

Amtel: Strategic Expansion

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Moscow

NEW CLN ISSUE STRUCTURE

Issuer	Emerging Markets Structured Products B. V. (EMSP B.V.)
Borrower	Amtel Holdings Holland N. V.
Guarantors	JSC Amtel Povolzhye LLC Amtel Holdings Russia LLC Amtelshinprom
Amount	\$ 175 mln
ISIN	XS0223667857
Pricing date	28.06.2005
Settlement	30.06.2005
Put-option execution	01.07.2006
Redemption date	01.07.2007
Coupon base	30/360
Coupon payment dates	31.12.2005 01.07.2006 31.12.2006 01.07.2007
Expected coupon rate	9.25% p.a.
Circulation	Euroclear/Clearstream, OTC
Governing law	English law
Lead manager	Alfa-Bank

Investment Summary

- **AMTEL – second largest vertically-integrated tyre manufacturer in Russia**

AMTEL Group comprises 6 manufacturing facilities – 5 tyre producers, carbon black producing plant and plant manufacturing synthetic nylon and nylon 6.6. fiber. Based on the results of the first quarter of 2005 the Group controls 30% of tyre production in Russia, which represents 42% y-o-y increase (excluding Rosava production). Its market share in the most lucrative passenger car tyres segment accounts for 32% (excluding Rosava) or 47% y-o-y increase.

- **Estimated sales in 2004 total \$455 mln, assets as of 1H2004 exceeded \$572 mln.**

The acquisition of Vredestein Banden will allow AMTEL to enter premium class tyre market, thus establishing and developing the production of high margin products.

- **In 2004 the company held successful private placements**

In September 2004 existing shareholders of the parent company of the Group – Amtel Holdings Holland N.V. – sold 9.6% stake to a group of Russian and foreign investors for \$34.2 mln. At the end of 2004 Citicorp International Finance Corporation acquired 4.1% of AMTEL (newly issued shares). Earlier, in 2003 Templeton Fund became minority shareholder of AMTEL (currently 5.3% of the equity).

- **In 2005 the company made an acquisition of Vrederstain Banden N.V. for EUR195.6 mln**

Vredestein positions itself as a premium tyre producer with total output of 4.3 mln. tyres

- **AMTEL Group is planning IPO in 2005-2006**

MAIN FINANCIAL INDICATORS, 000' USD	2002	2003	1H2004
Assets	433 611	485 671	572 477
Equity	191 533	199 389	203 755
Sales	351 812	367 819	221 983
Operating profit	7 225	4 630	12 383
EBITDA*	n/a	37 366	28 904

Source: Amtel IAS financial statements

* Audited EBITDA figures are RUR 1,146 mln in 2003 and RUR 831 mln in 1H2004 translated at RUR/USD average exchange rate of 30.67 and 28.75 in 2003-1H2004, respectively.

