FINANCIAL INFORMATION

41 Executive Board Report

59 Supervisory Board Report

67 Financial statements

109 Other information

EXECUTIVE BOARD REPORT

Developments in 2006 **42**
Passenger Car Tyres and Light Truck Tyres **44**
Agricultural Tyres **46**
Industrial Tyres **46**
Truck Tyres **47**
Bicycle Tyres **47**
Earnings and Financial Results **47**
Financial Instruments **54**
Risks and Risk Management **55**
Management's Report on Internal Control **58**

DEVELOPMENTS IN 2006

The Company continued its acquisition, disposal and modernisation programme in 2006 – significantly expanding its manufacturing capacity and focusing its production on high quality passenger car tyres (PCT), as well as expanding its retail and distribution business.

This is a process which was significantly advanced by the acquisition of Dutch tyre manufacturer, Vredestein Banden, in April 2005 which provided the Company with the premium Vredestein brand and access to lucrative European and American markets. It also provided a technology and development platform upon which the Company could enter the premium tyre business and expand its customer base in Russia – its biggest market.

The first significant result of this new technological step forward was during the first half of 2006 when the Company began producing Vredestein-branded tyres at its Amtel-Povolzhye Plant in Kirov, making it the first Russian company to manufacture premium "A" segment tyres.

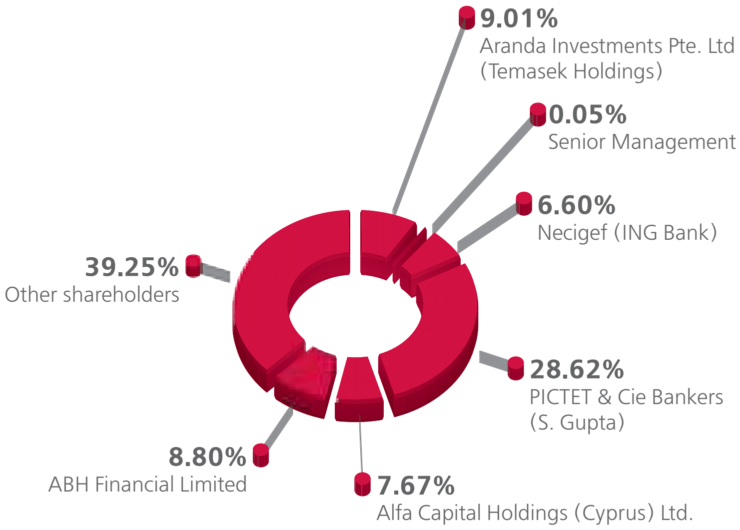
The Company also significantly advanced its retail strategy in 2006 when it acquired numerous tyre service centres throughout major Russian cities to make its AV-TO unit, which was launched in 2005, Russia's number one network of tyre retail centres.

The Company entered the auto parts and tyre distribution businesses with the acquisition of Pigma and Megashina in the second half of 2006 and merged these businesses into its AV-TO unit.

The Company further expanded its production capacity by acquiring the Moscow Tyre Plant in August 2006 – where it immediately began producing Amtel and other brands in order to meet growing demand for the Company's tyres in Russia. The Company also moved its Moscow headquarters to the Moscow Tyre Plant during the second half of 2006, which is expected to result in a considerable reduction in overhead expenses in 2007.

In December 2006, the Company disposed of Amtel-Kuzbass in Kemerovo, its last non-core asset. The Company is now fully focused on tyre production with four tyre factories – three in Russia and one in The Netherlands

As a result of changes in the Company's shareholding in 2006, Amtel-Vredestein no longer has a majority shareholder. Its founder and largest shareholder, Sudhir Gupta, continues to be engaged in the business solely in his capacity as Supervisory Board Chairman.



Total number of shares as of June 7, 2006: 68,176,803

AV-TO becomes Russia's top tyre retailer and a leading tyre and auto parts distributor

With the addition in 2006 of more than 70 stores throughout Russia, AV-TO became Russia's number one network of tyre service centres. By the end of 2006, AV-TO was comprised of 115 multi-brand tyre sales and service centres in 18 cities across Russia. AV-TO is the first national tyre retail chain with a centralised and efficient distribution system that the Company expects will revolutionise the retail tyre market and secure a dominant position for Amtel-Vredestein.

In October 2006, AV-TO expanded its business into wholesale and distribution when it purchased Russia's leading auto parts distributor Trade House Pigma LLC, based in Nizhny Novgorod, and the tyre wholesale distributor Trade House Megashina LLC.

These acquisitions extend the Company's reach to an additional 1,500 customers throughout Russia and supply them with over 27,000 car components produced by more than 40 manufacturers – an unrivalled range of choice for Russian customers.

In addition, AV-TO now supplies tyres from a variety of manufacturers (including Vredestein and Amtel brands) to over 500 tyre customers outside its own network, including tyre retailers, auto salons and auto service stations.

AV-TO is in the process of improving and expanding many of its stores to provide consumers with a full range of services, including exhaust system replacement, brake checks and brake pad replacement, fluid changes and car washes.

Voronezh II will launch in 2007

Plans to construct a second factory at Amtel-Chernozemye, the Company's Voronezh production complex, began in earnest in 2006. The project was somewhat delayed after the purchase of Vredestein Banden as the Company re-assessed its production strategy as it integrated the Vredestein and Maloya brands into its sales mix. The Company's entry into the premium tyre business, as well as increased demand for its tyres in Russia and Europe, prompted the Company to determine that it would require a larger facility – similar in layout to the Vredestein Banden factory in The Netherlands.

Known as Voronezh II, the facility will become one of the most modern and well-equipped tyre factories in Russia. The plant will have a capacity to produce 2.5 million (expandable to 4.1 million) radial passenger car tyres per year, from 13 up to 17 inches in diameter, under the Vredestein and Maloya brands for Russia and export to Europe and other international markets.

The plant is being built almost to the same specification as the Company's Enschede plant in The Netherlands, under the supervision of its Dutch engineers. Voronezh II is being equipped with all new equipment, including nine tyre-building machines, 36 hydraulic presses for vulcanisation, as well as mixing machines.

Raw material cost increases offset by product mix development

Raw materials costs have risen sharply over the last few years, which resulted in some downward pressure on the Company's profit margins. However, steady improvements in the Company's product mix as well as price increases have substantially offset the impact of these higher costs.

The cost of raw materials, which includes synthetic rubber, natural rubber, carbon black and other materials, is up by more than 40% over the last three years, and rose by 11% last year alone. Through the introduction of lighter, more technologically advanced tyres that incorporate less raw materials, the Company managed to absorb much of the cost increase and improve its gross profit margin in 2006.

Outsourcing continues to supplement production

The Company continued to outsource much of its production of non-passenger car tyres in 2006, including truck, bus, agricultural and bicycle tyres to manufacturers in South East Asia, using off-take arrangements.

Amtel-Vredestein hones production profile with divestments

The Company has been divesting loss-producing facilities as part of its ongoing effort to concentrate on the manufacture of high quality and premium products at the lowest possible cost. Two loss-producing facilities in Krasnoyarsk and Volgograd had already been disposed of in 2005, and the Company also retired its lower margin truck and agricultural tyre production in Voronezh during 2005. Although the Company began 2006 with fewer sales as result of these disposals and discontinued production, these divestitures had an immediate positive effect on bottom line growth.

The chemical fibre plant, Amtel-Kuzbass in Kemerovo, Russia, was sold in December 2006 and represented the Company's last remaining non-core asset to be disposed.

Amtel-Vredestein acquires the Moscow Tyre Plant

In 2006, Amtel-Vredestein's production capacity was greatly increased by the acquisition of one of Russia's best-known factories – the Moscow Tyre Plant.

Established in 1945, the Moscow Tyre Plant is well-known for the popular Taganca brand. The plant was modernised in 2004 as part of a joint venture with Germany's Continental, but Amtel-Vredestein assumed control of the plant last year after the joint venture floundered.

The Company is primarily producing Amtel tyres at the factory, and plans to manufacture approximately 1.5 million tyres in 2007.

Technology exchange improves quality throughout the Company

The focus of 2006 was to make the most of the competitive advantages available following the acquisition of Vredestein Banden. The Company focused on improving operational efficiency by transferring technology and marketing know-how between its subsidiaries, and consolidating its main research and development operations, to The Netherlands.

R&D operations at Enschede were organised in teams that worked on international tasks in project-orientated groups. A dedicated research group has been created to develop Computational Modelling applications and a total of 11 full time employees were added to the R&D team in Enschede last year.

A Russian-Dutch team of technical specialists worked with the Amtel-Vredestein purchasing department, to cut costs by standardising raw materials and compounds throughout all Amtel-Vredestein production units. Efficiency will be further improved in 2007 by the introduction of an international database of all specifications and test data (LIMS: Laboratory Information Management System).

Product development has been unified across all of the Company's facilities, regardless of location, and the same basic technology is being used in the production of the Company's key brands – Amtel, Maloya and Vredestein. For example, last year the Company began producing Planet 3 tyres, the first Amtel product line based on Vredestein technology.

An equally important international project was the development of the Planet DC tyre for the Dacia Logan, to be manufactured in Russia in 2007. Amtel-Vredestein staff in the Kirov and Moscow facilities are working closely with test engineers and original equipment management at the Enschede facility on the technical releases from Renault in France. The Company's Russian subsidiary, OJSC Amtel-Vredestein, has been selected to supply tyres for all Renault Logan cars produced in Russia.

Kirov facility is now producing Vredestein tyres for Europe

Achieving the exacting quality standards required to supply Vredestein tyres proved to be a formidable challenge for the Company's Kirov facility. However, after some delay, the Company successfully launched Vredestein Snowtrac and T-Trac tyres at the Russian factory during the first half of 2006.

These tyres are sold both on the Russian market and exported to Western European markets as the quality of the Kirov production is nearly indistinguishable from the tyres produced at the Company's Dutch facilities.

The factory will also produce Amtel Planet 3 tyres in Kirov based upon Vredestein T-Trac technology, beginning in 2007.

PASSENGER CAR TYRES AND LIGHT TRUCK TYRES

The Company's core PCT business continued its rapid growth in 2006 – sales increasing 12.7% to 11.92 million units sold versus 10.58 million units in 2005.

Several new tyres were introduced under the Vredestein and Amtel brands. The Ultrac Sessanta and Sportrac 3 were launched with much fanfare at a major event in Rome last Spring. The Company also expanded its core product lines of Vredestein summer and winter tyres throughout the year. In addition, the Amtel NordMaster 2 and Amtel NordMaster CL were launched in Russia. Overall, well over one hundred new specifications were added to the Vredestein, Maloya and Amtel product lines.

The Company's strategy to target the premium end of the tyre market has met with great success in 2006. The decade-long partnership with Giugiaro Design continues to be very fruitful. The centralisation of R&D is beginning to pay dividends in the form of a more collaborative relationship between the Dutch and Russian entities. In addition, there are several new tyres in development, which the Company expects to launch in the coming years.

Vredestein achieved a market share across Europe of 2.1% in 2006, with market share in its key German market reaching 3.9%. Overall, Russia's top tyre brand, Amtel, performed extremely well and its market share exceeded 39% of the Value "B" segment in 2006.

New Vredestein Sessanta and Sportrac 3 launched

To commemorate Vredestein Banden's 60th anniversary in 2006, the Company introduced the Ultrac Sessanta ("Sessanta" means "sixty" in Italian), an ultra high performance summer tyre, designed together with Giugiaro Design, and aimed at sports cars and luxury sedans travelling at speeds of up to 300 km/h.

Gradually, these tyres have penetrated the European and American markets, with full introduction of the complete line planned for 2007. The same design is being developed this year for Sport Utility Vehicles (SUV).

Giugiaro Design again joined forces with the Company's engineers to develop the new Vredestein Sportrac 3, which was launched in 2006. This highly acclaimed tyre was developed for cars that travel at speeds up to 270 km/h – which has become a highly competitive segment in the European market. The tyre was well received by the automotive trade press, and after some high comparative test scores in several important international car and consumer magazines, sales quickly escalated.

Winter tyres sales set a new record in Europe

Despite the mild winter in Europe and Russia in 2006, sales of winter tyres set a new record. Sales were particularly strong in Germany, where new regulations tightening the requirements for winter equipment for cars came into force, further boosting sales.

These rules had a knock-on effect in Germany's neighbouring countries and sparked a lively discussion about the use of winter tyres, which turned into higher demand compared to previous years.

Orders for winter tyres spread beyond the traditional sizes for average-sized cars and the wide high speed Wintrac Xtreme (for cars travelling at speeds up to 270 km/h and luxury SUVs) enjoyed better than expected sales volumes.

Sales of all-season tyres also were lifted by a general upswing in the tyre sector. The Vredestein Quatrac is an all-season tyre with near winter tyre performance. It is compatible with new German insurance policies introduced last year requiring cars to be fitted with winter tyres.

Flexibility and automation keep Vredestein growth on target

The Company's commitment to a flexible manufacturing model at its Enschede facility proved effective in meeting increased and unpredicted demand for winter tyres caused by the changes in the German winter tyre legislation (Winterreifenpflicht), allowing the Company to adapt to new conditions at short notice.

By adding Automated Guided Vehicles, robotised uniformity and the introduction of an automatic bias-cutter, the automation level at the Company's Enschede factory has increased considerably. Additional production capacity for high-end tyres has been realised by adding extra tyre building equipment and vulcanisation presses.

Sales of Vredestein tyres grew 41% in 2006 to $213 million.

Space Master remains a perennial winner

Slower than expected market demand for Space Master, the Company's compact, inflatable spare tyre, resulted in a reduction in production for the first half of 2006. However, the demand improved in the second half and, as in previous years, annual orders for Space Master continued to grow.

Higher demand for Amtel among original equipment (OE) manufacturers

The Amtel Planet DC family of tyres was extended by adding two sizes which, commencing in 2007, will be fitted as original equipment on every Renault Logan automobile produced in Russia.

The Company also continues to sell tyres as original equipment to AvtoVAZ, GAZ, UAZ, ZIL, TaGAZ, Avtotor, Avtoframos, Rostelmash. Sales of OE as a percentage of total tyre sales in 2006 increased by 2% in 2006 in terms of revenue and are expected to continue to rise in 2007.

Summer tyre range expanded

To meet greater demand and the growing popularity of Amtel Planet summer tyres in 2006, the range was expanded by 19 additional sizes in two tread patterns Amtel Planet T-301 and Amtel Planet FT-501. Sales of summer tyres under the Amtel brand in 2006 were 2.1 million.

Amtel launches first non-studded winter tyre

Amtel NordMaster 2 succeeded the popular Amtel NordMaster in 2006. It is a new spiked model produced for severe Russian winter conditions. Production of Amtel NordMaster 2 began in September at the Company's newly acquired Moscow Tyre Plant in the most popular sizes: 13 inch, 14 inch and 15 inch. Further expansion of this range is planned for 2007.

Amtel NordMaster CL is the first non-spiked winter tyre under the Amtel brand. It is intended for inner city roads and southern regions of Russia and CIS where the conditions are less harsh.

In spite of a mild winter in 2006, sales of winter tyres under Amtel brand in 2006 were 2.7 million.

Maloya growth still limited by capacity

Sales of Maloya winter and summer tyres exceeded those of the previous year. However, growth continued to be stymied by limited production capacity. Maloya tyres are sold to exclusive dealers, who co-ordinate marketing, sales and further distribution. Maloya production is expected to expand in 2007/2008 – particularly after the launch of Voronezh II where additional Maloya tyres may be produced.

Taganca, one of Russia's best-known brands, gets a new lease of life

Taganca is one of Russia's best-known tyre brands, offering a wide choice of tyres at low prices. Following Amtel-Vredestein's acquisition of the Moscow Tyre Plant in 2006 – previously home to all Taganca production – the range has now been completely revised with the launch of new models meeting Russian motorists' increasing demand for quality.

The Taganca K-214 tubeless radial tyre offers control capabilities essential for off-road vehicles, while the Taganca M-241 offers stability on all surfaces, in all weather conditions, and at high speeds. Taganca tyres are now produced to fit Chevrolet, Daewoo, Fiat, Hyundai, KIA, Suzuki, Lada and Gaz.

Light truck tyres production overwhelmed by demand

Light trucks in Europe tend to be heavily loaded and driven fast. Vredestein's Comtrac range of tyres has been specially designed with these characteristics in mind. Thanks to the product's attractive price/performance ratio, the Comtrac range has become an instant success.

The demand for the Comtrac winter light truck tyres overwhelmed the Company's production capacity in 2006. A new tyre-building machine in the Enschede plant has been installed to cope with the excess demand.

