



**AMTEL VREDESTEIN**



ANNUAL REPORT **2006**

Investing  
in Sustainable  
Growth



## Amtel-Vredestein N.V. (LSE: AMV) at a Glance

A Leading European Tyre Company

Russia's Top Passenger Car Tyre (PCT) Manufacturer

Over 16 Million Tyres Sold Annually Worldwide

Approximately 10,000 Employees in 14 Countries

Four Tyre Factories: Enschede, The Netherlands; Kirov, Moscow and Voronezh, Russia

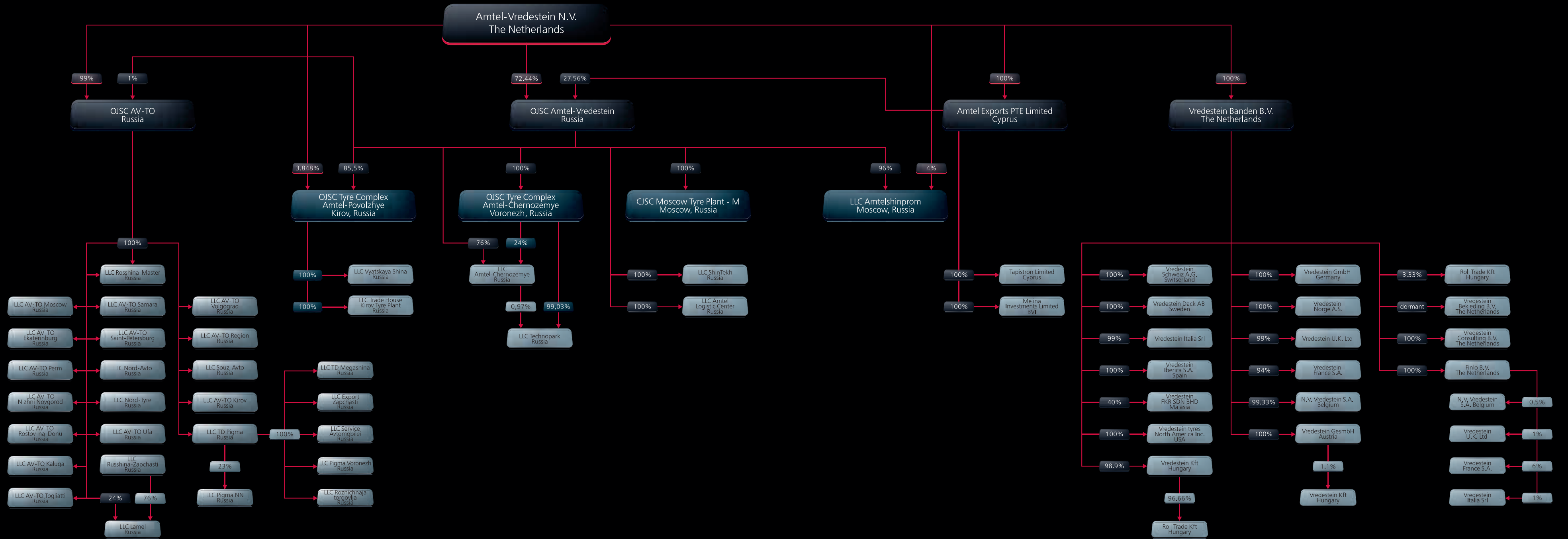
Focus on Passenger Car Tyres (also Agricultural, Industrial, Truck and Light Truck Tyres, plus Bicycle Tyres and Tubes)

Brands Include Vredestein, Amtel, Maloya and Taganca

Sales Network throughout Europe, Russia, North America and Asia

Tyre and Auto Parts Distribution Network throughout Russia

Largest Network of Company-Owned Tyre Retail and Service Centres in Russia



# INVESTING IN SUSTAINABLE GROWTH

In 2006, Amtel-Vredestein purchased the *Moscow Tyre Plant* to meet demand for its tyres in Russia. It acquired auto parts and tyre wholesale companies *Pigma* and *Megashina*, along with numerous tyre centres to become the number one tyre retailer and distributor in Russia. The Company also disposed of the *Amtel-Kuzbass* chemical fibre plant in Kemerovo – its last remaining non-core asset. This is in addition to the 2005 purchase of Dutch manufacturer Vredestein Banden, which made it possible for the Company to swiftly establish itself as a leading premium European tyre producer and Russia's largest passenger car tyre manufacturer. With the opening in 2007 of a new factory at its *Amtel-Chernozemye* tyre complex in Voronezh ("*Voronezh II*"), the Company will have completed an aggressive multi-year investment programme. The result will be a modern production and distribution platform from which it can ensure sustainable growth for its shareholders.

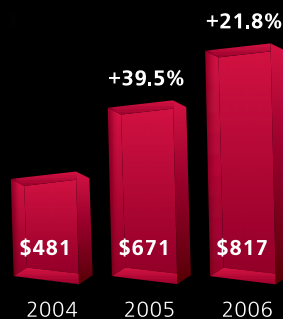
**FORWARD-LOOKING STATEMENTS.** This annual report may contain forward-looking statements regarding future events or the future financial performance of Amtel-Vredestein N.V. These statements are not guarantees of future performance, which is subject to risks, uncertainties and assumptions that cannot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

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\* The "Code" – a document that details Amtel-Vredestein's level of compliance with the Dutch Code of Corporate Governance – has been prepared as a separate addendum to this annual report and can be found on our website at [www.amtel-vredestein.com](http://www.amtel-vredestein.com).

# Key Results

## Net Sales

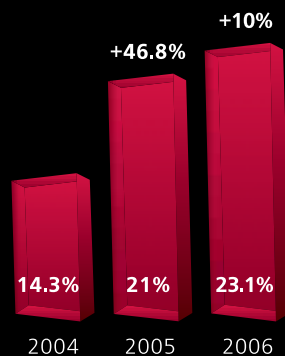


in million USD

Amtel-Vredestein sold nearly 15 million tyres in 2006 (excluding bicycle tyres) up 18% over the previous year. This included 11.92 million passenger car tyres (PCT) in the Premium "A", Value "B" or Discount "C" segments – a 12.7% increase over the previous year. Net revenue from the Company's core PCT business grew 30.4% to \$450 million.

