial Public Offering ($139 million) on the London Stock Exchange in November, offset by negative retained earnings resulting from write-offs ($86 million).

Liabilities

Long-term liabilities increased because of the pension liability program at the company's Vredestein subsidiary. Vredestein employees participate in a pension plan, based on defined benefits. Total liability for the year ending 2005 was $35 million.

The Company's deferred tax liability increased to $48 million in 2005, due primarily to the acquisition of Vredestein Banden and the disposal of facilities at Krasnoyarsk and Volgograd.

Net debt increases with acquisition and expansion

The net debt position (calculated as loans and borrowings including leasing, less cash and cash equivalents) increased by 107% from $201 million to $417 million in 2005 (including $29 million in equipment leases) mostly due to the significant investments made within the year.

The acquisition of Vredestein Banden was financed by the Dutch syndicate ING/ABN Amro and a Netherlands subsidiary of Russia's Alfa-Bank – Amsterdam Trade Bank N.V. ABN Amro Bank and ING Bank granted the Group a loan of EUR 138,453,000. The facility was granted without recourse to Amtel-Vredestein N.V. An Amsterdam Trade Bank N.V. loan in the amount of EUR 110 million acted as bridge financing and was repaid in full by credit linked notes ("CLN") issue in June 2005.

In order to reduce the significant debt burden, the Company raised an additional $75 million from private placements during the first half of 2005 and $139 million from an Initial Public Offering on the London Stock Exchange in November 2005. The proceeds from the private placements and IPO were used as repayment of interest-bearing debt and retail acquisitions.

Outlook For 2006

Amtel-Vredestein has a positive outlook and expects to achieve sales growth in 2006 – particularly in its key branded passenger car segment. The company began an aggressive cost-cutting program in 2005 that it plans to continue to implement over the next several years – primarily by reducing headcounts at its manufacturing facilities and by lowering administrative costs. The Company also plans to reduce costs through the disposal of its Kemerovo chemical fiber plant. As the company streamlines its business it will likely incur additional, but manageable, restructuring charges in order to realize the long-term benefits of a leaner organisation.

The Company plans to expand its retail network in 2006 through additional acquisitions and construction of new tyre retail stores. The company has also announced its plans for the expansion of its Voronezh facility in 2006 and 2007. It has already organised additional debt instruments to finance these acquisitions and expansions.

The Company has intensified its commitment to Research & Development for 2006. Several new product launches in association with Giugiaro Design are planned, including a new High Performance Summer tire. Preparations are underway for more SNOWTRAC and T-TRAC specifications at our Kirov facility, as well a project for standardisation of material specifications.

Management has committed to growing sales and margins through further investments in its brands, improvements in its product mix, new product introductions, greater capacity utilisation, price increases and via its rapidly expanding retail network.

FINANCIAL INSTRUMENTS

Financial Risk Management

Amtel-Vredestein's activities expose it to a variety of financial risks, market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow risk. Vredestein Banden B.V. overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on Vredestein Banden's financial performance.

Market risk

- *Foreign exchange risk*: The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primary with respect to USD, GPB, CHF, NOK and SEK on sales, purchases and borrowings. Vredestein uses forward contracts and currency options to decrease this risk. Its risk management policy requires at least 50 per cent of sales anticipated for a period of 6 - 12 months in advanced to be hedged. As of 31 December 2005 foreign exchange contracts were measured at EUR 20,000 – a negligible sum.

- *Fair value interest rate risk*: Vredestein 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 unrealised profit or loss because derivative financial instruments are not held for sale.

Credit risk

The Company has no significant credit risks. Its policies prevent sales to any customer with a substandard credit history. The Company has also installed a strong credit management team, which is responsible for overdue receivables. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

Liquidity risk

The Company minimizes liquidity risk with aid of an accurate liquidity forecast. This ensures its treasury department maintains sufficient cash available for future commitments associated with its various financial instruments.

Cash flow interest rate risk

In Russia, Amtel-Vredestein primarily uses fixed-rate debt financing. The variable rate debt is linked to EURIBOR or LIBOR. There is no limiting policy to define the proportion between fixed and variable rate debt.

Bond issues provide a buy-back offer with a rate settlement option. The fluctuations of market interest rates may have a significant impact on cost to the Company for these bonds. These fluctuations taken together with a significant portion of the debt denominated in foreign currencies imply 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 variability in interest payments due to changes in the interest rates. Management has established a policy for limiting its exposure to variability in interest rates to 60 per cent 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 a counter party and receives variable interest payments in return. The interest cap limits the Company's overall exposure to increases in long-term interest rates.

RISKS AND RISK MANAGEMENT

Amtel-Vredestein has no integrated risk management system in place. However, the Company is now capable of developing such a system based on the European experience it has gained via its acquisition of Vredestein, where early warning of potential risks are provided; and where recording, evaluation and reporting of risks are part of its business process.

Risks from acquisitions

As part of its strategy, Amtel-Vredestein has completed several acquisitions, including the Vredestein Banden B.V. acquisition, and it anticipates making further acquisitions in the future. Acquisitions may fail due to a variety of factors such as ineffective integration of operations. **The Company may be unsuccessful in addressing these and other obstacles, which could have a material impact on its business, financial condition and results of operations.**

Strategic risks

Amtel-Vredestein's strategy of prioritising the A- and B- 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. At the same time, the Company plans to decrease its sales of low-margin C-segment tyres.

The Company's strategy of decreasing sales of low-margin C-segment tyres, which have historically provided a significant portion of its revenues, may prove unsuccessful. Though highly unlikely, the demand for C-segment tyres may stay level or increase depending upon consumer trends and macro-economic factors. Conversely, the market for C-segment tyres in Russia could decline more rapidly than the Company anticipates, resulting in impairment of assets that the Company uses to produce C-segment tyres. Any of these scenarios 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 consolidating and re-branding these chains into a cohesive network could take longer than anticipated. Sales and margins achieved at these stores could fall short of the Company's expectations and produce losses. The strategy of using these centres to develop and increase sales of the Company's tyre brands could prove unsuccessful. Any of these scenarios could materially adversely affect Amtel-Vredestein's business, financial condition or operating results.

OE market risks

The Company relies on a small number of customers in the original equipment ("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 ("RE") market. OE sales tend to affect the domestic RE market because consumers often replace OE tyres with tyres of the same brand. 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 RE market. In addition, the Company believes that collaboration with original equipment manufacturers (''OEM'') to develop new tyre models helps it maintain a technological edge relative to competitors that do not have OEM contracts. **Accordingly, loss of a major OEM customer could negatively impact RE and other OE sales, thus having a material adverse effect on the Amtel-Vredestein's business, financial condition or operating results.**

Debt risk

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

The Company is subject to certain financial and other restrictive covenants under the terms of its credit linked notes (‘‘CLN’’) issued in 2005. The CLNs benefit from guarantees from three of the Company’s major Russian subsidiaries: OJSC Tyre Enterprise Amtel-Povolzhye (‘‘Amtel-Povolzhye), its largest manufacturing unit, OJSC Amtel-Vredestein, its main Russian holding and trading company and LLC Amtelshinprom (‘‘Amtelshinprom), a trading entity that consolidates part of the Group’s cash flows. 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 CLNs and Syndicated Loans the Company is subject to certain restrictions limiting its ability to expand its business.**

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, are sensitive to oil prices, and any increase in world oil prices could inflate the prices for such products.

Due to the nature 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.**

Product liability risks

Amtel-Vredestein could be subject to product liability claims and product recalls that may adversely affect its results of operations. 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.

Controlling shareholder risks

Amtel-Vredestein's indirect controlling shareholder exerts significant influence over it, and his interests may conflict with those of other shareholders and GDR holders. Mr. Sudhir Gupta, who is chairman of the Company's Supervisory Board, controls Amtel-Vredestein N.V. directly and indirectly. Consequently, Mr. Gupta can exert significant influence over certain actions requiring shareholder approval, including, among other actions, the appointment, suspension and dismissal of members of the Executive Board and the Supervisory Board, the declaration of dividends and certain material management decisions such as the transfer of a material part of the activities, the entering into or termination of a material joint venture or material acquisition or disposition by the Company or one of its subsidiaries.

The Company's Articles provide that a simple majority can adopt resolutions at a shareholders' meeting, except in those cases in which Dutch law or the Articles require a greater majority. Accordingly, the Company's controlling shareholder will have the power to determine the outcome of most matters decided by a vote at a shareholders' meeting and, as long as he holds a majority of the Company's ordinary shares, will determine the appointment and removal of directors.

The interests of Mr. Gupta could conflict with the interests of the Company's other shareholders and the holders of the GDRs, and Mr. Gupta may make decisions or undertake transactions with the Company that materially adversely affect an investment in the GDRs.

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 owned real estate, inventory, equipment and vehicles. However, such insurance policies might be insufficient to cover in 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 & 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 in 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.

GDR and trading market risks

The Deposit Agreement for the GDRs 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, applicable Dutch law and the Company's articles both require the Company to notify shareholders at least fifteen 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 its Depository. In turn, the Depositary has undertaken, if the Company so requests in writing and at the Company's expense, to mail, as soon as practicable thereafter, copies of voting materials (if and as received by the Depositary from the Company) to each GDR holder, 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 Depositary as to how to vote the Shares represented by the GDRs that they hold.
Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Shares. GDR holders may not receive voting materials in time to enable them to return timely voting instructions to the Depositary. GDRs for which the Depositary does not receive timely voting instructions will not be voted.

Additionally, GDR holders will be unable to instruct the Depositary 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
- Nominate candidates for the Company's Supervisory 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. Moreover, the Company might issue preferred shares with rights, preferences or privileges senior to those of the Shares.

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 & regulations and financial reporting. Therefore, management has assessed the effectiveness of Amtel-Vredestein's internal controls as of December 31, 2005. Management has documented its assessment as criteria set forth in the Dutch Code of Corporate Governance under section II.1.4 on page 100.

Amsterdam, 30 May 2006

The Executive Board

Alexey Gurin (Chairman)	Rob Oudshoorn
Sergey Bokhanov*	Ton Tholens

SUPERVISORY BOARD REPORT

Introduction

2005 was a critical year for the growth and development of Amtel-Vredestein N.V. ("the Company") in which it continued to develop and implement its strategy for its transition into a pan-European tyre Company. The year was full of ambitious goals from the acquisition of Vredestein Banden B.V. and to the Company's listing on the London Stock Exchange, all of which were realised in a very short timeframe through the dedication and hard-work of its Executive Board and top managers and support of its shareholders.

The Supervisory Board was involved in matters of importance to the Company in line with the Company's Articles of Association, Dutch law and the Dutch Corporate Governance Code (the "Code"). During the course of the year in anticipation of its public listing, the Supervisory Board began the process of developing, approving and implementing various best practice provisions of the Code. As the Code only applied to the Company from its listing, this process is still on-going and will take some time to fully implement.

Role of Supervisory Board

The role of the Supervisory Board is to supervise the policies and business activities of the Executive Board and to provide advice in the best interests of the Company and its stakeholders. The Supervisory Board is responsible for the quality of its own performance.

Sudhir Gupta and Maxim Ignatiev are Chairman and Vice-chairman respectively.

Corporate Governance

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* The appointment of Mr. Bokhanov as a member of the Executive Board is subject to approval by the Annual Meeting of Shareholders.

The Executive Board, supported by the Supervisory Board, is focused on implementing provisions of the *Tabaksblat Code* so as to provide shareholders with transparent and reliable management. For this reason, the Executive Board and Supervisory Board will submit information regarding the corporate governance structure of the Company to the 2006 annual General Meeting of Shareholders for discussion and to ask the shareholders' approval of any deviations from the *Tabaksblat Code* and amendments to the Company's Articles of Association necessary for implementation of certain provisions of the *Tabaksblat Code*.

We have included a section on corporate governance in this year's Annual Report to inform our shareholders on the status of and future developments with respect to implementation of the *Tabaksblat Code*.

All by-laws and regulations for the Executive Board, Supervisory Board and various Supervisory Board committees will be posted on the Company's website as contemplated by the *Tabaksblat Code*. The Executive Board also adopted regulations in regard to the prevention of insider trading in Company securities following the introduction of the Market Abuse Act in the Netherlands on 1 October 2005.

The Supervisory Board used its meeting in May 2006 to evaluate its own functioning, the result of which was recommendations on how the board might improve the functioning of the board.

Composition of the Supervisory Board

The Supervisory Board of the Company may consist of up to 10 members, but in no case less than 3 members, as contemplated by the Company's Articles. Supervisory Board members are appointed by the General Meeting of Shareholders on proposal of the Supervisory Board.

The current members of the Supervisory Board are as follows:

MR. SUDHIR GUPTA
Chairman
Age: 48
Nationality: Singapore
Appointed: 2005

Chairman Amtel-Vredestein N.V.; Doctorate (Ph.D.) in agricultural chemistry from the People's Friendship University named after Patrice Lumumba; Master of Science (M.S.) in chemical engineering from the People's Friendship University named after Patrice Lumumba; Bachelor of Science (B.S.) in chemistry, mathematics and biology from the J. Nehru College, India.

MR. TARIK CHAUDRI
Member Audit Committee
Age: 47
Nationality: Russian Federation
Appointed: 2005

President of Sabina Pak Limited; member of the Board of Directors of Directors of Taco Metalsasia Limited, S.I.T. Limited, SPL U.K. Limited and SASCO GmbH.

MR. DOMINIC P. GUALTIERI
Chairman Audit Committee
Age: 40
Nationality: Canada
Appointed: 2005

Managing Director and Head of Equities at Alfa Bank; member of the Board of Directors of the Russian Trading System ("RTS"). Masters Degree in Economics from University of Toronto.

MR. DANIEL GUPTA
Chairman Remuneration and Appointment Committee
Age: 24
Nationality: Russian Federation
Appointed: 2005

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

MR. MAXIM IGNATIEV
Vice Chairman
Member Remuneration and Appointment Committee
Age: 44
Nationality: Russian Federation
Appointed: 2005

Chairman of the Board of Reebok Russia; a degree in Mathematics and Computing from the People's Friendship University named after Patrice Lumumba with.

MR. DAVID WACK
Age: 37
Nationality: USA
Appointed: 2005

Partner at Squire, Sanders & Dempsey L.L.P. Law degree (J.D.) from the Georgetown University Law Center; B.A. in International Studies, summa cum laude, from Miami University.

As of the annual General Shareholders Meeting 2006, the Supervisory Board consisted of six members as four members resigned – Mark Mobius, due to the exit of Franklin Templeton from the Company; Ruben Vardanian, due to his commitments on the boards of other public companies and the demands of his own business; Boris Bakal, a representative of Citicorp International Finance Corporation and Gregory Van Beek, a representative of Temasek, both due to the relative small holdings in the Company by their funds and their other commitments. Prior to the annual General Shareholders Meeting 2006, Mr. Wack has also elected to step down from the Supervisory Board as of 31 May 2006. The Supervisory Board thanks these members for their service during 2005.

At present, only two of the Company's six Supervisory Board members are independent within the meaning of the Code. Prior to the annual General Shareholders Meeting 2006, the Board has nominated three independent members of the Supervisory Board within the meaning of the Code and reduced the size of the Supervisory Board to five members. In addition, amendments to the Company's Articles of Association have also been proposed to impose term limits of four years and a maximum of three terms on Supervisory Board members consistent with the Code.

Composition of the Executive Board

During the course of 2005, three members of the Executive Board – Messrs. Oudshoorn, Tholens and Nekrassov, were appointed in addition to the Company's CEO, Alexey Gurin. Mr. Nekrassov resigned his position in February 2006 and the Supervisory Board has proposed to the shareholders to replace him with Mr. Bokhanov, who is currently Chief Operational Officer of the Company's Russian operations.

With a view to compliance with the Code, the Executive Board members voluntarily agreed with the Supervisory Board to accept term limits of four years. It has been proposed to the annual General Shareholders Meeting 2006 to re-appoint the three existing members of the Executive

Board and appoint one new member for a period of four years. In addition, amendments to the Company's Articles of Association have also been proposed to impose term limits of four years on Executive Board members consistent with the Code. According to the Code, Executive Board members can be re-appointed for an unlimited number of terms.

The Supervisory Board evaluated the functioning of the individual members of the Executive Board as well as its functioning as a team. The outcome was discussed with the members individually.

Meetings of the Supervisory Board

We met as a Supervisory Board three times in 2005. Other than our meeting on December 13, 2005, all meetings were fully attended by all members. In addition, over the course of the year, a number of Supervisory Board matters were decided outside of a formal meeting and reflected in unanimous written consent resolutions. These were in connection with the acquisition of Vredestein Banden B.V., the share offerings to Alfa and Aranda and the IPO. Members were provided information on these transactions and the opportunity to raise any issues and comments that they had.

Business Review

Last year presented a challenging year of development and growth for the Company. During the course of the year, the Company:

- Acquired the Dutch tyre manufacturer, Vredestein Banden B.V., in a fully leveraged acquisition, one of the first acquisitions by a Russian-based manufacturer of a European manufacturer, which allowed the Company to considerably increase its revenues and tap into the brand, technology and know-how of its Dutch counterparts;

- Raised USD 70 million through a private stock placement to Alfa and Aranda, which was the first investment by the Singaporean fund in a Russian business;

- Raised USD 175 million through a private offering of credit-linked notes;

- Completed its public offering of shares on the London Stock Exchange;

- Articulated its strategy for moving the Company away from the highly commoditized "C" segment tyres to focus on the "B" and "A" segments – led by the flagship Vredestein brand it inherited when it acquired Vredestein Banden in April of last year;

- Commenced an aggressive strategy of building a national chain of tyre service centres, starting with the acquisition of several retail chains in Russia;

- Began selling Vredestein tyres in Russia;

- Initiated an orderly headcount reduction and other cost-cutting measures;

- Disposed of the Amtel-Sibir tyre plant in Krasnoyarsk and its carbon black facility Amtel-Carbon in Volgograd to shed Soviet-era, loss-producing assets in order to build a foundation for future revenue growth.

The Chairman and the CEO kept in frequent contact throughout the year, allowing the Supervisory Board to monitor business operations and financial developments.

Committees

We have established two committees during the year under review – an audit committee and a remuneration and appointment committee.

Audit Committee

The audit committee currently consists of Tarik Chaudri and Dominic Gualtieri. Gregory Van Beek had been appointed to the committee in 2005, but has since resigned from the Board.

The committee, which was formed after the completion of the 2004 audit, did not meet until 2006. At its first meeting in 2006, it met with the CFO and our external auditor – KPMG to discuss the time line for the 2005 year-end financial reporting as well as the requirements of the *Tabaksblat Code*.

Remuneration and Appointment Committee

The remuneration and appointment committee was formed in 2005 and consists of Daniel Gupta and Maxim Ignatiev. The committee had at least two informal meetings over the course of 2005 to make recommendations on compensation adjustments for our CEO and two other members of the Executive Board.

The remuneration and appointments committee has no authority to take decision regarding remuneration but only to make proposals and recommendations for the Supervisory Board regarding the remuneration policy and the remuneration of individual Executive Board members, which has to be determined by the Supervisory Board. The current policy was adopted by the General Shareholders Meeting in October 2005.

The policy contains schemes for remuneration in stock and stock options. Awards for 2006 are within the policy and are set out in the remuneration report.

Remuneration Report of the Executive Board

Full details of the remuneration of Executive Board members for the financial year that ended 31 December 2005 are set forth in the Financial Statements 2005. The members of the Supervisory Board received no compensation in 2005.

Financial Statements for 2005

With this Annual Report, we present the 2005 financial statements of Amtel-Vredestein N.V., as drawn up by the Executive Board and audited by KPMG Accountants N.V. You will find the auditors' report on page 94 of this Annual Report.

This Annual Report was extensively discussed with the Executive Board in the presence of the auditors. Those discussions and the input of all those who took part in them have convinced us that the Annual Report forms a solid basis for the Supervisory Board's discharge of its accountability and supervisory function. We recommend that you adopt the 2005 financial statements.

Accordingly, we propose to shareholders to discharge the Executive Board and the Supervisory Board in respect of their management and supervision respectively. We will place these proposals as two separate items on the agenda of the 2006 AGM.

The Supervisory Board would like to express its special appreciation for the considerable efforts made during the past year by the Executive Board and by all employees, and for the encouraging results of their efforts.

Amsterdam, 30 May 2006

The Supervisory Board

Sudhir Gupta (Chairman)	Maxim Ignatiev
Tarik Chaudri	Daniel Gupta
David Wack	Dominic P. Gualtieri

Remuneration report of the Supervisory Board

For details of the remuneration of the Executive Board members for the financial year that ended 31 December 2005, please refer to pages 81 of the Annual Report.

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 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 Committee is to advise the Supervisory Board on the yearly targets for the Executive Board. The remuneration of the Supervisory Board members is decided on by the General Meeting of Shareholders.