Additions were made to the Amtel range of light tyre models, including those developed for OE automobile manufacturers.

Amtel Cargo LT is the new branded tyre for light trucks produced in Voronezh. It was launched in summer 2006 and is planned for expansion in 2007. Two very popular unbranded models of tubeless tyres for Russian-made light trucks (GAZ) produced in Kirov are now being marketed as Amtel Cargo S and Amtel Cargo AS.

AGRICULTURAL TYRES

A strong reputation for agricultural tyres reaps rewards

The Company's line of agricultural tyres had a particularly successful year in 2006 and resulted in sales volumes and margins well above expectations – beating the previous year's results by a wide margin.

Sales were particularly strong in the high-tech premium segment of the market with the unique Traxion+ Tractor Radial and the popular Flotation Pro Implement Radial both improving their market share in Europe. Sales of Traxion+ tyres as well as radial tyres surpassed budgeted expectations for this sector.

The Company has benefited from the ongoing specialisation of farms and their increasing professionalism. As European agricultural business consolidates, farms are improving margins by pursuing economies of scale. As farms grow bigger, more tractors and machinery have been introduced to cope with these demands. The availability of new high-tech machinery means that farming practices can become even more efficient and yields can be optimised.

Farmers are looking for machinery that will improve efficiency and maximise yields by saving time, fuel, reducing labour costs as well as keeping the soil in a good condition. Tractor and implement (ploughs and other farm equipment generally pulled by tractors) tyres play an important role in these developments, which has led to a growing demand for wider and larger tractor and implement tyres.

Vredestein has extended the range of its unique Traxion and Flotation tyres in anticipation of the changing nature of the agricultural sector. In 2006, the only limitation to sales was the Company's manufacturing capacity. Attributes and benefits like traction power, soil compaction, rutting, speed, comfort and a long tyre life are key factors. Vredestein is well-known in this market as an agricultural tyre specialist and has built up a very good reputation as a manufacturer of innovative and high-tech products.

INDUSTRIAL TYRES

Sales of industrial tyres down, but margin on target

Due to planned optimisation of production lines, sales volumes of the Company's industrial tyres declined slightly in 2006. However, thanks to an improved product and customer-mix, margins met expectations.

In the OE market segment, the Vredestein brand hit its sales targets in terms of both volume and margin. The Company is continuing to build awareness of its product lines and a number of well-known manufacturers of haymaking machinery and tillage equipment prefer the reliable quality image of Vredestein.

In the increasingly commoditised Slow Traffic (wheel barrows, etc.) and Speed Tyres segments, 2006 witnessed continuous price pressure from various competitors from the Far East. In order to compete, the Company's strategy is based on reliable deliveries of high quality products via its European warehouse in Enschede. Based on tight controls over specifications and technical approvals monitored by our

Quality Assurance department, the Company can guarantee a superior quality level of its products in the market.

TRUCK TYRES

Strategic retreat from truck tyre production continues

Margins continue to contract in the production of truck tyres and the Company is continuing its strategic retreat from this business. The Company plans to continue reduction of low margin truck tyres and focus only on a select, higher margin size range.

BICYCLE TYRES

Expansion continues in the competitive bicycle tyre market

The Company's strategy to enter the growing bicycle tyre segment evolved in 2005 and it continued to develop this market segment in 2006 and sold approximately 1.4 million units under the Vredestein brand. The goal is to meet the needs of the sport cyclist and those consumers for whom the bicycle is perceived as an important part of daily life, either for commuting or recreational purposes.

As consumers are ever more concerned with the quality of their lifestyle, Vredestein has launched a range of bicycle tyres that meet the aspirations of the consumer and are in line with the Company-wide "design" concept. The leading product is an innovative new city tyre named Perfect Moiree, which was launched in Western markets in 2005.

The Race Pro line is the tyre of choice amongst many professional bicycle racing teams and was used by the Davitamon-Lotto ProTeam in the 2006 Tour de France. The team's choice was the Vredestein Fortezza Pro Tricomp, a competitive tubular tyre for all conditions with a very low rolling resistance that combines style with high-speed functionality.

The high performance designer tyres allow Vredestein to move away from its image as a maker of traditional Dutch commuter-style bicycle tyres and emerge as the producer of sophisticated, high performance tyres. During the Eurobike 2006 Expo last year, the Company launched new award winning tour and trekking tyres – the Perfect Girando and the Perfect Carraterra – to complement its city bicycle tyre, the Perfect Moiree. These three tyres have been developed using new technologies in which functionality and design play an integral role.

Vredestein has also teamed up with bike manufacturer, Cannondale, to produce three superb high-tech mountain bike tyres – the Black Panther, a fast and professional all mountain tyre, the Bull Lock, that performs exceptionally well in mud, and the Tiger Claw Xc-G, which performs at its best on a dry, hard surface. The Company sponsors the Cannondale-Vredestein MTB Racing team, which dominated mountain bike racing in the 1990s and has returned to the World Cup cross-country circuit to give its riders a winning edge with the help of Vredestein's tyres.

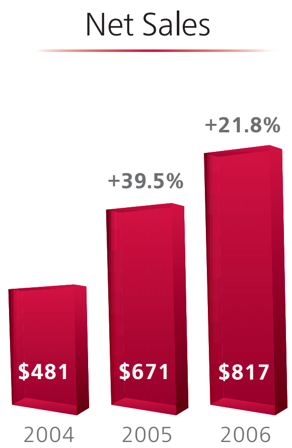
The Vredestein range of mountain bike tyres has also been extended to fill out this niche and the innovative mountain bike tyres, Killer Bee and Tiger Claw, have established themselves as popular products.

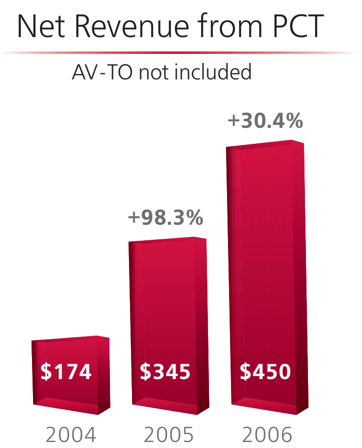
Having made significant inroads into this new market, Amtel-Vredestein's strategy is to continue to introduce exciting new products and consolidate the Company's market share of the premium market segments in Western Europe, North America and Australia while expanding further into the new markets of Asia, Africa and South America.

EARNINGS AND FINANCIAL RESULTS

In 2006, sales rose by approximately 22% to $817 million (2005: $671 million). This represents a compound annual growth rate (CAGR) of 22.1 during the period of 2003–2006.

Profit from operations more than doubled to $33 million (2005: $16 million) and gross profit margin improved from 21% to 22.8%. EBITDA grew to $108 million and adjusted EBITDA grew to $94 million versus $91 million in 2005. Net loss for the year was $5 million versus a net loss of $81 million in 2005.





in million USD

Sales growth for the year was somewhat offset by the suspension of production of truck and bicycle tyres at the Company's Voronezh facility, as well as the disposal in 2005 of the Company's Krasnoyarsk tyre complex and its Volgograd carbon black facility.

Total tyre sales grew approximately 17% to $659 million from $565 million.

Non-tyre revenues, mostly from Amtel-Kuzbass, the Company's now disposed Chemical Fibre Plant, were $53 million in 2006 – down from $97 million in 2005 as expected after the disposal of Amtel-Carbon, the Company's former carbon black factory.

Key events in 2006 included the purchase of numerous tyre stores to establish Amtel-Vredestein as Russia's number one network of tyre retail centres. In August, the Company acquired the Moscow Tyre Plant, where it immediately began production of Amtel tyres to meet growing Russian demand. In October, the Company also acquired a leading auto parts distributor, Pigma, and one of its principal tyre distributors, Megashina, and merged them with its AV-TO subsidiary to create a substantial retail and distribution unit. In December, as previously discussed, the Company disposed of the Amtel-Kuzbass Chemical Fibre Plant in Kemerovo – its last remaining non-core asset.

Amtel-Vredestein plans to complete its acquisition and modernisation investment programme in 2007 with the completion of a new factory at its Amtel-Chernozemye tyre complex in Voronezh (Voronezh II). The result of this multi-year programme is a new expandable production and distribution platform, which is expected to ensure sustainable growth in 2007 and subsequent years.

Vredestein contributes 41% of net sales

Net sales growth is primarily attributed to an increase in revenue as result of a full-year consolidation of Vredestein Banden, the Dutch tyre manufacturer the Company acquired in April 2005. Vredestein Banden contributed $340 million, or 41% of total sales in 2006 – a 58.5% increase from the previous year's contribution of $212 million (32% of total sales). Russian sales were $492 million in 2006 versus $459 million in 2005, or 59% of total sales (versus 68% in 2005).

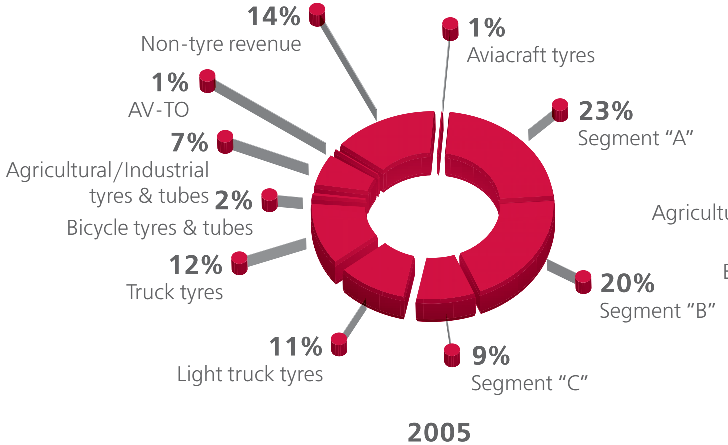
Product mix continues upward trend

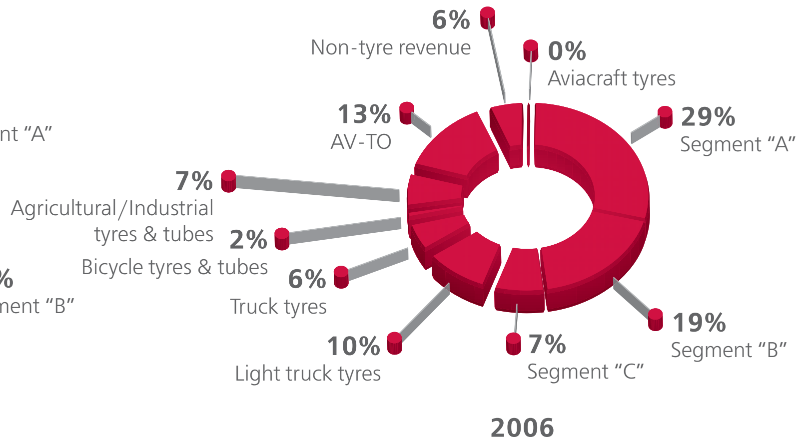
Growth is also attributed to improvements in the Company's product mix, which continues to trend to more premium, higher priced tyres in larger sizes. This growth was highly impacted by the consolidation of the Vredestein Banden enterprise and the introduction of the Vredestein brand into Russia, as well as a shift in demand for higher quality and larger size tyres by Russian consumers.

Passenger car tyre sales grow 30%

Net revenue from the Company's core PCT business grew 30% to $450 million versus $345 million in 2005 and now represents 55% of total tyre sales.

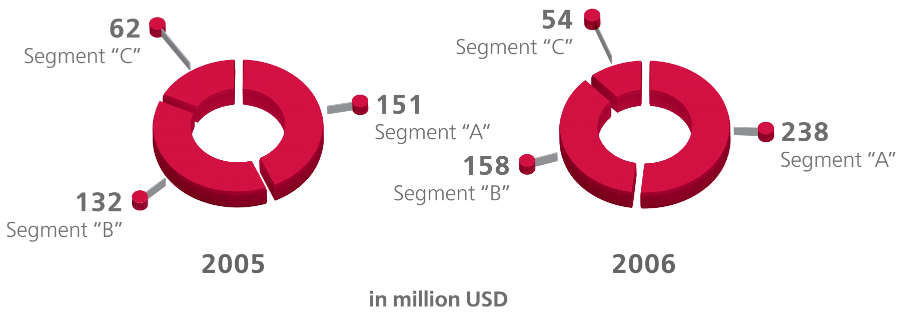
Sales



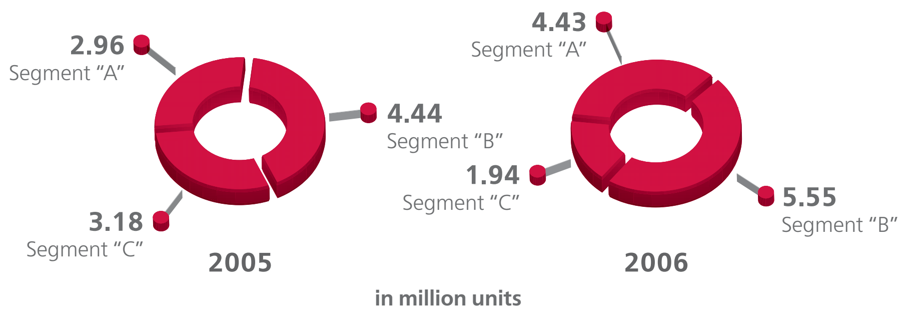


in million USD

Passenger Car Tyres Sold



Passenger Car Tyres Sold



In unit terms, Amtel-Vredestein sold 11.92 million PCT in 2006 compared with 10.58 million PCT in 2005 – an increase of 12.7% versus the previous period.

Premium "A" segment PCT sales up 57.6%

Premium "A" segment PCT sales grew 57.6% to $238 million from $151 million (4.43 million units versus 2.96 million units in 2005) – primarily as a result of the full-year consolidation of Vredestein Banden and the addition of Vredestein to the brand portfolio. Premium "A" segment sales now represent 53% of PCT sales and 29% of total revenue, compared to 44% of PCT and 23% of total revenue in the 2005.

According to Company estimates, Amtel-Vredestein now holds 2.1% of the premium PCT market share in Europe and 0.7% in Russia.

Value-for-money "B" segment PCT sales up 19.7%

Sales of Value-for-Money "B" segment tyres increased 19.7% to $158 million in 2006 – up from $132 million in 2005 (5.55 million units in 2006 versus 4.44 million units in 2005). Tyre prices in this segment in Russia have grown an average of 7% due to improvements in market positioning and changes in sales mix. According to Company estimates, Amtel-Vredestein's market share of "B" segment PCT in Russia has grown from 19% in 2004 to 24% in 2005 to 39.2% in 2006.

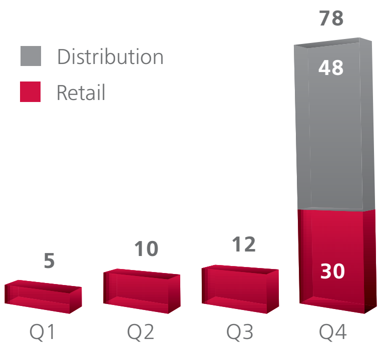
Discount "C" segment PCT continues its decline

Sales of discount (primarily unbranded) "C" segment tyres decreased as expected by 14.5% to $53 million from $62 million in 2005 (1.9 million units in 2006 versus 3.18 million units in 2005). The Company will continue to execute its strategy to reduce sales and ultimately phase out production of unbranded tyres as it converts its contracts with Russian automobile manufacturers and its replacement market sales to higher quality and higher margin PCT. One component of this conversion strategy is the launch in 2007 of branded "C" segment tyres under the well-known Taganca trade mark the Company acquired when it purchased the Moscow Tyre Plant.

AV-TO makes a significant contribution to sales for the first time in 2006

Sales growth is also attributed to the Company's AV-TO subsidiary, which on a standalone basis contributed $105 million to Net Sales versus $9 million in 2005. This represents 12.9% of total Company sales, or 21.3% of Russian sales on a standalone basis. AV-TO sales were particularly strong in last quarter of 2006 when it absorbed the Pigma and Megashina distribution businesses – which were consolidated into AV-TO during Q4. However, retail sales at the unit also grew substantially to $57 million versus $9 million in 2005. Retail sales reached $30 million in Q4 – up 2.5 times versus the previous quarter.

AV-TO Sales 2006



Improvement in gross profit margin

Gross profit margin improved from 21% to 23.1% in 2006 producing a 34% increase in gross profit to $189 million versus $141 million in 2005. These positive developments were primarily the result of the full consolidation of Vredestein Banden and a further shift in the sales mix toward more expensive and higher profit margin tyres.