Amtel-Vredestein exceeded its 2006 projections by delivering sales of \$817

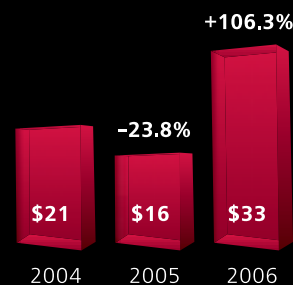
## Gross Profit Margin



in million USD

million (\$800 million estimated), including \$492 million from its Russian business unit, despite disposals in 2005 of *Amtel-Sibir*, its Krosnayarsk tyre factory and *Amtel-Carbon*, its Volgograd carbon black facility, as well as suspension of truck and bicycle tyres at *Amtel-Chernozemye*, the Company's tyre factory in Voronezh. It also reported stronger gross margins – from 21% in 2005 to 23.1% in 2006. Profit from operations more than doubled to \$33 million. Net profit (loss) improved

## Profit from Operations



in million USD

## Net Revenue from PCT

AV-TO not included



in million USD

significantly to a net loss of \$5 million in 2006 versus a net loss of \$81 million in 2005 – though high interest expenses, as well as losses at the Company's AV-TO retail and distribution subsidiary prevented the Company from recording a profit on a consolidated basis.

The Company also reported robust fourth quarter results – sales up 30% to \$275 million from \$212 million in 2005 – despite a mild winter across Europe and Russia.





Dear stakeholders,

Thank you for being part of the journey we have undertaken to build a leading European tyre producer, Russia's top passenger car tyre manufacturer and the nation's number one tyre retailer. We appreciate your faith in our enterprise.

We are very pleased with our growth in 2006. Sales rose by 22% to \$817 million, profit from operations more than doubled to \$33 million and our gross profit margin advanced from 21% to 23.1%. Most significantly, we approached our breakeven with a loss of \$5 million versus a loss of \$81 million in 2005. Vitally important, net revenue from our core passenger car tyre business grew 30.4% to \$450 million. While some expenses grew disproportionately to sales, we are confident that the new scale of our manufacturing and distribution platform will bring these costs into line as we surpass the \$1 billion sales threshold.

Despite this success, it was still a very challenging year for the Company. It was a year in which we lost approximately half of our market capitalisation as investors observed rising debt and weak bottom-line results in 2005. It is testament to the resolve of our management team that they did not allow these short-term market pressures to deter them from focusing on our long-term goal of building a company capable of substantial future growth and profitability. We are confident that the market will ultimately reward the Company for its steadfast approach.

Last year was a year of peak investment. In 2006, Amtel-Vredestein advanced substantial sums to acquire additional manufacturing capacity, achieve dominance in the Russian tyre retail space and begin the last phase in the modernisation of its Russian facilities.

This year will be a year of focus. In 2007, as we complete the expansion and further modernisation of *Amtel-Chernozemye*, our Voronezh tyre complex, we will be able to draw a line under our aggressive investment efforts and complete the programme we articulated to investors back in 2005.

The Company is now poised, indeed driven, to achieve sustainable top-line growth and bottom-line results for the remainder of this decade and beyond.



*Sudhir Gupta*  
Chairman of the Supervisory Board



## Success-Driven

*an interview with  
Chief Executive Officer  
Alexei Gurin*

**Amtel-Vredestein continued to invest heavily in its Russian enterprise in 2006. While still digesting the acquisition of Dutch tyre producer, Vredestein Banden, purchased in 2005, the Company expanded aggressively in the Russian retail and distribution space, purchased the *Moscow Tyre Plant*, and began a key phase in the construction of a new factory at its Voronezh tyre complex.**

**The Company expects to complete its expansion and modernisation programme in 2007 and be profitable. However, financing this growth through debt has created a highly leveraged business — albeit one with a tremendous upside given the dynamic market conditions and strong position of the Company. Here, CEO Alexei Gurin talks about the risks and rewards of a company driven to success.**

CEO Alexei Gurin answers the big questions about what drove Amtel-Vredestein's success in 2006.

*Amtel-Vredestein exceeded its financial guidance for 2006. Which key factors most contributed to these results?*

**AG** "Demand for our passenger car tyres in Russia remained strong in 2006 and shows no sign of weakening. Fourth quarter sales in all markets were solid despite the threat of a mild winter. And, of course sales growth benefited from a full year of Vredestein results – versus only nine months in 2005. Our AV-TO subsidiary also made a much more substantial contribution to revenues last year by consolidating the auto parts and tyre distribution businesses we assumed when we acquired *Pigma* and *Megashina*. The *Moscow Tyre Plant* contributed some sales along with a small loss for the year. A non-cash adjustment also resulted from a new appraisal of assets after the acquisition, which positively impacted EBITDA and our bottom line."

*Why did expenses so significantly outpace sales?*

**AG** "On the expense side, we must once again consider that 2006 was the first year in which we consolidated a full 12 months of Vredestein Banden, which significantly impacted distribution and administration expenses. Expenses at our AV-TO unit were also extraordinarily high as we completed the acquisition, integra-

tion and consolidation of numerous retail centre purchases, as well as the *Pigma* and *Megashina* businesses. This year will be the first full year of results for the combined enterprise and we expect significant efficiencies and improvements."

*While the Company generally does not comment on stock performance, what kind of pressure did the significant drop in share price in 2006 place on management?*

**AG** "We prefer to focus on the business fundamentals rather than market speculation. However, it is important to note that our major shareholders have been very supportive of our initiatives and have not pressured us to make decisions that would be inconsistent with our long-term goals. The monumental task of transforming this company into a leading producer and distributor of premium passenger car tyres takes time. Our shareholders understand this. And we believe they will ultimately be rewarded for their faith in us."

*The Company's debt increased dramatically in 2006. And the resulting high interest expense continues to contribute to losses. Is this a risky strategy and can the Company continue to carry this debt?*

**AG** "Obviously we would prefer a lower ratio of debt to sales or debt to equity.

However, we feel justified in leveraging the Company to this extent based on the growth profile of our key Russian market and on the fact that this debt has been used to finance expansion – not existing operations. We believe we have added value for shareholders that far exceeds the costs incurred."

"In any event, we expect our debt to reach its inflection point this year as we complete the final phase of our investment programme. After this year, debt should diminish relative to equity and, ultimately, in absolute terms. We have also disclosed that, if necessary, we would consider other alternatives to reducing debt – up to and including the sale of part, or all, of our AV-TO unit."

*Raw materials put significant pressure on earnings in 2005. How much of a factor was it in 2006 and will it continue to be an issue in 2007?*

**AG** "The rise in the cost of raw materials continued to put some pressure on margins in 2006. Ultimately these cost increases are passed on to the consumer, though there is a short-term impact on operating profit. However, we were still able to improve our gross margin in 2006 due to product mix improvements and price increases."



"In 2007, we project a cost increase in raw materials of approximately 11% and will raise tyre prices accordingly. We also have a price strategy in Russia to close the gap between premium and value segment tyres by raising the price of our Amtel brand ahead of inflation and cost increases. Last year we raised prices by 6%."