The following is an overview of the remuneration policy for 2005 and subsequent years. It takes into account the best practice provisions of the Dutch Corporate Governance Code which the *Tabaksblat Committee (Commissie Tabaksblat)* presented on 9 December 2003 (the "Code"). The Supervisory Board intends to apply the remuneration policy as described hereunder from 2006 onwards. 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.

REMUNERATION POLICY

Remuneration policy statement

It is essential that the executive remuneration program 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 the shareholders.

Employment agreements

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

If the Company initiates the termination of the employment agreement for 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, on the understanding, however, that the severance payment will not under any circumstances exceed the equivalent for:

- Mr. Oudshoorn, one year base salary
- Mr. Tholens, one year base salary

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, but in no case to exceed one year base salary.

- Mr. Gurin has the right to one year base salary upon termination by the Company.
- Mr. Bokhanov[†] has the right to two months base salary upon termination by the Company.

The main elements of the contract of a new Executive Board member shall be made public immediately after conclusion, disclosing base salary, variable remuneration (structure and amount), any redundancy scheme, pension arrangements and performance criteria.

Term of appointment

As of January 1, 2006, new 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. Members of the current Executive Board who were appointed before 1 January 2006 have been appointed for an indefinite term.

[†] The appointment of Mr. Bokhanov as a member of the Executive Board is subject to approval by the Annual Meeting of Shareholders.

Remuneration elements

The Supervisory Board has adopted a transparent remuneration strategy for the Executive Board that is aligned with the Company's business strategy to improve the performance of the Company. The remuneration of the Executive Board members currently comprises the following elements: base salary, annual cash bonus, share options/awards and benefits.

The component of base salary is fixed, whereas the components of bonus are variable. The Company considers variable compensation an important part of the remuneration package of Executive Board members. The bonus targets and performance criteria are substantially based on the cyclical character of the Company and the performance paid key personnel of the Company.

Base salary 2006

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.

Bonus 2006

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 consider 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.

When the 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.

Stock Options

The Company has granted Stock Options to members of the Executive Board and certain senior management to acquire shares of the Company at the IPO price of USD 11.00 per share. Each option vests upon the earlier of:

- The third anniversary of the grant date (October 2005);
- The last date for exercising the option following the termination of the grantee's employment, as set forth in the option agreement; and
- Certain reorganisations, dissolutions or liquidations of the Company.

The options are valid to purchase the following percentage of outstanding shares:

Grantee	Percentage of Shares in the Company
Alexey Gurin	2.5%
Sergey Bokhanov	1.0%
Karen Topchyan	1.0%

Rob Oudshoorn	0.56%
Ton Tholens	0.56%
Kees Hettema	0.44%
Marc Luyten	0.44%
Peter Snel	0.44%
Jelle Kramer	0.28%
Jan Mos	0.28%

In addition, as recognition for their efforts in bringing about the merger of the Company with Vredestein Banden B.V., the Supervisory Board has proposed to make share awards to the following members of the Executive Board and senior management:

Grantee	Number of Shares
Rob Oudshoorn	10,000
Ton Tholens	8,000
Kees Hettema	8,000
Alexander Lantushenko	5,000
Anatoly Volnov	5,000

Allowances and benefits in kind

Members of the Executive Board benefit from allowances and/or benefits in kind. The majority of these allowances and benefits comprise of 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 Supervisory Board decided to propose any adjustments to the Supervisory Board remuneration in 2006 to the General Meeting of Shareholders. In particular, to propose to the General Meeting of Shareholders to compensate members of the Supervisory Board as follows:

(i) members – USD 50,000 for full year of service;

(ii) vice chairman and each committee chair – USD 75,000 for full year of service;

(iii) chairman – USD 100,000 for full year of service.

FINANCIAL STATEMENTS

Amtel-Vredestein N.V.
(formerly, Amtel Holdings Holland N.V.)

Consolidated Financial Statements
for the year ended 31 December 2005

CONSOLIDATED STATEMENTS OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2005

USD million	Note	2005 Attributable to continuing operations	2005 Attributable to discontinued operations	2005 Total	2004 Attributable to continuing operations	2004 Attributable to discontinued operations	2004 Total
Revenue	10	605	66	671	309	172	481
Cost of sales		(426)	(60)	(486)	(232)	(154)	(386)
Gross profit before depreciation		179	6	185	77	18	95
Depreciation charge related to cost of sales		(40)	(4)	(44)	(19)	(7)	(26)
Gross profit		139	2	141	58	11	69
Other operating income		10	-	10	-	6	6
Distribution expenses	12	(48)	(2)	(50)	(7)	(9)	(16)
Administrative expenses	11	(43)	(7)	(50)	(22)	(12)	(34)
Taxes, other than on profit		(4)	-	(4)	(2)	(1)	(3)
Impairment losses and reversal of impairment losses	14	(16)	-	(16)	1	1	2
Other operating expense		(7)	-	(7)	4	(6)	(2)
Loss on disposal of property, plant and equipment		(2)	-	(2)	-	(1)	(1)
Share options expenses		(6)	-	(6)	-	-	-
Profit/loss from operations		23	(7)	16	32	(11)	21
Restructuring costs	15	(5)	(1)	(6)	-	-	-
Earnings before interest and tax		18	(8)	(10)	32	(11)	21
Finance expense	16	(47)	(1)	(48)	(18)	(4)	(22)
Foreign exchange gains/(losses)		5	-	5	-	-	-
Loss from associates		(2)	-	(2)	-	-	-
Loss/profit before tax		(26)	(9)	(35)	14	(15)	(1)
Income tax benefit/(expenses)	17	8	1	9	(1)	1	-
Loss/profit after tax but before loss on discontinued operation		(18)	(8)	(26)	13	(14)	(1)
Loss on sale of discontinued operation, net of tax		-	(55)	(55)	-	-	-
Net loss/profit for the year		(18)	(63)	(81)	13	(14)	(1)
Attributable to:							
Loss attributable to minority holders		-	-	-	-	(6)	(6)
Loss attributable to equity holders of the Parent		(18)	(63)	(81)	13	(8)	5
Basic and diluted loss/earnings per share, USD		(0.4)	-	(1.6)	3.1	-	1.2

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005	2004
		USD million	*USD million*
ASSETS			
Non-current assets			
Property, plant and equipment	18	407	279
Intangible assets	19	236	87
Financial assets	20	6	2
Receivables and other assets		12	6
Deferred tax assets	21	8	2
		669	376
Current assets			
Financial assets		17	3
Inventories	22	110	69
Trade and other receivables	23	217	77
Cash and cash equivalents	24	54	7
		398	156
Total assets		1,067	532
EQUITY AND LIABILITIES			
Total Equity attributable to the equity holders of the parent	25		
Issued capital		1	-
Additional paid in capital		450	222
Foreign currency translation reserve		(4)	-
Retained earnings		5	-
Net result for the period		(81)	5
		371	227
Minority interest		7	10
Total Equity		378	237
Non-current liabilities			
Payables and accruals	26	59	30
Deferred tax liability	21	48	27
Loans and borrowings	27	379	73
		486	130
Current liabilities			
Bank overdraft	27	12	-
Trade and other payables	29	140	64
Loans and borrowings	27	51	101
		203	165
Total liabilities		689	295
Total equity and liabilities		1,067	532

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 32 to 91.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

	2005	2004
	USD million	*USD million*
OPERATING ACTIVITIES		
Loss attributable to equity holders of the Parent	(81)	(1)
Non-cash adjustments:		
Depreciation and amortization expense	46	26
Interest expense	51	24
Interest income	(3)	(3)
Gain/Loss on disposal of subsidiaries	(6)	(2)
Impairment losses/(reversals)	16	(2)
Gain on disposal of property, plant and equipment	2	1
Gain/Loss on sales of discontinued operations	55	-
Pension provision	(2)	-
Income tax benefit	(9)	-
Result on disposal of investments	-	1
Share options	6	-
Excess of the acquirer's share in net assets of the acquiree over cost of investment	(1)	-
Income from write off of pension liability	(9)	-
Foreign exchange gains/(losses)	(5)	-
Share of income/(loss) in joint venture	2	-
Operating profit before changes in working capital and provisions	62	44
Increase in inventories	(8)	(30)
Increase in trade and other receivables	(85)	(26)
Increase in trade and other payables	(22)	34
Cash flows from / (used in) operations before income taxes and interest paid	(53)	22
Income tax paid	14	(10)
Cash flows from / (used in) operating activities	(39)	12
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(60)	(49)
Acquisition of intangible assets	(3)	-
Cash paid for acquisition of Vredestein, net of cash acquired	(255)	-
Proceeds from disposal of investments/ return of loans provided	2	-
Acquisition of investments/loans provided	(19)	-
Acquisition of retail, net of cash acquired	(47)	-
Proceeds from sales of discontinued operations	2	-

	Note	2005 USD million	2004 USD million
Advances for Avto Perm acquisition		(4)	-
Proceeds from sales of Rosava shares		14	-
Acquisition of shares in subsidiaries, net of cash acquired		(2)	(15)
Proceeds from disposal of property, plant and equipment		1	-
Disposal / (acquisition) of investments		-	4
Interest received		-	-
Proceeds from disposal of subsidiaries, net of cash disposed of		5	-
Cash flows used in investing activities		(366)	(60)
FINANCING ACTIVITIES			
Proceeds from issue of preferred shares		-	5
Net of fees and commission payable		139	-
Interest received		3	1
CLN proceeds, net of related fees		172	-
Proceeds from issue of ordinary shares		75	9
Interest paid		(49)	(23)
Proceeds from borrowings		796	349
Repayment of borrowings		(702)	(297)
Withdrawals by controlling shareholder		(2)	(7)
Contribution by controlling shareholder		1	7
Cash flows from financing activities		433	44
Currency translation difference		7	-
Net increase in cash and cash equivalents		28	(4)
Cash and cash equivalents at beginning of year		7	11
Cash and cash equivalents at end of year (note 24)		42	7

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 32 to 91.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2005

USD million	Note	Issued capital	Additional paid in capital	Foreign currency translation reserve	Retained earnings	Result for the period	Total equity attributable to the equity holders to the parent	Minority interest	Total equity
Balance at 31 December 2003 (RUR million)		*1*	*5,883*	*(83)*	*395*	*167*	*6,383*	*1,562*	*7,945*
Balance at 1 January 2004 (in USD million)		-	200	(3)	13	6	216	53	269
Translation result due to change in accounting policy (IFRS)		-	-	3	(13)	(6)	(16)	-	(16)
Balance at 1 January 2004		-	200	-	-	-	200	53	253
Result for the period		-	-	-	-	5	5	(6)	(1)
Step-up acquisition		-	-	-	-	-	-	(9)	(9)
Effect of disposal of shares in subsidiaries		-	-	-	-	-	-	(26)	(26)
Acquisitions of stakes in subsidiaries		-	-	-	-	-	-	(1)	(1)
Shares issued		-	9	-	-	-	9	-	9
Translation result foreign currency		-	12	1	-	-	13	(1)	12
Balance at 31 December 2004		-	221	1	-	5	227	10	237
Appropriation of result for the period		-	-	-	5	(5)	-	-	-
Result for the period		-	-	-	-	(81)	(81)	-	(81)
Effect of acquisition of shares in subsidiaries		-	-	-	-	-	-	(3)	(3)
Issue of shares to existing shareholders		1	(1)	-	-	-	-	-	-
Issue of shares to new shareholders		-	75	-	-	-	75	-	75
IPO Proceeds		-	139	-	-	-	139	-	139
Issue for share options		-	6	-	-	-	6	-	6
Conversion preferred shares into ordinary shares plus accumulated dividends		-	17	-	-	-	17	-	17
Translation result foreign currencies		-	(7)	(5)	-	-	(12)	-	(12)
Total recognised income and expenses for the period		-	-	-	-	(81)	(81)	-	(81)
Balance at 31 December 2005		1	450	(4)	5	(81)	371	7	378

In accordance with Dutch Law (Article 390.3 Book 2 BW) a legal reserve has been recognised for an amount of USD 12 million against retained earnings (see also page 39).

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 32 to 91.

1. Background

(a) Organization

Amtel-Vredestein N.V. (formerly, Amtel Holdings Holland N.V.), further referred as “the Parent Company”, “the Company” was incorporated by Amtel Luxemburg S.A. as a private company with limited liability (Besloten Vennootschap) on 30 July 2002 in accordance with the Civil Law of the Netherlands. In August 2004 the Company was reorganised into a public limited liability company (Naamloze Vennootschap). The Company has been operating under the laws of the Netherlands, with its registered office at Herengracht 469, 1017 BS Amsterdam, the Netherlands.

These consolidated financial statements comprise the Parent Company, its subsidiaries (further referred to as “the Group” or “Amtel Group”), and the Group’s interest in a jointly controlled entity.

(b) Operations

The Group operates in the tyre manufacturing and distribution business. The Group includes a number of tyre production facilities located in Russia and in the Netherlands. The Group’s operations in the Netherlands are the result of the acquisition of Vredestein Banden B.V. in April 2005 - refer note 9(a). The plants produce a wide range of tyres for a variety of vehicles, including passenger cars, trucks, aircraft, agricultural and military vehicles and bicycles. The Group companies also include facilities for the production of chemical fibres, cords and black carbon, which provide raw materials in the production of tyres. The products of the Group are distributed in Russia, the Netherlands and other countries.

(c) Related party transactions

The Group is ultimately controlled by a single individual, Mr. Sudhir Gupta, who has the power to direct the transactions of the Group at his discretion and for his own benefit. He also has a number of other business interests outside of the Group. Consequently there are a number of related party transactions – refer notes 9, 34(b) and 35 – many involving the Group’s interests in subsidiaries.

(d) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of the enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The accompanying consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as well as in accordance with IFRS as endorsed by the EU further to the IAS Regulation (EC 1606/2002). Management has reviewed the standards not endorsed by the EU as at the date of the issue of the financial statements and has concluded that those are not applicable to the Company.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except that financial instruments available for sale are stated at fair value.

(c) Functional and presentation currency

In 2004 the functional currency of the Company was the Russian Rouble (“RUR”). As of 2005, the Company changed the functional currency to Euros (“EUR”). The EUR better reflects the economic substance of the underlying events and circumstances the Parent Company. The functional currency for activity in Russia is the Russian Rouble (“RUR”).

USD is the currency in which the consolidated financial statements are presented. All financial information presented in USD has been rounded to the nearest million.

Result of changes in functional currency was presented in statements of changes in equity.

(d) Use of estimates

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

3. Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. These accounting policies are consistently applied to all periods presented in these consolidated financial statements and in preparing the IFRS opening balance of 1 January 2004 for the purpose of transition to IFRS. The accounting policies have been applied consistently by the Group entities. In preparing its opening IFRS balance sheet as of 1 January 2004, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (Netherlands GAAP). An explanation of how the transition from Netherlands GAAP to IFRS has affected the Group’s financial position, financial performance and cash flows is set out in note 37 of the consolidated financial statements.

According to EU requirements listed companies prepare their consolidated financial statements from the financial year 2005 onwards in accordance with the IFRS standards and interpretations endorsed by EU (EU GAAP).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled enterprises are eliminated to the extent of the Group’s interest in the enterprise. Unrealised gains resulting from transactions with jointly controlled entities are eliminated against the investment in the jointly controlled entity. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iii) Joint Ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The Company reports its interest in a jointly controlled entity by using the equity method.

(b) Basis of preparation financial statements

(c) Business combinations

(i) Acquisitions

Acquisitions of business combinations are accounted for by recognizing the difference between the consideration paid and the fair value of the identifiable assets, liabilities and assumed contingent liabilities acquired at the date of acquisition as goodwill or negative goodwill. Acquisitions from related parties are accounted for in the same way. All business combinations are accounted for applying the purchase method.

(ii) Disposals

The gain or loss on the sale of a subsidiary, representing the difference between the consideration received and the net assets of the subsidiary including attributable goodwill, is recognised in the income statement.

(d) Foreign currencies

Transactions in foreign currencies are translated to the functional currency of each enterprise in the Group at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the EUR at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are translated to the EUR at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the EUR at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the income statement.

The assets and liabilities of foreign entities, including goodwill and fair value adjustments arising on consolidation, are translated into EUR at the exchange rate at the end of the year. The revenues and expenses are translated into EUR using rates approximating exchange rates at the dates of the transactions. The resulting exchange difference is recorded directly in equity in the foreign currency translation reserve.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Cost of property, plant and equipment acquired as part of the business combination was determined by reference to its fair value at the date of the business combination, which was determined by an independent value.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

(iii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated average useful lives are as follows:

- Buildings 8 to 30 years
- Plant and equipment 3 to 10 years
- Fixtures and fittings 3 to 7 years.

The residual value, depreciation method and useful lives are reassessed annually.

(f) Intangible assets

(i) Goodwill and negative goodwill

All business combinations are accounted for by applying the purchase method. Goodwill arising on acquisitions represents the excess of the cost of the acquisition over the fair value of the net identifiable assets. Goodwill is stated at cost less impairment losses.

Negative goodwill arising on acquisitions represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative goodwill is recognised immediately in the income statement.

(ii) Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets are amortised from the date the asset is available for use.

The estimated remaining useful lives are as follows:

- Land lease right 43 years
- Other 3 to 6 years

Goodwill and intangible assets with an indefinite useful life are tested for impairment annually.

The residual value, depreciation method and useful lives are reassessed annually.

(g) Non-current assets held for sale

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

(h) Financial assets excluding investments accounted for using the equity method

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Investments available for sale are stated at fair value, with any resultant gain or loss being recognised in the income statement. The fair value of investments available for sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(j) Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

The carrying amount of goodwill and identifiable intangible assets with indefinite lives are tested for impairment annually. The carrying amounts of the Group's other assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated on a pro ratio basis.

An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash- generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the Group's loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of loans or receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividends on preference share capital classified as equity are recognised as distributions within equity.

(n) Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(o) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Trade and other payables

Trade and other payables are stated at amortised cost.

(q) Financial lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(r) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Revenue

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with goods.

(t) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, using the effective interest method, the accumulation of interest on provisions, interest income on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on the revaluation and disposal of investments available for sale.

Borrowing costs are expensed in the period when incurred except for those, which are directly attributable to the acquisition, construction or production of the qualifying asset.

(u) Other expenses

(i) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments made.

(ii) Social expenditure

To the extent that the Group’s contributions to social programs benefit the community at large and are not restricted to the Group’s employees, they are recognised in the income statement as incurred.

(v) Employee benefits

The Group makes contributions for the benefit of employees to the pension funds. The contributions are expensed as incurred.

(i) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement an a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the project unit credit method.

Actuarial gains and losses in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 per cent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

(ii) Share – based payment transactions

The share option program allows Group employees to acquire shares of the company. The fair value of options granted is recognized as an employee expense with corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. Share Appreciation Rights are granted to employees. The fair value of the amount payable to the employee is recognized as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(w) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(x) Discontinued operation

A discontinued operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a major separate line of business or geographical area of operations.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

(y) Changes in accounting policy

As of 1 January 2005, the Amtel Group adopted all of the new and revised Standards and interpretations adopted by the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005.

Significant changes in accounting policies as they relate to the Amtel Group's financial position, results of its operations and its cash flows, as presented in these consolidated financial statements, are summarised as follows:

Application of IAS 1 *Presentation of Financial Statements* (revised 2003) has affected the presentation of minority interest, and has resulted in increased disclosures, including disclosure of critical accounting estimates and judgments in applying accounting policies.

These are the Group's first consolidated financial statements and IFRS 1 has been applied.

Application of IFRS 2 *Share-based payment* has resulted in the assessment of the terms of the share options issued to the senior management for the purposes of recognition in the financial statements.

There was no impact on opening retained earnings as at 1 January 2005 from the adoption of any of the above-mentioned standards, except for the following resulting from revised IAS 1:

- In the income statement, the minority interest share in the results of subsidiaries is no longer added or subtracted in arriving at the Group's net profit or loss for the period. Instead it is presented as an allocation of the Group's net profit loss for the period;
- In the balance sheet, minority interests are presented as a separate component of equity rather than being presented between equity and liabilities. As a result, the statement of changes in equity shows the movement in minority interests during the period;

Due to new economic environment functional currency was changed from RUR to EUR. Changes in accounting principle were recognized as part of equity (refer to the Statement of Changes in Equity).

Applying the criteria in IAS of 32 *Financial Instruments: Disclosure and Presentation* the Group defined derivative financial instruments used to hedge its exposure to interest rate risks arising from operational, financing and investing activities. In accordance with its treasure policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Applying the criteria in IAS of 39 *Financial Instruments: Recognition and Measurement* the Group identified those financial assets and financial liabilities that are measured at fair value and those that are measured at amortized cost.

Derivatives financial instruments are recognized initially at cost. Subsequent to initial recognition, derivatives financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognized immediately in Statement of income.