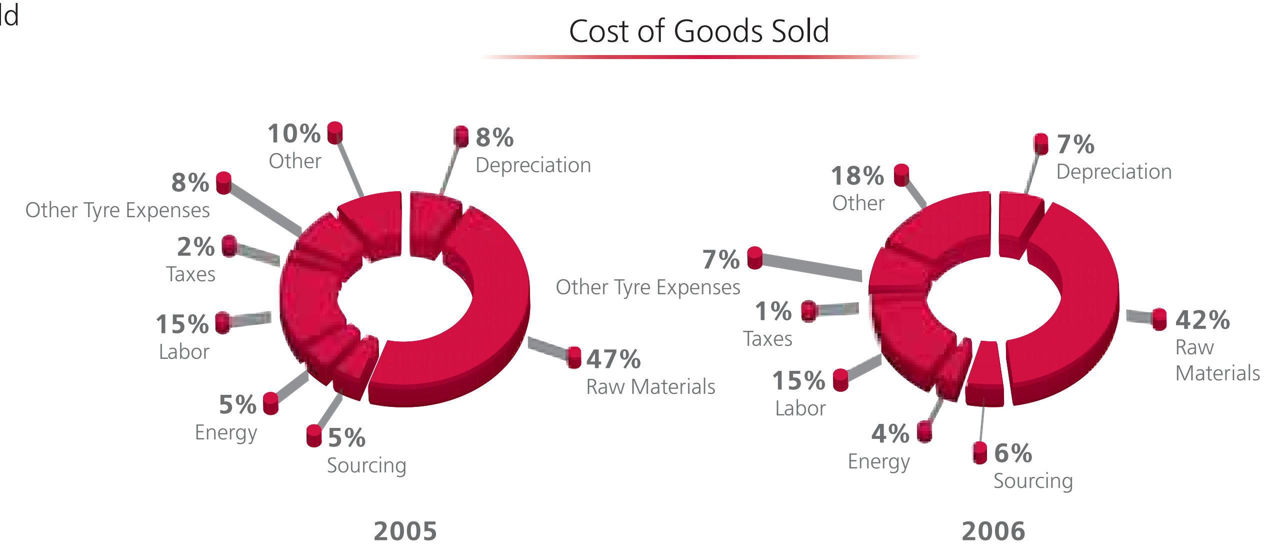
These favourable effects on gross profit were partially offset by the following factors:

- cost increases, primarily in prices of raw materials, including natural and synthetic rubber, carbon black and chemical products – up overall by 11% in 2006;
- rising impact of AV-TO operations – which have higher gross profit margins in retail but lower gross profit margins in its distribution businesses;
- rising labour costs – up 20% in 2006;
- rise in charges for depreciation due to an increase of property, plant and equipment.

Gross Profit Margin

in million USD

Cost of Goods Sold



Other operating income/expenses

Negative goodwill

After being fairly valued by independent appraisers, the net identifiable assets at the date of acquisition of the Moscow Tyre Plant, have been determined to exceed the cost of acquisition by $22 million. 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 directly in the income statement.

Impairment

The Company reviews goodwill and other identifiable intangible assets with indefinite useful lives to assess impairment on an annual basis. An impairment test of goodwill for the year ended 31 December 2006 was made with the assistance of an independent expert. As a result of this impairment testing, no impairment loss on any of the Company's cash generating units was recognised in its consolidated financial statements for the period.

The disposal of Amtel-Kuzbass, Kemerovo resulted in an impairment charge of $4 million in 2006.

Distribution expenses

Distribution expenses, which include selling expenses, increased by 70% to $85 million (10% of revenues) in 2006 as compared to $50 million in 2005 (7.4% of revenues). This is primarily as a result of increased expenses at the Company's AV-TO subsidiary with respect to acquisitions and the full-year consolidation of Vredestein Banden.

Distribution Expenses

in million USD	**2006**	**2005**
Salaries and related expenses	(32)	(17)
Warehouse expenses	(6)	(9)
Advertising and marketing expenses	(20)	(12)
Depreciation	(5)	(1)
Other	(22)	(11)
	(85)	(50)

Advertising expenses

Advertising expenses were $20 million in 2006 (2005: $12 million) or 2.4% of revenues – up 67% over the previous period. This figure incorporates the full-year advertising expenses of the Vredestein enterprise in Europe as well as Russian brand communications.

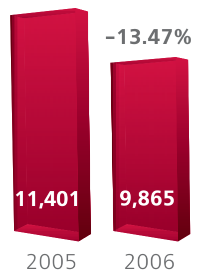
Administrative expenses

Administrative expenses in 2006 increased 12.5% to $63 million (7.7% of revenues) compared to $56 million (14%) in 2005, primarily as a result of increased overhead contributions from the full-year consolidation of Vredestein Banden as well as AV-TO's acquisitions of Pigma, Megashina and numerous tyre retail units.

Administrative Expenses

in million USD	**2006**	**2005**
Salaries and related expenses	(25)	(26)
Share options expenses	(3)	(6)
Depreciation	(1)	(1)
Consulting	(2)	(3)
Insurance	(4)	(2)
Other	(28)	(18)
	(63)	(56)

Headcount Reduction



These increases were somewhat offset by cost-cutting measures – including an overall headcount reduction of 13.5% (10.97% net of acquisitions and disposals) in 2006 from 11,401 to 9,865. Administrative expenses are expected to decrease as a percentage of sales as Pigma and Megashina are integrated into the Company's AV-TO subsidiary through costs savings resulting from the move of the Moscow Corporate Headquarters to the Moscow Tyre Plant.

Capital expenditures (CAPEX)

Capital Expenditures excluding investments in 2006 were $71 million, up 7.6% from 2005. This increase is primarily related to capital improvements at our Voronezh tyre factory (Voronezh II), the full-year consolidation of Vredestein Banden, the addition of the Moscow Tyre Plant, as well as expenditures at our AV-TO subsidiary.

Profit from operations up 106.3%

Profit from operations on a consolidated basis grew approximately 106% to $33 million (4% of revenues) versus $16 million (2.4% of revenues) in the previous period. Operating Profit was substantially increased by negative goodwill (see above) associated with the Company's purchase of the Moscow Tyre Plant – without which profit from operations would have decreased versus the previous period.

Positive development of profit from operations was substantially offset by losses at the Company's AV-TO unit, which produced a $10 million operating loss on a standalone basis. Losses at the retail and distribution unit resulted primarily from the fact that AV-TO was in various stages of consolidation throughout the year and most economies of scale were not yet realised.

Profit from Operations

Restructuring costs

The Company incurred restructuring costs of $3 million in 2006, primarily from employee reductions and discontinued operations at its Voronezh factory.

Financing costs increase as company continues its investment programme

Interest expenses rose 9.8% to $53 million from $51 million in 2005 as a result of a significant increase of loans and borrowings throughout the year – primarily due to AV-TO's acquisition of Pigma, Megashina and numerous retail outlets, as well as the Company's purchase of the Moscow Tyre Plant and the commencement of the first critical phase in the construction of a new tyre factory at the Company's Voronezh tyre complex (Voronezh II).

Another contributing factor was the increase in the average cost of borrowings (weighted average interest rate) from 8.5% to 8.75% in 2006 due to a shift in the debt portfolio to a greater percentage of Russian loans – which charge a higher rate of interest.

The overall increase in interest expense was offset by a rise in Interest Income from $3 million in 2005 to $8 million in 2006.

Net result improves

Net result in 2006 improved to a Net Loss of $5 million compared to a Net Loss of $81 million in 2005.

High interest expenses associated with borrowing used to fund the Company's investment programme, as well as a loss of $10 million at the Company's AV-TO subsidiary, continued as expected to erase net profits during the period. An impairment charge of $4 million resulting from the sale of Amtel-Kuzbass also contributed to this loss.

Assets increased as a result of acquisitions

Assets increased by 33% to $1.4 billion from $1.1 billion in 2005. This result was largely due to the acquisitions of Pigma and numerous retail outlets, as well as the Company's purchase of the Moscow Tyre Plant.

Shareholders equity and minority interest

Shareholders' equity increased by 8.5% to $410 million from $378 million in 2005.

Liabilities

Non-current liabilities decreased as the Company's long-term loans and borrowings were reduced. This decrease was more than offset by a significant increase in current liabilities due to a surge in short-term loans and borrowings related to the expiration of long-term debt instruments ($155 million CLN and €50 million loan from Amsterdam Trade Bank) as well as other financing requirements throughout 2006.

The Company's deferred tax liability increased to $60 million in 2006 from $48 million in 2005, due to disposals and acquisitions throughout the period.

Net debt increases substantially as Company completes investment programme

The Company's net debt position in 2006 (calculated as loans and borrowings including leasing, less cash and cash equivalents) increased by 63% to $679 million from $417 million in the previous period, mostly due to the significant investments made during the year. $50 million (12%) growth of the Company's net debt position resulted from US Dollar depreciation against the Ruble and the Euro.

Throughout 2006, the Group made considerable investment in the development of its manufacturing operation and in its AV-TO retail and distribution division. The major portion of the capital expenditure for the year was in Russia where total investment (net of proceeds from disposals) was $181 million. Acquisition of property, plant and equipment amounted to $67 million of which $27.5 million is related to the development of the Voronezh II project. $48 million was spent on the acquisition of the Moscow Tyre Plant (first stage of the transaction) and $80 million was invested in AV-TO (including the acquisitions of retail stores and wholesale businesses Pigma and Megashina), while total investments in Dutch division Vredestein Banden amounted to $23 million.

This significant investment programme was partially covered by positive operating cash flow of $13 million (versus negative cash flow of $39 million in 2005) and $31 million in proceeds from the disposal of non-core assets and investments as a result of the Group's restructuring. Material improvement of operating cash flow confirms that the Company's restructuring programme in 2005–2006 was successful.

Outlook for 2007

Amtel-Vredestein has a positive outlook for 2007 and expects to achieve sales growth primarily in its key passenger car tyre business. The Company also expects to realise a significant return through increased profitability from the investments it has made to improve and expand its production and distribution platform in Russia.

The Company expects that its net debt will increase in 2007 as it completes the expansion of its Voronezh tyre factory. It plans to finance its investments and restructure some of its current borrowings through bank loans and via a proposed Eurobond issue.

Sales are expected to fall between $1–1.1 billion in 2007 based on current sales trends and scheduled production output. Management also anticipates improvements in gross profit margin consistent with previous years as it continues to migrate up the value chain via a product mix geared to higher quality, higher priced tyres. EBITDA may exceed $120 million and rise to as high as $130 million.

Expenses are expected to reduce as a percentage of sales as the Company lowers its overheads through consolidation and continued cost cutting. The Company expects to be profitable in 2007.

The Company expects to sell over 17 million tyres in 2007 (plus 1.6 million bicycle tyres), including 14.5 million passenger car tyres (PCT). Tyre sales in Russia for 2007 are expected to exceed 11.4 million, including 9.5 million PCT, of which 1.2 million tyres are planned for export to Europe and CIS countries.

Raw materials costs are expected to continue to climb, though not as steeply as in previous years. The cost increase for the total basket of raw materials is anticipated to rise no more than 11% in 2007. At the same time, continued improvements in the product mix are expected to reduce the cost of raw materials as a percentage of cost of goods sold.

The Company has announced it is winning new contracts from OE manufacturers, including the largest Russian and most active international automobile manufacturers. Sales to OE are expected to grow 9% in 2007 and, as a percentage of total sales, OE may grow to as high as 25% of total tyre sales in 2007/2008.

AV-TO is expected to make a more considerable contribution to sales in 2007 as the Company consolidates the full-year results of Pigma, Megashina and numerous retail outlets it acquired in 2006. AV-TO should approach its breakeven in 2007.

The Company does not anticipate further significant workforce reductions in 2007. In particular, the Company has no plans to reduce its workforce at its Vredestein Banden enterprise.

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.'s overall risk management focuses on the unpredictability of financial markets and seeks to minimise 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, primarily with respect to USD, EUR, RUR on sales, purchases and borrowings. Vredestein uses forward contracts and currency options to decrease this risk. Its risk management policy requires at least 50% of sales anticipated for a period of 6–12 months in advance to be hedged.

Fair value interest rate risk: Vredestein 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. The Group holds derivative financial instruments to hedge interest rate risk exposures. Derivative financial instruments are measured at fair value. Publicly quoted market prices and rates are used to define the fair value of derivatives. Hedge accounting is not applied in cash flow hedging in connection with interest rate swaps and caps. Changes in fair value of these derivatives instruments have been recorded in profit and loss.

Credit risk

The Company has established policies to 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 counterparties and cash transactions are limited to high-credit quality financial institutions.

However, management has concluded that there are certain uncertainties associated with the collection of receivables ($17 million, discounted) due from the Company's recently disposed chemical fibre plant in Kemerovo. This concern is somewhat mitigated by the fact that the plant continues to supply raw materials to the Company's Russian factories and that the new owners of the facility have taken steps to improve their operations. The Company is taking every reasonable means to secure this debt.

Liquidity risk

The Company minimises liquidity risk with the 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 MOSIBOR, 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 interest rates. Management has established a policy for limiting its exposure to variability in interest rates to 60% of its interest payments through the use of interest rate swaps and interest caps.

The interest rate swaps somewhat insulate the Company from variable rate cash flow exposure from long-term loans by placing it in a pay-fixed, receipt-variable position. Vredestein Banden B.V. makes fixed interest payments to a counterparty and receives variable interest payments in return. The interest cap limits the Company's overall exposure to increases in long-term interest rates.

RISKS 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 is 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 re-branding these chains and consolidating them 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 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. 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 – including a prescribed debt ceiling equal to 70% of annualised revenues from continued operations – until it is redeemed in June 2007.

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

Product liability risks

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

Additionally, because product quality and the perception thereof significantly influence a customer's decision to purchase tyres, any such liability claims, service actions or recalls could, even if they successfully address the underlying defects, decrease the Company's future sales and profitability, thereby materially adversely affecting the Amtel-Vredestein's business, financial condition or operating results.

Insufficient insurance risks

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

Environmental and regulatory risks

Compliance with environmental and safety laws and regulations could require Amtel-Vredestein to incur costs or restrict its operations in a manner that could materially adversely affect the Company's business, financial condition or operating results.

The Company's business of manufacturing tyres may potentially be damaging to the environment. The Company is subject to a variety of environmental laws and regulations, including those regulating the use, handling, treatment, storage, discharge and disposal of substances and hazardous wastes used by or generated in its manufacturing facilities in Russia and The Netherlands. Amtel-Vredestein must invest financial and managerial resources to comply with such environmental laws and regulations.

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

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

Global Depository Receipts and trading market risks

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

For example, both applicable Dutch law and the Company's Articles of Association require the Company to notify shareholders at least 15 days in advance of any shareholders' meeting. The Company's shareholders will receive such notice directly from the Company and can exercise their voting rights either by attending the meeting in person or voting by proxy. By contrast, GDR holders will receive no such notice directly from the Company. Rather, in accordance with the deposit agreement, the Company will dispatch such notice to the Depository. In turn, the Depository has undertaken, if the Company so requests in writing and at the Company's expense, to mail to each GDR holder, as soon as practicable thereafter, copies of voting materials (if and as received by the Depository from the Company), as well as a statement as to the manner in which GDR holders may give voting instructions. To exercise their voting rights, GDR holders must then instruct the Depository as to how to vote the shares represented by the GDRs that they hold.

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

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

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

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

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

Tax risks

The taxation system in the Russian Federation is relatively new and is 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 acquired by the Group were involved in tax optimisation programmes. Management of the relevant retail chains controlled the transactions. Although the

Group is not responsible for potential violations of the tax legislation, this all could result in a possible tax liability that cannot be estimated at this stage. Based on the facts available, the risk of a significant economic benefit outflow as a result of potential claims is seen by management as low and less than probable.

Risks resulting from resignations by members of the Executive Board

On 9 March 2007, the Company accepted resignations from its Executive Board by Rob Oudshoorn and Ton Tholens. Oudshoorn and Tholens remain as Vredestein Banden CEO and Financial Director, respectively. Tholens also stepped down as CFO of the Company – though he continues to assist in the preparation of interim statements in his capacity as Vredestein financial director. Alexei Gurin temporarily assumed the role of CFO in addition to his duties as CEO. COO Sergei Bokhanov also resigned from the Company and from the Executive Board effective 1 June 2007. The Articles of Association of the Company provide that the Supervisory Board determines the number of members of the Executive Board and that number is currently set at four. The Supervisory Board has been actively engaged in finding suitable replacements for these positions on the Executive Board and new members have been nominated by the Supervisory Board for approval at the next Annual General Meeting of Shareholders in June. However, there may be legal risks associated with the failure by the Supervisory Board to more immediately replace Executive Board members, inter alia, in the event of insolvency by the Company.