*The Company planned to produce Vredestein tyres at its Kirov facility in 2005, but ultimately only began production in spring of 2006. What caused this delay and what impact did it have on results?*

**AG** "Achieving the exacting specifications required to produce premium Vredestein tyres at our Kirov factory took longer than expected. We still managed to produce 350,000 Vredestein tyres in 2006 – though this was far short of our plan to produce 700,000 tyres. This resulted in a shortage of Vredestein tyres in Europe and had some impact on the results reported by Vredestein Banden."

"However, we offset some of this production shortfall by producing additional and much needed Amtel tyres in Kirov for distribution in Russia. Now we are on track to produce 700,000 Vredestein tyres for shipment to Europe in 2007 and substantially more from our Voronezh II facility in 2008."

*Why does the Company continue to import Vredestein tyres into Russia now that they are being manufactured in Kirov? What is the Company's production strategy?*

**AG** "The Company imports ultra high performance, larger size Vredestein tyres to Russia from our Enschede plant and exports smaller size Vredestein tyres to Europe from our Kirov facility. Essentially, our plan is to focus on flexible manufacturing at our Dutch plant, which is configured to produce over 4.7 million high performance and ultra high performance, higher margin specifications. At the same time we will produce larger batches of fewer specifications at our Kirov facility. The strategy is to locate production of our tyres where we can best optimise efficiency, quality, and manufacturing cost."

*The Company now has four tyre plants and a substantial retail and distribution business. What has been done to improve operational control over this expanding enterprise?*

**AG** "In fact, at one time we had six factories in Russia. Our decision to focus on high quality passenger car tyres and exit other businesses resulted in the disposal of all but two of those original tyre production facilities – which we have since modernised – and the purchase of

On average, Amtel-Vredestein produces approximately 53,000 tyres per day



Vredestein Banden and the *Moscow Tyre Plant*. Today all operations have been streamlined and we continue to make improvements. Significant experience and know-how was also acquired with the purchase of Vredestein Banden and Dutch engineers now oversee all research and development and provide technological support to our Russian factories."

"We are also implementing Oracle's E-Business Suite platform which will enable centralised and effective financial and logistics management, strict cost allocation and price control at all stages of production."

*Amtel-Vredestein invested significantly in its Russian retail network in 2006. Amtel-Vredestein now operates the largest tyre retail chain in Russia. Obviously the expansion of its AV-TO unit to include auto parts and tyre distribution altered the strategy for this business. What is the current plan?*

**AG** "We have slowed the pace of our retail expansion so that we may focus on optimising the profitability of each unit, streamlining operations and taking best advantage of our new efficiencies of scale."

"However, this new approach has not slowed the growth of the AV-TO business unit. AV-TO entered the wholesale tyre

and auto parts business in late 2006. The purchase of *Pigma* and *Megashina* has expanded our retail footprint by hundreds more stores into which we sell tyres and auto parts. We plan to capitalise on these additional points of customer contact. We have more work to do with AV-TO, but we remain enthusiastic that this business will contribute significantly to our results in 2007."

*The biggest single event for Amtel-Vredestein in 2006 was the acquisition of the Moscow Tyre Plant. Please tell us about this transaction and why it is such an important addition to the Russian production platform.*

**AG** "While we did not anticipate the acquisition of the *Moscow Tyre Plant* in 2005, we did expect demand to increase in Russia for our tyres and were hopeful we could accelerate the decrease in production of low cost discount tyres – which once made up the bulk of our output. So we were looking for opportunities to increase our capacity in the value segment where we have a dominant market share. The chance to solve our capacity challenge and remove a local competitor was a compelling reason to investigate this purchase."

"When we analysed the transaction and saw that we could acquire only the highly desirable, modernised portion of the fac-

tory, including its equipment and underlying real estate, by assuming debt and with minimal new investment, we were compelled to recommend the deal to our Supervisory Board."

"The *Moscow Tyre Plant* as we operate it today is a very lean and trim facility. It occupies a relatively small footprint for a factory its size in Russia and we manage it as a satellite of our Voronezh facility. In fact we ship pre-mixed rubber compound to Moscow from Voronezh and thereby reduce any environmental concerns local residents may have about our factory being located within Moscow city limits. We have also significantly reduced our overheads by moving our Russian headquarters to the *Moscow Tyre Plant*."

*The Company's decision to sell Amtel-Kuzbass, the Company's chemical fibre factory in Kemerovo, was announced in late 2005 when the Company disclosed the sale of its tyre factory in Krasnoyarsk and its carbon black facility in Volgograd. All of these companies were non-core assets and loss producing. Was Amtel-Kuzbass the last disposal?*

**AG** "We made a strategic decision several years ago to focus our production on quality passenger car tyre production and divest all assets that did

not contribute to this goal. Our *Amtel-Kuzbass* factory in Kemerovo was the last non-core asset to be disposed of.

*The Company expanded its range of tyres in 2006 – including the new Vredestein Ultrac Sessanta. Please comment on the development and success of these new product extensions.*

**AG** "In Russia we expanded our range of *Amtel Planet* and *Amtel NordMaster* tyres, as well as *Amtel Cargo LT*. We also re-engineered the *Taganca* brand acquired with the purchase of the *Moscow Tyre Plant* and will re-launch this brand to replace our non-branded discount tyre segment in an effort to help customers migrate to our higher margin products."

"Approximately 100 new specifications were added to the product lines of *Vredestein* and *Maloya*, including the launch of the new *Sportrac 3* and the ultra high performance *Ultrac Sessanta*. Both product lines were designed in cooperation with Giugiaro Design, the foremost Italian automotive and industrial designer with whom Vredestein has enjoyed a long and fruitful relationship."

"*Sessanta* (which means "sixty" in Italian) is designed for sports cars and luxury sedans and is specified for speeds up to

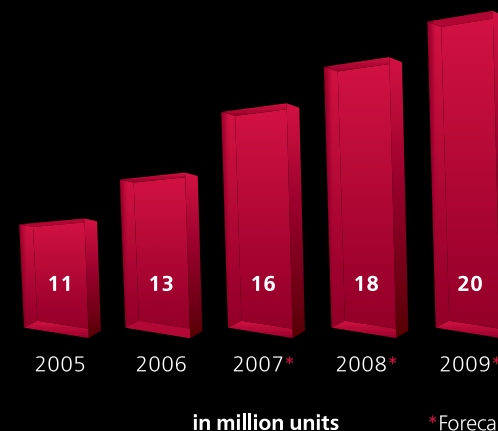
300 km/h and was first aimed at the American market, where it was extremely well received. It was rolled out in Europe throughout 2006. Now the full range is available in most of our major markets."

"The *Vredestein Sportrac 3*, another summer tyre designed by Giugiaro Design, was also introduced last year. Sales were slow at first, but quickly advanced after the tyre tested well in several highly respected automotive magazines."