Comparatives were restated to reflect these changes.

(z) Critical accounting estimates and judgments in applying accounting policies

Amtel Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historic experience and other factors, including the expected outcome of past events that are believed to be reasonable under the circumstances.

(i) Impairment of goodwill and intangible assets

Group reviews goodwill and other identifiable intangible assets with indefinite useful lives to assess impairment on an annual basis. The goodwill acquired before 31 December 2004 was last tested when the Group prepared its annual financial statements as of and for the year ended 31 December 2004. Impairment test of goodwill for the year ended 31 December 2005 was made with the assistance of an independent expert

For the goodwill acquired in the business combination – refer note 9(a) – the Group estimated the recoverable amount of the cash generating unit to which the goodwill was provisionally allocated as of the date of acquisition to assess whether impairment existed. The estimation was made with the assistance of an independent expert. As a result of the computation the recoverable amount exceeded the carrying amount of the cash generating unit by approximately USD 40 million.

The following key assumptions were used in determining the recoverable amount of the cash generating unit:

- A constant growth model was used to estimate the terminal value for the discounted cash flow analysis. A terminal growth of 2.5% was considered in estimating the terminal value;
- The terminal value was derived at the end of the five year interim period. It was anticipated that the acquired company would have achieved a stable long-term rate of growth;
- A pre-tax weighted average cost of capital of 14.18% was used as a discount rate for determination of the recoverable amount.

As a result of the impairment testing no impairment loss on the cash generating unit was recognised in these consolidated financial statements.

For the goodwill acquired in the business combination – refer note 9(b) – the Group estimated the recoverable amount of the cash generating unit to which the goodwill was provisionally allocated as of the date of acquisition to assess whether impairment existed. The estimation was made with the assistance of an independent expert. As a result of the computation the recoverable amount exceeded the carrying amount of the cash generating unit by approximately USD 8 million.

The following key assumptions were used in determining the recoverable amount of the cash generating unit:

- A constant growth model was used to estimate the terminal value for the discounted cash flow analysis. A terminal growth of 3% was considered in estimating the terminal value;
- The terminal value was derived at the end of the five year interim period. It was anticipated that the acquired company would have achieved a stable long-term rate of growth;
- A pre-tax weighted average cost of capital of 14.3% was used as a discount rate for determination of the recoverable amount.

As a result of the impairment testing no impairment loss on the cash generating unit was recognised in these consolidated financial statements.

(ii) Impairment for accounts receivable

The Group reviews its receivables for impairment at each balance sheet date. The review is conducted on portfolio basis based on similar credit risk characteristics. For each portfolio, the Group assesses whether objective evidence of impairment exists for each balance of receivable outstanding. If there is objective evidence that an impairment loss on a receivable balance has been incurred, the amount of the loss for individual significant accounts receivable is measured as the difference between the carrying amount of the receivable and the present value of estimated discounted future cash flows. As a result of the management assessment the balance of provision as of 31 December 2005 amounted to:

In million USD	Russian subsidiaries	Vredestein Banden B.V.	Total
Recognised impairment	5	7	12
Gross receivables	130	99	229
Impairment as a % of the gross receivable balance	4%	7%	5%

(iii) Pension liabilities

As of 31 December 2005 only employees of Vredestein Banden B.V. and its subsidiaries participated in pension plans. The liabilities for the defined benefit plan were acquired as part of the business combination – refer note 9(a).

The pension liability was determined as of the date of acquisition of Vredestein Banden B.V. (refer note 9(a)) by an independent actuary.

The following assumptions were used in the valuation.

Active employee members	
Number	1,048
Average age	43
Average past services	16.2
Individual salary increase (dependant on age)	0% - 2.5%
Employee turnover (dependant on age)	0% - 7%
Discount rate	4.00%
Expected return on assets	4.25%

The mortality level was assessed in accordance with the Dutch Mortality table GMB and GBV 1995 – 2000, with a 1-year setback.

4. Consolidation of ZAO Rosava

For the year ended December 31, 2004 the Group consolidated the revenues, costs and results of operations of ZAO Rosava , while simultaneously deducting a 100% minority interest to reflect the sale of its 51% of the shares in Rosava and the Croup's maintenance of operating control over Rosava.

As of December 31, 2004, ZAO Rosava was deconsolidated by recognising the deduction of assets and liabilities against the balance of the minority interest and is presented as a discontinued operation in these consolidated financial statements – refer note 6.

5. Segment reporting

Segment information is presented in respect of the Group's geographical and business segments. The primary format, geographical segments, is based on the Group's management and internal reporting structure.

Segment revenue and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest expense, current and deferred income tax, and corporate expenses.

Segment capital expenditures is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

In 2004 the Group operated in two geographical areas: Russia and the Ukraine. As of 31 December, 2004 the Group discontinued its control over the operations of ZAO Rosava, which represented the Ukrainian geographical segment.

In April 2005 the Group acquired Vredestein Banden B.V., a Dutch tyre manufacturer, which mainly operates in countries of the European Union - refer note 9(a).

	Segment revenues for year ended 31 December	
	2005	2004
	In million USD	
Russia	459	366
Ukraine	-	115
Europe	212	-
Sales to external customers	671	481

	Segment result for the year ended 31 December 2005	2004
	In million USD	
Russia	21	19
Ukraine	-	4
Europe	45	-
	66	23

The revenues and the segment result of the European segment for the year ended 31 December 2005 include eight months of operations only as the Group acquired control over these operations on 25 April 2005 – refer note 9(a).

(a) Geographical segments

The Group's activities are managed from Moscow, Russia. The Group operated in two principal different geographical markets: Russia and Europe.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of sellers. Segment assets are based on the geographical location of the assets, which is the same as the geographical location of sellers.

(b) Business segments

The Group comprises the following main business segments:

Tyres: The manufacture and sale of tyres for a variety of vehicles, including passenger cars, trucks, aircrafts, agricultural and military vehicles and bicycles.

Raw materials: The manufacture and sale of chemical fibres, cords and carbon black. These materials are both used for tyre production at the group plants and sold to third parties.

(i) Geographical segment

USD million	Russia		Europe		Ukraine		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Revenue from external customers	459	366	212	-	-	115	-	-	671	481
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Segment revenues	459	366	212	-	-	115	-	-	671	481
Segment result	21	19	45	-	-	4	-	-	66	23
Unallocated income and expenses, net									(50)	(2)
Profit from operations									16	21
Segment assets	596	526	625	-	-	-	(167)	-	1,054	526
Investments in joint	-	1	-	-	-	-	-	-	-	1

USD million	Russia		Europe		Ukraine		Elimination		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
venture										
Unallocated assets									13	5
Total assets									1,067	532
Segment liabilities	225	59	95	-	-	-	(167)	-	153	59
Unallocated liabilities									536	236
Total liabilities									689	295
Other information										
Capital expenditure	49	74	17	-	-	6	-	·	66	80
Depreciation / amortisation	31	21	15	-	-	5	-	-	46	26
Impairment (losses) and reversals	(16)	2	-	-	-	-	-	-	(16)	2
Gains and (losses) related to acquisitions, restructuring and disposals of subsidiaries	6	2	-	-	-	-	-	-	6	2
Segment non-cash items	115	36	6	-	-	8	-	·	121	44
Unallocated non-cash items	-	-	-	-	-	-	-	·	22	1
Total non-cash items	115	36	6	-	-	8	-	·	143	45

(ii) *Business segment*

USD million	Revenue from external customers		Segment assets		Capital expenditure	
	2005	2004	2005	2004	2005	2004
Tyres	573	403	1,003	460	61	77
- PCT	354	174				
- light-truck tyres	76	76				
- truck tyres	80	118				
- agricultural tyres	46	22				
- aircraft tyres	4	4				
- bicycle tyres	13	9				
Raw materials	67	64	38	52	5	2
Other operations	31	14	13	14	-	1
Consolidated	671	481	1,054	526	66	80

6. Restructuring of manufacturing

In July 2005 the Group started reorganisation process of the tyre complex. Production of passenger car tyres was stopped in Krasnoyarsk. It was decided also to cease production of truck and bicycle tyres in Voronezh. A part of producing facilities was stopped as well. Within restructuring process the Group substantially reduced the number of employees in Voronezh, Kirov and Krasnoyarsk.

Restructuring expenses were recognised in these financial statements – refer note 15.

The Group intends to finalise restructuring process in 2006.

After restructuring Group will concentrate on production of high margin passenger and light truck tyres under the brands Amtel, Maloya and Vredestein.

7. Factoring operations

Since 2005 Group entered into factoring agreement to finance its operating activities. Within the year factoring services were rendered by the Bank under recourse terms which were actually stopped by the end of the year. Total amount of such the payables as of December 31, 2005 was USD 14 million.

8. Discontinued operations

(a) Description

Discontinued operations in 2005 comprise the Group's tyre production, black carbon production and distribution activities which were represented by Krasnoyarsky Shinniy Complex and Volgogradsky zavod techugleroda, including all regional subsidiaries.

The discontinued operations constituted the Russia geographical segment, being the primary reporting segment – refer note 5(a). Krasnoyarsky Shinniy Complex produced tyres and, consequently, was included in the Tyres segment, the secondary business segment. Volgogradsky zavod techugleroda produced carbon black and, consequently, was included in the raw materials segment.

Positive cash flow from operating activities of disposed companies on stand alone basis presents financing received from the Group.

Discontinued operations in 2004 comprise the Group's tyre production and distribution activities in the Ukraine which were represented by ZAO Rosava, the Group's subsidiary.

The discontinued operations constituted the Ukrainian geographical segment, being the primary reporting segment – refer note 5(a). The subsidiary produced tyres and, consequently, was included in the Tyres segment, the secondary business segment.

(b) Financial information attributable to the discontinued operations

The following assets and liabilities have been disposed, furthermore the impact on cash flow is stated below. Liabilities consist mainly from obligations due to the Group.

	2005	2004
	USD million	USD million
Assets	142	118
Liabilities	(81)	(57)
Cash flows from operating activities	23	16
Cash flows from investing activities	(1)	-
Cash flows from financing activities	(7)	1

9. Changes in the composition of the Group

(a) Acquisition of Vredestein Banden B.V.

On 25 April 2005 the Group acquired 100% of the ordinary shares of Vredestein Banden B.V. (further referred to as “Vredestein”). With the acquisition of Vredestein the Group also acquired control over the subsidiaries of Vredestein - refer note 36.

The cost of the business combination amounted to USD 261 million and included the following components:

	USD million
Consideration paid to the previous shareholders	255
Costs directly attributable to the combination	6
	261

The Group determined the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. The determination of the fair values of property, plant and equipment and intangible assets, and the allocation of the purchase price to the assets, liabilities and assumed contingent liabilities were performed with the assistance of an independent appraiser.

The fair value of inventories was determined by reference to their selling price less costs to sell and a reasonable profit margin allocated to the selling effort. Management believes that the carrying amount of inventories at the date of acquisition approximates their fair value.

The effect of the acquisition on the Group's assets and liabilities is as follows:

Determined on a provisional basis	USD million
Property, plant and equipment	156
Identifiable intangible assets	36
Other non-current assets	7
Current assets	138
Non-current liabilities	(79)
Current liabilities	(116)
Net assets at the date of acquisition	142
Goodwill on acquisition	119
Consideration paid in cash	261

Revenue of the combined entity for the 2005 year would have amounted to USD 757 million had the business combination been effected of 1 January 2005.

At the date of acquisition balance on cash amounted to USD 6 million.

(b) Acquisition of retail chain

In November 2005 the Group acquired 100% of shareholders equity of two retail businesses specializing in sales of tires and other car related accessories and services in Moscow and Moscow region. As of December 31, 2005 own trade network of the Group counted 34 outlets.

The Group determined the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. The determination of the fair values of property, plant and equipment and intangible assets, and the allocation of the purchase price to the assets, liabilities and assumed contingent liabilities were performed with the assistance of an independent appraiser.

The cost of the business combination amounted USD 48 million.

The effect of the acquisition on the Group's assets and liabilities is as follows:

Determined on a provisional basis	USD million
Property, plant and equipment	23
Identifiable intangible assets	2
Current assets	29
Current liabilities	(36)
Non-current liabilities	(5)
Net assets at the date of acquisition	13
Goodwill on acquisition	35
Consideration paid in cash	48

The fair value of inventories was determined by reference to their selling price less costs to sell and a reasonable profit margin allocated to the selling effort. Management believes that the carrying amount of inventories at the date of acquisition approximates their fair value.

Revenue of the combined entity for the 2005 year would have amounted to USD 701 million had the business combination been effected of 1 January 2005.

At the date of acquisition balance on cash amounted to USD 1 million.

(c) Acquisition of minority stakes in subsidiaries

In February 2005 the Group acquired approximately 4% of shares in OAO Shinny Komplex Amtel-Povolzhye, a Group subsidiary, for a consideration of USD 2 million settled in cash. The transaction was structured in such a way that the Group acquired the shares from a company where the Controlling Shareholder controlled the selling price to the Group.

The book value of the minority interest acquired amounted to USD 3 million. The excess of the book value of the minority interest over the consideration paid amounting USD 1 million was recognised as part of other operating income.

(d) Disposal of subsidiaries

In June 2005 the Group sold 100% of the shares in the following subsidiaries: OOO Amtelshinprom-Chernozemye, OOO Amtelshinprom-Krasnoyarsk, OOO Amtelshinprom-Severo-Zapad, OOO Amtelshinprom-Sibir, OOO Amtelshinprom-Yug, OOO Amtelshinrpom-Povolzhye to a company controlled by a former employee. The proceeds from the disposal amounted USD 5 million.

In addition the Group sold its interest in OOO Krasshina-Invest and OOO Amtelshintorg to related parties at arm's length price.

The effect of disposal of the subsidiaries on the Group's assets and liabilities is as follows:

	Year ended 31 December	
	2005	2004
	In million USD	
Property, plant and equipment	(2)	(58)
Current assets	(29)	(76)
Liabilities	29	108
	(2)	(26)
Decrease in minority interest	-	28
Group's share of the net assets / (liabilities) disposed of	(2)	2
Derecognised accounts receivable from former subsidiaries	-	
Gain / (loss) on disposal	6	(2)
Consideration receivable	8	-
Balance settled in cash / reduction in payables before period end	(8)	-
Receivables outstanding	-	-

10. Revenues

	Note	2005 USD million	2004 USD million
Revenues from sales of tyres		573	403
Revenues from sales of raw materials		67	64
Other revenues		31	14

	5(b)	671	481

11. Administrative expenses

	2005 USD million	2004 USD million
Salaries and related expenses	(26)	(19)
Depreciation	(1)	-
Consulting	(3)	(2)
Insurance	(2)	-
Other	(18)	(13)
	(50)	(34)

Other administrative expenses comprise of insurance, security and other services.

12. Distribution expenses

	2005 USD million	2004 USD million
Salaries and related expenses	(17)	(2)
Warehouse expenses	(9)	(2)
Advertising and marketing expenses	(12)	-
Depreciation	(1)	-
Other	(11)	(12)
	(50)	(16)

13. Personnel costs

The average number of employees during 2005 was 16,562 (2004: 23,003). Average number of employees in Russian companies and in Holland was 15,792 and 770 respectively.

The Parent company granted share appreciation rights to a number of the Group's executive officers - refer Note 35(b).

	2005 USD million	2004 USD million
Wages and salaries	(112)	(62)
Contributions to the State pension fund	(17)	(17)
Other social charges	(5)	(4)
Share options	(6)	-
Other	(1)	(1)
	(141)	(84)

In 2005 USD 9 million is recognised for the Dutch plan as other operating income due to change in pension program – refer note 26.

Staff costs are included in cost of sales, administrative and distribution expenses as follow:

	USD million	USD million
Cost of sales	(90)	(61)
Administrative expenses	(26)	(20)
Distribution expenses	(17)	(3)
Share options	(6)	-
Restructuring expense: salary	(2)	-
	(141)	(84)

14. Impairment losses and reversal of impairment

	2005 USD million	2004 USD million
Property, plant and equipment		
Voronezh tyre plant	(16)	-
Other sites	-	2
Impairment losses and reversal of impairment	(16)	2

In July 2005 production of truck and bicycle tyres was stopped in Voronezh. As a consequence impairment losses in the amount of USD 16 million were recognised in respect of the Group's property, plant and equipment (also refer notes 18).

The reversal of impairment losses in 2004 in the amount of USD 2 million was recognised in respect of the Group's property, plant and equipment and relates to the operations of Volgograd black carbon plant and Kemerovo chemical fiber plant (also refer notes 18).

15. Restructuring costs

Restructuring costs comprise as followings (also refer note 6)

	2005 USD million
Salaries	(2)
Other expenses	(3)
Provision	(1)
	(6)

16. Financing expenses

	2005 USD million	2004 USD million
Interest expense	(51)	(25)
Interest income	3	3
	(48)	(22)

17. Income tax (expense) / benefit

	2005 USD million	2004 USD million
Current tax expense	(4)	(7)
Origination and reversal of temporary differences, including change in valuation allowance	13	7
Change in tax rate	-	-
Deferred tax benefit	13	7
Total income tax benefit/(expense)	9	-

The applicable corporate income tax rates for the jurisdictions where the Group companies operated were as follows:

	2005		2004	
	Current tax %	Deferred tax %	Current tax %	Deferred tax %
The Netherlands	31.5	31.5	34.5	31.5
Russia	24.0	24.0	24.0	24.0
The Ukraine	25.0	25.0	25.0	25.0
Cyprus	4.25 – 10.0	4.25 – 10.0	4.25 – 10.0	4.25 – 10.0
British Virgin Islands	n/a	n/a	n/a	n/a

Reconciliation of effective tax rate:

	2005		2004	
	USD million	%	USD million	%
Loss before tax	(35)	100	(1)	(100)
Income tax benefit at applicable tax rate	11	32	-	35
Effect of lower rates in different jurisdictions	1	3	3	269
Change in valuation allowance for deferred tax asset	(13)	(31)	-	8
Non-deductible items, net	10	22	(3)	(312)
	9	26	-	-

18. Property, plant and equipment

USD million	Note	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost						
At 1 January 2005		82	189	2	46	319
Additions		3	51	10	-	64
Acquisition through business combinations		88	345	96	4	533
Disposals		(1)	(4)	-	-	(5)
Disposal of subsidiaries		(25)	(11)	-	(3)	(39)
Foreign exchange differences		(8)	(33)	(10)	(2)	(53)
At 31 December 2005		139	537	98	45	819
Accumulated depreciation and impairment losses						
At 1 January 2005		(9)	(31)	-	-	(40)
Depreciation charge		(8)	(31)	(5)	-	(44)
Disposals		-	2	-	-	2
Acquisition through business combinations		(25)	(258)	(71)	-	(354)
Disposal of subsidiaries		8	3	-	-	11
Impairment	11	(4)	(12)	-	-	(16)
Foreign exchange differences		3	20	5	1	29
At 31 December 2005		(35)	(307)	(71)	1	(412)
Net book value at 1 January 2005		73	158	2	46	279
Net book value at 31 December 2005		104	230	27	46	407

USD million	Note	Buildings	Plant and equipment	Fixtures and fittings	Construction in progress	Total
Cost						
At 1 January 2004		114	167	2	23	306
Additions		1	57	1	21	80
Acquisition through business combinations		12	-	-	-	12
Disposals		-	(2)	-	-	(2)
Disposal of subsidiaries		(48)	(42)	(1)	(1)	(92)
Foreign exchange differences		3	9	-	3	15
At 31 December 2004		82	189	2	46	319
Accumulated depreciation and impairment losses						
At 1 January 2004		(24)	(27)	(1)	-	(52)
Depreciation charge		(6)	(20)	-	-	(26)
Disposals		-	-	-	-	-
Disposal of subsidiaries		20	15	1	-	36
Impairment		1	1	-	-	2
Foreign exchange differences						
At 31 December 2004		(9)	(31)	-	-	(40)
Net book value at 1 January 2004		90	140	1	23	254
Net book value at 31 December 2004		73	158	2	46	279

(a) Changes in estimates of useful lives

In connection of restructuring of production the Group’s estimates of useful lives of part of facilities in Voronezh were revised. As a result depreciation charge will be changed prospectively. For 2005 additional charge was recognized in amount of USD 3 million in 2005.

(b) Security

Refer note 27(b) for the value of property, plant and equipment securing obligations of the Group.

(c) Leased plant and machinery

The Group leased production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2005 the net book value of leased plant and machinery was USD 39 million (2004: 41 million). The leased obligations are secured over the leased equipment - refer note 27(b).