The Dutch tax residency of the Company is determined by its place of effective management and control, which is also somewhat dependent upon the composition of the Executive Board. The Company has been advised that, in addition to other actions which demonstrate its standing as a Dutch-resident entity for tax purposes, a minimum of 50% of the members of its Executive Board should be Dutch residents to retain the certainty in advance provided by the Dutch tax authorities in this respect. The Dutch tax authorities have confirmed that the Dutch tax residency of the Company will not be challenged in connection with the temporary absence of the aforementioned composition of the Executive Board. However, this confirmation is subject to certain requirements, the most important of which is that, within a few months, a minimum of 50% of the members of the Company's Executive Board are Dutch residents again. If the Company is not able to fulfil said requirements this could jeopardise the Company's Dutch tax residency and cause the Company to forfeit its ability to offset profits made by Vredestein Banden B.V. with losses of Amtel-Vredestein N.V.

Continuity risk

The company is in the final stages of a significant ongoing investment program that began in 2002. To date, the company has invested over $800 million to finance expansion, modernization and working capital, which resulted in negative cash flow. The Company expects to be cash flow positive beginning in 2008. However, the Company will need additional funds to conclude its investment program and satisfy the obligations of its short-term borrowings in 2007 – including the repayment of a $155 million credit linked note. The Company has historically always managed to refinance its debt and has obtained or taken steps to obtain the additional financing required for 2007 – some of which has been secured by surety, pledge of real estate, equipment and goods. Furthermore, management is confident that its plans to issue a euro-denominated 150 million Eurobond in 2007 will be successful and will further ensure that the Company will have the necessary funds to fulfill its repayment obligations. Accordingly, the accounting principles applied herein are based on the assumption that the company will be able to continue as a going concern.

MANAGEMENT'S REPORT ON INTERNAL CONTROL

The management of Amtel-Vredestein N.V. is responsible for establishing and maintaining an adequate system of internal controls over operational effectiveness, laws and regulations and financial reporting. Therefore, management has assessed the effectiveness of Amtel-Vredestein's internal controls for the full year to 31 December 2006. Management has documented its assessment as criteria set forth in the Dutch Corporate Governance Code attachment under section II.1.4.

Enschede, 13 June 2006

The Executive Board

Alexei Gurin (Chairman)

SUPERVISORY BOARD REPORT

Remuneration Report of the Supervisory Board **64**
Remuneration Policy **65**

Introduction

2006 was a strategically important year for Amtel-Vredestein as it undertook several key steps in the restructuring and transformation of its business to create a platform for long-term profitable growth.

The Company achieved a number of critical milestones in 2006, including:

- increased market share for its Amtel brand;
- emergence as Russia's number one tyre retailer;
- volume growth of Vredestein tyres imported into Russia;
- commencement of production in Russia and export to Europe of Vredestein tyres;
- the acquisition of the Moscow Tyre Plant;
- the purchase of auto parts and tyre distribution businesses, Pigma and Megashina, as part of the Company's AV-TO subsidiary;
- the completion of the first critical stage in the development of Voronezh II, a new state-of-the-art tyre factory at its Amtel-Chernozemye tyre complex; and
- the disposal of Amtel-Kuzbass, the Company's chemical fibre plant in Kemerovo, its last non-core asset.

Of course, all of these accomplishments are thanks to the extraordinary efforts of the Amtel-Vredestein management team.

Throughout the year, the Supervisory Board was actively involved in the development and review of the Company's business strategy; the approval of its disposals and acquisitions, audit issues related to interim and annual results for 2005 and 2006; preparation for the first Annual General Meeting of Shareholders; as well as other issues in line with the Company's Articles of Association, Dutch law and the Dutch Corporate Governance Code also known as the Tabaksblat Code (the "Code").

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 shareholders. 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

In 2006, the Executive Board, supported by the Supervisory Board continued its effort to implement the provisions of the Code, also known as the Tabaksblat Code so as to provide shareholders with transparent and reliable management. As was done for the 2006 Annual General Meeting, the Executive Board and Supervisory Board will submit information regarding the corporate governance structure of the Company to the 2007 Annual General Meeting of Shareholders for discussion and ask the shareholders' approval of any deviations from the Code and amendments to the Company's Articles of Association necessary for implementation of certain provisions of the Code.

We have included a section on corporate governance in this year's Annual Report to inform shareholders on the status of and future developments with respect to implementation of the 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 Code. The Executive Board also adopted regulations with 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.

Composition of the Supervisory Board

The Supervisory Board of the Company may consist of up to 10 members, but in no case less than three members, as contemplated by the Company's Articles of Association.

Supervisory Board members are appointed by the General Meeting of Shareholders based on proposals made by the Supervisory Board. The current members of the Supervisory Board are as follows:

MR. SUDHIR GUPTA

Chairman
Age: 49
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: 48
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: 41
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: 25
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: 45
Nationality: Russian Federation
Appointed: 2005

Chairman of the Board of Sport and Fashion Retail Group; a degree in Mathematics and Computing from the People's Friendship University named after Patrice Lumumba.

MR. HUBERT PANDZA

Member Audit Committee
Age: 59
Nationality: Germany
Appointed: 2006

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

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. Resignations of Boris Bakal, a representative of Citicorp International Finance Corporation and Gregory Van Beek, a representative of Temasek, were accepted at that time, both due to their other commitments. A third resignation was also accepted from Mr. David Wack, a partner with Squire, Sanders & Dempsey's Moscow practice, who has assumed the responsibility of Corporate Secretary to the Supervisory Board.

At the 2006 Annual General Meeting of Shareholders, Mr. Hubert Pandza was elected as independent Director. The Company believes his prior experience with EBRD and as President of Deutsche Bank Russia is extremely valuable to the Company's business at its current stage of development. With the addition of Mr. Pandza, the Supervisory Board is comprised of three independent directors.

Composition of the Executive Board

As of December 2006, the Executive Board was comprised of four members – Alexei Gurin, CEO; Sergey Bokhanov, COO; Rob Oudshoorn, CEO of Vredestein Banden; and Ton Tholens, CFO of Vredestein Banden. Victor Nekrassov, who was appointed as Executive Board member in 2005, stepped down in February 2006 when he resigned as CFO of the Company. In September 2006, an Extraordinary General Meeting of Shareholders appointed Mr. Anne van't Veer, Managing Director of Amsterdam Trade Bank N.V., to the Executive Board. Mr. Van't Veer subsequently resigned for personal reasons in February 2007. Messrs. Tholens and Oudshoorn elected to step down from the Executive Board in March 2007; Mr. Bokhanov resigned in May 2007 to accept a position at a company outside of the tyre and automotive industries; and new appointments to the Executive Board are expected to be proposed by the Supervisory Board for approval by the Annual General Meeting of Shareholders in 2007.

With the view to compliance with the Code and Articles of Association, new Executive Board members will be appointed with term limits of four years.

Meetings of the Supervisory Board

The Supervisory Board met six times in 2006. All meetings were fully attended by all members and minutes properly recorded.

Business review

Several events occurred last year that were vital to the Company's plans to excel in the passenger car tyre business and provide for long-term sustainable growth. During the course of the year, the Company:

- concluded acquisitions of over 70 tyre retail outlets throughout Russia to become country's largest tyre retailer;
- acquired Nizhny Novgorod-based auto parts distributor, Pigma, and tyre distributor, Megashina, and merged these businesses into its AV-TO subsidiary to become a leader in tyre and auto parts distribution;
- signed a $63 million agreement with a Siemens subsidiary, Lincas Export Services GmbH, to purchase equipment for its Voronezh II tyre factory, which will make Voronezh II the most advanced tyre production facility in Russia;
- acquired Moscow Tyre Plant, gaining essential production capacity to meet the growing demand for its brands in Russia;
- disposed of Amtel-Kuzbass, its chemical fibre plant in Kemerovo and its last remaining non-core asset.

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

Committees

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

Audit Committee

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

Role of the Audit Committee

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

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

The composition of the Audit Committee

Position	Name	Status	Independent
Chairman	Dominic Gualtieri	Non-Executive Director	No
Member	Hubert Pandza	Non-Executive Director	Yes
Member	Tarik Chaudhri	Non-Executive Director	Yes

For the purposes of the Code, Dominic Gualtieri is considered by the Supervisory Board to have recent and relevant financial experience. Dominic Gualtieri and Tarik Chaudri served on the Audit Committee throughout 2006. Hubert Pandza joined the Audit Committee upon his appointment to the Supervisory Board in June 2006.

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

Report on the Audit Committee's activities in 2006

Meetings and attendance

The Audit Committee met nine times in 2006 and there was full attendance by all members.

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

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

The Audit Committee carried out the following activities during 2006:

Risk and Controls

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

Financial Results

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

External audit

- Reviewed with the external auditor its audit plan for the financial year ended 31 December 2006 to ensure that their scope of work adequately covered the activities of the Company;
- Reviewed the results and issues arising from the external auditor's audit of the financial year end statements and the resolution of such issues highlighted in its correspondence to the Committee;
- Reviewed the external auditor's audit performance and independence before recommending to the Supervisory Board their appointment and remuneration;

Internal audit

- Reviewed with the internal auditor its annual audit plan for the financial year ended 31 December 2006 to ensure that principal risk areas were adequately identified and covered in the plan;
- Reviewed the recommendations by internal audit, representations made and corrective actions taken by management in addressing and resolving issues as well as ensuring that all issues are adequately addressed on a timely basis;

- Reviewed the results of ad-hoc activities performed by internal audit and the actions taken relating to those activities;
- Reviewed the adequacy of resources and the competency of staff within the internal audit activity to execute the plan, as well as the audit working programmes used in the execution of the internal auditor's work and results of their work.

Remuneration and Appointment Committee

The Remuneration and Appointment Committee was formed in 2005 and consists of Daniel Gupta and Maxim Ignatiev. The Remuneration and Appointment Committee held two formal meetings (as required) in June and December 2006, as well as one informal meeting in April 2007 to discuss the Remuneration and Appointment Committee report.

Role of the Remuneration and Appointment Committee

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

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 ended 31 December 2006 are set forth in the 2006 financial statements. The members of the Supervisory Board received compensation for a full year of service in 2006.

Financial Statements for 2006

With this Annual Report, we present the 2006 financial statements of Amtel-Vredestein N.V., as prepared by the Executive Board and audited by KPMG Accountants N.V. You will find the 2006 Financial Statements thereon commencing on page 67 of this Annual Report.

This Annual Report was 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 this Annual Report forms a solid basis for the Supervisory Board's discharge of its accountability and supervisory function. We recommend that the shareholders adopt the 2006 financial statements.

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 the Company's employees, and for the encouraging results of their endeavours.

Enschede, 13 June 2007

The Supervisory Board

Sudhir Gupta (Chairman)	Maxim Ignatiev
Tarik Chaudri	Daniel Gupta
Hubert Pandza	Dominic P. Gualtieri

REMUNERATION REPORT OF THE SUPERVISORY BOARD

Introduction

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

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

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

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

The following is an overview of the remuneration policy for 2006 and subsequent years. It takes into account the best practice provisions of the Code.

REMUNERATION POLICY

Remuneration policy statement

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

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

Employment agreements

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

If the Company initiates the termination of the employment agreement for a Dutch-resident Executive Board member and if the termination is for a reason other than 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 with the understanding that the severance payment will not under any circumstances exceed the equivalent of one year's base salary.

If the Company initiates termination of the employment agreement for a 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's base salary.

- Mr. Gurin has the right to one year's 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 the Annual General Meeting in 2006, new Executive Board members are to be appointed for a period of four years. On expiry, the Executive Board member may be reappointed for successive terms of not more than four years.

Remuneration elements

The Supervisory Board has adopted a 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 elements of the base salary are fixed, whereas the elements of the 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 considers to be the most critical annual measures to enable the business to achieve the goals of its objectives. The qualitative targets for the Executive Board are set by the Supervisory Board based upon the approved annual budget.

When an employment agreement is terminated by a member of the Executive Board, this member is no longer entitled to any bonus. In the case of a 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.

Share options and share grants

In April 2007 the Supervisory Board decided to discontinue the share option programme in its existing form. It was recognised by the Members of the Supervisory Board and the Management that it did not serve the purpose of motivating the management and furthermore created an unnecessary financial burden for the Company.

However, as recognition for their efforts in bringing about the merger of the Company with Vredestein Banden B.V. and continuing efforts in closer integration between Russian and Dutch parts of the Company, the Supervisory Board has decided to award the following members of the Executive Board and senior management the option to purchase ordinary shares as follows:

- to grant to Alexander Lantushenko the option to purchase for €0.01 each 8,000 ordinary shares
- to grant to Anatoly Volnov the option to purchase for €0.01 each 8,000 ordinary shares
- to grant to Robert Oudshoorn the option to purchase for €0.01 each 15,000 ordinary shares
- to grant to Antonius Tholens the option to purchase for €0.01 each 12,000 ordinary shares
- to grant to Kornelis Hettema the option to purchase for €0.01 each 12,000 ordinary shares
- to grant to Alexei Gurin the option to purchase for €0.01 each 50,000 ordinary shares

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 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 remuneration remained unchanged in 2006. The members of the Supervisory Board are compensated as follows:

- members – $50,000 for full year of service;
- Vice-Chairman and each committee Chair – $75,000 for full year of service;
- Chairman – $100,000 for full year of service.

FINANCIAL STATEMENTS

Consolidated Statement of Income **68**

Consolidated Balance Sheet **69**

Consolidated Statement of Cash Flows **70**

Consolidated Statement of Changes in Equity **71**

Notes to the Consolidated Financial Statements **72**

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 December

	Note	2006	2006	2006	2005	2005	2005
in million USD		**Attributable to continuing operations**	**Attributable to discontinued operations**	**Total**	**Attributable to continuing operations**	**Attributable to discontinued operations**	**Total**
Revenue	9	768	49	817	556	115	671
Cost of sales		(536)	(45)	(581)	(384)	(102)	(486)
Gross profit before depreciation		232	4	236	172	13	185
Depreciation charge related to cost of sales		(45)	(2)	(47)	(38)	(6)	(44)
Gross profit		187	2	189	134	7	141
Excess of fair value on acquisition	8(i)	22	-	22	-	-	-
Other operating income		-	-	-	10	-	10
Distribution expenses	11	(84)	(1)	(85)	(46)	(4)	(50)
Administrative expenses	10	(65)	(4)	(69)	(48)	(12)	(60)
Research and development expenses		(7)	-	7	3	-	3
Other operating expenses	13	(12)	(5)	(17)	(20)	(2)	(22)
Profit/loss from operations		41	(8)	33	27	(11)	16
Restructuring costs	14	(3)	-	(3)	(5)	(1)	(6)
Earnings before interest and tax		38	(8)	30	22	(12)	(10)
Finance income		8	-	8	3	-	3
Finance expenses		(53)	-	(53)	(50)	(1)	(51)
Foreign exchange gains/(losses)		15	-	15	5	-	5
Loss from associates				-	(2)	-	(2)
Profit/(loss before tax)		8	(8)	-	(22)	(13)	(35)
Income tax benefit/(expenses)	15	(7)	-	(7)	7	2	9
Result after tax but before loss on discontinued operation		1	(8)	(7)	(15)	(11)	(26)
Loss on sale of discontinued operation, net of tax		-	2	2	-	(55)	(55)
Profit, results for the year		1	(6)	(5)	(15)	(66)	(81)
Attributable to:							
Result attributable to minority interest		-	-	-	-	-	-
Result attributable to equity holders of the Parent		1	(6)	(5)	(15)	(66)	(81)
Basic and diluted earnings/(loss) per share, USD		0.01	(0.08)	(0.07)	(0.30)	(1.35)	(1.65)

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 72 to 108.

CONSOLIDATED BALANCE SHEET AS OF 31 December

in million USD	Note	2006	2005*
ASSETS			
Non-current assets			
Property, plant and equipment	16	547	407
Intangible assets	17	344	236
Financial assets	18	6	6
Receivables and other assets	19	34	12
Deferred tax assets	20	9	8
		940	669
Current assets			
Financial assets		1	17
Inventories	22	193	110
Trade and other receivables	23	252	217
Cash and cash equivalents	24	28	54
		474	398
Total assets		1,414	1,067
EQUITY AND LIABILITIES			
Total Equity attributable to the equity holders of the parent	25		
Issued capital		1	1
Additional paid in capital		460	457

in million USD	Note	2006	2005*
Foreign currency translation reserve		22	(11)
Retained earnings		(76)	5
Net result for the year		(5)	(81)
		402	371
Minority interest	25(vi)	8	7
Total Equity		410	378
Non-current liabilities			
Employees' benefits	26	34	35
Payables and accruals	28	21	24
Deferred tax liability	20	60	48
Loans and borrowings	27	239	379
		354	486
Current liabilities			
Bank overdraft	27	26	12
Trade and other payables	29	209	140
Loans and borrowings	27	415	51
		650	203
Total liabilities		1,004	689
Total equity and liabilities		1,414	1,067

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 72 to 108.