*What can we expect from Amtel-Vredestein 2007?*

**AG** "When assessing our business, it is important to understand that we have nearly

### Passenger Car Tyres Sales





finalised the modernisation and expansion of our manufacturing and distribution platform. The completion of the new factory at *Amtel-Chernozemye*, our Voronezh tyre complex, will mark the end of our current investment programme.

The additional production capacity we have built or acquired, along with continuing improvements in the production mix and greater economies of scale should result in higher sales and healthier operating margins for many years to come."

"With over 100 stores, we have reached critical mass in the retail space — providing purchasing advantages and, most important, a guaranteed outlet for our tyres. A significant retail presence is vital since many customers only choose a brand of tyre at the point of purchase. This is particularly important for our premium *Vredestein* brand — which benefits more from salesperson recommendation than mass media advertising. We also anticipate that *AV-TO* will approach its breakeven point in 2007."

"The consolidation of our research and development departments to our Enschede facility has resulted in the next generation of tyres for the Russian market — incorporating technologies and design aspects developed by our Dutch engineering team. We began this process with *Amtel Planet 3* tyres, which we are producing in Kirov, based on *Vredestein's T-Trac* technology."

## MISSION STATEMENT

Amtel-Vredestein is driven to become Europe's most successful passenger car tyre producer and Russia's most admired company.

"By using the same underlying technology for all our premium brands, we will reduce development and production costs while we increase performance and quality levels. We also have high hopes for the new *SUV Sessanta Ultrac* tyre in 2007."

The Company expects to sell over 17 million tyres in 2007 (excluding bicycle tyres), including 14.5 million passenger car tyres (PCT). Sales to original equipment (OE) manufacturers, including the largest Russian and most active international automobile manufacturers,

are expected to grow approximately 9% in 2007 and OE as a percentage of total tyre sales may grow to as high as 25% in 2007/2008.

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. EBITDA may exceed \$120 million and rise to as high as \$130 million. The Company expects to be profitable in 2007.

# Corporate Governance

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

**The Company regards it as a top priority to strengthen the trust placed in it by its shareholders and other stakeholders through enhanced corporate governance.**

## Implementing the "Code"

The Company adopted the Dutch Code of Corporate Governance (the "Code") in 2006 and has started the process of implementing its best practice provisions — a set of guidelines used by investors to measure the transparency and

reliability of the Company's management. The Code and explanations regarding our measure of compliance are updated periodically and posted to the Company's website: [www.amtel-vredestein.com](http://www.amtel-vredestein.com)

## New policy documents guide business operations

A series of legal and policy documents have been adopted in 2006 and can be found at the Company's website. These documents outline the Company's policy on various aspects of its business operations, including whistle-blowing, business ethics and conduct, marketing practices, offering and acceptance of business courtesies, conflict of interest, proper relationship with suppliers, proper use of resources and insider trading.

## Two boards, one purpose

Amtel-Vredestein N.V. has a two-tier board structure whereby a Supervisory Board made up of non-executive directors

oversees an Executive Board comprised of the Company's senior management team. Both Boards are jointly and severally responsible to the Company's shareholders — primarily through the Annual General Meeting of Shareholders.

The Supervisory Board provides guidance, oversight and approves major policies and strategies, while the Executive Board makes the key decisions that direct the Company's business units. Together, these Boards share the responsibility to provide effective governance over the Company's affairs for the benefit of all its shareholders and its other constituents, including employees, customers, suppliers and local communities.

In every case, Directors exercise their best business judgment and always act in what they believe to be the best interests of the Company. Further explanation of the roles of the Boards and their activities in 2006 can be found in the Executive Board Report beginning on page 41 and the Supervisory Board Report beginning on page 59.

1. Sudhir Gupta, Chairman. 2. Alexei Gurin, CEO and Chairman of the Executive Board. 3. Sergei Bokhanov, COO. 4. Maxim Ignatiev, Chairman of the Board of Directors, Reebok Russia. 5. Daniel Gupta, Managing Director, Amtel Investments Holding. 6. Tarik Chaudri, President, Sabina Pak Limited. 7. Dominik Gualtieri, Managing Director and Head of Equities, Alfa Bank. 8. Hubert Pandza, former CEO, Deutsche Bank, Moscow.









According to experts, Russia will soon become Europe's second largest PCT market after Germany

### Growing international demand for tyres

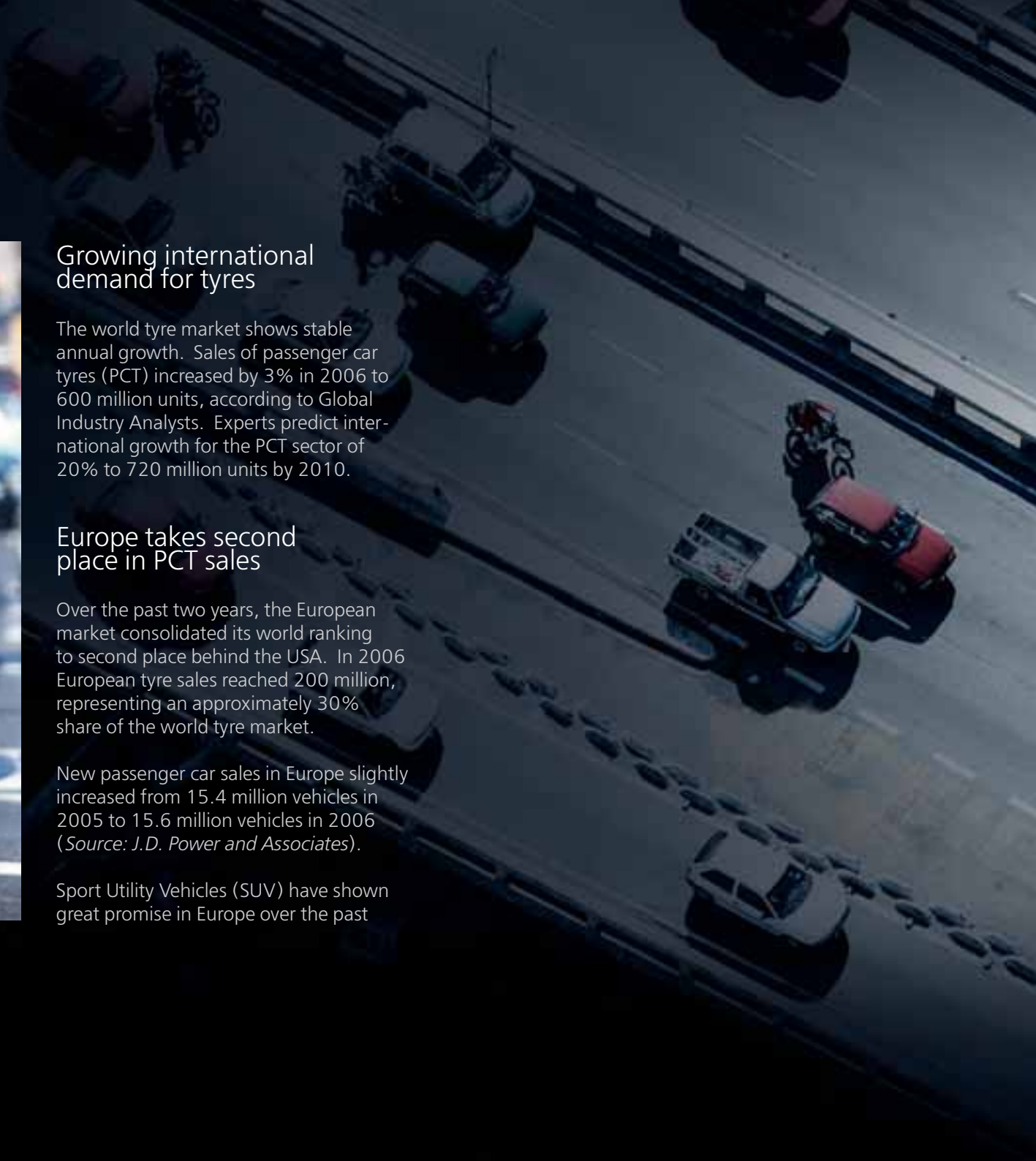
The world tyre market shows stable annual growth. Sales of passenger car tyres (PCT) increased by 3% in 2006 to 600 million units, according to Global Industry Analysts. Experts predict international growth for the PCT sector of 20% to 720 million units by 2010.