19. Intangible assets

USD million	Note	Goodwill	Research and development	Brand names	Land lease right	Software	Total
Cost							
At 1 January 2005		84	-	-	3	-	87
Additions, including assets of acquired subsidiaries		-	2	-	-	-	2
Acquisition through business combinations		153	12	21	-	3	189
Disposals		(27)	-	-	-	-	(27)
Transfers		-	-	-	-	-	
Foreign currency translation difference		(11)	-	(1)	(2)	1	(13)
At 31 December 2005		199	14	20	1	4	238
Accumulated amortisation and impairment losses							
At 1 January 2005		-	-	-	-	-	-
Amortisation charge for the year		-	(2)	-	-	-	(2)
At 31 December 2005		-	(2)	-	-	-	(2)
Net book value at 1 January 2005		84	-	-	3		87
Net book value at 31 December 2005		199	12	20	1	4	236

USD million	Note	Goodwill	Research and development	Brand names	Land lease right	Software	Total
Cost							
At 1 January 2004		79	-	-	-	-	79
Acquisition through business combinations		-	-	-	3	-	3
Foreign currency translation difference		5	-	-	-	-	5
At 31 December 2004		84	-	-	3	-	87
Accumulated amortisation and impairment losses							
At 1 January 2004		-	-	-	-	-	-
Amortisation charge for the year		-	-	-	-	-	-
At 31 December 2004		-	-	-	-	-	-
Net book value at 1 January 2004		79	-	-	-	-	79
Net book value at 31 December 2004		84	-	-	3	-	87

(a) Goodwill

The balance of goodwill as of 31 December 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the net identifiable assets acquired. For the purpose of the Acquisition Transaction the cost of the acquisition was determined by reference to the fair value of the acquired business, as determined by management with assistance of American Appraisal (AAR), Inc, independent valuer.

(b) Impairment

For the purposes of impairment testing, goodwill was allocated to the Group's cash generating units, being the production plants, namely Voronezh tyre plant, Kirov tyre plant, Krasnoyarsk tyre plant, Volgograd carbon black plant, Vredestein Banden and retail tyre distribution business. These units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to each cash generating unit are as follows:

	2005 *USD million*	2004 *USD million*
Voronezh tyre plant	30	31
Kirov tyre plant	25	26
Krasnoyarsk tyre plant	-	23
Volgograd carbon black plant	-	4
Retail	35	-
Vredestein Banden B.V.	109	-
	199	84

The recoverable amount represents value in use as determined by discounting the future cash flows generated from the continuing use of the plants. The recoverable amounts were determined with the assistance of American Appraisal (AAR) Inc., independent valuer.

The following key assumptions were used in determining the recoverable amount of the plants:

- The cash flows projections were made for the average remaining useful lives of major production assets – refer note 3(e);
- In calculation of the recoverable amount, the effect of the launch of the Voronezh II project was considered. Management has no ongoing concern regarding the successful completion of this project and does not anticipate material threats to the project at this time. The following tyre production volumes were anticipated (in million tyres):

	Prediction of production volumes as made in the financial statements for	
	2005	2004
Year 2005	n/a	12.1
Year 2006	14.7	12.6
Year 2007 and further	16.8	12.6

- The following discount rates and terminal growth rates were applied in determining the recoverable amount of the plants;

	Discount rate	Terminal growth rate
	%	*%*
Voronezh tyre plant	14.9	6.6
Kirov tyre plant	14.9	6.6
Retail	14.3	3.0
Vredestein Banden B.V.	13.9	2.5

- An average compound annual growth rate of raw material costs is estimated at 5.5%. Based on the Group's position and the overall market environment in the foreseeable future management believes that it has minimum exposure to costs increases since it will be able to transfer these losses onto the ultimate customer through price increase.
- The values assigned to the key assumptions represent management's assessment of future trends in the tyre production industry and are based on both external sources and internal sources (historic data).

As a result of the impairment testing of goodwill in 2005 no impairment loss was recognised (2004: no impairment loss was recognised).

According to management calculation, the recoverable amount of our retail distribution business is close to its carrying value and shows firm sensitivity to the underlying assumptions. Management believes that the Group has strong ability to prevent such losses in the future once these businesses achieve their intended level of operational efficiency. Our retail distribution business is a new entity still in its consolidation and development phase. Management is confident that costs will significantly reduce as a percentage of sales. The recoverable amounts of Kirov tyre plant, Voronezh tyre plant and Vredestein Banden B.V. appear to be less sensitive and any key assumptions on which their recoverable amounts are based would not cause their carrying amount to exceed their recoverable amount.

20. Financial assets

	2005	2004
	USD million	*USD million*
Loans originated -long term	6	-
Other	-	2
	6	2

21. Deferred tax assets and liabilities

(a) Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

USD million	Assets		Liabilities		Net	
	2005	2004	2005	2004	2005	2004
Property, plant and equipment	3	2	(51)	(41)	(48)	(39)
Other long-term assets	8	6	-	-	8	6
Current assets	15	6	(9)	(1)	6	5

Liabilities	11	8	(1)	(2)	10	6
Valuation allowance	(16)	(3)	-	-	(16)	(3)
Tax assets / (liabilities)	21	19	(61)	(44)	(40)	(25)
Set off of tax	(13)	(17)	13	17	-	-
Net tax assets / (liabilities)	8	2	(48)	(27)	(40)	(25)

The Company did not recognise deferred taxes directly in equity.

(b) Unrecognized deferred taxes

Deferred tax assets have not been recognised in respect of tax losses to be carry forward in amount of USD 16 million (2004: USD 3 million).

The tax losses expire in 2016. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

(c) Movement in temporary differences during the year

USD million	1 January 2005	Effect of changes in foreign exchange rates	Recognised in income	Related to discontinued operations	Related to acquisition of Vredestein	Related to acquisition of retail chain	31 December 2005
Property, plant and equipment	(39)	12	9	2	(27)	(5)	(48)
Other long-term assets	6	(1)	3	-	-	-	8
Current assets	5	(7)	8	-	-	-	6
Liabilities	6	(4)	6	-	2	-	10
Valuation allowance	(3)	-	(13)	-	-	-	(16)
Net tax assets / (liabilities)	(25)	-	13	2	(25)	(5)	(40)

22. Inventories

	2005 *USD million*	2004 *USD million*
Raw materials	37	34
Work in progress	7	5
Finished goods	70	31
Impairment for inventory obsolescence	(4)	(1)
	110	69

Refer note 27(b) for the value of inventory securing obligations of the Group.

23. Trade and other receivables

	2005 *USD million*	2004 *USD million*
Trade accounts receivable	152	29
VAT receivable	26	24
Taxes receivable other than VAT	3	2
Receivables for shares in ZAO Rosava	-	14
Receivables from related parties	15	4
Advances issued	5	2
Other receivables	28	4
Impairment for doubtful accounts	(12)	(2)
	217	77

Other receivables comprise of tax escrow account, prepayments and other receivables.

Refer note 27(b) for the value of receivables securing obligations of the Group.

24. Cash and cash equivalents

	2005 USD million	2004 USD million
Cash in bank	50	5
Other cash balances	4	2
Cash and cash equivalents in the balance sheet	54	7
Bank overdrafts	(12)	-
Cash and cash equivalents in the statement of cash flows	42	7

Cash is free and available.

25. Equity

In number of shares	Note	Ordinary shares	Preferred shares
Authorised shares at 31 December 2004		20,500,000	2,000,000
Par value (Euro)		0.01	0.01
Authorised shares at 31 December 2005		222,148,650	12,494,200
Par value (Euro)		0.01	0.01
On issue after split (1:1,000,EUR 0.01 par value)		2,001,000	80,000
Shares issued to Chief Financial Officer – February 2004	35(b)	40,000	-
Issued for cash –March 2004	35(b)	-	40,000
Issue of additional shares		2,209,116	129,884
Issued for cash - December 2004		128,571	-
On issue at 31 December 2004		4,378,687	249,884
On issue at 1 January 2005		4,378,687	249,884
Issued for cash - February 2005	(d)	64,286	-
Issued to existing shareholders - April 2005	(d)	39,986,757	2,248,956
Issued for cash - June 2005	(d)	6,660,000	-
Conversion of preferred shares into ordinary - October 2005		2,498,840	(2,498,840)
Issued for cash - November 2005		13,912,925	-
Share options issue - December 2005		639,308	-
On issue at 31 December 2005		68,140,803	-

(a) Initial Public Offering at London Stock Exchange

In November 2005, the Parent Company applied for initial public offering on the London Stock Exchange. The Parent Company and the Selling Shareholders offered 18,339,000 shares in the form of 18,339,000 GDR, with one GDR represented one share. Offer price was defined at USD 11 per GDR as of November 11, 2005. The proceeds from the IPO amounted to USD 139 million, net of capitalized fees and commission payable amounted to USD 14 million which relate to new issued shares.

(b) Ordinary shares

The holders of ordinary shares are entitled to one vote in the general meeting of shareholders for each share held.

All ordinary shareholders participate equally in the distribution of the assets, remaining after the payment of amounts due to creditors and preferred shareholders upon liquidation.

(c) Preferred shares

The holders of preferred shares are entitled to the number of votes equal to the number of whole shares of ordinary shares into which such preferred shares could be converted. The meeting of the holders of the preferred shares has to approve issues that influence the interests of preferred shareholders, including legal mergers, legal splits and amendments to the Articles of Association or dissolution of the Company.

In case of liquidation, the holders of the paid-up preferred shares are entitled to receive any cumulative unpaid dividends and the original issue share price of the preferred shares before any distributions to the holders of the ordinary shares.

The paid preferred shares give to their holders the right to require the issuer to redeem the shares after a particular date for a fixed amount. Consequently, this instrument meets the definition of a financial liability and was included in non-current loans as at 31 December 2004. In 2005, the preferred shares have been converted into ordinary shares - refer notes (d), 27.

(d) Issue of shares

In February 2005, the Parent Company issued 64,286 ordinary shares to an institutional investor. The proceeds from the issue amounted to USD 5 million and were received in cash.

In April 2005, the Parent Company issued 39,986,757 ordinary and 2,248,956 preferred shares to existing shareholders for no additional consideration. The par value of the shares issued is EUR 0.01.

In June 2005, the Parent Company issued 6,660,000 ordinary shares to institutional investors. The proceeds from the issue amounted to USD 70 million and were settled in cash.

In October 2005, 2,498,840 preferred shares were converted into ordinary shares for no additional consideration. The conversion ratio was 1:1.

In November 2005, the Parent Company issued 13,912,925 ordinary shares to public investors. The proceeds from the issue net of fees and commissions payable amounted to USD 139 million and were settled in cash.

In December 2005, the Parent Company issued 639,308 ordinary shares to Managers of the Group under Share Appreciation Rights Agreements for consideration at par value - refer note 35(b) .

(e) Dividends

Holders of the ordinary shares are entitled to dividends upon the decision of the general shareholders' meeting if the net assets of the Company exceed the total value of the paid in capital and reserves, which have to be maintained by law and the Articles of Association. No dividends to ordinary shareholders were declared in 2005.

Holders of the cumulative convertible preferred shares are entitled to an annual cumulative dividend of 8% per annum of the original issue price.

Dividends on cumulative convertible preferred shares for the year amounting to USD 1 million (2004: USD 1 million) were recognised as interest expense.

All accumulated dividends on cumulative convertible preferred shares in amount of USD 2 million were recognised in equity after conversion preferred shares into ordinary shares in October 2005.

(f) Transactions with controlling shareholder

During the year the Group's controlling shareholder withdrew a series of amounts from the Group (in total USD 4 million (2004: USD 7 million), and made a series of contributions to the Group (in total USD 4 million (2004: USD 7 million). All transactions comprised monetary assets and are considered by management and the shareholder to be zero. The net difference between the accounts receivable and accounts payable amounting to USD 1 million was repaid by the controlling shareholder to the Group in January 2006.

26. Payables and accruals

	Note	2005 *USD million*	2004 *USD million*
Pension liability	3(z)(iii)	35	-
Finance lease - long-term	28	24	30
		59	30

In pension liabilities a change of plan has been included which is the result of changed governmental regulations creating a situation where people will work longer (earlier retirement programs have been adopted).

(a) Defined benefit plans

The amounts recognised in the consolidated balance sheet in respect of the Group's defined benefit obligations were as follows:

million USD	25 April 2005	31 December 2005
Present value of funded defined benefit obligations	(114)	(116)
Fair value of plan assets	68	78
Unrecognised actuarial losses	-	3
Net liability	(46)	(35)

The amounts recognised during the period in the statement of income for the period from 25 April to 31 December 2005 were as follows:

	USD million
Service costs	2
Interest costs	3
Expected return on plan assets	(2)
Plan change	(12)
Total included in staff costs	(9)

The amounts were recorded in cost of goods sold, administrative and distribution expenses.

27. Loans and borrowings

	2005 USD million	2004 USD million
Non-current		
Unsecured bond issue	10	43
Unsecured credit linked notes	172	-
Secured bank loans	197	14
Convertible cumulative preferred shares	-	16
	379	73
Current		
Current portion of secured bank loans	30	56
Bank overdraft	12	-
Unsecured bond issue	-	22
Unsecured bank loans	21	22
Unsecured loans from related parties	-	1
	63	101

For more information about the Group's exposure to interest rate and foreign currency risk, see note 31.

(a) Terms and debt repayment schedule

USD million	Total	Under 1 year	1-5 years	Over 5 years
Secured bank loans:				
RUR, fixed at 10.5-13.5%	32	20	12	-
EUR, fixed at 3,13%*	2	2	-	-
EUR - fixed at 3,13%*	132	8	124	-
EUR, fixed at 9.6%	60	-	60	-
CHF, fixed at 3.5%	1	-	-	1
Unsecured bank loans:				
RUR-fixed 11-14%	21	21	-	-
Unsecured credit linked notes:				
USD, fixed at 9.25%	172	-	172	-
Unsecured bond issues:				
RUR, maturing in 2007, 8%	10	-	10	-
Bank overdraft:				
EUR, Euribor+2.25	12	12	-	-
	442	63	378	1

The Group adopts policy of ensuring that 60 per cent of facility, provided by ING/ABN-Amro is hedged by interest rate swap denominated in Euro. The swap matures over the next four years following the maturity of the related loan. As of 31 December 2005 the Group had interest rate swap with a notional contract amount of USD 47 million (2004: USD - million) - refer note 31(b).

(b) Security

The following assets are pledged to secure the bank loans (at carrying amount):

	Note	2005 USD million	2004 USD million
Owned property, plant and equipment	18	99	79
Leased property, plant and equipment	18(c)	39	41
Inventories	22	17	17
Accounts receivables	23	24	13

(c) Credit Link Notes

Pursuant to two loan agreements dated June 28, 2005, between the Group and Emerging Markets Structured Products B.V. ("EMSP"), EMSP granted to the Group two loans from the proceeds of the issue of credit linked notes in an aggregate amount of USD 175 million. The first loan is for USD 150 million, bearing an interest rate of 9.25% and maturing on June 30, 2007. The second loan is for USD 25 million also bearing an interest rate of 9.25% and maturing on June 30, 2007. Security for the loans was provided by sureties of Group companies.

(d) Covenants

Statutory covenants were established as followings:

According to the Loan Agreement in 2005 the Company should procure that on any Reporting Date (quarterly), the Net Debt would not be more than USD 400 million provided that an IPO has taken place; or be more than the amount stated in the June accounts if an IPO has not taken place. Net Debt is defined as gross debt minus cash.

In the beginning in of 2006 the Company reported the Net Debt would possibly exceed the maximum amount. It has been concluded there has not been of event of default. However, the covenant in the agreement was reconsidered in 2006.

On 11 May 2006 by Noteholders of CLN voting the following financial covenants were appointed:

(a) The Borrower shall procure that the Consolidated Net Worth shall not at any time after 1 July 2005 be less than the Consolidated Net Worth as shown in the reviewed consolidated financial statements of the Group (the "June Accounts") for the 6 month period ending 30 June 2005.

(b) The Borrower shall procure that on any Reporting Date, the Net Debt shall not exceed 70% of the Total Revenues.

28. Finance lease liabilities

Finance lease liabilities are payable as follows:

USD million	2005			2004		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	9	4	5	10	5	5
Between one and five years	32	8	24	37	13	24
More than five years	-	-	-	7	1	6
	41	12	29	54	19	35

The interest rates implicit in the leases vary from 10 to 17% per annum (2004: from 10 to 18%). Under the terms of the lease agreement, no contingent rents are payable.

29. Trade and other payables

	2005 USD million	2004 USD million
Trade accounts payable	65	27
Taxes payable other than VAT	12	8
VAT payable	19	7
Payables to related parties	5	9
Deferred income	2	1
Advances received	1	4
Accruals and provisions	5	3
Current portion of finance lease	5	5
Other payables	26	-
	140	64

Other payables comprise of employee benefits, accrual sales bonuses and other payables.

30. Earnings per share

The calculation of earnings per share is the net profit for the year divided by the weighted average number of ordinary shares (refer note 0) outstanding during the year, calculated as shown below. The Group has no dilutive potential ordinary shares.

Shares	2005	2004
Issued ordinary shares at 1 January	-	4,166,821
Effect of share award – February 2004	-	76,354
Effect of shares issued for cash - December 2004	-	10,714
On issue on 1 January 2005	43,786,870	-
Effect of shares issued for cash – February 2005	535,717	-
Effect of shares issued for cash - June 2005	3,330,000	-
Effect of conversion of preferred shares into ordinary - October 2005	416,473	-
Effect of shares issued for cash - November 2005	1,159,410	-
Weighted average number of ordinary shares at 31 December	49,228,470	4,253,889

Cumulative convertible preference shares had anti-dilative effect, consequently, dilative earnings per share equalled to basic earnings per share.

The above computation of the weighted average number of shares include the effect of share split and bonus issue – refer note 0.

31. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt).

Interest rate swap denominated in Euro have been entered into to achieve an appropriated mix of fixed an floating rate exposure within the Group's policy.

The following table shows the contractual maturities of variable rate interest-bearing financial assets and liabilities. For fixed rate interest-bearing financial assets and liabilities the contractual rate is consistent with the re-pricing shown in the following tables.

The fair value of interest rate swaps is the estimated amount that The Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

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2005 *USD million*	Average interest rate Contract	 Effective	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
Assets										
Long-term financial assets										
USD	4%	4%	-	-	6	-	-	-	-	6
Short-term financial assets:										
RUR	9%	9%	16	-	-	-	-	-	-	16
RUR	0%	0%	1	-	-	-	-	-	-	1
Long-term receivables and other assets	0%	0%	-	-	12	-	-	-	-	12
Trade and other receivable	4%	4%	-	7	-	-	-	-	-	7
Trade and other receivable	0%	0%	-	210	-	-	-	-	-	210
Liabilities										
Secured bank loans:										
RUR	11-14%	11-14%	(4)	(16)	-	(12)	-	-	-	(32)
EUR	Euribor +2.25%	3.13%	-	(8)	-	-	-	(124)	-	(132)
EUR	Libor +2.25%	3.13%	(2)	-	-	-	-	-	-	(2)
EUR	10%	10%	-	-	(60)	-	-	-	-	(60)
CHF	4%	4%	-	-	-	-	-	-	(1)	(1)
Unsecured bank loans:										
RUR	13.5%	13.5%	(20)	(1)	-	-	-	-	-	(21)
Unsecured bond issue										
RUR	8%	8%	-	-	(10)	-	-	-	-	(10)
Bank overdraft										
EUR	Euribor +2.25%	Euribor +2.25%	(12)	-	-	-	-	-	-	(12)
Unsecured credit linked notes										
USD	9.25%	9.25%	-	-	(172)	-	-	-	-	(172)

Finance lease liabilities										
RUR	14%	16.58%	(1)	(2)	(8)	(4)	(5)	(2)	-	(22)
USD	Libor +8.2%	10.98-11.66%	(1)	(1)	(2)	(2)	(1)	-	-	(7)
Trade and other payables	-	-	-	(135)	-	-	-	-	-	(135)
Long-term payables and accruals	-	-	-	-	(35)	-	-	-	-	(35)

The following table shows the contractual maturities of variable rate interest-bearing financial assets and liabilities. For fixed rate interest-bearing financial assets and liabilities the contractual rate is consistent with the re-pricing shown in the above table.