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Company Overview

Tyre company with market share of 28%

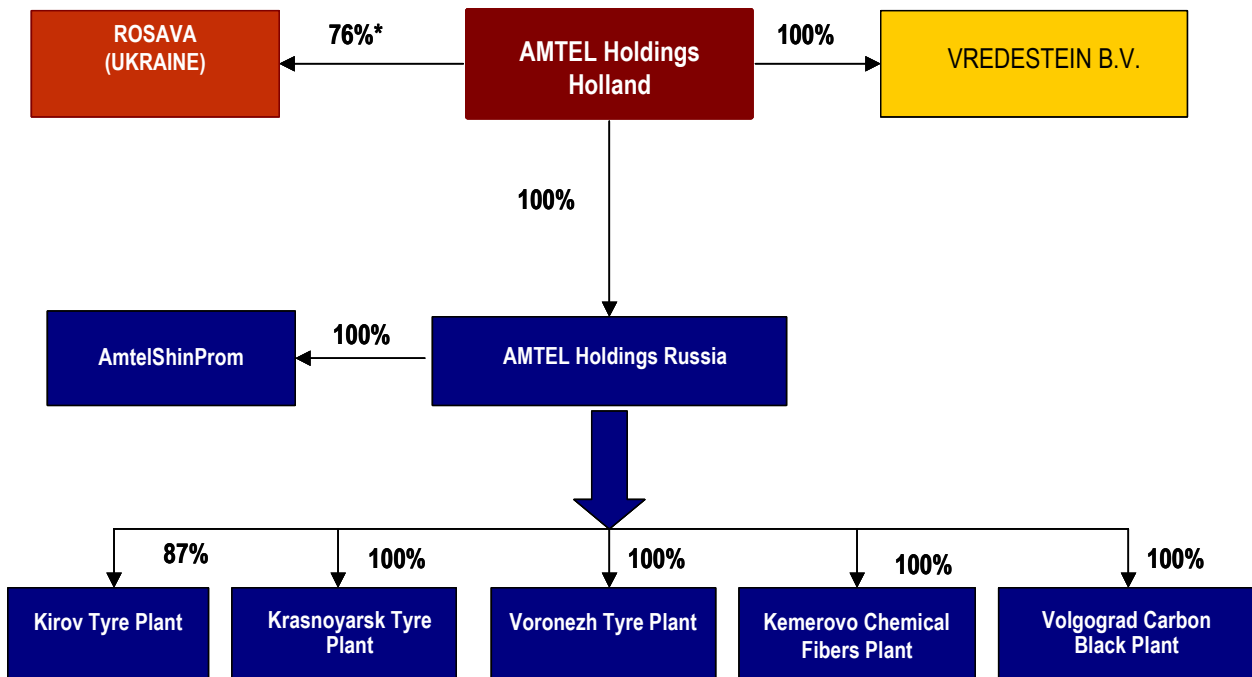
AMTEL's Business in Russia and Ukraine

AMTEL Group is the second largest tyre manufacturer in Russia, which entered the market in 1990. Consolidated revenues of the Group in 2004 are expected to grow to \$455 mln, assets as of 1H2004 totalled \$572 mln.

The Holding comprises 5 tyre plants and 2 raw materials manufacturing facilities, which procure the Group plants with chemical fiber, anid cord and black carbon. Synthetic rubber as well as metal cord are supplied from external sources.

AMTEL Group benefits from diversified client base and dealer net of over 200 distribution entities. The number of employees of the Holding exceeds 23 600 people.

Figure 1. AMTEL Legal Structure



Source: Amtel Group

* Pls see comment on AMTEL's stake in ROSAVA on page 4.

AMTEL-Povolzhye

Kirov tyre plant became a part of AMTEL Group in 2001 and is currently one of the most stable production facilities of the Holding. Over the last three years it has exhibited positive dynamics, both in light truck and passenger car tyre segments. Light truck tyre demand is driven mostly by growing fleet of commercial vehicles and light trucks produced by GAZ – the field, where Kirov has historically been one of the key players, both in the OEM and the wholesale market. Moto tyres are gradually being phased out of production due to their low profitability and stagnant output of domestic motorcycles.

Since 2003 the plant has been renovated, which now allows it to produce brand AMTEL tyres with an installed capacity of 4.6 mln units.

Figure 1. Historical output of Kirov Tyre Plant ('000 pcs)

	1999	2000	2001	2002	2003	2004	2005E
Passenger	432	579	916	1 486	2 279	3 219	4 797
Heavy&light trucks	1 174	1 213	1 359	1 445	1 483	1 533	2 008
Agricultural	4	9	13	7	5	10	16
Motorcycle&Bicycle	3 142	2 834	2 845	738	59	83	--
Total	4 752	4 635	5 133	3 676	3 826	4 845	6 821

Source: Amtel Group

AMTEL-Sibir

Krasnoyarsk tyre plant has traditionally strong position in production of earthmover tyres. The company has plans to further increase its capacity in that segment as well as introduce production of extra large tyres in order to be able to compete with Bridgestone, Goodyear and Belshina – the only manufacturers of that type of tyres. The long-term goal of the Group is to cover approximately 50% of total demand for earthmover tyres in Russia. About 40% of the overall avia tyres output in Russia is produced at Krasnoyarsk Tyre Plant.

Figure 2. Historical output of Krasnoyarsk Tyre Plant ('000 pcs)

	1999	2000	2001	2002	2003	2004	2005E
Passenger	235	238	329	545	935	1 086	1 200
Light trucks	29	12	15	17	11	10	9
Heavy trucks	46	30	34	38	44	114	110
Earthmovers	3	4	15	17	19	26	29
Agricultural	7	12	30	31	30	64	50
Avia	n/a	n/a	12	16	44	27	31
Total	320	296	435	664	1 083	1 327	1 429

Source: Amtel Group

AMTEL-Tchernozyemye

Voronezh tyre plant manufactures over 30 tyre models, including passenger car, trucks, agricultural and bicycle tyres. The plant maintains a leading position in agricultural and bicycle tyre segments (production capacity in bicycle tyres is currently 7 mln units per year – over 50% of the corresponding market). Passenger car and light trucks of 13-17.5 inches are produced for UAZ, Moskvich, GAZ. In 2006 the plant plans to start A class production with planned capacity of 5 mln tyres annually.