### Europe takes second place in PCT sales

Over the past two years, the European market consolidated its world ranking to second place behind the USA. In 2006 European tyre sales reached 200 million, representing an approximately 30% share of the world tyre market.

New passenger car sales in Europe slightly increased from 15.4 million vehicles in 2005 to 15.6 million vehicles in 2006 (*Source: J.D. Power and Associates*).

Sport Utility Vehicles (SUV) have shown great promise in Europe over the past





several years. SUV sales have increased to an estimated 7.5 million in 2006 from 6.5 million vehicles in 2005, resulting in a 17% increase in SUV tyre sales – 10 million in 2006 versus 8.5 million in 2005.

More positive trends from the European market include an increase in the number of winter tyres sold to drivers in Germany – an estimated 25.5 million in 2006 versus 23.7 million sold in 2005 (*Source: WKD (Weiner, Dailey, Katz & Co., LLP)*). This is the result of a new 2006 policies introduced in Germany mandating all drivers to change their summer tyres to winter tyres or jeopardise the validity of their insurance coverage.

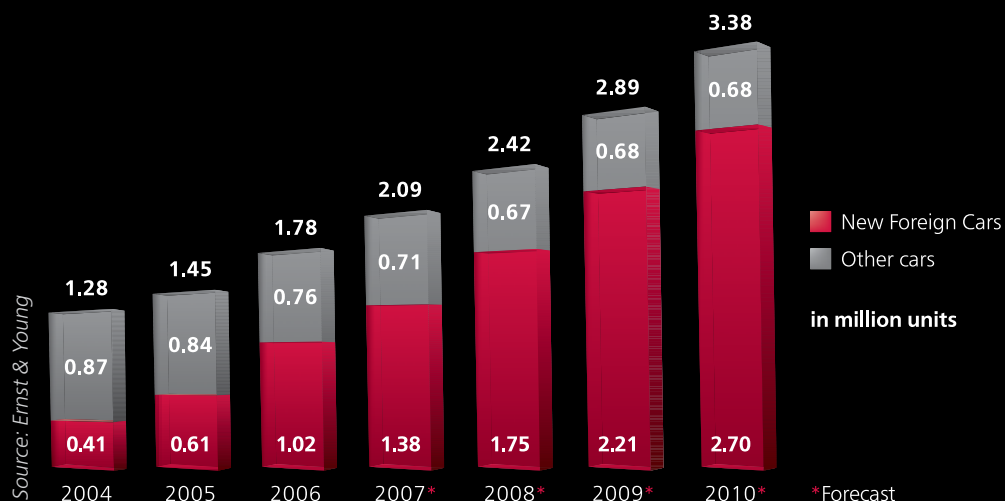
### Fast rise in foreign car sales in Russia is driving demand for premium tyres

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





### Sales of New Passenger Cars in Russia



Nearly 2 million passenger cars were sold in Russia in 2006. Figures from the Association of European Businesses, Russia (AEB) reveal that sales of new international, or "foreign", passenger cars increased by 65% to over 1 million vehicles in 2006, or more than 52% of all new cars sold — up from 48% in 2005.

In passing the 1 million mark, new foreign cars claimed dominance over domestic brands in new passenger car sales for the first time.

Data for new foreign car sales in the first quarter of 2007 provide persuasive

evidence that the automobile market will continue to increase rapidly throughout the year. Figures from AEB put 2007 first quarter sales of new foreign cars at 281,900 — on course to take 60% of the market in 2007.

Foreign car sales are linked to demand for premium tyres in Russia such as those produced by Amtel-Vredestein. According to Ernst & Young, 2006 PCT sales have increased by 7.5% to 35.5 million units compared to 2005. When the figures are broken down they show a growth in demand for premium tyres, up between

4–6% in 2006 compared to 2005, and representing between 22–24% of the PCT market.

### Sales of discount tyres continue to decline

Over the same period, market share of Discount "C" segment tyres, where most Russian producers are active, showed a fall in demand from 55% to 50%. The medium-term outlook points to further decline of between 7-8%.

Ernst & Young predicts that market share of Premium "A", Value-for-Money "B" and Discount "C" segments will be approximately equal by 2009 — each representing about one third of the Russian market. Independent analysts believe this scenario may take longer, perhaps to 2010–2011 when foreign auto assembly plants based in Russia are expected to reach production capacity. At that stage, according to Minpromenergo, the Ministry of Industry and Energy in Russia, the tyre market will have increased by 18% to 41.9 million units.

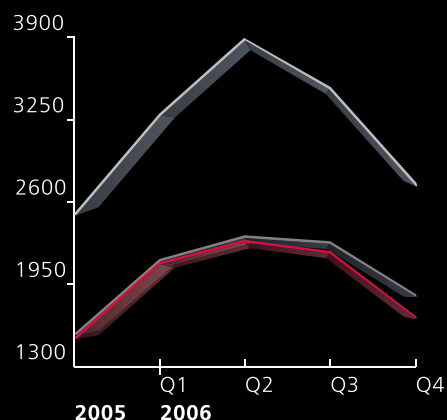
### Raw materials costs still on the rise

Performance-related factors in the tyre manufacturing industry worldwide are inextricably linked to the price of raw mate-



### Natural Rubber prices

(US dollars)



Source: International Rubber Study Group

- Europe, TSR20 per tonne
- New York, TSR20 per tonne
- SICOM, RSS3 per tonne

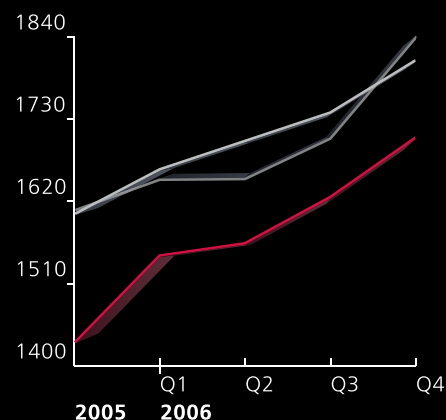
rials which continue to rise year on year. In 2006 prices rose by 11% compared to 2005, with the core materials of natural rubber and synthetic rubber showing increases by 10% and 15% respectively.