2004 *USD million*			0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs	Total
Assets										
Long-term financial assets										
USD	0%	0%	-	-	2	-	-	-	-	2
Short term financial assets										
USD	0%	0%	-	3	-	-	-	-	-	3
Long-term receivables and other assets	0%	0%	-	-	6	-	-	-	-	6
Trade and other receivable	0%	0%	77	-	-	-	-	-	-	77
Liabilities										
Secured bank loans:										
RUR	5-15%	5-15%	-	(52)	(5)	-	-	-	-	(57)
USD	5-15%	5-15%	(1)	-	-	(3)	-	-	-	(4)
EUR	10-15%	10-15%	-	(3)	-	(6)	-	-	-	(9)
Unsecured bank loan:										
RUR	10-20%	10-20%	(22)	-	-	-	-	-	-	(22)
Unsecured bond issues:										
Bonds 2005	19%	19%	-	(22)	-	-	-	-	-	(22)
Bonds 2007	16%	16%	-	-	-	(43)	-	-	-	(43)
Unsecured short-term loans from related parties										
RUR	0%	0%	(1)	-	-	-	-	-	-	(1)
Unsecured convertible cumulative preferred shares										
USD	8%	8%	-	-	(16)	-	-	-	-	(16)
Finance lease liabilities										

RUR	14%	18%	(1)	(2)	(3)	(4)	(5)	(5)	(6)	(26)
USD	Libor +8%	11%	(1)	(1)	(2)	(2)	(2)	(1)	-	(9)
Trade and other payables	0%	0%	-	(59)	-	-	-	-	-	(59)

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Russian Rouble. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

The Group has the following foreign-currency denominated financial assets and liabilities:

2005	USD-denominated	Euro-denominated	RUR-denominated	Other currencies-denominated	Total
Current assets	20	91	123	-	234
Non-current assets	10	5	3	-	18
Current liabilities	(11)	(105)	(87)	-	(203)
Non-current liabilities	(176)	(221)	(40)	(1)	(438)

2004	USD-denominated	Euro-denominated	RUR-denominated	Other currencies-denominated	Total
Current assets	3	1	76	-	80
Non-current assets	2	3	3	-	8
Current liabilities	(4)	(4)	(157)	-	(165)
Non-current liabilities	(25)	(6)	(72)	-	(103)

(d) Fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

Market rates are the same as applied ones for the rest part of assets.

USD	**Carrying amount 2005**	**Fair value 2005**	**Carrying amount 2004**	**Fair value 2004**
Long-term financial assets	6	6	2	2
Long-term receivables and other assets	12	12	6	6
Trade and other receivables	217	217	77	77
Short-term financial assets	17	17	3	3
Long-term payables and accruals	(59)	(59)	(30)	(30)
Long-term loans and borrowings	(379)	(379)	(73)	(73)
Bank overdraft	(12)	(12)	-	-
Trade and other payables	(140)	(140)	(64)	(64)
Short-term loans and borrowings	(51)	(51)	(101)	(101)

32. Operating leases

Production companies of the Group did not enter into operating leases agreements. Amount of operating lease rentals payable of retail business was negligible.

33. Commitments

The Group has entered into a contract to purchase plant and equipment for USD 8 million (2004: USD 10 million).

34. Contingencies

(a) Insurance

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group has insured a significant part of the Group's production facilities, including Voronezh tyre plant, Kirov tyre plant, Kemerovo Chemical Fiber plant against damage arising from accidents or fire. The insurer, however, will not reimburse the Group for business interruption or any environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Corporate law

In 2004 the Group sold 15% of its shares in OAO Shinny Komplex Amtel-Povolzhye (formerly, OAO Kirov tyre plant) to a related party.

During 2004 and 2005 transactions in OAO Shinny Komplex Amtel-Povolzhye were made whereby the Company issued guarantees and pledges for other companies of the Amtel Group for the amount of approximately USD 265 million. Russian legislation requires that such transactions be approved by minority shareholders at a shareholders' meeting. In such voting, the majority shareholder and its "affiliated entities" (as defined in Russian law) are by law excluded from voting. Management believes that the acquiring party is not an affiliated entity under Russian law and therefore that the risk of these transactions being challenged, and the likelihood of success by any such challenger, is remote.

In the event that a challenge, if any, were successful, finance lease non-current liabilities USD 25 million and long-term credit link notes in the amount of USD 175 million could become repayable on demand. In such circumstance the Group may be forced to negotiate new terms of repayment with the lender, or to forfeit the leased assets - refer note 18(c).

In 2005, the Group, exercised its option and repurchased the shares from the related party.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised 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 and the Ukraine 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 and Ukrainian 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 which were acquired by the Group were involved in tax optimization programs. Management of the retail chains involved, controlled the transactions. Although the Group is not responsible for the potential violations of the tax legislations, this all could finally 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 result of potential claims is seen by management low and as less than probable.

35. Related party transactions

(a) Control relationships

The Company's Parent Company is Amtel Luxembourg S.A., which is the ultimate holding company.

Related parties comprise the controlling shareholder of the Parent Company and all other companies in which the shareholder has a controlling interest or significant influence. Transactions with key management personnel and entities, that are controlled, jointly controlled or significantly influenced by individuals mentioned, were recognized and disclosed as related party transactions as well.

(b) Share award and share appreciation rights

Pursuant to the terms of a Share Award Agreement, between the Company and Alexei Gurin, its Chief Financial Officer at that date, dated 4 February 2004, the Company issued 40 ordinary shares (an equivalent of 40,000 after the split and 83,200 after bonus issue - refer note 0), to Mr. Gurin as a reward and compensation for his services to the Company and the Group. The shares vested immediately. On the date of issue, the fair value of the shares was estimated at approximately USD 5 million. In accordance with the Group's accounting policies for such transactions, no expense has been recognised in these financial statements.

In December 2004 the Company decided to grant to certain members of the management the right to acquire up to 10% of all of the issued shares of the Company at a favourable price or to receive an equivalent cash alternative. The share appreciation rights are exercisable if management meets certain individual targets (including achievement of a market capitalization of USD 750 million by the Group and certain individual targets specific for each employee) and expire in 10 years after the grant date.

In accordance with the decision, the Company issued share appreciation rights with cash alternative for 1% of the Company's shares in 2004. The rights vest in 4 instalments with 63% vesting on the first anniversary after the grant date and the remaining 37% in three equal instalments on the second to fourth anniversary after the grant date. These share option plans were revised and were executed by the end of the year in full amount. The fair value of the share appreciation rights at the balance sheet date was recognised in these financial statements in amount of USD 6 million.

SOP I. In October 2005 pursuant to the terms of share option agreements (the Share Option Agreements) the Company granted to Messrs. Hettema, Oudshoorn and Tholens share options (The Share Options) to purchase up to an aggregate of 260,000 shares representing approximately 0.29 % of the Company's share capital at USD 12.72 per share. All shares issued to the Company executives under the terms of the Share Option Agreements are subject to the Market Stand Off. The Market Stand Off will commence of the effective date of 14 November 2005 and end 180 days after the 17 November 2005.

SOP II. In October 2005 pursuant to the terms of share option agreements (the Further Option Agreements) the Company granted to Messrs. Gurin, Nekrassov, Bokhanov, Topchiyan, Oudshoorn, Tholens, Hettema, Luyten, Snel, Kramer and Mos options to purchase as specified percentage of post-Offering Shares, as set forth in the following table:.

Grantee	Persentage of shares, %
Gurin	2.5
Nekrassov	1.5
Bokhanov	1.0
Topchiyan	1.0

Oudshoorn	0.56
Tholens	0.56
Hettema	0.44
Luyten	0.44
Snel	0.44
Kramer	0.28
Mos	0.28

The per Share exercise of each option is the per Share price of the Offering. Each option vests upon the earlier of:

- the third party anniversary of the grant date; or
- a second public offering that results in the issuance and sale by the Company of shares (or depositary receipts reflecting shares) in a firm commitment public underwriting n a recognised stock exchange generating not less that USD 100 million in proceeds to the Company following the Offering.

(c) Management remuneration

Members of Executive Board received the following remuneration during the year, which is included in personnel costs (see note 13).

	2005
	USD million
Salaries and bonuses	1
Share options	4
	5

A.Gurin	*USD thousands*
Salaries and bonuses	347
Related taxes	7
Share option	1,981
Total	2,335

V. Nekrassov	*USD thousands*
Salaries and bonuses	318
Related taxes	7
Share option	1,923
Total	2,248

R. Oudshoorn*	*USD thousands*
Salaries and bonuses	102
Pension fund	18
Total	120

T. Tholens*	*USD thousands*
Salaries and bonuses	70
Pension fund	12
Total	82

* for the period 01/09/2005 – 31/12/2005

During 2004 the Parent company had a single Director who received no remuneration. Executive Board was organized in 2005.

A. Gurin, T. Tholens and R. Oudshoorn participate in option programs - refer to the note (b).

(d) Transactions with related parties

During 2005 the Group performed the following transactions with related parties:

	2005 *USD million*	Counterparty	2004 *USD million*	Counterparty
Sales to related parties	2		5	
	2	Mr.Vinnik	3	Mr.Vinnik
	-		2	Amtel-Enterprises
Purchases of goods	9		10	
	8	OOO Kraft	2	Amtel-Nokian Tyres
	1	OOO Sherl	8	OOO Sherl
Rent expenses incurred	2		2	
	2	Mr.Gupta	2	Mr.Gupta
Consideration paid to related parties for minority shares in subsidiaries	2		1	
	2	Vranova	1	Ineko-leasing, Baumanka-Tour
Acquisition of property, plant and equipment	2		17	
	2	Krasshina-Invest	12	Amtel-Investment
	-		5	SP Rosava
Acquisitions of intangible assets	-		2	
	-		2	Amtel-Investment
Proceeds from disposal of subsidiaries	3		-	
	3	Krasshina-Invest	-	
Loans repaid by related parties	2		-	
	2	Amtel-Development	-	
Repayment of loans to related parties	-		(10)	Ukrsibbank
Loans issued to related parties	(10)		-	
	(10)	Amtel-Development	-	

(e) Balances with related parties

As of 31 December 2005 the Group companies recorded the following balances with related parties:

	2005 USD million	Counterparty	2004 USD million	Counterparty
Short-term interest bearing loans issued to related parties	11		3	
	8	Amtel-Development	-	
	3	Amtel-Investment	3	Amtel-Investment
Trade and other receivables	3		4	
	3	Amtel-Development	3	Amtel-Development
	-		1	Astel-Finance
Payables to related parties other than controlling shareholder	3		7	
	3	Employees	7	Employees
	-		2	Amtel-Nokian Tyres
	-		1	OOO Sherl
Payables to related parties	2	Amtel-Development	2	Amtel-Development

During the period the Group sold third party receivables amounting to USD 1 million to a related party.

(f) Pricing policies

Prices for transactions with the related parties are determined as agreed between the parties.

36. Significant subsidiaries

	Note	Country of incorporation	Effective ownership interest on 31 December 2005 %	Effective ownership interest on 31 December 2004 %
Holding companies				
Amtel Exports PTE Limited		Cyprus	100	100
Tapistron Limited		Cyprus	100	100
OAO Amtel-Vredestein (formerly OOO Kholdingovaya Kompaniya Amtel)		Russia	100	100
Production companies				
Krasnoyarsk tyre plant				
ZAO Shinny Komplex Amtel-Sibir		Russia	-	100
ZAO Krasny Yar-Shina		Russia	-	100
ZAO Sibirskaya Shina		Russia	-	100
OOO PO Krasnoyarsky Shinny Zavod (formerly OOO TD Krasnoyarsky Shinny Zavod)		Russia	-	100
OOO Krasshina Invest		Russia	-	100
OOO TD Amtel-Elast		Russia	-	100
Voronezh tyre plant				
OOO Amtel Chernozemye		Russia	100	100
OAO Shinny Komplex Amtel Chernozemye		Russia	100	100
Kirov tyre plant				
OOO TD Kirovsky Shinny Zavod		Russia	90	86
OOO Vyatskaya Shina		Russia	90	86
OAO Shinny Komplex Amtel Povolzhye (formerly OAO Kirovsky Shinny Zavod)		Russia	90	86
Volgograd carbon black plant				
OOO Amtel-Carbon		Russia	-	100
OOO Volgogradsky Zavod Ttekhugleroda		Russia	-	100
OOO Volgokhimpererabotka		Russia	-	100
Kemerovo Chemical Fiber Plant				
OAO Khimvolokno Amtel-Kuzbass		Russia	-	100
OOO Khimvolokno Amtel-Kuzbass		Russia	100	100

	Note	Country of incorporation	Effective ownership interest on 31 December 2005 %	Effective ownership interest on 31 December 2004 %
Major trading companies				
OOO Amtelshintorg		Russia	-	100
OOO Amtel-shina Kuzbass		Russia	-	100
OOO Amtelshinprom		Russia	100	100
OOO Amtelshinprom-Chernozemye		Russia	-	100
OOO Amtelshinprom-Krasnoyarsk		Russia	-	100
OOO Amtelshinprom-Severo-Zapad		Russia	-	100
OOO Amtelshinprom-Sibir		Russia	-	100
OOO Amtelshinprom-Yug		Russia	-	100
OOO Amtelshinrpom-Povolzhye		Russia	-	100
Retail chain				
OOO AV-TO		Russia	100	-
OOO Rosshina-Master		Russia	100	-
OOO Rossina-Zapchasti		Russia	100	-
OOO Lamel		Russia	100	-
OOO Norte-M		Russia	100	-
OOO Norte-MB		Russia	100	-
OOO Nor-M		Russia	100	-
OOO Nor-MB		Russia	100	-
OOO Koleso-MB		Russia	100	-
Vreredestein Group				
Vredestein Banden B.V.		The Netherlands	100	-
Vredestein Consulting B.V.		The Netherlands	100	-
N.V. Vredestein SA		Belgium	100	-
Vredestein GmbH		Germany	100	-
Vredestein (UK) Ltd		UK	100	-
Vredestein France SA		France	100	-
Vredestein Italia Srl		Italy	100	-
Vredestein Norge A/S		Norwey	100	-
Vredestein GesmbH		Austria	100	-
Vredestein Iberica SA		Spain	100	-
Vredestein Daeck AB		Sweden	100	-
Vredestein Maloya AG		Switzerland	100	-
Vredestein USA		USA	100	-
Vredestein Kft		Hungary	100	-
Other companies				
Melina Investments		BVI	100	100
OOO Amtel – Logistics Center		Russia	100	100

37. Explanation of Transition to IFRS

The Group prepared the IFRS financial statements based on the IFRS financial statements filed with the London Stock Exchange. To achieve transparency the IFRS financial statements previously prepared by the Company are the basis for the transition to IFRS.

In preparing its IFRS balance sheet as of 1 January 2005, the Group recorded the following adjustments to previously reported financial statements prepared in accordance with Netherlands GAAP.

(i) Consolidated balance sheet as at 1 January 2004 and 31 December 2004

million USD	Dutch GAAP	Effect of transition	IFRS	Dutch GAAP	Effect of transition	IFRS
Assets		1 January 2004			31 December 2004	
Non-current assets						
Property, plant and equipment	255	-	255	279	-	279
Intangible fixed assets	79	-	79	87	-	87
Long-term financial assets	2	-	2	2	-	2
Long-term receivables and other assets	-	-	-	6	-	6
Deferred tax assets	2	-	2	2	-	2
Total non-current assets	338	-	338	376		376
Current assets						
Short-term financial assets	5	-	5	3	-	3
Inventories	54	-	54	69	-	69
Trade and other receivables	93	(16)	77	77	-	77
Cash and cash equivalents	11	-	11	7	-	7
Total current assets	163	(16)	147	156	-	156
Total assets	501	(16)	485	532	-	532
Equity						
Issued share capital	-	-	-	-	-	-
Additional paid in capital	200	-	200	222	-	222
Foreign currency translation reserve	(3)	3	-	-	-	-
Retained earnings	19	(19)	-	5	-	5
Minority interest	53	-	53	10	-	10
Total equity	269	(16)	253	237	-	237
Liabilities						
Long-term loans and borrowings	76	-	76	73	-	73
Deferred tax liability	42	-	42	27	-	27
Long-term payables and accruals	1	-	1	30	-	30
Total non-current liabilities	119	-	119	130	-	130
Bank overdraft	-	-	-	-	-	-
Short-term interest-bearing loans and borrowings	46	-	46	101	-	101
Trade and other payables	67	-	67	64	-	64
Total current liabilities	113	1	114	165	-	165
Total liabilities	232	1	233	295	-	295
Total equity and liabilities	501	(16)	485	532	-	532

The differences between Dutch GAAP and IFRS balances mainly relate to time of transactions recognition.

Consolidated Statement of Income for the year ended 31 December 2004

million USD

	Dutch GAAP	Effect of transition	IFRS
External sales	481	-	481
Cost of sales	(412)	-	(412)
Gross profit	69	-	69
Other operating income	-	6	6
Distribution expenses	(16)	-	(16)
Administrative expenses	(32)	(2)	(34)
Taxes, other than on profit	-	(3)	(3)
Impairment losses	-	2	2
Other operating expenses	-	(3)	(3)
Operating result	21	-	21
Net financing costs	(22)	-	(22)
Loss before taxation	(1)	-	(1)
Income tax benefit/(expense)	-	-	-
Minority interest	6	-	6
Net loss	5	-	5

(ii) Reconciliation of the cash flow statement for the year

There are no any material differences between the cash flow statement presented under IFRS and the cash flow statement presented under previous Dutch GAAP.

Notes to the reconciliation

The description below of the reconciling differences has been prepared based on the Dutch GAAP financial statements have been adopted by the management on 20 June 2005. The Company made use of the exemption under Dutch law (Article 408 Book 2 BW) to prepare consolidated financial statements. Therefore, for the purpose of this financial report and for the purpose of the IFRS reconciliation, we prepare pro forma consolidated balance sheets and an income statement for the year.

38. Subsequent events

The Credit Link Notes covenant was amended on 11 May 2006- refer note 27(d).

Statutory Balance sheet as at 31 December 2005

(before profit appropriation of result) [(2)]

In million USD	*Notes*	2005		2004	
ASSETS					
Non-current assets					
Financial fixed assets	39(d) (ii)	434		244	
			434		244
Current assets					
Inventories		-		7	
Trade and other receivables	39(d) (iii)	173		1	
Securities		-		-	
Cash and cash equivalents		10		3	
			183		11
			617		255
Shareholders' equity	*39(d)(iiii)*				
Issued capital		1		-	
Additional paid in capital		450		222	
Legal reserve		12			
Foreign currency translation reserve		(4)		-	
Retained earnings		(7)		-	
Net result for the period		(81)		5	
		371		227	
Total equity		371		227	
Non-current liabilities		238		21	
Current liabilities		8		6	
			617		254

Statutory Income statement

For the year ended 31 December 2005

In million USD	2005	2004
Share in results from participating interests, after taxation	(78)	5
Other result after taxation	(3)	-
Net result	(81)	5

39. Notes to the 2005 Statutory Company balance sheet and statement of income

(a) General

The separate Company only financial statements are part of the 2005 consolidated financial statements of Amtel-Vredestein N.V. With reference to the separate income statement Amtel-Vredestein N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

(b) Principles for the measurement of assets and liabilities and the determination of the result

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its separate financial statements, Amtel–Vredestein N.V. makes use of the option provided in section 2:362 (8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of Amtel-Vredestein N.V. are the same as those applied for the consolidated EU-IFRS financial statements. Participating interests, over which significant influence is exercised, are stated on the basis of the equity method. These stand alone EU-IFRS financial statements are prepared according to the standards laid down by the International Accounting Standards Board and adopted by the European Union (hereinafter referred to as EU-IFRS). Please see pages 12 to 20 for a description of these principles.

The share in the result of participating interests consists of the share of Amtel-Vredestein N.V. in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between Amtel-Vredestein N.V. and its participating interests and mutually between participating interests themselves are not incorporated insofar as they can be deemed to be unrealised.

(c) Change in accounting policies

As a result of the application of the accounting principles used in the consolidated financial statements to the separate financial statements, Amtel-Vredestein N.V. has implemented a change in accounting policies. This change in accounting policies is the result of using the option in section 2:362 (8) of the Netherlands Civil Code: By making use of this option reconciliation is maintained between the consolidated and the separate shareholders' equity.

The separate company only financial statements were previously prepared in compliance with the principles for recognition and measurement of assets and liabilities and determination of the result referred to in Part 9, Book 2 of the Netherlands Civil Code (BW2). The change in accounting policies, which is treated retrospectively, has had an effect on the shareholders' equity and the result. The impact on the shareholders' equity as at 1 January 2004 and 31 December 2004 amounts to USD 179 million. The impact on the result for 2004 amounts to USD - million.

For the purposes of comparison, the comparative figures have been adjusted on the basis of the changed accounting principles. For more detailed information, please refer to paragraph 37 concerning the statement of the transition to IFRS.

(d) Principles for the valuation of assets and liabilities and the determination of the result

The principles for the valuation of assets and liabilities and the determination of the result are the same as those applied to the consolidated profit and loss account, with the exception of the following:

(i) Result from participating interests

The share in the result of participating interests consists of the share of Amtel-Vredestein N.V. in the result of these participating interests. Results on transactions, where the transfer of assets and liabilities between Amtel-Vredestein N.V. and its participating interests and mutually between participating interests themselves, are not incorporated insofar as they can be deemed to be unrealized.