Figure 3. Historical output of Voronezh Tyre Plant ('000 pcs)

	1999	2000	2001	2002	2003	2004	2005E
Passenger	1 214	1 031	1 326	1 441	1 416	1 361	2 604
Trucks	246	204	404	445	529	801	957
Agricultural	36	68	215	311	235	251	258
Motorcycle&Bicycle	80	98	4 117	5 067	6 474	6 574	8 850
Total	1 576	1 401	6 062	7 264	8 654	8 987	12 669

Source: Amtel Group

JV ROSAVA

Rosava JV, operating on the basis of Belaya Tserkov Tyre Plant facilities and is one of the most modern tyre production facilities in the FSU countries, which is certified to ISO 9001 quality control standard. The plant controls some 70% of the Ukrainian tyre market and produces 70 different tyre models purchased by LuAZ, KrAZ, AvtoVAZ, etc.

In December 2003 Amtel entered into an agreement to sell 51 % of the shares in Rosava, and also concluded a call option agreements with the purchasing parties to buy back the shares at any time in the future for a fixed amount. Management believes that the option agreements empower the Group to govern the financial and operating policies of the plant. Consequently, the company was included in the scope of the Consolidated financial statements 1H2004 with a minority interest of 100%. Currently Amtel holds negotiations with the aim to return full ownership of the 51% stake in Rosava, and also to increase its stake up to 76 %.

It is the strategy of Amtel Group to alter the current output structure of passenger car tyres in order to gear it more towards the high-end market,



gradually phasing out old, low profitable models. The company will also stay focused on the production of light truck.

Figure 4. Historical output of JV Rosava (Belaya Tserkov) ('000 pcs)

	1999	2000	2001	2002	2003	2004	2005E
Passenger	4 347	5 063	5 455	4 914	4 450	5 328	5 300
Heavy&light trucks	238	220	267	176	197	437	461
Agricultural	29	29	21	30	10	42	44
Total	4 614	5 312	5 743	5 120	4 657	5 807	5 805

Source: Amtel Group

Acquisition: Vredestein Banden Overview

Dutch high-class tyre manufacturer with annual output of 4 mln tyres

In 2Q05 Amtel acquired Vredestein Banden, a Dutch tyre manufacturer with 2003 output of about 4.1 mln tyres, and expected 2004 output of 4.3 mln. Vredestein Banden is located in Enschede, Netherlands, and has production sites in Netherlands, outsourced production in Malaysia, India, Thailand, and Indonesia.

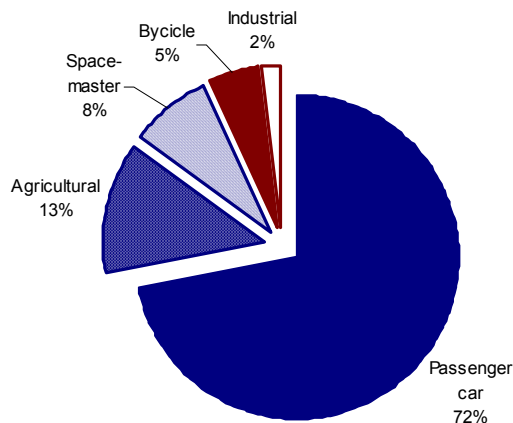
As in line with global trends in tyre industry, Vredestein has been consistently shifting its production to low-cost producing countries. As of now, company produces all but the passenger car tyres in South-East Asia.

Vredestein positions itself as a premium tyre producer, with prices similar to those of Nokian, GoodYear, Bridgestone and slightly below Michelin. Company has strong brands in premium summer and winter tyres (Ultrac, Hi-Trac, T-Trac, Sportrac, Wintrac, Icetrac).