The global supply of synthetic rubber in 2006 rose by 3.6% to 12,515,000 tonnes — falling short of demand by 5% and exceeding worldwide production output.

Rising demand and costs for synthetic rubber reflect similar trends to that for

### Synthetic Rubber prices

(US dollars)



- Japan, SBR Export Values per tonne
- USA, SBR Export Values per tonne
- France, SBR Export Values per tonne

natural rubber over the past 3–4 years. Over 97% of natural rubber is produced in the Asiatic region.

Synthetic rubber production processes are extensively based in the petrochemical industry and the products used are linked to fluctuations in world prices for petroleum. These are often volatile and always sensitive to world events. In 2006 prices for crude oil produced from Texas, USA, rose by 17.5% to \$66.4 per barrel. The knock-on effect was to increase synthetic

### Oil prices

(US dollars)



- Crude oil, West Texas basis per barrel
- Butadiene per lb

Source: International Rubber Study Group

rubber prices by 6–7% on the world market and by 15% in Russia where it was traditionally sold at a discount to world market prices.

The increases in costs of raw materials somewhat inhibited margin growth in the short term but ultimately led to price increases across the tyre manufacturing industry worldwide.

## Amtel-Vredestein has an enviable portfolio of award-winning brands

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

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

Amtel-Vredestein recently added *Taganca*, a well-known brand it obtained when the Company acquired the *Moscow Tyre Plant*. This new budget range of tyres has been completely revised and new models are being launched this year.

In October 2006 Amtel-Vredestein was awarded an EFFIE (Russia) silver medal for best brand in the automotive category for its *Vredestein* brand. Of 300 leading companies competing in 30 different categories, Amtel-Vredestein was the only tyre manufacturer to take a prize.

Last year Britain's biggest selling motoring magazine *Auto Express* crowned *Vredestein's Sportrac 3* the winner of its annual independent tyre test for the third consecutive year. The tyre's exceptional handling on wet roads stole the show.

## New *Vredestein* models and specifications in 2006

More than 100 new tyre specifications were added in 2006 to the fast-growing portfolio of Amtel-Vredestein's European brands — *Vredestein* and *Maloya* — and 19 new *Amtel* tyre sizes. At the same time, entirely new models were added to meet the ever-changing needs of the market. The *Sportrac 3* and the ultra high performance *Ultrac Sessanta* were introduced in 2006 to commemorate the 60th anniversary of Vredestein Banden ("Sessanta" means sixty in Italian). Both were designed in collaboration with Italy's Giugiaro Design with whom Amtel-Vredestein has been working for many years to produce the only designer tyres in the world. The tyres were launched to sensational response in 2006, and an SUV model of the *Ultrac Sessanta* tyre was launched in April 2007.

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

*Amtel* the leading tyre brand in Russia — providing outstanding value for money. The *Amtel Planet* range of tyres are suited to summer driving, while *Amtel's NordMaster* is designed for even the harshest Russian winters. Both lines are renowned for their reliability and safe handling. With a 71% brand-awareness amongst consumers, it is one of Russia's best known brands, according to market research agency GfK.

In 2006 the summer range was expanded with the addition of 19 new sizes in two tread patterns: *Amtel Planet T-301* and *Amtel Planet T-501*. Demand is growing and the additions were well received.

Supercar Spyker tests Vredestein Ultrac Sessanta tyres at the Ascari circuit in Spain



Two sizes were also added to *Amtel's Planet DC* range – which started in 2007 will be fitted on all Renault Logans manufactured in Russia.

Two new models were added to the winter range: the *NordMaster 2* and the *NordMaster CL*, *Amtel's* first unspiked winter tyre for use in cities in Southern Russia.

The sale of *Amtel* tyres have been lifted on the rising tide of booming car sales in Russia. The brand performed extremely well with its share of the Value "B" segment tyre market climbing to 39.2% in 2006.

## The Swiss precision engineering of *Maloya*

*Maloya* tyres are aimed at the upper-medium price range, and are still known for their Swiss pedigree of precision and performance. *Maloya* tyres are no longer produced in Switzerland. Instead they are manufactured in The Netherlands, and increasingly at Amtel-Vredestein's plant in Kirov, Russia.

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

In 2006 sales of *Maloya's Futura* summer tyres and *Cresta-220* winter tyres were up compared with the previous year. Limited production capacity, rather than demand, was the

only restriction to growth – a challenge soon to be met by production at the Company's new factory at its Voronezh production facility.

## Relaunching *Taganca*

*Taganca* tyres are one of Russia's best-known discount brands, offering a wide choice of tyres at low prices.

Brand awareness of *Taganca* reached 66% in June 2006 but was declining in sales before it was added to Amtel-Vredestein's stable of brands following the Company's acquisition of the *Moscow Tyre Plant* in 2006. While Amtel-Vredestein is benefiting from *Taganca's* strong brand name, the Company has been fine-tuning the tyres to meet the Russian car owners' increasing demand for quality. *Taganca* tyres will now be manufactured at Amtel-Vredestein's Kirov and Moscow facilities – at a quality which exceeds that of competitors in its category – to fit passenger cars including Chevrolet, Daewoo, Fiat, Hyundai, KIA, Suzuki, Lada and Gaz.

Vredestein brand wins EFFIE/THE BEST BRAND award

EFFIE 2006





The Davitamon Lotto ProTeam coasting on *Vredestein Fortezza Pro Tricom* at the 2006 Tour de France



World's only designer scooter tyres by *Vredestein* with *Giugiaro*



High durability and low operating costs are trademark features of *Vredestein* agricultural tyres

## Agricultural and industrial tyres that meet the needs of professionals

The need for high performance is not limited to the highway. *Vredestein* also produces a range of tyres tailor-made for the needs of modern agriculture. The unique *Traxion+ Tractor Radial* and the popular *Flotation Pro Implement Radial* have been designed to cope with the needs of larger, state-of-the-art farms. Optimum tyre performance and efficiency lead to greater durability and lower operating costs. As well as concern for impact on the soil, these attributes have been the design goals of the tyre, and the tyre has become the choice of the professional farmer.