* Reclassified to improve comparability.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 December

in million USD	2006	2005
OPERATING ACTIVITIES		
Loss attributable to equity holders of the Parent	(5)	(81)
Non-cash adjustments:		
Depreciation and amortisation expense	57	46
Excess of the acquirer's share in net indentifiable assets over the cost of acquisition	(22)	(1)
Interest expense	51	51
Interest income	(7)	(3)
Gain/Loss on disposal of subsidiaries	-	(6)
Impairment losses	4	16
Loss on disposal of property, plant and equipment	3	2
Gain/Loss on sales of discontinued operations	(2)	55
Changes in fair value of financial instruments	(1)	-
Utilisation of pension provision	(3)	(2)
Income tax benefit	7	(9)
Share options	3	6
Income from write-off of pension liability	-	(9)
Foreign exchange (gains)/losses	(15)	(5)
Share of income/(loss) in joint venture	-	2
Operating profit before changes in working capital and provisions	70	62
Increase in inventories	(11)	(8)
Increase in trade and other receivables	(26)	(85)
Decrease in trade and other payables	(12)	(22)
Cash flows from / (used in) operations before income taxes and interest paid	21	(53)
Income tax paid	(8)	14
Cash flows from / (used in) operating activities	13	(39)
INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(67)	(60)
Acquisition of intangible assets	(3)	(3)

in million USD	2006	2005
Cash paid for acquisition of Vredestein, net of cash acquired	-	(255)
Proceeds from disposal of investments/ return of loans provided	29	2
Acquisition of investments/loans provided	(2)	(19)
Acquisition of MTP, net of cash acquired	(48)	-
Acquisition of wholesale business, net of cash acquired	(28)	-
Acquisition of retail, net of cash acquired	(52)	(47)
Proceeds from sales of discontinued operations, net of cash disposed	(1)	2
Advances for Avto Perm acquisition	-	(4)
Proceeds from sales of Rosava shares	-	14
Acquisition of shares in subsidiaries, net of cash acquired	-	(2)
Proceeds from disposal of property, plant and equipment	2	1
Interest received	5	3
Proceeds from disposal of subsidiaries, net of cash disposed of	-	5
Cash flows used in investing activities	(165)	(363)
FINANCING ACTIVITIES		
IPO from proceeds, net of fees and commission paid	-	139
CLN repayment/proceeds, net of related fees	(20)	172
Proceeds from issue of ordinary shares	-	75
Interest paid	(46)	(49)
Proceeds from borrowings	498	796
Repayment of borrowings	(326)	(702)
Withdrawals by controlling shareholder	-	(2)
Contributions by controlling shareholder	3	1
Cash flows from financing activities	109	430
Currency translation difference	3	7
Net increase in cash and cash equivalents	(43)	28
Cash and cash equivalents at beginning of year	42	7
Cash and cash equivalents at the end of year (note 24)	2	42

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 72 to 108.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 December

in million USD	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 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		-	-	(12)	-	-	(12)	-	(12)
Total recognised income and expenses for the period		-	-	(12)	-	(81)	(93)	-	(93)
Balance at 31 December 2005		1	457	(11)	5	(81)	371	7	378
Balance at 1 January 2006		1	457	(11)	5	(81)	371	7	378
Translation result foreign currencies		-	-	33	-	-	33	1	34
Appropriation of results for the period		-	-	-	(81)	81	-	-	-
Profit/(loss) for the period		-	-	-	-	(5)	(5)	-	(5)
Share option recognition		-	3	-	-	-	3	-	3
Total recognised income and expenses for the period		-	-	33	-	(5)	28	-	28
Balance at 31 December 2006		1	460	22	(76)	(5)	402	8	410

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 72 to 108.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Background

(i) Introduction

This financial statement contains the consolidated financial statements including the note thereon, all based on IFRS accounting policies as set forth in paragraph 2 (ii).

(ii) General information

Amtel-Vredestein N.V., further referred as "the Parent Company", "the Company" or "the Group" was incorporated by Amtel Luxembourg 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 2005 the Company was reorganised into a public limited liability company (Naamloze Vennootschap). The Company operates under the laws of The Netherlands, with its registered office at Ir.E.L.C.Schiffstraat 370, 7545 RD Enschede, 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.

The financial statements were approved by the Board of Management on 13 June 2007 and is subject to adoption by the General Meeting of Shareholders on 30 June 2007.

(iii) 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 plants produce a wide range of tyres for a variety of vehicles, including passenger cars, trucks, agricultural and military vehicles and bicycles. The distribution business includes a number of retail outlets and wholesale division. The products of the Group are distributed in Russia, The Netherlands and other countries.

(iv) 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

(i) Going concern

Amtel has started its modernisation programme in 2002 and since 2002 has always implemented a growth and expansion strategy. The expansion programme included acquisitions of Vredestein Banden and Moscow Tyre Factory. The Company also started retail operations in Russia and has acquired different retail and wholesale companies over the last 18 months.

During the course of these years, Amtel has spent over USD 800 million to finance its expansion, modernisation and increase in the working capital. As a result of the implementation of the aforementioned strategy, the Company has experienced an overall negative cash flow in each of these years. As of 2006, Amtel has turned cash positive from operations whereas for 2008, management expects to turn cash positive overall in 2008.

However, as at 31 December 2006, current liabilities exceed the current assets. In combination with the ongoing investment in the development of the Voronezh plant and the repayment obligation of short-term borrowing, the Company is in need of new cash funds.

Despite constant need for additional funding to finance negative cash flow, Amtel management has been always successful in negotiating acceptable terms of financing with lenders and other private investors. Moreover, Amtel-Vredestein in Russia has been experiencing positive trends in its financial performance since 2002. Stable revenue and increases in gross margins are attributable to improvements in product mix, marketing and significant restructuring activity including the disposal of loss-making businesses and cost-cutting measures at Kirov and Voronezh tire plants.

The year 2007 is another crucial year for the longer term financing position of the Company, due to its liability to repay its unsecured Credit Link Notes for an amount of USD 155 million. In addition, other bank loans and credit lines are to be repaid or renewed in 2007. In total, approximately USD 400 million needs to be refinanced in 2007. This amount includes the repayment of the Credit Link Notes.

Up to the date of these financial statements, the Company has been able to attract new bank loans for an amount of USD 213 million. In addition, currently the Company is negotiating new credit lines were for an amount of USD 52 million. These loans and credit lines have been secured by surety, pledge of real estate, equipment and goods and are further disclosed in Note 27(v).

Furthermore, the Company is planning to issue a EUR 150 million Eurobond in June 2007 in order to refinance USD 155 million Credit Linked Notes with public debt of a longer maturity and refinance other existing short-term debts.

Company management is confident that the Bond offering will be successful as well as the realisation of the other credit facilities. This will provide the Company the necessary funds to fulfil its repayment obligations. Accordingly, the accounting principles applied are based on the assumption that the Company will be able to continue as a going concern.

In the event that management would not be successful in raising funds or in generating sufficient cash flow, the continuity of the Company could be uncertain, in which case the underlying assumption of going conern may no longer be appropriate.

(ii) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted 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.

(iii) Basis of measurement

The consolidated financial statements are prepared on a historical cost basis, except that financial instruments available for sale are stated at fair value. The methods to measure fair value are further disclosed in note 31(iv).

(iv) Functional and presentation currency

The Parent Company's functional currency is EUR because it reflects the economic substance of the underlying events and circumstances of the Company. USD is the Company's reporting currency. All financial information presented in USD has been rounded to the nearest million.

(v) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements in order to conform to IFRS. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 2 (i) – continuity
- Note 8 – business combinations
- Note 17(ii) – measurement of the recoverable amounts of cash-generating units
- Note 20(ii) – utilisation of tax losses
- Note 16(iii) – accounting for an arrangement containing a lease
- Note 26(i) – measurement of defined benefit obligations
- Note 35(ii) – measurement of share-based payments
- Note 27(i) – valuation of financial instruments

3. Significant accounting policies

Accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform to the current year's presentation. In addition, the comparative income statement has been re-presented as if an operation discontinued during the current period had been discontinued from the start of the comparative period (see note 7(iii)).

(i) Basis of consolidation

The consolidated financial statements include the accounts of Amtel-Vredestein N.V. and all subsidiaries. A list of significant subsidiaries has been included in Note 36.

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company 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) Associates and joint ventures

Associates are those entities in which the Company has significant influence, but not control over the financial and operating policies. Joint ventures are those entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Company's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation to, or has made payments on behalf of, the investee.

(iii) 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 Company'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.

(ii) Business combinations

(i) Acquisitions

In accounting for the acquisition of subsidiaries the purchase accounting method is used. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of income. The assets and liabilities from business combinations arising from transfers of interests in entities that are under the control of the Company are accounted for at the carrying amounts recognised previously.

(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.

(iii) 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 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 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 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.

As presentation currency is different than functional currency the translation procedures were as follows:

- assets and liabilities were translated at the exchange rate at the reporting date;
- income and expenses, cash flows were translated at average rates for the year;
- resulting exchange differences were recognised directly in equity and are presented as a separate component of equity.

(iv) 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 appraiser.

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.

Interest related to the loans provided for investments in property, plant and equipment which were not acquired through business combinations has been capitalised as a part of investment in 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.

(v) 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 accumulated impairment losses. Goodwill is not amortised but tested annually after year end and whenever impairment indicators require so.

In accordance with IFRS 3, the Company performed and completed annual impairment tests. A goodwill impairment loss is recognised in the income statement whenever and to the extent that the carrying amount of goodwill of a cash-generating unit exceeds the recoverable amount of that unit (see further note 3(xi)).

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 directly 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
• Research and development	6 years
• Customer base	10 years
• Trade mark	10 years
• Other	3 to 6 years

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

Residual value, depreciation method and useful lives are reassessed annually.

(vi) 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. No depreciation is recorded for non-current assets held for sale.

(vii) Financial assets

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

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(xi)), and foreign exchange gains and losses on available-for-sale monetary items (see note 3(ii)(i), are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(viii) 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.

(ix) Trade and other receivables

Trade and other receivables are stated at amortised cost using the effective interest method less impairment losses.

(x) 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.

(xi) Impairment

The carrying amount of goodwill and identifiable intangible assets with indefinite lives are tested annually for impairment. 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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

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.

(xii) Share Capital

(i) Ordinary share

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

(ii) 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.

(xiii) 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.

(xiv) 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.

(xv) Trade and other payables

Trade and other payables are stated at amortised cost using the effective interest method.

(xvi) Financial instruments

The Group holds derivative financial instruments to hedge interest rate risk exposures. Derivative financial instruments are measured at fair value. Publicly quoted market prices and rates are used to define the fair value of derivatives. Hedge accounting is not applied in cash flow hedging in connection with interest rate swaps and caps. Changes in fair values of these derivatives instruments have been recorded in profit and loss.

(xvii) 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. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

(xviii) 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.

(xix) 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.

(xx) 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.

(xxi) 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(ii) Social expenditure

The Group's contributions to social programmes are recognised in the income statement as incurred. The liability is remeasured at each reporting date and at settlement date. Any change in the fair value of the liability is recognised as personal expense in the profit and loss account.

(xxii) 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 on 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% 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 programme allows Group employees to acquire shares of the company. The fair value of options granted is recognised as an employee expense with corresponding increase in equity. The fair value is measured at the 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 recognised 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 recognised as an expense is adjusted to reflect the actual number of share options that vest.

(xxiii) 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.

(xxiv) 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.

When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

(xxv) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(xxvi) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to Group's financial instruments and share capital.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have any impact on the consolidated financial statements.

IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of IAS 36 and IAS 39, respectively (i.e., 1 January 2004).

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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. Impairment test of goodwill for the year ended 31 December 2006 was made with the assistance of an independent expert.

For the goodwill acquired in the business combination – refer to note 8(ii), 8(iii) – the Group estimated the recoverable amount of the combined distribution 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 33 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 4% 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 15.9% 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 a 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 2006 amounted to:

In million USD	**Russian subsidiaries**	**Vredestein Banden B.V.**	**Total**
Recognised impairment	3	11	14
Gross receivables	159	107	266
Impairment as a % of the gross receivable balance	2%	10%	5%

(iii) Pension liabilities

In 2006 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.

When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The following assumptions were used in the valuation:

	2006	2005
Active employee members		
Number	1,139	1,048
Average age	43	43
Average past services	17	16.2
Individual salary increase (dependent on age)	0%-2.5%	0%-2.5%
Employee turnover (dependent on age)	0%-7%	0%-7%
Discount rate	4.75%	4.00%
Expected return on assets	5.00%	4.25%

The mortality level was assessed in accordance with the Dutch Mortality table of 2006.

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

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

In million USD	**Segment revenues for year ended 31 December**							
	Russia		**Europe**		**Elimination**		**Consolidated**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Revenue from external customers	481	459	336	212		-	817	671
Inter-segment revenue	11	-	5	-	(16)	-	-	
Total sales	492	459	341	212	(16)	-	817	671

In million USD	**Segment result for the year ended 31 December**	
	2006	**2005**
Russia	18	21
Europe	24	45
	42	66

The revenues and the segment result of the European segment for the year ended 31 December 2005 include only eight months of operations of the Dutch tyre plan as the Group acquired control over these operations on 25 April 2005.

(i) 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.

(ii) 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 and cords. These materials are used for tyre production at the group plants and sold to third parties.

(i) Geographical segment

in million USD	Russia		Europe		Elimination		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Sales to external customers	481	459	336	212	-	-	817	671
Inter-segment revenue	11	-	5	-	(16)	-	-	-
Segment revenues	492	459	341	212	(16)	-	817	671
Segment result	18	21	24	45	-	-	42	66
Unallocated income and expenses, net							(9)	(50)
Profit from operations							33	16
Segment assets	893	596	506	458			1,399	1,054
Investments in joint venture	-	-	-	-	-	-	-	-
Unallocated assets							15	13
Total assets							1,414	1,067
Segment liabilities	108	58	118	95			226	153
Unallocated liabilities							778	536
Total liabilities							1,004	689
Other information								
Capital expenditure	38	49	33	17	-	-	71	66
Depreciation/amortisation	33	31	24	15	-	-	57	46
Impairment (losses) and reversals	(4)	(16)		-	-	-	(4)	(16)
Gains and (losses) related to acquisitions, restructuring and disposals of subsidiaries	-	6	-	-	-	-	-	6
Segment non-cash items	-	115	3	6	-	-	3	121
Unallocated non-cash items	-	-	-	-	-	-	-	22
Total non-cash items	-	115	3	6	-	-	3	143

(ii) Business segment

in million USD	Revenue from external customers		Segment assets		Capital expenditure	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Tyres	725	582	1,399	1,003	69	61
PCT	509	354				
light-truck tyres	85	76				
truck tyres	52	80				
agricultural tyres	61	46				
aircraft tyres	-	4				
bicycle tyres	12	13				
other tyre products	6	9				
Raw materials	42	67		38	2	5
Other operations	50	22		13		-
Consolidated	817	671	1,399	1,054	71	66

5. Restructuring of manufacturing

In July 2005 the Group started the restructuring process of the Group's tyre complex. It was decided to cease the production of truck and bicycle tyres in Voronezh. Within the restructuring and cost cutting process the Group substantially reduced the number of employees in Voronezh and Kirov.

In December of 2005 the Group sold its Krasnoyarsk Tyre Complex as well as Volgograd Carbon Black Plant. In December of 2006 the Group sold its Kemerovo Chemical Fibres Plant (Amtel-Kuzbass). The Group has largely finalised the restructuring process in 2006.

Restructuring expenses were recognised in these financial statements – refer to note 14.

As a result of the restructuring the Group has discontinued production of unprofitable truck tyres, bicycle tyres as well as non-core products such as carbon black and chemical fibres. The Group has substantially improved its product mix and is concentrating on the production of high margin passenger and light truck tyres under the brands Amtel, Maloya and Vredestein.

6. Factoring operations

In 2006 the Group used factoring operations to finance its operating activities. In 2006 factoring services were rendered by a dank under non-recourse terms (2005: on recourse term USD 14 million).