(ii) Financial fixed assets

In million USD	2005	2004
Participating interests in group companies	280	244
Accounts receivable from group companies	130	-
Other receivables	12	-
Deferred tax assets	12	-
	434	244

The movements of the participating interests in group companies can be shown as follows:

In million USD	2005	2004
Position as at 1 January	244	1
Change in Accounting Principles		238
Investments/divestments	114	-
Result	(78)	5
Exchange rate difference	-	-
Position at 31 December	280	244

(iii) Trade and other receivables

In million USD	2005	2004
Accounts receivable from group companies	170	-
Prepayments and accrued income	3	-
	173	

(iv) Shareholders' equity

In million USD	Share Capital	Additional paid in capital	Foreign currency translation reserve	Legal Reserve	Retained Earnings	Net result for the year	TOTAL
Statutory Equity at 31 December 2003 (in RUR million)	*1*	*6,413*	*(1)*	*-*	*(515)*	*(73)*	*5,825*
Statutory Equity as at 1 January 2004 (in USD million)	-	218	-	-	(18)	(2)	198
Translation result due to change in accounting policy (IFRS)	-	(18)	-	-	18	2	2
Statutory Equity as at 1 January 2004	-	200	-	-	-	-	200
Change in accounting principles (functional currency)	-	12	1	-	-	-	13
Shares issued	-	9	-	-	-		9
Result for the year	-	-	-	-	-	5	5
Statutory Equity at 31 December 2004	-	221	1	-	-	5	227
Appropriation of result for the period	-	-	-	-	5	(5)	-
Legal reserve	-	-	-	12	(12)	-	-
Issue of shares to existing shareholders	1	(1)	-		-	-	-
Issue of shares to new shareholders	-	75	-		-	-	75
IPO Proceeds	-	139	-		-	-	139
Issue for share options	-	6	-		-	-	6
Conversion preferred shares into ordinary shares plus accumulated dividends	-	17	-		-	-	17
Translation result	-	(7)	(5)	-	-	-	(12)
Loss for the period	-	-	-		-	(81)	(81)
Balance at 31 December 2005	1	450	(4)	12	(7)	(81)	371

(v) Issued capital

The authorised capital of Amtel-Vredestein N.V. amounts to USD 3 million (2004: USD - million), divided into 222,148,650 ordinary shares of EUR 0.01 each, of which 68,140,803 ordinary shares have been issued. In 2005, 639,308 ordinary shares were issued in connection with the exercise of option rights.

(vi) Foreign currency exchange translation reserve

Exchange differences resulting from the conversion of foreign entities (including group loans to foreign units). In the case of the sale of a participating interest, the associated accumulated exchange differences are transferred to the other reserves.

(vii) Retained earnings

The General Meeting of Shareholders will be asked to approve the results for the 2005, net loss: an amount of USD 81 million. No dividend will be declared.

(viii) Option schemes

Personnel

During the period under review, the Company has a Board of Supervisory Directors who received no remuneration.

Board of Directors

Members of the Executive Board were awarded an option scheme to obtain shares in Amtel-Vredestein N.V. – refer note 35(b)

(e) Off-balance sheet commitments

Reference to IFRS consolidated.

(i) Tax entity

Amtel-Vredestein N.V. forms a fiscal entity together with its Dutch subsidiaries for corporation tax purposes; the standard conditions stipulate that each of the companies is liable for the corporation tax payable by all companies belonging to the fiscal entity.

(ii) Share in results from participating interests

This concerns the share of Amtel-Vredestein N.V. in the loss of its participating interests, of which an amount of USD 78 million concerns group companies.

(f) Emoluments of directors and supervisory directors

The emoluments, including pension obligations as intended in Section 2:383(1) Netherlands Civil Code, which were charged in the financial year to Amtel-Vredestein N.V. and group companies, amounted to USD 6 million (2004: USD - million) for Directors and former Directors – refer note 35(c).

Loans, prepayments and guarantees granted to the company's directors and company's supervisory directors amounted to USD - million (2004: USD - million).

An option scheme was set up for members of the Executive Board, which is set out under shareholders' equity (note 35(b)).

40. Transition to IFRS of statutory financials of the Parent Company

In preparing its IFRS balance sheet as of 1 January 2005, the Group recorded the following adjustments to previously reported financial statements prepared in accordance with Netherlands GAAP.

(i) Statutory balance sheet as at 1 January 2004 and 31 December 2004

million USD	Dutch GAAP	Effect of transition	IFRS	Dutch GAAP	Effect of transition	IFRS
Assets		1 January 2004			31 December 2004	
Non-current assets						

Tangible fixed assets	24	-	24			
Financial fixed assets	192	-	192	56	188	244
Total non-current assets	216	-	216	56	188	244
Current assets						
Financial assets	10	-	10	-	-	-
Inventories	-	-	-	7	-	7
Trade and other receivables	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	3	-	3
Total current assets	10	-	10	10	-	10
Total assets	226		226	66	188	254
Equity						
Issued share capital	-	-	-	-	-	-
Additional paid in capital	218	(18)	200	218	4	222
Foreign currency translation reserve	-	-	-	-	-	-
Retained earnings	(18)	18	-	-	-	-
Result for the year	(2)	2	-	(170)	175	5
Total equity	198	2	200	48	179	227
Liabilities						
Payables and accruals	1	-	1	12	9	21
Total non-current liabilities	1	-	1	12	-	21
Trade and other payables	27	(2)	25	6	-	6
Total current liabilities	27	(2)	25	6	-	6
Total liabilities	28	(2)	26	18	-	18
Total equity and liabilities	226	-	226	66	188	254

Changes in balances in transition from Dutch GAAP to IFRS relate mainly to the IFRS adjustment of financial fixed assets.

Statutory Statement of Income for the year ended 31 December 2004

million USD

	Dutch GAAP	Revaluation	IFRS
Share in results from participating interests, after taxation	-		
Other result after taxation	5	-	5
Net result	5	-	5

(ii) Reconciliation of the cash flow statement for the year

There is no any material differences between the cash flow statement presented under IFRS and the cash flow statement presented under previous Dutch GAAP.

Notes to the reconciliation

The description below of the reconciling differences has been prepared based on the Dutch GAAP financial statements have been adopted by the management on 20 June 2005. The Company made use of the exemption under Dutch law (Article 408 Book 2 BW) to prepare consolidated financial statements. Therefore, for the purpose of this financial report and for the purpose of the IFRS reconciliation, we prepare pro forma consolidated balance sheets and an income statement for the year.

Amsterdam, 30 May 2006

The financial statements were prepared on 30 May 2006 by the Executive Board of Directors.

Alexey Gurin
Director A

Ton Tholens
Director B

Sergey Bokhanov
Director A

Rob Oudshoorn
Director B

KPMG

KPMG Audit
Document to which our auditor's report of

30 MAY 2006

also refers.
Initials for identification purposes
KPMG Accountants N.V.

OTHER INFORMATION

AUDITOR'S REPORT

Introduction

We have audited the financial statements of Amtel-Vredestein N.V., Amsterdam, for the year 2005 as set out on pages 32 to 92. These financial statements consist of the consolidated financial statements and the company financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at 31 December 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of the company as at 31 December 2005 and of the result for the year then ended in accordance with accounting principles generally accepted in the Netherlands and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Furthermore we have established to the extent of our competence that the annual report is consistent with the company financial statements.

Amstelveen, 30 May 2006

KPMG ACCOUNTANTS N.V.

F.A.C.M. van Kasteren RA/R.J. Groot RA

PROVISIONS IN THE ARTICLES OF ASSOCIATION GOVERNING THE APPROPRIATION OF PROFIT

Under article 39 of the company's articles of association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

The company can only make payments to the shareholders and other parties entitled to the distributable profit insofar as the shareholders' equity is greater than the paid-up and called-up part of the capital plus the legally required reserves.

RETAINED EARNINGS

The General Meeting of Shareholders will be asked to approve the results for the 2005, net loss: an amount of USD 81 million. No dividend will be declared.

SHAREHOLDER INFORMATION

General Information

General information about the company may be obtained by contacting Amtel-Vredestein Investor Relations at:

Address: Kutuzovskiy Prospect, 45, bldg 1, Moscow, Russia 121170
Tel.: +7 495 981 981 8
Fax: +7 495 142 0979
E-mail: investors@amteltyre.com

Corporate Office

Address: Herengracht 469, 1017 BS, Amsterdam, The Netherlands
Web-site: www.amtel-vredestein.com

Annual General Meeting

The Annual General Meeting of Amtel-Vredestein N.V. will be held on Monday 26 June at 14:00 at Hotel the Grand Sofitel Demeure, Oudezijds Voorburgwal 197, 1012 EX Amsterdam. A formal notice, together with the proxy statement and proxy form, will be mailed in advance of the meeting to all stockholders of record entitled to vote.

Register Agent & Depository

Correspondence concerning Amtel-Vredestein N.V. stock holdings or changes of address should be directed to:
Address: Herengracht 469, 1017 BS, Amsterdam, The Netherlands
Web-site: www.amtel-vredestein.com

GDR holders should contact Bank of New York:
Address: 101 Barclay Street, 22nd Floor – New York, NY, 10286

General Fax: +1 212 571 3050
Web-site: www.bankofny.com

Independent Auditors

KPMG Accountants N.V.:
Address: Burgemeester Rijnderslaan 10-20, 1185 MC, Amsterdam
Fax: +31 20 656 7510
Web-site: www.kpmg.nl

CORPORATE GOVERNANCE POLICY (ATTACHMENT)

Corporate Governance of Amtel-Vredestein N.V.
On the basis of the **Dutch Corporate Governance Code**

Introduction

Amtel-Vredestein N.V. is the twelfth largest global tyre manufacturer in terms of worldwide tyre sales. The Company sells passenger car tyres under the VREDESTEIN (including VREDESTEIN in collaboration with Giugiaro Design), AMTEL and MALOYA brands manufactured at its facilities in Enschede, The Netherlands; Kirov and Voronezh, Russia. The Company has been listed on the London Stock Exchange since 18 November 2005.

Until the listing, the Dutch Corporate Governance Code published on 9 December 2003 (the "**Code**") was not directly applicable to the Company. In this report, for the first time, the Company indicates the extent to which it is in compliance with the Code and, in the event of non-compliance, why and to what extent it is not in compliance.

In preparing this report, the Company used the Code as a basis for providing a detailed overview of its corporate governance in accordance with its interpretation of the Code.

As the Code has only applied to the Company since its listing in November 2005, it is not as yet in full compliance with the Code. However, over the course of the next one to two years, the Company intends to undertake steps to more fully implement its provisions.

Executive Board and Supervisory Board
Amtel-Vredestein N.V.

May 2006

I. COMPLIANCE WITH AND ENFORCEMENT OF THE CODE

Principle

The Executive Board (the "EB") and the Supervisory Board (the "SB") are responsible for the corporate governance structure of the Company and compliance with this Code. They are accountable for this to the general meeting of shareholders (the "AGM"). Shareholders should take careful note and make a thorough assessment of the reasons for any non-application of best practice provisions of the Code by the Company. They should avoid adopting a 'box-ticking approach' when assessing the corporate governance structure of the company.

Best practice provisions

I.1 The broad outline of the corporate governance structure of the Company shall be explained in a separate chapter of the annual report, partly by reference to the principles mentioned in the Code. In this chapter the Company shall indicate expressly to what extent it applies the best practice provisions in the Code and, if it does not do so, why and to what extent it does not apply them.
The Company applies this best practise provision. The 2005 Annual Report contains a separate chapter setting out the broad provisions of the Company's corporate governance structure. In addition, this supplement has been made available on our corporate website in order to provide the Company's shareholders and other stakeholders with a detailed overview of the Company's corporate governance structure, including a description of the Company's application of the best practice provisions of the Code. It will be proposed at the 2006 AGM to amend the articles of association of the Company accordingly.

I.2 Each substantial change in the corporate governance structure of the Company and in the compliance of the Company with the Code shall be submitted to the AGM for discussion as a separate agenda item.
The Company applies this best practice provision. The Company shall report substantial changes in its corporate governance structure and in its application of the Code for discussion at the AGM as a separate agenda item.

II. EXECUTIVE BOARD

II.1 Role and procedure

Principle

The role of the EB is to manage the Company, which means, among other things, that it is responsible for achieving the Company's aims, strategy and policy, and results. The EB is accountable for this to the SB and to the AGM. In discharging its role, the EB shall be guided by the interests of the Company and its affiliated enterprise, taking into consideration the interests of the company's stakeholders. The EB shall provide the SB in a timely manner with all information necessary for the exercise of the duties of the SB.

The EB is responsible for complying with all relevant legislation and regulations, for managing the risks associated with the Company's activities and for financing the Company. The EB shall report related developments to and shall discuss the internal risk management and control systems with the SB and its audit committee.

Best practice provisions

II.1.1 An EB member is appointed for a maximum period of four years. A member may be reappointed for a term of no more than four years at a time.
The current members of the Executive Board have been appointed for an indefinite period in accordance with the Company policy that was then applicable policy. However the Remuneration Policy, adopted by the Company on 07 October 2005 stipulates that as of 01 January 2006 Executive Board members will be appointed for a maximum term of four years. The Company will apply this best practice provision in 2006. It will be proposed at the 2006 AGM to amend the articles of association of the Company accordingly.

II.1.2 The EB shall submit to the SB for approval:

a) the operational and financial objectives of the Company;
b) the strategy designed to achieve the objectives;
c) the parameters to be applied in relation to the strategy, for example in respect of the financial ratios.

The main elements shall be mentioned in the annual report.
The Company applies this best practice provision.

II.1.3 The Company shall have an internal risk management and control system that is suitable for the Company. It shall, in any event, employ as instruments of the internal risk management and control system: a) risk analyses of the operational and financial objectives of the Company; b) a code of conduct that should, in any event, be published on the Company's website; c) guides for the layout of the financial reports and the procedures to be followed in drawing up the reports; and d) a system of monitoring and reporting.

At present only certain subsidiaries of the Company have an internal risk management and control system in place. However, the Company is aware of the need to create such a system for the Group as a whole. Of course, the Company will use the available experience and expertise of its subsidiaries and make a concerted effort to apply the best practice provision in 2006.

II.1.4 The EB shall declare in the annual report that the internal risk management and control systems are adequate and effective and shall provide clear substantiation of this. In the annual report, the EB shall report on the operation of the internal risk management and control system during the year under review. 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 SB.

As mentioned in item II.1.3., only certain subsidiaries of the Company have an internal risk management and control system in place. However, the Company is aware of the need to create such a system for the Group as a whole. Of course, the Company will use the available experience and expertise of its subsidiaries and make a concerted effort to apply this best practice provision in 2006.

II.1.5 The EB shall, in the annual report, set out the extent to which the Company's results depend on external factors and variables.

The Company applies this best practice provision. There will be a separate section in the Annual Report on certain risk factors that could have an adverse material effect on our future business, operating results and financial condition.

II.1.6 The EB shall ensure that employees have the possibility to report alleged irregularities of a general, operational and financial nature in the company to the chairman of the EB or to an official designated by him, without jeopardising their legal position. Alleged irregularities concerning the functioning of EB members shall be reported to the chairman of the SB. The arrangements for whistle-blowers shall in any event be posted on the company's website.

The Company will establish a whistle-blowing policy for the Group in 2006.

II.1.7 A EB member may not be a member of the SB of more than two listed companies. Nor may an EB member be the chairman of the SB of a listed company. Membership on the SB of other companies within the group to which the company belongs does not count for this purpose. The acceptance by an EB member of membership on the SB of a listed company requires approval of the SB. Other important positions held by an EB member shall be reported to the SB.

The Company applies this best practice provision. None of the members of the Executive Board of the Company have more than two supervisory board memberships in listed companies, nor are any of them chairman of the supervisory board of a listed company. The Supervisory Board is the approving body if members of the Executive Board wish to accept a supervisory board membership in a listed company and shall be notified when members of the Executive Board wish to assume other important positions.

II.2 Remuneration

Amount and composition of remuneration

Principle

The amount and structure of remuneration that EB members receive from the Company for their work shall be such that qualified and expert managers can be recruited and retained. If remuneration consists of a fixed and a variable part, the variable part shall be linked to targets that have been previously determined, measured and can be influenced, which must be achieved partly in the short term and partly in the long term. The variable part of remuneration is designed to strengthen the board members' commitment to the Company and its objectives.

Remuneration structure, including severance pay, is such that it promotes the interests of the Company in the medium and long term, does not encourage EB members to act in their own interests and neglect the interests of the Company and does not 'reward' failing board members upon termination of their employment. The level and structure of remuneration shall be determined in light of, among other things, the results, share price performance and other developments relevant to the Company.

The shares held by an EB member in the company on whose board he sits are long-term investments. The amount of compensation that an EB member may receive on termination of his employment may not exceed one year's salary, unless this would be manifestly unreasonable in the circumstances.

Best practice provisions

II.2.1 Options to acquire shares are a conditional remuneration component, and become unconditional only when EB members have fulfilled predetermined performance criteria after a period of at least three years from the date shares are granted.
The Company does not apply this best practice provision because arrangements were established and approved by the Company prior to listing.

II.2.2 If the Company, not withstanding best practice provision II.2.1, grants unconditional options to EB members, it shall apply performance criteria when doing so and the options should, in any event, not be exercised in the first three years after they have been granted.
The Company applies this best practice provision.

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 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 does not apply this best practice provision because arrangements were established and approved by the Company prior to listing.

II.2.4 The option exercise price shall not be fixed at a level lower than a verifiable price or a verifiable price average in accordance with the official listing on one or more predetermined days during a period of not more than five trading days prior to and including the day on which the option is granted.
The Company applies this best practice provision.

II.2.5 Neither the exercise price nor the other conditions regarding the granted options shall be modified during the term of the options, except insofar as prompted by structural changes relating to the shares or the Company in accordance with established market practice.
The Company applies this best practice provision.

II.2.6 The SB shall draw up regulations concerning ownership of and transactions in securities by EB members, other than securities issued by their 'own' company. The regulations shall be posted on the Company's website. An EB 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 SB. An EB 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. The Company is in the process of preparing regulations concerning ownership of and transactions in securities by MB members, other than securities issued by the Company. The regulations shall be posted on the Company's website.[‡§]

II.2.7 The maximum remuneration in the event of dismissal is one year's salary (the 'fixed' remuneration component). If the maximum of one year's salary would be manifestly unreasonable for an EB member who is dismissed during his first term of office, such board member shall be eligible for a severance pay not exceeding twice the annual salary.
The Company applies this best practice provision. The Employment Agreements for current members of the Executive Board specify: "If the Company elects to terminate the Executive's employment without cause, the Company shall pay the Executive the salary for one year after the Company's notice of termination".

II.2.8 The Company shall not grant its EB members any personal loans, guarantees or the like unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval of the SB. No remission of loans shall be granted.

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‡ The Insider Trading Rules relate to transactions in securities related to Amtel-Vredestein N.V. This best practice provision refers to regulations with regard to transactions in securities other than securities issued by Amtel-Vredestein N.V.

§ We have provided a memorandum to the (former) MB members to verify whether or not transactions in securities in Dutch listed companies have been transacted by them in 2005. This information needs to be disclosed in accordance with this best practice provision.

At the end of 2004 the Company (former Amtel Holdings Holland N.V.) concluded a Loan Agreement with Mr. Viktor Nekrassov (former Director A of the company). This agreement has since been terminated and is no longer valid. The Company is now in compliance with this best practice provision.

Determination and disclosure of remuneration

Principle

The report of the SB shall include the principal points of the remuneration report of the SB concerning the remuneration policy of the Company, as drawn up by the remuneration committee. The notes to the annual accounts shall, in any event, contain the information prescribed by law on the level and structure of remuneration of individual members of the EB. The remuneration policy proposed for the next financial year and subsequent years as specified in the remuneration report shall be submitted to the AGM for adoption. Every material change in remuneration policy shall also be submitted to the AGM for adoption. Schemes whereby EB members are remunerated in the form of shares or rights to share subscriptions, and major changes to such schemes shall be submitted to the AGM for approval.

The SB shall determine the remuneration of the individual members of the EB, based on a proposal by the remuneration committee, within the scope of the remuneration policy adopted by the AGM.

Best practice provisions

II.2.9 The remuneration report of the SB shall contain an account of the manner in which the remuneration policy has been implemented in the past financial year, as well as an overview of the remuneration policy planned by the SB for the next financial year and subsequent years.

♦ The Company shall apply this best practice provision. This information shall be included in the report of the Remuneration and Appointment Committee in the 2005 Annual Report.