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

## Space saver in the boot

Spare tyres are not often needed, but they can be a life-saver when required. The Company's focus on functional design extends to the compact design of *Space Master* spare tyres — now original equip-

ment in many models by Audi, Mercedes, Porsche and Volkswagen. The innovative design takes up minimal space when stored in the car boot, but once inflated by the included compressor, assumes the same diameter as the originally fitted tyre.

## Bicycle tyres that are a tour de force

As customers increasingly focus on the quality of their lifestyle, the Company has developed an impressive line of *Vredestein* bicycle tyres that includes a range for kids' bicycles, trekking, tour/city, mountain bikes, mopeds/scooters and racing bikes.

## Vredestein wins first place in *Auto Express* performance test for third straight year

The *Vredestein Sportrac 3* has out-performed all competing brands — including Continental, Bridgestone, Goodyear, Michelin, Pirelli and Dunlop — during *Auto Express* magazine's 2006 annual tyre test. The 15 top brands were put through rigorous trials at Bridgestone's proving ground in Rome and were scored on their ability to handle a variety of tasks on wet and dry surfaces. Winning first place in both wet handling and wet cornering, third place in straight aquaplaning and fourth place in both wet braking and dry handling tests, the *Vredestein* "took the crown" for the third year in a row with *Sportrac 3* which was honoured for its overall superior performance.

"Perfect manageability on wet road"  
ADAC

"Fantastic tyre. Brilliant wet handling"  
GUTE Fahrt

"Safety and reliable aquaplaning resistance"  
*Sportcars*

Our *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 Tricom*, a competitive tubular tyre for all conditions with a very low rolling resistance that combines style with high-speed functionality.

Vredestein has also teamed up with bicycle 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 finally 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.

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 the our city bicycle tyre, the *Perfect Moiree*. These three tyres have been developed using new technologies in which functionality and design are seamlessly integrated.

## Scooter tyres racing ahead

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

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

Vredestein takes its message to the streets of Russia





*Amtel NordMaster winter tyres show confidence on the most slippery Russian roads*

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

Amtel-Vredestein's decision to enter the retail sector in 2005 was based on two factors. First and foremost, to secure retail distribution and

market recognition for its tyre brands in Russia, and second to establish a leading retail brand capable of capturing significant market share in a highly fragmented sector.

### Number one in tyre retail

By the end of 2006, the Company completed the substantial task of re-branding all of the stores it had

AV-TO became Russia's number one tyre retail network in 2006



AV-TO stores sell a wide assortment of tyres, auto parts, accessories and services

AV-TO

23



Russia's largest tyre retailer with 104 multi-brand tyre sales and service centres in major Russian cities.

2006 — In honor of Vredestein's 60th anniversary, the company launches Ultrac Sessanta





AV-TO has 115 locations nationwide (as of 31 December 2006)

purchased over the previous year under the AV-TO trade mark.

As of 31 December, AV-TO operates 115 multi-brand tyre sales and service centres under one unified brand in 18 cities throughout Russia, including Ekaterinburg, Ivanovo, Kaluga, Klin, Maloyaroslavets, Moscow, Kirov, Nizhny Novgorod, Perm, Rostov-on-Don, Samara, Salavat, St. Petersburg, Sterlitamak, Tolyatti, Volgograd, Volzhsky and Ufa. It is the undisputed market leader.

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

Further expansion plans will focus on strengthening AV-TO's product range and quality of services, as well as exploiting commercial opportunities in new sectors.

## A leading auto parts distributor

In the second half of 2006, AV-TO acquired LLC Trade House "Pigma" and now operates 14 offices and warehouses nationwide supplying a rapidly expanding and diverse customer base. AV-TO sells more than 27,000 auto components from approximately 40 producers to over 1,500 customers throughout Russia and the CIS. This significantly expands AV-TO's retail footprint and logistical capability across Russia.

## Now a leading tyre distributor

With the acquisition of tyre wholesale distributor LLC Trade House "Megashina" AV-TO now, in addition to *Amtel* and *Vredestein* brands also distributes tyres from other leading international brands like Bridgestone, Continental, Goodyear and Michelin to over 500 customers specialising in tyre sales, including tyre retailers, auto dealers and auto service stations.



Everything for the car can be found at AV-TO



Tyre fitting and other mechanical services are available at many locations





**Amtel-Vredestein is proud of each and every one of its approximately 10,000 dedicated employees in 14 countries. The Company has navigated a challenging course over the past few years which transformed it into a premier high quality passenger car tyre producer. The success achieved is primarily the result of the co-operation, support and exemplary performance of its people.**

## Creating an optimal organisation

In 2006, Amtel-Vredestein continued its plans to reduce its Russian workforce to become more consistent with headcounts throughout the tyre manufacturing industry for companies with similar production output. During the year, the Company reduced its total workforce by 13.5% to 9,865 from 11,401. These significant reductions are part

of a continued effort to streamline operations and maximise the overall efficiency of the Company's cooperative divisions.

At the same time, to increase output and efficiency, its Enschede plant moved from a three shift to a five shift system, which involved hiring over 200 new employees.



## Education has become paramount

The exceptional personnel training system of Amtel-Vredestein has elevated the efficiency of plants throughout the enterprise, increasing the number of top-quality tyres produced to meet the growing needs of customers.

This past year, 62% of plant employees, with various responsibilities, have been involved in an exchange programme, studying both full-time and part-time to expand upon their diverse experiences.

Ongoing training and education benefit employees and Company



Education is and will continue to be a primary focus, evident by the Company's extraordinarily professional, knowledgeable staff and the achievement of necessary ISO standards.

### Expansion and modernisation requires new recruits

Though the Company's overall headcount is still higher than its peers, and more reductions may be implemented over time, its aggressive expansion and modernisation programme requires that we simultaneously implement a recruitment and re-training process in order to staff this growing operation with the right people.

In 2006, Amtel-Vredestein implemented a human resources project to recruit qualified staff for *Voronezh II*, the Company's new state-of-the-art tyre production facility.

In addition, the terms of the Company's acquisition of the *Moscow Tyre Plant* required it to assume the task of shutting down the larger antiquated portion of the facility and maintaining the newer, modern factory. This meant that the workforce had to be optimised by carefully selecting the most capable employees for assignment to the new facility. By the end of the year, the *Moscow Tyre Plant* staff was reduced by 1,295 persons and a diligent new team was formed.





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

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

## Certification goal set for all production sites

Additionally, Amtel-Vredestein's goal is to further improve the overall quality of its design, management and production systems. The Company achieved ISO/TS-16949 certification for its factories in Enschede and in Kirov in 2006. Voronezh and Moscow plants will soon follow.