7. Discontinued operations

(i) Description

Discontinued operations in 2006 comprise the disposal of the Group's chemical fibre production activity in the Kemerovo Chemical Fibre Plant. Discontinued operations in 2005 consist of the tyre production and distribution activities by Krasnoyarsky Shinniy Complex and carbon black production at Volgogradsky zavod techugleroda, including all regional subsidiaries.

The discontinued operations constituted the Russia geographical segment, being the primary reporting segment – refer to note 4(i). The Krasnoyarsky Shinniy Complex produced tyres and, consequently, was included in the Tyres segment, the secondary business segment. Kemerovo chemical fibre plant and Volgogradsky zavod techugleroda produced chemical fibres and carbon black respectively and were included in the raw materials segment.

(ii) Uncertainties regarding Kemerovo receivable

At the time of sale, receivables from the plant amounted to USD 20 million. Upon the sale, the receivables were discounted at 13% to reflect the receivable's long term nature and were recognised at fair value as short-term and long-term receivables in the amount of USD 17 million.

Loss from discount equals USD 3 million. Result on disposal of the plant amounts to USD 1 million. Totally the Company recognised an impairment loss of USD 4 million, which has been presented as other operating cost in its consolidated statement of income. According to the sale and purchase agreement, Kemerovo Plant has to repay receivables in four half-year equal installments within 2007-2008.

Kemerovo has been loss-making over the past years and does not appear to generate sufficient funds to repay the debt of USD 20 million.

On the other hand, in 2007 Kemerovo continued to supply the Company with semi finished products for the tire production in Russia, with the Company having the legal right to off set receivables for Kemerovo with payables to Kemerovo at the contractual date of settlement. Furthermore, Kemerovo has informed the Company of certain plans to further develop it's production plant which Kemerovo believes that improves its financial position.

The above has brought Company's management to conclude that, having made all reasonable efforts to gather further relevant info, these uncertainties related to the value of the receivable from Kemerovo are such that it is not possible to make a reliable estimate of the receivables value as at 31 December 2006.

The total receivable amounting to USD 17 million is included for USD 7 million as non-current financial asset (refer to Note 19) and the remainder amount to USD 10 million as current asset (refer to Note 23).

Management has taken and is taking further steps to reduce the uncertainties described above to the maximum extent possible.

(iii) Financial information attributable to the discontinued operations

As a result of the discontinuation of Kemerovo chemical fibre plant in 2006, Krasnoyarsky Shinniy Complex and Volgogradsky zavod techugleroda in 2005 the following assets and liabilities have been disposed, furthermore the impact on cash flow is stated below. Liabilities mainly consist of intercompany payables. Furthermore the impact on cash flow is stated below.

USD million	**2006**	**2005**
Assets	29	142
Liabilities	(27)	(81)
Cash flows from operating activities	(2)	23
Cash flows from investing activities	-	(1)
Cash flows from financing activities	3	(7)

8. Changes in the composition of the Group

(i) Acquisition of Moscow Tyre Plant

In August 2006, the Group acquired 100% of the shares of CJSC Moscow Tyre Plant-M, as well as 100% of shares of LLC ShinTech, the OJSC Moscow Tyre Plant affiliate which holds title to most of the modern equipment acquired in the transaction (together referred to as "Moscow Tyre Plant" or "MTP").

The Group determined the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired companies at the date of acquisition on a provisional basis. The determination of the fair values of property, plant and equipment and intangible assets, as well as 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 to USD 65 million.

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

	in million USD
Property, plant and equipment	99
Identifiable intangible assets — land lease rights	9
Identifiable intangible assets –brand name	5
Current assets	10
Current liabilities	(11)
Non-current liabilities	(13)
Deferred tax liabilities recognised	(12)
Net assets at the date of acquisition	87
Negative goodwill on acquisition	(22)
Consideration	65
Payable consideration	51
Additional agency fees	14
	65

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

At the date of acquisition the cash balance was USD 2 million.

The additional fees amounting to USD 14 million consists of offshore payments to agents that have been involved in the Moscow Tyre Plant acquisition process. In line with IFRS 3.24 these fees have been recognised as costs directly attributable to acquisition. After reconsideration, the amount of negative goodwill of USD 22 million has been recognised separately in the 2006 profit and loss account.

Estimated consolidated revenue in 2007 would have been approximately USD 35 million higher. Profit for the year would not have a material impact on the net result for 2007.

The acquired company previously reported under Russian GAAP. It turned out to be impracticable to determine the preacquistion carrying amount under IFRS.

(ii) Acquisition of retail regional chains

In 2006 the Group acquired 100% shareholders equity of a number of retail businesses specialising in sales of tyres and other car related accessories and services in numerous regions throughout Russia. As at 31 December 2006, the Company's trade network consisted of 115 outlets.

The Group determined the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired companies at the date of acquisition on a provisional basis. The determination of the fair values of property, plant and equipment and intangible assets, as well as 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 to USD 66 million.

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

	in million USD
Property, plant and equipment	12
Current assets	15
Non-current liabilities	(2)
Net assets at the date of acquisition	25
Goodwill on acquisition	41
Consideration	66
Consideration	25
Additional agency fee	41
Consideration	66

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 additional fees amounting to USD 41 million consists of offshore payments to agents that have been involved in the regional retail chain acquisition process. In line with IFRS 3.24 these fees have been recognised as costs directly attributable to acquisition.
At the date of acquisition, the cash balance was USD - million.

Estimated consolidated revenue in 2007 would have been approximately USD 13 million higher. Profit for the year would not have a material impact on the net result for 2007.

The acquired company previously reported under Russian GAAP. It turned out to be impracticable to determine the preacquisition carrying amount under IFRS.

(iii) Acquisition of wholesale auto parts and tyre distributor

In October 2006, the Group acquired 100% of shareholders equity of regional wholesale auto parts, tyre and accessories distributor LLC Trade House Pigma, based in Nizhny Novgorod.

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, as well as 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 to USD 31 million.

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

Determined on a provisional basis	*in million USD*
Property, plant and equipment	2
Identifiable intangible assets — customer network	12
Current assets	96
Current liabilities	(97)
Deferred tax liabilities	(3)
Net assets at the date of acquisition	10
Goodwill on acquisition	21
Consideration paid in cash	31
Consideration	3
Additional agency fee	28
Consideration paid in cash	31

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.

At the date of acquisition, the cash balance was USD 2 million.

The additional fees amounting to USD 28 million consists of offshore payments to agents that have been involved in the regional retail chain acquisition process. In line with IFRS

3.24 these fees have been recognised as costs directly attributable to acquisition.

Estimated consolidated revenue in 2007 would have been approximately USD 217 million higher. Profit for the year would not have a material impact on the net result for 2007.

The acquired company previously reported under Russian GAAP. It turned out to be impracticable to determine the preacquistion carrying amount under IFRS.

(iv) Disposal of subsidiaries

In 2006 there were no significant disposals of subsidiaries excluding sale of Kemerovo chemical fibre plant which is presented as a discontinued operation – refer note 7. In 2005 regional trade houses, OOO Krasshina-Invest and OOO Amtelshintorg were disposed of. The effect of non-significant disposal of the subsidiaries on the Group's assets and liabilities is as follows:

in million USD	**Year ended 31 December**	
	2006	**2005**
Property, plant and equipment	-	(2)
Current assets	-	(29)
Liabilities	-	29
	-	(2)
Decrease in minority interest	-	-
Group's share of the net assets / (liabilities) disposed of	-	(2)
Derecognised accounts receivable from former subsidiaries	-	-
Gain/(loss) on disposal	-	6
Consideration receivable	-	8
Balance settled in cash/reduction in payables before period end	-	(8)
Receivables outstanding	-	-

9. Revenues

in million USD	**2006**	**2005**
Revenues from sales of tyres	725	573
Revenues from sales of raw materials	42	67
Other	50	31
	817	671

10. Administrative expenses

in million USD	**2006**	**2005**
Salaries and related expenses	(25)	(26)
Share options expenses	(3)	(6)
Taxes other then on profit	(6)	(4)
Depreciation	(1)	(1)
Consulting	(2)	(3)
Insurance	(4)	(2)
Other	(28)	(18)
	(69)	(60)

Other administrative expenses comprise rent expenses, communication, security and other services.

11. Distribution expenses

in million USD	**2006**	**2005**
Salaries and related expenses	(32)	(17)
Warehouse expenses	(6)	(9)
Advertising and marketing expenses	(20)	(12)
Depreciation	(5)	(1)
Other	(22)	(11)
	(85)	(50)

12. Personnel expenses

The average number of employees during 2006 was 11,341 (2005: 16,562). The average number of employees in Russian companies and the Dutch tyre plan were 10,124 and 1,217, respectively (2005: 15,792 and 770, respectively). Numbers of participants in the pension programme in the Dutch tyre plant is 1,139 (note 3(xxvii)(ii)(iii)).

in million USD	**2006**	**2005**
Wages and salaries	(129)	(112)
Contributions to the pension fund	(15)	(17)
Other social charges	(13)	(5)
Share options	(3)	(6)
Other	-	(1)
	(160)	(141)

In 2006 USD 3 million is recognised for the Dutch pension plan as cost of goods sold and administrative expenses due to change of discount rate used for actuarial calculations. (In 2005 USD 9 million was recognised as other operating income due to change in pension programme) – refer to notes 26.

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

in million USD	2006	2005
Cost of sales	(98)	(90)
Administrative expenses	(25)	(26)
Distribution expenses	(32)	(17)
Share options	(3)	(6)
Restructuring expense: salary	(2)	(2)
	(160)	(141)

13. Other operating expenses

in million USD		2006	2005
Other operating expenses		(10)	(4)
Loss on disposal of property, plant and equipment		(3)	(2)
Kemerovo chemical fibre plant	7(i)	(4)	-
Voronezh tyre plant impairment costs		-	(16)
Impairment losses		(17)	(22)

Impairment in amount of USD 4 million relates to the Kemerovo disposal – refer note 7(i).

14. Restructuring costs

Restructuring costs comprise the following (also refer to note 5)

in million USD	2006	2005
Salaries	(2)	(2)
Other expenses	(1)	(3)
Provision	-	(1)
	(3)	(6)

15. Income tax (expense) / benefit

in million USD	2006	2005
Profit before tax	-	(35)
Current tax expense	(14)	(4)
Taxes at Dutch tax rate	(8)	-
Taxes at Russian tax rate	(6)	(4)
Deferred tax income recognised due to change in Dutch Corporate tax rate	4	1
(De) recognition of deferred tax	3	12
Total income tax benefit/(expense)	(7)	9
Total income tax benefit/expense continuing operations	(7)	7
Total income tax benefit/expense discontinued operations	-	2
Effective tax rate	>100%	26%

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

	2006		2005	
	Current tax %	**Deferred tax %**	**Current tax %**	**Deferred tax %**
The Netherlands	29.6	25.5	31.5	29.6
Russia	24.0	24.0	24.0	24.0
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

In 2007 the tax rate in The Netherlands will change to 25.5%.

Reconciliation of effective tax rate:

	2006		2005	
	USD million	*%*	*USD million*	*%*
Profit/Loss before tax	-	-	(35)	100
Income tax benefit at applicable tax rate	-	-	11	32
Effect of (higher)/lower rates in different jurisdictions	(7)	-	1	3
Change in valuation allowance for deferred tax asset	2	-	(13)	(31)
Non-taxable items, net	(2)	-	10	22
	(7)	-	9	26

16. Property, plant and equipment

in million USD	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	13	(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
Cost						
At 1 January 2006		139	537	98	45	819
Additions		10	27	11	10	58
Acquisition through business combinations		45	55	1	12	113
Disposals		-	(5)	(1)	-	(6)
Disposal of subsidiaries		(9)	(14)	(2)	(1)	(26)
Foreign exchange differences		14	57	9	7	87
At 31 December 2006		199	657	116	73	1,045
Accumulated depreciation and impairment losses						
At 1 January 2006		(35)	(307)	(71)	(1)	(412)
Depreciation charge		(9)	(34)	(9)	-	(52)
Disposals		-	2	-	-	2
Disposal of subsidiaries		2	7	1	-	10
Foreign exchange differences		(4)	(34)	(8)	(1)	(46)
At 31 December 2006		(46)	(365)	(87)	-	(498)
Net book value at 1 January 2006		104	230	27	46	407
Net book value at 31 December 2006		153	292	29	73	547

(i) Changes in estimates of useful lives

In connection with the restructuring of production the Group's estimates of useful lives of part of the Voronezh facilities were revised. As a result, the depreciation term for certain fixed assets has decreased from 10 to seven years, and will be changed going forward. In 2006, an additional charge was recognised in the amount of USD 3 million in 2006 (2005: USD 3 million).

(ii) Security

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

(iii) 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 favourable price. At 31 December 2006 the net book value of leased plant and machinery was USD 36 million (2005: USD 39 million). The leased obligations are secured over the leased equipment – refer note 28.

17. Intangible assets

in million USD	Note	Goodwill	Research and development	Brand names	Land lease right	Software	Customer base	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
Cost/Revalued amount								
At 1 January 2006		199	14	20	1	4	-	238
Additions		-	2	-	-	1	-	3
Acquisition through business combinations		62	-	5	9	-	12	88
Disposals		-	-	(2)	-	-	-	(2)
Transfers		-	-	-	(2)	-		(2)
Foreign currency translation difference		20	1	3	2	-	-	26
At 31 December 2006		281	17	26	10	5	12	351
Amortisation and impairment losses								
At 1 January 2006		-	(2)	-	-	-	-	(2)
Amortisation charge		-	(2)	-	(2)	(1)		(5)
Acquisitions through business combinations		-	-	-	-	-	-	-
Impairment losses		-	-	-	-	-	-	-
Disposals		-	-	-	-	-	-	-
Transfers		-	-	-	-	-	-	-
Foreign currency translation difference		-	-	-		-	-	-
At 31 December 2006		-	(4)	-	(2)	(1)	-	(7)
Net book value								
At 1 January 2006		199	12	20	1	4	-	236
At 31 December 2006		281	13	26	8	4	12	344

(i) Goodwill

The balance of goodwill as of 31 December 2006 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 appraiser.

(ii) Impairment

For the purposes of impairment testing, goodwill was allocated to the Group's cash generating units, being the manufacturing unit in Russia, namely Voronezh tyre plant, Kirov tyre plant, Moscow tyre plant, manufacturing unit in The Netherlands, namely Vredestein Banden B.V.and the retail tyre distribution business. These units represent the 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:

in million USD	Goodwill	Recoverable amount	Goodwill	Recoverable amount
	2006		2005	
Manufacturing unit (Russia)	61	524	55	609
Manufacturing unit (The Netherlands)	119	367	109	314
Distribution business	101	260	35	61
	281		199	

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 flow projections were made for the average remaining useful lives of major production assets – refer note 3(iv);
- In calculating 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):

in million USD	Prediction of production volumes as made in the financial statements for	
	2006	2005
Year 2007	16.4	14.7
Year 2008 and further	19.0	16.8

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

%	Discount rate	Terminal growth rate	Discount rate	Terminal growth rate
	2006		2005	
Manufacturing unit (Russia)	17.7	4.0	14.9	6.6
Distribution business	15.9	4.0	14.3	3.0
Manufacturing unit (The Netherlands)	14.2	2.5	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 cost increases since it will be able to transfer these losses on to the 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 and other intangible assets including brand names in 2006 no impairment loss was recognised (2005: no impairment loss was recognised).

According to management calculation, the recoverable amount of the Group's 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 manufacturing, Russia cash generating unit and and Vredestein Banden B.V. appear to be less sensitive to changes in key assumptions on which their recoverable amounts are based, and would not cause their carrying amount to exceed their recoverable amount.

18. Financial assets

in million USD	2006	2005
Loans originated — long-term	6	6
	6	6

The long-term loan has been provided to a third party at 3.5% per annum with maturity in December 2008.

19. Receivables and other assets

in million USD		2006	2005
Advances for acquisition of equipment		27	12
Kemerovo receivables — long-term part	7(i)	7	-
		34	12

Increases in advances for acquisition of equipment relate to the Voronezh II project.

USD 7 million of Kemerovo long-term receivables is disclosed in note 7(i).

20. Deferred tax assets and liabilities

(i) Recognised deferred tax assets and liabilities

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

in million USD	Assets		Liabilities		Net	
	2006	2005	2006	2005	2006	2005
Property, plant and equipment	1	3	(61)	(51)	(60)	(48)
Tax loss carried forward	13	8			13	8
Other long-term assets			(17)	-	(17)	
Current assets	16	15	(5)	(9)	11	6
Liabilities	18	11	-	(1)	18	10
Valuation allowance	(16)	(16)	-	-	(16)	(16)
Tax assets / (liabilities)	32	21	(83)	(61)	(51)	(40)
Set-off of tax	(23)	(13)	23	13	-	-
Net tax assets / (liabilities)	9	8	(60)	(48)	(51)	(40)

The Company did not recognise deferred taxes directly in equity.