II.2.10 The overview referred to in II.2.9 shall, in any event, contain the following information:

a) a statement of the relative importance of the variable and non-variable remuneration components and an explanation of this ratio;
b) an explanation of any absolute change in the non-variable remuneration component;
c) if applicable, the composition of the group of companies (peer group) the remuneration policy of which determines in parts the level and composition of EB members' remuneration;
d) a summary and explanation of the Company's policy regarding the term of the contracts with EB members, the applicable periods of notice and redundancy schemes and an explanation of the extent to which best practice provision II.2.7 is endorsed;
e) a description of the performance criteria on which any right of the EB members to options, shares or other variable remuneration components is dependent;
f) an explanation of the chosen performance criteria;
g) a summary of the methods that will be applied in order to determine whether the performance criteria have been fulfilled and an explanation of the choice of these methods;
h) if performance criteria are based on a comparison with external factors, a summary should be given of the factors that will be used to make the comparison; if one of the factors relates to the performance of one or more companies (peer group) or of an index, it should be stated which companies or which index has been chosen as the yardstick for comparison;
i) a description and explanation of each proposed change to the conditions on which a Executive Board member can acquire rights to options, shares or other variable remuneration components;
j) if any right of a EB member to options, shares or other variable remuneration components is not performance related, an explanation of why this is the case;
k) current pension schemes and the related financing costs;
l) agreed arrangements for the early retirement of EB members.

The Company shall apply this best practice provision. This information shall be included in the report of the Remuneration and Appointment Committee in the 2005 Annual Report.

II.2.11 The main elements of the contract of a EB member with the Company shall be made public immediately after it is concluded. These elements shall in any event include the amount of fixed salary, the structure and amount of the variable remuneration component, any redundancy scheme, pension arrangements and performance criteria.

At present some elements of the contract of Executive Board members with the Company were disclosed in the IPO Prospectus of the Company. This information has also been disclosed in this Report.[**]

[**] Please note that the obligation to disclose certain information in the annual accounts pursuant to Dutch law (section

II.2.12 If a EB member or former EB member is paid special remuneration during a given financial year; an explanation of this remuneration shall be included in the remuneration report. The remuneration report shall in any event account for and explain remuneration paid or promised in the year under review to an EB member by way of severance pay.
The Company shall apply this best practice provision. All explanation about special remuneration will be given in the 2005 Annual Report.

II.2.13 The remuneration report of the SB shall, in any event, be posted on the Company's website.
The Company shall apply this best practice provision.. The report of the Remuneration and Appointment Committee will be published in the 2005 Annual Report and on the Company's website.

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 EB and the personnel and shall indicate how this value is calculated.
The Company intends to apply this best practice provision and disclose information about options in the notes to its 2005 annual accounts.

II.3 Conflicts of interest

Principle

Any conflict of interest or apparent conflict of interest between the Company and EB members shall be avoided. Decisions to enter into transactions under which EB members would have conflicts of interest that are of material significance to the Company and/or to the relevant EB member require the approval of the SB.

Best practice provisions

II.3.1 An EB member shall:
a) not enter into competition with the Company;
b) not demand or accept (substantial) gifts from the Company for himself or for his wife, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree;
c) not provide unjustified advantages to third parties to the detriment of the Company;
d) not take advantage of business opportunities to which the Company is entitled for himself or for his wife, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree.
♦ *The Company applies this best practice provision. The members of the Executive Board adhere to the above-mentioned rules of conduct.*

II.3.2 An EB member shall immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, to the Chairman of the SB and to the other members of the EB and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. The SB shall decide, without the EB member concerned being present, whether there is a conflict of interest. A conflict of interests exists, in any event, if the company intends to enter into a transaction with a legal entity (i) in which an EB member personally has a material financial interest; (ii) which has an EB member who has a relationship under family law with an EB member of the Company, or (iii) in which an EB member of the Company has a management or supervisory position.
♦ *The procedure as described in this best practice provision in the event of a (potential) conflict of interest is applied by the Company. The procedure will be formalised in the By-Laws of the Executive Board.*

II.3.3 An EB member shall not take part in any discussion or decision making that involves a subject or transaction in relation to which he has a conflict of interest with the Company.
♦ *The Company applies this best practice provision and will formalise this procedure in the By-Laws of the Executive Board.*

II.3.4 All transactions in which there are conflicts of interest with EB 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 EB members that are of material significance to the Company and/or to the relevant board members require the approval of the SB. Such transactions shall be published in the annual report, together with a

2:383 through section 2:383e inclusive Dutch Civil Code) is also applicable.

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 will formalise this procedure in the By-Laws of the Executive Board. In 2005, there were no transactions featuring conflicts of interest with members of the Executive Board that were of material significance to the Company and/or any of the members of the Executive Board.*

III. SUPERVISORY BOARD

III.1 Role and procedure

Principle

The role of the SB is to supervise the policies of the EB and the general affairs of the company and its affiliated enterprise, as well as to assist the EB by providing advice. In discharging its role, the SB shall be guided by the interests of the company and its affiliated enterprise, and shall take into account the relevant interests of the company's stakeholders. The SB is responsible for the quality of its own performance.

Best practice provisions

III.1.1 The division of duties within the SB and the procedure of the SB shall be laid down in a set of regulations. The SB shall include in the regulations a paragraph dealing with its relations with the EB, the AGM and the works council, where relevant. The regulations shall, in any event, be posted on the company's website.
The Company applies this best practice provision. The By-Laws of the Supervisory Board were adopted by the Company on 07 October 2005 and are posted on the Company's Internet site. The SB By-Laws contain the composition of the Supervisory Board, division of duties within the Supervisory Board and the procedure of the Supervisory Board, as well as a description of the relations with the Managing Board and the General Meeting of Shareholders. The Company has no works council. Its wholly-owned subsidiary Vredestein Banden B.V. has a works council. The SB does not have a direct relationship with such a works council. However, one managing director and two supervisory directors of the Company are on the SB of Vredestein Banden B.V.

III.1.2 The annual financial report of the company shall include a report of the SB in which the SB describes its activities in the financial year and which includes the specific statements and information required by the provisions of the Code.

♦ *The Company applies this best practice provision.*

III.1.3 The following information about each SB member shall be included in the report of the SB:
a) gender;
b) age;
c) profession;
d) principal position;
e) nationality;
f) other positions, in so far as they are relevant to the performance of the duties of the SB-member;
g) date of initial appointment;
h) the current term of office.
The information as indicated in this best practice provision with respect to the members of the Supervisory Board of the Company will be included in the report of the Supervisory Board.

III.1.4 A SB member shall retire early in the event of inadequate performance, structural incompatibility of interests, and in other instances in which the SB deems this necessary.
The Company applies this best practice provision, which is set forth in the By-Laws of the Supervisory Board.

III.1.5 SB members who are frequently absent shall be called to account for this. The report of the SB shall state which SB members have been frequently absent from meetings of the SB.
The Company applies this best practice provision, which is stated in the By-Laws of the Supervisory Board. Information (if any) with regard to SB members who have been frequently absent from meetings of the SB will be included in the report of the Supervisory Board.

III.1.6 The supervision of the EB by the SB shall include:
a) achievement of the Company's objectives;
b) corporate strategy and the risks inherent in the business activities;
c) the structure and operation of the internal risk management and control system;

d) the financial reporting process;
e) compliance with the legislation and regulations.
The Company applies this best practice provision, which is stated in the By-Laws of the Supervisory Board.

III.1.7 The SB shall discuss at least once a year on its own, i.e. without the EB being present, both its own functioning and that of individual members, and the conclusions that must be drawn on the basis thereof. The desired profile, composition and competence of the SB shall also be discussed. Moreover, the SB shall discuss at least once a year without the EB being present both the functioning of the EB as an organ of the company and the performance of individual members, and the conclusions that must be drawn on the basis thereof. Reference to these discussions shall be made in the report of the SB.
The Company shall apply this best practice provision, which has been formalised in the By-Laws of the Supervisory Board. Reference to these discussions shall be made in the report of the SB.

III.1.8 The SB shall discuss at least once a year the corporate strategy and the risks of the business, and the result of the assessment by the EB of the structure and operation of the internal risk management and control systems, as well as any significant changes thereto. Reference to these discussions shall be made in the report of the SB.
The Company will apply this best practice provision. This is also included in the By-Laws of the Supervisory Board. Reference to these discussions shall be made in the report of the SB.

III.1.9 The SB and its individual members each have their own responsibility for obtaining all information from the EB and the external auditor that the SB needs in order to be able to carry out its duties properly as a supervisory organ. If the SB considers it necessary, it may obtain information from officers and external advisers of the company. The company shall provide the necessary means for this. The SB may require that certain officers and external advisers attend its meetings.
The Company applies this best practice provision, which has been formalised in the By-Laws of the Supervisory Board.

III.2 Independence

Principle

The composition of the SB shall be such that the members are able to act critically and independently of one another and of the EB and any particular interests.

Best practice provisions

III.2.1 All SB members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2.
The Company is not in compliance with this best practice provision because of its current shareholding structure and arrangements between shareholders. It is intended that at the 2006 AGM a new SB will be elected on which all but two members shall be independent.

III.2.2 A SB member shall be deemed to be independent if the following criteria of dependence do not apply to him. The said criteria are that the SB member concerned or his wife, registered partner or other life companion, foster child or relative by blood or marriage up to the second degree:
a) has been an employee or member of the EB of the Company (including associated companies as referred to in section 1 of the Disclosure of Major Holdings in Listed Companies Act (WMZ) 1996) in the five years prior to the appointment;
b) receives personal financial compensation from the Company, or a company associated with it, other than the compensation received for the work performed as a SB member and in so far as this is not in keeping with the normal course of business;
c) has had an important business relationship with the Company, or a company associated with it, in the year prior to the appointment. This includes the case where the SB member, or the firm of which he is a shareholder, partner, associate or adviser, has acted as adviser to the Company (consultant, external auditor, civil notary and lawyer) and the case where the SB member is an executive board member or an employee of any bank with which the Company has a lasting and significant relationship;
d) is a member of the EB of a company in which a member of the executive board of the company which he supervises is a SB member;
e) holds at least ten percent of the shares in the Company (including the shares held by natural persons or legal entities which cooperate with him under an express or tacit, oral or written agreement);

f) is a member of the executive board or supervisory board - or is a representative in some other way - of a legal entity that holds at least ten percent of the shares in the Company, unless this entity is a member of the same group as the Company;

g) has temporarily managed the Company during the previous twelve months Executive Board members have been absent or unable to discharge their duties.

The Company is not in compliance with this provision. One member of the Supervisory Board is a partner of our external legal adviser. One member of the Supervisory Board is a blood relative of another member of the Supervisory Board. Four members have been appointed at the directive of current shareholders of the Company. [††]

III. 2.3 The report of the SB shall state that, in the view of the SB members, best practice provision III. 2.1 has been fulfilled, and shall also state which SB member is not considered to be independent, if any.

♦ *The Company shall apply this best practice provision. All necessary statements will be included in the report of the Supervisory Board.*

III.3 Expertise and composition

Principle

Each SB member shall be capable of assessing the broad outline of the overall policy. Each SB member shall have the specific expertise required for the fulfilment of the duties assigned to the role designated to him within the framework of the SB profile. The composition of the SB shall be such that it is able to carry out its duties properly. A SB member shall be reappointed only after careful consideration. The profile criteria referred to above shall also be fulfilled in the case of a reappointment.

Best practice provisions

III.3.1 The SB shall prepare a profile of its size and composition, taking account of the nature of the business, its activities and the desired expertise and background of SB members. The profile shall be made generally available and shall, in any event, be posted on the Company's website.

The Company applies this best practice provision.. The By-Laws of the Supervisory Board contains a profile for members of the Supervisory Board in which the above subjects are addressed.. The profile shall be posted on the Company's Internet site as a part of the By-Laws of the Supervisory Board.

III.3.2 At least one member of the SB shall be a financial expert, in the sense that he has relevant knowledge and experience of financial administration and accounting for listed companies or other large legal entities.

The Company applies this best practice provision.

III.3.3 After their appointment, all SB members shall follow an induction programme, which, in any event, covers general financial and legal affairs, financial reporting by the Company, any specific aspects that are unique to the Company and its business activities, and the responsibilities of a SB member. The SB shall conduct an annual review to identify any aspects in which SB members require further training or education during their period of appointment. The Company shall play a facilitating role in this respect.

The Company applies this best practice provision, which has been formalised in the By-Laws of the Supervisory Board.

III.3.4 The number of SBs of Dutch listed companies of which an individual may be a member shall be limited to such an extent that the proper performance of his duties is assured; the maximum number is five, for which purpose the chairmanship of a SB counts double.

The Company applies this best practice provision, which has been formalised in the By-Laws of the Supervisory Board.

III.3.5 A person may be appointed to the SB for a maximum of three 4-year terms.

Prior to listing, current members of the Supervisory Board have been appointed for an indefinite period. Future members of the SB will be appointed for a 4-year term, with a maximum period of extension of two 4-year terms. The By-Laws of the Supervisory Board and the articles of association of the Company will be amended accordingly.

[††] Please note that the provisions of III.2.2 sub c) are not included in the By-Laws Supervisory Board.

III.3.6 The SB shall draw up a retirement schedule in order to avoid, as far as possible, a situation in which many SB 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, as it is laid down in the By-Laws of the Supervisory Board commencing with the election of a new SB at the 2006 AGM. A rotation plan shall be posted on the Company's website.

III.4 Role of the chairman of the SB and the Company secretary

Principle

The chairman of the SB determines the agenda, chairs the SB meetings, monitors the proper functioning of the SB and its committees, arranges for adequate provision of information to members, ensures that there is sufficient time for making decisions, arranges for the induction and training programme for the members, acts on behalf of the SB as the main contact for the EB, initiates the evaluation of the functioning of the SB and the EB and ensures, as chairman, the orderly and efficient conduct of the AGM. The chairman of the SB is assisted in his role by the Company secretary.

Best practice provisions

III.4.1 The chairman of the SB shall see to it that:
a) the SB members follow their induction and education or training programme;
b) the SB members receive in good time all information necessary for the proper execution of their duties;
c) there is sufficient time for consultation and decision-making by the SB;
d) the committees of the SB function properly;
e) the performance of the EB members and SB members is assessed at least once a year;
f) the SB elects a vice-chairman;
g) the SB has proper contact with the EB and the works council (or central works council).

The Company applies this best practice provision. The tasks and duties mentioned are performed by the Chairman of the Supervisory Board.

III.4.2 The chairman of the SB shall not be a former member of the EB of the company.

The Company is currently not in compliance with this best practice provision. The Chairman of the Supervisory Board acted as Director of the Company since the date of incorporation until the end of October 2004. The Chairman was appointed at the directive of the Company's largest shareholder.

III.4.3 The SB shall be assisted by the Company secretary. The Company secretary shall see to it that correct procedures are followed and that the SB acts in accordance with its statutory obligations and its obligations under the articles of association. He shall assist the chairman of the SB in the actual organisation of the affairs of the SB (information, agenda, evaluation, training programme, etc.). The Company secretary shall, either on the recommendation of the SB or otherwise, be appointed and dismissed by the EB, after the approval of the SB has been obtained.

The Company is currently not in compliance with this best practice provision, as we have not yet appointed a company secretary. A company secretary shall be nominated and appointed at the 2006 AGM

III.5 Composition and role of three key committees of the SB

Principle

If the SB consists of more than four members, it shall appoint from among its members an audit committee, a remuneration committee and a selection and appointment committee. The function of the committees is to prepare the decision making of the SB. If the SB decides not to appoint an audit committee, remuneration committee or selection and appointment committee, best practice provisions III.5.4, III.5.5, III.5.8, III.5.9, III.5.10, III.5.13, V.1.2, V.2.3 and V.3.1 shall apply to the entire SB. In its report, the SB shall report on how the duties of the committees have been carried out in the financial year.

Best practice provisions

III.5.1 The SB shall draw up a set of regulations for each committee. The regulations shall indicate the role and responsibility of the committee concerned, its composition and the manner in which it discharges its duties. The regulations shall in any event contain a provision that a maximum of one member of each committee need not be independent within the meaning of best practice provision III.2.2. The regulations and the composition of the committees shall, in any event, be posted on the Company's website.

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 shall be posted on the Company's website.

III.5.2 The report of the SB shall state the composition of the individual committees, the number of committee meetings and the main items discussed.

♦ *The Company is not in full compliance with this best practice provision. The committees were formed but they will meet only for the first time in 2006 during preparation of the Annual Report and approval of annual accounts. The Company will make a concerted effort to apply this best practice provision in 2006.*

III.5.3 The SB shall receive from each of the committees a report of its deliberations and findings.

♦ *The Company shall apply this provision in 2006.*

Audit committee

III.5.4 The audit committee shall in any event focus on supervising the activities of the EB with respect to:

a) the operation of the internal risk management and control systems, including supervision of the enforcement of the relevant legislation and regulations, and supervising the operation of codes of conduct;
b) the provision of financial information by the Company (choice of accounting policies, application and assessment of the effects of new rules, information about the handling of estimated items in the annual accounts, forecasts, work of internal and external auditors, etc.);
c) compliance with recommendations and observations of internal and external auditors;
d) the role and functioning of the internal audit department;
e) the policy of the Company on tax planning;
f) relations with the external auditor, including, in particular, his independence, remuneration and any non-audit services for the Company;
g) the financing of the Company;
h) the applications of information and communication technology (ICT).

The Company declared same duties and functions of Audit Committee in its Audit committee Charter. In the future the Audit Committee will focus on the activities of the EB as stated above.

III.5.5 The audit committee shall act as the principal contact for the external auditor if he discovers irregularities in the content of the financial reports.

Beginning in 2006, the Audit Committee has begun to apply this best practice provision.

III.5.6 The audit committee shall not be chaired by the chairman of the SB or by a former member of the EB of the Company.

The Company applies this best practice provision.

III.5.7 At least one member of the audit committee shall be a financial expert within the meaning of best practice provision III.3.2.

The Company does not apply this best practice provision because of the original structure of the Supervisory Board described above. The Company shall make a concerted effort to apply this best practice provision in 2006.

III.5.8 The audit committee shall decide whether and, if so, when the chairman of the EB (chief executive officer), the chief financial officer, the external auditor and the internal auditor, should attend its meetings.

The Company applies this best practice provision, which is laid down in item 7 of the "Composition and meetings" section of the Charter of the Audit Committee.

III.5.9 The audit committee shall meet with the external auditor as often as it considers necessary, but at least once a year, without EB members being present.

The Company shall apply this best practice provision in 2006, which is laid down in item 7 of the "Composition and meetings" section of the Charter of the Audit Committee.

Remuneration committee

III.5.10 The remuneration committee shall in any event have the following duties:
a) drafting a proposal to the SB for the remuneration policy to be pursued;
b) drafting a proposal for the remuneration of the individual members of the EB, for adoption by the SB; this proposal shall, in any event, deal with: (i) the remuneration structure and (ii) the amount of the fixed remuneration, the shares and/or options to be granted and/or other variable remuneration components, pension rights, redundancy pay and other forms of compensation to be awarded, as well as performance criteria and their application;
c) preparing the remuneration report as referred to in best practice provision II.2.9.

The Company applies this best practice provision. These duties are set out in the Regulations of the Remuneration and Appointment Committee.

III.5.11 The remuneration committee shall not be chaired by the chairman of the SB or by a former member of the EB of the Company, or by a SB member who is a member of the EB of another listed company.

The Company applies this best practice provision.

III.5.12 No more than one member of the remuneration committee shall be a member of the EB of another Dutch listed company.

The Company applies this best practice provision.

Selection and appointment committee

III.5.13 The selection and appointment committee shall in any event focus on:
a) drawing up selection criteria and appointment procedures for SB members and EB members;
b) periodically assessing the size and composition of the SB and the Executive Board, and making a proposal for a composition profile of the SB;
c) periodically assessing the functioning of individual SB members and EB members, and reporting on this to the SB;
d) making proposals for appointments and reappointments;
e) supervising the policy of the EB on the selection criteria and appointment procedures for senior management.

The Company applies this best practice provision. The Company has no separate Selection and Appointment Committee, but it has a combined Remuneration and Appointment Committee. These abovementioned duties are reflected in the common terms of the By-Laws of the Supervisory Board.

III.6 Conflicts of interest

Principle

Any conflict of interest or apparent conflict of interest between the Company and SB members shall be avoided. Decisions to enter into transactions under which SB members would have conflicts of interest that are of material significance to the Company and/or to the relevant SB members require the approval of the SB. The SB is responsible for deciding on how to resolve conflicts of interest between EB members, SB members, major shareholders and the external auditor on the one hand and the Company on the other.

Best practice provisions

III.6.1 A SB member shall immediately report any conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, to the chairman of the SB and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. If the chairman of the SB has a conflict of interest or potential conflict of interest that is of material significance to the Company and/or to him, he shall report this immediately to the vice-chairman of the SB and shall provide all relevant information, including information concerning his wife, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree. The SB member concerned shall not take part in the assessment by the SB of whether a conflict of interest exists. A conflict of interest exists in any event if the Company intends to enter into a transaction with a legal entity (i) in which a SB member personally has a material financial interest; (ii) which has an EB member who has a relationship under family law with a member of the SB of the Company, or (iii) in which a member of the SB of the Company has a management or supervisory position.