## Technology transfer improves efficiency

In order to maximise cooperation within the international Research and Development groups, top Russian engineers have participated in a technology transfer

programme at the Enschede facility. Now, strategies for all brands – *Amtel*, *Maloya* and *Vredestein* – are part of one comprehensive product development plan.


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

## Eliminating contact with hazardous substances

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

R&D has been centralized in The Netherlands for better efficiency and better tyres



A close-up photograph of a person's hands, wearing a watch, working on a large, dark-colored tire. The tire has a complex tread pattern and the text 'VR. ICE TRAC' is visible on its sidewall. The background is dark and out of focus, showing some industrial equipment like a pressure gauge.

and complying, well in advance, with new European standards.

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

### Setting a standard for environmental safety

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

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



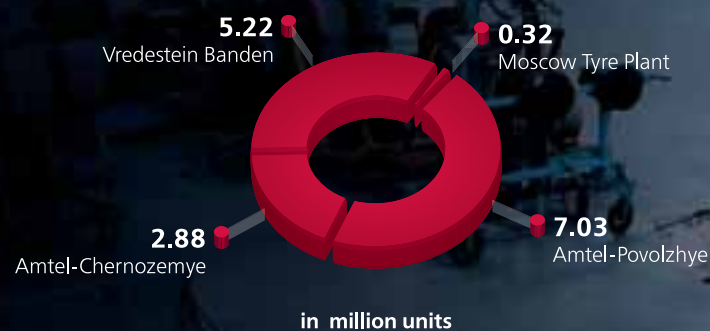
### *Vredestein Ultrac Sessanta* and Ford Mustang by Giugiaro

A stunning 20-inch *Vredestein Ultrac Sessanta* tyre, designed in cooperation with Italy's Giugiaro Design, has been created to honour Vredestein Banden's 60th anniversary. Based on the strongest attributes of the popular *Ultrac* tyre series and capable of speeds up to 300 km/h, the *Sessanta* ("sixty" in Italian) is one of Vredestein's greatest innovations. Positioned at the top in the ultra high performance (UHP) segment, with its Sophisticated Longitudinal Design (SLD) tread patterns, superb handling and quiet efficiency, the *Ultrac Sessanta* is the perfect tyre to deliver an expert combination of speed, power and beauty.

Appropriately, the tyre made its exciting 2006 debut on Giugiaro's Ford Mustang concept car at the prestigious Los Angeles Auto Show – one of the world's leading automotive events. Together, Vredestein and Giugiaro have created the only designer product in the international tyre industry and have truly impressed sports car enthusiasts throughout the world.



Production 2006



**Amtel-Vredestein operates four tyre production facilities, in Enschede (The Netherlands) and in Kirov, Moscow and Voronezh (Russia). Each of these facilities underwent investment and reorganisation to improve the quality of their production and efficiency in 2006. Amtel-Vredestein will further improve its production and management systems in 2007 by obtaining ISO TS certification at all of its factories.**



Tyres after vulcanization at *Moscow Tyre Plant*



### *Moscow Tyre Plant, Russia*

Founded in 1945, The *Moscow Tyre Plant* is one of Russia's best known manufacturers. In 1998 it was a winner of the 100 Best Russian Products awards for its passenger car tyres and is best known for its popular *Taganca* brand. Acquired by Amtel-Vredestein in 2006, the plant currently produces *Amtel* and *Taganca* tyres and has a production capacity of approximately 2 million tyres per year, which can be expanded to approximately 2.9 million.

The plant was first modernised during the Soviet era in the 1960s and again in the 1980s. After privatisation, a section of the plant was completely rebuilt from scratch in 2004 as part of a joint venture with Germany's Continental AG, which invested approximately \$40 million in new equipment. After the joint venture foundered, the plant continued to operate but at a fraction of its capacity.

By operating the *Moscow Tyre Plant* as a satellite of its Voronezh tyre complex, moving Amtel-Vredestein's Russian headquarters to the facility and bringing production up to full capacity, the Company has converted a loss-making factory into a profit centre.

In keeping with the Company's commitment to environmentally responsible business practices, Amtel-Vredestein took immediate steps to discontinue production of rubber mixing facilities at the factory, which is close to residential areas within Moscow city limits. Instead, pre-mixed rubber compound is being transported to the plant from the Company's Voronezh tyre complex.

The *Moscow Tyre Plant* produced approximately 320,000 tyres in 2006, which is expected to increase to 1.5 million in 2007, and to 2 million thereafter.

### *Amtel-Povolzhye, Kirov*

The commencement of production of Vredestein tyres at the *Amtel-Povolzhye Tyre Complex* in Kirov has been successfully implemented to cater to mushrooming demand in Russia and Europe.

This facility is one of the most dynamically developing plants in the Russian tyre industry. After becoming part of the Amtel-Vredestein Group in 2003, the Company invested \$40 million into bringing the quality of production up to international standards and began manufacturing premium tyres in 2005.

Choosing ISO 9001 as its benchmark for standards in manufacture, installation and service (later extended to include design and production), the *Amtel-Povolzhye Tyre Complex* was the first tyre plant in Russia to achieve ISO 9001 standards, and holds certificates confirming its compliance from various agencies, including the Russian Standards and Certification Agency.

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





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

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

The plant is currently working toward full compliance with ISO 14001:2004 certification on ecological management. As part of this process, it has adopted various policies to ensure the protection of the environment, including the introduction of environmentally friendly technologies, ongoing review of its ecological management systems and extensive staff training programmes.



A tyre quality check is performed at each stage of production





Metal cord at Amtel-Chernozemye

## *Amtel-Chernozemye, Voronezh*

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

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

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

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

production processes, as well as supporting functions and infrastructure.

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

## *Voronezh II on schedule for completion in 2007*

The second factory at *Amtel-Chernozemye, Voronezh II*, will be completed by the end of 2007 and will produce primarily *Vredestein* and *Maloya* tyres for Russia and Europe. The factory will be very similar in design and construction to the facility in Enschede and will be the most modern tyre production facility in Russia.

One more inspection at Amtel-Chernozemye







### *Vredestein Banden, The Netherlands*

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

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


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

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

X-ray check at *Vredestein Banden*







Currently, the plant's output is approximately 5 million tyres and is capable of producing over one hundred specifications daily, which underlines its efficiency and flexibility. In addition, it produces hi-tech tractor and implement tyres for the most powerful tractors in the market. It also focuses on low profile radial tractor tyres up to 42-inch and radial flotation tyres for agricultural vehicles.

The Company's commitment to the environment has led it to install dust extractors and filters as well as systems for water purification, and has undertaken extensive recycling at the plant to reduce potentially harmful processes (such as atmospheric pollution and wastewater).

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



Robots like these at Vredestein Bander will also soon manage logistics at Voronezh II