(ii) Unrecognised deferred taxes

Deferred tax assets have not been recognised for non-profitable entities in respect of tax losses to be carried forward in amount of USD 16 million (2005: USD 16 million).

The tax deductible unrecognised losses for a total amount of USD 67 million will expire in 2016. 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 therefrom.

21. Movement in temporary differences during the year

in million USD	1 January 2006	Foreign currency translations difference	Recognised in income	Related to discontinued operations	Related MTP acquisition	Related to retail chain acquisition	Related to wholesale business acquisition	31 December 2006
Property, plant and equipment	(48)	(7)	2	3	(8)	(2)		(60)
Tax loss carried forward	8	6	(1)					13
Other long-term assets	-	(9)	(1)	-	(4)	-	(3)	(17)
Current assets	6	5	1	(1)	-	-	-	11
Liabilities	10	4	4	-	-	-	-	18
Valuation allowance	(16)	(2)	2	-	-	-	-	(16)
Net tax assets / (liabilities)	(40)	(3)	7	2	(12)	(2)	(3)	(51)

22. Inventories

USD million	2006	2005
Raw materials	36	37
Work-in-progress	9	7
Finished goods	151	70
Impairment for inventory obsolescence	(3)	(4)
	193	110

Refer note 27(ii) for the value of inventory securing bank loans of the Group.

In 2006 raw materials, consumables and changes in finished goods and work-in-progress recognised as cost of sales amounted to USD 427 million (2005: USD 315 million). In 2006 the write-down of inventories to net realisable value amounted to USD 0 (2005: USD 2 million). The reversal of write-downs amounted to USD 1 million (2005: USD 0). The write-down and reversal are included in cost of sales.

	Opening balance	Addition	Reversal	Closing balance
2005	(2)	(2)		(4)
2006	(4)	-	(1)	(3)

23. Trade and other receivables

USD million		2006	2005
Trade accounts receivable		157	152
Provision for doubtful debts		(14)	(12)
		143	140
Kemerovo debt — short-term part	7(i)	10	-
VAT receivable		37	26
Taxes receivable other than VAT		6	3
Receivables from related parties		23	15
Advances issued		10	5
Other receivables		23	28
		252	217

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

Refer to note 27(ii) for the value of receivables securing bank loans of the Group.

24. Cash and cash equivalents

in million USD	2006	2005
Cash in bank	20	50
Other cash balances	8	4
Cash and cash equivalents in the balance sheet	28	54
Bank overdrafts	(26)	(12)
Cash and cash equivalents in the statement of cash flows	2	42

Cash is available for use.

25. Equity

In number of shares	Note	Ordinary shares	Preferred shares
Authorised shares at 31 December 2005		222,148,650	12,494,200
Par value (EUR)		0.01	0.01
On issue at 1 January 2005		4,378,687	249,884
Issued for cash — February 2005	(iv)	64,286	-
Issued to existing shareholders — April 2005	(iv)	39,986,757	2,248,956
Issued for cash — June 2005	(iv)	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	-
Issued to management — September 2006		36,000	-
On issue at 31 December 2006		68,176,803	-

(i) Initial Public Offering on the London Stock Exchange

In November 2005, the Parent Company applied for initial public offering on the London Stock Exchange.

(ii) Ordinary shares

The holders of ordinary shares are entitled to one vote for each share held at 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.

(iii) 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-up preferred shares give 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 were converted into ordinary shares.

(iv) Issue of shares

In September 2006, the Parent Company issued 36,000 ordinary shares to managers of the Group for consideration at par value. These shares amounted to USD 178,000 at the market value.

(v) Dividends

Holders of 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 2006.

(vi) Minority interest

USD 8 million is attributable to 10% of minority interest in net assets of Kirov tyre plant. It has increased to USD 8 million in 2006 from USD 7 million in 2005 due to the forex exchange rates.

26. Pensions

(i) Defined benefit plans

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

in million USD	2006	2005
Present value of funded defined benefit obligations	(124)	(116)
Fair value of plan assets	98	78
Unrecognised actuarial losses	(8)	3
Net liability	(34)	(35)

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

USD million	2006	2005
Defined benefit obligation		
Balance at beginning of the year	(116)	(115)
Settlements/curtailments	-	12
Service costs	(3)	(2)
Contribution by employees	(6)	(3)
Interest costs	(5)	(3)
Actuarial gains/losses	18	(5)
Forex exchange result	(12)	(2)
Balance at end of the year	(124)	(116)
Plan assets		
Balance at beginning of the year	78	68
Contribution by employer	8	4
Contribution by employees	4	4
Expected return on plan assets	4	2
Actuarial gains	(4)	-
Forex exchange result	8	-
Balance at end of the year	98	78
Funded status	(26)	(40)
Unrecognised loss/gain	(8)	3
Net balance pension liability	(34)	(35)

The amounts recognised during the period in the statement of income for 2006 were as follows:

in million USD	2006	2005
Service costs	(3)	2
Interest costs	(5)	3
Expected return on plan assets	3	(2)
Plan change		(12)
Total included in staff costs	(5)	(9)

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

Plan assets consist of the following:

in million USD	2006	2005
Equity securities	22	18
Government bonds	73	58
Property investment funds	3	2
	98	78

27. Loans and borrowings

in million USD	2006	2005
Non-current		
Unsecured bond issue	-	10
Unsecured bank loans	24	-
Unsecured credit linked notes	-	172
Secured borrowings	8	-
Secured bank loans	207	197
	239	379
Current		
Current portion of secured bank loans	148	30
Bank overdraft	26	12
Unsecured bank loans	103	21
Unsecured credit linked notes	153	-
Unsecured bond issue	11	-
	441	63
	680	442

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

(i) Terms and debt repayment schedule

	Total	Under 1 year	1—5 years	over 5 years
Secured bank loans:				
RUR, fixed at 9.75—14.6%	149	69	33	47
EUR, variable at EURIBOR+2.25	139	13	126	-
EUR, fixed at 9.59%	66	66	-	-
CHF, fixed at 3.2%	1		-	1
Secured borrowings:				
RUR, fixed at 3.5%	8	-	8	-
Unsecured bank loans:				
EUR, variable at EURIBOR+1.25	12	-	-	12
EUR, variable at EURIBOR+5.25	12	-	12	-
RUR, fixed at 8.6—13%	103	103	-	-
Unsecured credit linked notes:				
USD, fixed at 9%	153	153	-	-
Unsecured bond issues:				
RUR, maturing in 2007, 8%	11	11	-	-
Bank overdraft:				
RUR, fixed at 11—13%	2	2	-	-
EUR, variable at EURIBOR+2.25	24	24	-	-
	680	441	179	60

The Group adopts policy of ensuring that 60 per cent of the EUR variable at EURIBOR+2.25, provided by ING/ABN-AMRO is hedged by interest rate swap denominated in EUR. The swap matures over the next four years following the maturity of the related loan. As of 31 December 2006 the Group had interest rate swap with a notional contract amount of USD 87 million (2005: USD 47 million) — refer note 31(ii).

(ii) Security

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

in million USD	Note	2006	2005
Owned property, plant and equipment	16	120	99
Leased property, plant and equipment	16(iii)	36	39
Inventories	22	80	17
Accounts receivables	23	86	24
Ordinary Shares		54	-

(iii) Credit Link Notes

Pursuant to the First and Second loan Agreements dated 28 June 2005, between the Group and Emerging Markets Structured Products B.V. (EMSP), EMSP granted two loans to the Group in the aggregate amount of USD 175 million, with 9.25% interest rate (paid semi-annually). The loans were provided from the proceeds of subsequent credit linked notes issue. Both loan agreements implied an option to the Group to declare new interest rate for the period commencing 30 June 2006 to 30 June 2007 at its own discretion.

In 2006 the Group exercised this option and declared the rate of 9%, and ESMP, upon the request of holders of credit linked notes, exercised its put option and required the Group to prepay partially the First Loan agreement at the amount of USD 20 million. As of 31 December 2006, the aggregate principle amount outstanding under both loan agreements equals USD 155 million bearing 9% interest (paid semi-annually).

(iv) Covenants

Over the period the Group was not in compliance with certain financial covenants (such as tangible net worth, indebtedness to equity ratio, EBITDA to interest payments ratio) set out in existing loan agreements as at 31 December 2006. The creditors (in total USD 17 million facility) have been advised of this fact in time and do not intend to take any negative actions with respect to these facilities, such as early withdrawal of funds, events of default announcements of further encumbrance requests.

(v) New credit lines

During the first five months of 2007, the Group has entered into new credit lines with several banks in order to replace the short-term loans and to be able to repay the CLN loan. Two 18-month facilities have been provided by Sberbank in the sum of RUR 1,685 million (USD 65 million), secured by securities of Group companies and RUR 315 million (USD 12 million secured by pledge of real estate). Bank SG-Vostok has increased its credit line limit from RUR 300 million to RUR 400 million (by USD 4 million) secured by equipment pledge. A EUR 50 million Amsterdam Trade Bank facility, maturing in May 2007, has been replaced with similar structure provided by Alfa Bank secured by the pledge of equipment and a temporary pledge of 51% of the share capital OJSC AV-TO intended for release after CLN repayment.

For the Financing of Voronezh II investment program in and the final payment of the Moscow Tyre Plant acquisition, the company entered into longer term credit facilities secured by pledge of equipment.

Credit lines with other banks matured within the five month 2007 have been refinanced with similar facilities without increase of credit line limit.

28. Finance lease liabilities

Finance lease liabilities are payable as follows:

in million USD	2006			2005		
	Payments	Interest	Principal	Payments	Interest	Principal
Less than one year	10	4	6	9	4	5
Between one and five years	26	5	21	32	8	24
More than five years				-	-	-
	36	9	27	41	12	29

The interest rates implicit in the leases vary from 11 to 17% per annum (2005: from 10 to 17%). Under the terms of the lease agreement, no contingent rents are payable.

29. Trade and other payables

in million USD	2006	2005
Trade accounts payable	93	65
Taxes payable other than VAT	19	12
VAT payable	14	19
Payables to related parties	15	5
Deferred income	1	2
Advances received	7	1
Accruals and provisions	3	5
Current portion of finance lease	6	5
Other payables	51	26
	209	140

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 25(ii)) outstanding during the year, calculated as shown below. The Group has no dilutive potential ordinary shares.

Shares	2006	2005
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
On issue on 1 January 2006	68,140,803	
Effect of shares issued – September 2006	12,000	
Weighted average number of ordinary shares at 31 December	68,152,803	49,228,470

31. Financial instruments

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

(i) 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.

(ii) 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 EUR have been entered into to achieve an appropriated mix of fixed an floating rate exposure within the Group's policy. The change in fair value is recognised in the income statement as interest income or costs.

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.

2005 / *in million USD*	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.

2006 / *in million USD*	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	0%	0%	-	-	6	-	-	-	-	6
Long-term receivables and other assets	0%	0%	-	-	34	-	-	-	-	34
Short-term financial assets	0%	0%	-	1	-	-	-	-	-	1
Short-term loans issued										
USD	4%	4%	-	-	-	-	-	-	-	-
RUR	12%	12%	-	11	-	-	-	-	-	11
Trade and other receivables	0%	0%	-	241	-	-	-	-	-	241
Liabilities										
Secured bank loans										
RUR	9.75–14.6%	9.75–14.6%	(32)	(37)	(2)	(26)	-	(5)	(47)	(149)
EUR	EURIBOR+2.25	EURIBOR+2.25	-	(13)	-	-	(126)	-	-	(139)
EUR	9.59%	9.59%	(66)	-	-	-	-	-	-	(66)
CHF	4%	4%	-	-	-	-	-	-	(1)	(1)
Secured borrowings										
RUR	3.50%	3.50%	-	-	-	-	(8)	-	-	(8)
Unsecured bank loans										
RUR	8.6–13%	8.6–13%	(50)	(53)	-	-	-	-	-	(103)
EUR	EURIBOR+1.25	EURIBOR+1.25	-	-	-	-	-	-	(12)	(12)
EUR	EURIBOR+5.25	EURIBOR+5.25	-	-	(12)	-	-	-	-	(12)
Unsecured bond issue										
Bonds 2007	8%	8%		(11)	-	-	-	-	-	(11)
Bank overdrafts										
EUR	Euribor+2.25	Euribor+2.25	(24)	-	-	-	-	-	-	(24)
RUR	11–13%	11–13%	(2)	-	-	-	-	-	-	(2)
Unsecured credit linked notes										
USD	9.25%	9.25%	(153)	-	-	-	-	-	-	(153)
Finance lease liabilities										
RUR	14%	16.54%	(2)	(2)	(5)	(6)	(6)	-	-	(21)
EUR	4.5%	4.5%		(1)						(1)
USD	LIBOR+8%	10.7–11.66%	(1)	(1)	(2)	(1)	-	-	-	(5)
Trade and other payables	0%	0%	-	(209)	-	-	-	-	-	(209)
Long-term payables and accruals	0%	0%			(55)					(55)

(iii) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Russian Ruble. The currencies giving rise to this risk are primarily USD and EUR. 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	EUR 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)
2006	**USD denominated**	**EUR denominated**	**RUR denominated**	**Other currencies denominated**	**Total**
Current assets	1	123	157		281
Non-current assets	6	24	10		40
Current liabilities	(156)	(197)	(297)		(650)
Non-current liabilities	(20)	(184)	(88)	(2)	(294)

(iv) Fair values

Fair value is the amount at which a financial instrument can 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.

	2006		2005	
in million USD	Carrying amount	Fair value	Carrying amount	Fair value
Long-term financial assets	6	6	6	6
Long-term receivables and other assets	34	34	12	12
Trade and other receivables	252	252	217	217
Short-term financial assets	1	1	17	17
Long-term payables and accruals	(55)	(55)	(59)	(59)
Long-term loans and borrowings	(239)	(239)	(379)	(379)
Bank overdraft	(26)	(26)	(12)	(12)
Trade and other payables	(209)	(209)	(140)	(140)
Short-term loans and borrowings	(415)	(415)	(51)	(51)

32. Operating leases

Production companies of the Group did not enter into operating lease agreements. The 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 2 million (2005: USD 8 million).

34. Contingencies

(i) Insurance

The insurance industry in the Russian Federation is in a development 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 and Kirov tyre 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.

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

Some retail chains which were acquired by the Group were involved in tax optimization programmes. Management of the retail chains involved controlled the transactions. Although the Group is not responsible for the potential violations of tax legislation, 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 outflow of economic benefit as a result of potential claims is seen by management low and as less than probable.

35. Related party transactions

(i) Control relationships

Related parties comprise the shareholders 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 also recognised and disclosed as related party transactions.

(ii) 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 capitalisation of USD 750 million by the Group and certain individual targets specific for each employee) and expire 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 four 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 an aggregate of up to 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 on the effective date, being 14 November 2006, 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, Bokhanov, Oudshoorn, Tholens, Hettema, Luyten, Snel, Kramer and Mos options to purchase a specified percentage of post-Offering Shares as set forth in the following table which is equivalent to 4,429,152 shares:

Grantee	Persentage of shares
Gurin	2.50
Bokhanov	1.00
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 on a recognised stock exchange generating not less that USD 100 million in proceeds to the Company following the Offering.

Fair value of share options and assumptions:

	Share options	Further share options
Share price, usd	11	11
Exercise price	12.72	12.72
Remaining term	2	5
Risk free rate, %	4.757	4.757
Volatility, %	30	30
Dividend yield, %	3	3
Call price	1.3	2.8

As of 31 December 2006 the Grantees were not able to realise options due to market share price which was in 2006 not higher than USD 5.8 per share. In January 2007 the Supervisory Board resolved to terminate the Share Option Agreements dated October 2005 (SOP I, SOP II).