Main focus is European market – it accounts for over 74% of company's sales

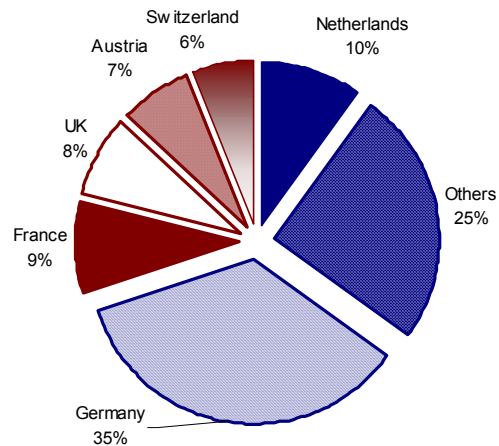
Company sells its products in Western Europe, USA and South-East Asia, with Europe being its most important market – currently company sells about 74% of its tyres there. Vredestein is considered a mid-sized producer and is #33 in the world in terms of sales.

Figure 5. Production split by tyre segment



Source: company's data

Figure 6. Sales: geographical distribution



Source: company's data

Growth strategy

The Company's growth strategy has been to increase the range of products offered, and to move up in price/quality positioning. Since early 90s, the company has been shifting from cost-focus and production-driven organization to a more marketing-oriented company. Today, Vredestein Banden strives for continuous innovation and development of new products and production processes. In 2005, company expects to launch tyres for SUV, Ultra High Performance tyres, and Run-flat technology, which will enable it to offer European customer the entire range of tyres like major producers do.



Acquisition: Financing

April 25, 2005 Amtel Group closed the deal on acquisition of Vredestein Banden B.V. for EUR 195.6 mln.

Amtel Holdings B.V. subscribes equity in a Dutch investment vehicle (“Bidco”), which in turn acquires Vredestein Banden B.V. and all its subsidiaries through a 100% cash offer on 100% (direct or indirect) of the ordinary share capital of Vredestein Banden B.V.

The acquisition was financed by bank loans provided by Amstredam Trade Bank and Syndicate ING – ABN-AMRO.

Figure 7. CLN parameters

Issuer	Orphan company
Borrower	Amtel Holdings Holland N. V.
Guarantors	JSC Amtel Povolzhye LLC Amtel Holdings Russia LLC Amtelshinprom
Amount	\$ 100 mln with possible extension
Issuance date	June 2005
Maturity	24 months
Put-option	12 months
Coupon	6 months
Expected coupon rate	9.5% p.a.
Circulation	Euroclear/Clearstream, OTC
Governing law	English law
Lead manager	Alfa-Bank

Source: Amtel, Alfa-Bank

Acquisition: Rationale and Synergy Effect

1. Amtel's key objective with regards to the acquisition of Vredestein is to obtain access to:
 - European manufacturing capacities and markets;
 - production know-how and technology;
 - premium brand;
 - managerial expertise;
2. Acquisition allows Amtel:
 - to expand its product range;
 - to build a strong market position in the premium tire segment;
 - to further upgrade its production facilities using Vredestein's factory, know-how and technologies;
 - to commence the production of Vredestein branded tires for the Russian market, utilising existing capacities;
3. Amtel's production capabilities would further improve from the transfer of technology and managerial expertise to its CIS based operation.
4. Secondment of engineering and managerial staff would play an important role in the transfer of know-how.
5. Combined company would rank 12th with a superior growth profile compared to its peers.

Amtel P&L, mln USD	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Tyres	291	384	507	574	615	655	685	706
Other	77	71	73	74	75	76	77	78
Total Sales	368	455	580	648	690	731	762	784
COGS	300	351	438	470	501	534	558	582
Marketing&distribution	10	14	21	24	25	27	28	29
General&Administrative	20	17	18	21	23	24	24	26
Other OPEX	9	12	15	17	17	17	18	18
Interest	9	25	27	22	17	8	4	(0)
Income Tax	(6)	2	7	15	17	20	23	22
EBIT, \$ mln	5	35	57	83	89	93	98	92
EBITDA, \$ mln	37	61	88	116	123	128	134	129

Source: Alfa-Bank's estimates

Vrederstein P&L, mln USD	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Sales	238	272	296	304	312	321	329	338
COGS	88	99	109	112	116	119	123	127
Marketing&distribution	42	49	51	52	53	55	56	58
Other OPEX	74	82	85	86	88	91	93	96
Income Tax	0	6	12	12	12	12	13	13
EBIT, \$ mln	21	30	37	39	40	40	41	41
EBITDA, \$ mln	34	44	51	54	55	56	57	57

Source: Alfa-Bank's estimates

Combined P&L, mln USD	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Sales	606	727	876	953	1,002	1,051	1,092	1,122
EBIT	26	65	94	122	129	133	139	133
EBITDA	71	105	139	170	178	184	191	186
EBITDA margin, %	11.7%	14.4%	15.9%	17.8%	17.8%	17.5%	17.5%	16.6%

Source: Alfa-Bank's estimates



Future plans

Amtel Group is planning to conduct IPO in 2005-2006. The Group intends to raise \$200 mln – to refinance its debt. IPO will be held on LSE. Alfa-Bank and UBS were mandated as deal co-arrangers.