In the event of a (potential) conflict of interest, the procedure as described in this best practice provision is applied by the Company. The procedure has been formalised in the By-Laws of the Supervisory Board.

III.6.2 A SB member shall not take part in a discussion and/or decision-making on a subject or transaction in relation to which he has a conflict of interest with the Company.
The Company shall apply this best practice provision, which is laid down in the By-Laws of the Supervisory Board.

III.6.3 All transactions in which there are conflicts of interest with SB 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 SB members that are of material significance to the Company and/or to the relevant SB members require the approval of the SB. 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 III.6.1 to III.6.3 inclusive have been complied with.
The Company shall apply this best practice provision, which is laid down in the By-Laws of the Supervisory Board.

III.6.4 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 with 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 SB. 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.6.5 The regulations of the SB shall contain rules on dealing with conflicts of interest and potential conflicts of interest between EB members, SB members and the external auditor on the one hand and the Company on the other. The regulations shall also stipulate which transactions require the approval of the SB.
The Company will insert all the necessary alterations into the By-Laws of the Supervisory Board in accordance with the requirements of the Code. The Company shall apply this best practice provision.

III.6.6 A delegated SB member is a SB member who has a special duty. The delegation may not extend beyond the duties of the SB itself and may not include the management of the Company. It may entail more intensive supervision and advice and more regular consultation with the EB. The delegation shall be of a temporary nature only. The delegation may not detract from the role and power of the SB. The delegated SB member remains a member of the SB.
The Company applies this best practice provision, which is laid down in the By-Laws of the Supervisory Board. The Supervisory Board, as a rule, has never had a delegated Supervisory Board member. Under special circumstances, however, the SB may resolve to appoint a delegated SB member, in which case this best practice provision shall apply in full.

III.6.7 A SB member, who temporarily takes on the management of the Company, where the EB members are absent or unable to fulfil their duties, shall resign from the SB.
The Company applies this best practice provision, which has been formalised in the By-Laws of the Supervisory Board.

III.7 Remuneration

Principle

The AGM shall determine the remuneration of SB members. The remuneration of a SB member is not dependent on the results of the Company. The notes to the annual accounts shall, in any event, contain the information prescribed by law on the level and structure of the remuneration of individual SB members.

Best practice provisions

III.7.1 A SB member shall not be granted any shares and/or rights to shares by way of remuneration.
The Company applies this best practice provision, which has been formalised in the By-Laws of the Supervisory Board.

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‡‡ Please note that these provisions do not have to be provided for in the By-Laws Supervisory Board. As stated the transactions require the approval of the SB and shall be published in the annual report. The approval system has been laid down in the By-Laws Executive Board that have been approved by the SB.

§§ Please verify and inform whether or not transactions as referred to in this best practice provision have taken place in 2005.

III.7.2 Any shares held by a SB member in the company on whose board he sits are long-term investments.
The Company applies this best practice provision, which has been formalised in the By-Laws of the Supervisory Board.

III.7.3 The SB shall adopt a set of regulations containing rules governing ownership of and transactions in securities by SB members, other than securities issued by their 'own' company. The regulations shall be posted on the Company's website. A SB 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 SB. A SB 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. The Company is in the process of preparing regulations concerning ownership of and transactions in securities by SB members, other than securities issued by The Company. The regulations shall be posted on the Company's website.[***]

III.7.4 The Company shall not grant its SB members any personal loans, guarantees or the like unless in the normal course of business and after approval of the SB. No remission of loans shall be granted.
The Company applies this best practice provision, which has been formalised in the By-Laws of the Supervisory Board.

III.8 One-tier management structure

As the Company applies a two-tier management structure, the best practice provisions under III.8 do not apply.

IV. THE SHAREHOLDERS AND THE GENERAL MEETING OF SHAREHOLDERS

IV.1 Powers

Principle

Good corporate governance requires the full-fledged participation of shareholders in the decision-making of the AGM. It is in the interest of the Company that as many shareholders as possible take part in the decision making at the AGM. The Company shall, in so far as possible, give shareholders the opportunity to vote by proxy and to communicate with all other shareholders.

The AGM should be able to exert such influence on the policy of the EB and the SB of the Company that it plays a full-fledged role in the system of checks and balances in the Company.

Any decisions of the EB on a major change in the identity or character of the Company or the enterprise shall be subject to the approval of the AGM.

Best practice provisions

IV.1.1 The AGM of a Company not having statutory two-tier status may pass a resolution to cancel the binding nature of the nomination of a member of the EB or SB and/or a resolution to dismiss a member of the EB or SB by an absolute majority of votes cast. It may be stipulated that this majority should represent a given proportion of the issued capital, the proportion of which may not exceed one third. If this proportion of the capital is not represented at the meeting, but an absolute majority of the votes cast is in favour of a resolution to cancel the binding nature of a nomination, or to dismiss a board member, a new meeting may be convened at which the resolution may be passed by an absolute majority of votes cast, regardless of the proportion of the capital represented at the meeting.
The Company is not fully in compliance with this best practice provision. It will be proposed at the AGM 2006 to amend the articles of association of the Company in accordance with this provision.

IV.1.2 The voting right on financing preferred shares shall be based on the fair value of the capital contribution. This shall in any event apply to the issue of financing preferred shares.

[***] We have provided a memorandum to the (former) SB members to verify whether or not transactions in securities in Dutch listed companies have been transacted by them in 2005. This information needs to be disclosed in accordance with this best practice provision.

The Company has not issued preferred shares. So in practice, this provision is not applicable. It will be proposed at the 2006 AGM to eliminate the possibility to issue and any reference to preferred shares in the Company's articles of association.

IV.1.3 If a serious private bid is made for a business unit or a participating interest and the value of the bid exceeds the threshold referred to in draft article 2:107a paragraph 1 (c) of the Dutch Civil Code, and such bid is made public, the EB of the Company shall, at its earliest convenience, make public its position on the bid and the reasons for this position.
No such private bid has been made in respect of the Company. It will be proposed at the 2006 AGM to incorporate this best practice provision in the articles of association of the Company.

IV.1.4 The policy of the Company on additions to reserves and on dividends (the level and purpose of the addition to reserves, the amount of the dividend and type of dividend) shall be dealt with and explained as a separate agenda item at the AGM.
This question will be included in a separate agenda item at the 2006 AGM.

IV.1.5 A resolution to pay a dividend shall be dealt with as a separate agenda item at the AGM.
This question will be included in a separate agenda item at the 2006 AGM.

IV.1.6 Resolutions to approve the policy of the EB (discharge of EB members from liability) and to approve the supervision exercised by the SB (discharge of SB members from liability) shall be voted on separately in the AGM.
This question will be included in a separate agenda item at the2006 AGM.

IV.1.7 The Company shall determine a registration date for the exercise of the voting rights and the rights relating to meetings.
The Company shall apply this provision in 2006.

IV.2 Depositary receipts for shares

Principle

Depositary receipts for shares are a means of preventing a (chance) minority of shareholders from controlling the decision-making process as a result of absenteeism at an AGM. Depositary receipts for shares shall not be used as an anti-takeover measure. The management of the trust office shall issue proxies in all circumstances and without restriction to the holders of depositary receipts who so request. The holders of depository receipts thus authorised can exercise their voting right at their discretion. The management of the trust office shall have the confidence of the holders of depositary receipts. Depositary receipt holders shall have the possibility of recommending candidates for the management of the trust office. The company shall not disclose to the trust office information that has not been made public.

Best practice provisions

IV.2.1 The management of the trust office shall enjoy the confidence of the depositary receipt holders and operate independently of the company that has issued the depositary receipts. These matters shall be discussed explicitly during a meeting of holders of depositary receipts after this code enters into effect. The trust conditions shall specify in what cases and subject to what conditions holders of depositary receipts may request the trust office to call a meeting of holders of depositary receipts.

IV.2.2 The managers of the trust office shall be appointed by the management of the trust office. The meeting of holders of depositary receipts may make recommendations to the management of the trust office for the appointment of persons to the position of manager. No EB members or former EB members, SB members or former SB members, employees or permanent advisers of the company should be part of the management of the trust office.

IV.2.3 A person may be appointed to the management of the trust office for a maximum of three 4-year terms.

IV.2.4 The management of the trust office shall be present at the AGM and shall, if desired, make a statement about how it proposes to vote at the meeting.

IV.2.5 In exercising its voting rights, the trust office shall be guided primarily by the interests of depositary receipt holders, taking the interests of the company and its affiliated enterprise into account.

IV.2.6 The trust office shall report periodically, but at least once a year, on its activities. The report shall, in any event, be posted on the company's website.

IV.2.7 The report referred to in best practice provision IV.2.6 shall, in any event, set out:

a) the number of shares for which depositary receipts have been issued and an explanation of changes in this number;
b) the work carried out in the year under review;
c) the voting behaviour at the AGM held in the year under review;
d) the percentage of votes represented by the trust office during the meetings referred to at (c);
e) the remuneration of the members of the management of the trust office;
f) the number of meetings held by the management and the main items dealt with at the meetings;
g) the costs of the activities of the trust office;
h) any external advice obtained by the trust office;
i) the positions of the managers of the trust office;
j) the contact details of the trust office.

IV.2.8 The trust office shall, without limitation and in all circumstances, issue proxies to depositary receipt holders who so request. Each depositary receipt holder may also issue binding voting instructions to the trust office in respect of the shares that the trust office holds on his behalf.

*Ordinary Shares in Amtel-Vredestein N.V. in the form of GDRs (the "***GDRs***" or "***Deposited Shares***") have been listed on the London Stock Exchange. The Deposited Shares are issued in respect of Amtel-Vredestein N.V. pursuant to and subject to the Deposit Agreement made between Amtel-Vredestein N.V. and The Bank of New York in its capacity as depositary (the "***Depositary***"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed ING Securities Services as custodian (the "***Custodian***") to receive and hold on its behalf any relevant documentation regarding the Deposited Shares and all rights, interests and other securities, property and cash deposited with the Custodian that are attributable to the Deposited Shares (together with the Deposited Shares, the "***Deposited Property***"). The Depositary shall hold Deposited Property for the benefit of the holders as bare trustee in proportion to their holdings of GDRs.*

The Bank of New York is not a trust office within the meaning of this best practice provision, but a professional depositary.

Holders of GDRs are entitled to direct the Depositary in the exercise of voting rights with respect to the Deposited Shares in accordance with the terms and conditions of the GDRs. Amtel-Vredestein N.V. has agreed to notify the Depositary of any resolution to be proposed at a AGM of Amtel-Vredestein N.V. and the Depositary will vote orenable the Deposited shares to be voted in accordance with the instructions of holders of GDRs in conformity with the terms and conditions of the GDRs.

IV.3 Provision of information to and logistics of the AGM

Principle

The EB or, where appropriate, the SB shall provide all shareholders and other parties in the financial markets with equal and simultaneous information about matters that may influence the share price. The contacts between the EB on the one hand and press and analysts on the other shall be carefully handled and structured, and the Company shall not engage in any acts that compromise the independence of analysts in relation to the Company and vice versa.

The EB and the SB shall provide the AGM with all information that it requires for the exercise of its powers.

If price-sensitive information is provided during an AGM, or the answering of shareholders' questions has resulted in the disclosure of price-sensitive information, this information shall be made public without delay.

Best practice provisions

IV.3.1 Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the Company's website and by means of press releases. Provision shall be made for all shareholders to follow these meetings and presentations in real time, for example by means of web casting or telephone lines. After the meetings, the presentations shall be posted on the Company's website.

The Company shall apply in 2006 this best practice provision, which will be set forth in the By-Laws of the Executive Board.

IV.3.2 Analysts' reports and valuations shall not be assessed, commented upon or corrected, other than factually, by the Company in advance.

The Company applies this best practice provision, which will be set forth in the By-Laws of the Executive Board.

IV.3.3 The Company shall not pay any fee(s) to parties to conduct research for analysts' reports or for the production or publication of analysts' reports, with the exception of credit rating agencies.

The Company is in compliance with this best practice provision.

IV.3.4 Analysts meetings, presentations to institutional or other investors and direct discussions with the investors shall not take place shortly before the publication of the regular financial information (quarterly, half-yearly or annual reports).

The Company shall apply this best practice provision, which will be set forth in the By-Laws of the Executive Board.

IV.3.5 The EB and the SB shall provide the AGM with all requested information, unless this would be contrary to an overriding interest of the company. If the EB and the SB invoke an overriding interest, they must give reasons.

The Company applies this best practice provision, which will be set forth in the By-Laws of the Executive Board and is already included in the By-Laws of the Supervisory Board.

IV.3.6 The Company shall place and update all information that it is required to publish or deposit pursuant to the provisions of Company law and securities law applicable to it, on a separate part of the Company's website (i.e. separate from the commercial information of the Company) that is recognisable as such. It is sufficient for the Company to establish a hyperlink to the website of the institutions that publish the relevant information electronically pursuant to statutory provisions or stock exchange regulations.

♦ *The Company will apply this best practice provision, which will be set forth in the By-Laws of the Executive Board.*

IV.3.7 If a right of approval is granted to the AGM by law or under the articles of association of the Company (e.g. in the case of option schemes, far-reaching decisions as referred to in draft article 2:107a Dutch Civil Code), or the EB or SB requests a delegation of powers (e.g. issue of shares or authorisation for repurchase of shares), the EB and SB shall inform the AGM by means of a 'shareholders circular' of all facts and circumstances relevant to the approval, delegation or authorisation to be granted. The shareholders circular shall, in any event, be posted on the Company’s website.

The Company applies this best practice provision.

IV.3.8 The report of the AGM shall be made available, on request, to shareholders no later than three months after the end of the meeting, after which the shareholders shall have the opportunity to react to the report in the following three months. The report shall then be adopted in the manner provided for in the articles of association.

The Company will apply this best provision after the 2006 AGM. It will be proposed at the 2006 AGM to include this best practice provision in the articles of association of the Company.

IV.3.9 The EB shall provide a survey of all existing or potential anti-takeover measures in the annual report and shall also indicate in what circumstances it is expected that these measures may be used.

The Company will apply this best practice provision in its Annual Report.

IV.4 Responsibility of institutional investors

Principle

Institutional investors shall act primarily in the interests of the ultimate beneficiaries or investors and have a responsibility to the ultimate beneficiaries or investors and the companies in which they invest, to decide, in a careful and transparent way, whether they wish to exercise their rights as shareholder of listed companies.

Institutional investors shall be prepared to enter into a dialogue with the company if they do not accept the company’s explanation of non-application of a best practice provision of this code. The guiding principle in this connection is the recognition that corporate governance requires a tailor-made approach and that it is perfectly possible for a company to justify instances of non-application of individual provisions.

Best practice provisions

IV.4.1 Institutional investors (pension funds, insurers, investment institutions and asset managers) shall publish annually, in any event on their website, their policy on the exercise of voting rights for shares they hold in listed companies.

IV.4.2 Institutional investors shall report annually, on their website and/or in their annual report, on how they have implemented their policy on the exercise of voting rights in the year under review.

IV.4.3 Institutional investors shall report at least once a quarter, on their website, on whether and, if so, how they have voted as shareholders in the AGM.

To the best knowledge of the Company, this provision is not applicable to the Company.

V. THE AUDIT OF THE FINANCIAL REPORTING AND THE POSITION OF THE INTERNAL AUDITOR FUNCTION AND OF THE EXTERNAL AUDITOR

V.1 Financial reporting

Principle

The EB is responsible for the quality and completeness of publicly disclosed financial reports. The SB shall see to it that the EB fulfils this responsibility.

Best practice provisions

V.1.1 The preparation and publication of the annual report, annual accounts, quarterly and/or mid-year figures and ad hoc financial information require careful internal procedures. The SB shall supervise compliance with these procedures.
The Company applies this best practice provision, which is laid down in the By-Laws of the Supervisory Board.

V.1.2 The audit committee shall determine how the external auditor should be involved in the content and publication of financial reports other than the annual accounts.
The Company is not in compliance with this best practice provision, which is laid down in the By-Laws of the Supervisory Board of the Company, because the Audit Committee will meet for the first time only in 2006 during preparation of the Annual Report and approval of annual accounts. We shall apply this provision in 2006.

V.1.3 The EB is responsible for establishing and maintaining internal procedures that ensure that all major financial information is known to the EB, so that the timeliness, completeness and correctness of the external financial reporting are assured. For this purpose, the EB ensures that the financial information from business divisions and/or subsidiaries is reported directly to it and that the integrity of the information is not compromised. The SB shall see to it that the internal procedures are established and maintained.
The Company applies this best practice provision, which also will be laid down in the By-Laws of the Executive Board.

V.2 Role, appointment, remuneration and assessment of the functioning of the external auditor

Principle

The external auditor is appointed by the AGM. The SB shall nominate a candidate for this appointment, for which purpose both the audit committee and the EB advise the SB. The remuneration of the external auditor, and instructions to the external auditor to provide non-audit services, shall be approved by the SB on recommendation of the audit committee and after consultation with the EB.

Best practice provisions

V.2.1 The external auditor may be questioned by the AGM regarding to his statement on the fairness of the annual accounts. The external auditor shall therefore attend and be entitled to address this meeting.
The Company applies this best practice provision, which is laid down in the By-Laws of the Supervisory Board.

V.2.2 The EB and the audit committee shall report their dealings with the external auditor to the SB on an annual basis, including his independence in particular (for example, the desirability of rotating the responsible partners of an external audit firm that provides audit services, and the desirability of the same audit firm providing non-audit services to the Company). The SB shall take this into account when deciding on its nomination for external auditor, which shall be submitted to the AGM.

The Company shall apply this best practice provision in 2006. This provision is already partly laid down in the Audit Committee Chapter and will be set forth in the By-Laws of the Executive Board of the Company.

V.2.3 At least once every four years, the SB and the audit committee shall conduct a thorough assessment of the functioning of the external auditor within the various entities and in the different capacities in which the external auditor acts. The main conclusions of this assessment shall be communicated to the AGM for the purposes of assessing the nomination for the position of external auditor.
The Company shall apply this best practice provision in 2006. This provision is already laid down in the By-Laws of the Supervisory Board of the Company

V.3 Internal auditor function

Principle

The internal auditor, who can play an important role in assessing and testing the internal risk management and control systems, shall operate under the responsibility of the EB.

Best practice provision

V.3.1 The external auditor and the audit committee shall be involved in drawing up the work schedule of the internal auditor. They shall also take cognisance of the findings of the internal auditor.
The Company is not in compliance with this best practice provision. We have an internal department reporting for the Company, but it is not in cooperation with the external auditor and Audit committee. The Company will apply this provision in 2006.

V.4 Relationship and communication of the external auditor with the organs of the Company

Principle

The external auditor shall, in any event, attend the meeting of the SB, at which the annual accounts are to be adopted or approved. The external auditor shall report his findings in relation to the audit of the annual accounts to the EB and SB simultaneously.

Best practice provisions

V.4.1 The external auditor shall in any event attend the meeting of the SB, at which the report of the external auditor with respect to the audit of the annual accounts is discussed, and at which annual accounts are to be approved or adopted. The external auditor shall receive the financial information underlying the adoption of the quarterly and/or mid-year figures and other interim financial reports and shall be given the opportunity to respond to all information.
The Company applies this best practice provision, which is already stated in the By-Laws of the Supervisory Board of the Company

V.4.2 When the need arises, the external auditor may request the chairman of the audit committee for leave to attend the meeting of the audit committee.
The Company is in compliance with this best practice provision.

V.4.3 The report of the external auditor pursuant to article 2:393, paragraph 4, Dutch Civil Code shall contain the matters that the external auditor wishes to bring to the attention of the EB and SB in relation to his audit of the annual accounts and related audits. The following examples can be given:

A. with regard to the audit:
● information about matters of importance to the assessment of the independence of the external auditor;
● information about the course of events during the audit and cooperation with internal auditors and/or any other matters of discussion of external auditors with the EB, a list of corrections that have not been made, etc.
B. with regard to the financial figures:
● analyses of changes in shareholders' equity and results, which do not appear in the information to be published, and which, in the view of the external auditor, contribute to an understanding of the financial position and results of the company;

- comments regarding the processing of one-off items, the effects of estimates and the manner in which they have been arrived at, the choice of accounting policies, when other choices were possible, and special consequences of such policies;
- comments on the quality of forecasts and budgets.

C. with regard to the operation of the internal risk management and control systems (including the reliability and continuity of automated data processing) and the quality of the internal provision of information:

- points for improvement, gaps and quality assessments;
- comments about threats and risks to the Company and the manner in which they should be reported in the particulars to be published;
- compliance with articles of association, instructions, regulations, loan covenants, requirements of external supervisors, etc.

In 2006 the Company shall apply this best practice provision during the preparation of its 2005 annual accounts.