(iii) Management remuneration

Members of Supervisory Board and Executive Board received the following remuneration during the year, which is included in personnel costs (see note 12).

in million USD	2006	2005
Salaries and bonuses	3	1
Share options	2	4
	5	5

in thousand USD	2006	2005
A. Gurin	2,008	2,335
Salaries and bonuses	809	347
Related taxes	20	7
Share option	1,179	1,981
S. Bokhanov	1,026	-
Salaries and bonuses	501	-
Related taxes	14	-
Share option	511	-
R. Oudschoorn	953	120*
Salaries and bonuses	592	102
Pension fund	46	18
Share option	315	-
T. Tholens	816	82*
Salaries and bonuses	470	70
Pension fund	31	12
Share option	315	-
V. Nekrassov	-	2,248
Salaries and bonuses	-	318
Related taxes	-	7
Share option	-	1,923
Remuneration paid to the members of the Supervisory Board	425	-
S. Gupta	100	-
T. Saudhri	50	-
D. Gualtieri	75	-
D. Gupta	75	-
M. Ignatiev	75	-
H. Pandza	50	-

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

(iv) Transactions with related parties

During 2006 the Group performed the following transactions with related parties:

in million USD	2006	2005
Sales to related parties	-	2
Mr. Vinnik	-	2
Purchase of goods	4	9
OAO MTP	4	-
OOO Kraft	-	8
OOO Sherl		1
Rent expenses incurred	1	2
Mr. Gupta	1	2
Consideration paid to related parties for minority shares in subsidiaries	-	2
Vranova	-	2
Acquisition of property, plant and equipment	-	2
Krasshina-Invest	-	2
Proceeds from disposal of subsidiaries	-	3
Krasshina-Invest	-	3
Promissory notes	10	-
OAO MTP	10	-
Loans from related parties		
Alfa-bank	9	13
Amsterdam Trade bank	-	59
Loans repaid by related parties	11	2
Amtel-Development	8	2
Amtel-Investment	3	-
Loans issued to related parties	-	10
Amtel-Development	-	10

(v) Balances with related parties

As of 31 December 2006 the Group companies recorded the following balances with related parties:

in million USD	2006	2005
Short-term interest bearing loans issued to related parties	-	11
Amtel-Development	-	8
Amtel-Investment	-	3
Trade and other receivables	12	3
OAO MTP	12	-
Amtel-Development	-	3
Promissory notes	11	
OAO MTP	11	-
Loans from related parties	88	72
Alfa-bank	22	13
Amsterdam Trade bank	66	59
Payables to related parties other than controlling shareholder	12	3
Employees	7	3
OAO MTP	5	
Payables to related parties	-	2
Amtel-Development	-	2

The terms of transactions were done on the an arm's-length basis.

36. Significant subsidiaries

%	Country of incorporation	Effective ownership interest on 31 December 2006	Effective ownership interest on 31 December 2005
Holding companies			
Amtel Exports PTE Limited	Cyprus	100	100
Tapistron Limited	Cyprus	100	100
OAO Amtel-Vredestein	Russia	100	100
Production companies			
Voronezh tyre plant			
OOO TechnoPark	Russia	100	-
OOO Amtel Chernozemye	Russia	100	100
OAO Shinny Komplex Amtel Chernozemye	Russia	100	100
Kirov tyre plant			
OOO TD Kirovsky Shinny Zavod	Russia	90	90
OOO Vyatskaya Shina	Russia	90	90
OAO Shinny Komplex Amtel Povolzhye	Russia	90	90
Moscow tyre plant			
Moscow Tyre Plant – M ZAO	Russia	100	-
Shintekh OOO	Russia	100	-
Kemerovo Chemical Fibre Plant			
OOO Khimvolokno Amtel-Kuzbass	Russia	-	100
Retail chain			
OOO AV-TO	Russia	100	100
OOO Rosshina-Master	Russia	100	100
OOO Russina-Zapchasti	Russia	100	100
OOO Lamel	Russia	100	100
OOO AV-TO Ufa	Russia	100	-
OOO AV-TO Region	Russia	100	-
OOO AV-TO Volgograd	Russia	100	-
OOO AV-TO Ekaterinburg	Russia	100	-
OOO AV-TO Perm	Russia	100	-
OOO AV-TO Nizhni Novgorod	Russia	100	-
OOO AV-TO Rostov-on-Don	Russia	100	-
OOO AV-TO Kaluga	Russia	100	-

%	Country of incorporation	Effective ownership interest on 31 December 2006	Effective ownership interest on 31 December 2005
OOO AV-TO Samara	Russia	100	-
OOO AV-TO Tolgiatty	Russia	100	-
OOO Nord-Tyre	Russia	100	-
OOO Nord-Avto	Russia	100	-
OOO AV-TO St. Petersburg	Russia	100	-
OOO AV-TO Moscow	Russia	100	-
Wholesale companies			
OOO TD Megashina	Russia	100	-
OOO TD Pigma	Russia	100	-
OOO Pigma NN	Russia	100	-
OOO Export Zapchast	Russia	100	-
OOO Servis Avtomobiley	Russia	100	-
OOO Pigma Voronezh	Russia	100	-
OOO Roznichnaya Torgovlya	Russia	100	-
Vredestein Group			
Vredestein Banden B.V.	The Netherlands	100	100
Vredestein Consulting B.V.	The Netherlands	100	100
N.V. Vredestein SA	Belgium	100	100
Vredestein GmbH	Germany	100	100
Vredestein (UK) Ltd	UK	100	100
Vredestein France SA	France	100	100
Vredestein Italia Srl	Italy	100	100
Vredestein Norge A/S	Norway	100	100
Vredestein GesmbH	Austria	100	100
Vredestein Iberica SA	Spain	100	100
Vredestein Daeck AB	Sweden	100	100
Vredestein Maloya AG	Switzerland	100	100
Vredestein USA	USA	100	100
Vredestein Kft	Hungary	100	100
Other companies			
Melina Investments	BVI	100	100
OOO Amtel-Logistics Center	Russia	100	100
OOO Amtelshinprom	Russia	100	100

37. Subsequent events

(i) Resigning of Director A and Directors B

At the date of issue of the current financial statements, Mr. Sergey Bokhanov has applied for resignation as Director A in May 2007, Messrs. Rob Oudshoorn and Ton Tholens have applied for resignation as Directors B in March 2007, Mr. Anne van't Veer has applied for resignation as Directors B in November 2006.

(ii) Termination of Share Option Agreements

In 2007 the Supervisory Board resolved to terminate the Share Option Agreements dated October 2005 (SOP I, SOP II) – refer note 35(ii).

(iii) Issue of shares for management

In May 2007 the Supervisory Board has taken the decision to issue shares to key management.

(iv) Financing

Refer note 2(i) and new credit lines, refer to note 27 (v).

Amsterdam, 13 June 2007

The consolidated statements were prepared on 13 June 2007
by the Executive Board of Directors.

Alexei Gurin
Director A

Statutory Balance sheet as at 31 December

in million USD	Notes	2006		2005	
ASSETS					
Non-current assets					
Financial fixed assets	38(iv)	459		434	
			459		434
Current assets					
Inventories		-		-	
Trade and other receivables	38(vii)	156		173	
Cash and cash equivalents		-		10	
			156		183
			615		617
Shareholders' equity	38(viii)				
Issued capital		1		1	
Additional paid in capital		460		457	
Legal reserve		13		12	
Foreign currency translation reserve		22		(11)	
Retained earnings		(89)		(7)	
Net result for the period		(5)		(81)	
Total equity			402		371
Non-current liabilities			-		238
Current liabilities			213		8
			213		246
			615		617

Statutory Income statement
For the year ended 31 December

In million USD	2006	2005
Share in results from participating interests, after taxation	(4)	(78)
Other results after taxation	(1)	(3)
Net loss	(5)	(81)

38. Notes to the 2006 Statutory Company balance sheet and statement of income

(i) General

The separate Company-only financial statements are part of the annual report 2006 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.

(ii) 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 standalone 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) and Title 9 of the Dutch Civil Code. Please see pages 12 to 20 for a description of these principles.

(iii) Going Concern

Refer note 2(i).

(iv) 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.

(v) 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 are deemed to be unrealised.

(vi) Financial fixed assets

In million USD	2006	2005
Participating interests in group companies	278	280
Accounts receivable from group companies	172	130
Other receivables	6	12
Deferred tax assets	3	12
	459	434

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

In million USD	2006	2005
Position as at 1 January	280	244
Investments/divestments		114
Result	(5)	(78)
Exchange rate difference	3	-
Position at 31 December	278	280

(vii) Trade and other receivables

In million USD	2006	2005
Accounts receivable from group companies	156	170
Prepayments and accrued income	-	3
	156	173

Movement in accounts receivable from group companies

In million USD	Opening balance	Additions	Disposals	Closing balance
2005	-	170	-	170
2006	170	-	(14)	156

(viii) 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 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	-	-	(12)	-	-	-	(12)
Loss for the period	-	-	-		-	(81)	(81)
Balance at 31 December 2005	1	457	(11)	12	(7)	(81)	371
Appropriation of result for the period	-	-	-	-	(81)	81	-
Legal reserve	-	-	-	1	(1)	-	-
Share option recognition	-	3	-	-	-	-	3
Translation result	-	-	33	-	-	-	33
Loss for the period	-	-	-	-	-	(5)	(5)
Balance at 31 December 2006	1	460	(22)	13	(89)	(5)	402

In accordance with Dutch Law (Article 390.3 Book 2 BW) a legal reserve has been recognised for an amount of USD 13 million against retained earnings (2005: USD 12 million).

(i) Issued capital

The authorised capital of Amtel-Vredestein N.V. amounts to USD 3 million (2005: USD — million), divided into 222,148,650 ordinary shares of EUR 0.01 each, of which 68,176,803 ordinary shares have been issued. In 2006, 36,000 ordinary shares were issued to management.

(ii) Foreign currency exchange translation reserve

Exchange differences result 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.

(iii) Legal reserve

Legal reserve has been recognised in respect of research and development costs which were capitalised as a part of intangible fixed assets.

(iv) Retained earnings

The General Meeting of Shareholders will be asked to approve the results for the 2006, net loss: an amount of USD 5 million. No dividend will be declared.

(ix) Board of Directors

Option scheme

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

Personnel

During the period under review, the Company has a Board of Supervisory Directors who received fixed remuneration – refer note 35(iii).

(x) Off-balance sheet commitments

Reference to consolidated financial statements.

(xi) 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.

(xii) 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 4 million concerns group companies (2005: USD 78 million).

(xiii) 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 5 million (2005: USD 6 million) for Directors and former Directors – refer note 35(iii).

There were no loans, prepayments and guarantees granted to the Company's directors and Company's supervisory directors.

(xiv) 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 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.

(xv) Subsequent events

Refer note 37of the consolidated financial statements.

Amsterdam, 13 June 2007

The financial statements were prepared on 13 June 2007 by the Executive Board of Directors.

Alexei Gurin
Director A

OTHER INFORMATION

Auditor’s Report **110**
Provisions in the Articles of Association Governing the Appropriation of Profit **110**
Retained Earnings **110**
Glossary **111**
Shareholder Information **112**

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements 2006 of Amtel-Vredestein N.V., Enschede, set out on pages 67 to 108. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2006, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at 31 December 2006, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management of the Company is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion 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 Amtel-Vredestein N.V. as at 31 December 2006, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

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 Amtel-Vredestein N.V. as at 31 December 2006, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Emphases of Matter

We draw attention to Note 2(i) to the financial statements which indicates that the company is in need of new cash funds to refinance existing loans and borrowings and finance ongoing investments. As of 31 December 2006, the company's current liabilities exceed its current assets by USD 176 million. These conditions along with other matters set forth in Note 2(i) indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

We draw attention to Note 7(i) to the financial statements, which describes the uncertainties regarding the Kemerovo receivable that is included in the balance sheet at USD 17 million. Note 7 (i) further states that the uncertainties related to this receivable are such that it is not possible to make a reliable estimate of the receivables value as at 31 December 2006. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amstelveen, 13 June 2007

KPMG ACCOUNTANTS N.V.

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 2005 which constitutes net loss in the amount of $5 million. No dividend will be declared.

GLOSSARY

The following is intended to provide a general guide as to the meanings of various terms which may be used in this Report.

"A" segment tyres are high quality, high performance or ultra-high performance, branded tyres sold by top producers at premium prices.

Adjusted EBIDTA – Earnings before interest, tax,depreciation and amortisation adjusted with excess of the acquirer's share in the fair value of net identifiable assets of an acquiree, gain/loss on sales of discontinued operations, additions to impairment loss, restructuring expenses, share options expenses.

Annual General Meeting (AGM) – A mandatory yearly meeting of shareholders that allows stakeholders to stay informed and involved with corporate decisions and policies.

Articles of Association of the Company – Set of rules regulating the legal status of the entity, determined by the authorised governing bodies of the Company.

"B" segment tyres are quality, mass market, branded tyres priced as value-for-money.

By-Laws – Internal rules of the Company's activity approved by the authorised governing bodies of such company.

"C" segment tyres of lower quality, often unbranded tyres sold at low and/or discount prices.

Compound Annual Growth Rate (CAGR) – The year-over-year growth rate of an investment over a specified period of time.

Credit Linked Notes (CLN) – A security with an embedded credit default swap allowing the issuer to transfer a specific credit risk to credit investors.

Deferred Tax Liabilities – The amounts of income taxes payable in future periods in respect of taxable temporary differences.

EBITDA – Earnings before interest, tax, depreciation and amortisation.

EURIBOR (Euro Interbank Offered Rate) – The rate of interest at which panel banks borrow funds from other panel banks, in marketable size, in the EU interbank market.

Global Depository Receipts (GDR) – A bank certificate issued in more than one country for shares in a foreign company. The shares trade as domestic shares on a stock exchange, but are offered for sale globally.

Goodwill – Future economic benefits arising from assets that are not capable of being individually identified and separately recognised.

Gross Profit – Sales minus the cost of goods sold, including depreciation.

Gross Profit Margin – Gross profit divided by sales, which is equal to each sales dollar left over after paying for the cost of goods sold.

Historical Basis (Consolidated Continued and Discontinued Operations) – as used in this document means the actual historical financial results and refers to continued and discontinued operations including the consolidation of Amtel-Vredestein N.V.'s companies in Kirov, Voronezh, Kemerovo, Moscow for the full years 2005 and 2004; Krasnoyarsk and Volgograd facilities for 2005 and 2004 until the date of disposal; Vredestein Banden B.V. subsidiary from the date of acquisition (25 April 2005); and including retail chains from the date of acquisition (1 November 2005).

IFRS – Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; and (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), and adopted by the IASB.

Impairment Charges imply writing off worthless goodwill/assets.

IPO Prospectus – A formal legal document describing details of a company. The Prospectus was created for Amtel-Vredestein's share offering on the London Stock Exchange in November 2005 and include company facts that are vitally important to potential investors.

LIBOR (London Interbank Offered Rate) – An interest rate at which banks can borrow funds, in marketable size, from other banks in the London interbank market.

Loss-Producing Assets – Non-profitable facility of the Group with negative net result.

Negative Goodwill – Excess of the acquirer's share in the fair value of net identifiable assets of an acquiree, gain/loss on sales of discontinued operations, additions to impairment loss, restructuring expenses, share options expenses

Non-Core Assets – Facility of the Group producing non-core products (or non-essential).

OE – Original Equipment (or "OEM" – Original Equipment manufacturer).

Private Placement – The sale of a bond or other security directly to a limited number of investors. For example, sale of stocks, bonds, or other investments directly to an institutional investor, avoiding the need for SEC registration if the securities are purchased for investment as opposed to resale.

Pro Forma as used in this document refers to 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 full years 2005 and 2004, but excluding its retail operations.

RE – Replacement Equipment (or "RT" – Replacement Tyres).

The Dutch Corporate Governance Code – The Corporate Governance Committee (Tabaksblat Committee) published the Dutch Corporate Governance Code on 9 December 2003. This document includes the Code itself, as well as a preamble and explanation of and notes to certain terms used in the code. On the 30 December 2004, the legislator designated the Dutch Corporate Governance Code as a code of conduct to which listed companies should refer in their annual report, and in which they should indicate to what extent they have complied with the principles and best practice provisions.

Write-Offs – A charge which reduces the value of an asset and a company's earnings.

SHAREHOLDER INFORMATION

General information

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

Address: Sharikopodshipnikovskaya, 11 Moscow, Russia 115088
Tel.: +7 495 674 81 71
Fax: +7 495 619 90 10
E-mail: investors@amteltyre.com

Corporate office

Address: Ir. E L C Schiffstraat 370, 7547 RD Enschede, The Netherlands
Web-site: www.amtel-vredestein.com

Annual General Meeting

The Annual General Meeting of Amtel-Vredestein N.V. will be held in June 2007. A formal notice, together with the proxy statement and proxy form, will be mailed in advance of the meeting to all shareholders of record entitled to vote.

Register Agent and Depository

Correspondence concerning Amtel-Vredestein N.V. shareholdings or changes of address should be directed to:

Address: Ir. E L C Schiffstraat 370, 7547 RD Enschede, 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

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