Figure. 8. SWOT Analysis

Strengths	<ul style="list-style-type: none">• Experienced management team• Leading position on the CIS market of high-quality passenger tyres• Modern equipment meeting best standards of tyre manufacturing• Diversified client base;• Stable sales growth and strong financials
Weakness	<ul style="list-style-type: none">• Increase in debt burden provoked by heavy investments into modernization of production facilities• Overall tyre distribution system in Russia is underdeveloped
Opportunities	<ul style="list-style-type: none">• Estimated growth of the tyre market of 10-15% per annum• Access to international tyre market• Moving from low-margin to high-margin business
Threats проблемы	<ul style="list-style-type: none">• Decrease in customs barriers for foreign tyre manufacturers;• Growth of energy prices (12% of the cost structure) may decrease profitability ratios;• Plans of international tyre holdings to expand business in Russia (Michelin, Continental AG, Goodyear, etc.)

Source: company's data, Alfa Bank's estimates

Actuals: AMTEL Group

BALANCE SHEET, 000' USD	2002	2003	1H2004
Non-current assets	343,998	338,031	357,010
Current assets	89,613	147,640	215,467
ASSETS	433,611	485,671	572,477
Equity	191,533	199,389	203,755
Minority interest	81,316	53,039	53,944
Current liabilities	98,398	114,703	171,822
Non-current liabilities	62,364	118,540	142,956
EQUITY, MINORITY INTEREST and LIABILITY	433,611	485,671	572,477

Source: audited IAS financials

INCOME STATEMENT, 000' USD	2002	2003	1H2004
Sales	351,812	367,819	221,983
COGS	(319,069)	(300,065)	(164,522)
Gross profit	32,743	67,754	57,461
DD&A	-	(24,193)	(12,696)
OPEX	(25,518)	(38,931)	(32,383)
Operating profit	7,225	4,630	12,383
Net financing (expense)/income	12,071	(9,227)	(8,730)
Income from JV	-	652	-
EBT	19,296	(3,945)	3,652
Income tax	(3,755)	6,260	(2,748)
Profit after tax	15,541	2,315	904
Minority interest	12,633	8,738	2,261
Net profit	28,174	11,053	3,165

Source: audited IAS financials

FINANCIAL RATIOS	2002	2003	1H2004
Current liquidity, x	0.91	1.29	1.25
Debt/Capital, x	0.56	0.59	0.64
Gross margin, %	9.31%	18.42%	25.89%
EBITDA margin, %	n/a	10.16%	12.90%
Operating margin, %	2.05%	1.26%	5.58%
Net margin, %	8.01%	3.01%	1.43%

Source: IAS financials, Alfa Bank's estimates

Actuals: Vredestein Banden

BALANCE SHEET, mln EUR	2003	2004
Non-current assets	47	50
Current assets	93	91
ASSETS	140	141
Equity	76	80
Provisions	3	4
Short-term debt	47	51
Long-term debt	14	6
EQUITY and LIABILITIES	140	141

Source: IAS financials

INCOME STATEMENT, mln EUR	2003	2004
Net sales	217	231
COGS	(163)	(168)
Gross profit	53	63
SG&A	(40)	(40)
Other operating revenue	1	1
Operating profit	15	24
Interest charges and similar costs	(2)	(1)
Profit before taxes	12	23
Taxes	(0)	(8)
Non-operating profit	-	(0)
Net Profit	12	15
EBITDA	27	35

Source: IAS financials

CASH FLOW STATEMENT, mln EUR	2003	2004
Net Profit	12	15
Depreciation	12	12
Provisions	(1)	(1)
Change in WC	(3)	20
Cash flow from operations	20	46
Investments		
<i>Investments</i>	(9)	(15)
<i>Divestments</i>	0	0
Financial fixed assets	-	-
Cash flow from investments	(8)	(15)
Dividends paid	(3)	(10)
Change in long-term debt	3	(7)
Cash flow from financing activities	0	(17)
Free cash flow	12	14

Source: IAS financials

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